



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.

5

Meeting Date: **DECEMBER 2, 2010**

Subject:

External auditor's Fiscal Year ended June 30, 2010, reports: A) Audited Financial Statements, B) Compliance (Single Audit) Report, C) Passenger Facility Charge Compliance Report, and D) Report to the Audit Committee

Recommendation:

The Audit Committee recommends that the Board accept the reports.

Background/Justification:

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

The external auditor, McGladrey & Pullen, LLP, performed the annual audit of the Authority's financial statements for the fiscal year ended June 30, 2010 (see Attachments A, B, C, and D).

On November 15, 2010, during a regularly scheduled meeting of the Audit Committee, the external auditor gave a presentation to the Committee on the Audited Financial Statements and the accompanying Compliance (single audit) report, Passenger Facility Charge report, and the Report to the Audit Committee. The external auditor stated that the Authority had a very clean audit for 2010 with no major issues or difficulties encountered.

The Audit Committee voted unanimously to forward the reports to the Board for acceptance.

Fiscal Impact:

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

Environmental Review:

- A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. Section 15378. This Board action is not a "project"

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subject to CEQA. Pub. Res. Code Section 21065.

- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Pub. Res. Code Section 30106.

Equal Opportunity Program:

Not applicable.

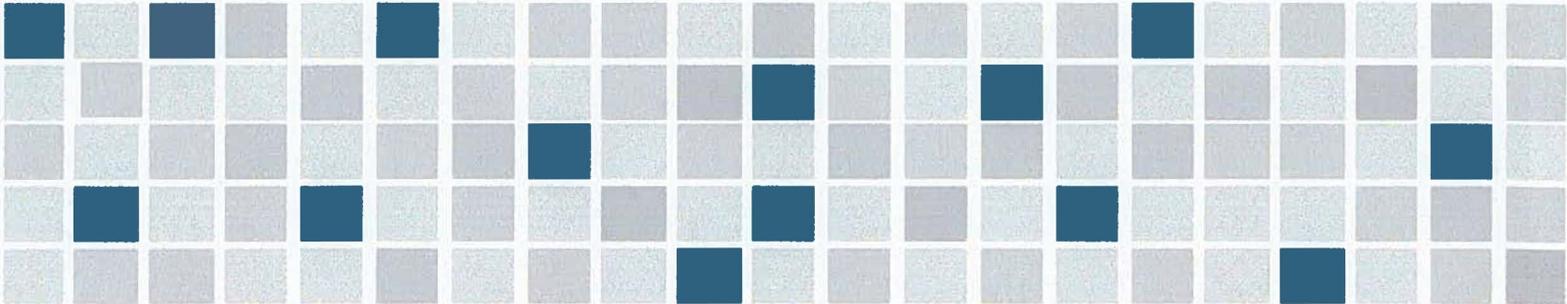
Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

Financial Report

June 30, 2010



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Independent Auditor's Report

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

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

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

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD FROM JULY 1, 2009 TO JUNE 30, 2010

INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Airport Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport Authority for the fiscal years ended June 30, 2010 and 2009.

The Airport Authority was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (the District) to the Airport Authority. The Airport Authority adopted a June 30 fiscal year-end and produced its first audited financial statements for the six months ended June 30, 2003.

USING THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion and Analysis (MD&A), the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the balance sheet, the statement of revenues, expenses and change in net assets, and the statement of cash flows. The accompanying notes to the financial statements are essential to a full understanding of the data contained in the financial statements.

The comparative Balance Sheets depict the Airport Authority's financial position as of a point in time—June 30, 2010, and June 30, 2009—and include all assets and liabilities of the Airport Authority. The Balance Sheets demonstrate that the Airport Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Airport Authority's assets after liabilities are deducted. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The comparative Statements of Revenues, Expenses and Change in Net Assets report total operating revenues, operating expenses, nonoperating revenues and expenses, and change in Airport Authority net assets for the years ended June 30, 2010 and 2009. Revenues and expenses are categorized as either operating or nonoperating, based upon management's policy as established in accordance with definitions set forth in Governmental Accounting Standards Board (GASB) No. 33 and GASB No. 34. Significant recurring sources of the Airport Authority's revenues, including Passenger Facility Charges (PFC), Customer Facility Charges (CFC) and investment income, are reported as nonoperating revenues. The Airport Authority's interest expense is reported as nonoperating expense. Capital grant contributions represent grants for capital improvement purposes.

The comparative Statements of Cash Flows present information showing how the Airport Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities, and investing activities.

The Airport Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at or near 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 to the California State Legislature on measures to improve it.

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), 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.

The policymakers recognized the complexity of transferring a commercial airport to a newly created entity. To ensure a smooth transition, the Airport Authority was vested with the responsibility to develop and execute an Airport Transition Plan with the complete support and cooperation of the District, the Federal Aviation Administration (FAA) and the State of California.

Legislative Background

AB 93 was signed into California State law in October 2001. AB 93 established the Airport Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (the Act). 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 compatibility plans for the airports in the County of San Diego.
- (4) Serving as the region's Airport Land Use Commission.
- (5) Preparation of a Regional Aviation Strategic Plan by June 30, 2011.

Transfer of Assets and Liabilities/Joint Audit

The Airport Authority and the District collaboratively developed a financial Memorandum of Understanding (MOU) outlining the essential aspects of the Airport Transfer, including the timely transfer and identification of assets and liabilities relating specifically to SDIA's asset and operations transfer on January 1, 2003. The MOU addresses the transfer process, litigation matters, utility obligations and treatment of employees.

The Airport Authority and the District commissioned a joint audit in accordance with the Act. Independent auditors, McGladrey & Pullen LLP, issued an audit report dated June 13, 2003 on the Airport Authority's balance sheet as of January 1, 2003. In addition, they prepared an audit report dated October 17, 2003 on the Airport Authority's finances for the first six months of operations ending June 30, 2003.

Airport Activities Highlights

After experiencing enplanement growth in fiscal year 2008, the Airport Authority experienced a decline in enplanements in fiscal years 2009 and 2010, as did most commercial airports across the country due to the downturn in the economy.

