

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY



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* EX OFFICIO BOARD MEMBERS

PRESIDENT/CEO
THELLA F. BOWENS

AUDIT COMMITTEE and SPECIAL BOARD MEETING *

AGENDA

Monday, November 18, 2013
10:00 A.M.

San Diego International Airport
Commuter Terminal -- Third Floor
Board Room
3225 N. Harbor Drive
San Diego, CA 92101

This Agenda contains a brief general description of each item to be considered. If comments are made to the Board without prior notice, or are not listed on the Agenda, no specific answers or responses should be expected at this meeting pursuant to State law.

Staff Reports and documentation relating to each item of business on the Agenda are on file in Corporate Services and are available for public inspection.

PLEASE COMPLETE A "REQUEST TO SPEAK" FORM PRIOR TO THE COMMENCEMENT OF THE MEETING AND SUBMIT IT TO THE AUTHORITY CLERK. ***PLEASE REVIEW THE POLICY FOR PUBLIC PARTICIPATION IN BOARD AND BOARD COMMITTEE MEETINGS (PUBLIC COMMENT) LOCATED AT THE END OF THE AGENDA.***

***NOTE:** This Committee Meeting also is noticed as a Special Meeting of the Board (1) to foster communication among Board members in compliance with the Brown Act; and (2) to preserve the advisory function of the Committee.

Board members who are not members of this Committee may attend and participate in Committee discussions. Since sometimes more than a quorum of the Board may be in attendance, to comply with the Brown Act, this Committee meeting also is noticed as a Special Meeting of the Board.

To preserve the proper function of the Committee, only members officially assigned to this Committee are entitled to vote on any item before the Committee. This Committee only has the power to review items and make recommendations to the Board. Accordingly, this Committee cannot, and will not, take any final action that is binding on the Board or the Authority, even if a quorum of the Board is present.

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Committee Members: Gleason, Hollingworth, Hubbs, Sessom, Smisek, Tartre,
Van Sambeek

NON-AGENDA PUBLIC COMMENT:

Non-Agenda Public Comment is reserved for members of the public wishing to address the Committee on matters for which another opportunity to speak **is not provided on the Agenda**, and which is within the jurisdiction of the Committee. Please submit a completed speaker slip to the Authority Clerk. ***Each individual speaker is limited to three (3) minutes. Applicants, groups and jurisdictions referring items to the Board for action are limited to five (5) minutes.***

Note: Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board.

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the August 19, 2013, regular meeting.

**2. EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2013, REPORTS:
A) AUDITED FINANCIAL STATEMENTS, B) COMPLIANCE (SINGLE
AUDIT) REPORT, C) PASSENGER FACILITY CHARGE COMPLIANCE
REPORT, D) CUSTOMER FACILITY CHARGE COMPLIANCE REPORT, AND
E) REPORT TO THE AUDIT COMMITTEE:**

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

Presented by: Vernon Evans, Vice President, Finance/Treasurer; and Mark A. Burchyett, Chief Auditor

**3. REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2013:**

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

Presented by: Vernon Evans, Vice President, Finance/Treasurer

4. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2014 FIRST QUARTER, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

Presented by: Mark A. Burchyett, Chief Auditor; and Fred Bolger, Manager, Audit Services

5. SELECTION OF INDEPENDENT ASSESSOR TO PERFORM QUALITY ASSESSMENT REVIEW OF THE OFFICE OF THE CHIEF AUDITOR:

RECOMMENDATION: Staff recommends that the Audit Committee approve the Quality Assessment Review engagement with the Association of Local Government Auditors.

Presented by: Mark A. Burchyett, Chief Auditor

CLOSED SESSION:

REPORT ON CLOSED SESSION:

NON-AGENDA PUBLIC COMMENT:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

Policy for Public Participation in Board, Airport Land Use Commission (ALUC), and Committee Meetings (Public Comment)

- 1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the initiation of the portion of the agenda containing the item to be addressed (e.g., Public Comment and General Items). Failure to complete a form shall not preclude testimony, if permission to address the Board is granted by the Chair.
- 2) The Public Comment Section at the beginning of the agenda is limited to eighteen (18) minutes and is reserved for persons wishing to address the Board, ALUC, and Committees on any matter for which another opportunity to speak is not provided on the Agenda, and on matters that are within the jurisdiction of the Board. A second Public Comment period is reserved for general public comment later in the meeting for those who could not be heard during the first Public Comment period.
- 3) Persons wishing to speak on specific items listed on the agenda will be afforded an opportunity to speak during the presentation of individual items. Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board, ALUC and Committees. Public comment on specific items is limited to twenty (20) minutes – ten (10) minutes for those in favor and ten (10) minutes for those in opposition of an item. Each individual speaker will be allowed three (3) minutes, and applicants and groups will be allowed five (5) minutes.
- 4) If many persons have indicated a desire to address the Board, ALUC and Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
- 5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
- 6) After a public hearing or the public comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

Additional Meeting Information

NOTE: This information is available in alternative formats upon request. To request an Agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device (ALD) for the meeting, please telephone the Authority Clerk's Office at (619) 400-2400 at least three (3) working days prior to the meeting to ensure availability.

For your convenience, the agenda is also available to you on our website at www.san.org.

For those planning to attend the Board meeting, parking is available in the public parking lot located directly in front of the Commuter Terminal. Bring your ticket to the third floor receptionist for validation.

You may also reach the Commuter Terminal by using public transit via the San Diego MTS system, Route 992. For route and fare information, please call the San Diego MTS at (619) 233-3004 or 511.

DRAFT

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MINUTES
MONDAY, AUGUST 19, 2013
BOARD ROOM**

CALL TO ORDER:

Chair Smisek called the meeting of the Audit Committee to order at 10:03 a.m., on Monday, August 19, 2013, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Board Member Gleason led the pledge of allegiance.

ROLL CALL:

PRESENT: Committee Members: Gleason, Hubbs, Sessom, Smisek, Van Sambeek
 Board Members: Boland

ABSENT: Committee Members: Hollingworth, Tartre

ALSO PRESENT: Thella F. Bowens, President/CEO; Breton K. Lobner, General Counsel;
 Lorraine Bennett, Assistant Authority Clerk II; Linda Gehlken, Authority
 Clerk I

NON-AGENDA PUBLIC COMMENT: None

NEW BUSINESS:**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the May 13, 2013, regular meeting.

ACTION: Moved by Board Member Hubbs and seconded by Chair Smisek to approve staff's recommendation. Motion carried unanimously, noting Committee Members Hollingworth and Tartre as ABSENT.

2. FISCAL YEAR 2013 – ANNUAL REPORT FROM THE AUDIT COMMITTEE:

Chair Smisek provided an overview of the Fiscal Year 2013 Annual Report from the Audit Committee.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

ACTION: Moved by Board Member Gleason and seconded by Committee Member Van Sambeek to approve staff's recommendation. Motion carried unanimously, noting Committee Members Hollingworth and Tartre as ABSENT.

3. FISCAL YEAR 2013 – ANNUAL AUDIT ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR, AND AUDIT RECOMMENDATIONS FROM THE OFFICE OF THE CHIEF AUDITOR FOR REVIEW:

Mark A. Burchyett, Chief Auditor, provided a presentation on the Fiscal Year 2013 Annual Audit Activities Report from the Office of the Chief Auditor (OCA) that included Audit Activities; Audits in Progress; Recommendation Follow-up; Fiscal Year 2013 Performance Measure Outcomes; and Non-Audit Activities and On-Going Activities.

In response to Chair Smisek regarding how non-accepted recommendations are handled, Mr. Burchyett stated that in the future, staff could provide a memorandum to the Committee, in addition to the OCA recommendations list that shows items that are not accepted by the auditees.

Board Member Gleason recommended that management, instead, should provide the feedback directly to the Audit Committee on the recommendations that they do not accept.

In response to Board Member Hubbs regarding the status of the Life Cycle Management Study associated with the Energy Use Performance Study, Board Member Gleason suggested that the subject be included in the annual update to the Board.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

ACTION: Moved by Committee Member Van Sambeek and seconded by Board Member Hubbs to approve staff's recommendation. Motion carried unanimously, noting Committee Members Hollingworth and Tartre as ABSENT.

4. CONSTRUCTION AUDIT STATUS REPORT:

Callie Ullman, Senior Auditor provided a Construction Audit update which included R.W. Block Consulting Task Authorization #4 – Draft Report on Funding Compliance; and Office of the Chief Auditor – AECOM Expenditures and Performance Audit/Close-out Audits of Kiewit/Sundt & Turner/PCL/Flatiron.

RECOMMENDATION: Information item only.

ACTION: No action taken.

5. REVISION TO THE FISCAL YEAR 2014 AUDIT PLAN:

Mark A. Burchyett, Chief Auditor, provided a report on the revisions made to the Fiscal Year 2014 Audit Plan of the Office of the Chief Auditor.

In response to Board Member Hubbs regarding how the OCA is working with management to prepare for the handling of audits related to new concessions, Mr. Burchyett stated that OCA staff is working in collaboration with AVCOM and General Counsel to determine best practice in this area.

Board Member Hubbs suggested that the same methods for handling audits related to new concessions be implemented with the Rental Car Center facility project.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

ACTION: Moved by Committee Member Van Sambeek and seconded by Board Member Hubbs to approve staff's recommendation. Motion carried unanimously, noting Committee Members Hollingworth and Tartre as ABSENT.

CLOSED SESSION: None

REPORT ON CLOSED SESSION: None

COMMITTEE MEMBER COMMENTS: Board Member Gleason recommended that OCA staff plan an item on future meeting agendas to the Board for relating their closing work on construction audits.

ADJOURNMENT: The meeting was adjourned at 10:36 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 18th DAY OF NOVEMBER, 2013.

MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:

LORRAINE BENNETT
ASSISTANT AUTHORITY CLERK II



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE**

**Item No.
2**

Meeting Date: **NOVEMBER 18, 2013**

Subject:

External Auditor's Fiscal Year Ended June 30, 2013, Reports: A) Audited Financial Statements, B) Compliance (Single Audit) Report, C) Passenger Facility Charge Compliance Report, D) Customer Facility Charge Compliance Report, and E) Report to the Audit Committee

Recommendation:

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

Background/Justification:

Generally accepted auditing standards and government auditing standards require that an independent external auditor perform an annual audit of the Airport Authority's financial statements to obtain reasonable assurance that the financial reporting is free of material misstatement, whether caused by error, fraudulent financial reporting, or misappropriation of assets.

On May 6, 2009, an Agreement began with McGladrey & Pullen LLP for the purpose of performing an audit of the San Diego County Regional Airport Authority financial statements for the Fiscal Years 2009, 2010, and 2011. The agreement had a term ending May 5, 2012, with an option for two (2) one-year extensions.

On June 25, 2012, an Amendment to Agreement was fully executed, and 1) exercised both one-year extensions and extended the term to May 5, 2014, 2) modified the scope of work, and 3) increased the amount payable to McGladrey.

The Fiscal Year Ended June 30, 2013, audit of the Airport Authority's financial statements has been completed by McGladrey. The external auditor identified no significant deficiencies, material weaknesses, or any noncompliance during their audit of the financial statements and of any major awards that are required to be audited. Full detailed reports are provided in Attachments A through E.

Fiscal Impact:

The cost of the audit was included in the Authority's Annual Operating Budget for Fiscal Year 2013.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

1. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA, Cal. Pub. Res. Code §21065.
2. This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

Financial Report
June 30, 2013 and 2012

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, listed in the table of contents, 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, which 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 October 18, 2013 on our consideration of the Airport 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 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 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 Airport Authority's internal control over financial reporting and compliance.



San Diego, CA
October 18, 2013

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2012 TO JUNE 30, 2013

INTRODUCTION

The San Diego County Regional Airport Authority (the Airport Authority) was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of the San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (the District) to the Airport Authority.

The Airport Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at SDIA. Since the Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

The public policy decision to transfer responsibility for SDIA from the District to the newly created Airport Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (the Commission). The Commission was established to evaluate regional governance in San Diego County and report on measures to improve it to the California State Legislature.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93 or the Act), established the composition and jurisdiction of the Airport Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

Legislative Background

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout San Diego County. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896. The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

On January 1, 2008, Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act, was enacted into law, expanding the responsibilities of the Airport Authority. The Airport Authority is vested with five principal responsibilities:

- (1) Operation of SDIA
- (2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA
- (3) Development of comprehensive airport land use plans for the airports in the county
- (4) Serving as the region's Airport Land Use Commission
- (5) Additionally, with SB 10, a Regional Aviation Strategic Plan that was completed in fiscal year 2011

Airport Activities Highlights

The Airport Authority experienced continued growth in all areas during fiscal years 2013 and 2012 compared to the fiscal year 2011 declines. This followed the trend seen at many commercial airports, reflecting the gradual improvements in the economy.

The changes in SDIA's major activities for the current and prior two fiscal years are as follows:

	FY 2011	FY 2012	FY 2013
Enplaned Passengers	8,441,120	8,576,100	8,737,617
% increase (decrease)	(0.2)%	1.6 %	1.9 %
Total Passengers	16,868,732	17,138,911	17,440,968
% increase (decrease)	(0.3)%	1.6 %	1.8 %
Aircraft Operations	186,181	186,196	187,322
% increase (decrease)	(4.3)%	0.0 %	0.6 %
Freight and Mail (in tons)	129,961	132,493	157,025
% increase (decrease)	3.5 %	1.9 %	18.5 %
Landed Weight (in thousands)	10,606	10,820	11,014
% increase (decrease)	(2.6)%	2.0 %	1.8 %

SDIA is a destination airport and is not a hub for any airline. Further, there is a balanced mixture of SDIA travelers comprising approximately 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements. Enplanements declined slightly by 0.2 percent in fiscal year 2011 and grew by 1.6 percent and 1.9 percent in fiscal years 2012 and 2013, respectively.

Overall, it appears the improving economy is having a positive effect on aircraft operations at SDIA, which increased by 0.6 percent, and landed weight, which increased by 1.8 percent, in fiscal year 2013. Freight and mail dramatically increased by 18.5 percent, due to fleet size increases by FedEx, DHL and UPS.

Statements of Revenues, Expenses and Changes in Net Position (in thousands)

The metric "Change in Net Position" is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position has increased consistently over the past three fiscal years by 7.5 percent in 2011, 10.0 percent in 2012 and 8.8 percent in 2013. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Operating revenues	\$ 144,007	\$ 153,550	\$ 177,498
Operating expenses	(166,979)	(163,701)	(168,420)
Nonoperating revenues, net	39,208	47,951	41,020
Capital grant contributions	26,355	20,834	16,077
Increase in net position	42,591	58,633	66,175
Net position, beginning of year	559,664	602,255	660,889
Net position, end of year	\$ 602,255	\$ 660,889	\$ 727,064

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow.

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

	FY 2012	FY 2013	From 2012 to 2013	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,419	\$ 19,658	\$ 1,239	6.7 %
Aircraft parking fees	3,135	3,191	56	1.7 %
Building rentals	30,633	41,840	11,207	36.6 %
Security surcharge	18,649	23,360	4,711	25.3 %
Other aviation revenue	1,595	1,591	(4)	(0.2)%
Total airline revenue	72,430	89,640	17,210	23.8 %
Non-airline terminal rent	907	972	65	7.1 %
Concession revenue	40,427	42,041	1,613	4.0 %
Parking and ground transportation revenue	31,470	35,750	4,281	13.6 %
Ground rentals	7,136	8,190	1,054	14.7 %
Other operating revenue	1,179	905	(274)	(23.2)%
Total operating revenue	\$ 153,550	\$ 177,498	\$ 23,948	15.6 %

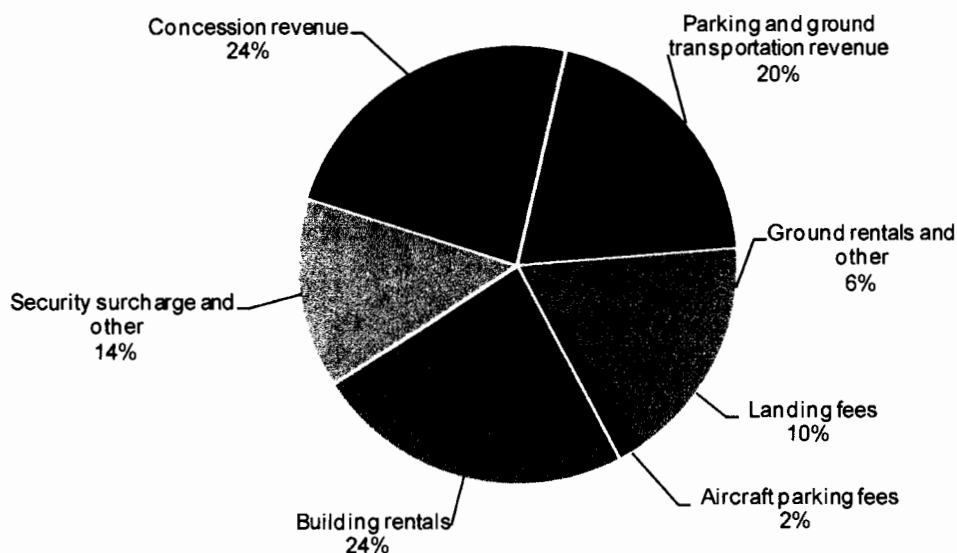
	FY 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,578	\$ 18,419	\$ (159)	(0.9)%
Aircraft parking fees	2,921	3,135	214	7.3 %
Building rentals	26,980	30,633	3,653	13.5 %
Security surcharge	14,887	18,649	3,762	25.3 %
Other aviation revenue	1,597	1,595	(2)	(0.2)%
Total airline revenue	64,963	72,430	7,467	11.5 %
Non-airline terminal rent	869	907	38	4.4 %
Concession revenue	37,103	40,427	3,324	9.0 %
Parking and ground transportation revenue	31,645	31,470	(175)	(0.6)%
Ground rentals	7,787	7,136	(651)	(8.4)%
Other operating revenue	1,640	1,179	(461)	(28.1)%
Total operating revenue	\$ 144,007	\$ 153,550	\$ 9,543	6.6 %

Operating Revenues (Continued)

Fiscal year 2013 compared to 2012: Total airline revenues increased by \$17.2 million or 23.8 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was higher in fiscal year 2013 compared to 2012. Building rentals saw a graduated rate increase from 60 percent to 100 percent and the security surcharge increased from 85 percent to 100 percent, reflecting the cost recovery formula. Landing fees increased by \$1.2 million or 6.7 percent, due to increased airfield maintenance expenses and increased landed weight. Concession revenue increased by \$1.6 million or 4.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues increased by \$4.3 million or 13.6 percent, due in part to the reopening of Terminal 2 parking that was temporarily closed in fiscal year 2012 to facilitate the construction of the Green Build. Ground rentals revenue increased in 2013 by \$1.1 million or 14.7 percent, due to increased rental space by FedEx and a consumer price index rent increase to FedEx, Southwest and UPS. The \$274 thousand or 23.2 percent decrease in other operating revenue reflects a change in utility billing practices of the new concession program beginning in January 2013, which are now included as part of the base rent.

Fiscal year 2012 compared to 2011: Total airline revenues increased by \$7.5 million or 11.5 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was slightly higher in fiscal year 2012 compared to 2011. Building rentals saw a graduated rate increase from 55 percent to 60 percent and the security surcharge increased from 70 percent to 85 percent. The decrease in landing fees of \$159 thousand or 0.9 percent was due to rebates given to airlines for new routes, primarily Volaris. Aircraft parking fees increased by \$124 thousand or 7.3 percent, primarily due to the increased airfield costs. Concession revenue increased by \$3.3 million or 9.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues decreased slightly by \$175 thousand or 0.6 percent, due to the temporary closing of Terminal 2 parking to facilitate the construction of the Green Build. Ground rentals revenue declined in 2012 by \$651 thousand or 8.4 percent, due to the finalization of new lease agreements with FedEx, Southwest and UPS, which provided for over one year of retroactive billing in fiscal year 2011. Other operating revenue also declined by \$461 thousand due to the completion of the planning grant revenue for the Regional Aviation Strategic Plan in 2011.

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013 Operating Revenues



Operating Expenses (in thousands) (Continued)

	FY 2012	FY 2013	From 2012 to 2013	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 37,237	\$ 38,092	\$ 856	2.3 %
Contractual services	26,906	29,284	2,378	8.8 %
Safety and security	22,625	23,994	1,369	6.1 %
Space rental	11,415	10,897	(518)	-
Utilities	6,674	6,659	(15)	(0.2)%
Maintenance	8,497	11,204	2,708	31.9 %
Equipment and systems	403	469	65	16.2 %
Materials and supplies	304	406	101	33.3 %
Insurance	764	795	31	4.0 %
Employee development and support	916	1,235	319	34.8 %
Business development	2,093	2,444	351	16.8 %
Equipment rentals and repairs before depreciation and amortization	1,335	1,317	(18)	(1.4)%
	119,169	126,796	7,627	6.4 %
Depreciation and amortization	44,532	41,624	(2,908)	(6.5)%
Total operating expenses	\$ 163,701	\$ 168,420	\$ 4,719	2.9 %

	FY 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 38,267	\$ 37,237	\$ (1,030)	(2.7)%
Contractual services	26,113	26,906	793	3.0 %
Safety and security	21,344	22,625	1,281	6.0 %
Space rental	10,907	11,415	508	4.7 %
Utilities	6,413	6,674	261	4.1 %
Maintenance	8,174	8,497	323	3.9 %
Equipment and systems	570	403	(167)	(29.3)%
Materials and supplies	344	304	(40)	(11.5)%
Insurance	1,066	764	(302)	(28.3)%
Employee development and support	1,041	916	(125)	(12.0)%
Business development	2,275	2,093	(182)	(8.0)%
Equipment rentals and repairs before depreciation and amortization	1,327	1,335	8	0.6 %
	117,841	119,169	1,328	1.1 %
Depreciation and amortization	49,138	44,532	(4,606)	(9.4)%
Total operating expenses	\$ 166,979	\$ 163,701	\$ (3,278)	(2.0)%

Operating Expenses (Continued)

Fiscal year 2013 compared to 2012: Total fiscal year 2013 operating expenses increased by \$4.7 million or 2.9 percent. Contributing to this increase included: increased salaries and benefits of \$856 thousand, primarily due to salary increases and higher costs for medical benefits; and increased contractual services of \$2.4 million, primarily due to Green Build associated consulting services such as ramp control professional services and selecting software to manage the new systems and building. Additionally, safety and security increased by \$1.4 million, due to increased Harbor Police salaries and benefits expense under a new proposed agreement; maintenance increased by \$2.7 million, reflecting costs of sink hole repair, elevator and escalator repairs and runway restriping; employee development and support increased by \$319 thousand, due to new Green Build systems training; and business development increased by \$351 thousand, reflecting advertising and marketing for Japan Airlines and Green Build related promotions.

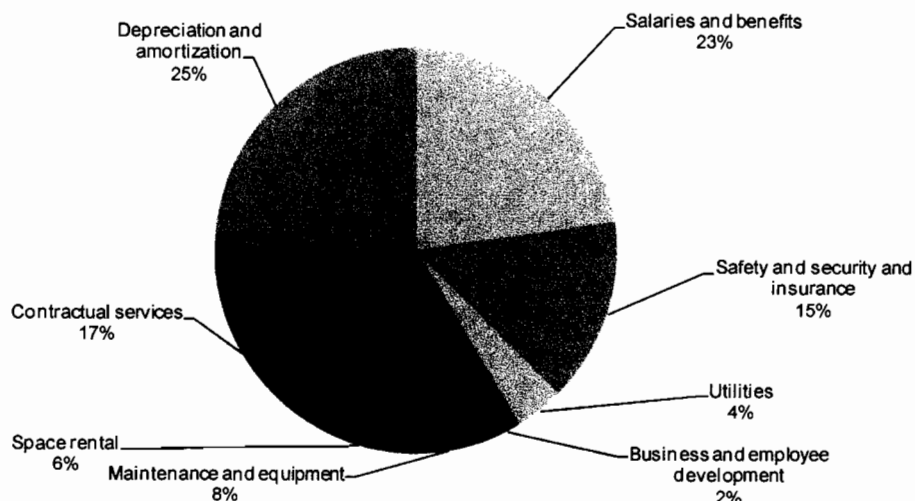
Offsetting this increase were the following decreases: space rental of \$518 thousand, reflecting the cancellation of an employee parking lease; and other minor reductions in utilities and equipment rentals and repairs. Depreciation expense decreased by \$2.9 million, due to fully depreciated assets of approximately \$113 million, which included HVAC systems, parking lots, airfield rehabilitations and aircraft fuel storage.

Fiscal year 2012 compared to 2011: Fiscal year 2012 total operating expenses decreased by \$3.3 million, or 2.0 percent, compared to 2011. Contributing to this decrease were the following: salaries and benefits decreased by \$1 million primarily due to the pension plan rate reduction from 16.6 percent in fiscal year 2011 to 14.54 percent in 2012; equipment and systems decreased by \$167 thousand, reflecting the five-year replacement schedule; insurance declined by \$302 thousand due primarily to lower liability policy premiums; employee development and support decreased by \$125 thousand due to reduced travel and seminars; and business development declined by \$182 thousand due to lower advertising and marketing expenses compared to 2011, which included expenses associated with the British Airways London flight. In fiscal year 2012, depreciation was a major contributor to the decreased total operating expenses. The reduced depreciation expense was primarily due to fully depreciated assets of approximately \$54 million, which included aircraft fuel storage, fire life safety system and runway joint sealants.

Offsetting this decrease included the following increases: contractual services increased by \$793 thousand primarily due to higher parking management expenses; safety and security increased by \$1.3 million, reflecting higher Harbor Police salaries and benefits expenses and a proposed overhead allocation plan; space rental costs increased by \$508 thousand due to the 2011 completed amortized deferred rent benefit; utilities increased by \$261 thousand, reflecting higher usage due to facility expansion and rate increases; and maintenance costs increased by \$323 thousand due to increased support of aging systems and equipment such as elevators, HVAC and escalators.

Operating Expenses (Continued)

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013
Operating Expenses**



Nonoperating Revenues and Expenses (in thousands)

	FY 2012 (As restated)	FY 2013	From 2012 to 2013	
			Change	% Change
Passenger Facility Charges	\$ 34,639	\$ 35,437	\$ 798	2.3 %
Customer Facility Charges	11,487	19,117	7,630	66.5 %
Quieter Home Program, net	(3,531)	(1,589)	1,942	55.0 %
Joint Studies Program	(73)	(55)	18	25.2 %
Interest income	10,487	8,919	(1,569)	(15.1)%
Interest expense	(2,027)	(16,530)	(14,503)	(715.7)%
Other nonoperating income (expenses)	(3,032)	(4,279)	(1,247)	(41.1)%
Nonoperating revenues, net	<u>\$ 47,951</u>	<u>\$ 41,020</u>	<u>\$ (6,932)</u>	<u>(14.5)%</u>

	FY 2011 (As restated)	FY 2012 (As restated)	From 2011 to 2012	
			Change	% Change
Passenger Facility Charges	\$ 33,998	\$ 34,639	\$ 641	1.9 %
Customer Facility Charges	10,986	11,487	501	4.6 %
Quieter Home Program, net	(3,359)	(3,531)	(172)	(5.1)%
Joint Studies Program	(129)	(73)	57	44.1 %
Interest income	10,100	10,487	388	3.8 %
Interest expense	(12,295)	(2,027)	10,268	83.5 %
Other nonoperating income (expenses)	(93)	(3,032)	(2,942)	(3,157.0)%
Nonoperating revenues, net	<u>\$ 39,208</u>	<u>\$ 47,951</u>	<u>\$ 8,742</u>	<u>22.3 %</u>

Nonoperating Revenues and Expenses (Continued)

Passenger Facility Charges (PFC) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Airport Authority collects a \$4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible SDIA capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Airport Authority the month following collection less a \$0.11 administration fee.

Customer Facility Charges (CFC) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a \$10 per contract CFC on rental cars in May 2009. The revenues collected will be used to plan and construct a consolidated rental car facility and improved ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2013, the Airport Authority has spent \$147.8 million and received reimbursement for \$120.3 million.

Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District. Also included in interest income are the Series C Bonds that were issued as Build America Bonds and a cash subsidy from the U.S. Treasury equal to 35 percent of the interest payable. During the middle of fiscal year 2013, the 35 percent subsidy ended due to the federal government's sequestration measures and was replaced with a reduced rate of 31.96 percent. The interest subsidy for the fiscal years ended June 30, 2013 and 2012 was \$4.8 million and \$4.9 million, respectively.

Interest expense includes interest paid and accrued on the 2005, 2010 and 2013 Series Bonds and Commercial Paper Series A, B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in the fiscal years ended June 30, 2013 and 2012 was \$29.4 million and \$31.6 million, respectively.

Other nonoperating income (expense) includes proceeds and expenses for legal settlements, gain (loss) on the sale of assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

Capital Grant Contributions

The Airport Authority receives AIP entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

Fiscal year 2013 compared to 2012: Nonoperating revenues (net) decreased by \$6.9 million or 14.5 percent. This is primarily due to the decreased net effect of debt interest expense and capitalization of interest expense, \$14.5 million. Additionally, decreased interest income of \$1.6 million and other nonoperating income (expense), net of \$1.2 million, was primarily due to unrealized loss on investments.

Offsetting the decrease is the \$798 thousand increased PFCs collections, reflecting increased enplanements, and \$7.6 million increased CFCs due, in part, to a rate increase effective November 1, 2012 from \$10 per contract to \$6 per day up to five days. Additionally, the Quieter Home Program also contributed to the decrease by \$1.9 million, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Nonoperating Revenues and Expenses (Continued)

Fiscal year 2012 compared to 2011: Nonoperating revenues (net) increased by \$8.7 million or 22.3 percent, primarily due to the net effect of reduced debt interest expense and capitalization of interest expense totaling \$10.3 million. Additionally, PFCs increased by \$641 thousand and CFCs increased by \$501 thousand, both reflecting increased enplanements. Interest income also has contributed to the increase by \$388 thousand due to a full year of Build America Bond interest subsidy in fiscal year 2012.

Offsetting the increase is approximately \$3.6 million in net book value of assets, which were written off due to the construction of the Green Build. These assets were parking lots, sidewalks and partial roadways that will be replaced upon completion in fiscal year 2013. The Quieter Home Program also contributed to the decrease by \$205 thousand, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Assets, Liabilities and Net Position (in thousands)

The statements of net position present the financial position of the Airport Authority at June 30, 2011, 2012 and 2013. The statements include all assets, liabilities and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2011, 2012 and 2013 is as follows:

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Assets			
Current assets	\$ 110,397	\$ 197,586	\$ 205,262
Capital assets, net	625,421	896,477	1,178,144
Noncurrent assets	605,824	333,352	547,376
Total assets	1,341,642	1,427,415	1,930,782
Deferred outflows of resources	2,087	1,855	4,397
Total assets and deferred outflows of resources	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179
Liabilities			
Current liabilities	\$ 121,384	\$ 115,071	\$ 121,384
Long-term liabilities	620,090	653,310	1,086,732
Total liabilities	741,474	768,381	1,208,116
Net Position			
Net investment in capital assets	352,276	408,123	460,424
Bond reserves, unapplied PFCs and other restricted	147,513	172,174	164,131
Unrestricted	102,466	80,592	102,508
Total net position	602,255	660,889	727,063
Total liabilities and net position	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179

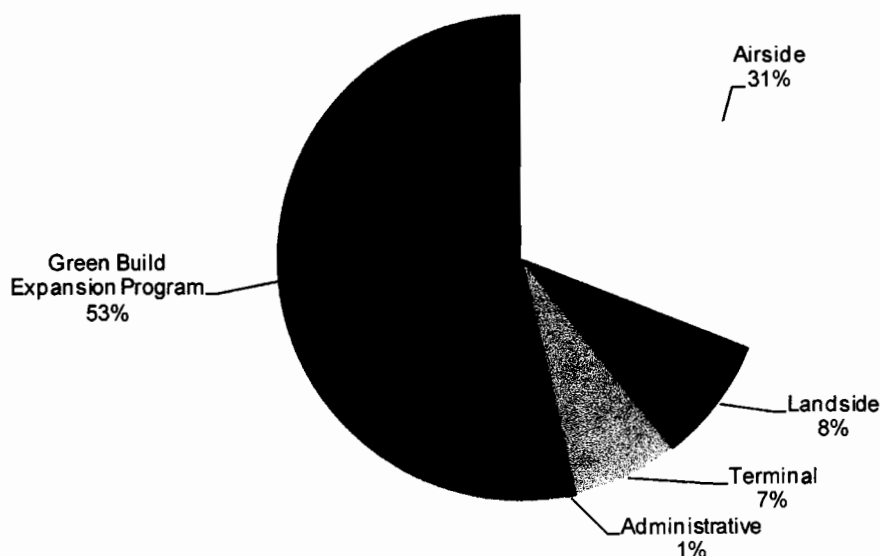
Assets, Liabilities and Net Position (Continued)

As of June 30, 2013, the Airport Authority's assets exceeded liabilities by \$727.1 million, a \$66.2 million increase over June 30, 2012. The June 30, 2012 total net position was \$58.6 million greater than June 30, 2011. The largest portion of the Airport Authority's net position represents its investment in capital assets, less the amount of associated debt outstanding. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net position of \$102.5 million as of June 30, 2013, \$80.6 million as of 2012 and \$102.4 million as of 2011 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2013, 2012 and 2011, management has designated unrestricted funds in the amount of approximately \$9.6 million for each year, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

Capital Asset and Capital Improvement Program

The funds used for capital improvements or to expand SDIA's facilities are derived from several sources, including debt, PFC, CFC, and grants received from AIP, FAA and Transportation Security Administration and SDIA funds. In fiscal year 2013, SDIA's \$1.6 billion capital improvement program (CIP) was funded under three debt options. A pay-as-you-go approach utilizing commercial paper for short-term funding needs and long-term funding needs included 2010 Airport Revenue Bonds to be used for the \$820 million Terminal Development Program/"The Green Build." An additional airport revenue bond issuance completed in fiscal year 2013 finalized the funding of The Green Build project. The Green Build is projected to be complete by early fiscal year 2014. The current CIP, which includes projects through 2018, consists of \$480.5 million for airside projects, \$131 million for landside projects, \$108.3 million for terminal projects and \$12 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

Capital Improvement Program (CIP) Projects by Type



Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements of this report.

Capital Financing and Debt Management

The California Maritime Infrastructure Authority issued \$76.7 million of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued \$56.3 million of senior lien Series 2005 Bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021.

On December 21, 2012, the Authority defeased all of its outstanding Series 2005 Bonds by depositing proceeds of Subordinate Commercial Paper Notes (CP Notes) and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Senior Series 2005 Bonds until their final maturity date of July 1, 2020.

On October 5, 2010, the Airport Authority issued \$572.6 million of Subordinate Airport Revenue Bonds Series 2010 A, B and C. The bonds are rated A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142.2 million of the Airport Authority's outstanding CP Notes, fund the subordinate bond reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series A and Series B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury equal to 35 percent of interest payable. The interest rate on the Series C bonds, net of subsidy, is 4.31 percent and the bonds mature in fiscal year 2041.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are \$14.7 million for fiscal year 2013 and \$19 million annually for fiscal years 2014 through 2016. As of June 30, 2013, the principal balance on the subordinate Series 2010 Bonds was \$570.9 million.

On January 30, 2013, the Airport Authority issued \$379.6 million of 2013 Series A and Series B Senior Airport Revenue Bonds. The Series 2013 Bonds are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the senior Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the senior Series 2013 Bonds.

Capital Financing and Debt Management (Continued)

The Series 2013 bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55.9 million, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2013 amounted to \$7.7 million, including accrued interest of \$7.7 million. The principal balance on the Series 2013 Bonds as of June 30, 2013 was \$379.6 million.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system, and (b) certain funds and accounts held by the senior Trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2 to the financial statements. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293.7 million, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds.

As of June 30, 2013, \$51 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable), is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to \$250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the letter of credit expiration date. The letter of credit is currently securing the CP Notes. At the expiration date, the total outstanding principal becomes due. The CP Notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues of at least 1.10 times the debt service on subordinate obligations, including the CP Notes, for that year.

Each series of notes is additionally secured by an irrevocable letter of credit issued by Lloyds TSB Bank plc and is rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service. The letter of credit expires on September 10, 2014. Interest on the notes is paid at a rate based on the market for similar CP Notes.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements of this report.

SDIA's PFC program was established in 1994 and currently authorizes the imposition of a \$4.50 fee on enplaning passengers. There are currently three active applications that provide collection authority through November 1, 2037.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$22.3 million in grant awards for the federal fiscal year ended September 30, 2013 and \$14.0 million in 2012. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.



Thella F. Bowens
Chief Executive Officer/President



Vernon D. Evans
Chief Financial Officer/Vice President of
Finance/Treasurer

San Diego County Regional Airport Authority

Statements of Net Position June 30, 2013 and 2012

Assets	2013	2012 (As restated)
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 63,626,765	\$ 68,823,530
Investments (Note 2)	42,223,353	34,284,994
Tenant lease receivables, net	8,037,665	6,550,948
Grants receivable	3,828,572	3,867,809
Notes receivable, current portion (Note 3)	1,446,896	1,580,698
Other current assets	6,279,146	4,559,934
Total unrestricted current assets	125,442,397	119,667,913
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	79,819,607	77,918,561
Total current assets	205,262,004	197,586,474
Noncurrent Assets		
Restricted assets:		
Restricted cash, cash equivalents and investments, not with Trustee (Note 2)	150,891,087	155,065,655
Restricted investments with Trustee (Note 2)	284,609,727	98,211,895
Passenger facility charges receivable (Note 1)	5,545,716	4,412,287
Customer facility charges receivable (Note 1)	2,301,027	1,089,227
Other restricted assets	5,380,813	6,058,740
Total restricted assets	448,728,370	264,837,804
Other noncurrent assets:		
Investments, noncurrent (Note 2)	41,931,321	10,410,555
Notes receivable, long-term portion (Note 3)	39,886,768	41,333,664
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	9,565,751	9,062,504
Net pension asset and net OPEB asset (Notes 6 and 8)	6,648,142	7,204,455
Workers' compensation security deposits	616,495	503,145
Total other noncurrent assets	98,648,477	68,514,323
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	65,865,787	24,927,049
Buildings and structures	715,421,387	463,735,113
Machinery and equipment	50,717,389	47,676,803
Runways, roads and parking lots	526,061,707	269,535,431
Construction in progress	401,825,140	632,390,868
	1,759,891,410	1,438,265,264
Less accumulated depreciation	(581,747,601)	(541,788,396)
Capital assets, net	1,178,143,809	896,476,868
Total noncurrent assets	1,725,520,656	1,229,828,995
Total assets	1,930,782,660	1,427,415,469
Deferred Outflows of Resources		
Deferred loss on debt refunding	4,396,671	1,854,985
Total assets and deferred inflows of resources	\$ 1,935,179,331	\$ 1,429,270,454

See Notes to Financial Statements.

Liabilities and Net Position	2013	2012 (As restated)
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 9,830,408	\$ 9,822,085
Accrued liabilities (Note 8)	27,589,095	24,264,702
Compensated absences, current portion (Note 5)	2,357,925	2,197,705
Deposits and other current liabilities	1,458,891	703,064
Leases payable, current portion (Note 5)	328,012	164,966
Total payable from unrestricted assets	41,564,331	37,152,522
Payable from restricted assets:		
Accounts payable	22,491,968	21,648,897
Accrued liabilities	32,703,578	35,015,681
Current portion of Bonds payable (Note 5)	1,000,000	4,410,000
Accrued interest on bonds and commercial paper (Note 5)	23,624,061	16,843,983
Total payable from restricted assets	79,819,607	77,918,561
Total current liabilities	121,383,938	115,071,083
Noncurrent Liabilities		
Compensated absences, net of current portion (Note 5)	731,831	735,281
Tenant security deposits and other noncurrent liabilities	795,430	948,556
Commercial paper notes payable (Note 5)	50,969,000	20,729,000
Bonds payable and bond premium, less current portion, net of deferred refunding costs, and capital leases (Note 5)	1,034,235,764	630,897,968
Total noncurrent liabilities	1,086,732,025	653,310,805
Total liabilities	1,208,115,963	768,381,888
Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets (Note 1)	460,424,133	408,122,977
Restricted net position (Note 1):		
Bond reserves	52,007,087	53,364,006
Commercial paper reserves	31,314	16,350
Small business bond guarantee	4,000,000	2,000,000
Passenger facility charges	59,401,975	78,782,164
Customer facility charges	43,310,360	31,952,386
OCIP loss reserve	5,380,814	6,058,740
Total restricted net position	164,131,550	172,173,646
Unrestricted net position (Note 1)	102,507,685	80,591,943
Total net position	\$ 727,063,368	\$ 660,888,566

San Diego County Regional Airport Authority

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012**

	2013	2012 (As restated)
Operating revenues:		
Airline revenue:		
Landing fees	\$ 19,658,173	\$ 18,419,244
Aircraft parking fees	3,190,928	3,134,539
Building rentals (Note 10)	41,839,619	30,632,762
Security surcharge	23,359,938	18,649,147
Other aviation revenue	1,591,266	1,594,529
Concession revenue	42,040,742	40,427,308
Parking and ground transportation revenue	35,750,484	31,469,960
Ground rentals (Note 10)	9,161,514	8,043,563
Other operating revenue	905,150	1,178,908
Total operating revenues	177,497,814	153,549,960
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	38,092,464	37,236,513
Contractual services (Note 12)	29,283,526	26,905,524
Safety and security	23,994,020	22,625,169
Space rental (Note 11)	10,897,338	11,414,838
Utilities	6,659,333	6,674,424
Maintenance	11,204,465	8,496,587
Equipment and systems	468,699	403,268
Materials and supplies	405,863	304,433
Insurance	794,984	764,239
Employee development and support	1,234,757	916,194
Business development	2,444,407	2,093,164
Equipment rentals and repairs	1,316,543	1,334,858
Total operating expenses before depreciation and amortization	126,796,399	119,169,211
Income from operations before depreciation and amortization	50,701,415	34,380,749
Depreciation and amortization	41,623,629	44,532,069
Operating income (loss)	9,077,786	(10,151,320)

(Continued)

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 35,437,453	\$ 34,639,244
Customer facility charges	19,117,217	11,486,962
Quieter Home Program grant revenue	13,241,658	11,013,260
Quieter Home Program expenses	(14,830,457)	(14,544,629)
Joint Studies Program	(55,254)	(72,835)
Interest income	4,140,068	5,491,516
Interest expense (Note 5)	(16,530,425)	(2,026,692)
Build America Bonds Rebate	4,778,599	4,995,921
Other revenues (expenses), net	(4,279,123)	(3,031,807)
Nonoperating revenues, net	41,019,736	47,950,940
Income before capital grant contributions	50,097,522	37,799,620
Capital grant contributions	16,077,280	20,833,591
Change in net position	66,174,802	58,633,211
Net position, beginning of year, as restated	660,888,566	602,255,355
Net position, end of year	\$ 727,063,368	\$ 660,888,566

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Cash Flows From Operating Activities		
Receipts from customers	\$ 174,459,266	\$ 151,351,150
Payments to suppliers	(81,174,308)	(65,771,340)
Payments to employees	(37,008,283)	(36,498,212)
Other receipts (payments)	(149,956)	(448,668)
Net cash provided by operating activities	56,126,719	48,632,930
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	4,756	(158,546)
Quieter Home Program grant receipts	13,264,899	11,303,456
Quieter Home Program payments	(14,832,460)	(14,577,575)
Joint Studies Program payments	(53,251)	(39,889)
Net cash (used in) noncapital financing activities	(1,616,056)	(3,472,554)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(333,940,143)	(301,336,594)
Intergovernmental revenue	4,778,599	4,995,921
Proceeds on sale of capital assets	694,150	444,764
Federal grants received (excluding Quieter Home Program)	16,093,276	20,660,153
Proceeds from passenger facility charges	34,304,024	35,348,167
Proceeds from customer facility charges	17,905,417	11,426,775
Proceeds from issuance of commercial paper	31,045,000	-
Payment of principal on bonds and commercial paper	(39,745,000)	(4,760,000)
Proceeds from issuance of Series 2013 Bond	435,519,101	-
Proceeds from capital lease	7,955,912	-
Payment to Trustee for 2005 debt service	-	(83,375)
Interest and debt fees paid, net of capitalized interest	(4,215,620)	(2,518,161)
Net cash provided by (used in) capital and related financing activities	170,394,716	(235,822,350)
Cash Flows From Investing Activities		
Sales of investments	(363,755,197)	243,050,295
Purchases of investments	127,453,246	(36,127,941)
Interest received on investments	1,810,503	1,228,179
Principal payments received on notes receivable	1,580,698	1,696,112
Interest received from notes receivable, commercial paper and bonds	3,311,853	4,694,187
Net cash provided by (used in) investing activities	(229,598,897)	214,540,832
Net increase (decrease) in cash and cash equivalents	(4,693,518)	23,878,858
Cash and Cash Equivalents, beginning of year	77,886,034	54,007,176
Cash and Cash Equivalents, end of year	\$ 73,192,516	\$ 77,886,034

(Continued)

San Diego County Regional Airport Authority

Statements of Cash Flows (Continued)

Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Cash and investments designated for specific capital projects and other commitments	9,565,751	9,062,504
	<u>\$ 73,192,516</u>	<u>\$ 77,886,034</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 9,077,786	\$ (10,151,320)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	41,623,629	44,532,069
Bad debt expense (recapture)	4,565	34,236
Changes in assets and liabilities:		
Tenant lease receivables	(1,386,723)	(991,645)
Net pension asset	556,313	556,313
Other current assets	(892,748)	567,080
Accounts payable (on noncapital items)	(1,440,698)	4,053,484
Accrued liabilities (on noncapital items)	8,437,880	9,959,129
Postretirement benefits obligation	22,351	29,867
Deposits	(184,639)	224,138
Deferred rent liability and other	(200,346)	(530,107)
Tenant deposits	352,578	90,139
Compensated absences	156,771	259,547
Capital lease payable	-	-
Net cash provided by operating activities	<u>\$ 56,126,719</u>	<u>\$ 48,632,930</u>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities:		
Additions to capital assets included in current payables	<u>\$ 55,195,546</u>	<u>\$ 56,664,578</u>
Receivables, grants	<u>\$ 3,828,572</u>	<u>\$ 3,867,809</u>
Receivables, PFCs	<u>\$ 5,545,716</u>	<u>\$ 4,412,287</u>
Receivables, CFCs	<u>\$ 2,153,662</u>	<u>\$ 1,079,837</u>

See Notes to Financial Statements

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Reporting entity: The San Diego County Regional Airport Authority (the Airport Authority), an autonomous public agency, was established as a result of legislation, Assembly Bill 93 (2001), as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (the Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (the District) to the Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of Senate Bill 10, the Airport Authority completed a Regional Aviation Strategic Plan, and by December 31, 2013, the Airport Authority will prepare and adopt an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all organizations, agencies, boards, commissions and authorities for which the Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing the majority of an organization's governing body and (1) the ability of the Airport Authority to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on, the Airport Authority. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members are appointed by the Mayor of the City of San Diego. Two Board members are appointed by the San Diego County Board of Supervisors. The remaining four Board members are each appointed by the mayors of the following defined jurisdictions: the east county cities, south county cities, north coastal area cities and north county inland cities. The Board members serve three-year terms in accordance with California Senate Bill 10.