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

	FY 2008	FY 2009	FY 2010
Enplaned Passengers	9,389,327	8,535,774	8,453,886
<i>% increase (decrease)</i>	5.6%	(9.1%)	(1.0%)
Total Passengers	18,773,969	17,073,886	16,917,595
<i>% increase (decrease)</i>	5.7%	(9.1%)	(0.9%)
Aircraft Operations	234,209	206,675	194,508
<i>% increase (decrease)</i>	6.3%	(11.8%)	(5.9%)
Freight and Mail (in tons)	144,523	120,782	125,513
<i>% increase (decrease)</i>	(24.4%)	(16.4%)	3.9%
Landed Weight (in thousands)	12,493	11,279	10,893
<i>% increase (decrease)</i>	6.6%	(9.7%)	(3.4%)

SDIA is a destination airport and is not a hub for any airlines. Further, there is a balanced mixture of SDIA travelers of approximately 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements in comparison to most airports. However, SDIA continued to decline in enplanements by 1.0 percent in fiscal year 2010 compared to 2009, and by 9.1 percent in fiscal year 2009 compared to 2008, as the U.S. and local economies went into a steep recession. Prior to the economic downturn, SDIA showed healthy growth of 5.6 percent in passenger enplanements in fiscal year 2008, despite continued financial turmoil in the airline industry.

Overall SDIA experienced declines in aircraft operations of 5.9 percent, an increase in freight and mail of 3.9 percent, and decreased landed weight of 3.4 percent in fiscal year 2010. Most of these reductions are attributed to the economic recession. SDIA experienced mixed results in aircraft operations, with an 11.8 percent decline and 6.3 percent growth; freight and mail tonnage, with 16.4 percent and 24.4 percent declines; and landed weights, with a 9.7 percent decline and 6.6 percent growth, for the fiscal years ended 2009 and 2008, respectively. The growth in fiscal year 2008 was a reflection of the increase in both personal household income and increase in industry sectors. The decline in freight and mail in fiscal years 2008 and 2009 reflects a downturn of business for the two largest freight carriers at SDIA, Federal Express and UPS, along with the economic recession.

Statements of Revenues, Expenses and Change in Net Assets

The metric 'Change in Net Assets' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net assets increased from a modest 3.6 percent in 2009 to a healthy 9.2 percent for the year ended June 30, 2010. Following is a summary of the statements of revenues, expenses and change in net assets (in thousands):

	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Operating revenues	\$ 135,682	\$ 130,977	\$ 133,695
Operating expenses	(150,750)	(153,474)	(159,712)
Nonoperating revenues, net	41,806	35,913	45,937
Capital grant contributions	2,850	4,646	27,350
Increase in net assets	29,588	18,062	47,270
Net assets, beginning of year	465,533	495,121	513,183
Net assets, end of year	<u>\$ 495,121</u>	<u>\$ 513,183</u>	<u>\$ 560,453</u>

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

FINANCIAL HIGHLIGHTS

Operating Revenues (In thousands)

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,689	\$ 18,672	\$ (17)	(0.1) %
Aircraft parking fees	3,221	3,406	185	5.7 %
Building rentals	23,057	23,835	778	3.4 %
Security surcharge	10,204	11,900	1,696	16.6 %
Other aviation revenue	1,565	1,584	19	1.2 %
Total airline revenue	56,736	59,397	2,661	4.7 %
Concession revenue	36,280	36,249	(31)	(0.1) %
Parking and ground transportation revenue	31,492	30,296	(1,196)	(3.8) %
Ground rentals	5,776	5,923	147	2.6 %
Other operating revenue	693	1,829	1,136	163.9 %
Total operating revenue	\$ 130,977	\$ 133,694	\$ 2,717	2.1 %

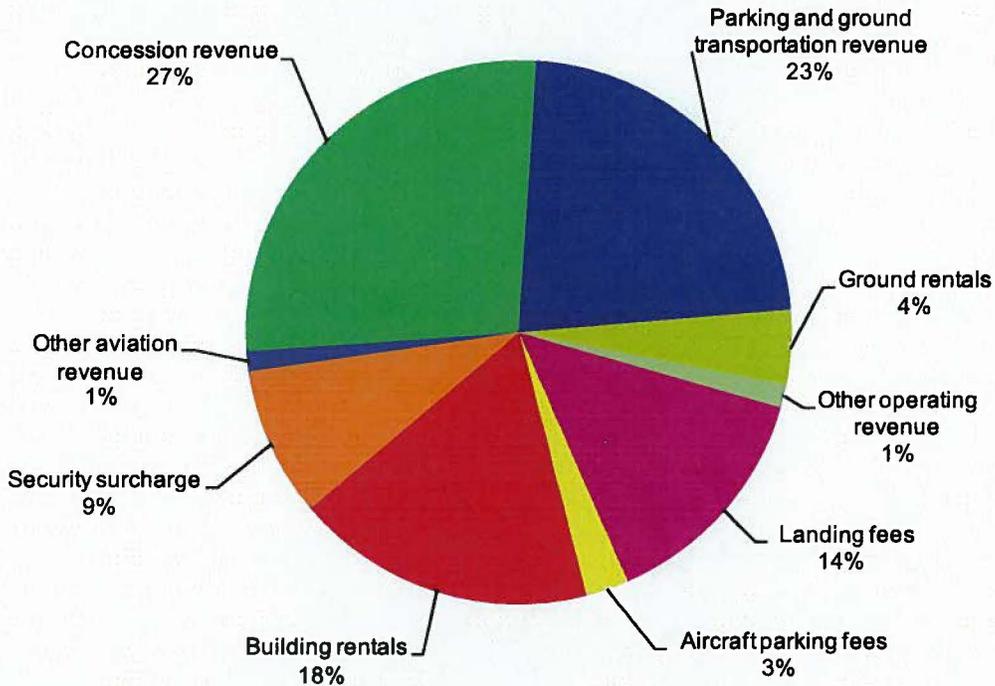
	FY 2008	FY 2009	From 2008 to 2009	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 24,763	\$ 18,689	\$ (6,074)	(24.5) %
Aircraft parking fees	-	3,221	3,221	N/A
Building rentals	24,265	23,057	(1,208)	(5.0) %
Security surcharge	8,618	10,204	1,586	18.4 %
Other aviation revenue	1,808	1,565	(243)	(13.4) %
Total airline revenue	59,454	56,736	(2,718)	(4.6) %
Concession revenue	38,785	36,280	(2,505)	(6.5) %
Parking and ground transportation revenue	31,038	31,492	454	1.5 %
Ground rentals	5,208	5,776	568	10.9 %
Other operating revenue	1,197	693	(504)	(42.1) %
Total operating revenue	\$ 135,682	\$ 130,977	\$ (4,705)	(3.5) %

Fiscal year 2010 compared to 2009: Airline revenue billed to the airlines on a progressive cost recovery system is slightly higher in fiscal year 2010 in comparison to 2009 due to the graduated rate increase from 45 percent to 50 percent. Parking revenues decreased by approximately \$1.2 million for 2010 due to reduced enplanements and transactions compared to 2009. The 2010 increase in other operating revenue is primarily due to the federal grant reimbursement of approximately \$1.0 million for the Regional Aviation Strategic Plan (RASP), a requirement of SB 10.

Operating Revenues, Continued

Fiscal year 2009 compared to 2008: Fiscal year 2009 operating revenue decreased \$4.7 million, or 3.5 percent, primarily due to the decrease in passengers. The landing fees reduction is due to the decrease in landed weights which is the primary driver of the \$2.7 million, or 4.6 percent, decrease in total airline revenue. In 2009 \$3.2 million is the establishment of aircraft parking fees, which recovers certain airfield costs previously recovered via the landing fees. Also included in total airline revenue is security surcharge, which increased \$1.6 million, or 18.4 percent, due to increased security personnel salaries and benefits and security requirements. Building rentals decreased by \$1.2 million, or 5.0 percent, reflecting a reduction in airport operating costs in the fiscal year 2009 reforecast. Additionally, concession revenue, which includes terminal retail, food and beverage, advertising, baggage carts, license percentage rents from off-airport tenants, and rental car revenues, was down \$2.5 million, or 6.5 percent. This again was due to the decrease in passengers and the economic recession. Parking revenues increased by 1.5 percent, reflecting higher rates established in fiscal year 2009, which largely offset the decline in passenger activity and demand for parking.

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2010 Operating Revenues



Operating Expenses (In thousands)

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 34,741	\$ 35,386	\$ 645	1.9 %
Contractual services	27,465	27,999	534	1.9 %
Safety and security	19,930	20,131	201	1.0 %
Space rental	10,888	10,906	18	0.2 %
Utilities	6,912	6,871	(41)	(0.6) %
Maintenance	8,002	9,231	1,229	15.4 %
Equipment and systems	678	891	213	31.4 %
Materials and supplies	641	413	(228)	(35.6) %
Insurance	1,096	1,166	70	6.4 %
Employee development and support	1,030	990	(40)	(3.9) %
Business development	2,509	2,033	(476)	(19.0) %
Equipment rentals and repairs	1,387	1,271	(116)	(8.4) %
Total operating expenses before depreciation and amortization	115,279	117,288	2,009	1.7 %
Depreciation and amortization	38,196	42,424	4,228	11.1 %
Total operating expenses	\$153,475	\$159,712	\$ 6,237	4.1 %

	FY 2008	FY 2009	From 2008 to 2009	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 32,912	\$ 34,741	\$ 1,829	5.6 %
Contractual services	27,379	27,465	86	0.3 %
Safety and security	19,110	19,930	820	4.3 %
Space rental	10,901	10,888	(13)	(0.1) %
Utilities	6,429	6,912	483	7.5 %
Maintenance	8,735	8,002	(733)	(8.4) %
Equipment and systems	1,333	678	(655)	(49.1) %
Materials and supplies	795	641	(154)	(19.4) %
Insurance	1,227	1,096	(131)	(10.7) %
Employee development and support	1,035	1,030	(5)	(0.5) %
Business development	2,733	2,509	(224)	(8.2) %
Equipment rentals and repairs	1,396	1,387	(9)	(0.6) %
Total operating expenses before depreciation and amortization	113,985	115,279	1,294	1.2 %
Depreciation and amortization	36,765	38,196	1,431	3.9 %
Total operating expenses	\$150,750	\$153,475	\$ 2,725	1.8 %

Operating Expenses, Continued

Fiscal year 2010 compared to 2009: Fiscal year 2010 operating expenses before depreciation and amortization expense are only slightly higher, growing \$2 million, or 1.7 percent, from \$115 million to \$117 million, when compared to 2009. Contributing to this increase are the following: increased salaries and benefits expense by \$645 thousand, primarily due to increased costs of medical and retirement benefits (the continued hiring freeze contributes to a lower increased variance); increased contractual services by \$534 thousand, primarily due to the new Federal Acquisition Regulation 150 study to map qualified homeowners as candidates for the Quieter Home Program, \$880 thousand; increased security and safety by \$201 thousand, due to the required utilization of the Port Authority Harbor Police, reflecting the increased costs of their salaries and benefits; increased maintenance expenses by \$1.2 million, due to increased maintenance of escalators, elevators, air conditioning system and pavement restriping; and increased equipment and systems by \$213 thousand, due to the replacement of small computer equipment and servers.

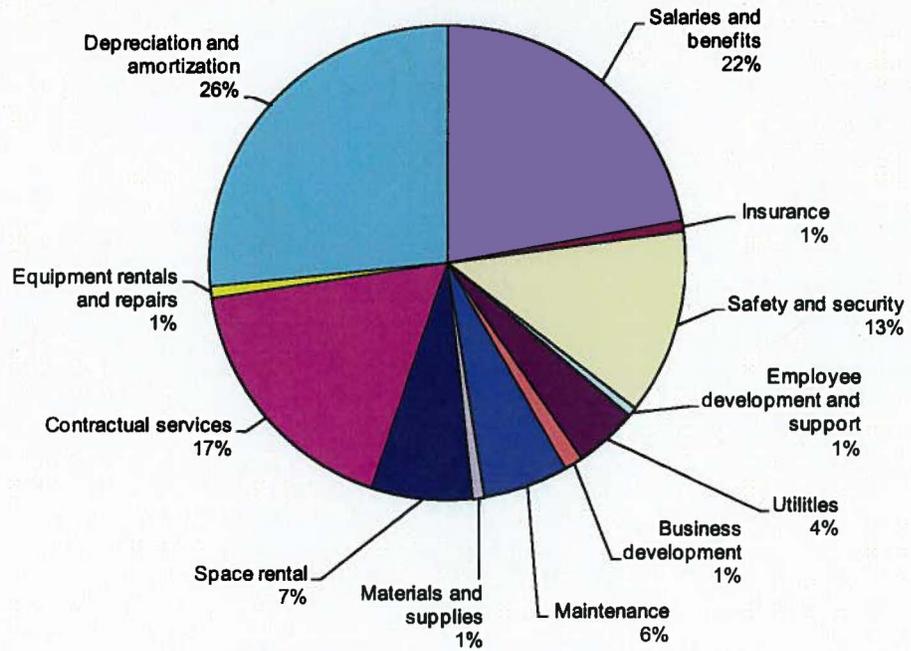
This small increase is due to continued cost containment and is also reflected by decreased materials and supplies expense by \$228 thousand, and business development expense by \$476 thousand, from decreased travel and recovery of bad debt by approximately \$300 thousand; as well as decreased equipment rentals and repairs by \$116 thousand, primarily due to decreased costs of tenant leasehold improvements.