Measurement focus and basis of accounting: The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in the Airport Authority's net position.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Evaluation of long-lived assets: The Airport Authority accounts for impairment of long-lived assets under GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Airport Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Airport Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset, or construction stoppage. This Statement requires the Airport Authority to report the effects of capital asset impairments in its financial statements when they occur and to account for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairment of capital assets currently exists.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments: Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. Guaranteed investment contracts are recorded at contract value. All other investments are stated at fair market value based on quoted market prices.

Tenant lease receivables: Tenant lease receivables are carried at the original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants, based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

Restricted assets: Funds are set aside as restricted when constraints placed on their use are legally enforceable due to either:

- Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors
- Laws or regulations of other governments
- Constitutional provisions or enabling legislation

The Airport Authority's policy is to use restricted resources before unrestricted resources for expenses incurred for which both restricted and unrestricted net position are available.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are recorded at cost, except for property contributed by third parties, which is recorded at fair market value at the date of contribution, less an allowance for accumulated depreciation. The Airport Authority capitalizes incremental ancillary costs and interest cost that are directly associated with the construction of capital assets.

Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Asset Category	Useful Life (years)
Land improvements	30-40
Runways, roadways and parking lots	
Lighting, security and minor improvements	3-10
Airfield and parking lots and improvements	12-25
Drainage systems, gas lines, pedestrian bridges	30
Roadways, bridges and infrastructure	40-50
Buildings and structures	
Passenger loading bridges, security systems, general upgrades and remodels	3-10
Baggage handling systems, HVAC, structural improvements, fuel and storage facility	12-20
Building expansions and smart curb improvements	25-50
Machinery and equipment	
Vehicles and emergency vehicles	3-15
Office furniture and equipment	3-10
Communication and electronic systems	3-20
Works of art	15-30

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized cost of the assets constructed. For the fiscal years ended June 30, 2013 and 2012, the Airport Authority capitalized interest of \$29,438,080 and \$31,663,105, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Net pension asset: The Airport Authority budgets for a 90 percent funding ratio with respect to its defined pension plan, which results in additional contributions to the plan over its annual required contribution (ARC). The difference between the Airport Authority's actual contributions and ARCs results in a net pension asset.

Airport Improvement Program: AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2013 and 2012, the Airport Authority recovered \$16,077,280 and \$20,833,591, respectively, for approved capital projects, and \$13,241,658 and \$11,013,260, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2013 and 2012 were \$20,096,600 and \$26,041,989, respectively, for the capital projects and \$14,830,457 and \$14,544,629, respectively, for the Quieter Home Program. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Airport Authority believes that no significant liabilities to the Airport Authority would result from such an audit.

Passenger facility charges: The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2013 and 2012, accrued PFC receivables totaled \$5,545,716 and \$4,412,287, respectively, and there were \$53,856,259 and \$74,369,877 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2013 and 2012, respectively.

On May 20, 2003, the FAA approved the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, impose and use authority of \$1.2 billion from three active applications allows collection through November 1, 2037. The Authority has formally closed five previously approved applications and withdrawn one pending application, which has been integrated into a ninth application to impose and use of approximately \$32 million in PFC revenue. The latest application was approved by the FAA in July 2012. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

Customer facility charges: The Airport Authority received approval in May 2009 from the State of California under Section 1936 of the California Civil Code to impose a \$10 customer facility charge (CFC) per contract on rental cars at SDIA.

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days. As of June 30, 2013 and 2012, accrued CFC receivables totaled \$2,301,027 and \$1,089,227, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2013 and 2012 were \$41,660,993 and \$30,863,159, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Retentions payable: The Airport Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Airport Authority. The Airport Authority's policy is to record the retention payable only after completion of the work and acceptance of the contractor invoices have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying statements of net position. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

Compensated absences: All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation.

Airport Authority net position: Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Airport Authority net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Net investment in capital assets as of June 30 is as follows:

	2013	2012
Capital assets	\$ 1,759,891,408	\$ 1,438,265,264
Less accumulated depreciation	(581,747,600)	(541,788,395)
Less outstanding debt	(717,719,675)	(488,353,892)
Net investment in capital assets	<u>\$ 460,424,133</u>	<u>\$ 408,122,977</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Other restricted net assets as of June 30 are as follows:

	2013	2012
Bond reserves:		
Operations and maintenance reserve	\$ 34,955,315	\$ 31,821,881
Operations and maintenance subaccount reserve	11,651,772	10,607,294
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	-	5,534,831
Commercial paper reserve	31,314	16,350
Small Business Development Bond Guarantee	4,000,000	2,000,000
Passenger facility charges unapplied	53,856,259	74,369,877
Passenger facility charges receivable	5,545,716	4,412,287
Customer facility charges unapplied	41,009,333	30,863,159
Customer facility charges receivable	2,301,027	1,089,227
Owner Controlled Insurance Program (OCIP) loss reserve	5,380,814	6,058,740
Total restricted net position	\$ 164,131,550	\$ 172,173,646

Unrestricted net position as of June 30 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2013	2012
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	6,659,982	5,941,986
Capital projects and other commitments (Note 12)	905,769	1,120,518
Total designated net position	\$ 9,565,751	\$ 9,062,504

Unrestricted designated net position: The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2013 and 2012, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$9,565,751 and \$9,062,504, respectively.

Revenue classifications: Revenue is recognized when earned. The Airport Authority will classify revenues as operating or nonoperating based on the following criteria:

Operating revenues are from the revenue sources that constitute the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating revenue sources consist of landing fees and terminal building and ground rentals, concession and parking fees, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the SDIA airfield and terminal areas. Ground rentals consist mainly of rent received for leased cargo facilities. Concession fees are determined as a percentage of gross monthly revenues generated by each concession lessee's monthly operations. Parking fees are generated from the airport parking lots.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of the nonoperating revenue sources are interest income from cash and investments, PFCs, CFCs and grant revenue related to the Quieter Home Program.

Concentrations: A significant portion of the Airport Authority's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport Authority's earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport Authority be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The three largest airlines in terms of enplaned passengers are as follows:

	FY 2013	FY 2012
Southwest Airlines	37.2%	37.9%
United Airlines	13.5%	14.8%
Delta Airlines	10.4%	10.9%

Expense classifications: The Airport Authority will classify expenses as operating or nonoperating based on the following criteria:

Operating expenses relate to the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, equipment and systems, materials and supplies, insurance, employee development and support, business development, and equipment rentals and repairs.

Nonoperating expenses relate to financing, investing and other activities that do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of nonoperating expenses sources are expenditures for the Quieter Home Program, interest expense and other nonoperating expenses such as unrealized loss on investments.

Federal grants: The Airport Authority receives federal grants from several federal departments. The Airport Authority records grants receivable and grant revenue or capital grant contributions for eligible reimbursable expenditures incurred.

Cash and cash equivalents: For purposes of the statements of cash flows, cash and cash equivalents include unrestricted and designated cash on hand, demand deposits, commercial paper and repurchase agreements collateralized by the U.S. government or agency obligations with original maturities of three months or less from the date of acquisition.

Long-term debt: Long-term debt and other obligations are reported as liabilities on the statements of net position. The revenue bond original discount and the revenue bond original issue premium are deferred and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period the debt is issued.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Pronouncements issued but not yet adopted: The GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 66, *Technical Corrections—2012*, effective for the Airport Authority's year ending June 30, 2014
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the Airport Authority's year ending June 30, 2014

The Airport Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2013:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the Airport Authority's fiscal year 2013
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*
- GASB Statement No. 63, *The Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

The implementation of GASB Statement Nos. 60, 61 and 62 did not impact net position or the change in net position of the Airport Authority as of or for the years ended June 30, 2013 and 2012. The implementation of GASB Statement No. 63 impacted certain terminology used but did not have an impact on the net position at June 30, 2013 or 2012, or the change in net position during the years then ended.

The implementation of GASB Statement No. 65 impacted the Airport Authority's net position as of June 30, 2011 and 2012 and the change in net position during the fiscal year ended June 30, 2012. Refer to Note 13 for further disclosures on the financial statement impact of the implementation of GASB Statement No. 65.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred outflows of resources: In fiscal year 2013, the Airport Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on the Airport Authority's net position. In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or expenses, until then. The Airport Authority only has one item, deferred loss on debt refunding, which qualifies for reporting in this category in the statement of net position.

Reclassifications: Certain reclassifications have been made to the 2012 financial information in order to conform to the 2013 presentation. These reclassifications had no impact on the Airport Authority's net position or change in net position.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments

Summary of cash and investments: Cash and investments are reported in the accompanying statements of net position as follows at June 30:

	2013	2012
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Current investments	42,223,353	34,284,994
Noncurrent investments	41,931,321	10,410,555
Total unrestricted and undesignated	<u>147,781,439</u>	<u>113,519,079</u>
Designated for specific capital projects and other commitments, cash and investments	<u>9,565,751</u>	<u>9,062,504</u>
Restricted cash and investments:		
Bond reserves		
Operation and maintenance reserve subaccount	34,955,315	31,821,881
Operation and maintenance subaccount	11,651,772	10,607,294
Renewal and replacement reserve	5,400,000	5,400,000
	<u>52,007,087</u>	<u>47,829,175</u>
Passenger facility charges unapplied	53,856,259	74,369,877
Customer facility charges unapplied	41,009,333	30,863,159
Small Business Development bond guarantee	4,000,000	2,000,000
Commercial paper reserve	18,408	3,444
Total restricted	<u>150,891,087</u>	<u>155,065,655</u>
Total cash and investments, not with Trustee	<u>308,238,277</u>	<u>277,647,238</u>
Investments held by Trustees:		
Commercial paper interest	12,906	12,906
2005 Series debt service account	-	4,533,755
2005 Series Debt Service Reserve Fund	-	5,394,063
2010 Series debt service account	16,869,731	6,847,385
2010 Series capitalized interest account	-	10,899,880
2010 Series construction fund	2,728,626	96,929,284
2010 Series Debt Service Reserve Fund	51,108,152	51,513,183
2013 Series debt service account	1,648,415	-
2013 Series capitalized interest account	8,357,832	-
2013 Series construction fund	250,974,607	-
2013 Series Debt Service Reserve Fund	32,729,065	-
Total held by Trustee	<u>364,429,334</u>	<u>176,130,456</u>
Total cash and investments	<u>\$ 672,667,611</u>	<u>\$ 453,777,694</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Components of cash and investments at June 30 are summarized below:

	2013	2012
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,976
Cash in banks	5,043,576	26,107,812
Total unrestricted cash on deposit	5,095,552	26,159,788
Unrestricted cash equivalents:		
Money market accounts	62,559,806	50,916,044
Money market funds	5,537,158	810,202
Total unrestricted cash equivalents	68,096,964	51,726,246
Unrestricted and restricted investments:		
Certificates of deposit	10,117,110	16,999,083
Local Agency Investment Fund	47,416,828	47,305,946
San Diego County Investment Pool	48,088,210	48,315,026
Commercial paper	35,485,205	25,899,199
Medium-term notes	8,126,320	-
U.S. Treasury notes	11,759,303	3,002,220
U.S. agency securities	74,052,785	58,239,730
Total unrestricted and restricted investments	235,045,761	199,761,204
Total cash and investments, not with Trustee	308,238,277	277,647,238
Investments held by Trustees:		
Money market accounts	16,124,492	20,590,022
Money market funds	24,620,178	22,008,575
Certificate of deposit	20,461,517	20,308,632
San Diego County Investment Pool	207,199,007	107,829,164
Local Agency Investment Fund	96,024,140	-
Guaranteed investment contract	-	5,394,063
Total investments held by Trustee	364,429,334	176,130,456
Total investments	599,475,095	375,891,660
Total cash, cash equivalents and investments	\$ 672,667,611	\$ 453,777,694

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy: The table on the following page 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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 Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	10 percent
	25-36 months	AA	15 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	No limit
San Diego County Investment Pool	N/A	N/A	None	No limit
Local Government Investment Pool	N/A	N/A	None	No limit
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
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	10 percent
Bank deposits (DOA/CDs)	N/A	*	20 percent	10 percent

* Financial institution must have at least an overall satisfactory rating under the Community Reinvestment Act for meeting the credit needs of California communities in its most recent evaluation. Collateralization required per Cal. Gov. Code Section 53630 et seq.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investments authorized by debt agreements: Investments held by the bond Trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond Trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the debt agreement shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
Bankers' acceptances	360 days	AAA/Aaa	None	None
Commercial paper	270 days	A-1; P-1; F-1	None	None
Repurchase agreements	None	N/A	None	None
Money market portfolio	None	Two highest ratings	None	None
Cash	None	N/A	None	None
Deposit accounts	None	N/A	None	None
Municipal bonds	None	Two highest ratings	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Certificates of deposit	None	Two highest ratings	None	None
Investment agreements	None	N/A	None	None

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policy as depicted in the previous section entitled "Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy."

Investments held by Trustee: The Airport Authority has monies held by a Trustee pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds were defeased on January 21, 2013, by depositing proceeds of subordinate commercial paper notes (CP Notes) and certain available monies in an irrevocable escrow fund. Before the defeasance, the June 30, 2012 investments held by the Trustee for security and the payment of the 2005 bonds was \$9,927,818, which included the July 1, 2013 payment. The Series 2010 Bonds require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, respectively, which included the July 1 payment. The Series 2013 Bonds, issued on January 30, 2013, require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

The CP Notes require the Airport Authority to maintain an interest reserve account with the note Trustee. The commercial paper interest held by the Trustee at June 30, 2013 and 2012 was \$12,906.

Disclosures related to 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.

Information about the sensitivity of the fair values of the Airport Authority's investments (including investments held by bond Trustee) to market rate fluctuations is provided by the following tables, which show the distribution of the entity's investments by maturity as of June 30:

Investment Type	2013				
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	255,287,214	-	-	-
Commercial paper	35,485,205	35,485,205	-	-	-
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	24,620,178	-	-	-
U.S. Treasury notes	11,759,303	-	-	11,759,303	-
U.S. agency securities	74,052,785	-	4,992,950	69,059,835	-
Total investments subject to interest rate risk	552,771,976	\$ 458,833,568	\$ 4,992,950	\$ 88,945,458	\$ -
Investments not subject to interest rate risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to interest rate risk	46,703,119				
	\$ 599,475,095				

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investment Type	2012				
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest					
rate risk:					
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -	\$ -
SDCIP	156,144,190	156,144,190	-	-	-
Money market funds	22,008,575	22,008,575	-	-	-
Commercial paper	25,899,199	25,899,199	-	-	-
U.S. Treasury notes	3,002,220	3,002,220	-	-	-
U.S. agency securities	58,239,730	-	6,010,920	52,228,810	-
Guaranteed investment contract	5,394,063	-	-	-	5,394,063
Total investments subject to interest rate risk	317,993,923	\$ 254,360,130	\$ 6,010,920	\$ 52,228,810	\$ 5,394,063
Investments not subject to interest					
rate risk:					
Money market accounts	20,590,022				
Certificates of deposit	37,307,715				
Total investments not subject to interest rate risk	57,897,737				
	<u>\$ 375,891,660</u>				

Custodial credit 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 several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). 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 market 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 public 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.

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. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or collateralized in accordance with the California Government Code.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Disclosures related to credit risk: 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. Presented below is the actual rating as of June 30 for each investment type:

Investment Type	2013				
	Total	Unrated ⁽¹⁾	AAA/Aaa ⁽¹⁾	AA/Aa ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	-	255,287,214	-	-
Commercial paper	35,485,205	-	-	-	35,485,205
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	-	24,620,178	-	-
U.S. Treasury notes	11,759,303	-	11,759,303	-	-
U.S. agency securities	74,052,785	-	74,052,785	-	-
Total investments subject to credit risk	552,771,976	\$ 143,440,971	\$ 365,719,480	\$ 8,126,320	\$ 35,485,205
Investments not subject to credit risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to credit risk	46,703,119				
	<u>\$ 599,475,095</u>				

⁽¹⁾ Source: Standard and Poor's, Moody's and Fitch

Investment Type	2012			
	Total	Unrated ⁽¹⁾	AAA ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:				
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -
SDCIP	156,144,190	-	156,144,190	-
Money market funds	22,008,575	-	22,008,575	-
Commercial paper	25,899,199	-	-	25,899,199
U.S. Treasury notes	3,002,220	-	3,002,220	-
U.S. agency securities	58,239,730	-	58,239,730	-
Guaranteed investment contract	5,394,063	-	5,394,063	-
Total investments subject to credit risk	317,993,923	\$ 47,305,946	\$ 244,788,778	\$ 25,899,199
Investments not subject to credit risk:				
Money market account	20,590,022			
Certificates of deposit	37,307,715			
Total investments not subject to credit risk	57,897,737			
	<u>\$ 375,891,660</u>			

⁽¹⁾ Source: Standard and Poor's, Moody's and Fitch

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2013 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
Federal National Mortgage Assoc.	U.S. agency securities	<u>\$ 33,763,865</u>	5.02%

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.

Investment in county investment pool: The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP), which is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. 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 SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years and will mature on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5 percent per annum. At June 30, 2013 and 2012, the balance of the note receivable was \$41,333,664 and \$42,703,301, respectively. The current portion recorded on the note for the years ended June 30, 2013 and 2012 was \$1,446,896 and \$1,369,638, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 3. Notes Receivable (Continued)

As part of the transfer of airport operations, pursuant to the Act, the District reimbursed the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at a 5.25 percent interest rate. A receivable for the Pond 20 property was recorded by the Airport Authority at January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value was \$3,329,000. Repayment terms remain unchanged. At June 30, 2013 and 2012, the note receivable was recorded at a value of \$0 and \$211,060, respectively. The current portion for the years ended June 30, 2013 and 2012 was \$0 and \$211,060, respectively.

The required principal payments owed from the District for notes receivable for the fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,447,000
2015	1,529,000
2016	1,609,000
2017	1,705,000
2018	1,802,000
2019-2023	10,647,000
2024-2028	14,009,000
2029-2031	8,586,000
	<u>\$ 41,334,000</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Nondepreciable assets:				
Land	\$ 22,415,851	\$ -	\$ -	\$ 22,415,851
Construction in progress	632,390,868	320,205,929	(550,771,657)	401,825,140
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	655,246,719	320,205,929	(550,771,657)	424,680,991
Depreciable assets:				
Land improvements	2,071,198	40,938,738	-	43,009,936
Buildings and structures ⁽¹⁾	463,735,113	252,587,679	(901,405)	715,421,387
Machinery and equipment ⁽²⁾	47,676,803	3,336,199	(295,613)	50,717,389
Runways, roads and parking lots	269,535,431	262,222,156	(5,695,880)	526,061,707
Total capital assets being depreciated	783,018,545	559,084,772	(6,892,898)	1,335,210,419
Less accumulated depreciation for:				
Land improvements	(1,190,389)	(1,108,151)		(2,298,540)
Building and structures	(320,299,753)	(26,459,140)	605,053	(346,153,840)
Machinery and equipment	(35,344,261)	(3,870,881)	294,446	(38,920,696)
Runways, roads and parking lots	(184,953,993)	(12,950,700)	3,530,168	(194,374,525)
Total accumulated depreciation	(541,788,396)	(44,388,872)	4,429,667	(581,747,601)
Total capital assets being depreciated, net	241,230,149	514,695,900	(2,463,231)	753,462,818
Capital assets, net	\$ 896,476,868	\$ 834,901,829	\$ (553,234,888)	\$ 1,178,143,809

(1) Includes capitalized lease of building with initial net present value of future lease payments of \$8,040,531

(2) Includes capitalized leases of office equipment with initial net present value of future lease payments of \$760,332

Construction in progress contains projects such as The Green Build, upgrading certain major equipment, and improvements to the runway, parking lots and terminals. Current contracts of the Airport Authority related to these projects are discussed in Note 12.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ (16,804)	\$ 22,415,851
Construction in progress	322,289,133	319,839,003	(9,737,268)	632,390,868
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	345,161,788	319,839,003	(9,754,072)	655,246,719
Depreciable assets:				
Land improvements	2,028,465	42,733	-	2,071,198
Buildings and structures	466,463,764	1,623,967	(4,352,618)	463,735,113
Machinery and equipment ⁽¹⁾	46,246,697	1,846,081	(415,975)	47,676,803
Runways, roads and parking lots	273,449,104	6,757,894	(10,671,567)	269,535,431
Total capital assets being depreciated	788,188,030	10,270,675	(15,440,160)	783,018,545
Less accumulated depreciation for:				
Land improvements	(1,048,848)	(141,541)	-	(1,190,389)
Building and structures	(298,025,116)	(26,627,255)	4,352,618	(320,299,753)
Machinery and equipment	(31,187,302)	(4,564,238)	407,279	(35,344,261)
Runways, roads and parking lots	(177,667,532)	(14,256,482)	6,970,021	(184,953,993)
Total accumulated depreciation	(507,928,798)	(45,589,516)	11,729,918	(541,788,396)
Total capital assets being depreciated, net	280,259,232	(35,318,841)	(3,710,242)	241,230,149
Capital assets, net	\$ 625,421,020	\$ 284,520,162	\$ (13,464,314)	\$ 896,476,868

(1) Includes capitalized leases of office equipment with initial net present value of future lease payments of \$760,332

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt

The following is a summary of changes in the long-term liability activity:

	Principal Balance at June 30, 2012 (as restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2013	Due Within One Year
Debt obligations:					
Commercial paper	\$ 20,729,000	\$ 31,045,000	\$ (805,000)	\$ 50,969,000	\$ -
Bonds payable:					
Senior Series 2005 Bonds	37,960,000	-	(37,960,000)	-	-
Subordinate Series 2010 Bonds	571,850,000	-	(980,000)	570,870,000	1,000,000
Senior Series 2013 Bonds	-	379,585,000	-	379,585,000	-
Bond premiums	25,497,968	55,934,101	(4,475,881)	76,956,188	-
Total bonds payable	635,307,968	435,519,101	(43,415,881)	1,027,411,188	1,000,000
Total debt obligations	656,036,968	466,564,101	(44,220,881)	1,078,380,188	1,000,000
Capital leases	361,641	8,040,531	(249,584)	8,152,588	328,012
Compensated absences	2,932,985	2,514,696	(2,357,925)	3,089,756	2,357,925
Total long-term liabilities	\$ 659,331,594	\$ 477,119,328	\$ (46,828,390)	\$ 1,089,622,532	\$ 3,685,937
	Principal Balance at June 30, 2011 (as restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2012 (as restated)	Due Within One Year
Debt obligations:					
Commercial paper	\$ 21,509,000	\$ -	\$ (780,000)	\$ 20,729,000	\$ -
Bonds payable:					
Senior Series 2005 Bonds	41,225,000	-	(3,265,000)	37,960,000	3,430,000
Subordinate Series 2010 Bonds	572,565,000	-	(715,000)	571,850,000	980,000
Bond premiums	27,130,314	-	(1,632,346)	25,497,968	-
Total bonds payable	640,920,314	-	(5,612,346)	635,307,968	4,410,000
Total debt obligations	662,429,314	-	(6,392,346)	656,036,968	4,410,000
Capital leases	519,866	-	158,225	361,641	164,966
Compensated absences	2,673,438	2,457,252	(2,197,705)	2,932,985	2,197,705
Total long-term liabilities	\$ 665,622,618	\$ 2,457,252	\$ (8,431,826)	\$ 659,331,594	\$ 6,772,671

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

Commercial Paper Series A, B and C (CP Notes): On September 6, 2007, the Board authorized issuance of subordinate CP Notes with up to \$250,000,000 of principal outstanding at any time. The CP Notes may be issued from time to time and proceeds from the issuance of the CP Notes are to be used, among other things, to finance improvements to SDIA. The CP Notes are subordinate obligations secured by a pledge of airport revenues subordinated to the pledge of net airport revenues securing payment of the senior lien Series 2013 Bonds and on parity to the subordinate Series 2010 Bonds. Each CP Note matures at the end of a period not to exceed 270 days. The matured commercial paper can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the irrevocable letter of credit expiration date.

The CP Notes are secured by an irrevocable letter of credit provided by Lloyds TSB Bank, which expires no later than September 10, 2014. Accordingly, the CP Notes are classified as long-term in the Airport Authority's financial statements. There were no unreimbursed draws by the Airport Authority on this letter of credit during the year ended June 30, 2013, nor were there any amounts outstanding under this letter-of-credit agreement at June 30, 2013.

On December 18, 2012, the Airport Authority issued \$35,412,000 of Series C CP Notes to provide for the defeasance of Series 2005 Bonds.

At June 30, 2013, the aggregate principal amount outstanding of the CP Notes was \$50,969,000, carrying a weighted-average interest rate of 0.19 percent. At June 30, 2012, the principal amount of CP Notes outstanding was \$20,729,000, carrying an interest rate of 0.26 percent.

Commercial paper interest expense for the years ended June 30, 2013 and 2012 amounted to \$87,682 and \$56,199, respectively, including accrued interest of \$6,866 and \$3,447, respectively.

As subordinate obligations, the CP Notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the CP Notes require the Airport Authority to maintain an interest reserve account with the note Trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2013 and 2012, the amount held by the Trustee was \$12,906 and \$12,906, respectively, and the amount reserved by the Airport Authority was \$18,408 and \$3,444, respectively.

The required debt service payments for the CP Notes for the fiscal years ending June 30 are as follows, assuming an interest rate of 0.19 percent:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 96,841	\$ 96,841
2015	50,969,000	96,841	51,065,841
	<u>\$ 50,969,000</u>	<u>\$ 193,682</u>	<u>\$ 51,162,682</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

Senior Lien Airport Revenue Bonds, Series 2005 and Refunded Series 1995: The California Maritime Infrastructure Authority issued \$76,690,000 of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued \$56,270,000 of senior lien Series 2005 Bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021.

On December 21, 2012, the Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Senior Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2013, the amount held in escrow by the Trustee was \$36,489,675 and the amount of the defeased Series 2005 Bonds still outstanding was \$34,530,000.

Although the advance refunding resulted in the recognition of a deferred outflow of resources of \$6,367,592 for the year ended June 30, 2013, the Airport Authority in effect reduced its aggregate debt service payments by \$1,214,000 over the next seven years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$1,003,000. As the CP Notes (refunding debt) are variable rate debt, they are subject to interest fluctuation risks. Interest rates on the CP Notes are based on U.S. Treasury yields. If the two-year U.S. Treasury yield increases by 0.40 percent (40 basis points), it would result in an economic gain of approximately \$780,000.

Senior Lien Airport Revenue Bonds, Series 2013: On January 30, 2013, the Airport Authority issued \$379,585,000 of Series A and Series B senior airport revenue bonds. The senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the senior Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the senior Series 2013 Bonds.

The Series 2013 bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2013 amounted to \$7,749,446, including accrued interest of \$7,749,446. The principal balance on the Series 2013 Bonds as of June 30, 2013 was \$379,585,000.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system, and (b) certain funds and accounts held by the senior Trustee under the senior indenture.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The Airport Authority's Master Senior Indenture and the Third Supplemental Senior Indenture (the Indenture) govern the Airport Authority's debt program. Per the Indenture, as senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Indenture requires the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds. As required by the Indenture, the total amount reserved by the Airport Authority for fiscal years 2013 and 2012 was \$52,007,087 and \$53,364,006, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2013 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2013 Bonds for the fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 16,987,196	\$ 16,987,196
2015	-	18,475,500	18,475,500
2016	2,030,000	18,445,050	20,475,050
2017	2,090,000	18,382,275	20,472,275
2018	2,155,000	18,306,850	20,461,850
2019-2023	29,525,000	88,758,375	118,283,375
2024-2028	50,660,000	78,095,450	128,755,450
2029-2033	45,330,000	65,221,975	110,551,975
2034-2038	32,565,000	57,139,125	89,704,125
2039-2043	150,780,000	41,634,250	192,414,250
2044	64,450,000	1,573,750	66,023,750
	<u>\$ 379,585,000</u>	<u>\$ 423,019,796</u>	<u>\$ 802,604,796</u>

A cumulative rebate liability relating to arbitrage of the defeased Series 2005 Bonds was recorded for \$522,343 and \$94,796 as of the fiscal years ended June 30, 2013 and 2012, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2015. Additionally, should the bonds be retired prior to July 1, 2015, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

Subordinate Lien Series 2010 Bonds: On October 5, 2010, the Airport Authority issued \$572,565,000 of Series A, B and C subordinate airport revenue bonds. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142,176,000 of the Airport Authority's outstanding CP Notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The Series A and Series B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as taxable Build America Bonds, which benefit from periodic cash subsidy payments from the U.S. Treasury equal to 35 percent of interest payable. However, in the fiscal year ended June 30, 2013, due to the impact of the federal government's sequestration measures, subsidy payments were reduced by 4.3 percent. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2012 and 2011 was \$4,778,599 and \$4,995,921, respectively. The interest rate on the Series C bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2013 and 2012 amounted to \$31,735,498 and \$31,755,098, respectively, including accrued interest of \$15,867,749 and \$15,877,549, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2013 and 2012 was \$570,870,000 and \$571,850,000, respectively.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include all income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The irrevocably committed PFC amount of \$14,703,838 was fully utilized in fiscal year 2013. The irrevocably committed PFC amounts for the fiscal years ended June 30, 2014, 2015 and 2016 are \$19,208,838, \$19,206,113 and \$19,209,388, respectively.

As subordinate lien bonds, the Series 2010 bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and a capitalized interest fund.

The public ratings of the Series 2010 Bonds as of June 30, 2013 are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The required debt service payments for the subordinate Series 2010 Bonds for the fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,000,000	\$ 31,720,498	\$ 32,720,498
2015	5,785,000	31,594,948	37,379,948
2016	8,665,000	31,318,098	39,983,098
2017	9,000,000	30,934,023	39,934,023
2018	9,430,000	30,487,998	39,917,998
2019-2023	54,495,000	144,913,548	199,408,548
2024-2028	69,330,000	129,681,617	199,011,617
2029-2033	110,385,000	108,629,628	219,014,628
2034-2038	176,410,000	65,792,997	242,202,997
2039-2041	126,370,000	11,699,976	138,069,976
	<u>\$ 570,870,000</u>	<u>\$ 616,773,332</u>	<u>\$ 1,187,643,332</u>

Compensated absences: Employee vacation that vests is recorded when earned. Accumulated sick leave is not accrued because employee rights to receive compensation for the unused portion terminate upon severance of employment.

Line of credit: In fiscal year 2013, the Airport Authority established a \$4,000,000 line of credit with Wells Fargo, which is collateralized with a certificate of deposit. This line of credit replaced a line maintained with Union Bank. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2013, nothing had been drawn on the line of credit and four issued letters of credit were outstanding, totaling \$858,006 for projects in progress. One of the letters of credit is due to expire on January 17, 2014, and the remaining three will expire on February 27, 2014.

Capital Leases:

Office equipment leases: The Airport Authority entered into capital lease agreements for office equipment that require monthly lease payments of \$14,806.

Receiving distribution center lease: The Airport Authority entered into an installment purchase agreement for a receiving and distribution center (RDC) in fiscal year 2013. This agreement has been determined to be a capital lease with an interest rate of 9.15 percent and requires monthly lease payments of \$73,108 for 240 months. The Airport Authority will become the owner of the RDC at the conclusion of the 20-year installment purchase agreement.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2013:

Years Ending June 30,	Amount
2014	\$ 1,054,969
2015	902,429
2016	877,298
2017	877,298
2018	877,298
2019-2023	4,386,489
2024-2028	4,386,489
2029-2031	3,874,732
Total lease payments	17,237,002
Less amount representing interest	(9,084,414)
Present value of future lease payments	\$ 8,152,588

Note 6. Defined-Benefit Plan

Plan description: The Airport Authority's defined-benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The San Diego County Regional Airport Authority Retirement Plan and Trust provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District and the Airport Authority, administered by the Retirement Board of Administration (the CERS Board). San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in CERS to the CERS Board. The Airport Authority contributes to the Federal Social Security Program. The CERS Board issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101.

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority's contribution rate, as determined through actuarial valuation, was 10.9 percent for 2013, 14.5 percent for 2012 and 16.6 percent for 2011, and is expressed as a percentage of covered payroll.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Annual pension cost: For the years ended June 30, 2013, 2012 and 2011, the annual pension cost included in salaries and benefits was \$4,582,000, \$4,356,000 and \$5,036,000, respectively, for the CERS pension. Comparing the June 30, 2012 actuarial valuation to the June 30, 2011 actuarial valuation, total membership increased by 1.3 percent. The increase was attributable to both the growth in inactive membership, terminated vested, disabled, retirees and beneficiaries. The active membership declined by 0.9 percent. Active member payroll decreased by 1.7 percent, for an average decrease of 0.8 percent. The actuarial liability increased by 15.7 percent, but the actuarial value of assets increased by 11 percent. The funding ratio decreased from 102.7 percent as of June 30, 2011 to 98.5 percent as of June 30, 2012. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not decrease as much as the market value (94.6 percent).

New valuation requirements: Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. There are less significant changes for current employees and retirees.

There are no New Members in the current valuation. However, in calculating the fiscal year 2014 ARC, the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2013 and subsequent valuations, the actual cost implications will vary and further study may be required.

As of the latest actuarial valuation dated June 30, 2012, significant actuarial assumptions are as follows:

- The rates of retirement were decreased and changed to be based on age and service as opposed to just the service of a member.
- The percent married assumption was increased to 55 percent for females, and the assumed age difference between husbands and wives was reduced to three years.
- The reciprocity assumption was reduced from 20 percent to 10 percent.
- Rates of termination were increased and changed to be based on service as opposed to the age of a member.
- Disability rates were decreased.
- Mortality rates for active Airport Authority members were decreased.
- Mortality rates for retired Airport Authority members were increased.
- The investment return assumption was 7.5 percent.
- The inflation assumption was 0 percent for the next year and 3.75 percent thereafter.
- Cost of living adjustment is assumed to be 2 percent.
- Actuarial funding method is entry age normal.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

- Amortization method is level percent closed.
- Asset valuation method is expected value method.
- Equivalent single amortization period is 13.539 years. This consists of nine years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, and 20 years for benefit changes.
- The rate of employer contributions to CERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost that, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

On September 16, 2004, the Airport Authority made a contribution payment in the amount of \$3,900,000, in addition to the ARC, to reflect a desired funded ratio of 90 percent. On June 21, 2005, the Airport Authority made an additional contribution of \$1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of \$513,627. On June 30, 2010, the Airport Authority made a contribution of \$4,600,000 to increase the funded rate reported in the January 2010 CERS 2009 actuarial calculation from 86.9 percent to the desired funded ratio of 90 percent. At June 30, 2013, 2012 and 2011, the total contribution of \$10,013,627 less amortization of \$3,365,485, \$2,809,172 and \$2,252,860, respectively, is recorded as a net pension asset of \$6,648,142, \$7,204,455 and \$7,760,767, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2014 measured as a percentage of membership payroll increased from 10.9 percent to 11.9 percent. The required beginning-of-year contribution paid on July 1, 2013 increased by \$300,000.

Fiscal Year Ended	Annual Pension Cost (APC)	Airport Cost Funded	% of APC Contributed	ARC	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.50%
6/30/11	\$ 5,036	\$ 4,300	85%	\$ 4,300	\$ 7,761	\$ (556)	\$ 556	\$ 751
6/30/12	4,356	3,800	87%	3,800	7,204	(556)	556	751
6/30/13	4,582	2,600	57%	2,600	6,648	(556)	556	751

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Schedule of pension funding progress for CERS based on most recent actuarial valuation is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/ (Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/12	\$ 95,793	\$ 97,225	\$ 1,432	98.5%	\$ 24,726	5.8%

Note 7. Employees' Deferred Compensation Plan

The Airport Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, which is available to all full-time Airport Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets to be held in the IRC Section 457 plans are not the property of the Airport Authority and are not subject to the claims of the Airport Authority's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*, employee assets are not reflected in the Airport Authority's financial statements.

Note 8. Other Postemployment Benefits

In addition to pension benefits as described in Notes 6 and 7, the Airport Authority provides other postemployment benefits (OPEB). The Airport Authority's OPEB benefits are administered as a single-employer plan.

The Airport Authority provides medical, dental and \$10,000 life insurance postretirement benefits for nonunion employees hired prior to May 1, 2006 and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Plan description: As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. The CERBT fund is an irrevocable Section 115 trust. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.5 million California public employees, retirees and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States, managing more than \$250 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted that permitted CalPERS to form the CERBT fund, a Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding policy: CERBT requires a valuation of the liabilities and annual costs for benefits by an approved actuarial consulting firm. It is the Airport Authority's intent to budget and prefund the ARCs. As of May 9, 2009, the agreement with CERBT was approved.

Annual OPEB cost and actuarial methods and assumptions: The July 1, 2011 actuarial valuation for the ARC, net of the employer contribution, was \$2,238,000 for fiscal year 2013 and \$2,165,000 for 2012. The ARC was determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, with unfunded liabilities amortized over 30 years, which is the method utilized by CERBT. The actuarial assumptions used by CERBT include (a) a 7.61 percent investment rate of return, (7.75 percent was used in the prior valuations), net of administrative expenses, and (b) projected salary increases of 3.25 percent. The annual healthcare cost trend rate ranged from 8.0 percent to 9.5 percent for medical, with a 5 percent rate for dental and 3.0 percent rate for vision.

The entry-age-normal method spreads plan costs for each participant from entry date to the expected retirement date. Under the entry-age-normal cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The actuarial accrued liability is the cumulative value, on the valuation date, of prior service costs. For retirees, the actuarial accrued liability is the present value of all projected benefits.

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true plan costs.

Development of net OPEB obligation (NOO)/Asset and annual OPEB cost is as follows (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO (Asset) End of Year	Interest on NOO (Asset)	Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
7/1/2010	10/11	\$ 1,791	\$ 1,699	\$ (60)	\$ (12)	\$ (10)	\$ 1,789	7.61%	3.25%	15.7
7/1/2011	11/12	2,165	2,165	(61)	(5)	-	2,164	7.61%	3.25%	15.7
7/1/2012	12/13	2,238	2,236	(62)	(5)	-	2,237	7.61%	3.25%	15.7

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Schedule of employer contributions is as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB (Asset) Obligation
6/30/11	\$ 1,789	\$ 1,699	95.0%	\$ (60)
6/30/12	2,164	1,964	90.8%	(61)
6/30/13	2,237	2,236	100.0%	(62)

Schedule of OPEB funding progress based on most recent actuarial valuation is as follows (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	\$ 40,725	\$ 7,604	\$ 22,197	\$ 14,593	34.3%	\$ 18,728	77.9%	7.61%	3.25%

Note 9. Risk Management

The Airport Authority has a comprehensive Risk Management Program comprising commercial insurance, self-insurance, loss prevention, loss control and claims administration. The Airport Authority's coverage includes a variety of retentions or deductibles.

Commercially issued insurance:

- The Airport Authority maintains \$500 million in limits for owners' and operators' general liability insurance with a War, Hijacking and Other Perils endorsement in the amount of \$150 million.
- The Airport Authority maintains a property insurance policy with limits of \$500 million providing all risk and flood coverage on physical assets.
- The Airport Authority also maintains policies for Workers' Compensation, Commercial Auto, Fiduciary Liability and Public Official Liability.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2013 and 2012, the Airport Authority has designated \$6,659,982 and \$5,941,986, respectively, from its net position, which is included in designated unrestricted net position.

A \$2,000,000 reserve has been established within unrestricted net position by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no requirement that it be maintained.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 9. Risk Management (Continued)

Loss prevention: The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, two risk analysts, a safety manager and a safety analyst. In addition, insurer property and casualty loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a Web-based claims information system.

During fiscal year 2013, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 10. Lease Revenues

The Airport Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. These assets are included in the buildings and structures capital asset category and have a cost of approximately \$253.1 million and accumulated depreciation of approximately \$128.3 million, for a net carrying amount of \$124.8 million as of June 30, 2013. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc. A majority of the Airport Authority's signatory airlines lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

The Airport Authority's expansion of approximately 25,000 additional square feet results in the increase of the number of food service and retail concession locations from 55 to 87. The Airport Authority is implementing a comprehensive Concessions Development Program (CDP) to provide a world-class shopping and dining experience for the millions of passengers who use SDIA each year. The full program build-out is scheduled for March 2014. The CDP replaces the Airport Authority's one master concessionaire, giving way for additional 11 new tenants to conduct business with the Airport Authority. With the new program, 17 new concessions lease commitments were signed and 87 new stores will open within the Airport Authority's terminals. These new lease commitments are cancelable leases and are not reflected in the schedule below.

The minimum future lease payments to be received under the above operating lease agreements as of June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 4,826,179
2015	7,547,637
2016	6,532,126
2017	5,422,203
2018	5,503,536
2019-2020	11,330,637
	<u>\$ 41,162,317</u>

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of \$440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of \$440,000. The license, an intangible asset with no expiration date, is included in nondepreciable assets in Note 4. As of June 30, 2013 and 2012, the Airport Authority recognized lease revenue of \$86,996 for each year under the World Trade Center lease.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments

Operating Leases:

General Dynamics lease: The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement calls for predetermined rents through December 31, 2005, with future rents based upon a market rate established in late 2005 by an appraisal (or arbitration). The amended lease agreement calls for rent payments of \$6,750,000 annually through December 31, 2068. The Airport Authority received a credit for \$375,000 in reduced rent based on a previous lease agreement for the property in September 2006. The changes in terms for this lease were approved by the Airport Authority's Board on July 25, 2006. A portion of the land is leased to the District for employee parking for District administration building employees and is leased back by the District at the same fair market value rent paid by the Airport Authority.

SDIA lease: The Airport Authority is leasing from the District 480 acres of land on North Harbor Drive for \$1 per year, for 66 years, through December 31, 2068.

Teledyne Ryan lease: The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires on December 31, 2068, with \$3 million in annual rent.

Other District leases: The Airport Authority leases from the District two additional properties adjacent to SDIA. These properties require monthly rentals of \$86,083 and \$12,521 and both expire in December 2013. As of January 1, 2013, the lease for \$86,083 was terminated with the District.

On July 24, 2006, the Airport Authority's Board approved a lease with the District for the property located at 2415 Winship Lane, known as the Sky Chef property. The term of the lease is 60 years with \$350,000 in annual rent and commenced on September 1, 2006.

Under current law, in the event SDIA is relocated and the District leases are no longer used by the Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments (Continued)

Building lease: The Airport Authority leased modular buildings from an unrelated third party that required monthly rental of \$1,366 through the expiration date of August 2013. This lease was not renewed. The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 10,290,846
2015	10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019-2023	50,799,600
2024-2028	50,799,600
2029-2033	50,799,600
2034-2038	50,799,600
2039-2043	50,799,600
2044-2048	50,799,600
2049-2053	50,799,600
2054-2058	50,799,600
2059-2063	50,799,600
2064-2068	50,799,600
2069	5,079,960
	<u>\$ 564,028,086</u>

The total rental expense charged to operations for the years ended June 30 consists of the following:

	<u>2013</u>	<u>2012</u>
Rental payments made	<u>\$ 10,897,338</u>	<u>\$ 11,414,838</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event

Commitments: As of June 30, 2013, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Airport Authority has funds that have been classified as current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2013, these funds totaled \$905,769 and are classified on the accompanying statement of net position as cash and investments designated for specific capital projects and other commitments.
- ii. Support services—As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the year ended June 30, 2013, the Airport Authority expensed \$17,289,681 for these services.
- iii. Major contracts—During 2006 the Airport Authority Board approved a contract with AECOM Aviation for \$37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. The Board approved additional increases totaling \$43.9 million in fiscal years 2009 and 2010. In 2011 the Board approved \$45 million additional funds and approximately \$112 million has been spent to date. The remaining contract is expected to be completed during fiscal year 2014.
- iv. In 2009 the Board approved two design-build contracts for the Terminal Expansion Program, or "The Green Build." The program is estimated to cost \$864 million. The Green Build began in fiscal year 2010 and the projected completion date is early fiscal year 2014. The Green Build provides for 10 additional passenger gates, a new dual-level roadway at Terminal 2 and additional aircraft remain-overnight parking areas. The first Green Build contract was approved for the Terminal 2 West Building and Airside Expansion to Turner/PCL/FCI Joint Venture for \$14 million. Additional amounts were approved in fiscal years 2009, 2010 and 2011 for \$110.4 million, \$228 million and \$79 million, respectively. As of June 30, 2013, \$404.41 million had been spent and the contract is expected to be completed during fiscal year 2014.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event (Continued)

- v. The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$43.8 million approved in 2009 and additional approvals in 2010 and 2011 for \$76.2 million and \$135 million, respectively. As of June 30, 2013, \$206.23 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is expected to be completed in fiscal year 2014.
- vi. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of \$29.7 million and the second for the airport shuttle services in the amount of \$28.8 million. The total amounts spent as of June 30, 2013 were \$6.9 million for parking management services and \$9.1 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2013, the Airport Authority's remaining commitment is approximately \$22.8 million for the parking management contract and \$19.7 million for the shuttle service contract.
- vii. In fiscal year 2013, the Board approved a contract with Austin-Sundt JV for the design and construction of the proposed Rental Car Center in the amount of \$14 million and additional approval of \$10 million. As of June 30, 2013, \$1.9 million had been spent and the contract is due to be completed in fiscal year 2016.
- viii. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of \$10 million and an additional approval of \$12 million. As of June 30, 2013, \$6.7 million had been spent and the contract is due to be completed in fiscal year 2016.

Contingencies: As of June 30, 2013, the Airport Authority is subject to contingencies arising from legal matters as described below:

The Airport Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenant/operators to indemnify the Airport Authority for any damage to property or losses to the Airport Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Airport Authority to be named as an additional insured under certain insurance policies of the tenants/operators. The Airport Authority also tenders these claims to its own insurers once they become asserted claims. Thus, according to the Airport Authority's legal counsel, when these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 13. Implementation of New GASB and Effect on Net Position

During the year ended June 30, 2013, the Airport Authority early implemented GASB Statement No. 65. As a result, the cumulative effect on beginning net position and the change in net position, as well as certain asset accounts and operating accounts, have been restated from previously issued financial statements to reflect the Airport Authority's write-off of unamortized debt issuance costs. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources to ensure consistency in financial reporting.

The effect on the Airport Authority's previously issued June 30, 2012 financial statements is summarized as follows:

Statement of Net Position	Previously Reported Balance as of June 30, 2012	(Decrease)	Balance as Restated as of June 30, 2012
Deferred charges	\$ 4,655,862	\$ (4,655,862)	\$ -
Total assets	1,432,071,331	(4,655,862)	1,427,415,469
Net position, end of year	665,544,428	(4,655,862)	660,888,566

Statement of Revenues, Expenses and Changes in Net Position	Previously Reported Balance for the Year Ended June 30, 2012	Increase (Decrease)	Balance as Restated for the Year Ended June 30, 2012
Interest expense	\$ 2,369,718	\$ (343,026)	\$ 2,026,692
Change in net position	58,290,185	343,026	58,633,211
Beginning net position as of June 30, 2011	607,254,243	(4,998,888)	602,255,355
Net position, end of year	665,544,428	(4,655,862)	660,888,566

Implementation of new accounting standards also resulted in \$1,854,985 being restated from a reduction of debt to being recorded as a deferred outflow of resources as of June 30, 2012.

San Diego County Regional Airport Authority

Required Supplementary Information Fiscal Year Ended June 30, 2013

Schedule of pension funding progress for CERS is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/ (Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/10	\$ 73,401	\$ 76,447	\$ 3,047	96.0%	\$ 25,596	11.9%
6/30/11	86,309	84,042	(2,267)	102.7%	25,148	(11.1%)
6/30/12	95,793	97,225	1,432	98.5%	24,726	5.8%

Schedule of OPEB funding progress is as follows (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	7/1/09	\$ 2,674	\$ 12,206	\$ 9,532	21.9%	\$ 19,514	48.8%	7.75%	3.25%
Actual	7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
Actual	7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%

San Diego County Regional Airport Authority

Compliance Report
June 30, 2013

ATTACHMENT B

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San Diego County Regional Airport Authority

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

Federal Grantor/Grantor Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Federal Expenditures
U.S. Department of Transportation			
Direct Programs:			
Airport Improvement Program (AIP)	20.106*	3-06-0214-59	\$ 4,497,370
Airport Improvement Program (AIP)	20.106*	3-06-0214-60	654,362
Airport Improvement Program (AIP)	20.106*	3-06-0214-61	5,248,216
Airport Improvement Program (AIP)	20.106*	3-06-0214-63	2
Airport Improvement Program (AIP)	20.106*	3-06-0214-64	1,456,667
Airport Improvement Program (AIP)	20.106*	3-06-0214-65	5,243,703
Airport Improvement Program (AIP)	20.106*	3-06-0214-66	6,480,242
Airport Improvement Program (AIP)	20.106*	3-06-0214-67	1,524,555
Total funded under Airport Improvement Program grants			<u>25,105,117</u>
Total U.S. Department of Transportation			<u><u>25,105,117</u></u>
U.S. Department of Homeland Security			
Direct Programs:			
Law Enforcement Personnel Reimbursement Agreement	97.100	HSTS02-08-H-SLR254	189,181
ARRA - TSA Checked Baggage Inspection System Program	ARRA-97.117*	HSTS04-10-H-REC118	4,470,211
Total U.S. Department of Homeland Security			<u>4,659,392</u>
Total federal awards expended			<u><u>\$ 29,764,509</u></u>

* Denotes major program

ARRA = American Recovery and Reinvestment Act

See Notes to Schedule of Expenditures of Federal Awards.

San Diego County Regional Airport Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the San Diego County Regional Airport Authority (the Airport Authority) for the year ended June 30, 2013. The Schedule includes federal awards received directly from federal agencies. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Airport Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Airport Authority. The Airport Authority's reporting entity is defined in Note 1 to the Airport Authority's basic financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the accompanying Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Subrecipients

Of the federal expenditures presented in the Schedule, the Airport Authority did not provide any federal awards to subrecipients for the fiscal year ended June 30, 2013.



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

San Diego, CA
October 18, 2013



**Independent Auditor's Report on Compliance for
Each Major Federal Program; Report on Internal Control Over
Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Airport Authority's major federal programs for the year ended June 30, 2013. The Airport Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Airport Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; and the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the Airport Authority as of and for the year ended June 30, 2013 and have issued our report thereon dated October 18, 2013, which contained an unmodified opinion on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



San Diego, CA
October 18, 2013

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106 ARRA - 97.117	Airport Improvement Program TSA Checked Baggage Inspection System Program (ARRA)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 892,935

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

II. Financial Statement Findings

A. Internal Control

None reported.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs For Federal Awards

A. Internal Control

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2013**

There were no audit findings reported for the year ended June 30, 2012.

San Diego County Regional Airport Authority

Passenger Facility Charge
Compliance Report
June 30, 2013

ATTACHMENT C

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**Independent Auditor's Report on the
Supplementary Information—Schedule of Passenger
Facility Charge Collections and Expenditures**

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

We have audited the basic financial statements of the San Diego County Regional Airport Authority as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon, dated October 18, 2013, which contained an unmodified opinion on those basic financial statements. Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole.

The accompanying Schedule of Passenger Facility Charge (PFC) Collections and Expenditures, prepared on a modified cash basis, is presented for additional analysis, as specified in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. It provides relevant information that is not provided by the basic financial statements, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or a complete presentation in accordance with the accounting basis used for modified cash basis purposes. Under the modified cash basis, PFC revenues are recognized when received rather than when earned (collections), and eligible expenditures are recognized when the related goods or services are provided or incurred. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Collections and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

San Diego, CA
October 18, 2013

San Diego County Regional Airport Authority

Passenger Facility Charge Program Schedule of Passenger Facility Charge Collections and Expenditures Year Ended June 30, 2013 and For Each Quarter During the Year Ended June 30, 2013

Description	Beginning Balance, Unapplied PFC	PFC Revenues ¹	Interest Earned	Expenditures		Application #10	Total Expenditures	Ending Balance, Unapplied PFC ²
				Application #7	Application #8			
Collections and expenditures, quarter ended September 30, 2012	\$ 74,369,876	\$ 9,257,521	\$ 86,308	\$ 2,798,628	\$ 9,480,299	\$ 10,273,423	\$ 22,552,350	\$ 61,161,355
Collections and expenditures, quarter ended December 31, 2012	61,161,355	7,528,995	63,644	979,299	2,380,394	1,580,479	4,940,172	63,813,822
Collections and expenditures, quarter ended March 31, 2013	63,813,822	8,558,784	63,960	12,028	2,657,624	1,126,104	3,795,756	68,640,810
Collections and expenditures, quarter ended June 30, 2013	68,640,810	8,958,723	59,945	(914,719)	23,875,224	842,718	23,803,223	53,856,255
Collections and expenditures, year ended June 30, 2013		\$ 34,304,023	\$ 273,857	\$ 2,875,236	\$ 38,393,541	\$ 13,822,724	\$ 55,091,501	

¹ Passenger Facility Charge (PFC) revenues (collections) are reported when the cash is received.

² Unapplied PFCs are collections that have not been applied to approved PFC projects.

See Note to Schedule of Passenger Facility Charge Collections and Expenditures.

San Diego County Regional Airport Authority

Passenger Facility Charge Program

Note to Schedule of Passenger Facility Charge Collections and Expenditures

Note 1. Basis of Presentation

The accompanying Schedule of Passenger Facility Charge (PFC) Collections and Expenditures includes the PFC activity of the San Diego County Regional Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis, PFC revenues are recognized when received rather than when earned (collections), and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this Schedule is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration. Therefore, some amounts presented in this Schedule will differ from amounts presented in, or used in preparation of, the basic financial statements.

PFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs, if requested in the application. Eligible expenditures not requested or approved in the application are not applied against PFCs collected. The accompanying Schedule of Passenger Facility Charge Collections and Expenditures includes the eligible expenditures that have been applied against PFCs collected as of June 30, 2013.



**Independent Auditor's Report on Compliance
For its Passenger Facility Charge Program and
Report on Internal Control Over Compliance**

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

Report on Compliance For its Passenger Facility Charge Program

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on its passenger facility charge (PFC) program for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations and contracts applicable to the PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's PFC program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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; and the requirements described in the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Airport Authority's PFC program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its PFC program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, for its PFC program. Accordingly, this report is not suitable for any other purpose.



San Diego, CA
October 18, 2013

San Diego County Regional Airport Authority

**Passenger Facility Charge Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Passenger Facility Charge Program

Internal control over the program:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for the Program: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*? _____ Yes X No

San Diego County Regional Airport Authority

**Passenger Facility Charge Program
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

II. Financial Statement Findings

A. Internal Control

None reported.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs For Passenger Facility Charge Program

A. Internal Control

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

**Passenger Facility Charge Program
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013**

There were no audit findings reported for the year ended June 30, 2012.

San Diego County Regional Airport Authority

Customer Facility Charge
Compliance Report
June 30, 2013

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**Independent Auditor's Report on the
Supplementary Information—Schedule of Customer
Facility Charge Collections and Expenditures**

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

We have audited the basic financial statements of the San Diego County Regional Airport Authority as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon, dated October 18, 2013, which contained an unmodified opinion on those basic financial statements. Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole.

The accompanying Schedule of Customer Facility Charge (CFC) Collections and Expenditures, prepared on a modified cash basis, is presented for additional analysis, as specified in California Civil Code Section 1936, and is not a required part of the basic financial statements. It provides relevant information that is not provided by the basic financial statements, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or a complete presentation in accordance with the accounting basis used for modified cash basis purposes. Under the modified cash basis, CFC revenues are recognized when received rather than when earned (collections), and eligible expenditures are recognized when the related goods or services are provided or incurred. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Customer Facility Charge Collections and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

San Diego, CA
October 18, 2013

San Diego County Regional Airport Authority

**Schedule of Customer Facility Charge Collections and Expenditures
Year Ended June 30, 2013 and For Each Quarter During the Year Then Ended**

Description	Beginning Balance, Unapplied CFC	CFC Revenues ¹	Interest Earned	Expenditures	Ending Balance, Unapplied CFC ²
Collections and expenditures, quarter ended September 30, 2012	\$ 30,863,239	\$ 3,146,800	\$ 37,173	\$ 210,427	\$ 33,836,785
Collections and expenditures, quarter ended December 31, 2012	33,836,785	3,208,008	30,140	573,227	36,501,706
Collections and expenditures, quarter ended March 31, 2013	36,501,706	5,071,814	32,347	3,640,631	37,965,236
Collections and expenditures, quarter ended June 30, 2013	37,965,236	6,478,793	23,162	3,457,858	41,009,333
Collections and expenditures, year ended June 30, 2013		<u>\$ 17,905,415</u>	<u>\$ 122,822</u>	<u>\$ 7,882,143</u>	

¹ Customer Facility Charge (CFC) revenues (collections) are reported when the cash is received.

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

See Notes to Schedule of Customer Facility Charge Collections and Expenditures.

San Diego County Regional Airport Authority

Notes to Schedule of Customer Facility Charge Collections and Expenditures

Note 1. General

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

On October 4, 2012, the Airport Authority Board of Directors approved an alternative CFC rate modification from the \$10 CFC per contract to allow for the collection of sufficient CFC funds to cover the future costs of the anticipated consolidated rental car facility and centralized busing system. Effective November 1, 2012, the CFC fee is currently \$6 per day up to a maximum of five days.

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

Note 2. Basis of Presentation

The accompanying Schedule of Customer Facility Charge Collections and Expenditures includes the CFC activity of the Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis, CFC revenues are recognized when received rather than when earned (collections), and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this Schedule is presented for purposes of additional analysis, as specified in California Civil Code Section 1936. Therefore, some amounts presented in this Schedule will differ from amounts presented in, or used in the preparation of, the basic financial statements.

CFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs. The accompanying Schedule of Customer Facility Charge Collections and Expenditures includes the eligible expenditures that have been applied against CFCs collected as of June 30, 2013.



**Independent Auditor's Report on Compliance
For its Customer Facility Charge Program and
Report on Internal Control Over Compliance**

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

Report on Compliance For its Customer Facility Charge Program

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the types of compliance requirements described in California Civil Code Section 1936, for its customer facility charge (CFC) program for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations and contracts applicable to the CFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's CFC program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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; and the requirements described in California Civil Code Section 1936. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Airport Authority's CFC program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its CFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the CFC program and to test and report on internal control over

compliance in accordance with California Civil Code Section 1936, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the CFC program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the CFC program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the CFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of California Civil Code Section 1936 for the Airport Authority's CFC program. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

San Diego, CA
October 18, 2013

San Diego County Regional Airport Authority

Report to the Audit Committee

October 23, 2013



October 23, 2013

To the Members of the Audit Committee
San Diego County Regional Airport Authority
San Diego, CA

We are pleased to present this report related to our audit of the basic financial statements and compliance of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the year ended June 30, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Airport Authority's financial and compliance reporting process.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Airport Authority.

McGladrey LLP

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process:

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated June 18, 2013.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you in our meeting on May 13, 2013 our identification of, and planned audit response to, significant risks of material misstatement.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices</p> <p>Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Airport Authority. The Airport Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 60, <i>Accounting and Financial Reporting for Service Concession Arrangements</i>; GASB Statement No. 61, <i>The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34</i>; GASB Statement No. 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>; GASB Statement No. 63, <i>The Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i>; and GASB Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i>. The implementation of GASB Statement Nos. 60, 61 and 62 did not impact net position or the change in net position of the Airport Authority as of or for the years ended June 30, 2013 or 2012.</p>

Area	Comments
Accounting Policies and Practices (Continued)	<p>The implementation of GASB Statement No. 63 impacted certain terminology used but did not have an impact on the net position at June 30, 2013 or 2012, or the change in net position during the years then ended.</p> <p>The implementation of GASB Statement No. 65 impacted the Airport Authority's net position as of June 30, 2011 and 2012 and the change in net position during the fiscal year ended June 30, 2012. Refer to Note 13 to the financial statements for further disclosures on the financial statement impact of the implementation of GASB Statement No. 65.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates</p> <p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Audit Adjustments	<p>Audit adjustments proposed by us and recorded by the Airport Authority are shown in the attached Summary of Recorded Audit Adjustments.</p>
Uncorrected Misstatements	<p>There were no uncorrected misstatements made during the period under audit.</p>
Disagreements With Management	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.</p>
Consultations With Other Accountants	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
Significant Issues Discussed With Management	<p>No significant issues arising from the audit were discussed with or the subject of correspondence with management.</p>

Area	Comments
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Internal Control and Compliance Matters	We did not identify any significant deficiencies, material weaknesses or any noncompliance during our audit of the financial statements and major awards that are required to be communicated in accordance with <i>Government Auditing Standards</i> and OMB Circular A-133.
Significant Written Communication Between Management and Our Firm	A copy of a significant written communication between our Firm and the management of the Airport Authority is attached as the Exhibit.

San Diego County Regional Airport Authority Summary of Significant Accounting Estimates Year Ended June 30, 2013

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Airport Authority's June 30, 2013 basic financial statements:

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Useful Lives of Long-Lived Assets	The estimated useful lives of assets generally have the following ranges: land improvements, 30 to 40 years; runways, taxiways, roads and parking areas, three to 50 years; buildings, structures and improvements, three to 50 years; machinery and equipment, three to 20 years; and works of art, 15 to 30 years. Refer to Note 1 to the financial statements for detailed asset categories. These assets are depreciated using the straight-line method. Land is not depreciated, and construction in progress is not depreciated until ready for service and capitalized.	Management reviews for changes in the useful lives of long-lived assets by evaluating prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired if both the decline-in-service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage.	We tested the reasonableness of information underlying management's estimate. Based on our procedures, we concluded that assigned useful lives of capital assets are reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Tenant Lease Receivables	Record accounts receivable net of the allowance for estimated uncollectible accounts.	In estimating the Airport Authority's allowance for doubtful accounts, management specifically identifies receivables that it believes to be uncollectible based on relevant facts, such as bankruptcy filings and customers' financial outlooks.	We tested the propriety of information underlying management's estimate. Based on our procedures, we concluded that management's approach is reasonable. The change in allowance is supported by the accounts receivable records.
Pension Obligations and Postemployment Benefits Other Than Pensions	Record pension and postemployment benefits cost based on an estimated annual contribution rate.	<p>For postemployment benefits other than pensions, management utilizes an actuarial consulting firm to perform an evaluation using the entry-age-actuarial-cost method. Management reviewed and approved the actuarial assumptions and calculations used to determine the postemployment benefit costs.</p> <p>For pension obligations, management utilizes City of San Diego Employees' Retirement System (CERS) actuaries for its defined benefit plan. Management reviewed and approved the actuarial assumptions and calculations used to determine the pension costs.</p>	We tested the reasonableness of the information underlying the actuarial evaluations. Based on our procedures, we concluded that the costs recorded are reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Construction in Progress and Related Accrued Liabilities	Record construction in progress, a component of capital assets, based on construction progress and estimated cost to complete. Record corresponding accrued liabilities at period-end for costs that have been incurred through the period-end but not yet paid as of the period-end.	Management estimates construction in progress and the related liabilities based on review of the construction progress, discussions with the contractors conducting the work and review of invoices received after year-end.	We tested the reasonableness of the estimates through capital asset and accrued liability testing. Based on our procedures, we concluded that the costs recorded are reasonable.

San Diego County Regional Airport Authority
Summary of Recorded Audit Adjustments
Year Ended June 30, 2013

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Net Position	Revenue	Expenses
• Correcting entry to properly reflect construction in progress	\$ 10,111,928	\$ 889,268	\$ -	\$ -	\$ (11,001,196)
• Correcting entry to properly reflect landing fees, airside, terminal and security charges	-	(8,162)	-	8,162	-
• Correcting entry to properly reflect grants receivable	(1,079,391)	-	-	1,079,391	-
• Correcting entry to properly reflect accrued interest	-	11,541	-	-	(11,541)
• Correcting entry to properly reflect arbitrage rebate liability	-	(427,547)	-	427,547	-
• To write off bond issuance costs in accordance with GASB 65	(6,951,765)	-	4,655,862	-	2,295,903
• To properly reflect accrued expenses	3,380	(96,506)	-	-	93,126
• To properly reflect accrued payroll	-	63,281	-	-	(63,281)
Total effect	\$ 2,084,152	\$ 431,875	4,655,862	\$ 1,515,100	\$ (8,686,989)
Current year effect of change in net position			(7,171,889)		
Effect on ending net position			\$ (2,516,027)		

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

P.O. BOX 82776, SAN DIEGO, CA 92138-2776
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October 18, 2013

McGladrey LLP
1455 Frazee Road, Suite 600
San Diego, California 92108-4307

This representation letter is provided in connection with your audit of the San Diego County Regional Airport Authority (the Airport Authority) basic financial statements as of and for the years ended June 30, 2013 and 2012 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of October 18, 2013, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 18, 2013, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates are reasonable.
5. We have indicated to you that the Airport Authority operates as a single proprietary fund. There are no organizations that are a part of this reporting entity or with which we have a relationship with as defined by U.S. GAAP that are a) component units, b) other organizations for which the nature and significance of their relationship with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete, and c) jointly governed organizations in which we participated.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Net positions classifications.
 - b. Arrangements with financial institutions involving restrictions on cash balances.
 - c. Security agreements in effect under the Uniform Commercial Code.



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- d. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - e. The fair value of investments.
 - f. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - g. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - h. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - i. Debt issue provisions.
 - j. All leases and material amounts of rental obligations under long-term leases.
 - k. All significant estimates and material concentrations known to management which are required to be disclosed. Significant estimates are estimates at the statement of net position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - l. Authorized but unissued Commercial Paper notes.
 - m. Risk financing activities.
 - n. Deposits and investment securities categories of risk.
 - o. Arbitrage rebate liabilities.
 - p. We have adopted and implemented Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, effective for the Airport Authority's fiscal year 2013*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *The Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
- a. The Airport Authority has no significant amounts of idle property and equipment or property or equipment.
 - b. The Airport Authority has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
10. We are responsible for making the accounting estimates included in the basic financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
 - b. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through June 30, 2013.
 - c. For environmental clean-up obligations.

11. There are no:

- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification, except as already disclosed in Note 12 to the financial statements.
- d. Guarantees, whether written or oral, under which the Airport Authority is contingently liable.
- e. Arrangements with financial institutions involving compensating balances.
- f. Line of credit or similar arrangements.
- g. Agreements to repurchase assets previously sold.
- h. Authorized but unissued bonds and/or notes.
- i. Derivative financial instruments.
- j. Special and extraordinary items.
- k. Impairment of capital assets.
- l. Investments, intangibles, or other assets which have permanently declined in value.
- m. Obsolete, damaged, or excess inventories.
- n. Uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2013 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2013.
- o. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
- p. Material losses to be sustained as a result of purchase commitments.

12. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10

13. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statement.

14. The Airport Authority has satisfactory title to all owned assets.

15. We have complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

16. Net position components (net investment in capital assets, restricted and unrestricted are properly classified and, when applicable, approved.

17. Expenses have been appropriately classified in or allocated to functions and programs in the statements of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.
18. Revenues are appropriately classified in the statements of revenues, expenses and changes in net position within operating and nonoperating revenues.
19. Capital assets are properly capitalized, reported, and depreciated.
20. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

21. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the Airport Authority from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have no knowledge of allegations of fraud or suspected fraud, affecting the Airport Authority's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority's financial statements received in communications from employees, former employees, analysts, regulators, or others.
25. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
27. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Airport Authority's ability to record, process, summarize, and report financial data.
28. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
29. The Airport Authority has developed a comprehensive Risk Management Program, including workers' compensation, which includes risk transfer, loss prevention, loss control and claims administration. The Airport Authority has purchased excess liability, airport, workers' compensation and automotive insurance, in addition to property, machinery and other miscellaneous insurance coverage. The Airport Authority also administers an owner-controller insurance program covering all projects in the

Airport Capital Improvement Program. The Airport Authority's coverage includes a variety of retentions or deductibles. As of June 30, 2013, the Airport Authority has designated \$6,659,982 from its net position and is included in designated unrestricted net position.

30. The Airport Authority incurs certain costs that relate to the construction of capital assets. The Airport Authority capitalizes only those costs that are incremental to the construction of capital assets.

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm:

31. We are responsible for:
- a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Airport Authority.
 - b. Establishing and maintaining effective internal control over financial reporting.
32. We have identified and disclosed to you all laws regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
33. There have been no:
- a. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
 - b. Fraud, illegal acts, violations of provisions of contracts or grants agreements, or abuse that has been reported.
 - c. Previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
 - d. Reported findings, conclusions, or recommendations, as well as our planned corrective actions for the report.
34. We have a process to track the status of audit findings and recommendations.
35. We are responsible for and have reviewed and approved the proposed adjustments to the trial balance identified during the audit. These adjustments were posted to the general ledger. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes. See Exhibit A on page 8 for summary of adjustments posted.

In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we confirm:

36. We are responsible for complying, and we have complied, with the requirements of OMB Circular A-133.
37. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.
38. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.

39. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants.
40. We have prepared the schedule of Passenger Facility charge (PFC) Collections and Expenditures in accordance with the PFC Audit Guide and have included expenditures made during the period being audited for all PFC revenues.
41. We have prepared the schedule of Customer Facility Charge (CFC) Collections and Expenditures in accordance with our understanding of the requirements of the California Civil Code Section 1936.
42. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
43. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
44. We believe that we have complied with the direct and material compliance requirements.
45. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
46. We are not aware of any compliance requirements that are subject to varying interpretations.
47. We have not received any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of your report.
48. We have no findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of your report.
49. We are responsible for taking corrective action on audit findings of the compliance audit.
50. There are no prior audit findings by federal awarding agencies and pass-through entities.
51. We are not aware of any known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report.
52. There are no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), that have occurred subsequent to the date as of which compliance is audited.
53. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
54. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
55. There are no subrecipients which receive pass-through assistance as outlined in Circular A-133.
56. We have charged costs to federal awards in accordance with applicable cost principles.

57. We have accurately completed appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.

58. We have disclosed all contracts or other agreements with service organizations.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data has been recorded. Accordingly, copies of such records in your possession are no longer needed by us.

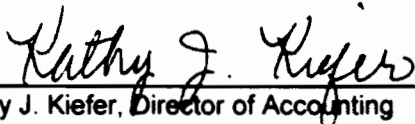
San Diego County Regional Airport Authority



Thella F. Bowens, Chief Executive Officer/President



Vernon D. Evans, Chief Financial Officer/Vice President of Finance/Treasurer



Kathy J. Kiefer, Director of Accounting

Exhibit A – Proposed Adjustments Identified During the Audit

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Net Position	Revenue	Expenses
• Correcting entry to properly reflect construction in progress	10,111,928	889,268	-	-	(11,001,196)
• Correcting entry to properly reflect landing fees, airside, terminal and security charges	-	(8,162)	-	8,162	-
• Correcting entry to properly reflect grants receivable	(1,079,391)	-	-	1,079,391	-
• Correcting entry to properly reflect accrued interest	-	11,541	-	-	(11,541)
• Correcting entry to properly reflect arbitrage rebate liability	-	(427,547)	-	427,547	-
• To write off bond issuance costs in accordance with GASB 65	(6,951,765)	-	4,655,862	-	2,295,903
• To properly reflect accrued expenses	3,380	(96,506)	-	-	93,126
• To properly reflect accrued payroll	-	63,281	-	-	(63,281)
Total effect	\$ 2,084,152	\$ 431,875	4,655,862	\$ 1,515,100	\$ (8,686,989)
Current year effect of change in net position			(7,171,889)		
Effect on ending net position			<u>\$ (2,516,027)</u>		

San Diego County Regional Airport Authority

Financial and Compliance Audit for the Year Ended June 30, 2013

Presented By:

Peter George, Director

Jeffrey Altshuler, Partner

McGladrey LLP

November 18, 2013

Agenda

- Introduction
- Our Audit Responsibilities
- Communications to the Audit Committee
- Internal Controls
- Overview of Financial Statements
- Overview of Single Audit Report
- Overview of Passenger Facility Charge Report
- Overview of Customer Facility Charge Report
- Questions and Answers

Auditor Responsibilities

- Perform an audit of the Airport Authority's financial statements as of and for the year ended June 30, 2013
- The objective of an audit of financial statements is to express an opinion that the financial statements are presented fairly in conformity with generally accepted accounting principles (GAAP)
- The audit was performed in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*
- Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement

Auditor Responsibilities, Continued

- Deliverables
 - Unmodified opinions on the Airport Authority's basic financial statements and on the Comprehensive Annual Financial Report
 - Opinions on 1) internal control over financial reporting and on compliance and other matters, 2) compliance with requirements applicable to each major program and Circular A-133 (Single Audit) for the Airport Authority
 - Opinions on internal control and compliance relative to the Airport Authority's 1) Passenger Facility Charge program, 2) Customer Facility Charge program
 - Communications to Audit Committee including summary of audit results

Communications to the Audit Committee

- Auditor's responsibility under professional standards
- Accounting practices – adoption of or changes in accounting policies, alternative treatments
- There was no auditor proposed adjustments made to the financial statements
- There were no immaterial uncorrected misstatements
- There were no disagreements with management
- There were no consultations with other accountants
- There were no major issues or difficulties encountered during the audit
- We have provided copies of written communications with management

Types of Deficiencies in Internal Control

- **Control deficiencies** — design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis
- **Material weaknesses** — a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis
- **Significant deficiencies** — a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

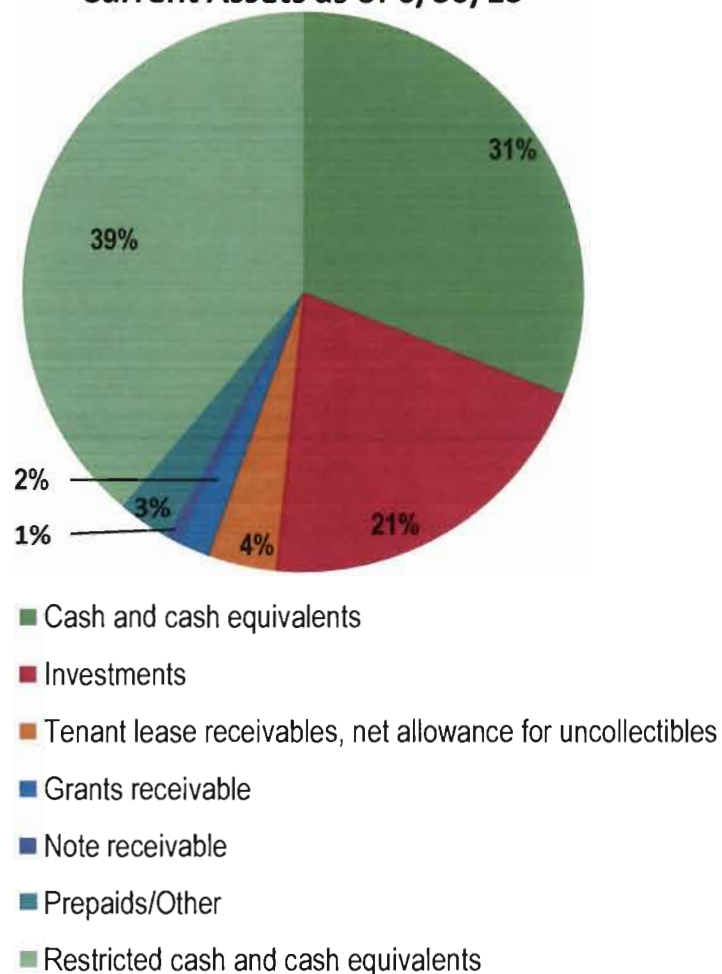
Specific Findings Applicable to the Airport Authority

- No material weaknesses noted for FY 2013
- No significant deficiencies noted for FY 2013
- No control deficiencies or management comments noted for FY 2013 that are required to be communicated to the audit committee

Current Assets as of June 30, 2013 and 2012

(in thousands)

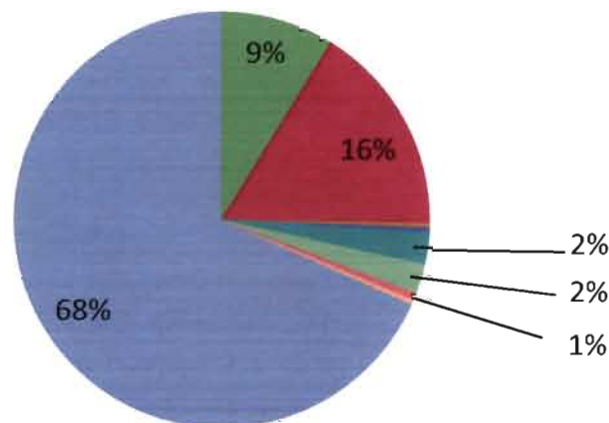
Current Assets as of 6/30/13



Description	<u>6/30/2013</u>	<u>6/30/2012</u> <u>(As restated)</u>
Cash and cash equivalents	\$ 63,627	\$ 68,824
Investments	42,223	34,285
Tenant lease receivables, net of allowance for uncollectibles	8,038	6,551
Grants receivable	3,829	3,868
Notes receivable	1,447	1,581
Prepaids/Other	6,279	4,660
Restricted cash and cash equivalents	<u>79,820</u>	<u>77,919</u>
Total Current Assets	<u>\$ 205,263</u>	<u>\$ 197,586</u>

Noncurrent & Restricted Assets, and Deferred Outflows of Resources as of June 30, 2013 and 2012 (in thousands)

Noncurrent and Restricted Assets as of 6/30/2013



- Restricted cash and cash equivalents, not with trustee
- Restricted investments with trustee
- Passenger facility charges receivables (0%)
- Customer facility charge receivable (0%)
- Other restricted assets (0%)
- Investments, noncurrent
- Notes receivable
- Cash and equivalents designated for capital projects
- Net pension & OPEB asset (0%)
- Workers comp security deposits (0%)
- Capital Assets, net

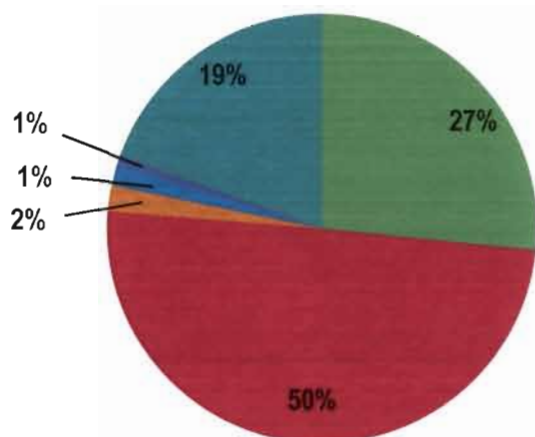


Description	6/30/2013	6/30/12 (As restated)
Restricted cash and cash equivalents, not with trustee	\$ 150,891	\$ 155,066
Restricted investments with trustee	284,610	98,212
Passenger facility charges receivables	5,546	4,412
Customer facility charge receivable	2,301	1,089
Other restricted assets	5,381	6,059
Investments, noncurrent	41,931	10,411
Notes receivable	39,887	41,334
Cash and equivalents designated for capital projects	9,566	9,062
Net pension and OPEB asset	6,648	7,204
Workers comp security deposits	616	503
Capital assets, net	<u>1,178,144</u>	<u>896,477</u>
Total Noncurrent and Restricted Assets	<u>\$ 1,725,521</u>	<u>\$ 1,229,829</u>
TOTAL ASSETS	<u>\$1,930,783</u>	<u>\$1,427,415</u>
Deferred outflows of resources, deferred loss on debt refunding	<u>4,397</u>	<u>1,855</u>
Total Assets & Deferred Loss	<u>\$1,935,180</u>	<u>\$1,429,270</u>

Current Liabilities as of June 30, 2013 and 2012

(in thousands)

Current Liabilities as of 6/30/2013

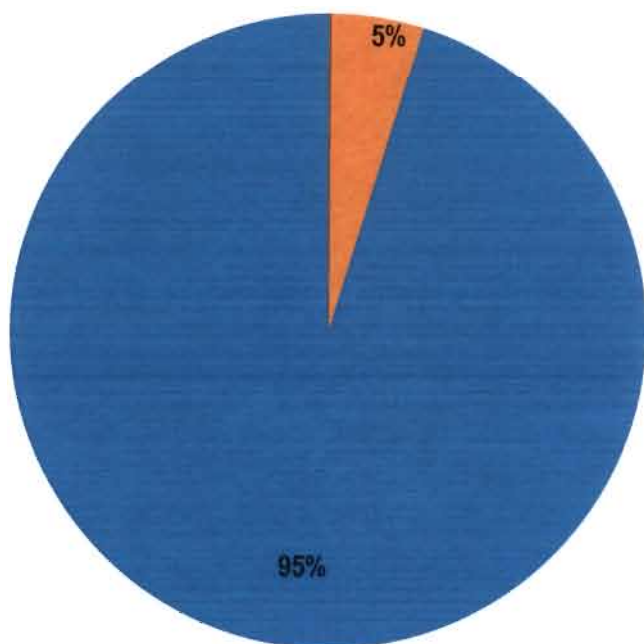


- Accounts payable
- Accrued liabilities
- Compensated absences, current
- Deposits and other current liabilities
- Current portion of debt
- Accrued interest on debt

Description	<u>6/30/2013</u>	<u>6/30/2012</u> <u>(As restated)</u>
Accounts payable	\$ 32,322	\$ 31,471
Accrued liabilities	60,293	59,280
Compensated absences, current	2,358	2,198
Deposits and other current liabilities	1,787	868
Current portion of debt	1,000	4,410
Accrued interest on debt	<u>23,624</u>	<u>16,844</u>
Total Current Liabilities	<u>\$ 121,384</u>	<u>\$ 115,071</u>

Non Current Liabilities as of June 30, 2013 and 2012 (in thousands)

Non-Current Liabilities as of 6/30/2013

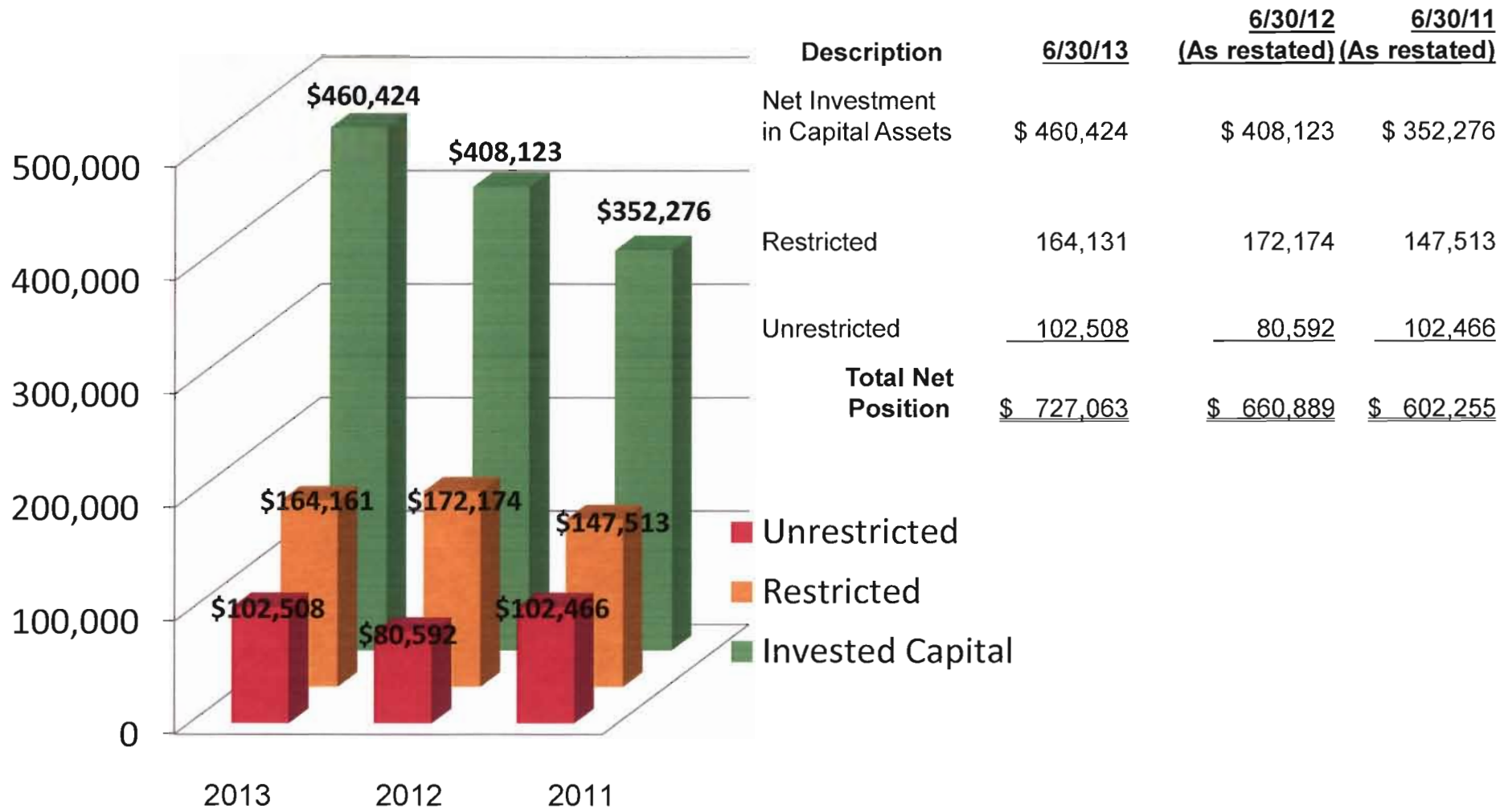


- Compensated absences, net of current portion (0%)
- Tenant security deposits and other (0%)
- Commercial paper notes payable
- Series 2013 and 2010 bonds and premium

Description	6/30/2012	
	6/30/2013 (As restated)	
Compensated absences, net of current portion	732	735
Tenant security deposits and other	795	949
Commercial paper notes payable	50,969	20,729
Bonds payable, premium and capital leases	<u>1,034,236</u>	<u>630,898</u>
Total Non Current Liabilities	<u>\$ 1,086,732</u>	<u>\$ 653,311</u>
TOTAL LIABILITIES	<u>\$ 1,208,116</u>	<u>\$ 768,382</u>

2011-2013 Total Net Position

(in thousands)



2013 and 2012 Operating Revenue

(in thousands)

Operating Revenue				
	2013	%	2012 (As restated)	%
Airline revenue				
Landing fees	\$ 19,658	11.1%	\$ 18,419	12.0%
Aircraft parking fees	3,191	1.8%	3,135	2.0%
Building rentals	41,840	23.6%	30,633	19.9%
Security surcharge	23,360	13.2%	18,649	12.2%
Other aviation revenue	1,591	0.9%	1,594	1.1%
Concession revenue	42,041	23.7%	40,427	26.3%
Parking and ground transportation revenue	35,750	20.1%	31,470	20.5%
Ground rentals	9,152	5.2%	8,044	5.2%
Other operating revenue	905	0.4%	1,179	0.8%
Total Operating Revenues	\$177,498	100.0%	\$ 153,550	100.0%

2013 and 2012 Operating Expenses

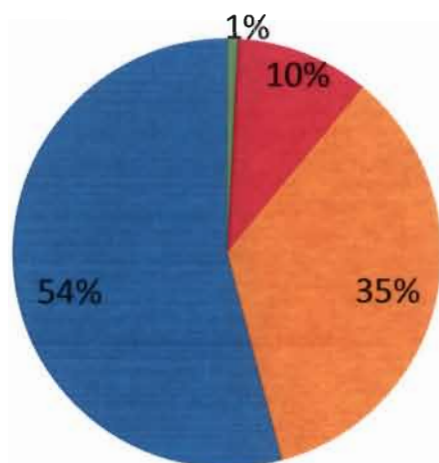
(in thousands)