Total operating expenses increased \$6.2 million from \$153.5 million to \$159.7 million, or 4.1 percent, primarily due to depreciation and amortization expense of \$4.2 million. In fiscal year 2010, \$48 million of capital projects were completed and placed in service. They consisted of \$6 million in Terminal 1 electrical upgrades, \$7 million in security improvements, \$6 million in replacement of escalators, \$4 million in software for the engineering department, \$3.4 million in renovation and build-out of offices, \$1 million in airport terminal EVIDS and many smaller projects.

Fiscal year 2009 compared to 2008: In fiscal year 2009, operating expenses increased \$2.7 million, or 1.8 percent, from \$150.8 million to \$153.5 million, primarily due to increased salaries and benefits, safety and security, and depreciation expense. In October 2008, the Airport Authority performed a reforecast of its original 2009 budget due to the deep economic downturn. The Airport Authority implemented a hiring freeze and reduced the approved 2009 budgeted expenses by approximately 7.0 percent, or \$8.8 million, to align with the projected reduced revenues. Salaries and benefits increased \$1.8 million, or 5.6 percent, reflecting annual raises and increased cost of benefits. The increased security expenses reflect the increased security costs in the mandated utilization of the Harbor Police salaries and benefit increases. All other operating expenses were reduced to adjust to the economic recession in reduced enplanements and revenues. Depreciation expense increased \$1.4 million, or 3.9 percent, due to placing over \$22.4 million of capital projects in service. Multiple capital projects were placed in service. They consisted of \$3.5 million for expanded restrooms in Terminal 1, \$4.9 million for a perimeter fence, \$3.2 million to reconfigure a gate, \$3 million for a renovation of an old building for the facility management department and \$4 million for the purchase of a building to support our terminal expansion team.

Operating Expenses, Continued

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2010 Operating Expenses



Nonoperating Revenues and Expenses (in thousands)

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Passenger facility charge	\$ 33,219	\$ 34,049	\$ 830	2.5 %
Customer facility charge	1,695	10,783	9,088	536.2 %
Quieter Home Program, net	(5,574)	(1,629)	3,945	70.8 %
Joint Studies Program	(179)	(245)	(66)	(36.9) %
Interest income	9,434	6,667	(2,767)	(29.4) %
Interest expense	(2,998)	(2,684)	314	10.5 %
Other nonoperating income (expenses)	316	(1,004)	(1,320)	(417.7) %
Nonoperating revenues, net	<u>\$ 35,913</u>	<u>\$ 45,937</u>	<u>\$ 10,022</u>	27.9 %

	FY2008	FY 2009	From 2008 to 2009	
			Increase (Decrease)	% Change
Passenger facility charge	\$ 37,401	\$ 33,219	\$ (4,182)	(11.2) %
Customer facility charge	-	1,695	1,695	N/A
Quieter Home Program, net	(3,989)	(5,574)	(1,585)	(39.7) %
Joint Studies Program	(964)	(179)	785	81.4 %
Interest income	13,432	9,434	(3,998)	(29.8) %
Interest expense	(4,086)	(2,998)	1,088	26.6 %
Other nonoperating income	12	316	304	(2,533.3) %
Nonoperating revenues, net	<u>\$ 41,806</u>	<u>\$ 35,913</u>	<u>\$ (5,893)</u>	(14.1) %

Customer Facility Charges (CFC): In May 2009, the Airport Authority began collecting a \$10 per contract CFC on rental cars, which is authorized under Section 1936 of the California Civil Code and approved by legislation under SB 1510. The revenues collected will be used to plan and construct a consolidated rental car facility and improved transportation system. The rental car agencies remit collected fees to the Airport Authority on a monthly basis.

Quieter Home Program: The 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, 2010, the Airport Authority has spent \$99.3 million and received reimbursement for \$81.8 million.

Interest income: Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District.

Interest expense: Interest expense includes interest paid and accrued on the 2005 Series Bonds and Commercial Paper Series A, B and C.

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

Nonoperating Revenues and Expenses, Continued

Capital Grant Contributions

The Airport Authority receives AIP entitlement and discretionary grants through the 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 2010 compared to 2009: Nonoperating revenue (net) increased by \$10.0 million, or 27.9 percent. This is primarily due to the collection of CFCs, which began in May 2009, totaling \$9.1 million. Passenger facility charges (PFC) have slightly increased due to the timing of when passengers book their flights, compared to the overall reduction of enplanements, at 1.2 percent. The Quieter Home Program increased \$3.9 million, or 70.8 percent, as a result of an expanded program and the timing of when invoices were paid to become eligible for FAA grant reimbursement. Interest income decreased \$2.8 million, or 29.4 percent, primarily due to decreased rate of return on invested funds, and interest expense decreased \$314 thousand, or 10.5 percent, due to lower interest rates and despite a larger outstanding commercial paper balance. Other nonoperating expenses compared to 2009 increased \$1.3 million due to unrealized losses on market value of investments.

Fiscal year 2009 compared to 2008: Nonoperating revenue (net) decreased by \$5.9 million, or 14.1 percent. The largest component of this change was PFCs, which decreased by \$4.2 million, or 11.2 percent. This was primarily due to a reduction of enplanements as a result of the economic recession. Interest income also decreased by \$4 million, or 29.8 percent. This is primarily due to a decreased rate of return on invested funds, again resulting from the unstable market conditions in fiscal year 2009. The Quieter Home Program had a net expenditure increase of \$1.6 million, or 39.7 percent, because of the increased amount of homes completed in the program. Interest expense decreased from fiscal 2008 by \$1.1 million, or 26.6 percent, due to the low commercial paper rates, which averaged an unprecedented 0.45 percent.