Operating Expenses				
	2013	%	2012 (As restated)	%
Salaries and benefits	\$ 38,092	30.0%	\$ 37,237	31.2%
Contractual services	29,284	23.1%	26,905	22.6%
Safety and security	23,994	18.9%	22,625	19.0%
Space rental	10,897	8.6%	11,415	9.6%
Utilities	6,659	5.3%	6,674	5.6%
Maintenance	11,204	8.8%	8,497	7.1%
Equipment and systems	469	0.4%	403	0.3%
Materials and supplies	406	0.3%	305	0.2%
Insurance	795	0.6%	764	0.9%
Employee development and support	1,235	1.0%	916	0.6%
Business development	2,444	1.9%	2,093	1.8%
Equipment rentals and repairs	1,317	1.1%	1,335	1.1%
Total Operating Expenses	\$126,796	100.0%	\$119,169	100.0%

Investments as of June 30, 2013 and 2012

(in thousands)

Investments as of 6/30/2013



- Unrestricted cash on deposit
- Unrestricted money market
- Total cash equivalents and investments not with Trustee
- Total Investment held by Trustee

Description	6/30/2013	6/30/2012
Unrestricted cash on deposit	\$ 5,096	\$ 26,160
Unrestricted money market accounts/funds	\$ 68,097	\$ 51,726
Unrestricted and restricted investments		
Certificates of deposit	\$ 10,117	\$ 16,999
Local Agency Investment Fund	47,417	47,306
San Diego County Investment Pool	48,089	48,315
Commercial Paper	35,485	25,899
Medium-Term notes	8,126	-
U.S. Treasury notes	11,759	3,002
U.S. agency securities	74,053	58,240
Total unrestricted and restricted investments	\$ 235,046	\$ 199,761
Investments held by trustee		
Money Market Accounts/Funds	40,744	42,599
Bond reserve, guaranteed investment contract	-	5,394
Certificates of deposit	20,462	20,309
Local Agency Investment Fund	96,024	-
San Diego County Investment Pool	207,199	107,829
Total investments held by Trustee	\$ 364,429	\$ 176,131
TOTAL CASH and INVESTMENTS	\$ 672,668	\$ 453,778

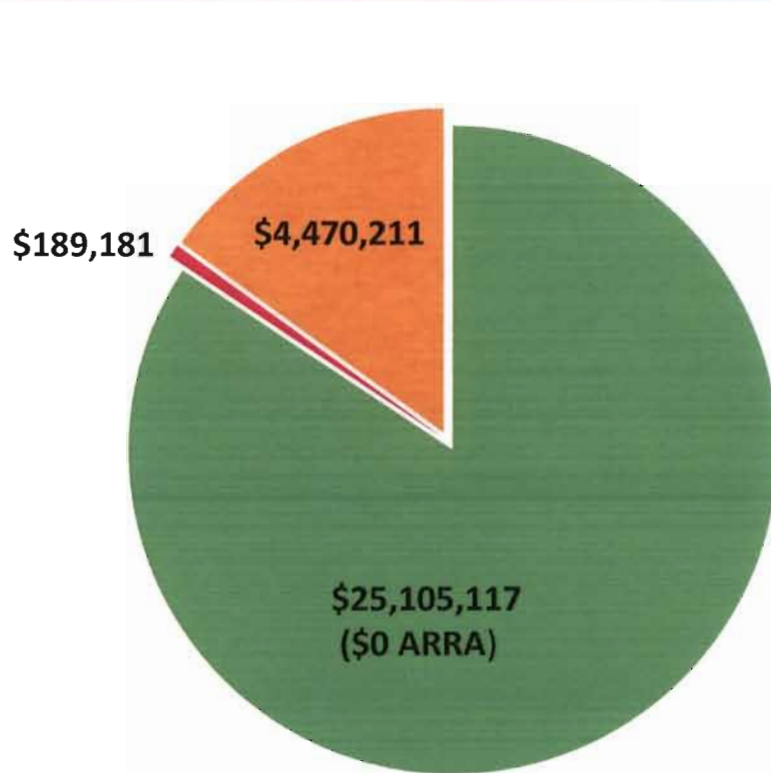
Capital Asset activity for the FYE June 30, 2013

	Balance at 06/30/2012	Increases	Decreases	Balance at 6/30/213
Nondepreciable Assets:				
Land	\$ 22,415,851	-	-	\$ 22,415,851
Construction in Progress	632,390,868	320,205,929	(550,771,657)	401,825,140
Intangible Asset	440,000			440,000
Total Nondepreciable Assets:	655,246,719	320,205,929	(550,771,657)	424,680,991
Depreciable Assets:				-
Land Improvements	2,071,198	40,938,738	-	43,009,936
Buildings and Structures	463,735,113	252,587,679	(901,405)	715,421,387
Machinery and Equipment	47,676,803	3,336,199	(295,613)	50,717,389
Runways, Roads and Parking lots	269,535,431	262,222,156	(5,695,880)	526,061,707
Total Depreciable Assets:	783,018,545	559,084,772	(6,892,898)	1,335,210,419
Less accumulated depreciation for:				
Land Improvements	(1,190,389)	(1,108,151)	-	(2,298,540)
Buildings and Structures	(320,299,753)	(26,459,140)	605,053	(346,153,840)
Machinery and Equipment	(35,344,261)	(3,870,881)	294,446	(38,920,696)
Runways, Roads and Parking lots	(184,953,993)	(12,950,700)	3,530,168	(194,374,525)
Total accumulated depreciation:	(541,788,396)	(44,388,872)	4,429,667	(581,747,601)
Total capital assets being depreciated, net	241,230,149	514,695,900	(2,463,231)	753,462,818
Capital assets, net	\$ 896,476,868	\$ 834,901,829	\$ (553,234,888)	\$ 1,178,143,809

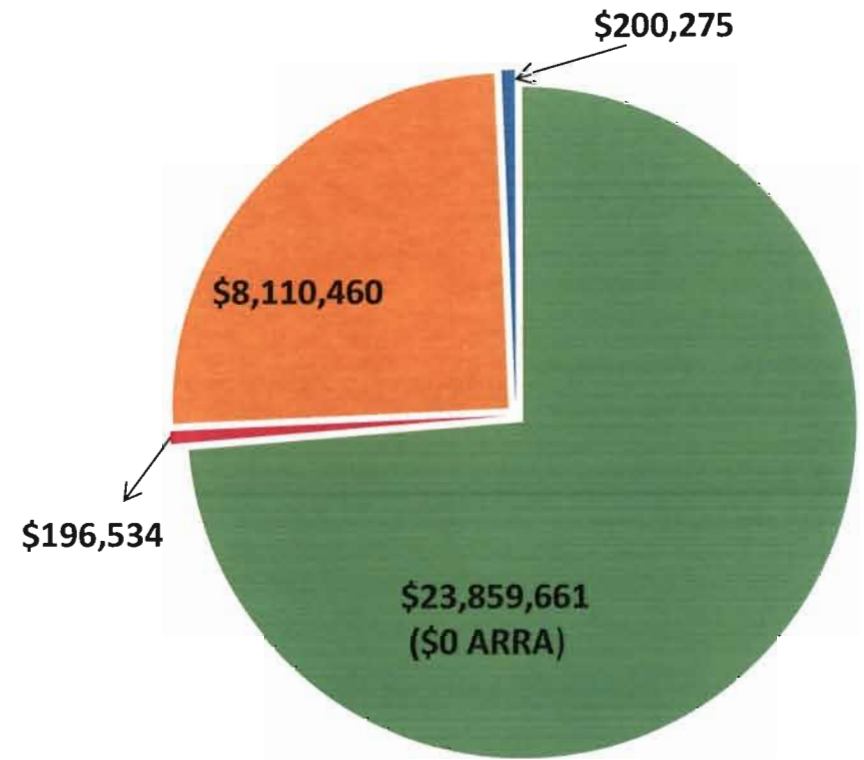
Debt activity for the FYE June 30, 2013

	Principal Balance at 06/30/2012 (As restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2013	Due within One Year
Debt obligations:					
Commercial paper	\$ 20,729,000	\$ 31,045,000	\$ (805,000)	\$ 50,969,000	-
Bonds payable:					
Series 2005 Bonds	37,960,000	-	(37,960,000)	-	-
Series 2010 Bonds	571,850,000	-	(980,000)	570,870,000	1,000,000
Series 2013 Bonds	-	379,585,000	-	379,585,000	-
Bond premiums	25,497,968	55,934,101	(4,475,881)	76,956,181	-
Total bonds payable	635,307,968	435,519,101	(43,415,881)	1,027,411,181	1,000,000
Total debt obligations	656,036,968	466,564,101	(44,220,881)	1,078,380,188	1,000,000
Capital leases	361,641	8,040,531	(249,584)	8,152,588	328,012
Compensated absences	2,932,985	2,514,696	(2,357,925)	3,089,756	2,357,925
Long-term liabilities	\$ 659,331,594	\$ 477,119,328	\$ (46,828,390)	\$ 1,089,622,532	\$ 3,685,937

2013 and 2012 Federal Expenditures



2013



2012

- Airport Improvement Program
- TSA Law Enforcement Personnel Reimbursement Agreement
- TSA Checked Baggage Inspection System Program (ARRA)

- Airport Improvement Program
- TSA Law Enforcement Personnel Reimbursement Agreement
- TSA Checked Baggage Inspection System Program (ARRA)
- TSA Utility Agreement

PFC and CFC activity for the FYE June 30, 2013

	Beginning PFC Balance Unapplied at 06/30/2012	PFC Revenues	Interest Earned	PFC Expenditures	Ending PFC Balance Unapplied at 60/30/13
Collections and Expenditures, year ended June 30, 2013	\$ 74,369,876	34,304,023	273,857	(55,091,501)	\$ 53,856,255

	Beginning CFC Balance Unapplied at 06/30/2012	CFC Revenues	Interest Earned	CFC Expenditures	Ending CFC Balance Unapplied at 60/30/13
Collections and Expenditures, year ended June 30, 2013	\$ 30,863,239	17,905,415	122,822	(7,882,143)	\$ 41,009,333



Questions?



Thank You.



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE**

**Item No.
3**

Meeting Date: **NOVEMBER 18, 2013**

Subject:

Review of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2013

Recommendation:

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

Background/Justification:

The Comprehensive Annual Financial Report (CAFR) is used as a preferred financial reporting document for governmental agencies. It is prepared as a more thorough report when compared to the audited financial statements. The CAFR includes three major sections: the introductory section, which provides general information on the **Airport's organization structure; the financial section, which includes the Airport's** audited financial statements, and the statistical section, which provides data trends. The CAFR for the Fiscal Year Ended June 30, 2013, is submitted as Attachment A.

Fiscal Impact:

The cost to produce the Comprehensive Annual Financial Report (CAFR) was included in the **Authority's Annual Operating Budget for Fiscal Year 2013.**

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

1. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA, Cal. Pub. Res. Code §21065.

2. This Board action is not a "development" as defined by the California Coastal Act.
Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY San Diego, California

**COMPREHENSIVE
ANNUAL FINANCIAL**
Report

FISCAL YEAR ENDED JUNE 30, 2013



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY San Diego, California

COMPREHENSIVE ANNUAL FINANCIAL

Report

FISCAL YEAR ENDED JUNE 30, 2013

PREPARED BY
Finance Division of the
SAN DIEGO COUNTY REGIONAL
AIRPORT AUTHORITY
San Diego, California

Vernon D. Evans
CPA, CIA, CMA, CFE, CGFM
Vice President, Finance/Treasurer

Kathryn J. Kiefer
Director of Accounting



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San Diego County Regional Airport Authority
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the fiscal year ended June 30, 2012

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INTRODUCTORY SECTION

Authority Overview

Letter of Transmittal

GFOA Certificate of Achievement for Excellence in Financial Reporting

Authority Board Members and Executive Staff

Authority Organization Chart



AUTHORITY OVERVIEW

The San Diego County Regional Airport Authority was established by state law in 2003 to operate San Diego International Airport and address the region's long-term air transportation needs. A 12-member appointed Board representing all areas of the County governs the Airport Authority.



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

P.O. BOX 82776, SAN DIEGO, CA 92138-2776
619.400.2400 WWW.SAN.ORG

October 18, 2013

To the Public:

The Comprehensive Annual Financial Report (the “CAFR”) of the San Diego County Regional Airport Authority (“SDCRAA” or the “Airport Authority”) for the fiscal year ended June 30, 2013 is submitted herewith. The Airport Authority’s Accounting Department prepared this report. Responsibility for the accuracy, completeness and fairness of the presented data, including all disclosures, rests with the Airport Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport Authority’s financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (referred to as “GAAP”). The independent auditor’s report on the financial statements is included on pages 1 and 2.

GAAP requires that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management’s Discussion and Analysis (MD&A) section. This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors in the Financial Section of this report.

PROFILE OF THE AIRPORT AUTHORITY AND ORGANIZATIONAL STRUCTURE

The Airport Authority was established pursuant to California State Act AB 93 (the “Act”), which was signed into California State law in October 2001. The Act established the Airport Authority, effective January 1, 2003, as a local agency of regional government with jurisdiction throughout the County of San Diego (the “County”). The Airport Authority is vested with five principal responsibilities: (1) the operation of San Diego International Airport (“SDIA” or the “Airport”), (2) the planning and operation of any future airport that could be developed as a supplement to or replacement for SDIA, (3) the development of a comprehensive land use plan for the entire County, (4) to serve as the region’s Airport Land Use Commission, and (5) to prepare a Regional Aviation Strategic Plan.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members serve as the Executive Committee consisting of one Board member from each of the following “defined jurisdictions”: the City of San Diego, the County of San Diego, and one Board member from among the east county cities, south county cities or north county inland cities. The Board members serve three-year terms.

The management and operations of the Airport Authority are carried out by a staff headed by the president/ chief executive officer, who is appointed by and reports directly to the Airport Authority Board members.



ECONOMIC CONDITION

The Air Trade Area for the airport includes the County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The California Department of Finance estimates that as of January 1, 2013, San Diego County is the second most populous county in California, just behind Los Angeles County, and the fifth largest county in the United States, with a population of 3.2 million. The County’s population has grown at an average rate of 0.7 percent in the past five years. The majority of the County’s population is concentrated in the western portion. The largest cities in the County are San Diego (42 percent), Chula Vista (8 percent), Oceanside (5 percent), Escondido (5 percent), El Cajon (3 percent), Vista (3 percent), San Marcos (3 percent) and Encinitas (2 percent). The combined San Diego/Tijuana metropolitan population exceeds five million inhabitants.

Typically, San Diego County has enjoyed a stable economic climate, with unemployment rates lower than the State of California’s. The recession continues to effect San Diego County, though slightly less when compared to the rest of the state. The economy continues to improve as seen in decreased unemployment. In June 2013, the County’s unemployment rate dropped to 7.3 percent compared to June 2012, at 9.3 percent. This compares with an unadjusted unemployment rate of 8.5 percent in 2013 and 10.7 percent in 2012 for California and 7.6 percent in 2013 compared to 8.2 percent for the nation as of June 2012. The region’s economy is diversified and provides an attractive mix of leisure and business sectors. The County is home to more than 150 publicly traded companies.

Enplaned passengers grew 1.9 percent in fiscal year 2013, reflecting the gradual economic improvement totaling 8.74 million, compared to 8.57 million in fiscal year 2012. See the Management’s Discussion and Analysis section of the Financial Section of this report for further discussion of the current year activity.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Expanding Flight Services – As a result of our continued efforts to increase international routes, Japan Airlines (“JAL”) launched new nonstop service between Tokyo and San Diego in December 2012, San Diego’s first nonstop service to Asia. JAL’s four-times-weekly Boeing 787-8 Dreamliner service provides San Diego passengers with one-stop connecting service to a variety of destinations, including Hong Kong, Singapore, Manila and Taipei.

During fiscal year 2013, San Diego expanded domestic service by offering nonstop flights to Colorado Springs, Colorado and Orlando, Florida.

New Airport Authority Concessions Program – On November 30, 2012, the Airport Authority successfully implemented the largest “overnight concession changeover” that any airport has ever attempted. All of the airport’s shops and restaurants were closed and reopened with new concessions the next morning. During the balance of the fiscal year, shops continued to be remodeled and new stores were added. Upon completion of the concession program in March 2014, the airport will have 87 new shops and restaurants. While the construction continues, the Airport Authority has blanketed the airport with entertaining wall wraps that advertise what is to come.

Green Taxis Initiative Has Transitioned More Than 30 Percent of Airport's Taxi Fleet to Hybrid Vehicles – SDIA's "Green Taxi" initiative was designed to bring hybrid vehicles to the taxi fleet serving the airport. It was made possible through a public-private partnership between the Airport Authority, the California Center for Sustainable Energy, a local Toyota dealership, taxi operators and the San Diego Metropolitan Transit System by creating an incentive package to encourage adoption of more fuel-efficient taxis through a combination of vehicle rebates, reduced taxi permit fees, and a special financing and maintenance package. The initiative won an Environmental Excellence Award in the category of "Air (Convention Pollutant Control)" from the Industrial Environmental Association. In one year, the Green Taxi program transitioned more than 30 percent of the airport's taxi fleet to hybrids, for a total of 102 hybrid cabs out of approximately 300. The hybrid cabs represent a 64 percent reduction in greenhouse gas emissions over a Ford Crown Victoria, the typical taxi model. This initiative also represents a total savings of \$1.3 million in fuel costs each year, or an impressive \$12,000/year for each hybrid taxi driver.

The Green Build Construction On Time and On Budget – Construction on The Green Build Terminal 2 expansion continues to move forward on time and on budget, looking toward a grand opening in August 2013. To date, nearly 8,000 workers have worked on The Green Build, the largest construction project in the Airport's history. At peak construction, there were 1,000 construction workers onsite and more than \$450 million in contracts have been awarded to local businesses.

At Terminal 2, the dual-level roadway will be completed in late summer and includes white canopies that cover the check-curb area. The canopies are one of the signature architectural features of the terminal enhancements. The expanded security checkpoint; 600 additional spaces in the Terminal 2 parking lot, which provide more close-in, short-term parking; six new gates; and a new ticket lobby had been completed as of June 30, 2013.

This is the largest expansion in SDIA's 85-year history and will enhance both the traveler's experience and the Airport's safety and efficiency. The completed expansion of Terminal 2 West will include:

- 10 new gates at Terminal 2 West
- Taxi-way improvements to enhance the flow of aircraft traffic
- New, expanded dining and shopping options
- More comfortable holding areas at the gates
- More and improved security checkpoints
- A dual-level roadway at Terminal 2, featuring an arrivals curb on Level One and a departures curb on Level Two, to relieve current curbside congestion, and smart curb technology that allows travelers to check in for their flight even before entering the terminal
- Additional parking for remain-overnight aircraft to eliminate the need for aircraft to taxi across the runway
- Public art integrated throughout the terminal expansion and outside area
- Public information about the Airport improvements is available at www.san.org/greenbuild.

Major Bond Sale for San Diego International Airport Receives Significantly Low Borrowing Cost – In January 2013, the Airport Authority issued \$379.6 million in Senior Airport Revenue Bonds, the proceeds of which will provide the remaining debt funding necessary to complete the Green Build Terminal 2 expansion program and a variety of projects in the Capital Improvement Program for SDIA. The Airport Authority was able to secure

a significantly low borrowing cost of 3.92 percent for the bonds, which was a lower long-term rate than any other airport in the nation in the same rating class. It is estimated that accessing the market at such a favorable interest rate will save the Airport Authority more than \$71 million in reduced debt service cost over the 30-year term of the bonds, compared to the forecast. The bond sale proved very popular, with strong demand from both retail and institutional investors. Approximately \$58 million of the bonds were sold to retail investors, and 69 different institutional investors participated in the sale. The sale included \$107.3 million of Series 2013A ("Non-AMT") bonds and \$272.3 million of Series 2013B ("AMT") bonds.

The bond sale's favorable circumstances were due to several factors, including the Airport Authority's careful timing of market entry for the sale, pricing during a time when rates were more attractive, and strong credit ratings for Airport Authority bonds from the nation's top three ratings agencies: Fitch Ratings, Moody's Investor Services and Standard & Poor's.

Airport Land Use Compatibility Plan – The Airport Authority Board serves as the Airport Land Use Commission (ALUC) for San Diego County. By State law, ALUCs have two specific duties:

- To prepare and adopt Airport Land Use Compatibility Plans ("ALUCP") for the County's 16 public-use and military airports
- To review certain land use actions of local agencies and airport plans for consistency with their respective airport compatibility plans

The ALUCPs provide guidance to local jurisdictions and property owners about the types of new land uses that are appropriate around airports. These plans also promote the safety and general welfare of people, property and aircraft on the ground and in the air in the vicinity of the airports, and they protect airports from encroachment by new incompatible land uses that could restrict their operations. In 2013 the Airport Authority released the Notice of Preparation ("NOP") and Initial Study ("IS") for the Environmental Impact Report ("EIR") for the Draft ALUCP for SDIA. After an extensive environmental review process, it is anticipated that a final plan will be adopted in late calendar year 2013.

Public Art – The Airport Art Program provides enhanced customer service by presenting artwork and programming that engage travelers in innovative and memorable experiences. It has grown to promote creative programs that directly impact customer service by enhancing airport facilities and also airport operations. Through the exhibition and production of art from individual artists and cultural institutions, the Airport serves not only the traveling public, but also the greater San Diego region by way of directly supporting cultural tourism through the three art program components: Temporary and Rotating Exhibits, Performing Art and Public Art.

In fiscal year 2013, the Airport Authority installed a number of art pieces as part of the Green Build Terminal 2 expansion. The artists often found their inspiration in the San Diego marine air and the light quality of San Diego's unique climate. Among the pieces installed are the dynamic 700-foot-long light ribbon, "The Journey," by San Francisco artist Jim Campbell, and the soon-to-be-completed "Reflection Room" meditation space by Seattle's artist Norie Sato. The effect of these site-specific artworks reaches beyond the footprint of the Airport, positions the Airport as a creative industry driver and promotes regional prosperity and quality of life. Upon completion, The Green Build will contain more than \$6 million in art.

FINANCIAL INFORMATION

The Board sets the policy that provides for appropriate internal controls and provides oversight to ensure that the assets of the Airport Authority are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

INDEPENDENT AUDIT

The financial records of the Airport Authority are audited annually by independent public accountants. McGladrey LLP performed the audit for the current fiscal year ended June 30, 2013. Their report on the financial statements is presented in this report.

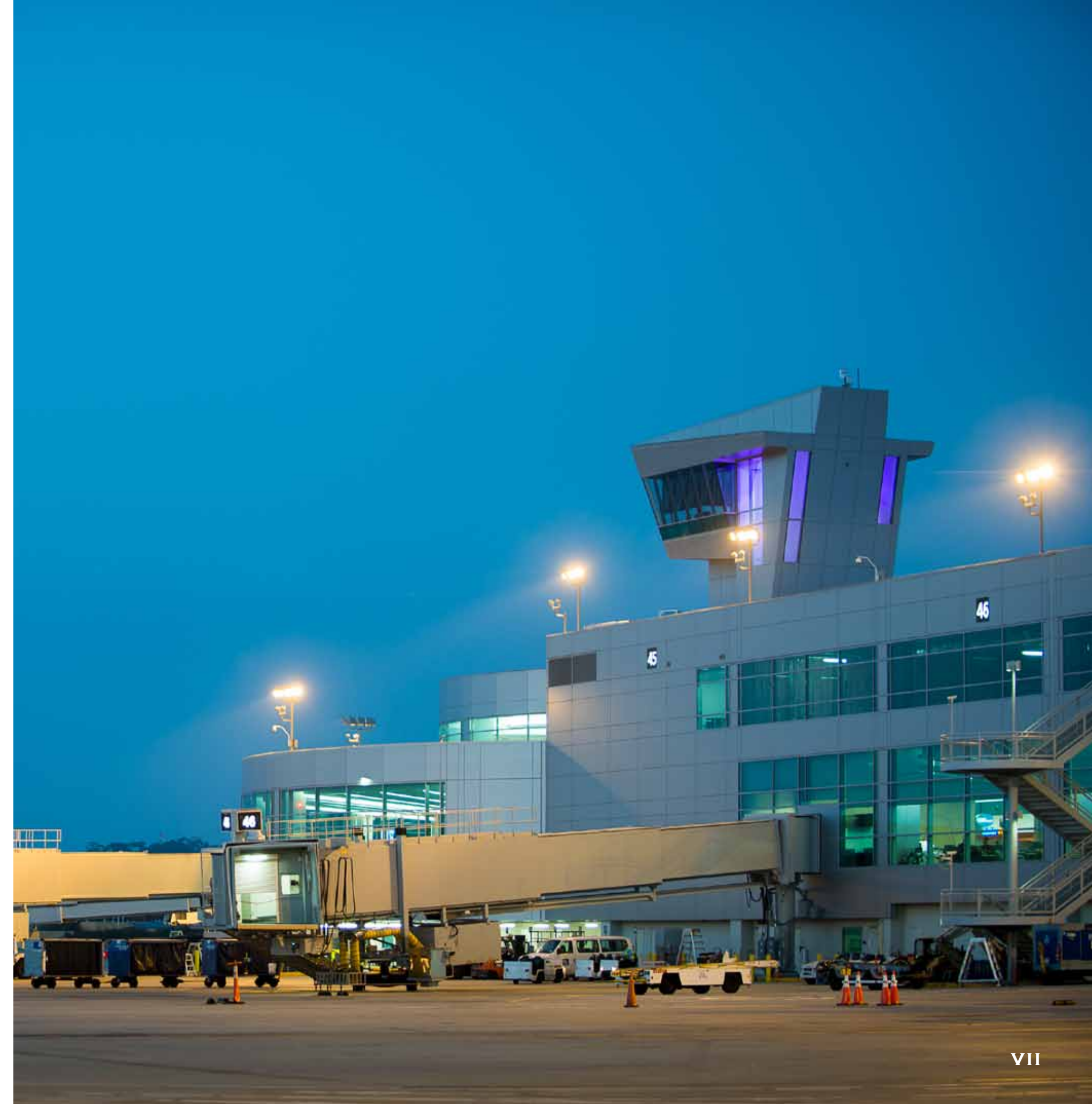
AWARDS AND ACKNOWLEDGEMENTS

The Airport Authority has been the recipient of numerous awards. A few of the recognitions presented to the Authority during the fiscal year ended June 30, 2013 were as follows:

The Government Finance Officers Association of the United States and Canada (“GFOA”) Certificate of Achievement for Excellence in Financial Reporting – This recognition is for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the tenth year in a row that the Airport Authority received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program’s requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

The GFOA Distinguished Budget Presentation Award – The achievement of this award is based on a governmental entity’s preparation and issuance of budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA’s recommended practices on budgeting. This was the eighth year that the Airport Authority received this award.

The Airport Minority Advisory Council (“AMAC”) Architectural, Engineering, Construction Award –The Airport Authority was awarded the Airport Architectural, Engineering, Construction Award from the AMAC. The award recognizes the Airport Authority’s commitment and success in involving and promoting Disadvantaged Business Enterprises (“DBE”) in architectural, engineering and construction of The Green Build. More than 8,000 people have worked on The Green Build over its four-year timeline, including hundreds of small, local and women-, minority- and veteran-owned businesses. These businesses received more than \$450 million in work at the Airport, a significant number for a project of this magnitude.





Leadership in Energy and Environmental Design (“LEED”) Gold Certification Awarded to Airport Facility – A newly constructed Receiving and Distribution Center (“RDC”) received LEED Gold Certification from the United States Green Building Council for its wide range of sustainable features and benefits.

The RDC is the first newly built facility at SDIA to meet this level of environmental distinction and is the first LEED Gold-certified receiving and distribution facility in the world. The RDC is a 23,000 square-foot facility located on the north side of the airfield, which opened in December 2012. It provides a central delivery location for food, beverage, retail and other goods used at the Airport. Some of the RDC’s sustainable elements for which it was recognized included:

- Reducing delivery truck traffic on Harbor Drive by 50 to 75 trips per day
- Trucks delivering to the terminals are powered by biodiesel created from recycled cooking oil from SDIA food and beverage operators
- More than 95 percent of the construction waste produced by the project was diverted from landfills via recycling or salvaging efforts
- Solar hot water system
- Water-efficient plumbing utilizing 40 percent less potable water

Airport Authority Receives Achievement of Excellence in Procurement Award – The Achievement of Excellence in Procurement Award is designed to recognize organizational excellence in procurement. Elements measured for this award include innovation, ethics, electronic commerce, productivity and leadership. The Airport Authority scored in the top 15 percent of all winners and is one of only 40 government agencies in California to win this prestigious award.

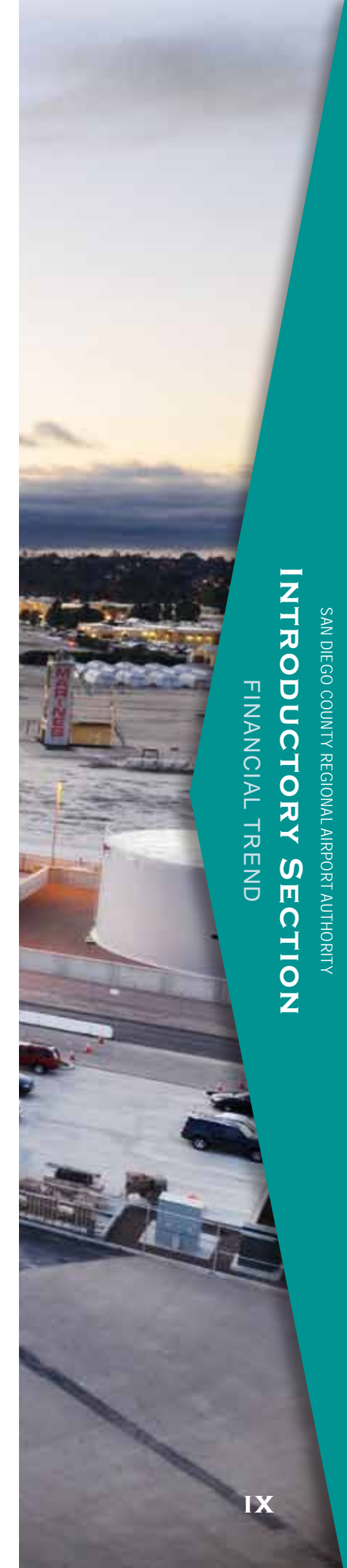
The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport Authority’s Accounting Department. We sincerely appreciate everyone’s efforts in preparing this report.

Respectfully submitted,

Thella F. Bowens
President/Chief Executive Officer



Vernon D. Evans, CPA
Vice President, Finance/Treasurer

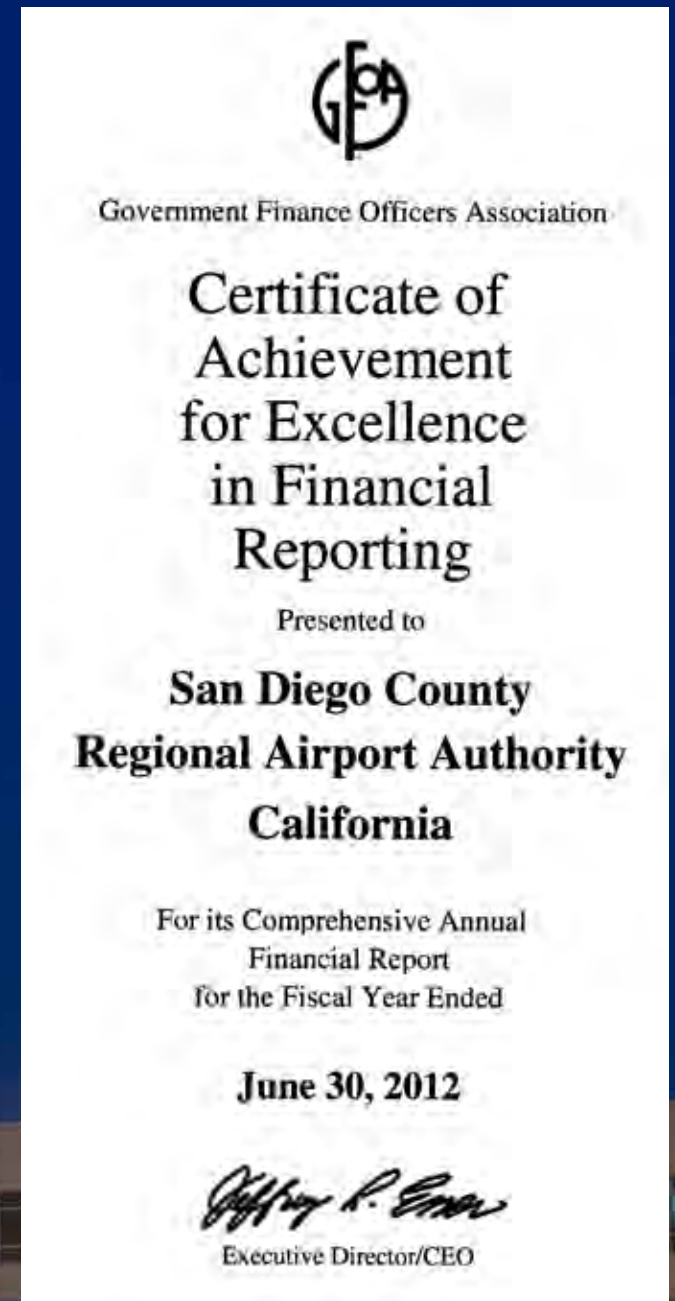


GFOA CERTIFICATE OF ACHIEVEMENT IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This is the tenth consecutive year that the Airport Authority has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

As of June 30, 2013

AIRPORT AUTHORITY BOARD

Executive Committee

Robert H. Gleason - Chair

Paul Robinson, Vice Chair

Tom Smisek

General Members

David Alvarez

Bruce R. Boland

Greg Cox

Jim Desmond

Lloyd B. Hubbs

Mary Sessom

Ex-Officio Members

Laurie Berman

Colonel John Farnam

Executive Staff

Thella F. Bowens, President and CEO

Mark Burchyett, Chief Auditor

Bryan Enarson, Vice President, Development Division

Vernon D. Evans, Vice President, CFO/Treasurer, Finance Division

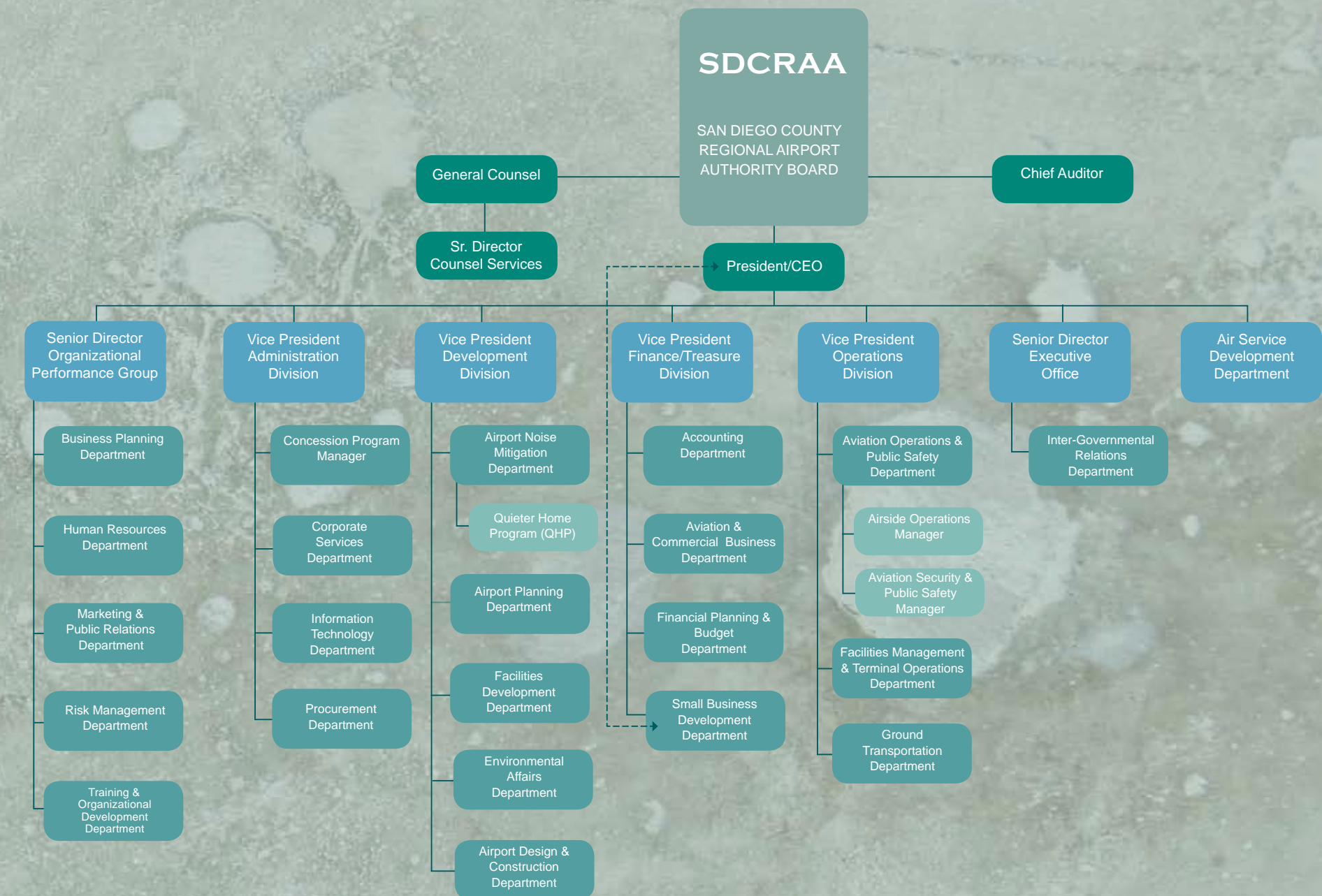
Matt Harris, Senior Director, Executive Office

Jeff Lindeman, Senior Director, Organizational Performance Group

Breton K. Lobner, General Counsel

Angela Shafer-Payne, Vice President, Operations Division

Jeffrey Woodson, Vice President, Administration Division



Independent Auditor's Report**Management's Discussion and Analysis****Basic Financial Statements:**

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years 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, listed in the table of contents, 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, which 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 Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport Authority. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

San Diego, CA
October 18, 2013





Management's Discussion and Analysis

For the period July 1, 2012 to June 30, 2013

INTRODUCTION

The San Diego County Regional Airport Authority (the Airport Authority) was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of the San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (the District) to the Airport Authority.

The Airport Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at SDIA. Since the Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

The public policy decision to transfer responsibility for SDIA from the District to the newly created Airport Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (the Commission). The Commission was established to evaluate regional governance in San Diego County and report on measures to improve it to the California State Legislature.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93 or the Act), established the composition and jurisdiction of the Airport Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

Legislative Background

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout San Diego County. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896. The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

On January 1, 2008, Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act was enacted into law, expanding the responsibilities of the Airport Authority. The Airport Authority is vested with five principal responsibilities:

- (1) Operation of SDIA
- (2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA
- (3) Development of comprehensive airport land use plans for the airports in the county
- (4) Serving as the region's Airport Land Use Commission
- (5) Additionally, with SB 10, a Regional Aviation Strategic Plan that was completed in fiscal year 2011

Airport Activities Highlights

The Airport Authority experienced continued growth in all areas during fiscal years 2013 and 2012 compared to the fiscal year 2011 declines. This followed the trend seen at many commercial airports, reflecting the gradual improvements in the economy.

The changes in SDIA's major activities for the current and prior two fiscal years are as follows:

	FY 2011	FY 2012	FY 2013
Enplaned Passengers	8,441,120	8,576,100	8,737,617
% increase (decrease)	(0.2)%	1.6 %	1.9 %
Total Passengers	16,868,732	17,138,911	17,440,968
% increase (decrease)	(0.3)%	1.6 %	1.8 %
Aircraft Operations	186,181	186,196	187,322
% increase (decrease)	(4.3)%	0.0 %	0.6 %
Freight and Mail (in tons)	129,961	132,493	157,025
% increase (decrease)	3.5 %	1.9 %	18.5 %
Landed Weight (in thousands)	10,606	10,820	11,014
% increase (decrease)	(2.6)%	2.0 %	1.8 %

SDIA is a destination airport and is not a hub for any airline. Further, there is a balanced mixture of SDIA travelers comprising approximately 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements. Enplanements declined slightly by 0.2 percent in fiscal year 2011 and grew by 1.6 percent and 1.9 percent in fiscal years 2012 and 2013, respectively.

Overall, it appears the improving economy is having a positive effect on aircraft operations at SDIA, which increased by 0.6 percent, and landed weight, which increased by 1.8 percent, in fiscal year 2013. Freight and mail dramatically increased by 18.5 percent, due to fleet size increases by FedEx, DHL and UPS.

Statements of Revenues, Expenses and Changes in Net Position (in thousands)

The metric "Change in Net Position" is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position has increased consistently over the past three fiscal years by 7.5 percent in 2011, 10.0 percent in 2012 and 8.8 percent in 2013. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Operating revenues	\$ 144,007	\$ 153,550	\$ 177,498
Operating expenses	(166,979)	(163,701)	(168,420)
Nonoperating revenues, net	39,208	47,951	41,020
Capital grant contributions	26,355	20,834	16,077
Increase in net position	42,591	58,633	66,175
Net position, beginning of year	559,664	602,255	660,889
Net position, end of year	\$ 602,255	\$ 660,889	\$ 727,064

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow.

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,419	\$ 19,658	\$ 1,239	6.7 %
Aircraft parking fees	3,135	3,191	56	1.7 %
Building rentals	30,633	41,840	11,207	36.6 %
Security surcharge	18,649	23,360	4,711	25.3 %
Other aviation revenue	1,595	1,591	(4)	(0.2)%
Total airline revenue	72,430	89,640	17,210	23.8 %
Non-airline terminal rent	907	972	65	7.1 %
Concession revenue	40,427	42,041	1,613	4.0 %
Parking and ground transportation revenue	31,470	35,750	4,281	13.6 %
Ground rentals	7,136	8,190	1,054	14.7 %
Other operating revenue	1,179	905	(274)	(23.2)%
Total operating revenue	\$ 153,550	\$ 177,498	\$ 23,948	15.6 %

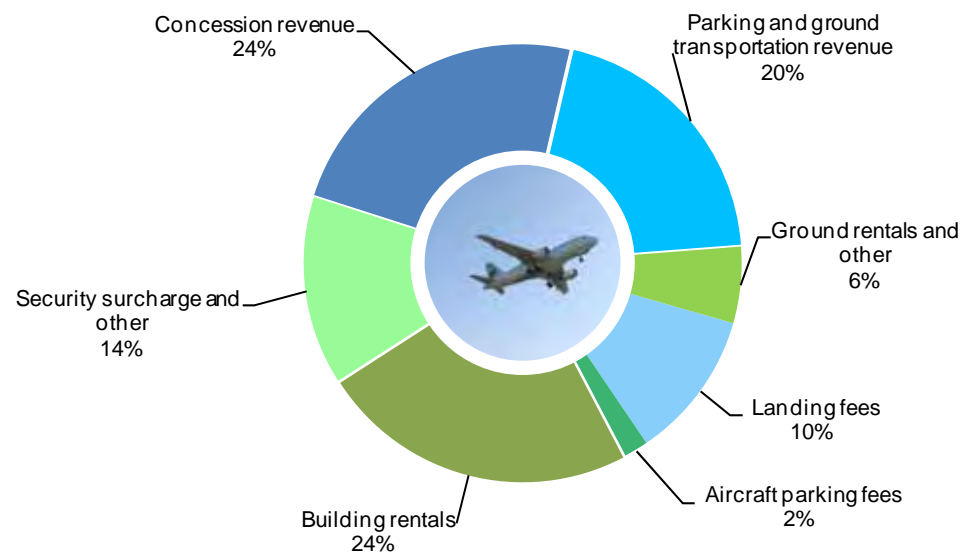
	FY 2011	FY 2012	From 2011 to 2012 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,578	\$ 18,419	\$ (159)	(0.9)%
Aircraft parking fees	2,921	3,135	214	7.3 %
Building rentals	26,980	30,633	3,653	13.5 %
Security surcharge	14,887	18,649	3,762	25.3 %
Other aviation revenue	1,597	1,595	(2)	(0.2)%
Total airline revenue	64,963	72,430	7,467	11.5 %
Non-airline terminal rent	869	907	38	4.4 %
Concession revenue	37,103	40,427	3,324	9.0 %
Parking and ground transportation revenue	31,645	31,470	(175)	(0.6)%
Ground rentals	7,787	7,136	(651)	(8.4)%
Other operating revenue	1,640	1,179	(461)	(28.1)%
Total operating revenue	\$ 144,007	\$ 153,550	\$ 9,543	6.6 %

Operating Revenues (Continued)

Fiscal year 2013 compared to 2012: Total airline revenues increased by \$17.2 million or 23.8 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was higher in fiscal year 2013 compared to 2012. Building rentals saw a graduated rate increase from 60 percent to 100 percent and the security surcharge increased from 85 percent to 100 percent, reflecting the cost recovery formula. Landing fees increased by \$1.2 million or 6.7 percent, due to increased airfield maintenance expenses and increased landed weight. Concession revenue increased by \$1.6 million or 4.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues increased by \$4.3 million or 13.6 percent, due in part to the reopening of Terminal 2 parking that was temporarily closed in fiscal year 2012 to facilitate the construction of the Green Build. Ground rentals revenue increased in 2013 by \$1.1 million or 14.7 percent, due to increased rental space by FedEx and a consumer price index rent increase to FedEx, Southwest and UPS. The \$274 thousand or 23.2 percent decrease in other operating revenue reflects a change in utility billing practices of the new concession program beginning in January 2013, which are now included as part of the base rent.