Assets, Liabilities and Net Assets

The balance sheets present the financial position of the Airport Authority as of June 30, 2008, 2009 and 2010. The statements include all assets, liabilities and net assets of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net assets at June 30, 2008, 2009 and 2010 is as follows:

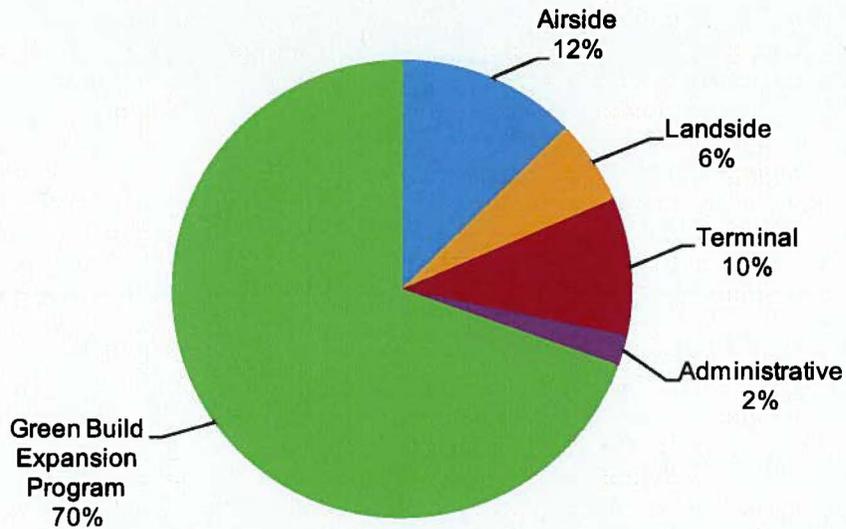
<i>(in thousands)</i>	FY2008	FY2009	FY2010
Assets			
Current assets	\$ 96,178	\$ 78,953	\$ 128,206
Capital assets, net	336,940	380,549	483,718
Noncurrent assets	195,509	231,717	212,220
Total assets	\$ 628,627	\$ 691,219	\$ 824,143
Liabilities			
Current liabilities	\$ 36,247	\$ 47,029	\$ 56,219
Long-term liabilities	97,259	131,007	207,472
Total liabilities	133,506	178,036	263,691
Net Assets			
Invested in capital assets, net of related debt	243,664	249,498	275,557
Bond reserves, unapplied PFCs and other restricted	131,028	167,827	139,672
Unrestricted	120,429	95,858	145,224
Total net assets	495,122	513,183	560,453
Total liabilities and net assets	\$ 628,627	\$ 691,219	\$ 824,143

As of June 30, 2010, the Airport Authority's assets exceeded liabilities by \$560 million, a \$47 million increase over June 30, 2009 and, comparing 2009 to 2008, another \$18 million increase over June 30, 2008. The largest portion of the Airport Authority's net assets 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 assets of \$145 million as of June 30, 2010, \$96 million as of 2009 and \$120 million as of 2008 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2010, 2009 and 2008, management has designated unrestricted funds in the amount of \$21 million, \$6 million and \$9 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and unspent commercial paper for capital projects. In addition, as of the fiscal years ended 2010, 2009 and 2008, management has designated unrestricted net assets of approximately \$4 million for operating and insurance contingencies.

Capital Asset and Capital Improvement Program

The funds used for capital improvements or to expand SDIA's facilities are derived from several sources, including the FAA, Transportation Security Administration (TSA) and AIP grants, PFCs, CFCs, future debt and SDIA funds. In fiscal year 2010, SDIA's \$1.2 billion capital improvement program (CIP) followed a pay-as-you-go approach utilizing a commercial paper program, as and when needed, for short-term financing needs. Future funding needs starting in fiscal year 2011 will include Airport Revenue Bonds that will be used for the \$864 million Terminal Development Program/"The Green Build." The Green Build is projected to be complete by 2013. The current CIP, which includes projects through 2015, consists of \$156 million for airside projects, \$74.4 million for landside projects, \$120 million for terminal projects and \$26 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

Capital Improvement Program (CIP) Projects by Type



Among the larger projects undertaken during fiscal year 2010 was the Naval Training Center land remediation, at \$40 million, to prepare for the 2010 apron project. The apron project is the beginning of the actual building of the \$864 million airport expansion program called "The Green Build."

Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements on pages 39-40 of this report.

Capital Financing and Debt Management

In October 2005, the Airport Authority sold \$56.3 million of San Diego County Regional Airport Authority Airport Revenue Refunding Bonds Series 2005. This refunded the outstanding Series 1995 Airport revenue bonds that were issued by the District in 1995 through the California Maritime Infrastructure Authority for the expansion of Terminal 2. The Series 2005 Bonds were issued in the aggregate principal amount of \$56.3 million and were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent maturing in fiscal years 2007 to 2021. Interest on the bonds is payable semiannually on January 1 and July 1 of each year.

The Series 2005 Bonds are payable solely from and secured by "Pledged Revenues." Pledged Revenues are defined as all revenues and other cash receipts of the Airport Authority's airport operations, reduced by operation and maintenance expenses. Pledged Revenues do not include cash received from PFCs or federal grants.

The Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce Pledged Revenues of at least 125 percent of debt service for that year.

As of June 30, 2010, \$44.3 million in bonds were outstanding. The ratings of the Series 2005 Bonds as of June 30, 2010 and 2009 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. Additionally, the Airport Authority holds a fully funded debt service reserve equal to one year's annual debt service. The Series 2005 bonds also are insured by American Municipal Bond Assurance Corporation (AMBAC), which is currently rated R/Caa2 by Standard & Poor's and Moody's Investors Service, respectively. The Airport Authority is not directly impacted by AMBAC's downgrades. The insurance policy on the bonds remains in effect. In the unlikely event that the Airport Authority was not able to make a debt service payment, AMBAC is contractually required to make the payment and seek reimbursement from the Airport Authority.

As of June 30, 2010, \$164.4 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 date. At that time, the total outstanding principal becomes due. The commercial paper 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 commercial paper notes, for that year.

Each series of notes are 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 commercial paper notes.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements on pages 41-45 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 four active applications which provide collection authority through October 2012. A seventh application is expected to be approved in November 2010.