Fiscal year 2012 compared to 2011: Total airline revenues increased by \$7.5 million or 11.5 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was slightly higher in fiscal year 2012 compared to 2011. Building rentals saw a graduated rate increase from 55 percent to 60 percent and the security surcharge increased from 70 percent to 85 percent. The decrease in landing fees of \$159 thousand or 0.9 percent was due to rebates given to airlines for new routes, primarily Volaris. Aircraft parking fees increased by \$124 thousand or 7.3 percent, primarily due to the increased airfield costs. Concession revenue increased by \$3.3 million or 9.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues decreased slightly by \$175 thousand or 0.6 percent, due to the temporary closing of Terminal 2 parking to facilitate the construction of the Green Build. Ground rentals revenue declined in 2012 by \$651 thousand or 8.4 percent, due to the finalization of new lease agreements with FedEx, Southwest and UPS, which provided for over one year of retroactive billing in fiscal year 2011. Other operating revenue also declined by \$461 thousand due to the completion of the planning grant revenue for the Regional Aviation Strategic Plan in 2011.

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013
Operating Revenues**



Operating Expenses (in thousands) (Continued)

	FY 2012	FY 2013	From 2012 to 2013	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 37,237	\$ 38,092	\$ 856	2.3 %
Contractual services	26,906	29,284	2,378	8.8 %
Safety and security	22,625	23,994	1,369	6.1 %
Space rental	11,415	10,897	(518)	-
Utilities	6,674	6,659	(15)	(0.2)%
Maintenance	8,497	11,204	2,708	31.9 %
Equipment and systems	403	469	65	16.2 %
Materials and supplies	304	406	101	33.3 %
Insurance	764	795	31	4.0 %
Employee development and support	916	1,235	319	34.8 %
Business development	2,093	2,444	351	16.8 %
Equipment rentals and repairs before depreciation and amortization	1,335	1,317	(18)	(1.4)%
	119,169	126,796	7,627	6.4 %
Depreciation and amortization	44,532	41,624	(2,908)	(6.5)%
Total operating expenses	\$ 163,701	\$ 168,420	\$ 4,719	2.9 %

	FY 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 38,267	\$ 37,237	\$ (1,030)	(2.7)%
Contractual services	26,113	26,906	793	3.0 %
Safety and security	21,344	22,625	1,281	6.0 %
Space rental	10,907	11,415	508	4.7 %
Utilities	6,413	6,674	261	4.1 %
Maintenance	8,174	8,497	323	3.9 %
Equipment and systems	570	403	(167)	(29.3)%
Materials and supplies	344	304	(40)	(11.5)%
Insurance	1,066	764	(302)	(28.3)%
Employee development and support	1,041	916	(125)	(12.0)%
Business development	2,275	2,093	(182)	(8.0)%
Equipment rentals and repairs before depreciation and amortization	1,327	1,335	8	0.6 %
	117,841	119,169	1,328	1.1 %
Depreciation and amortization	49,138	44,532	(4,606)	(9.4)%
Total operating expenses	\$ 166,979	\$ 163,701	\$ (3,278)	(2.0)%

Operating Expenses (Continued)

Fiscal year 2013 compared to 2012: Total fiscal year 2013 operating expenses increased by \$4.7 million or 2.9 percent. Contributing to this increase included: increased salaries and benefits of \$856 thousand, primarily due to salary increases and higher costs for medical benefits; and increased contractual services of \$2.4 million, primarily due to Green Build associated consulting services such as ramp control professional services and selecting software to manage the new systems and building. Additionally, safety and security increased by \$1.4 million, due to increased Harbor Police salaries and benefits expense under a new proposed agreement; maintenance increased by \$2.7 million, reflecting costs of sink hole repair, elevator and escalator repairs and runway restriping; employee development and support increased by \$319 thousand, due to new Green Build systems training; and business development increased by \$351 thousand, reflecting advertising and marketing for Japan Airlines and Green Build related promotions.

Offsetting this increase were the following decreases: space rental of \$518 thousand, reflecting the cancellation of an employee parking lease; and other minor reductions in utilities and equipment rentals and repairs. Depreciation expense decreased by \$2.9 million, due to fully depreciated assets of approximately \$113 million, which included HVAC systems, parking lots, airfield rehabilitations and aircraft fuel storage.

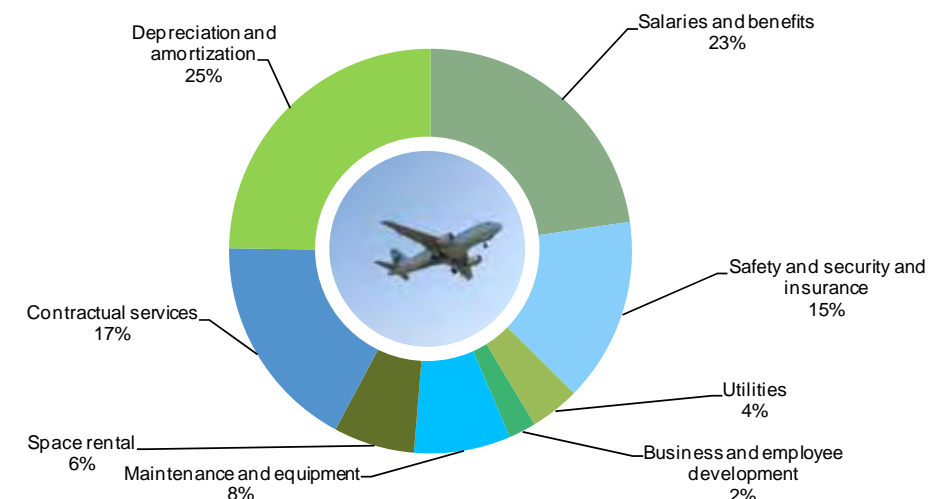
Fiscal year 2012 compared to 2011: Fiscal year 2012 total operating expenses decreased by \$3.3 million, or 2.0 percent, compared to 2011. Contributing to this decrease were the following: salaries and benefits decreased by \$1 million primarily due to the pension plan rate reduction from 16.6 percent in fiscal year 2011 to 14.54 percent in 2012; equipment and systems decreased by \$167 thousand, reflecting the five-year replacement schedule; insurance declined by \$302 thousand due primarily to lower liability policy premiums; employee development and support decreased by \$125 thousand due to reduced travel and seminars; and business development declined by \$182 thousand due to lower advertising and marketing expenses compared to 2011, which included expenses associated with the British Airways London flight. In fiscal year 2012, depreciation was a major contributor to the decreased total operating expenses. The reduced depreciation expense was primarily due to fully depreciated assets of approximately \$54 million, which included aircraft fuel storage, fire life safety system and runway joint sealants.

Offsetting this decrease included the following increases: contractual services increased by \$793 thousand primarily due to higher parking management expenses; safety and security increased by \$1.3 million, reflecting higher Harbor Police salaries and benefits expenses and a proposed overhead allocation plan; space rental costs increased by \$508 thousand due to the 2011 completed amortized deferred rent benefit; utilities increased by \$261 thousand, reflecting higher usage due to facility expansion and rate increases; and maintenance costs increased by \$323 thousand due to increased support of aging systems and equipment such as elevators, HVAC and escalators.



Operating Expenses (Continued)

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013
 Operating Expenses**



Nonoperating Revenues and Expenses (in thousands)

	FY 2012 (As restated)	FY 2013	From 2012 to 2013	
			Change	% Change
Passenger Facility Charges	\$ 34,639	\$ 35,437	\$ 798	2.3 %
Customer Facility Charges	11,487	19,117	7,630	66.5 %
Quieter Home Program, net	(3,531)	(1,589)	1,942	55.0 %
Joint Studies Program	(73)	(55)	18	25.2 %
Interest income	10,487	8,919	(1,569)	(15.1)%
Interest expense	(2,027)	(16,530)	(14,503)	(715.7)%
Other nonoperating income (expenses)	(3,032)	(4,279)	(1,247)	(41.1)%
Nonoperating revenues, net	\$ 47,951	\$ 41,020	\$ (6,932)	(14.5)%

	FY 2011 (As restated)	FY 2012 (As restated)	From 2011 to 2012	
			Change	% Change
Passenger Facility Charges	\$ 33,998	\$ 34,639	\$ 641	1.9 %
Customer Facility Charges	10,986	11,487	501	4.6 %
Quieter Home Program, net	(3,359)	(3,531)	(172)	(5.1)%
Joint Studies Program	(129)	(73)	57	44.1 %
Interest income	10,100	10,487	388	3.8 %
Interest expense	(12,295)	(2,027)	10,268	83.5 %
Other nonoperating income (expenses)	(93)	(3,032)	(2,942)	(3,157.0)%
Nonoperating revenues, net	\$ 39,208	\$ 47,951	\$ 8,742	22.3 %

Nonoperating Revenues and Expenses (Continued)

Passenger Facility Charges (PFC) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Airport Authority collects a \$4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible SDIA capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Airport Authority the month following collection less a \$0.11 administration fee.

Customer Facility Charges (CFC) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a \$10 per contract CFC on rental cars in May 2009. The revenues collected will be used to plan and construct a consolidated rental car facility and improved ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2013, the Airport Authority has spent \$147.8 million and received reimbursement for \$120.3 million.

Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District. Also included in interest income are the Series C Bonds that were issued as Build America Bonds and a cash subsidy from the U.S. Treasury equal to 35 percent of the interest payable. During the middle of fiscal year 2013, the 35 percent subsidy ended due to the federal government's sequestration measures and was replaced with a reduced rate of 31.96 percent. The interest subsidy for the fiscal years ended June 30, 2013 and 2012 was \$4.8 million and \$4.9 million, respectively.

Interest expense includes interest paid and accrued on the 2005, 2010 and 2013 Series Bonds and Commercial Paper Series A, B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in the fiscal years ended June 30, 2013 and 2012 was \$29.4 million and \$31.6 million, respectively.

Other nonoperating income (expense) includes proceeds and expenses for legal settlements, gain (loss) on the sale of assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

Capital Grant Contributions

The Airport Authority receives AIP entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

Fiscal year 2013 compared to 2012: Nonoperating revenues (net) decreased by \$6.9 million or 14.5 percent. This is primarily due to the decreased net effect of debt interest expense and capitalization of interest expense, \$14.5 million. Additionally, decreased interest income of \$1.6 million and other nonoperating income (expense), net of \$1.2 million, was primarily due to unrealized loss on investments.

Offsetting the decrease is the \$798 thousand increased PFCs collections, reflecting increased enplanements, and \$7.6 million increased CFCs due, in part, to a rate increase effective November 1, 2012 from \$10 per contract to \$6 per day up to five days. Additionally, the Quieter Home Program also contributed to the decrease by \$1.9 million, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Nonoperating Revenues and Expenses (Continued)

Fiscal year 2012 compared to 2011: Nonoperating revenues (net) increased by \$8.7 million or 22.3 percent, primarily due to the net effect of reduced debt interest expense and capitalization of interest expense totaling \$10.3 million. Additionally, PFCs increased by \$641 thousand and CFCs increased by \$501 thousand, both reflecting increased enplanements. Interest income also has contributed to the increase by \$388 thousand due to a full year of Build America Bond interest subsidy in fiscal year 2012.

Offsetting the increase is approximately \$3.6 million in net book value of assets, which were written off due to the construction of the Green Build. These assets were parking lots, sidewalks and partial roadways that will be replaced upon completion in fiscal year 2013. The Quieter Home Program also contributed to the decrease by \$205 thousand, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Assets, Liabilities and Net Position (in thousands)

The statements of net position present the financial position of the Airport Authority at June 30, 2011, 2012 and 2013. The statements include all assets, liabilities and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2011, 2012 and 2013 is as follows:

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Assets			
Current assets	\$ 110,397	\$ 197,586	\$ 205,262
Capital assets, net	625,421	896,477	1,178,144
Noncurrent assets	605,824	333,352	547,376
Total assets	1,341,642	1,427,415	1,930,782
Deferred outflows of resources	2,087	1,855	4,397
Total assets and deferred outflows of resources	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179
Liabilities			
Current liabilities	\$ 121,384	\$ 115,071	\$ 121,384
Long-term liabilities	620,090	653,310	1,086,732
Total liabilities	741,474	768,381	1,208,116
Net Position			
Net investment in capital assets	352,276	408,123	460,424
Bond reserves, unapplied PFCs and other restricted	147,513	172,174	164,131
Unrestricted	102,466	80,592	102,508
Total net position	602,255	660,889	727,063
Total liabilities and net position	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179

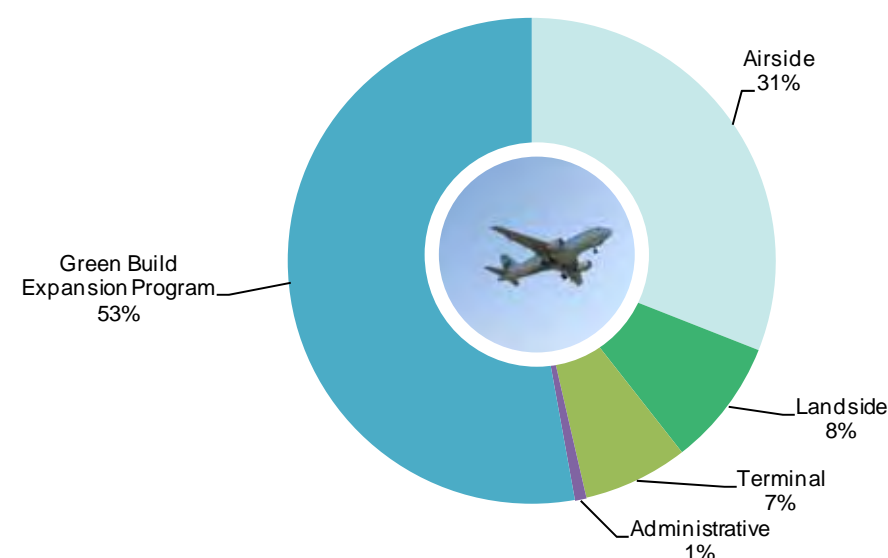
Assets, Liabilities and Net Position (Continued)

As of June 30, 2013, the Airport Authority's assets exceeded liabilities by \$727.1 million, a \$66.2 million increase over June 30, 2012. The June 30, 2012 total net position was \$58.6 million greater than June 30, 2011. The largest portion of the Airport Authority's net position represents its investment in capital assets, less the amount of associated debt outstanding. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net position of \$102.5 million as of June 30, 2013, \$80.6 million as of 2012 and \$102.4 million as of 2011 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2013, 2012 and 2011, management has designated unrestricted funds in the amount of approximately \$9.6 million for each year, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

Capital Asset and Capital Improvement Program

The funds used for capital improvements or to expand SDIA's facilities are derived from several sources, including debt, PFC, CFC, and grants received from AIP, FAA and Transportation Security Administration and SDIA funds. In fiscal year 2013, SDIA's \$1.6 billion capital improvement program (CIP) was funded under three debt options. A pay-as-you-go approach utilizing commercial paper for short-term funding needs and long-term funding needs included 2010 Airport Revenue Bonds to be used for the \$820 million Terminal Development Program/"The Green Build." An additional airport revenue bond issuance completed in fiscal year 2013 finalized the funding of The Green Build project. The Green Build is projected to be complete by early fiscal year 2014. The current CIP, which includes projects through 2018, consists of \$480.5 million for airside projects, \$131 million for landside projects, \$108.3 million for terminal projects and \$12 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

Capital Improvement Program (CIP) Projects by Type



Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements of this report.

Capital Financing and Debt Management

The California Maritime Infrastructure Authority issued \$76.7 million of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued \$56.3 million of senior lien Series 2005 Bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021.

On December 21, 2012, the Authority defeased all of its outstanding Series 2005 Bonds by depositing proceeds of Subordinate Commercial Paper Notes (CP Notes) and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Senior Series 2005 Bonds until their final maturity date of July 1, 2020.

On October 5, 2010, the Airport Authority issued \$572.6 million of Subordinate Airport Revenue Bonds Series 2010 A, B and C. The bonds are rated A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142.2 million of the Airport Authority's outstanding CP Notes, fund the subordinate bond reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series A and Series B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury equal to 35 percent of interest payable. The interest rate on the Series C bonds, net of subsidy, is 4.31 percent and the bonds mature in fiscal year 2041.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are \$14.7 million for fiscal year 2013 and \$19 million annually for fiscal years 2014 through 2016. As of June 30, 2013, the principal balance on the subordinate Series 2010 Bonds was \$570.9 million.

On January 30, 2013, the Airport Authority issued \$379.6 million of 2013 Series A and Series B Senior Airport Revenue Bonds. The Series 2013 Bonds are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the senior Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the senior Series 2013 Bonds.

Capital Financing and Debt Management (Continued)

The Series 2013 bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55.9 million, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2013 amounted to \$7.7 million, including accrued interest of \$7.7 million. The principal balance on the Series 2013 Bonds as of June 30, 2013 was \$379.6 million.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system, and (b) certain funds and accounts held by the senior Trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2 to the financial statements. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293.7 million, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds.

As of June 30, 2013, \$51 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable), is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to \$250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the letter of credit expiration date. The letter of credit is currently securing the CP Notes. At the expiration date, the total outstanding principal becomes due. The CP Notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues of at least 1.10 times the debt service on subordinate obligations, including the CP Notes, for that year.

Each series of notes is additionally secured by an irrevocable letter of credit issued by Lloyds TSB Bank plc and is rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service. The letter of credit expires on September 10, 2014. Interest on the notes is paid at a rate based on the market for similar CP Notes.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements of this report.

SDIA's PFC program was established in 1994 and currently authorizes the imposition of a \$4.50 fee on enplaning passengers. There are currently three active applications that provide collection authority through November 1, 2037.

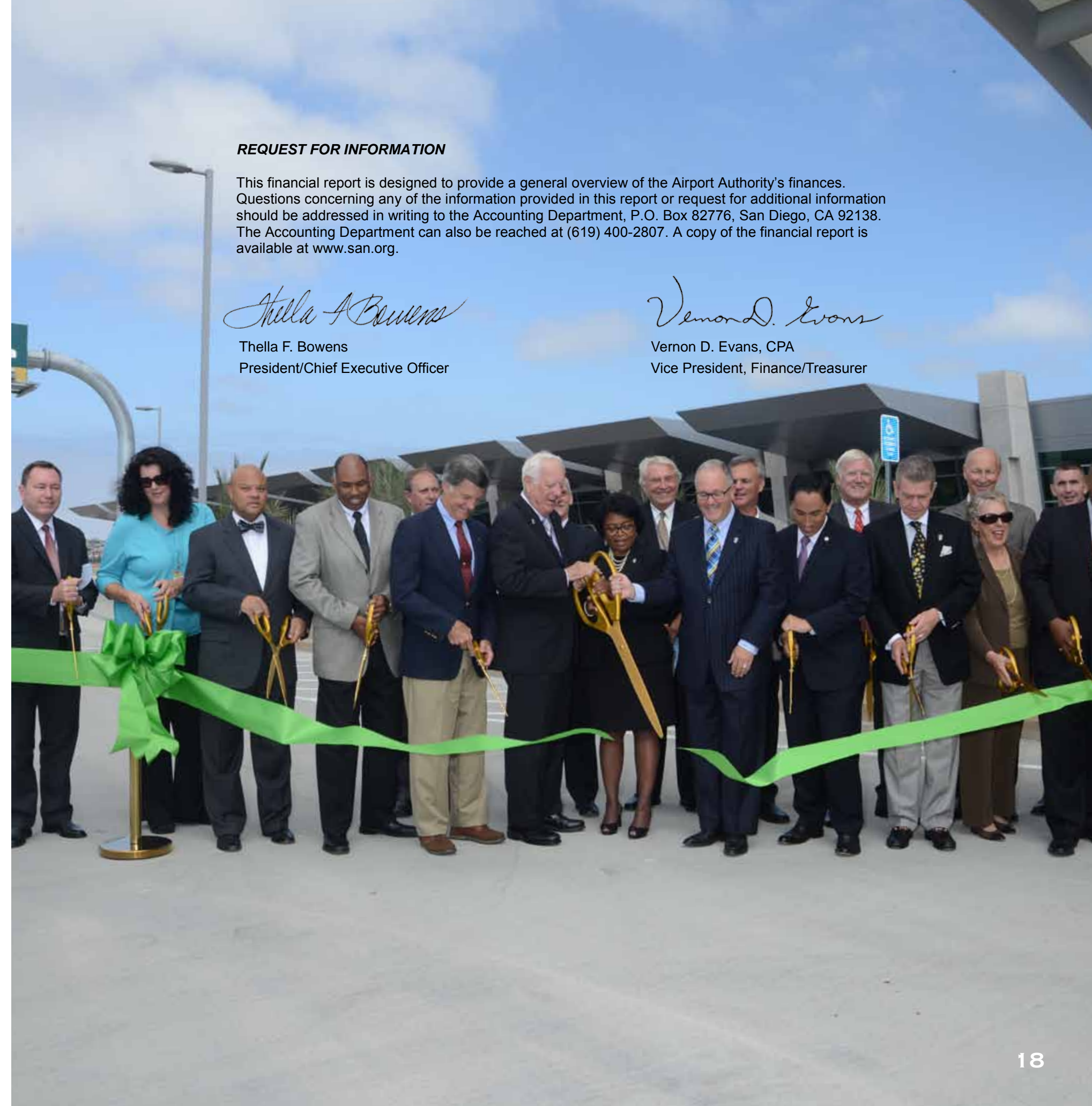
FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$22.3 million in grant awards for the federal fiscal year ended September 30, 2013 and \$14.0 million in 2012. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.

Thella F. Bowens
 Thella F. Bowens
 President/Chief Executive Officer

Vernon D. Evans
 Vernon D. Evans, CPA
 Vice President, Finance/Treasurer



Basic Financial Statements:

San Diego County Regional Airport Authority

Statements of Net Position June 30, 2013 and 2012

Assets	2013	2012 (As restated)
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 63,626,765	\$ 68,823,530
Investments (Note 2)	42,223,353	34,284,994
Tenant lease receivables, net	8,037,665	6,550,948
Grants receivable	3,828,572	3,867,809
Notes receivable, current portion (Note 3)	1,446,896	1,580,698
Other current assets	6,279,146	4,559,934
Total unrestricted current assets	125,442,397	119,667,913
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	79,819,607	77,918,561
Total current assets	205,262,004	197,586,474
Noncurrent Assets		
Restricted assets:		
Restricted cash, cash equivalents and investments, not with Trustee (Note 2)	150,891,087	155,065,655
Restricted investments with Trustee (Note 2)	284,609,727	98,211,895
Passenger facility charges receivable (Note 1)	5,545,716	4,412,287
Customer facility charges receivable (Note 1)	2,301,027	1,089,227
Other restricted assets	5,380,813	6,058,740
Total restricted assets	448,728,370	264,837,804
Other noncurrent assets:		
Investments, noncurrent (Note 2)	41,931,321	10,410,555
Notes receivable, long-term portion (Note 3)	39,886,768	41,333,664
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	9,565,751	9,062,504
Net pension asset and net OPEB asset (Notes 6 and 8)	6,648,142	7,204,455
Workers' compensation security deposits	616,495	503,145
Total other noncurrent assets	98,648,477	68,514,323
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	65,865,787	24,927,049
Buildings and structures	715,421,387	463,735,113
Machinery and equipment	50,717,389	47,676,803
Runways, roads and parking lots	526,061,707	269,535,431
Construction in progress	401,825,140	632,390,868
	1,759,891,410	1,438,265,264
Less accumulated depreciation	(581,747,601)	(541,788,396)
Capital assets, net	1,178,143,809	896,476,868
Total noncurrent assets	1,725,520,656	1,229,828,995
Total assets	1,930,782,660	1,427,415,469
Deferred Outflows of Resources		
Deferred loss on debt refunding	4,396,671	1,854,985
Total assets and deferred inflows of resources	\$ 1,935,179,331	\$ 1,429,270,454

See Notes to Financial Statements.

Liabilities and Net Position	2013	2012 (As restated)
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 9,830,408	\$ 9,822,085
Accrued liabilities (Note 8)	27,589,095	24,264,702
Compensated absences, current portion (Note 5)	2,357,925	2,197,705
Deposits and other current liabilities	1,458,891	703,064
Leases payable, current portion (Note 5)	328,012	164,966
Total payable from unrestricted assets	41,564,331	37,152,522
Payable from restricted assets:		
Accounts payable	22,491,968	21,648,897
Accrued liabilities	32,703,578	35,015,681
Current portion of Bonds payable (Note 5)	1,000,000	4,410,000
Accrued interest on bonds and commercial paper (Note 5)	23,624,061	16,843,983
Total payable from restricted assets	79,819,607	77,918,561
Total current liabilities	121,383,938	115,071,083
Noncurrent Liabilities		
Compensated absences, net of current portion (Note 5)	731,831	735,281
Tenant security deposits and other noncurrent liabilities	795,430	948,556
Commercial paper notes payable (Note 5)	50,969,000	20,729,000
Bonds payable and bond premium, less current portion, net of deferred refunding costs, and capital leases (Note 5)	1,034,235,764	630,897,968
Total noncurrent liabilities	1,086,732,025	653,310,805
Total liabilities	1,208,115,963	768,381,888
Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets (Note 1)	460,424,133	408,122,977
Restricted net position (Note 1):		
Bond reserves	52,007,087	53,364,006
Commercial paper reserves	31,314	16,350
Small business bond guarantee	4,000,000	2,000,000
Passenger facility charges	59,401,975	78,782,164
Customer facility charges	43,310,360	31,952,386
OCIP loss reserve	5,380,814	6,058,740
Total restricted net position	164,131,550	172,173,646
Unrestricted net position (Note 1)	102,507,685	80,591,943
Total net position	\$ 727,063,368	\$ 660,888,566

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Operating revenues:		
Airline revenue:		
Landing fees	\$ 19,658,173	\$ 18,419,244
Aircraft parking fees	3,190,928	3,134,539
Building rentals (Note 10)	41,839,619	30,632,762
Security surcharge	23,359,938	18,649,147
Other aviation revenue	1,591,266	1,594,529
Concession revenue	42,040,742	40,427,308
Parking and ground transportation revenue	35,750,484	31,469,960
Ground rentals (Note 10)	9,161,514	8,043,563
Other operating revenue	905,150	1,178,908
Total operating revenues	177,497,814	153,549,960
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	38,092,464	37,236,513
Contractual services (Note 12)	29,283,526	26,905,524
Safety and security	23,994,020	22,625,169
Space rental (Note 11)	10,897,338	11,414,838
Utilities	6,659,333	6,674,424
Maintenance	11,204,465	8,496,587
Equipment and systems	468,699	403,268
Materials and supplies	405,863	304,433
Insurance	794,984	764,239
Employee development and support	1,234,757	916,194
Business development	2,444,407	2,093,164
Equipment rentals and repairs	1,316,543	1,334,858
Total operating expenses before depreciation and amortization	126,796,399	119,169,211
Income from operations before depreciation and amortization	50,701,415	34,380,749
Depreciation and amortization	41,623,629	44,532,069
Operating income (loss)	9,077,786	(10,151,320)

(Continued)

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 35,437,453	\$ 34,639,244
Customer facility charges	19,117,217	11,486,962
Quieter Home Program grant revenue	13,241,658	11,013,260
Quieter Home Program expenses	(14,830,457)	(14,544,629)
Joint Studies Program	(55,254)	(72,835)
Interest income	4,140,068	5,491,516
Interest expense (Note 5)	(16,530,425)	(2,026,692)
Build America Bonds Rebate	4,778,599	4,995,921
Other revenues (expenses), net	(4,279,123)	(3,031,807)
Nonoperating revenues, net	41,019,736	47,950,940
Income before capital grant contributions	50,097,522	37,799,620
Capital grant contributions	16,077,280	20,833,591
Change in net position	66,174,802	58,633,211
Net position, beginning of year, as restated	660,888,566	602,255,355
Net position, end of year	\$ 727,063,368	\$ 660,888,566

See Notes to Financial Statements.



San Diego County Regional Airport Authority

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Cash Flows From Operating Activities		
Receipts from customers	\$ 174,459,266	\$ 151,351,150
Payments to suppliers	(81,174,308)	(65,771,340)
Payments to employees	(37,008,283)	(36,498,212)
Other receipts (payments)	(149,956)	(448,668)
Net cash provided by operating activities	56,126,719	48,632,930
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	4,756	(158,546)
Quieter Home Program grant receipts	13,264,899	11,303,456
Quieter Home Program payments	(14,832,460)	(14,577,575)
Joint Studies Program payments	(53,251)	(39,889)
Net cash (used in) noncapital financing activities	(1,616,056)	(3,472,554)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(333,940,143)	(301,336,594)
Intergovernmental revenue	4,778,599	4,995,921
Proceeds on sale of capital assets	694,150	444,764
Federal grants received (excluding Quieter Home Program)	16,093,276	20,660,153
Proceeds from passenger facility charges	34,304,024	35,348,167
Proceeds from customer facility charges	17,905,417	11,426,775
Proceeds from issuance of commercial paper	31,045,000	-
Payment of principal on bonds and commercial paper	(39,745,000)	(4,760,000)
Proceeds from issuance of Series 2013 Bond	435,519,101	-
Proceeds from capital lease	7,955,912	-
Payment to Trustee for 2005 debt service	-	(83,375)
Interest and debt fees paid, net of capitalized interest	(4,215,620)	(2,518,161)
Net cash provided by (used in) capital and related financing activities	170,394,716	(235,822,350)
Cash Flows From Investing Activities		
Sales of investments	(363,755,197)	243,050,295
Purchases of investments	127,453,246	(36,127,941)
Interest received on investments	1,810,503	1,228,179
Principal payments received on notes receivable	1,580,698	1,696,112
Interest received from notes receivable, commercial paper and bonds	3,311,853	4,694,187
Net cash provided by (used in) investing activities	(229,598,897)	214,540,832
Net increase (decrease) in cash and cash equivalents	(4,693,518)	23,878,858
Cash and Cash Equivalents, beginning of year	77,886,034	54,007,176
Cash and Cash Equivalents, end of year	\$ 73,192,516	\$ 77,886,034

(Continued)

San Diego County Regional Airport Authority

Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Cash and investments designated for specific capital projects and other commitments	9,565,751	9,062,504
	\$ 73,192,516	\$ 77,886,034
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 9,077,786	\$ (10,151,320)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	41,623,629	44,532,069
Bad debt expense (recapture)	4,565	34,236
Changes in assets and liabilities:		
Tenant lease receivables	(1,386,723)	(991,645)
Net pension asset	556,313	556,313
Other current assets	(892,748)	567,080
Accounts payable (on noncapital items)	(1,440,698)	4,053,484
Accrued liabilities (on noncapital items)	8,437,880	9,959,129
Postretirement benefits obligation	22,351	29,867
Deposits	(184,639)	224,138
Deferred rent liability and other	(200,346)	(530,107)
Tenant deposits	352,578	90,139
Compensated absences	156,771	259,547
Capital lease payable	-	-
Net cash provided by operating activities	\$ 56,126,719	\$ 48,632,930
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities:		
Additions to capital assets included in current payables	\$ 55,195,546	\$ 56,664,578
Receivables, grants	\$ 3,828,572	\$ 3,867,809
Receivables, PFCs	\$ 5,545,716	\$ 4,412,287
Receivables, CFCs	\$ 2,153,662	\$ 1,079,837

See Notes to Financial Statements



San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Reporting entity: The San Diego County Regional Airport Authority (the Airport Authority), an autonomous public agency, was established as a result of legislation, Assembly Bill 93 (2001), as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (the Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (the District) to the Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of Senate Bill 10, the Airport Authority completed a Regional Aviation Strategic Plan, and by December 31, 2013, the Airport Authority will prepare and adopt an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all organizations, agencies, boards, commissions and authorities for which the Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing the majority of an organization's governing body and (1) the ability of the Airport Authority to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on, the Airport Authority. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members are appointed by the Mayor of the City of San Diego. Two Board members are appointed by the San Diego County Board of Supervisors. The remaining four Board members are each appointed by the mayors of the following defined jurisdictions: the east county cities, south county cities, north coastal area cities and north county inland cities. The Board members serve three-year terms in accordance with California Senate Bill 10.

Measurement focus and basis of accounting: The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in the Airport Authority's net position.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Evaluation of long-lived assets: The Airport Authority accounts for impairment of long-lived assets under GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Airport Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Airport Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset, or construction stoppage. This Statement requires the Airport Authority to report the effects of capital asset impairments in its financial statements when they occur and to account for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairment of capital assets currently exists.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments: Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. Guaranteed investment contracts are recorded at contract value. All other investments are stated at fair market value based on quoted market prices.

Tenant lease receivables: Tenant lease receivables are carried at the original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants, based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

Restricted assets: Funds are set aside as restricted when constraints placed on their use are legally enforceable due to either:

- Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors
- Laws or regulations of other governments
- Constitutional provisions or enabling legislation

The Airport Authority's policy is to use restricted resources before unrestricted resources for expenses incurred for which both restricted and unrestricted net position are available.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are recorded at cost, except for property contributed by third parties, which is recorded at fair market value at the date of contribution, less an allowance for accumulated depreciation. The Airport Authority capitalizes incremental ancillary costs and interest cost that are directly associated with the construction of capital assets.

Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Asset Category	Useful Life (years)
Land improvements	30-40
Runways, roadways and parking lots	
Lighting, security and minor improvements	3-10
Airfield and parking lots and improvements	12-25
Drainage systems, gas lines, pedestrian bridges	30
Roadways, bridges and infrastructure	40-50
Buildings and structures	
Passenger loading bridges, security systems, general upgrades and remodels	3-10
Baggage handling systems, HVAC, structural improvements, fuel and storage facility	12-20
Building expansions and smart curb improvements	25-50
Machinery and equipment	
Vehicles and emergency vehicles	3-15
Office furniture and equipment	3-10
Communication and electronic systems	3-20
Works of art	15-30

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized cost of the assets constructed. For the fiscal years ended June 30, 2013 and 2012, the Airport Authority capitalized interest of \$29,438,080 and \$31,663,105, respectively.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Net pension asset: The Airport Authority budgets for a 90 percent funding ratio with respect to its defined pension plan, which results in additional contributions to the plan over its annual required contribution (ARC). The difference between the Airport Authority's actual contributions and ARCs results in a net pension asset.

Airport Improvement Program: AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2013 and 2012, the Airport Authority recovered \$16,077,280 and \$20,833,591, respectively, for approved capital projects, and \$13,241,658 and \$11,013,260, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2013 and 2012 were \$20,096,600 and \$26,041,989, respectively, for the capital projects and \$14,830,457 and \$14,544,629, respectively, for the Quieter Home Program. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Airport Authority believes that no significant liabilities to the Airport Authority would result from such an audit.

Passenger facility charges: The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2013 and 2012, accrued PFC receivables totaled \$5,545,716 and \$4,412,287, respectively, and there were \$53,856,259 and \$74,369,877 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2013 and 2012, respectively.

On May 20, 2003, the FAA approved the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, impose and use authority of \$1.2 billion from three active applications allows collection through November 1, 2037. The Authority has formally closed five previously approved applications and withdrawn one pending application, which has been integrated into a ninth application to impose and use of approximately \$32 million in PFC revenue. The latest application was approved by the FAA in July 2012. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

Customer facility charges: The Airport Authority received approval in May 2009 from the State of California under Section 1936 of the California Civil Code to impose a \$10 customer facility charge (CFC) per contract on rental cars at SDIA.

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days. As of June 30, 2013 and 2012, accrued CFC receivables totaled \$2,301,027 and \$1,089,227, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2013 and 2012 were \$41,660,993 and \$30,863,159, respectively.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Retentions payable: The Airport Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Airport Authority. The Airport Authority's policy is to record the retention payable only after completion of the work and acceptance of the contractor invoices have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying statements of net position. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

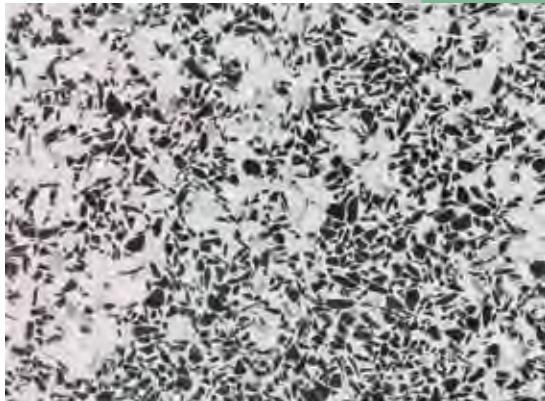
Compensated absences: All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation.

Airport Authority net position: Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Airport Authority net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Net investment in capital assets as of June 30 is as follows:

	2013	2012
Capital assets	\$ 1,759,891,408	\$ 1,438,265,264
Less accumulated depreciation	(581,747,600)	(541,788,395)
Less outstanding debt	(717,719,675)	(488,353,892)
Net investment in capital assets	\$ 460,424,133	\$ 408,122,977



Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Other restricted net assets as of June 30 are as follows:

	2013	2012
Bond reserves:		
Operations and maintenance reserve	\$ 34,955,315	\$ 31,821,881
Operations and maintenance subaccount reserve	11,651,772	10,607,294
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	-	5,534,831
Commercial paper reserve	31,314	16,350
Small Business Development Bond Guarantee	4,000,000	2,000,000
Passenger facility charges unapplied	53,856,259	74,369,877
Passenger facility charges receivable	5,545,716	4,412,287
Customer facility charges unapplied	41,009,333	30,863,159
Customer facility charges receivable	2,301,027	1,089,227
Owner Controlled Insurance Program (OCIP) loss reserve	5,380,814	6,058,740
Total restricted net position	\$ 164,131,550	\$ 172,173,646

Unrestricted net position as of June 30 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2013	2012
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	6,659,982	5,941,986
Capital projects and other commitments (Note 12)	905,769	1,120,518
Total designated net position	\$ 9,565,751	\$ 9,062,504

Unrestricted designated net position: The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2013 and 2012, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$9,565,751 and \$9,062,504, respectively.

Revenue classifications: Revenue is recognized when earned. The Airport Authority will classify revenues as operating or nonoperating based on the following criteria:

Operating revenues are from the revenue sources that constitute the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating revenue sources consist of landing fees and terminal building and ground rentals, concession and parking fees, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the SDIA airfield and terminal areas. Ground rentals consist mainly of rent received for leased cargo facilities. Concession fees are determined as a percentage of gross monthly revenues generated by each concession lessee's monthly operations. Parking fees are generated from the airport parking lots.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of the nonoperating revenue sources are interest income from cash and investments, PFCs, CFCs and grant revenue related to the Quieter Home Program.

Concentrations: A significant portion of the Airport Authority's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport Authority's earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport Authority be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The three largest airlines in terms of enplaned passengers are as follows:

	FY 2013	FY 2012
Southwest Airlines	37.2%	37.9%
United Airlines	13.5%	14.8%
Delta Airlines	10.4%	10.9%

Expense classifications: The Airport Authority will classify expenses as operating or nonoperating based on the following criteria:

Operating expenses relate to the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, equipment and systems, materials and supplies, insurance, employee development and support, business development, and equipment rentals and repairs.

Nonoperating expenses relate to financing, investing and other activities that do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of nonoperating expenses sources are expenditures for the Quieter Home Program, interest expense and other nonoperating expenses such as unrealized loss on investments.

Federal grants: The Airport Authority receives federal grants from several federal departments. The Airport Authority records grants receivable and grant revenue or capital grant contributions for eligible reimbursable expenditures incurred.

Cash and cash equivalents: For purposes of the statements of cash flows, cash and cash equivalents include unrestricted and designated cash on hand, demand deposits, commercial paper and repurchase agreements collateralized by the U.S. government or agency obligations with original maturities of three months or less from the date of acquisition.

Long-term debt: Long-term debt and other obligations are reported as liabilities on the statements of net position. The revenue bond original discount and the revenue bond original issue premium are deferred and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period the debt is issued.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Pronouncements issued but not yet adopted: The GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 66, *Technical Corrections—2012*, effective for the Airport Authority's year ending June 30, 2014
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the Airport Authority's year ending June 30, 2014

The Airport Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2013:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the Airport Authority's fiscal year 2013
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*
- GASB Statement No. 63, *The Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

The implementation of GASB Statement Nos. 60, 61 and 62 did not impact net position or the change in net position of the Airport Authority as of or for the years ended June 30, 2013 and 2012. The implementation of GASB Statement No. 63 impacted certain terminology used but did not have an impact on the net position at June 30, 2013 or 2012, or the change in net position during the years then ended.

The implementation of GASB Statement No. 65 impacted the Airport Authority's net position as of June 30, 2011 and 2012 and the change in net position during the fiscal year ended June 30, 2012. Refer to Note 13 for further disclosures on the financial statement impact of the implementation of GASB Statement No. 65.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred outflows of resources: In fiscal year 2013, the Airport Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on the Airport Authority's net position. In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or expenses, until then. The Airport Authority only has one item, deferred loss on debt refunding, which qualifies for reporting in this category in the statement of net position.

Reclassifications: Certain reclassifications have been made to the 2012 financial information in order to conform to the 2013 presentation. These reclassifications had no impact on the Airport Authority's net position or change in net position.



Notes to Financial Statements

Note 2. Cash and Investments

Summary of cash and investments: Cash and investments are reported in the accompanying statements of net position as follows at June 30:

	2013	2012
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Current investments	42,223,353	34,284,994
Noncurrent investments	41,931,321	10,410,555
Total unrestricted and undesignated	147,781,439	113,519,079
Designated for specific capital projects and other commitments, cash and investments	9,565,751	9,062,504
Restricted cash and investments:		
Bond reserves		
Operation and maintenance reserve subaccount	34,955,315	31,821,881
Operation and maintenance subaccount	11,651,772	10,607,294
Renewal and replacement reserve	5,400,000	5,400,000
	52,007,087	47,829,175
Passenger facility charges unapplied	53,856,259	74,369,877
Customer facility charges unapplied	41,009,333	30,863,159
Small Business Development bond guarantee	4,000,000	2,000,000
Commercial paper reserve	18,408	3,444
Total restricted	150,891,087	155,065,655
Total cash and investments, not with Trustee	308,238,277	277,647,238
Investments held by Trustees:		
Commercial paper interest	12,906	12,906
2005 Series debt service account	-	4,533,755
2005 Series Debt Service Reserve Fund	-	5,394,063
2010 Series debt service account	16,869,731	6,847,385
2010 Series capitalized interest account	-	10,899,880
2010 Series construction fund	2,728,626	96,929,284
2010 Series Debt Service Reserve Fund	51,108,152	51,513,183
2013 Series debt service account	1,648,415	-
2013 Series capitalized interest account	8,357,832	-
2013 Series construction fund	250,974,607	-
2013 Series Debt Service Reserve Fund	32,729,065	-
Total held by Trustee	364,429,334	176,130,456
Total cash and investments	\$ 672,667,611	\$ 453,777,694

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Components of cash and investments at June 30 are summarized below:

	2013	2012
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,976
Cash in banks	5,043,576	26,107,812
Total unrestricted cash on deposit	5,095,552	26,159,788
Unrestricted cash equivalents:		
Money market accounts	62,559,806	50,916,044
Money market funds	5,537,158	810,202
Total unrestricted cash equivalents	68,096,964	51,726,246
Unrestricted and restricted investments:		
Certificates of deposit	10,117,110	16,999,083
Local Agency Investment Fund	47,416,828	47,305,946
San Diego County Investment Pool	48,088,210	48,315,026
Commercial paper	35,485,205	25,899,199
Medium-term notes	8,126,320	-
U.S. Treasury notes	11,759,303	3,002,220
U.S. agency securities	74,052,785	58,239,730
Total unrestricted and restricted investments	235,045,761	199,761,204
Total cash and investments, not with Trustee	308,238,277	277,647,238
Investments held by Trustees:		
Money market accounts	16,124,492	20,590,022
Money market funds	24,620,178	22,008,575
Certificate of deposit	20,461,517	20,308,632
San Diego County Investment Pool	207,199,007	107,829,164
Local Agency Investment Fund	96,024,140	-
Guaranteed investment contract	-	5,394,063
Total investments held by Trustee	364,429,334	176,130,456
Total investments	599,475,095	375,891,660
Total cash, cash equivalents and investments	\$ 672,667,611	\$ 453,777,694

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy: The table on the following page 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.