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FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$48.6 million in grant awards for the federal fiscal year ended September 30, 2009 and \$37.9 million in 2008. 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

**Balance Sheets
June 30, 2010 and 2009**

Assets	2010	2009
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 30,192,220	\$ 16,616,091
Investments (Note 2)	74,853,720	42,090,303
Tenant lease receivables, net of allowance of 2010 \$59,341 and 2009 \$381,728	6,133,899	5,279,287
Grants receivable	3,866,272	3,155,314
Notes receivable, current portion (Note 3)	1,612,790	1,527,582
Other current assets	7,318,364	6,135,819
Total unrestricted	123,977,265	74,804,396
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	4,228,785	4,149,082
Total current assets	128,206,050	78,953,478
Noncurrent Assets		
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	23,874,208	24,002,267
Buildings and structures	462,867,893	411,197,780
Machinery and equipment	45,211,831	37,218,852
Runways, roads and parking lots	227,870,261	228,860,559
Construction in progress	183,013,695	103,275,230
	942,837,888	804,554,688
Less accumulated depreciation	(459,120,465)	(424,005,351)
Capital assets, net	483,717,423	380,549,337
Restricted (Notes 2 and 5):		
Restricted cash, cash equivalents and investments, not with Trustee	118,507,384	152,425,303
Restricted investments with Trustee	5,406,916	5,406,912
Passenger facility charges receivable	5,015,518	4,941,298
Customer facility charges receivable	1,235,660	1,034,406
Other restricted assets	6,400,000	1,065,796
Total restricted assets	136,565,478	164,873,715
Investments, noncurrent (Note 2)	950,564	9,535,642
Notes receivable, long-term portion (Note 3)	44,610,475	46,223,264
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	20,895,687	6,150,653
Deferred costs, Series 1995 Bonds, net	-	-
Deferred costs, Series 2005 Bonds, net	788,084	856,999
Net pension asset and net OPEB asset (Notes 6 and 8)	8,409,409	4,075,837
	75,654,219	66,842,395
Total noncurrent assets	695,937,120	612,265,447
Total assets	\$ 824,143,170	\$ 691,218,925

See Notes to Financial Statements.

Liabilities and Net Assets	2010	2009
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 4,444,312	\$ 2,437,226
Accrued liabilities (Note 8)	44,795,725	38,050,618
Compensated absences, current portion (Note 5)	2,133,766	2,049,060
Deposits and other current liabilities	562,068	245,550
Total payable from unrestricted assets	51,935,871	42,782,454
Payable from restricted assets:		
Current portion of Series 2005 Bonds and commercial paper (Note 5)	3,105,000	2,950,000
Accrued interest on bonds and commercial paper (Note 5)	1,178,102	1,297,041
Total payable from restricted assets	4,283,102	4,247,041
Total current liabilities	56,218,973	47,029,495
Noncurrent Liabilities		
Deferred rent liability (Note 11)	450,073	900,565
Compensated absences, net of current portion (Note 5)	397,836	536,789
Tenant security deposits and other noncurrent liabilities (Note 2)	1,014,896	860,142
Commercial paper notes payable (Note 5)	164,430,000	84,430,000
Series 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	41,178,973	44,279,370
Total noncurrent liabilities	207,471,778	131,006,866
Total liabilities	263,690,751	178,036,361
 Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
 Net Assets		
Invested in capital assets, net of related debt (Note 1)	275,556,504	249,498,267
Bond reserves, debt service principal, unapplied passenger facility charges, unapplied customer facility charges, small business bond guarantee, Owner Controlled Insurance Program (Note 1) Unrestricted (Note 1)	139,672,025	167,826,809
Total net assets	145,223,890	95,857,488
Total liabilities and net assets	560,452,419	513,182,564
	\$ 824,143,170	\$ 691,218,925

San Diego County Regional Airport Authority

**Statements of Revenues, Expenses and Change in Net Assets
Years Ended June 30, 2010 and 2009**

	2010	2009
Operating revenues:		
Airline revenue:		
Landing fees	\$ 18,672,255	\$ 18,689,465
Aircraft parking fees	3,406,011	3,221,515
Building rentals (Note 10)	23,835,039	23,056,794
Security surcharge	11,900,070	10,203,808
Other aviation revenue	1,584,408	1,564,840
Concession revenue	36,248,999	36,280,004
Parking and ground transportation revenue	30,295,843	31,492,190
Ground rentals (Note 10)	5,923,301	5,775,627
Other operating revenue	1,828,757	692,964
Total operating revenues	133,694,683	130,977,207
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	35,386,258	34,741,348
Contractual services (Note 12)	27,998,903	27,464,614
Safety and security	20,131,013	19,929,678
Space rental (Note 11)	10,905,899	10,887,936
Utilities	6,871,136	6,911,602
Maintenance	9,230,943	8,002,177
Equipment and systems	890,964	678,485
Materials and supplies	412,911	641,225
Insurance	1,166,209	1,095,867
Employee development and support	990,129	1,029,700
Business development	2,032,861	2,509,314
Equipment rentals and repairs	1,270,944	1,386,534
Total operating expenses before depreciation and amortization	117,288,170	115,278,480
Income from operations before depreciation and amortization	16,406,513	15,698,727
Depreciation and amortization	42,424,317	38,196,448
Operating (loss)	(26,017,804)	(22,497,721)

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statements of Revenues, Expenses and Change in Net Assets, Continued
Years Ended June 30, 2010 and 2009**

	2010	2009
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 34,048,981	\$ 33,219,261
Customer facility charges	10,782,512	1,695,270
Quieter Home Program grant revenue	18,998,445	19,648,924
Quieter Home Program expenses	(20,627,644)	(25,222,598)
Joint Studies Program	(244,243)	(179,565)
Interest income	6,666,720	9,434,140
Interest expense (Note 5)	(2,683,595)	(2,998,111)
Other revenues (expenses), net	(1,003,948)	316,081
Nonoperating revenue, net	45,937,228	35,913,402
Income before capital grant contributions	19,919,424	13,415,681
Capital grant contributions	27,350,431	4,645,643
Change in net assets	47,269,855	18,061,324
Net assets, beginning of year	513,182,564	495,121,240
Net assets, end of year	\$ 560,452,419	\$ 513,182,564

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

	2010	2009
Cash Flows From Operating Activities		
Receipts from customers	\$ 131,978,851	\$ 132,996,344
Payments to suppliers	(90,872,611)	(83,451,633)
Payments to employees	(35,231,569)	(35,340,979)
Pension contribution	(4,600,000)	-
Other receipts	346,810	(56,711)
Net cash provided by operating activities	1,621,481	14,147,021
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	716,580	(20,630)
Quieter Home Program grant receipts	19,430,088	17,953,811
Quieter Home Program payments	(21,868,009)	(22,426,915)
Joint Studies Program payments	(191,865)	(105,997)
Net cash (used in) noncapital financing activities	(1,913,206)	(4,599,731)
Cash Flows From Capital and Related Financing Activities		
Capital expenditures	(133,158,619)	(72,120,393)
Proceeds on sale of capital assets	(10,921)	-
Federal grants received (excluding Quieter Home Program)	26,207,830	4,190,376
Proceeds from passenger facility charges	33,974,761	32,104,249
Proceeds from customer facility charge	10,581,258	660,864
Proceeds from issuance of commercial paper	80,000,000	35,000,000
Payment of principal on bonds	(2,950,000)	(2,805,000)
Payment to Trustee for debt service	(81,250)	(74,875)
Interest and debt fees paid	(2,802,532)	(3,077,210)
Net cash provided by (used in) capital and related financing activities	11,760,527	(6,121,989)
Cash Flows From Investing Activities		
Purchases of investments	(37,871,306)	(58,260,727)
Sales of investments	46,581,401	26,997,404
Interest received on investments	2,816,795	6,476,125
Principal payments received on notes receivable	1,527,581	1,446,879
Interest received from notes receivable, commercial paper and bonds	3,797,890	3,511,463
Net cash provided by (used in) investing activities	16,852,361	(19,828,856)
Net increase (decrease) in cash and cash equivalents	28,321,163	(16,403,555)
Cash and Cash Equivalents, beginning of year	22,766,744	39,170,299
Cash and Cash Equivalents, end of year	\$ 51,087,907	\$ 22,766,744

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statements of Cash Flows, Continued
Years Ended June 30, 2010 and 2009**

	2010	2009
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 30,192,220	\$ 16,616,091
Designated cash and cash equivalents	20,895,687	6,150,653
	<u>\$ 51,087,907</u>	<u>\$ 22,766,744</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	\$ (26,017,804)	\$ (22,497,721)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	42,424,317	38,196,448
Bad debt expense (recapture)	(322,387)	275,480
Changes in assets and liabilities:		
Tenant lease receivables	(297,304)	1,253,397
Net pension asset	(4,299,243)	300,757
Other current assets	(7,360,475)	(3,241,316)
Accounts payable (on noncapital items)	2,007,086	(989,405)
Accrued liabilities (on noncapital items)	(4,427,175)	1,983,687
Postretirement benefits obligation	26,374	(1,240,437)
Deposits	134,100	2,182
Deferred rent liability	(249,634)	(51,700)
Tenant security deposits	57,872	(44,540)
Compensated absences	(54,246)	200,189
Net cash provided by operating activities	<u>\$ 1,621,481</u>	<u>\$ 14,147,021</u>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	\$ 12,360,267	\$ 18,017,643

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. With Senate Bill 10, the Airport Authority also will prepare a Regional Aviation Strategic Plan by June 30, 2011 as well as prepare and adopt an Airport Multimodal Accessibility Plan by December 31, 2013. 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 which should be included in these basic financial statements.

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 Airport Authority net assets. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed by the Airport Authority to the extent that those standards do not conflict with or contradict guidance of the GASB. The Airport Authority also has the option of following subsequent private-sector guidance for its activities subject to the same limitation. The Airport Authority has elected to follow the standards set by the GASB, as opposed to subsequently issued private sector guidance.

The financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related GASB pronouncements.

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 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, and they are not available for current expenses, 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 assets are available.

Designated assets: 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, 2010 and 2009, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$20,895,687 and \$6,150,653, respectively.

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 overhead costs and interest cost 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:

Land improvements	30 to 40 years
Runways, taxiways, roads and parking areas	5 to 30 years
Buildings, structures and improvements	5 to 30 years
Machinery and equipment	3 to 10 years

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.

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): The District initially received approval from the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants. These grants transferred to the Airport Authority, effective January 1, 2003. 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. 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 (PFC): The District initially received approval from the FAA to impose a PFC at SDIA. The approval for the PFC was transferred by the FAA to the Airport Authority, effective January 1, 2003. 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, 2010 and 2009, accrued PFC receivables totaled \$5,015,518 and \$4,941,298, respectively, and there were \$57,894,537 and \$100,366,289 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2010 and 2009, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

On May 20, 2003, the FAA approved the Airport Authority's PFC application to increase the charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Approximately \$452 million in PFC revenues will have been collected and applied toward eligible capital projects from six approved FAA applications. There are currently four active applications which provide collection authority through October 2012. The first and second applications closed in December 2007 and May 2008, respectively. A seventh application to use PFC revenue previously imposed is pending with the FAA and expected to be approved by November 2010. 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 (CFC): 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 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. As of June 30, 2010 and 2009, accrued CFC receivables totaled \$1,235,660 and \$1,034,406, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2010 and 2009 were \$10,841,385 and \$661,445, respectively.

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 balance sheets. 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 assets: Invested in capital assets, net of related debt, 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. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted net assets represent amounts that are appropriated or legally segregated for a specific purpose. Airport Authority net assets are 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.

Invested in capital assets, net of related debt, as of June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 942,837,888	\$ 804,554,688
Less accumulated depreciation	(459,120,465)	(424,005,351)
Less outstanding debt	(208,160,919)	(131,051,070)
Invested in capital assets, net	<u>\$ 275,556,504</u>	<u>\$ 249,498,267</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:

	2010	2009
Bond reserves:		
Operations and maintenance reserve	\$ 30,230,832	\$ 31,427,143
Operations and maintenance subaccount reserve	10,076,944	10,475,714
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	5,395,610	5,397,157
Debt service principal	3,105,000	2,950,000
Commercial paper reserve	63,686	94,712
Commercial paper held by Trustee	12,853	12,849
Small Business Association Bond Guarantee	4,000,000	4,000,000
Passenger facility charges unapplied	57,894,537	100,366,289
Passenger facility charges receivable	5,015,518	4,941,298
Customer facility charges unapplied	10,841,385	661,445
Customer facility charges receivable	1,235,660	1,034,406
Owner Controlled Insurance Program (OCIP) loss reserve	6,400,000	1,065,796
Total other restricted net assets	<u>\$ 139,672,025</u>	<u>\$ 167,826,809</u>

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

	2010	2009
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	4,349,994	3,475,998
Net pension asset	8,317,080	4,017,837
Capital projects and other commitments (Note 12)	18,545,693	4,182,128
	<u>\$ 33,212,767</u>	<u>\$ 13,675,963</u>

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.

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, certain legal settlement income, PFCs, CFCs and grant revenue related to the Quieter Home Program.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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 legal settlements and unrealized loss on investments.

Federal grants: When a grant agreement is approved and all eligibility requirements have been met, the expenditures are recorded as a federal grant receivable and as a capital grant contribution or nonoperating grant revenue, as appropriate.

Cash and cash equivalents: For purposes of the statements of cash flows, cash and cash equivalents includes 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.

Deferred bond costs: The revenue bond original discount and the revenue bond original issue premium, along with the issuance costs, are deferred and amortized over the term of the bonds, using the straight-line method, which approximates the effective interest method.