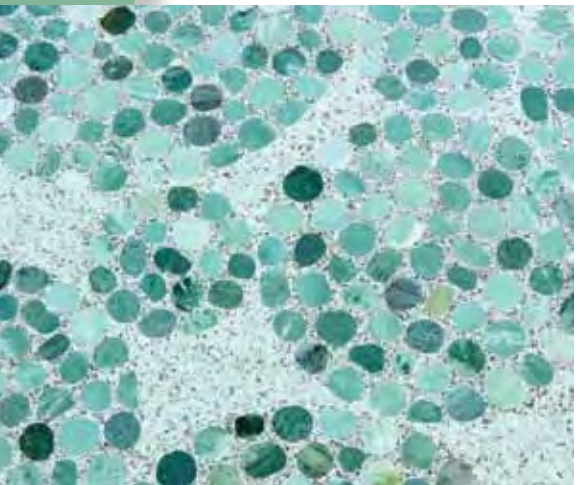
Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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 Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	10 percent
	25-36 months	AA	15 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	No limit
San Diego County Investment Pool	N/A	N/A	None	No limit
Local Government Investment Pool	N/A	N/A	None	No limit
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
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	10 percent
Bank deposits (DOA/CDs)	N/A	*	20 percent	10 percent

* Financial institution must have at least an overall satisfactory rating under the Community Reinvestment Act for meeting the credit needs of California communities in its most recent evaluation. Collateralization required per Cal. Gov. Code Section 53630 et seq.



Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investments authorized by debt agreements: Investments held by the bond Trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond Trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the debt agreement shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
Bankers' acceptances	360 days	AAA/Aaa	None	None
Commercial paper	270 days	A-1; P-1; F-1	None	None
Repurchase agreements	None	N/A	None	None
Money market portfolio	None	Two highest ratings	None	None
Cash	None	N/A	None	None
Deposit accounts	None	N/A	None	None
Municipal bonds	None	Two highest ratings	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Certificates of deposit	None	Two highest ratings	None	None
Investment agreements	None	N/A	None	None

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policy as depicted in the previous section entitled "Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy."

Investments held by Trustee: The Airport Authority has monies held by a Trustee pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds were defeased on January 21, 2013, by depositing proceeds of subordinate commercial paper notes (CP Notes) and certain available monies in an irrevocable escrow fund. Before the defeasance, the June 30, 2012 investments held by the Trustee for security and the payment of the 2005 bonds was \$9,927,818, which included the July 1, 2013 payment. The Series 2010 Bonds require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, respectively, which included the July 1 payment. The Series 2013 Bonds, issued on January 30, 2013, require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment.

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

The CP Notes require the Airport Authority to maintain an interest reserve account with the note Trustee. The commercial paper interest held by the Trustee at June 30, 2013 and 2012 was \$12,906.

Disclosures related to 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.

Information about the sensitivity of the fair values of the Airport Authority's investments (including investments held by bond Trustee) to market rate fluctuations is provided by the following tables, which show the distribution of the entity's investments by maturity as of June 30:

Investment Type	2013				
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	255,287,214	-	-	-
Commercial paper	35,485,205	35,485,205	-	-	-
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	24,620,178	-	-	-
U.S. Treasury notes	11,759,303	-	-	11,759,303	-
U.S. agency securities	74,052,785	-	4,992,950	69,059,835	-
Total investments subject to interest rate risk	552,771,976	\$ 458,833,568	\$ 4,992,950	\$ 88,945,458	\$ -
Investments not subject to interest rate risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to interest rate risk	46,703,119				
	<u>\$ 599,475,095</u>				

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investment Type	2012				
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -	\$ -
SDCIP	156,144,190	156,144,190	-	-	-
Money market funds	22,008,575	22,008,575	-	-	-
Commercial paper	25,899,199	25,899,199	-	-	-
U.S. Treasury notes	3,002,220	3,002,220	-	-	-
U.S. agency securities	58,239,730	-	6,010,920	52,228,810	-
Guaranteed investment contract	5,394,063	-	-	-	5,394,063
Total investments subject to interest rate risk	317,993,923	\$ 254,360,130	\$ 6,010,920	\$ 52,228,810	\$ 5,394,063
Investments not subject to interest rate risk:					
Money market accounts	20,590,022				
Certificates of deposit	37,307,715				
Total investments not subject to interest rate risk	57,897,737				
	<u>\$ 375,891,660</u>				

Custodial credit 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 several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). 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 market 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 public 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.

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. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or collateralized in accordance with the California Government Code.

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Disclosures related to credit risk: 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. Presented below is the actual rating as of June 30 for each investment type:

Investment Type	2013				
	Total	Unrated ⁽¹⁾	AAA/Aaa ⁽¹⁾	AA/Aa ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	-	255,287,214	-	-
Commercial paper	35,485,205	-	-	-	35,485,205
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	-	24,620,178	-	-
U.S. Treasury notes	11,759,303	-	11,759,303	-	-
U.S. agency securities	74,052,785	-	74,052,785	-	-
Total investments subject to credit risk	552,771,976	\$ 143,440,971	\$ 365,719,480	\$ 8,126,320	\$ 35,485,205
Investments not subject to credit risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to credit risk	46,703,119				
	<u>\$ 599,475,095</u>				

⁽¹⁾ Source: Standard and Poor's, Moody's and Fitch

Investment Type	2012			
	Total	Unrated ⁽¹⁾	AAA ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:				
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -
SDCIP	156,144,190	-	156,144,190	-
Money market funds	22,008,575	-	22,008,575	-
Commercial paper	25,899,199	-	-	25,899,199
U.S. Treasury notes	3,002,220	-	3,002,220	-
U.S. agency securities	58,239,730	-	58,239,730	-
Guaranteed investment contract	5,394,063	-	5,394,063	-
Total investments subject to credit risk	317,993,923	\$ 47,305,946	\$ 244,788,778	\$ 25,899,199
Investments not subject to credit risk:				
Money market account	20,590,022			
Certificates of deposit	37,307,715			
Total investments not subject to credit risk	57,897,737			
	<u>\$ 375,891,660</u>			

⁽¹⁾ Source: Standard and Poor's, Moody's and Fitch

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2013 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
Federal National Mortgage Assoc.	U.S. agency securities	<u>\$ 33,763,865</u>	5.02%

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.

Investment in county investment pool: The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP), which is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. 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 SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years and will mature on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5 percent per annum. At June 30, 2013 and 2012, the balance of the note receivable was \$41,333,664 and \$42,703,301, respectively. The current portion recorded on the note for the years ended June 30, 2013 and 2012 was \$1,446,896 and \$1,369,638, respectively.

Notes to Financial Statements

Note 3. Notes Receivable (Continued)

As part of the transfer of airport operations, pursuant to the Act, the District reimbursed the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at a 5.25 percent interest rate. A receivable for the Pond 20 property was recorded by the Airport Authority at January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value was \$3,329,000. Repayment terms remain unchanged. At June 30, 2013 and 2012, the note receivable was recorded at a value of \$0 and \$211,060, respectively. The current portion for the years ended June 30, 2013 and 2012 was \$0 and \$211,060, respectively.

The required principal payments owed from the District for notes receivable for the fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,447,000
2015	1,529,000
2016	1,609,000
2017	1,705,000
2018	1,802,000
2019-2023	10,647,000
2024-2028	14,009,000
2029-2031	8,586,000
	<u>\$ 41,334,000</u>



Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Nondepreciable assets:				
Land	\$ 22,415,851	\$ -	\$ -	\$ 22,415,851
Construction in progress	632,390,868	320,205,929	(550,771,657)	401,825,140
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	655,246,719	320,205,929	(550,771,657)	424,680,991
Depreciable assets:				
Land improvements	2,071,198	40,938,738	-	43,009,936
Buildings and structures ⁽¹⁾	463,735,113	252,587,679	(901,405)	715,421,387
Machinery and equipment ⁽²⁾	47,676,803	3,336,199	(295,613)	50,717,389
Runways, roads and parking lots	269,535,431	262,222,156	(5,695,880)	526,061,707
Total capital assets being depreciated	783,018,545	559,084,772	(6,892,898)	1,335,210,419
Less accumulated depreciation for:				
Land improvements	(1,190,389)	(1,108,151)		(2,298,540)
Building and structures	(320,299,753)	(26,459,140)	605,053	(346,153,840)
Machinery and equipment	(35,344,261)	(3,870,881)	294,446	(38,920,696)
Runways, roads and parking lots	(184,953,993)	(12,950,700)	3,530,168	(194,374,525)
Total accumulated depreciation	(541,788,396)	(44,388,872)	4,429,667	(581,747,601)
Total capital assets being depreciated, net	241,230,149	514,695,900	(2,463,231)	753,462,818
Capital assets, net	\$ 896,476,868	\$ 834,901,829	\$ (553,234,888)	\$ 1,178,143,809

(1) Includes capitalized lease of building with initial net present value of future lease payments of \$8,040,531

(2) Includes capitalized leases of office equipment with initial net present value of future lease payments of \$760,332

Construction in progress contains projects such as The Green Build, upgrading certain major equipment, and improvements to the runway, parking lots and terminals. Current contracts of the Airport Authority related to these projects are discussed in Note 12.

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ (16,804)	\$ 22,415,851
Construction in progress	322,289,133	319,839,003	(9,737,268)	632,390,868
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	345,161,788	319,839,003	(9,754,072)	655,246,719
Depreciable assets:				
Land improvements	2,028,465	42,733	-	2,071,198
Buildings and structures	466,463,764	1,623,967	(4,352,618)	463,735,113
Machinery and equipment ⁽¹⁾	46,246,697	1,846,081	(415,975)	47,676,803
Runways, roads and parking lots	273,449,104	6,757,894	(10,671,567)	269,535,431
Total capital assets being depreciated	788,188,030	10,270,675	(15,440,160)	783,018,545
Less accumulated depreciation for:				
Land improvements	(1,048,848)	(141,541)	-	(1,190,389)
Building and structures	(298,025,116)	(26,627,255)	4,352,618	(320,299,753)
Machinery and equipment	(31,187,302)	(4,564,238)	407,279	(35,344,261)
Runways, roads and parking lots	(177,667,532)	(14,256,482)	6,970,021	(184,953,993)
Total accumulated depreciation	(507,928,798)	(45,589,516)	11,729,918	(541,788,396)
Total capital assets being depreciated, net	280,259,232	(35,318,841)	(3,710,242)	241,230,149
Capital assets, net	\$ 625,421,020	\$ 284,520,162	\$ (13,464,314)	\$ 896,476,868

(1) Includes capitalized leases of office equipment with initial net present value of future lease payments of \$760,332



Notes to Financial Statements

Note 5. Debt

The following is a summary of changes in the long-term liability activity:

	Principal Balance at June 30, 2012 (as restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2013	Due Within One Year
Debt obligations:					
Commercial paper	\$ 20,729,000	\$ 31,045,000	\$ (805,000)	\$ 50,969,000	\$ -
Bonds payable:					
Senior Series 2005 Bonds	37,960,000	-	(37,960,000)	-	-
Subordinate Series 2010 Bonds	571,850,000	-	(980,000)	570,870,000	1,000,000
Senior Series 2013 Bonds	-	379,585,000	-	379,585,000	-
Bond premiums	25,497,968	55,934,101	(4,475,881)	76,956,188	-
Total bonds payable	635,307,968	435,519,101	(43,415,881)	1,027,411,188	1,000,000
Total debt obligations	656,036,968	466,564,101	(44,220,881)	1,078,380,188	1,000,000
Capital leases	361,641	8,040,531	(249,584)	8,152,588	328,012
Compensated absences	2,932,985	2,514,696	(2,357,925)	3,089,756	2,357,925
Total long-term liabilities	\$ 659,331,594	\$ 477,119,328	\$ (46,828,390)	\$ 1,089,622,532	\$ 3,685,937
	Principal Balance at June 30, 2011 (as restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2012 (as restated)	Due Within One Year
Debt obligations:					
Commercial paper	\$ 21,509,000	\$ -	\$ (780,000)	\$ 20,729,000	\$ -
Bonds payable:					
Senior Series 2005 Bonds	41,225,000	-	(3,265,000)	37,960,000	3,430,000
Subordinate Series 2010 Bonds	572,565,000	-	(715,000)	571,850,000	980,000
Bond premiums	27,130,314	-	(1,632,346)	25,497,968	-
Total bonds payable	640,920,314	-	(5,612,346)	635,307,968	4,410,000
Total debt obligations	662,429,314	-	(6,392,346)	656,036,968	4,410,000
Capital leases	519,866	-	158,225	361,641	164,966
Compensated absences	2,673,438	2,457,252	(2,197,705)	2,932,985	2,197,705
Total long-term liabilities	\$ 665,622,618	\$ 2,457,252	\$ (8,431,826)	\$ 659,331,594	\$ 6,772,671

Notes to Financial Statements

Note 5. Debt (Continued)

Commercial Paper Series A, B and C (CP Notes): On September 6, 2007, the Board authorized issuance of subordinate CP Notes with up to \$250,000,000 of principal outstanding at any time. The CP Notes may be issued from time to time and proceeds from the issuance of the CP Notes are to be used, among other things, to finance improvements to SDIA. The CP Notes are subordinate obligations secured by a pledge of airport revenues subordinated to the pledge of net airport revenues securing payment of the senior lien Series 2013 Bonds and on parity to the subordinate Series 2010 Bonds. Each CP Note matures at the end of a period not to exceed 270 days. The matured commercial paper can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the irrevocable letter of credit expiration date.

The CP Notes are secured by an irrevocable letter of credit provided by Lloyds TSB Bank, which expires no later than September 10, 2014. Accordingly, the CP Notes are classified as long-term in the Airport Authority's financial statements. There were no unreimbursed draws by the Airport Authority on this letter of credit during the year ended June 30, 2013, nor were there any amounts outstanding under this letter-of-credit agreement at June 30, 2013.

On December 18, 2012, the Airport Authority issued \$35,412,000 of Series C CP Notes to provide for the defeasance of Series 2005 Bonds.

At June 30, 2013, the aggregate principal amount outstanding of the CP Notes was \$50,969,000, carrying a weighted-average interest rate of 0.19 percent. At June 30, 2012, the principal amount of CP Notes outstanding was \$20,729,000, carrying an interest rate of 0.26 percent.

Commercial paper interest expense for the years ended June 30, 2013 and 2012 amounted to \$87,682 and \$56,199, respectively, including accrued interest of \$6,866 and \$3,447, respectively.

As subordinate obligations, the CP Notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the CP Notes require the Airport Authority to maintain an interest reserve account with the note Trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2013 and 2012, the amount held by the Trustee was \$12,906 and \$12,906, respectively, and the amount reserved by the Airport Authority was \$18,408 and \$3,444, respectively.

The required debt service payments for the CP Notes for the fiscal years ending June 30 are as follows, assuming an interest rate of 0.19 percent:

Years Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 96,841	\$ 96,841
2015	50,969,000	96,841	51,065,841
	\$ 50,969,000	\$ 193,682	\$ 51,162,682

Notes to Financial Statements

Note 5. Debt (Continued)

Senior Lien Airport Revenue Bonds, Series 2005 and Refunded Series 1995: The California Maritime Infrastructure Authority issued \$76,690,000 of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued \$56,270,000 of senior lien Series 2005 Bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021.

On December 21, 2012, the Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Senior Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2013, the amount held in escrow by the Trustee was \$36,489,675 and the amount of the defeased Series 2005 Bonds still outstanding was \$34,530,000.

Although the advance refunding resulted in the recognition of a deferred outflow of resources of \$6,367,592 for the year ended June 30, 2013, the Airport Authority in effect reduced its aggregate debt service payments by \$1,214,000 over the next seven years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$1,003,000. As the CP Notes (refunding debt) are variable rate debt, they are subject to interest fluctuation risks. Interest rates on the CP Notes are based on U.S. Treasury yields. If the two-year U.S. Treasury yield increases by 0.40 percent (40 basis points), it would result in an economic gain of approximately \$780,000.

Senior Lien Airport Revenue Bonds, Series 2013: On January 30, 2013, the Airport Authority issued \$379,585,000 of Series A and Series B senior airport revenue bonds. The senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the senior Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the senior Series 2013 Bonds.

The Series 2013 bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2013 amounted to \$7,749,446, including accrued interest of \$7,749,446. The principal balance on the Series 2013 Bonds as of June 30, 2013 was \$379,585,000.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system, and (b) certain funds and accounts held by the senior Trustee under the senior indenture.

Notes to Financial Statements

Note 5. Debt (Continued)

The Airport Authority's Master Senior Indenture and the Third Supplemental Senior Indenture (the Indenture) govern the Airport Authority's debt program. Per the Indenture, as senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Indenture requires the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds. As required by the Indenture, the total amount reserved by the Airport Authority for fiscal years 2013 and 2012 was \$52,007,087 and \$53,364,006, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2013 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2013 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 16,987,196	\$ 16,987,196
2015	-	18,475,500	18,475,500
2016	2,030,000	18,445,050	20,475,050
2017	2,090,000	18,382,275	20,472,275
2018	2,155,000	18,306,850	20,461,850
2019-2023	29,525,000	88,758,375	118,283,375
2024-2028	50,660,000	78,095,450	128,755,450
2029-2033	45,330,000	65,221,975	110,551,975
2034-2038	32,565,000	57,139,125	89,704,125
2039-2043	150,780,000	41,634,250	192,414,250
2044	64,450,000	1,573,750	66,023,750
	<u>\$ 379,585,000</u>	<u>\$ 423,019,796</u>	<u>\$ 802,604,796</u>

A cumulative rebate liability relating to arbitrage of the defeased Series 2005 Bonds was recorded for \$522,343 and \$94,796 as of the fiscal years ended June 30, 2013 and 2012, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2015. Additionally, should the bonds be retired prior to July 1, 2015, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

Subordinate Lien Series 2010 Bonds: On October 5, 2010, the Airport Authority issued \$572,565,000 of Series A, B and C subordinate airport revenue bonds. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142,176,000 of the Airport Authority's outstanding CP Notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

Notes to Financial Statements

Note 5. Debt (Continued)

The Series A and Series B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as taxable Build America Bonds, which benefit from periodic cash subsidy payments from the U.S. Treasury equal to 35 percent of interest payable. However, in the fiscal year ended June 30, 2013, due to the impact of the federal government's sequestration measures, subsidy payments were reduced by 4.3 percent. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2012 and 2011 was \$4,778,599 and \$4,995,921, respectively. The interest rate on the Series C bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2013 and 2012 amounted to \$31,735,498 and \$31,755,098, respectively, including accrued interest of \$15,867,749 and \$15,877,549, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2013 and 2012 was \$570,870,000 and \$571,850,000, respectively.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include all income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The irrevocably committed PFC amount of \$14,703,838 was fully utilized in fiscal year 2013. The irrevocably committed PFC amounts for the fiscal years ended June 30, 2014, 2015 and 2016 are \$19,208,838, \$19,206,113 and \$19,209,388, respectively.

As subordinate lien bonds, the Series 2010 bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and a capitalized interest fund.

The public ratings of the Series 2010 Bonds as of June 30, 2013 are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

Notes to Financial Statements

Note 5. Debt (Continued)

The required debt service payments for the subordinate Series 2010 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	\$ 1,000,000	\$ 31,720,498	\$ 32,720,498
2015	5,785,000	31,594,948	37,379,948
2016	8,665,000	31,318,098	39,983,098
2017	9,000,000	30,934,023	39,934,023
2018	9,430,000	30,487,998	39,917,998
2019-2023	54,495,000	144,913,548	199,408,548
2024-2028	69,330,000	129,681,617	199,011,617
2029-2033	110,385,000	108,629,628	219,014,628
2034-2038	176,410,000	65,792,997	242,202,997
2039-2041	126,370,000	11,699,976	138,069,976
	<u>\$ 570,870,000</u>	<u>\$ 616,773,332</u>	<u>\$ 1,187,643,332</u>

Compensated absences: Employee vacation that vests is recorded when earned. Accumulated sick leave is not accrued because employee rights to receive compensation for the unused portion terminate upon severance of employment.

Line of credit: In fiscal year 2013, the Airport Authority established a \$4,000,000 line of credit with Wells Fargo, which is collateralized with a certificate of deposit. This line of credit replaced a line maintained with Union Bank. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2013, nothing had been drawn on the line of credit and four issued letters of credit were outstanding, totaling \$858,006 for projects in progress. One of the letters of credit is due to expire on January 17, 2014, and the remaining three will expire on February 27, 2014.

Capital Leases:

Office equipment leases: The Airport Authority entered into capital lease agreements for office equipment that require monthly lease payments of \$14,806.

Receiving distribution center lease: The Airport Authority entered into an installment purchase agreement for a receiving and distribution center (RDC) in fiscal year 2013. This agreement has been determined to be a capital lease with an interest rate of 9.15 percent and requires monthly lease payments of \$73,108 for 240 months. The Airport Authority will become the owner of the RDC at the conclusion of the 20-year installment purchase agreement.

Notes to Financial Statements

Note 5. Debt (Continued)

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2013:

Years Ending June 30,	Amount
2014	\$ 1,054,969
2015	902,429
2016	877,298
2017	877,298
2018	877,298
2019-2023	4,386,489
2024-2028	4,386,489
2029-2031	3,874,732
Total lease payments	17,237,002
Less amount representing interest	(9,084,414)
Present value of future lease payments	\$ 8,152,588

Note 6. Defined-Benefit Plan

Plan description: The Airport Authority's defined-benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The San Diego County Regional Airport Authority Retirement Plan and Trust provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District and the Airport Authority, administered by the Retirement Board of Administration (the CERS Board). San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in CERS to the CERS Board. The Airport Authority contributes to the Federal Social Security Program. The CERS Board issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101.

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority's contribution rate, as determined through actuarial valuation, was 10.9 percent for 2013, 14.5 percent for 2012 and 16.6 percent for 2011, and is expressed as a percentage of covered payroll.

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Annual pension cost: For the years ended June 30, 2013, 2012 and 2011, the annual pension cost included in salaries and benefits was \$4,582,000, \$4,356,000 and \$5,036,000, respectively, for the CERS pension. Comparing the June 30, 2012 actuarial valuation to the June 30, 2011 actuarial valuation, total membership increased by 1.3 percent. The increase was attributable to both the growth in inactive membership, terminated vested, disabled, retirees and beneficiaries. The active membership declined by 0.9 percent. Active member payroll decreased by 1.7 percent, for an average decrease of 0.8 percent. The actuarial liability increased by 15.7 percent, but the actuarial value of assets increased by 11 percent. The funding ratio decreased from 102.7 percent as of June 30, 2011 to 98.5 percent as of June 30, 2012. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not decrease as much as the market value (94.6 percent).

New valuation requirements: Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. There are less significant changes for current employees and retirees.

There are no New Members in the current valuation. However, in calculating the fiscal year 2014 ARC, the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2013 and subsequent valuations, the actual cost implications will vary and further study may be required.

As of the latest actuarial valuation dated June 30, 2012, significant actuarial assumptions are as follows:

- The rates of retirement were decreased and changed to be based on age and service as opposed to just the service of a member.
- The percent married assumption was increased to 55 percent for females, and the assumed age difference between husbands and wives was reduced to three years.
- The reciprocity assumption was reduced from 20 percent to 10 percent.
- Rates of termination were increased and changed to be based on service as opposed to the age of a member.
- Disability rates were decreased.
- Mortality rates for active Airport Authority members were decreased.
- Mortality rates for retired Airport Authority members were increased.
- The investment return assumption was 7.5 percent.
- The inflation assumption was 0 percent for the next year and 3.75 percent thereafter.
- Cost of living adjustment is assumed to be 2 percent.
- Actuarial funding method is entry age normal.

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

- Amortization method is level percent closed.
- Asset valuation method is expected value method.
- Equivalent single amortization period is 13.539 years. This consists of nine years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, and 20 years for benefit changes.
- The rate of employer contributions to CERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost that, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

On September 16, 2004, the Airport Authority made a contribution payment in the amount of \$3,900,000, in addition to the ARC, to reflect a desired funded ratio of 90 percent. On June 21, 2005, the Airport Authority made an additional contribution of \$1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of \$513,627. On June 30, 2010, the Airport Authority made a contribution of \$4,600,000 to increase the funded rate reported in the January 2010 CERS 2009 actuarial calculation from 86.9 percent to the desired funded ratio of 90 percent. At June 30, 2013, 2012 and 2011, the total contribution of \$10,013,627 less amortization of \$3,365,485, \$2,809,172 and \$2,252,860, respectively, is recorded as a net pension asset of \$6,648,142, \$7,204,455 and \$7,760,767, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2014 measured as a percentage of membership payroll increased from 10.9 percent to 11.9 percent. The required beginning-of-year contribution paid on July 1, 2013 increased by \$300,000.

Fiscal Year Ended	Annual Pension Cost (APC)	Airport Cost Funded	% of APC Contributed	ARC	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.50%
6/30/11	\$ 5,036	\$ 4,300	85%	\$ 4,300	\$ 7,761	\$ (556)	\$ 556	\$ 751
6/30/12	4,356	3,800	87%	3,800	7,204	(556)	556	751
6/30/13	4,582	2,600	57%	2,600	6,648	(556)	556	751

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Schedule of pension funding progress for CERS based on most recent actuarial valuation is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/12	\$ 95,793	\$ 97,225	\$ 1,432	98.5%	\$ 24,726	5.8%

Note 7. Employees' Deferred Compensation Plan

The Airport Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, which is available to all full-time Airport Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets to be held in the IRC Section 457 plans are not the property of the Airport Authority and are not subject to the claims of the Airport Authority's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*, employee assets are not reflected in the Airport Authority's financial statements.

Note 8. Other Postemployment Benefits

In addition to pension benefits as described in Notes 6 and 7, the Airport Authority provides other postemployment benefits (OPEB). The Airport Authority's OPEB benefits are administered as a single-employer plan.

The Airport Authority provides medical, dental and \$10,000 life insurance postretirement benefits for nonunion employees hired prior to May 1, 2006 and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Plan description: As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. The CERBT fund is an irrevocable Section 115 trust. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.5 million California public employees, retirees and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States, managing more than \$250 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted that permitted CalPERS to form the CERBT fund, a Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding policy: CERBT requires a valuation of the liabilities and annual costs for benefits by an approved actuarial consulting firm. It is the Airport Authority's intent to budget and prefund the ARCs. As of May 9, 2009, the agreement with CERBT was approved.

Annual OPEB cost and actuarial methods and assumptions: The July 1, 2011 actuarial valuation for the ARC, net of the employer contribution, was \$2,238,000 for fiscal year 2013 and \$2,165,000 for 2012. The ARC was determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, with unfunded liabilities amortized over 30 years, which is the method utilized by CERBT. The actuarial assumptions used by CERBT include (a) a 7.61 percent investment rate of return, (7.75 percent was used in the prior valuations), net of administrative expenses, and (b) projected salary increases of 3.25 percent. The annual healthcare cost trend rate ranged from 8.0 percent to 9.5 percent for medical, with a 5 percent rate for dental and 3.0 percent rate for vision.

The entry-age-normal method spreads plan costs for each participant from entry date to the expected retirement date. Under the entry-age-normal cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The actuarial accrued liability is the cumulative value, on the valuation date, of prior service costs. For retirees, the actuarial accrued liability is the present value of all projected benefits.

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true plan costs.

Development of net OPEB obligation (NOO)/Asset and annual OPEB cost is as follows (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO (Asset)			Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
				End of Year	Interest on NOO (Asset)	Adjustment to the ARC				
7/1/2010	10/11	\$ 1,791	\$ 1,699	\$ (60)	\$ (12)	\$ (10)	\$ 1,789	7.61%	3.25%	15.7
7/1/2011	11/12	2,165	2,165	(61)	(5)	-	2,164	7.61%	3.25%	15.7
7/1/2012	12/13	2,238	2,236	(62)	(5)	-	2,237	7.61%	3.25%	15.7

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Schedule of employer contributions is as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB (Asset) Obligation
6/30/11	\$ 1,789	\$ 1,699	95.0%	\$ (60)
6/30/12	2,164	1,964	90.8%	(61)
6/30/13	2,237	2,236	100.0%	(62)

Schedule of OPEB funding progress based on most recent actuarial valuation is as follows (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	\$ 40,725	\$ 7,604	\$ 22,197	\$ 14,593	34.3%	\$ 18,728	77.9%	7.61%	3.25%

Note 9. Risk Management

The Airport Authority has a comprehensive Risk Management Program comprising commercial insurance, self-insurance, loss prevention, loss control and claims administration. The Airport Authority's coverage includes a variety of retentions or deductibles.

Commercially issued insurance:

- The Airport Authority maintains \$500 million in limits for owners' and operators' general liability insurance with a War, Hijacking and Other Perils endorsement in the amount of \$150 million.
- The Airport Authority maintains a property insurance policy with limits of \$500 million providing all risk and flood coverage on physical assets.
- The Airport Authority also maintains policies for Workers' Compensation, Commercial Auto, Fiduciary Liability and Public Official Liability.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2013 and 2012, the Airport Authority has designated \$6,659,982 and \$5,941,986, respectively, from its net position, which is included in designated unrestricted net position.

A \$2,000,000 reserve has been established within unrestricted net position by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no requirement that it be maintained.

Notes to Financial Statements

Note 9. Risk Management (Continued)

Loss prevention: The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, two risk analysts, a safety manager and a safety analyst. In addition, insurer property and casualty loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a Web-based claims information system.

During fiscal year 2013, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 10. Lease Revenues

The Airport Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. These assets are included in the buildings and structures capital asset category and have a cost of approximately \$253.1 million and accumulated depreciation of approximately \$128.3 million, for a net carrying amount of \$124.8 million as of June 30, 2013. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc. A majority of the Airport Authority's signatory airlines lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

The Airport Authority's expansion of approximately 25,000 additional square feet results in the increase of the number of food service and retail concession locations from 55 to 87. The Airport Authority is implementing a comprehensive Concessions Development Program (CDP) to provide a world-class shopping and dining experience for the millions of passengers who use SDIA each year. The full program build-out is scheduled for March 2014. The CDP replaces the Airport Authority's one master concessionaire, giving way for additional 11 new tenants to conduct business with the Airport Authority. With the new program, 17 new concessions lease commitments were signed and 87 new stores will open within the Airport Authority's terminals. These new lease commitments are cancelable leases and are not reflected in the schedule below.

The minimum future lease payments to be received under the above operating lease agreements as of June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 4,826,179
2015	7,547,637
2016	6,532,126
2017	5,422,203
2018	5,503,536
2019-2020	11,330,637
	<u><u>\$ 41,162,317</u></u>

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of \$440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of \$440,000. The license, an intangible asset with no expiration date, is included in nondepreciable assets in Note 4. As of June 30, 2013 and 2012, the Airport Authority recognized lease revenue of \$86,996 for each year under the World Trade Center lease.

Notes to Financial Statements

Note 11. Lease Commitments

Operating Leases:

General Dynamics lease: The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement calls for predetermined rents through December 31, 2005, with future rents based upon a market rate established in late 2005 by an appraisal (or arbitration). The amended lease agreement calls for rent payments of \$6,750,000 annually through December 31, 2068. The Airport Authority received a credit for \$375,000 in reduced rent based on a previous lease agreement for the property in September 2006. The changes in terms for this lease were approved by the Airport Authority's Board on July 25, 2006. A portion of the land is leased to the District for employee parking for District administration building employees and is leased back by the District at the same fair market value rent paid by the Airport Authority.

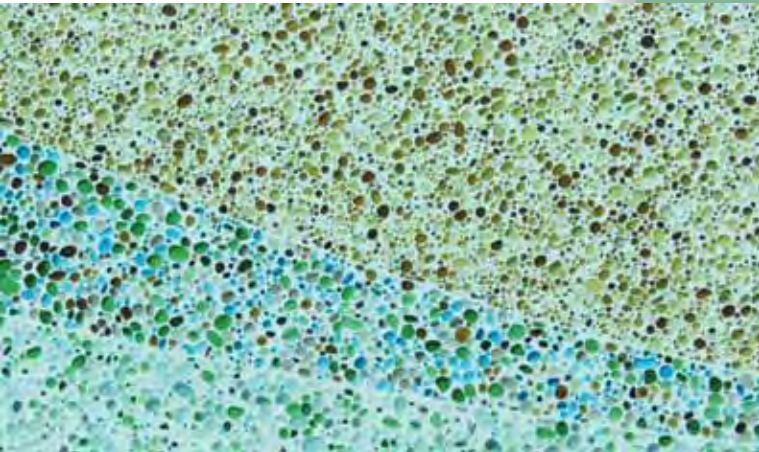
SDIA lease: The Airport Authority is leasing from the District 480 acres of land on North Harbor Drive for \$1 per year, for 66 years, through December 31, 2068.

Teledyne Ryan lease: The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires on December 31, 2068, with \$3 million in annual rent.

Other District leases: The Airport Authority leases from the District two additional properties adjacent to SDIA. These properties require monthly rentals of \$86,083 and \$12,521 and both expire in December 2013. As of January 1, 2013, the lease for \$86,083 was terminated with the District.

On July 24, 2006, the Airport Authority's Board approved a lease with the District for the property located at 2415 Winship Lane, known as the Sky Chef property. The term of the lease is 60 years with \$350,000 in annual rent and commenced on September 1, 2006.

Under current law, in the event SDIA is relocated and the District leases are no longer used by the Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.



Notes to Financial Statements

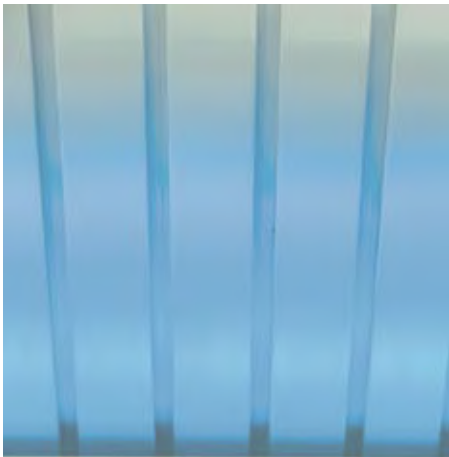
Note 11. Lease Commitments (Continued)

Building lease: The Airport Authority leased modular buildings from an unrelated third party that required monthly rental of \$1,366 through the expiration date of August 2013. This lease was not renewed. The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 10,290,846
2015	10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019-2023	50,799,600
2024-2028	50,799,600
2029-2033	50,799,600
2034-2038	50,799,600
2039-2043	50,799,600
2044-2048	50,799,600
2049-2053	50,799,600
2054-2058	50,799,600
2059-2063	50,799,600
2064-2068	50,799,600
2069	5,079,960
	<u>\$ 564,028,086</u>

The total rental expense charged to operations for the years ended June 30 consists of the following:

	<u>2013</u>	<u>2012</u>
Rental payments made	<u>\$ 10,897,338</u>	<u>\$ 11,414,838</u>



Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event

Commitments: As of June 30, 2013, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Airport Authority has funds that have been classified as current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2013, these funds totaled \$905,769 and are classified on the accompanying statement of net position as cash and investments designated for specific capital projects and other commitments.
- ii. Support services—As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the year ended June 30, 2013, the Airport Authority expensed \$17,289,681 for these services.
- iii. Major contracts—During 2006 the Airport Authority Board approved a contract with AECOM Aviation for \$37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. The Board approved additional increases totaling \$43.9 million in fiscal years 2009 and 2010. In 2011 the Board approved \$45 million additional funds and approximately \$112 million has been spent to date. The remaining contract is expected to be completed during fiscal year 2014.
- iv. In 2009 the Board approved two design-build contracts for the Terminal Expansion Program, or “The Green Build.” The program is estimated to cost \$864 million. The Green Build began in fiscal year 2010 and the projected completion date is early fiscal year 2014. The Green Build provides for 10 additional passenger gates, a new dual-level roadway at Terminal 2 and additional aircraft remain-overnight parking areas. The first Green Build contract was approved for the Terminal 2 West Building and Airside Expansion to Turner/PCL/FCI Joint Venture for \$14 million. Additional amounts were approved in fiscal years 2009, 2010 and 2011 for \$110.4 million, \$228 million and \$79 million, respectively. As of June 30, 2013, \$404.41 million had been spent and the contract is expected to be completed during fiscal year 2014.

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event (Continued)

- v. The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$43.8 million approved in 2009 and additional approvals in 2010 and 2011 for \$76.2 million and \$135 million, respectively. As of June 30, 2013, \$206.23 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is expected to be completed in fiscal year 2014.
- vi. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of \$29.7 million and the second for the airport shuttle services in the amount of \$28.8 million. The total amounts spent as of June 30, 2013 were \$6.9 million for parking management services and \$9.1 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2013, the Airport Authority's remaining commitment is approximately \$22.8 million for the parking management contract and \$19.7 million for the shuttle service contract.
- vii. In fiscal year 2013, the Board approved a contract with Austin-Sundt JV for the design and construction of the proposed Rental Car Center in the amount of \$14 million and additional approval of \$10 million. As of June 30, 2013, \$1.9 million had been spent and the contract is due to be completed in fiscal year 2016.
- viii. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of \$10 million and an additional approval of \$12 million. As of June 30, 2013, \$6.7 million had been spent and the contract is due to be completed in fiscal year 2016.

Contingencies: As of June 30, 2013, the Airport Authority is subject to contingencies arising from legal matters as described below:

The Airport Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenant/operators to indemnify the Airport Authority for any damage to property or losses to the Airport Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Airport Authority to be named as an additional insured under certain insurance policies of the tenants/operators. The Airport Authority also tenders these claims to its own insurers once they become asserted claims. Thus, according to the Airport Authority's legal counsel, when these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.

Notes to Financial Statements

Note 13. Implementation of New GASB and Effect on Net Position

During the year ended June 30, 2013, the Airport Authority early implemented GASB Statement No. 65. As a result, the cumulative effect on beginning net position and the change in net position, as well as certain asset accounts and operating accounts, have been restated from previously issued financial statements to reflect the Airport Authority's write-off of unamortized debt issuance costs. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources to ensure consistency in financial reporting.

The effect on the Airport Authority's previously issued June 30, 2012 financial statements is summarized as follows:

	Previously Reported Balance as of June 30, 2012	(Decrease)	Balance as Restated as of June 30, 2012
Statement of Net Position			
Deferred charges	\$ 4,655,862	\$ (4,655,862)	\$ -
Total assets	1,432,071,331	(4,655,862)	1,427,415,469
Net position, end of year	665,544,428	(4,655,862)	660,888,566
	Previously Reported Balance for the Year Ended June 30, 2012	Increase (Decrease)	Balance as Restated for the Year Ended June 30, 2012
Statement of Revenues, Expenses and Changes in Net Position			
Interest expense	\$ 2,369,718	\$ (343,026)	\$ 2,026,692
Change in net position	58,290,185	343,026	58,633,211
Beginning net position as of June 30, 2011	607,254,243	(4,998,888)	602,255,355
Net position, end of year	665,544,428	(4,655,862)	660,888,566

Implementation of new accounting standards also resulted in \$1,854,985 being restated from a reduction of debt to being recorded as a deferred outflow of resources as of June 30, 2012.

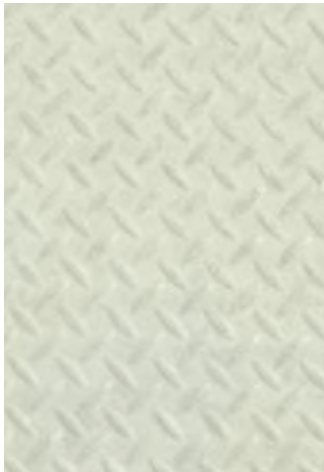
Required Supplementary Information
Fiscal Year Ended June 30, 2013

Schedule of pension funding progress for CERS is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/ (Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/10	\$ 73,401	\$ 76,447	\$ 3,047	96.0%	\$ 25,596	11.9%
6/30/11	86,309	84,042	(2,267)	102.7%	25,148	(11.1%)
6/30/12	95,793	97,225	1,432	98.5%	24,726	5.8%

Schedule of OPEB funding progress is as follows (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	7/1/09	\$ 2,674	\$ 12,206	\$ 9,532	21.9%	\$ 19,514	48.8%	7.75%	3.25%
Actual	7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
Actual	7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%





The Statistical Section is divided into five areas: financial trend data; revenue capacity data; operating information; demographic and economic information, and debt capacity data.

Financial Trend data which shows changes in the Authority's financial position since inception:

- Authority operating revenues and expenses
- Authority net position by component
- Authority change in net position
- Authority largest sources of revenue

Revenue Capacity data which shows the Authority's major revenue sources and changes in key rates and charges:

- Authority landing rate fee
- Terminal rates billed to airlines
- Airline cost per enplaned passenger

Operating Information shows how the airport is performing on an annual basis and within the airport market sector:

- Authority employee headcount
- Aircraft operations
- Aircraft landed weights
- Aircraft landed weights by airline
- Passenger enplanements
- Enplanement market share by airline by fiscal year
- Growth in enplaned passengers, SDIA vs. US

Economic Information shows the major drivers of usage and how the airport service area is performing compared to the region and the nation:

- Population and per capita personal income
- Principal employers in San Diego County
- San Diego County employment by industry
- Labor force, employment, unemployment and unemployment rates

Debt Information shows how the Authority is performing meeting its debt obligations and the relative level of debt:

- Debt service coverage
- Debt per enplaned passenger
- Capital assets

Exhibit S-1
Authority Revenues and O&M Expenses (\$000)
Fiscal Years Ended June 30,

Operating Revenues

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Airline revenue:										
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579	\$ 18,419	\$ 19,658
Aircraft parking fees	-	-	-	-	-	3,221	3,406	2,921	3,134	3,191
Building rentals	19,511	18,041	21,137	22,495	24,265	23,057	23,835	26,980	30,633	41,840
Security surcharge	-	7,800	7,759	8,441	8,619	10,204	11,900	14,886	18,649	23,360
Other aviation revenue	1,812	1,757	1,868	1,757	1,808	1,565	1,585	1,597	1,595	1,591
Concession revenue	24,571	26,552	29,362	34,201	38,785	36,280	36,249	37,103	40,427	42,041
Parking and ground transportation revenue	21,986	23,723	26,904	28,392	31,038	31,492	30,296	31,645	31,470	35,750
Ground rentals	4,269	5,294	5,505	4,994	5,207	5,776	5,923	8,656	8,044	9,162
Other operating revenue	1,549	2,349	4,717	1,081	1,197	693	1,829	1,640	1,179	905
Total operating revenues	\$ 96,572	\$ 108,123	\$ 119,495	\$ 125,367	\$ 135,682	\$ 130,977	\$ 133,695	\$ 144,007	\$ 153,550	\$ 177,498

Operating Expenses Before Depreciation

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Salaries and benefits	\$ 21,955	\$ 23,623	\$ 26,847	\$ 28,333	\$ 32,912	\$ 34,741	\$ 35,386	\$ 38,267	\$ 37,237	\$ 38,092
Contractual services	19,462	25,210	31,967	26,391	27,378	27,464	27,999	26,113	26,906	29,284
Safety and security	13,450	16,191	14,777	15,946	19,110	19,930	20,131	21,344	22,625	23,994
Space rental	8,826	10,174	11,353	10,842	10,901	10,888	10,906	10,906	11,415	10,897
Utilities	4,914	5,121	5,416	6,421	6,430	6,912	6,871	6,413	6,674	6,659
Maintenance	5,343	4,050	5,390	8,393	8,735	8,002	9,231	8,174	8,497	11,204
Equipment and systems	1,019	710	736	980	1,333	678	891	570	403	469
Materials and supplies	462	461	591	762	795	641	413	345	304	406
Insurance	2,518	2,425	1,162	1,999	1,227	1,096	1,166	1,066	764	795
Employee development and support	981	1,050	906	909	1,035	1,030	990	1,041	916	1,235
Business development	2,067	1,646	1,329	2,096	2,733	2,509	2,033	2,275	2,093	2,444
Equipment rentals and repairs	636	708	882	1,479	1,396	1,387	1,271	1,327	1,335	1,317
Total operating expenses before depreciation	\$ 81,633	\$ 91,369	\$ 101,356	\$ 104,551	\$ 113,985	\$ 115,278	\$ 117,288	\$ 117,841	\$ 119,169	\$ 126,796

Source: San Diego County Regional Airport Authority

Exhibit S-2
Authority Net Position by Component (\$000)
Fiscal years Ended June 30,

	2004	2005	2006	2007	2008	2009	2010*	2011*	2012*	2013
Net investment in capital assets	\$ 244,889	\$ 209,714	\$ 219,218	\$ 236,762	\$ 238,144	\$ 249,498	\$ 274,769	\$ 352,276	\$ 408,123	\$ 460,424
Other restricted net position	16,670	83,854	96,633	103,787	136,548	167,827	139,672	147,513	172,174	164,131
Unrestricted net position	106,125	102,652	117,940	124,984	120,429	95,858	145,224	102,466	80,592	102,508
Total net position	\$ 367,684	\$ 396,220	\$ 433,791	\$ 465,533	\$ 495,121	\$ 513,183	\$ 559,664	\$ 602,255	\$ 660,889	\$ 727,063

* Restated as per GASB Statement No. 65

Source: San Diego County Regional Airport Authority

Exhibit S-3
Authority Change in Net Position (\$000)
Fiscal Years Ended June 30,

	2004	2005	2006	2007	2008	2009	2010*	2011*	2012*	2013
Operating revenues:										
Airline revenue:										
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579	\$ 18,419	\$ 19,658
Aircraft parking fees	-	-	-	-	-	3,221	3,406	2,921	3,134	3,191
Building rentals	19,511	18,041	21,137	22,495	24,265	23,057	23,835	26,980	30,633	41,840
Security surcharge	-	7,800	7,759	8,441	8,619	10,204	11,900	14,886	18,649	23,360
Other aviation revenue	1,812	1,757	1,868	1,757	1,808	1,565	1,584	1,597	1,595	1,591
Concession revenue	24,571	26,552	29,362	34,201	38,785	36,280	36,249	37,103	40,427	42,041
Parking and ground transportation revenue	21,986	23,723	26,904	28,392	31,038	31,492	30,296	31,645	31,470	35,750
Ground rentals	4,269	5,294	5,505	4,994	5,207	5,776	5,923	8,656	8,044	9,162
Other operating revenue	1,549	2,349	4,717	1,081	1,197	693	1,829	1,640	1,179	905
Total operating revenues	96,572	108,123	119,495	125,367	135,682	130,977	133,695	144,007	153,550	177,498
Operating expenses:										
Salaries and benefits	21,955	23,623	26,847	28,333	32,912	34,741	35,386	38,267	37,237	38,092
Contractual services	19,462	25,210	31,967	26,391	27,378	27,464	27,999	26,113	26,906	29,284
Safety and security	13,450	16,191	14,777	15,946	19,110	19,930	20,131	21,344	22,625	23,994
Space rental	8,826	10,174	11,353	10,842	10,901	10,888	10,906	10,906	11,415	10,897
Utilities	4,914	5,121	5,416	6,421	6,430	6,912	6,871	6,413	6,674	6,659
Maintenance	5,343	4,050	5,390	8,393	8,735	8,002	9,231	8,174	8,497	11,204
Equipment and systems	1,019	710	736	980	1,333	678	891	570	403	469
Materials and supplies	462	461	591	762	795	641	413	345	304	406
Insurance	2,518	2,425	1,162	1,999	1,227	1,096	1,166	1,066	764	795
Employee development and support	981	1,050	906	909	1,035	1,030	990	1,041	916	1,235
Business development	2,067	1,646	1,329	2,096	2,733	2,509	2,033	2,275	2,093	2,444
Equipment rentals and repairs	636	708	882	1,479	1,396	1,387	1,271	1,327	1,335	1,317
Total operating expenses before depreciation and amortization	81,633	91,369	101,356	104,551	113,985	115,278	117,288	117,841	119,169	126,796
Income from operations before depreciation and amortization	14,939	16,754	18,139	20,816	21,697	15,699	16,407	26,166	34,381	50,702
Depreciation and amortization	32,993	29,699	31,559	33,468	36,764	38,196	42,424	49,138	44,532	41,624
Operating income (loss)	(18,054)	(12,945)	(13,420)	(12,652)	(15,067)	(22,497)	(26,018)	(22,972)	(10,151)	9,078
Nonoperating revenues (expenses):										
Passenger facility charges	31,241	33,710	34,981	36,452	37,401	33,219	34,049	33,998	34,639	35,437
Customer facility charges	-	-	-	-	-	1,695	10,783	10,986	11,487	19,117
Quieter Home Program, net	(1,375)	(1,582)	(908)	(3,092)	(3,990)	(5,573)	(1,629)	(3,359)	(3,531)	(1,589)
Joint Studies Program	-	-	(688)	(120)	(963)	(180)	(244)	(129)	(73)	(55)
Interest income	3,831	6,413	9,306	11,969	13,431	9,434	6,667	6,408	5,492	4,140
Interest expense	(4,294)	(4,387)	(4,809)	(4,683)	(4,086)	(2,998)	(3,472)	(12,295)	(2,027)	(16,530)
Build America Bonds Rebate	-	-	-	-	-	3,691	4,996	4,779	-	-
Other revenues (expenses), net	5,530	(195)	964	(3,282)	12	316	(1,004)	(92)	(3,032)	(4,279)
Nonoperating revenue, net	34,933	33,959	38,846	37,244	41,805	35,913	45,149	39,208	47,951	41,020
Income before capital grant contributions	16,879	21,014	25,426	24,592	26,738	13,416	19,131	16,236	37,800	50,098
Capital grant contributions	5,033	7,522	12,145	7,150	2,850	4,646	27,350	26,355	20,834	16,077
Change in net position	21,912	28,536	37,571	31,742	29,588	18,062	46,482	42,591	58,634	66,175
Net position, beginning of year	345,772	367,684	396,220	433,791	465,533	495,121	513,183	559,664	602,255	660,889
Net position, end of year	\$ 367,684	\$ 396,220	\$ 433,791	\$ 465,533	\$ 495,121	\$ 513,183	\$ 559,664	\$ 602,255	\$ 660,889	\$ 727,063

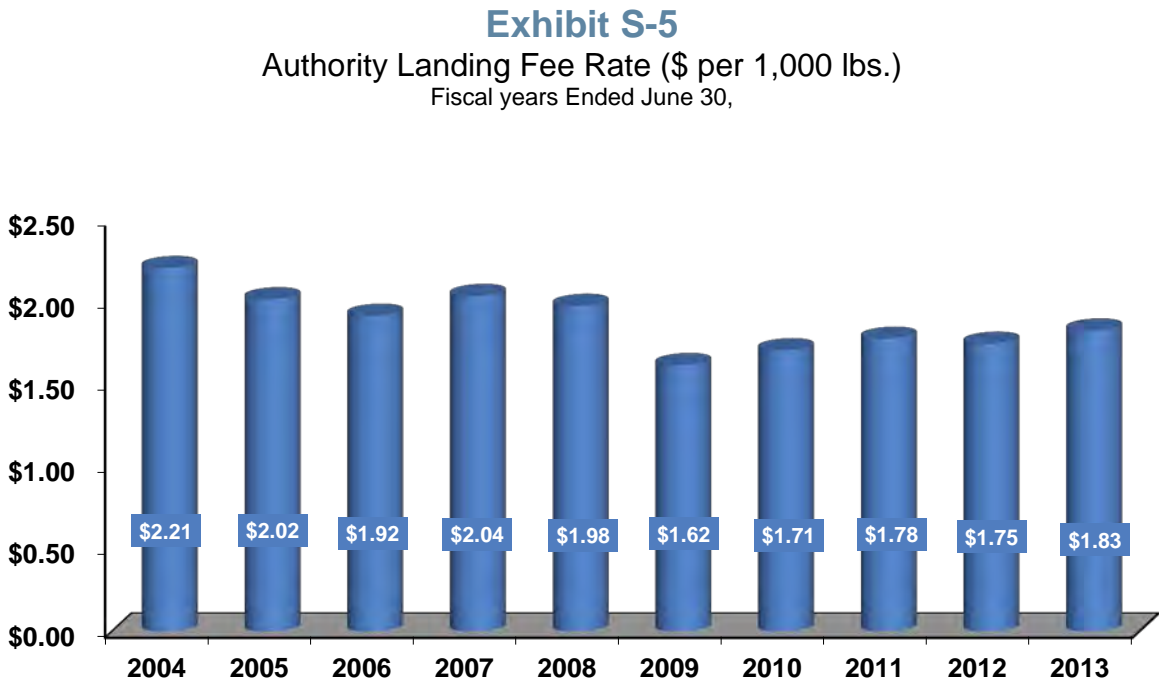
* Restated as per GASB Statement No. 65

Source: San Diego County Regional Airport Authority

Exhibit S-4
Authority Largest Sources of Revenues (\$)
Fiscal Years Ended June 30,

Tenant	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013 % of Total Operating Revenue
Southwest Airlines	\$ 10,692,447	\$ 12,767,378	\$ 13,464,404	\$ 15,624,767	\$ 16,920,722	\$ 17,658,629	\$ 19,428,103	\$ 21,306,108	\$ 23,357,007	\$ 27,598,908	15.5%
United Airlines	4,989,506	5,877,927	5,717,234	6,623,373	6,522,426	6,344,127	7,905,284	9,280,812	10,931,601	15,817,886	8.9%
Delta Airlines	4,774,243	5,010,848	4,876,095	5,347,415	5,168,634	4,647,333	6,663,671	8,003,895	8,911,886	10,898,540	6.1%
American Airlines	7,772,143	8,472,274	10,191,557	8,303,616	7,750,147	5,543,732	7,693,564	7,611,443	8,197,015	9,765,412	5.5%
Host International	7,106,523	8,038,435	9,147,356	9,808,385	10,875,857	9,883,713	9,907,860	10,360,436	10,793,503	6,960,141	3.9%
Enterprise Rent-A-Car	858,956	1,084,031	2,888,849	2,007,684	2,530,192	2,501,720	2,517,682	4,431,129	7,290,392	6,934,784	3.9%
Alaska Airlines	2,027,193	2,400,679	2,464,162	2,843,993	2,800,385	2,754,173	2,951,554	3,482,098	4,265,739	6,167,257	3.5%
Hertz Rent-A-Car	4,901,573	5,316,755	5,979,512	6,728,751	6,860,949	5,816,230	5,861,737	5,635,151	5,795,690	5,961,730	3.4%
US Airways	699,542	672,643	571,874	1,714,362	4,048,246	3,478,789	3,756,383	3,899,253	4,388,522	5,408,046	3.0%
Avis Budget Rent-A-Car Group	3,103,562	4,966,532	6,002,357	4,465,182	6,193,565	5,505,770	3,378,607	3,842,594	4,507,266	4,697,455	2.6%

Source: San Diego County Regional Airport Authority



Source: San Diego County Regional Airport Authority

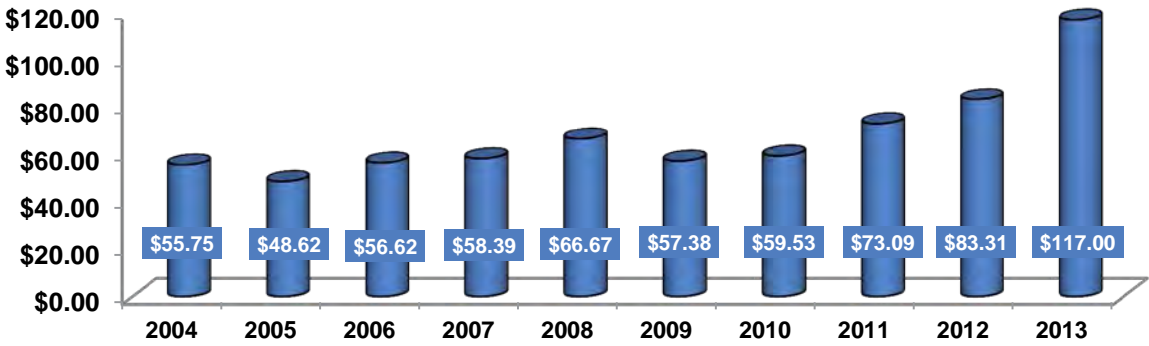
Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

Exhibit S-6
Terminal Rates Billed to Airlines
Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates Per Square Foot*	% Change
2004	\$55.75	14.2 %
2005	\$48.62	(12.8)%
2006	\$56.62	16.5 %
2007	\$58.39	3.1 %
2008	\$66.67	14.2 %
2009	\$57.38	(13.9)%
2010	\$59.53	3.7 %
2011	\$73.09	22.8 %
2012	\$83.31	14.0 %
2013	\$117.00	40.4 %

*Net of janitorial credit

Terminal Rate Per Square Foot



Source: San Diego County Regional Airport Authority

Information presented reflects those years that the Airport Authority was in operation.

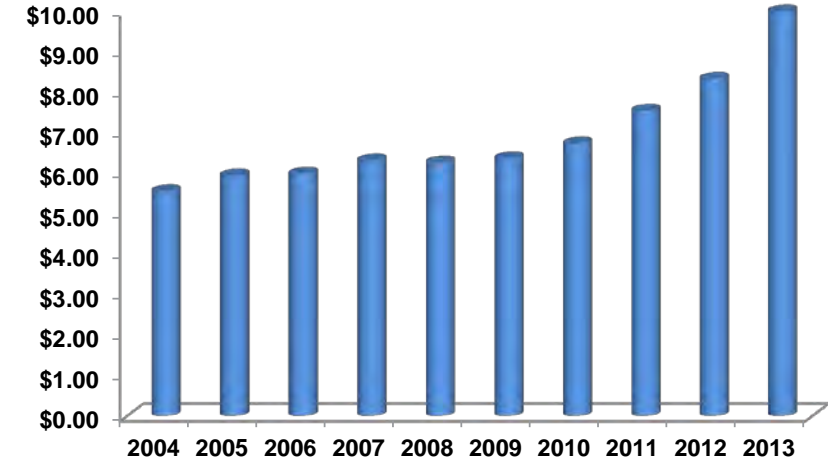
Terminal Rates are rates billed to airlines for the rent of terminal space per square foot.

Beginning with FY 2005, the Security Surcharge was excluded from Terminal Rates and charged separately.

Exhibit S-7
Airline Cost Per Enplaned Passenger
Fiscal Years Ended June 30,

Fiscal Year	Enplaned Passengers	Cost per Enplaned Passenger
2004	7,947,740	\$5.55
2005	8,449,107	\$5.94
2006	8,749,734	\$5.98
2007	8,892,069	\$6.31
2008	9,389,327	\$6.26
2009	8,535,774	\$6.36
2010	8,453,886	\$6.73
2011	8,441,120	\$7.54
2012	8,575,475	\$8.33
2013	8,737,617	\$10.16

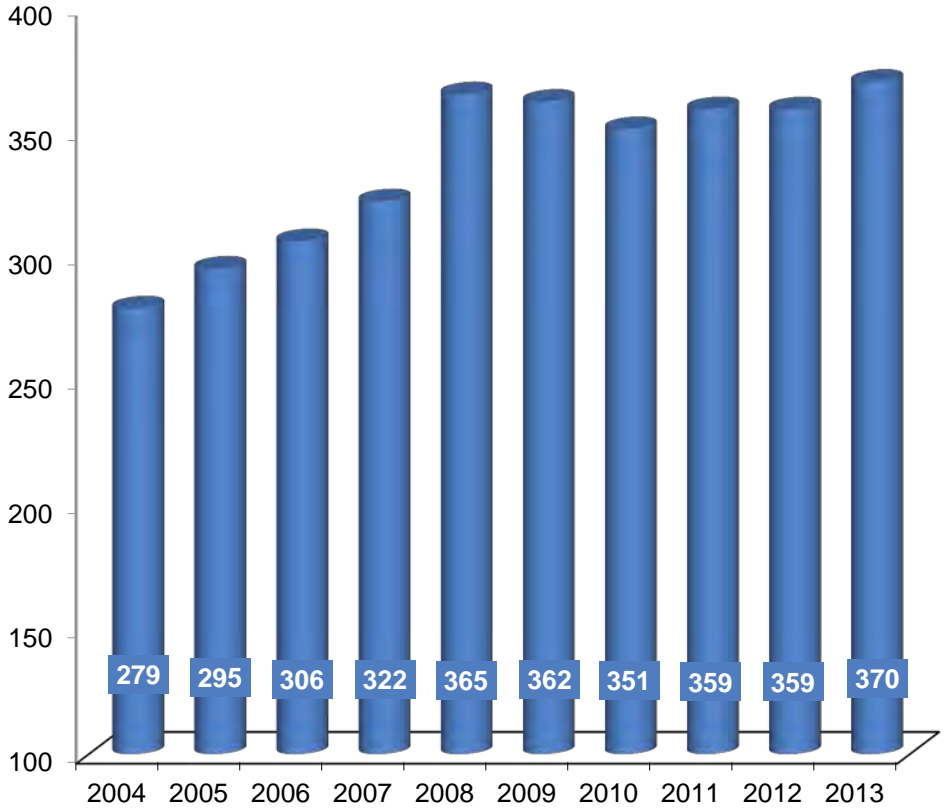
Cost per Enplaned Passenger



Source: San Diego County Regional Airport Authority

Airline Cost per Enplaned Passenger is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.

Exhibit S-8
Authority Employee Headcount
Fiscal Years Ended June 30,



Source: San Diego County Regional Airport Authority

The Airport Authority does not have part-time employees. This chart reflects the average number of employees for the fiscal years shown above.

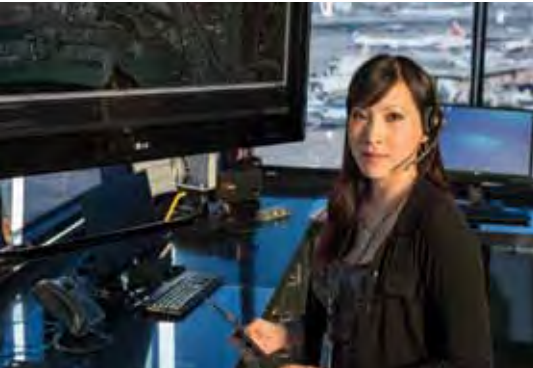
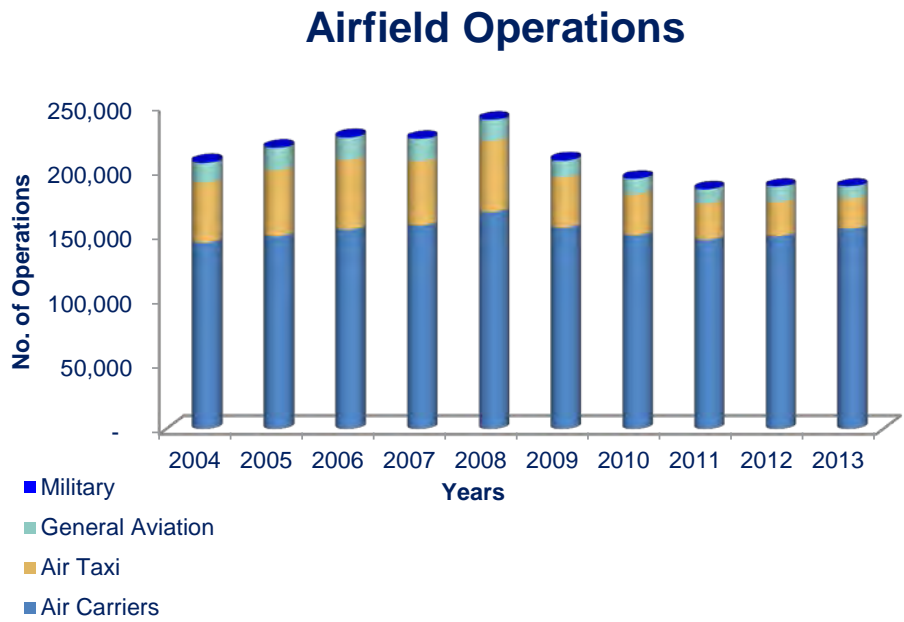


Exhibit S-9
Aircraft Operations (Takeoffs and Landings)
Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
2004	144,156	46,418	15,080	1,761	207,415
2005	148,975	51,377	17,069	1,094	218,515
2006	154,092	54,156	17,383	1,121	226,752
2007	157,198	50,068	17,195	983	225,444
2008	167,753	55,373	16,123	1,040	240,289
2009	155,766	39,122	12,721	1,174	208,783
2010	149,718	32,100	11,674	1,017	194,509
2011	146,215	28,273	10,938	755	186,181
2012	149,104	26,398	12,120	658	188,280
2013	154,781	23,370	9,586	567	188,304

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)

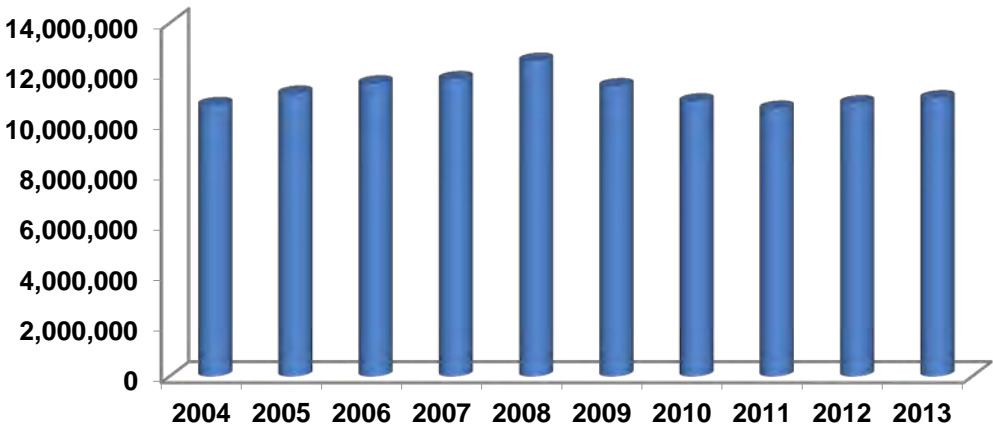


Aircraft operations are the takeoffs and landings at SDIA. They represent the level of demand for air service by the airlines operating at SDIA.

Exhibit S-10
Aircraft Landed Weight
Fiscal Years Ended June 30,

Fiscal Year	Aircraft Landed Weight in 1,000 lbs	% Change
2004	10,748,648	(0.9)%
2005	11,200,204	4.2 %
2006	11,604,873	3.6 %
2007	11,773,957	1.5 %
2008	12,501,191	6.2 %
2009	11,496,758	(8.0)%
2010	10,892,867	(5.3)%
2011	10,606,160	(2.6)%
2012	10,819,902	2.0 %
2013	11,015,716	1.8 %

Aircraft Landed Weights (000 lbs)



Source: San Diego Regional Airport Authority

Landed Weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.



Source: San Diego Regional Airport Authority

Charter airlines are included in the landed weights of the carriers that service them.
Landed weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines’ flight operational manual.
Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.

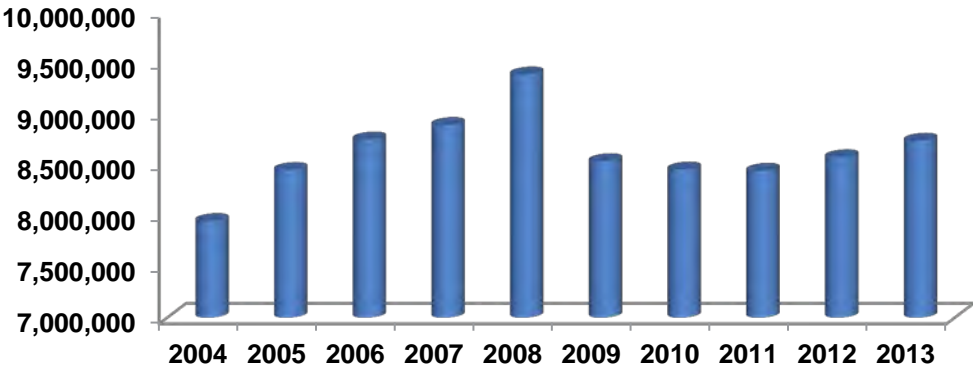
* United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table.

Exhibit S-11
Aircraft Landed Weights by Airline (thousand pounds)
Fiscal Years Ended June 30,

Top 15 Ranked on Fiscal Year 2013 Results																				
Airline	2004	% of Total	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
1 Southwest Airlines	3,418,786	31.8%	3,570,052	31.9%	3,768,374	32.5%	3,956,170	33.6%	4,416,996	35.3%	4,415,780	38.4%	4,068,974	37.4%	4,001,530	37.7%	3,953,536	36.5%	3,907,554	35.5%
2 United Airlines *	1,634,600	15.2%	1,732,536	15.5%	1,767,394	15.2%	1,803,693	15.3%	1,761,692	14.1%	1,670,479	14.5%	1,662,541	15.3%	1,583,372	14.9%	1,502,203	13.9%	1,387,854	12.6%
3 Delta Airlines	963,140	9.0%	927,763	8.3%	850,348	7.3%	798,104	6.8%	839,172	6.7%	713,622	6.2%	893,467	8.2%	1,062,254	10.0%	1,047,068	9.7%	1,023,608	9.3%
4 Alaska Airlines	574,698	5.3%	605,435	5.4%	616,552	5.3%	668,390	5.7%	612,282	4.9%	536,281	4.7%	511,813	4.7%	595,238	5.6%	648,359	6.0%	750,000	6.8%
5 American Airlines	1,045,382	9.7%	1,009,498	9.0%	1,089,872	9.4%	961,143	8.2%	890,796	7.1%	848,513	7.4%	766,151	7.0%	672,059	6.3%	701,126	6.5%	685,836	6.2%
6 US Airways	307,919	2.9%	298,983	2.7%	250,303	2.2%	391,358	3.3%	713,030	5.7%	684,354	6.0%	626,510	5.8%	603,439	5.7%	643,014	5.9%	653,915	5.9%
7 Federal Express	343,931	3.2%	384,702	3.4%	445,744	3.8%	456,152	3.9%	447,636	3.6%	402,665	3.5%	400,303	3.7%	421,239	4.0%	452,453	4.2%	451,797	4.1%
8 Skywest Airlines	239,521	2.2%	247,215	2.2%	251,902	2.2%	246,559	2.1%	195,777	1.6%	219,416	1.9%	332,408	3.1%	338,812	3.2%	306,789	2.8%	428,595	3.9%
9 Virgin America	-	-	-	-	-	-	-	-	3,122	0.02%	221,333	1.9%	205,348	1.9%	173,686	1.6%	208,253	1.9%	235,934	2.1%
10 Spirit Airlines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	98,931	0.9%	208,200	1.9%
11 Frontier Airlines	176,080	1.6%	194,758	1.7%	246,749	2.1%	283,898	2.4%	287,387	2.3%	237,269	2.1%	227,847	2.1%	249,492	2.4%	208,936	1.9%	196,614	1.8%
12 JetBlue Airlines	144,191	1.3%	123,145	1.1%	174,337	1.5%	175,333	1.5%	288,239	2.3%	297,340	2.6%	201,071	1.8%	167,369	1.6%	166,232	1.5%	168,080	1.5%
13 British Airways	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,800	0.1%	167,440	1.5%	163,760	1.5%
14 Hawaiian Airlines	135,040	1.3%	145,920	1.3%	145,920	1.3%	211,840	1.8%	235,200	1.9%	137,145	1.2%	121,600	1.1%	134,080	1.3%	118,088	1.1%	140,637	1.3%
15 United Parcel	-	-	-	-	-	-	-	-	-	-	127,900	1.1%	118,874	1.1%	120,158	1.1%	120,454	1.1%	118,180	1.1%
Subtotal	8,983,288	83.6%	9,240,007	82.5%	9,607,495	82.8%	9,952,639	84.5%	10,691,329	85.5%	10,512,096	91.4%	10,136,906	93.1%	10,136,528	95.6%	10,342,881	95.6%	10,520,566	95.5%
All Others	1,765,360	16.4%	1,960,197	17.5%	1,997,378	17.2%	1,821,318	15.5%	1,810,162	14.5%	984,661	8.6%	755,961	6.9%	469,632	4.4%	477,021	4.4%	495,151	4.5%
TOTAL	10,748,648	100.0%	11,200,204	100.0%	11,604,873	100.0%	11,773,957	100.0%	12,501,491	100.0%	11,496,758	100.0%	10,892,867	100.0%	10,606,160	100.0%	10,819,902	100.0%	11,015,716	100.0%
Annual % Change	-0.9%		4.2%		3.6%		1.5%		6.2%		-8.0%		-5.3%		-2.6%		2.0%		1.8%	

Exhibit S-12
Passenger Enplanements
Fiscal years Ended June 30,

Fiscal Year	Passenger Enplanements	% Change
2004	7,947,440	5.9%
2005	8,449,107	5.9%
2006	8,749,734	3.6%
2007	8,892,069	1.6%
2008	9,389,327	5.6%
2009	8,535,774	(9.1%)
2010	8,453,886	(1.0%)
2011	8,441,120	(0.2%)
2012	8,575,475	1.6%
2013	8,737,617	1.9%



Source: San Diego County Regional Airport Authority

Enplaned passenger is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e., connecting passenger).

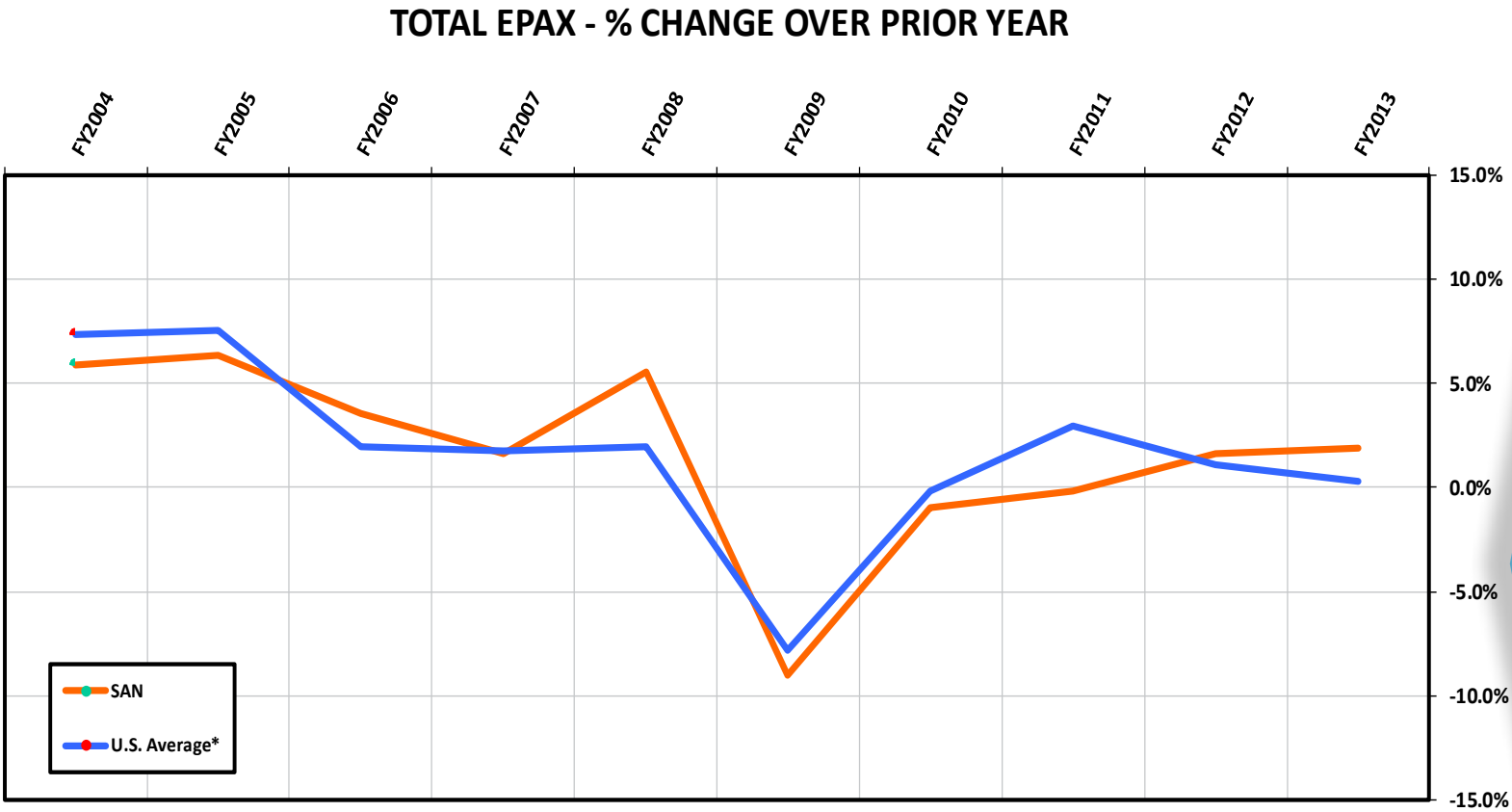
Exhibit S-13
Enplanement Market Share by Airline by Fiscal Year
Fiscal Years Ended June 30,

Air Carrier	2004		2005		2006		2007		2008		2009		2010		2011		2012		2013	
	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share
Aeromexico	47,533	0.6%	49,488	0.6%	58,969	0.7%	39,518	0.4%	32,223	0.3%	27,772	0.3%	24,335	0.3%	—	0.0%	—	0.0%	—	0.0%
Air Canada	—	0.0%	—	0.0%	—	0.0%	55,398	0.6%	55,031	0.6%	27,255	0.3%	46,959	0.6%	58,539	0.7%	56,470	0.7%	45,058	0.5%
AirTran Airways	—	0.0%	—	0.0%	—	0.0%	7,983	0.1%	97,937	1.0%	66,475	0.8%	37,530	0.4%	17,978	0.2%	—	0.0%	—	0.0%
Alaska Airlines	439,430	5.5%	476,395	5.6%	492,891	5.6%	536,784	6.0%	498,169	5.3%	428,515	5.0%	435,722	5.2%	514,498	6.1%	579,457	6.8%	673,731	7.7%
Aloha Airlines	—	0.0%	29,051	0.3%	41,882	0.5%	38,418	0.4%	33,620	0.4%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
America West	450,256	5.7%	466,615	5.5%	451,904	5.2%	374,072	4.2%	78,298	0.8%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
American Airlines	831,823	10.5%	879,144	10.4%	968,832	11.1%	873,624	9.8%	808,790	8.6%	735,067	8.6%	704,909	8.3%	658,752	7.8%	664,466	7.8%	650,826	7.4%
British Airways	16,756	0.2%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	6,912	0.1%	81,437	1.0%	81,534	0.9%
Continental Airlines	354,114	4.5%	401,803	4.8%	454,699	5.2%	503,189	5.7%	520,856	5.5%	503,242	5.9%	507,443	6.0%	496,100	5.9%	—	0.0%	—	0.0%
Delta Airlines	674,570	8.5%	713,872	8.4%	666,101	7.6%	633,772	7.1%	687,104	7.3%	618,127	7.2%	900,510	10.7%	919,323	10.9%	935,777	10.9%	904,734	10.4%
Frontier Airlines	140,846	1.8%	152,917	1.8%	171,544	2.0%	196,598	2.2%	231,926	2.5%	203,689	2.4%	196,628	2.3%	219,008	2.6%	198,708	2.3%	184,020	2.1%
Hawaiian Airlines	101,847	1.3%	108,798	1.3%	112,410	1.3%	154,932	1.7%	160,939	1.7%	100,626	1.2%	90,874	1.1%	98,887	1.2%	86,211	1.0%	94,283	1.1%
Japan Airlines	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18,249	0.2%
JetBlue Airlines	119,517	1.5%	118,762	1.4%	161,594	1.8%	151,984	1.7%	224,205	2.4%	235,199	2.8%	167,031	2.0%	141,684	1.7%	147,051	1.7%	152,571	1.7%
Midwest Airlines	—	—	—	0.0%	18,688	0.2%	34,551	0.4%	42,763	0.5%	8,380	0.1%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
Northwest Airlines	310,795	3.9%	319,790	3.8%	292,393	3.3%	286,952	3.2%	295,724	3.1%	272,684	3.2%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
Southwest Airlines	2,741,470	34.5%	2,866,405	33.9%	2,979,763	34.1%	3,106,431	34.9%	3,306,386	35.2%	3,122,090	36.6%	3,183,084	37.7%	3,277,931	38.8%	3,252,290	38.0%	3,253,225	37.2%
Sun Country Airlines	21,515	0.3%	27,339	0.3%	41,091	0.5%	45,931	0.5%	44,454	0.5%	35,885	0.4%	24,984	0.3%	24,175	0.3%	15,889	0.2%	23,836	0.3%
Spirit	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.9%	164,189	1.9%
United Airlines	939,722	11.8%	982,535	11.6%	989,744	11.3%	990,725	11.1%	978,816	10.4%	927,023	10.9%	920,960	10.9%	878,307	10.4%	1,266,007	14.8%	1,175,869	13.5%
US Airways	241,167	3.0%	251,629	3.0%	212,622	2.4%	300,568	3.4%	552,751	5.9%	563,392	6.6%	512,558	6.1%	523,378	6.2%	535,906	6.3%	560,738	6.4%
Virgin America	—	0.0%	—	0.0%	—	0.0%	—	0.0%	57,292	0.6%	155,649	1.8%	151,110	1.8%	133,377	1.6%	166,326	1.9%	168,297	1.9%
Volaris	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	45,589	0.5%	30,885	0.4%
Other	—	0.0%	8,439	0.1%	27,329	0.3%	8,128	0.1%	47,257	0.5%	25,457	0.3%	51,541	0.6%	37,776	0.4%	43,634	0.5%	43,212	0.5%
Total Air Carrier	7,431,361	93.5%	7,852,982	92.9%	8,142,456	93.1%	8,339,558	93.8%	8,754,541	93.2%	8,056,527	94.4%	7,956,178	94.1%	8,006,625	94.9%	8,153,091	95.1%	8,225,453	94.1%
Commuter	276,485	3.5%	288,843	3.4%	287,136	3.3%	275,087	3.1%	238,147	2.5%	232,289	2.7%	207,272	2.5%	155,421	1.8%	140,574	1.6%	82,377	0.9%
American Eagle	—	0.0%	—	0.0%	—	0.0%	17,603	0.2%	202,429	2.2%	36,034	0.4%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
Express Jet Airlines	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.0%	77,392	0.9%
Horizon	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Mesa Airlines	42,235	0.5%	114,010	1.3%	117,330	1.3%	42,219	0.5%	17,098	0.2%	7,381	0.1%	18,670	0.2%	6,709	0.1%	12,766	0.1%	206	0.0%
Seaport Airlines	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	196	0.0%
SkyWest Airlines	197,359	2.5%	193,272	2.3%	202,812	2.3%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	—	—	0.0%
SkyWest - (American Eagle - LAX)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	62,061	0.7%
SkyWest- Delta Connection	—	0.0%	—	0.0%	—	0.0%	55,646	0.6%	36,610	0.4%	66,783	0.8%	93,380	1.1%	92,818	1.1%	94,644	1.1%	101,456	1.2%
SkyWest- United Express	—	0.0%	—	0.0%	—	0.0%	161,956	1.8%	140,502	1.5%	136,760	1.6%	178,386	2.1%	179,547	2.1%	162,620	1.9%	177,889	2.0%
SkyWest- US Airways	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	5,880	0.1%	10,783	0.1%
Total Commuter	516,079	6.5%	596,125	7.1%	607,278	6.9%	552,511	6.2%	634,786	6.8%	479,247	5.6%	497,708	5.9%	434,495	5.1%	416,484	4.9%	512,164	5.9%
Total Enplanements	7,947,440	100%	8,449,107	100.0%	8,749,734	100%	8,892,069	100%	9,389,327	100%	8,535,774	100%	8,453,886	100%	8,441,120	100%	8,569,575	100%	8,737,617	100%

* United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table starting FY 2012.

Source: San Diego County Regional Airport Authority

Exhibit S-14
Year-Over-Year Percentage Growth in Passenger Enplanements, SDIA vs. US



* U.S. Average is based on T-100 Market Reporting Data from the DOT Bureau of Transportation Statistics.

This chart compares SDIA's year-over-year enplanement change compared to the US scheduled mainline service.

Source: San Diego County Regional Airport Authority and US Dept of Transportation's T-100 enplanement data.
Information presented reflects those years that comparable information is available.

Population & Per Capita Personal Income San Diego County (2000-2010)

Calendar Year	Estimated Population ^[1]	% Change	Per Capita Personal Income ^[2]	% Change	Total Personal Income ^[2]	% Change
2004	3,011,770	1.2 %	38,452	7.2 %	115,808,580,040	9.1 %
2005	3,038,074	0.9 %	40,383	5.0 %	122,686,542,342	5.9 %
2006	3,065,077	0.9 %	42,801	6.0 %	131,188,360,677	6.9 %
2007	3,100,132	1.1 %	45,911	7.3 %	142,330,160,252	8.5 %
2008	3,131,552	1.0 %	46,649	1.6 %	146,083,769,248	2.6 %
2009	3,173,407	1.3 %	42,325	(9.3)%	134,314,451,275	(8.1)%
2010	3,091,579	(2.6)%	43,104	1.8 %	133,259,421,216	(0.8)%
2011	3,118,876	0.9 %	46,767	8.5 %	145,860,473,892	9.5 %
2012	3,128,734	0.3 %	48,265	3.2 %	151,008,346,510	3.5 %

[1] California Department of Finance, E-1 Population Estimates for Cities, Counties and the State, at January 1st of the calendar years shown.

[2] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income, 2011 and 2012 Per Capita Personal Income based on estimate by the California Department of Transportation.



Principal Employers in San Diego County

	2013				2004		
	Local			Percentage of			Percentage of
Employer	Employees	Rank	Sector	Total Industry Employment	Local Employees	Rank	Total Industry Employment
U.S. Federal Government [1]	45,500	1	Government	3.51%	40,700	1	2.80%
State of California	42,900	2	Government	3.31%	38,800	2	2.65%
University of California, San Diego	27,391	3	Education	2.11%	23,225	4	1.47%
Sharp Health Care	15,231	4	Health Care	1.17%	12,945	6	1.19%
County of San Diego	15,050	5	Government	1.16%	16,810	5	0.84%
San Diego Unified School District	14,603	6	Education	1.13%	26,701	3	1.67%
Scripps Health	14,097	7	Health Care	1.09%	10,517	9	0.72%
Qualcomm Inc.	11,400	8	Technology	0.88%	N/A	-	-
City of San Diego	10,057	9	Government	0.77%	12,398	7	0.87%
Kaiser Foundation	7,731	10	Health Care	0.60%	N/A	-	-
				US Postal Service	11,611	8	0.85%
				San Diego State University	6512	10	0.48%

Total Industry Employment in San Diego County (June 2013): 1,297,900

Source: Employers - San Diego Daily Transcript: 2004 & 2013 Book of Lists
Total Industry Employment - California Employment Development Dept.,
Labor Market Info June 2013 - March 2012 Benchmark

[1] U.S. Federal Govt. employment does not include Dept. of Defense employees



Exhibit S-17

San Diego County Employment by Industry Sector

Industry Sectors	June 2013 Industry Employment	% of Total
Trade, Transportation and Utilities	208,900	16.1%
Government	233,600	18.0%
Professional and Business Services	220,500	17.0%
Leisure and Hospitality	168,600	13.0%
Education and Health Services	159,300	12.3%
Manufacturing	91,900	7.1%
Construction and Mining	58,000	4.5%
Financial Activities	71,000	5.5%
Other Services	51,200	3.9%
Information	24,700	1.9%
Agriculture	10,200	0.8%
Total	1,297,900	

Source: California Employment Development Dept., Labor Market Info: Industry Employment & Labor Force, March 2011 Benchmark

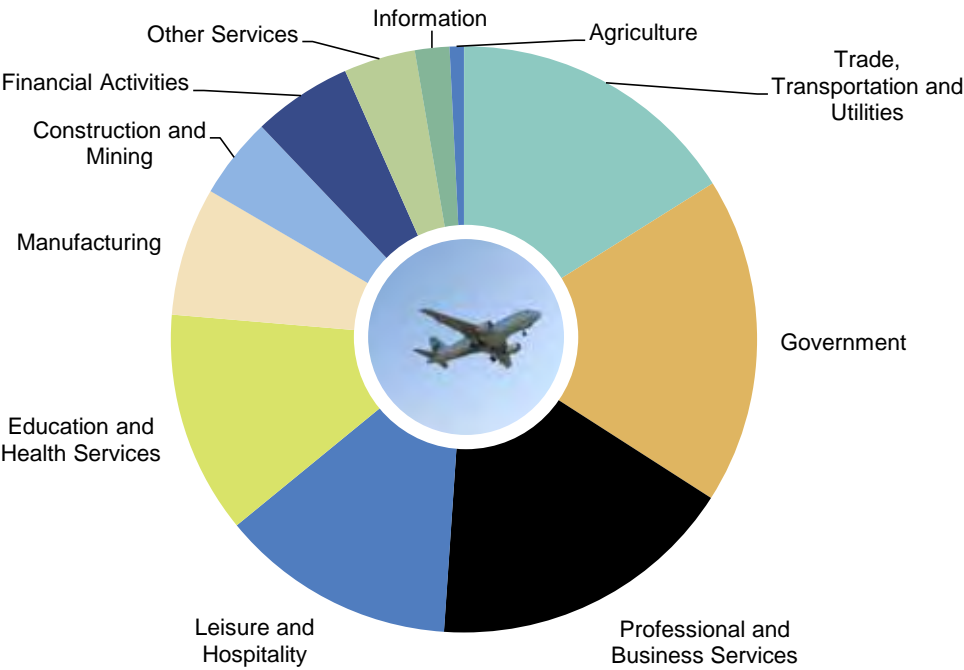


Exhibit S-18

Labor Force, Employment and Unemployment Rates

Year	Labor Force	Employment	Unemployment	Unemployment Rate	
				SD County	State
2004	1,490,781	1,421,700	70,700	4.7%	6.2%
2005	1,505,892	1,442,700	65,100	4.3%	5.4%
2006	1,520,474	1,457,500	60,500	4.0%	4.9%
2007	1,542,445	1,471,600	70,900	4.6%	5.4%
2008	1,548,700	1,462,300	92,900	6.0%	7.2%
2009	1,554,100	1,406,100	151,300	9.7%	11.4%
2010	1,558,200	1,393,900	164,300	10.5%	12.4%
2011	1,583,700	1,419,400	164,300	10.4%	10.7%
2012	1,598,800	1,450,600	148,200	9.3%	10.7%
*2013	1,611,200	1,492,300	118,900	7.4%	8.9%

Source: California Employment Development Dept.

* Labor Market Information Division, March 2012 benchmark, per June 2013 revised report, Unemployment Rate and Labor Force, not seasonally adjusted



Exhibit S-19
Debt Service Coverage

Senior Bonds	2004	2005	*2006	2007	2008	2009	2010	**2011 ⁽⁶⁾	2012	2013
Revenues ⁽¹⁾	\$ 99,190,423	\$ 112,104,190	\$ 123,308,672	\$ 133,924,976	\$ 144,379,133	\$ 138,334,601	\$ 138,113,792	\$ 148,963,673	\$ 158,311,779	\$ 181,051,929
Operating and Maintenance Expenses	82,489,503	89,337,926	97,675,011	103,942,210	114,375,096	115,221,068	116,275,132	117,100,946	118,941,148	126,662,546
Net Revenues ⁽²⁾	16,700,920	22,766,264	25,633,661	29,982,766	30,004,037	23,113,533	21,838,660	31,862,727	39,370,631	54,389,383
Senior Bond Debt Service ⁽³⁾										
Principal	2,245,000	2,355,000	5,995,000	2,670,000	2,805,000	2,950,000	3,105,000	3,265,000	3,430,000	-
Interest	3,308,606	3,197,029	2,949,705	2,665,725	2,532,225	2,391,975	2,244,475	2,089,225	1,925,975	2,478,489
PFCs used to pay debt service	-	-	-	-	-	-	-	-	-	(714,077)
Total Debt Service for the Senior Bond	5,553,606	5,552,029	8,944,705	5,335,725	5,337,225	5,341,975	5,349,475	5,354,225	5,355,975	1,764,412
Senior Bonds Debt Service Coverage (x)	3.01	4.10	2.87	5.62	5.62	4.33	4.08	5.95	7.35	30.83
Subordinate Debt										
Subordinate Net Revenues ⁽²⁾								\$ 26,508,500	\$ 34,014,656	\$ 52,624,971
Subordinate Annual Debt Service ⁽⁴⁾										
Principal								715,000	980,000	1,000,000
Interest								2,971,984	6,599,760	26,194,616
Commercial Paper								1,220,226	1,077,867	5,519,872
PFCs used to pay debt service								-	-	(20,061,962)
Total Subordinate Annual Debt Service								\$ 4,907,210	\$ 8,657,627	\$ 12,652,526
Subordinate Obligations Debt Service Coverage (x)								5.40	3.93	4.16

Source: San Diego County Regional Airport Authority

- * The increase in debt service requirements in 2006 was due to principal and interest payments required on both the Airport Revenue Bonds, Series 1995 and the Airport Revenue Refunding Bonds, Series 2005.
- ** The increase in the 2011 debt service requirements is due to the a new bond issued October 2010.

- (1) Revenues are calculated pursuant to the provisions of the Master Senior Indenture and the Master Subordinate Indenture.
- (2) Net Revenues and Subordinate Net Revenues are calculated pursuant to the provisions of the Master Senior Indenture and Master Subordinate Indenture, as appropriate.
- (3) Debt service with respect to the Senior Bonds is calculated pursuant to the provisions of the Master Senior Indenture.
- (4) Subordinate Annual Debt Service is calculated pursuant to the provisions of the Master Subordinate Indenture.
- (5) Includes principal and interest.
- (6) Information regarding Subordinate Obligations Debt Service Coverage provided in connection with the first fiscal year for which Subordinate Annual Debt Service was due with respect to the 2010 Bonds. Subordinate Annual Debt Service for prior years consisted of debt service on the Airport Authority's Subordinate Commercial Paper Notes and is not presented for Fiscal Years 2004-2010.

Exhibit S-20
Debt Per Enplaned Passenger

Fiscal Year	Outstanding Revenue Bond Debt	Outstanding Commercial Paper Debt	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
2004	\$ 62,960,000	\$ 51,694,000	\$ 114,654,000	7,947,440	\$ 14.43
2005	60,605,000	51,694,000	112,299,000	8,449,107	13.29
2006	56,270,000	51,694,000	107,964,000	8,749,734	12.34
2007	52,755,000	51,694,000	104,449,000	8,892,069	11.75
2008	50,085,000	49,430,000	99,515,000	9,389,327	10.60
2009	47,280,000	84,430,000	131,710,000	8,535,774	15.43
2010	44,330,000	164,430,000	208,760,000	8,453,886	24.69
2011	613,790,000	21,509,000	635,299,000	8,441,120	75.26
2012	609,810,000	20,729,000	630,539,000	8,575,475	73.53
2013	950,455,000	50,969,000	1,001,424,000	8,737,617	114.61

Source: San Diego County Regional Airport Authority

Exhibit S-21
Capital Assets

San Diego International Airport

Number of runways	1
Length of runway (feet)	9,401 feet
Gates	47
Commuter plane parking positions	10
Terminal square footage	904,523
Airport land area	661 acres
On-airport parking spaces (public)	2,053
Off-airport parking spaces (public)	3,599

Source: San Diego County Regional Airport Authority

The parking spaces shown above are controlled and operated by the Airport Authority and reported on a weighted-average basis.

The terminal square footage is a weighted-average figure that reflects the additional square footage constructed by the Green Build program and placed into service mainly in the last quarter of the fiscal year.





SAN DIEGO
INTERNATIONAL
AIRPORT



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SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
4

Meeting Date: **NOVEMBER 18, 2013**

Subject:

Quarterly Audit Activities Report – Fiscal Year 2014 First Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

Background/Justification:

The Charter of the Office of the Chief Auditor (OCA), as approved by the Board, established the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and Authority management. The Charter directs the Office of the Chief Auditor to provide periodic communications and presentations to the Audit Committee with respect to management's systems of control, audit findings, management's responses, and including any steps adopted to resolve a noted issue.

The attached Fiscal Year 2014 First Quarter Report (Attachment A), hereby filed by the Chief Auditor, summarizes the activities and accomplishments of his office from July 1, 2013, through September 30, 2013.

During the first quarter, the Office of the Chief Auditor completed eleven (11) audits of the Fiscal Year 2014 Audit Plan and issued nine (9) recommendations. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix C of the activity report.

Fiscal Impact:

None

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

1. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA, Cal. Pub. Res. Code §21065.
2. This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FY14 FIRST QUARTER REPORT

November 5, 2013



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

November 5, 2013

FY14 First Quarter Report

Tom Smisek, Chair
Audit Committee
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, California 92138-2776

Dear Mr. Smisek:

As requested by the Audit Committee, we present our Fiscal Year 2014 First Quarter Report. The report details the audit and the administrative activities of the Office of the Chief Auditor (OCA) during the first quarter of FY14, and includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The First Quarter Report will be presented at the next Audit Committee meeting, scheduled for November 18, 2013.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark A. Burchyett", is written over a horizontal line.

Mark A. Burchyett
Chief Auditor

Audit Results

During the first quarter, the Office of the Chief Auditor (OCA) continued to work on audits contained within the FY14 audit plan as authorized by the Audit Committee. In total, during the first quarter, the OCA completed eleven (11) audits. For the month of September, we issued one (1) audit report, for which an audit snapshot is located in Appendix A; and, in addition, we issued one audit memo. The audit report did not include any recommendations, leaving the total recommendations issued during the first quarter at nine (9). The completed audits are listed in Figure 1 below and the status of recommendations is presented on Page 2.

Figure 1: Audits Completed During the First Quarter of Fiscal Year 2014

Audit	Report No.	Date	Type of Audit
Aircraft Rescue & Fire Fighting Expense Billings - FY11 and FY12	13026	7/1/2013	Expense Contract
AECOM Expense Review	13030	7/18/2013	Expense Contract
Agreements with Expenditure Limits Not to Exceed \$100,000	14030	7/29/2013	Internal Process
Energy Usage Performance	13001	8/2/2013	Internal Process
Gate Gourmet, Inc.	13022	8/16/2013	Revenue Contract
AMEC Environmental and Infrastructure, Inc.	14014	8/16/2013	Expense Contract
San Diego Unified Port District Billings - FY12	13033	8/26/2013	Expense Contract
Leigh Fisher, Inc.	14008	8/29/2013	Expense Contract
Board Member and Executive Business Expenses	14027	8/29/2013	Internal Process
Special Request Audit of ASIG - Aircraft Service International Group, Inc.	MEMO	9/5/2013	Revenue Contract
SOLPAC Construction, Inc. dba Soltek Pacific Construction Company	14009	9/12/2013	Expense Contract

In addition to the completed audits, the Office of the Chief Auditor had 11 audits in progress as of September 30, 2013, as shown in Figure 2 below:

Figure 2: Audits In-Progress as of September 30, 2013

Audit	Type of Audit
Abadjis Systems, Ltd	Expense Contract
Bradford Airport Logistics	Expense Contract
DTG Operations, Inc.	Revenue Contract
Landmark Aviation GSO-SAN, LLC	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue Contract
Nolte Associates	Expense Contract
Simply Wheelz, LLC dba Advantage Rent-A-Car	Revenue Contract
Sky Chef, Inc. dba LSG Sky Chefs	Revenue Contract
Social Media Control and Performance	Internal Process
The Hertz Corporation	Revenue Contract

Of the 11 in-progress audits above, one (1) has been completed and a draft audit report has been issued to the affected Department for review and comment. That audit will be issued in October.

Recommendation Follow-Up

To ensure that audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. For the last month in the quarter, the OCA tracked the implementation status of 17 recommendations that were issued during FY14, or were outstanding as of June 30, 2013. As shown by Figure 3 below, five (5) of the recommendations have been completed or implemented, while twelve (12) remain outstanding.

See Appendix C for a complete listing of all outstanding recommendations and their status.

Figure 3: Status of Recommendations as of September 30, 2013

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
17	5	11	1	0

In tracking recommendations the OCA uses the following designations:

- **Completed:** This designation is used for recommendations that the OCA has determined to be adequately implemented or for recommendations where alternate action was taken that adequately addresses the risk identified.
- **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken. If adequate progress is not being made, it will be noted as such.
- **Open:** This category of recommendations have not yet been addressed. Usually, this designation is used when there has not been adequate time between report issuance and recommendation follow-up.
- **Not Accepted:** This designation is used for recommendations that an auditee does not accept and, therefore, will not implement¹. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

It appears that adequate progress is being made with the majority of recommendations, and the OCA will continue its monthly updates of their status. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse effect on the Authority.

¹ During the August 19, 2013, Audit Committee Meeting, the Committee requested that Authority management provide written explanation directly to the Audit Committee on recommendations that were not accepted by the auditee.

Non-Audit Activities

Along with the audit activities detailed above, the OCA continues its involvement in several non-audit projects and activities. Specifically, during the first quarter of FY14 the OCA was involved in the following:

Audit Committee:

The Audit Committee met on August 19, 2013. At that meeting the Committee received an update on the Construction Audit activity, and received a presentation of the OCA's annual report for Fiscal Year Ending 2013. The Audit Committee's annual report was also submitted. The next meeting is scheduled for November 18, 2013.

Construction Audit Activity:

For the first quarter of Fiscal Year 2014, the OCA continued its Construction Audit activity separate from its Annual Audit Plan. The R. W. Block Consulting, Inc. contract was extended until May 2014 to provide additional advice and guidance as needed. Task Authorization #4 was completed in May 2013.

During the quarter, the OCA Construction Auditor began reviewing the Turner-PCL-Flatiron contract. The initial focus is on the procurement of the contract and review of the Guaranteed Maximum Price amendments for Airside and the Baggage Handling Systems. The concentration of audit work is on the compliance with the requirements of the related FAA grants and the Other Transaction Agreement with the Department of Homeland Security.

The OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team and by Authority Management, giving assistance and attending meetings specific to the aspects of the Authority's construction activity. Formal updates are presented to the Audit Committee and to the Capital Improvement Program Oversight Committee during most of their regularly scheduled meetings.

Ethics Compliance Program:

The OCA continues to man the Authority hotline system including e-mail and voicemail. See Appendix B, Ethics Hotline Call Summary, for a listing of calls received during the quarter.

Training:

During the quarter staff performed numerous training activities to both maintain professional licensures and to stay up to date on current trends. Specifically:

- Auditors completed a total of 15 webinars that covered specific audit topics including Enterprise Risk Management, Cloud security, and risk.
- One auditor attended an all-day Institute of Internal Auditors Fraud Seminar.

Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY14, along with their current status, are detailed below in Figure 4.

Figure 4: Status of Performance Measures as of September 30, 2013

Performance Measure	Goal	Progress as of September 30, 2013
Percentage of the audit plan completed annually	100%	26%
Additional revenue/cost savings identified through audits	n/a	\$486,517
Percentage of staff time spent on audit activities	80% ²	86%
Percentage of audits completed within budgeted time	80%	73%
Implementation of Recommendations	90%	29%

Percentage of the audit plan completed annually: This measure provides information on what has been accomplished regarding the planned audit projects for the year. To date, the OCA has completed 26% of the plan and an additional 26% of the audit plan is currently in-progress. We also have established quarterly goals for the completion of our audit plan. For the third quarter, we had a completion goal of 29% of the audit plan. We fell just short of this goal due to going over budget on two audits. Regardless, we should be able to meet our second quarter goal of completing 55% of the plan by December 31, 2013.

Additional revenue/cost savings identified: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. During the first quarter we identified a net total of \$486,517, as shown in Figure 5 below and the Soft Savings estimate as of September 30, 2013, in Figure 6.

Figure 5: Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report	Title	Amount Identified
13026	Aircraft Rescue & Fire Fighting Expense Billings – FY 2011 and FY 2012	\$430,408
13033	San Diego Unified Port District Billings - FY 2012	\$56,109
Total		\$486,517

² This percentage is the percentage of time staff spends on audit projects, construction audit activities, training, and the ethics program, vs. total staff time worked.

Figure 6: Soft Savings Estimate as of September 30, 2013

Audit	Savings	Comments	Status
AECOM Expense Review Report #: 13030 Type: Annual	\$231,270	Twenty-eight (28) continue to work as consultants in FDD under the three new on-call program management and support service providers. Of these, twelve (12) consultants have been working at the Authority for more than five years, two of which have been employed since the Authority split from the San Diego Unified Port District on January 1, 2003. Assuming the 3 positions that have been contracted out since 2003 could be transitioned to Authority employees, and savings of \$77,090 ³ per year, total annual savings would be \$231,270 (3 * \$77,090).	Management is evaluating this observation, but there are no plans or actions have been taken to date.
San Diego Unified Port District Billings – FY12 Report #: 13033 Type: Annual	\$37,000	We recommended that the Authority contract with a local mechanic to perform the service and maintenance needed on the Harbor Police Department (HPD) Airport vehicles. The maintenance and repairs services provided by the District's General Services personnel at the rate of \$137 per hour appear to be excessive, and should be discontinued in favor of an external service provider. Assuming 1,000 hours of maintenance, and assuming that services could be obtained at a rate of \$100 per hour, costs savings would be \$37,000 [(137-100) * 1,000].	The Aviation Security & Public Safety Department will research the cost/ benefit of contracting with a local mechanic to perform the maintenance needed on HPD Airport vehicles to determine potential cost savings, as well as repair/ maintenance quality and timeliness.
ASIG – Aircraft Service International Group, Inc. Report #: 13036 Type: Special Request	\$2,620	Aircraft Service International Group, Inc. (ASIG) inquired with the AvCom Department regarding possible errors in the calculations of license and fuel flowage fees during 2010, 2011, and 2012. AvCom requested the OCA conduct an audit to verify accuracy of fees paid during the 3-year period. After preliminary audit work and records requests from the OCA to ASIG, ASIG did not pursue the claim of overpayments made and did not provide the financial reports and supporting documentation. Therefore, OCA did not conduct any further work on the special request audit.	OCA considers the special request audit completed, and ASIG has dropped its claim.
Total Soft Savings:	\$270,890		

³ In previous audits we noted that the cost savings of Authority employees versus various Consultants was between \$4,938 and \$149,242 per position, resulting in an average savings per position of \$77,090.

Performance Measures (cont.)

Percentage of staff time spent on audit activities: This measure helps ensure that the OCA spends an adequate amount of time on audit activities rather than administrative activities. To date, the OCA is over its current goal of 80%.

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. For the fiscal year to date, the OCA has completed 73% of its projects within the budgeted amount of time, which is slightly below the goal.

Implementation of Recommendations: This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the First Quarter, five (5) of 17 recommendations were implemented. We are on track to achieve 90% of our recommendations implemented within the Fiscal Year.

Going Forward

During the Second Quarter of FY14 the OCA has targeted eleven (11) of the audits currently in progress as well as one (1) additional audit for completion. The completion of these audits will result in the accomplishment of 55% of the FY14 audit plan. Figure 7 identifies the audits scheduled for completion in the Second Quarter.

Figure 7: Audits Scheduled for Completion in the Second Quarter of Fiscal Year 2014

Audit	Type of Audit
Abadjis Systems, Ltd.	Expense Contract
Bradford Airport Logistics	Expense Contract
DAL Global Services, LLC	Revenue Contract
DTG Operations, Inc.	Revenue Contract
Landmark Aviation GSO-SAN, LLC	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue Contract
Nolte Associates	Expense Contract
Simply Wheelz, LLC dba Advantage Rent-A-Car	Revenue Contract
Sky Chef, Inc. dba LSG Sky Chefs	Revenue Contract
Social Media Control and Performance	Internal Process
The Hertz Corporation	Revenue Contract

SOLPAC Construction, Inc. dba Soltek Pacific Construction Company

Report Number 14009, September 2013

Background

The Authority entered into two Agreements with SOLPAC Construction, Inc., dba Soltek Pacific Construction Company (SOLPAC), on November 3, 2011. The Agreements were overseen by the Authority Facilities Development Department (FDD), and provided for construction services related to the build-out of Terminal 2 East. Agreement 208531OG has a term of December 15, 2011, to December 3, 2013, with a maximum compensation of \$5,958,000 and Agreement 208829OG has a term of December 3, 2012, to December 3, 2013, and a maximum compensation of \$11,941,000.

During our audit period of December 15, 2011, through June 30, 2013, the Authority compensated SOLPAC \$4,542,320 for services provided under Agreement 208531OG, and \$2,318,438 for services provided under Agreement 208829OG.

The objective of the audit was to review the selection, management, and monitoring of the SOLPAC Agreements to ensure compliance with the Authority's policies and procedures. Additionally, we reviewed FDD processes to determine whether adequate internal controls were established and functioning to safeguard the Authority and ensure proper accounting of Authority funds.

Audit Results

Audit work performed showed that the Authority followed proper policies and procedures when selecting and awarding the Agreements to SOLPAC. Invoices submitted by SOLPAC contained proper approval prior to payment, and reimbursements complied with all terms of the Agreements. Additionally, the audit determined that FDD processes used to monitor the Agreements and the deliverables incorporate proper internal controls, which effectively ensure that the services provided to the Authority, and the expenses incurred during the delivery of those services, adhere to the specifications within the Agreements.

The audit did not identify any reportable conditions or findings and, as such, we issued no recommendations.

Ethics Hotline Call Summary
July – September 2013

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>New Construction</i>	21	18	0	n/a	3
<i>Terminal 2 Gala</i>	15	14	0	n/a	1
<i>Advertising</i>	7	4	0	n/a	3
Potential Misuse of Resources					
<i>Misuse of Confidential Information</i>	1	1	1	Yes (1)	0
Employee Barbeque	12	5	0	n/a	7
Acceptance of Gifts	2	0	0	n/a	2
Non Ethics Related Concerns					
ATO Practices and Behavior	13	9	0	n/a	4
TSA Practices and Behavior	8	7	0	n/a	1
Aircraft Noise	3	3	0	n/a	0
Workplace Concerns					
Workplace Practices/Behavior	12	7	0	n/a	5
Performance Reviews	11	4	0	n/a	7
Workplace Equitability	5	3	0	n/a	2

(1) Issue being investigated.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2013	OCA's Assessment	Estimated Completion Date
11-10	GROUND TRANSPORTATION DEPARTMENT	Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program	20	Impact: 10 Probability: 10	To ensure the accurate recording of all ground transportation activities at SDIA, the Ground Transportation Department should upgrade or replace the Automated Vehicle Identification (AVI) system. Once the AVI system is updated or replaced, the trip fee payment process should be automated. The AVI system data would be uploaded daily to a website accessible to the taxicab operators to allow them to track and download the trip data per taxicab. Monthly, the Ground Transportation Department would lump sum bill the activity to the taxicab companies. This would eliminate an unnecessary risk of misappropriation of Authority assets and the reliance on LPI employees to properly record and account for the collections.	The capital expenditure for the Automated Vehicle Identification (AVI) and the automated trip coupon was approved at the June Board Meeting. As such, we are moving forward to define the technical requirements and to initiate a Request for Proposal.	In Progress	June 1, 2014
13-14	AVIATION & COMMERCIAL BUSINESS DEPARTMENT	Audit Report #13019 dated January 9, 2013, Fox Rent A Car	18	Impact: 10 Probability: 8	In order to address the concerns regarding under-reported gross revenue, we recommend that Aviation & Commercial Business (AvCom) request that the Accounting Department invoice Fox in the amount of \$268,169 for underpayment of license fees.	Fox paid the full amount of the invoiced underpayment on September 18, 2013.	Completed	N/A
14-01	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	18	Impact: 9 Probability: 9	We recommend that Airside Ops require the City of San Diego to provide the supporting documentation annually with the Cost Allocation Plan (CAP). Airside Ops can then analyze the costs to ensure those included in the CAP meet the standards of the FAA Policy in a more timely manner.	The City provided additional supporting documentation to the Authority on October 25, 2013. The Authority is reviewing the supporting documentation with the City to verify that it is accurate and complete. Airside Ops will use the supporting documentation to analyze the annual Cost Allocation Plan (CAP) from the City, to ensure that the CAP meets the standards of FAA Policy.	In Progress	Unknown

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2013	OCA's Assessment	Estimated Completion Date
14-02	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	18	Impact: 10 Probability: 8	We recommend that Airside Ops notify the City of San Diego concerning the Fiscal Years 2011 and 2012 over-billings for overhead costs and determine the most appropriate method to receive the \$430,408 owed to the Authority.	The Authority invoiced the City for \$430,408. In a letter to the Authority dated October 25, 2013, the City agreed to reimburse the Authority \$430,408 through a credit from outstanding FY 2013 ARFF Services Invoices.	In Progress	Unknown
13-12	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #11024 dated December 5, 2012, Aircraft Rescue & Fire Fighting Expense Billings - FY 2010	17	Impact: 10 Probability: 7	We recommend that the Airside Operations Department (OPS) notify the City concerning the Fiscal Year 2010 over-billing for ARFF services and determine the most appropriate method for the Authority to receive the additional \$222,823 owed to the Authority.	In a letter to the Authority dated October 25, 2013, the City agreed to reimburse the Authority \$222,823 through a credit from outstanding FY 2013 ARFF Services invoices.	In Progress	Unknown
13-11	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #11024 dated December 5, 2012, Aircraft Rescue & Fire Fighting Expense Billings - FY 2010	16	Impact: 9 Probability: 7	We recommend that the Airside Operations Department (OPS) notify the City concerning the Fiscal Year 2010 over-billing for overhead costs and determine the most appropriate method for the Authority to receive the \$160,139 owed to the Authority.	In a letter to the Authority dated October 25, 2013, the City agreed to reimburse the Authority \$160,139 through a credit from outstanding FY 2013 ARFF Services invoices.	In Progress	Unknown
14-04	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	16	Impact: 8 Probability: 8	Airside Ops should obtain a detailed explanation of the calculation of the benefit rate for each level of ARFF personnel used for billing purposes each year. Due to the variances noted in the FY 2011 and FY 2012 audit, we recommend this rate should be compared to the actual cost of the ARFF personnel for at least one invoice every six months to determine the reasonableness of the rate for the hours billed compared to the actual cost of the benefits.	The City provided this information to the Authority on October 25, 2013, and the Authority Office of the Chief Auditor (OCA) is reviewing the calculations. Once agreed to by the OCA and the City, this rate will be used in future ARFF invoices. At least once every six months, this rate will be compared to the actual costs to determine reasonableness of the rate for hours billed compared to the actual cost of benefits.	In Progress	Unknown

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2013	OCA's Assessment	Estimated Completion Date
14-07	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #13033 dated August 26, 2013, San Diego Unified Port District Billings - Fiscal Year 2012	16	Impact: 8 Probability: 8	We recommend that the Aviation Security & Public Safety Department notify District staff concerning the Fiscal Year 2012 under-billing for Harbor Police Department services and determine the most appropriate method for the Authority to remit the additional \$747,237 owed to the District.	Management will meet to review the amount owed to the Port and determine the most appropriate method for the Authority to remit the additional \$747,237 owed to the District.	In Progress	Unknown
12-38	GROUND TRANSPORTATION DEPARTMENT	Audit Report #12001 dated April 25, 2012, Public Parking	15	Impact: 8 Probability: 7	Policies and procedures should be developed and instituted by Ground Transportation, the Planning and Operations division, and the Finance Division regarding all areas of public parking management.	Development of the policies and procedures are underway and remain on schedule.	In Progress	December 1, 2013
13-15	AVIATION & COMMERCIAL BUSINESS DEPARTMENT	Audit Report #13019 dated January 9, 2013, Fox Rent A Car	15	Impact: 7 Probability: 8	In order to address the under-reported unique rental transactions, we recommend that Aviation & Commercial Business (AvCom) request that the Accounting Department invoice Fox in the amount of \$147,365 for underpayment of Customer Facility Charges (CFCs).	Fox paid the full amount of the invoiced underpayment on September 18, 2013.	Completed	N/A
14-08	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #13033 dated August 26, 2013, San Diego Unified Port District Billings - Fiscal Year 2012	15	Impact: 7 Probability: 8	Expenses that are not allowed per the contract should continue to be deducted and should not be repaid. Any exceptions to the Service Level Agreement should be approved before the expenses are incurred. We recommend that any subsequent negotiations and decisions regarding payment of disallowed expenses should be performed by the Director of Aviation Operations & Public Safety.	Expenses that are not allowed per the contract and/or the MOU will be deducted and not repaid. All exceptions to the SLA will be approved in writing before expenses are incurred. Subsequent negotiations and decisions regarding payment of disallowed expenses will be performed at the Vice President and/or Director level of the Operations and/or Finance Divisions.	Completed	N/A

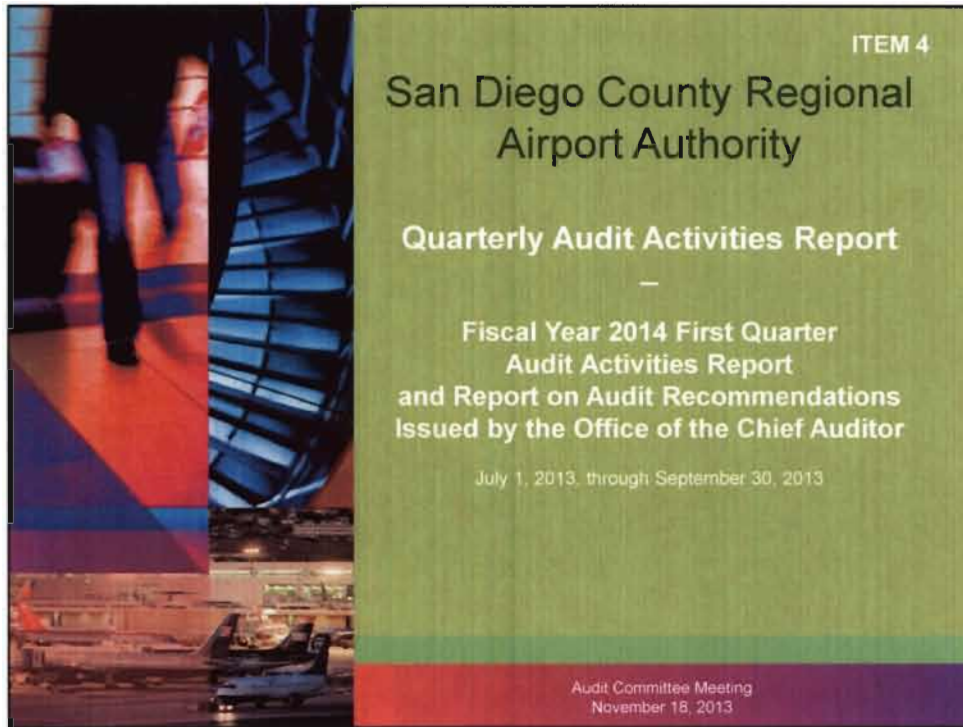
NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2013	OCA's Assessment	Estimated Completion Date
14-03	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	14	Impact: 7 Probability: 7	We recommend that Airside Ops require the City of San Diego to maintain an accurate TeleStaff Report for the ARFF station on a daily basis. This report should be submitted monthly with the ARFF services invoice as supporting documentation of the actual staffing for which the City is billing.	ARFF staffing is documented on a daily basis. The documentation is reviewed on a monthly basis for each ARFF invoice period. The hourly wages, overtime and labor load for each staff position is also provided by the City on an annual basis. Airside Operations uses this documentation to verify the monthly ARFF labor reimbursements. Airside Operations does not have access to, or any authority over the City TeleStaff system and, as such, cannot establish management requirements for this City system and associated records.	In Progress	Unknown
13-25	AVIATION & COMMERCIAL BUSINESS DEPARTMENT	Audit Report #13025 dated April 23, 2013, GAT Airline Ground Support Services, Inc.	13	Impact: 6 Probability: 7	The Aviation and Commercial Business Department should initiate a request to Accounting to invoice GAT for \$42,737 for underpayment of license fees due to underreporting of revenue from July 2007 through April 2008.	Invoices were previously issued to GAT for the underpayment. GAT submitted an appeal on September 13, 2013, which is under review by staff and General Counsel.	In Progress	Unknown
13-26	AVIATION & COMMERCIAL BUSINESS DEPARTMENT	Audit Report #13025 dated April 23, 2013, GAT Airline Ground Support Services, Inc.	12	Impact: 5 Probability: 7	The Aviation and Commercial Business Department should initiate a request to Accounting to invoice GAT for \$9,164 for underpayment of license fees due to revenue adjustments identified by GAT for the length of the audit period.	Invoices were previously issued to GAT for the underpayment. GAT submitted an appeal on September 13, 2013, which is under review by staff and General Counsel.	In Progress	Unknown
14-05	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	11	Impact: 6 Probability: 5	We recommend that the Operations Division consider adding a Senior Contract Administrator/Analyst position specifically dedicated to management of the local government contracts.		Open	Unknown

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2013	OCA's Assessment	Estimated Completion Date
14-09	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #13033 dated August 26, 2013, San Diego Unified Port District Billings - Fiscal Year 2012	11	Impact: 6 Probability: 5	We recommend that the Authority contract with a local mechanic to perform the service and maintenance needed on the Harbor Police Department Airport vehicles. The maintenance and repairs services provided by the District's General Services personnel at the rate of \$137 per hour is excessive and should be discontinued in favor of an external service provider.	The Harbor Police Department has thirteen (13) vehicles assigned for use at San Diego International Airport. The Port purchased ten (10) of the vehicles and the Authority purchased three (3). Port mechanics repair all of the vehicles. The AVSEC & Public Safety Department feels that requiring the Port to take the three airport-purchased vehicles to a different mechanic would create additional Authority administrative costs, and that any cost savings for the three vehicles would be minimal. All HPD vehicles assigned to the airport will continue to be maintained by the Port mechanics.	Completed	N/A
13-19	HUMAN RESOURCES DEPARTMENT	Audit Report #13005 dated February 28, 2013, Business and Travel Expenses	9	Impact: 5 Probability: 4	We recommend that the Human Resources Department (HR) strengthen their policy for obtaining safety shoes, to either disallow purchases from vendors other than those on-site, or require all reimbursement requests for safety shoes to be reviewed and approved by HR.	The forms were updated and approved by management.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

The slide features a vertical strip on the left with three images: an orange textured background, a sunset over water, and an airplane on a runway. The main content area is white with a yellow highlight under the title 'Presentation Overview'. Below the title is the section '1st Quarter Report' followed by a bulleted list of four items: 'Audit Activities', 'Recommendation Follow-up', 'Performance Measures', and 'Non-Audit & On-going Activities'. The footer consists of a green bar with the text 'AIRPORTS FUEL REGIONAL ECONOMIES' on the left and the number '2' on the right.

Presentation Overview

1st Quarter Report

- Audit Activities
- Recommendation Follow-up
- Performance Measures
- Non-Audit & On-going Activities

AIRPORTS FUEL
REGIONAL ECONOMIES

2

Audit Activities

- Completed 11 Audits
 - Expenditure Contract: 6
 - Internal Process: 3
 - Revenue Contract: 2
- Eleven (11) audits were in progress as of September 30, 2013
- Audit Results
 - Issued 9 Recommendations during the 1st Quarter

Audits In Progress

As of September 30, 2013

Audit	Type of Audit	Status as of November 18, 2013
Abadjis Systems, Ltd	Expense	Fieldwork
Bradford Airport Logistics	Expense	Report Issued
DTG Operations, Inc.	Revenue	Fieldwork
Landmark Aviation GSO-SAN, LLC	Revenue	Report Issued
Merriwether Williams Insurance Services	Expense	Draft Report
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue	Draft Report
Nolte Associates	Expense	Draft Report
Simply Wheelz, LLC dba Advantage Rent-A-Car	Revenue	Draft Report
Sky Chef, Inc. dba LSG Sky Chefs	Revenue	Report Issued
Social Media Control and Performance	Internal	Draft Report
The Hertz Corporation	Revenue	Draft Report

Recommendation Follow-up

Status as of September 30th :

Tracked	Completed	In Progress	Open	Not Accepted
17	5	11	1	0

FY14 Performance Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	26%
Percentage of the audit plan completed during 1 st Quarter	29%	26%
Additional revenue/cost savings identified through audits	n/a	\$486,517
Percentage of staff time spent on audit activities	80%	86%
Percentage of audits completed within budgeted time	80%	73%
Implementation of Recommendations	90%	29%

Summary of Ethics Inquiries

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>New Construction</i>	21	18	0	n/a	3
<i>Terminal 2 Gala</i>	15	14	0	n/a	1
<i>Advertising</i>	7	4	0	n/a	3
Potential Misuse of Resources					
<i>Misuse of Confidential Information</i>	1	1	1	Yes (1)	0
Employee Barbeque	12	5	0	n/a	7
Acceptance of Gifts	2	0	0	n/a	2
Non Ethics Related Concerns					
ATO Practices and Behavior	13	9	0	n/a	4
TSA Practices and Behavior	8	7	0	n/a	1
Aircraft Noise	3	3	0	n/a	0
Workplace Concerns					
Workplace Practices/Behavior	12	7	0	n/a	5
Performance Reviews	11	4	0	n/a	7
Workplace Equitability	5	3	0	n/a	2

(1) Issue being Investigated.

AIRPORTS FUEL
REGIONAL ECONOMIES

Questions



AIRPORTS FUEL
REGIONAL ECONOMIES



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
5

Meeting Date: **NOVEMBER 18, 2013**

Subject:

Selection of Independent Assessor to Perform Quality Assessment Review of the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee approve the Quality Assessment Review engagement with the Association of Local Government Auditors.

Background/Justification:

The Charter of the Office of the Chief Auditor (OCA), as approved by the Board, established the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and Authority management.

The Charter of the OCA at Section 15, Quality Assurance Reviews (QAR), requires that the OCA be subject to quality review at intervals to ensure compliance with professional standards, and that the review be completed by a professional, independent and objective professional accounting services firm. International Standards for the Professional Practice of Internal Auditing requires that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

At the direction of the Audit Committee, the OCA has evaluated professional services available to conduct a high standard QAR in an independent and objective manner. The OCA has determined that the Association of Local Government Auditors (ALGA) would provide this service in the most cost efficient manner.

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics. Membership in ALGA includes audit groups from various government jurisdictions throughout the United States. As of June 2012, ALGA has performed over 330 peer reviews and currently averages 35 to 40 reviews each year. The Government Accounting Office (GAO) and the Institute of Internal Auditors (IIA) has reviewed ALGA's Peer Review Program and found that it satisfies the requirements under GAO standards¹ and IIA standards².

¹ Commonly referred to in the audit profession as yellow book standards.

² Commonly referred to in the audit profession as red book standards.

ALGA's review requirements and related costs for the QAR would include:

- Organizations that are undergoing a review pay for the review team's travel expenses (including but not limited to hotel, airfare, local transportation, and meal per diem). There are typically three (3) people on a team.
- Team members normally arrive for the site visit on a Sunday and leave on a Friday.
- Reviewed organization must provide volunteers from their own staff for future peer reviews in other organizations.

Fiscal Impact:

Estimated cost is \$4,950, which is included in the Chief Auditor Department Fiscal Year 2014 Budget.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☒ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

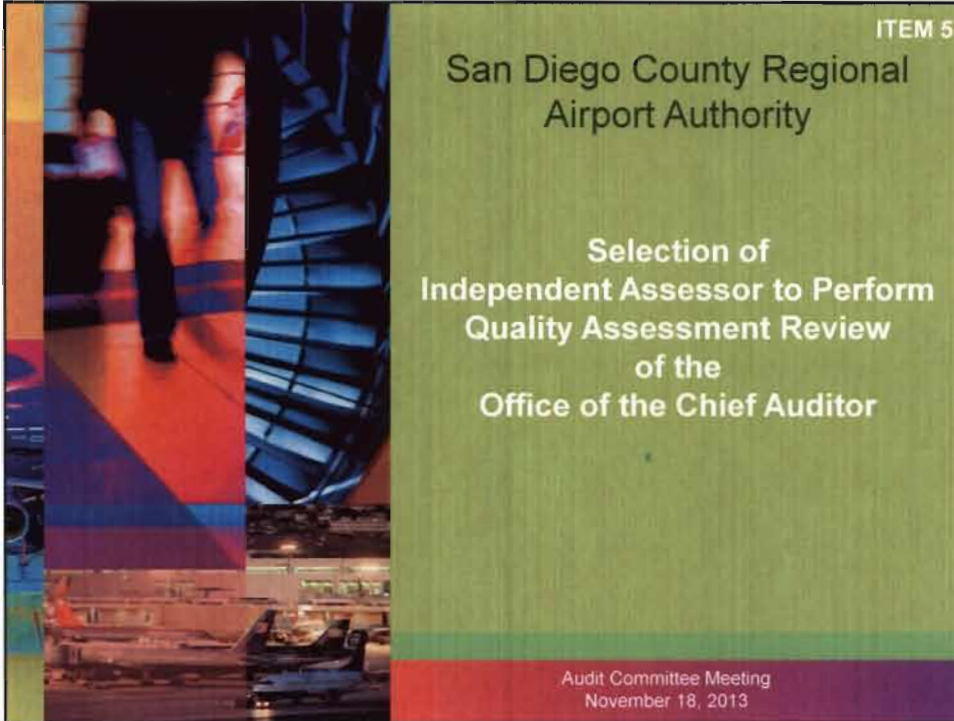
1. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA, Cal. Pub. Res. Code §21065.
2. This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

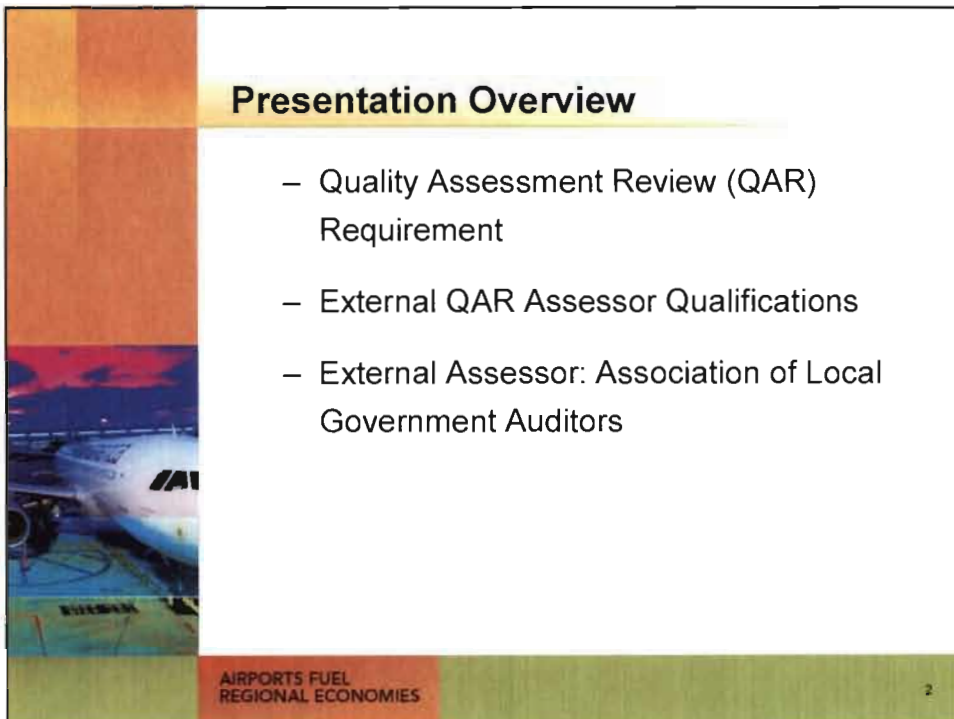


ITEM 5

San Diego County Regional
Airport Authority

Selection of
Independent Assessor to Perform
Quality Assessment Review
of the
Office of the Chief Auditor

Audit Committee Meeting
November 18, 2013



Presentation Overview

- Quality Assessment Review (QAR)
Requirement
- External QAR Assessor Qualifications
- External Assessor: Association of Local
Government Auditors

AIRPORTS FUEL
REGIONAL ECONOMIES

2



QAR Requirement

International Standards for the Professional Practice of Internal Auditing:
Standard 1300 – Quality Assurance and Improvement Program

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessments; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.




External QAR Assessor Qualifications

A qualified assessor or assessment team must demonstrate competence in the professional practice of internal auditing and the external assessment process.


- ✓ Competence can be demonstrated through a mixture of experience and theoretical learning.

Must be an independent assessor or assessment team, meaning not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.



Association of Local Government Auditors (ALGA)

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics.



Association of Local Government Auditors (ALGA)

CALIFORNIA MEMBERS:

- City and County of San Francisco, City Services Auditor
- City of Anaheim
- City of Berkeley
- City of Long Beach
- City of Los Angeles
- City of Oakland, City Auditor's Office
- City of Riverside, Internal Audit Department
- City of Sacramento
- City of San Diego, City Auditor
- City of San Jose, City Auditor
- County of Orange
- County of San Diego
- Los Angeles County Metropolitan Transportation Authority, Inspector General
- Los Angeles Unified School District, Inspector General
- Orange County Transportation Authority
- Port of Oakland, Audit Services
- San Diego County Regional Airport Authority



ALGA

- ALGA developed the peer review program in 1991 to assist local government audit organizations in meeting the profession's peer review requirements for the Government Accountability Office (GAO) standards.
- In 2007, ALGA developed a companion program for local government audit organizations following the International Professional Practices Framework issued by the Institute of Internal Auditors (IIA).
- The GAO and the IIA reviewed ALGA's Peer Review Program and found that it satisfies the requirements under both sets of standards.
- As of June 2012, ALGA has performed over 330 peer reviews and currently averages 35 to 40 reviews each year. The program continues to be one of ALGA's most popular services for members.



ALGA

Airport QARs Performed

- Dallas-Fort Worth Airport, Texas (2010)
- Hillsborough County Aviation Authority, Tampa Bay, Florida (2010)
- Port of Seattle, Washington (2010)

CA City QARs Performed

- Long Beach (2012)
- Los Angeles (2012)
- Oakland (2013)
- Sacramento (2013)
- San Diego (2010)
- San Francisco (2011)
- Palo Alto (2011)

Other CA Jurisdictions QARs Performed

- Los Angeles County Metro (2012)
- Los Angeles Unified School District (2012)
- Orange County Transportation Authority (2013)

ALGA QAR Costs

- Organizations undergoing a review must pay the review team's travel expenses (including but not limited to hotel, airfare, local transportation, and meal per diem). There are typically three (3) people on a team.
- Team members normally arrive for the site visit on Sunday and leave on Friday.
- Reviewed organization must provide volunteers for future peer reviews in other organizations.

ALGA QAR Costs

Estimated Cost for ALGA QAR

Meals	\$1,050
3 Hotel Rooms	3,000
Airfare	<u>900</u>
Total Cost Estimate	<u>\$4,950</u>

Estimated Cost for CPA Firm

3 Staff Members @ \$150/hr. @ 4 days	\$14,050
Misc. Travel Cost/ QAR Report	<u>400</u>
Total Cost Estimate	<u>\$14,450</u>

The Office of the Chief Auditor has \$17,250 in the 2014 Board approved budget; resulting in an approximate \$12,300 savings by using ALGA.



Audit Committee Action Request

Approve the Association of Local Government Auditor to be used as the external reviewer for the Quality Assessment Review for the Office of the Chief Auditor.

Questions