Implementation of new accounting pronouncement: GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, was issued in June 2008 and implemented by the Airport Authority for the year ended June 30, 2010. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The objectives, terms and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. As the Airport Authority does not have derivative instruments, implementation of GASB No. 53 had no effect on the Airport Authority's financial statements. In the event the Airport Authority has derivative instruments, the Airport Authority will report under GASB No. 53 requirements.

Pronouncements issued, but not yet effective: The GASB issued pronouncements prior to June 30, 2010 that have an effective date 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. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 59, *Financial Instruments Omnibus*

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Reclassifications: Certain reclassifications have been made to the 2009 financial information in order to conform to the 2010 presentation. These reclassifications had no impact on net income or Airport Authority net assets.

Note 2. Cash and Investments

Summary of cash and investments: Cash and investments are reported in the accompanying balance sheets as follows at June 30:

	<u>2010</u>	<u>2009</u>
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 30,192,220	\$ 16,616,091
Current investments	74,853,720	42,090,303
Noncurrent investments	950,564	9,535,642
Total unrestricted and undesignated	<u>105,996,504</u>	<u>68,242,036</u>
Designated for specific capital projects and other commitments, cash and cash equivalents	<u>20,895,687</u>	6,150,653
Restricted cash and investments:		
Bond reserves:		
Operations and maintenance reserve	30,230,832	31,427,143
Operations and maintenance subaccount reserve	10,076,944	10,475,714
Renewal and replacement reserve	5,400,000	5,400,000
	<u>45,707,776</u>	<u>47,302,857</u>
Passenger facility charges unapplied	57,894,537	100,366,289
Small Business Development Bond Guarantee	4,000,000	4,000,000
Customer facility charges unapplied	10,841,385	661,445
Commercial paper reserve	63,686	94,712
Total restricted cash and investments	<u>118,507,384</u>	<u>152,425,303</u>
Total cash and investments, not with Trustee	<u>245,399,575</u>	<u>226,817,992</u>
Investments held by Trustee:		
Money market	4,227,238	4,145,988
Bond reserve, guaranteed investment contract	5,395,610	5,397,157
Commercial paper interest	12,853	12,849
Total held by Trustee	<u>9,635,701</u>	<u>9,555,994</u>
Total cash and investments	<u>\$ 255,035,276</u>	<u>\$ 236,373,986</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:

	<u>2010</u>	<u>2009</u>
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,966
Cash in banks	47,823,670	41,212
Total unrestricted cash on deposit	<u>47,875,646</u>	<u>93,178</u>
Unrestricted cash equivalents:		
U.S. Bank Repurchase Agreements	-	7,180,178
Union Bank of California, Money Market	3,212,262	15,493,388
Total unrestricted cash equivalents	<u>3,212,262</u>	<u>22,673,566</u>
Unrestricted and restricted investments:		
Reserve Family Fund Money Market	-	1,221,231
Certificates of deposit	16,031,421	20,151,759
Local Agency Investment Fund	46,905,826	35,547,847
San Diego County Investment Pool	49,619,000	35,137,094
Corporate bonds	4,030,620	4,067,780
U.S. Treasury notes	9,610,384	2,638,868
U.S. agency securities	68,114,416	105,286,669
Total unrestricted and restricted investments	<u>194,311,667</u>	<u>204,051,248</u>
Total cash equivalents and investments not with Trustee	<u>197,523,929</u>	<u>226,724,814</u>
Investments held by Trustee:		
Money market	4,227,238	4,145,988
Bond reserve, guaranteed investment contract	5,395,610	5,397,157
Commercial paper interest	12,853	12,849
Total investments held by Trustee	<u>9,635,701</u>	<u>9,555,994</u>
Total cash equivalents and investments	<u>207,159,630</u>	<u>236,280,808</u>
Total cash, cash equivalents and investments	<u>\$ 255,035,276</u>	<u>\$ 236,373,986</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy: The table below identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's investment policy that address interest rate risk, credit risk and concentration of credit risk. This table does not address investments of bond proceeds held by the bond trustee that are governed by provisions of debt agreements of the Airport Authority, in addition to the general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Banker's 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	5 percent
	25-36 months	AA	15 percent	5 percent
Repurchase agreements	1 year	A	None	None
Mortgage-backed securities	5 years	AAA	30 percent	None
Local Agency Investment Fund	N/A	N/A	None	\$50 million
San Diego County Investment Pool	N/A	N/A	None	\$50 million
Time certificates of deposit	1 year	*	20 percent	10 percent
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
Active deposits	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 Airport Authority's investment policy 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
Banker's 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 policies:

- Banker's acceptances, which are eligible for purchase by the Federal Reserve System and are rated in the highest category by a nationally recognized statistical organization (NRSRO).
- Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by an NRSRO.
- Negotiated certificates of deposit (NCD) issued by state or chartered bank or a state or federal savings institution. Shall be rated "A" or better by an NRSRO. NCDs with an "A" rating shall be limited to 24 months maximum maturity; "AA"-rated NCDs shall be limited to 36 months.

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

- Medium-term notes issued by corporations organized and operating within the United States shall be rated "A" or better by an NRSRO for maturities less than 24 months and "AA" for maturities less than or equal to 36 months.
- Money market mutual funds with management companies that are money market funds registered with the Securities and Exchange Commission (SEC), investing in the securities and obligations as authorized by California Government Code 53601. These companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) retain an investment advisor registered with the SEC with not less than five years experience investing in the securities and obligation market as authorized by California Government Code 53601, subdivision (a) to (m) inclusive, and with assets under management in excess of \$500 million.
- U.S. government-sponsored agencies rated "AAA" issued mortgage-backed security with a maximum of five years maturity.

The Airport Authority has monies held by trustees pledged to the payment or security of certain bonds, the proceeds of which were used solely to pay for the expansion of the West Terminal at SDIA. At June 30, 2010 and 2009, the Series 2005 investments held by the Trustee was \$9,622,848 and \$9,543,145, respectively, and the commercial paper interest held by the Trustee was \$12,853 and \$12,849, respectively. The Series 2005 Bond guaranteed investment contract earns interest at 5.162 percent and matures on July 1, 2020.

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, the longer the maturity of an investment, the greater the sensitivity of its fair value 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

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 table, which shows the distribution of the entity's investments by maturity as of June 30, 2010:

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 46,905,826	\$ 46,905,826	\$ -	\$ -	\$ -
SDCIP	49,619,000	49,619,000	-	-	-
Corporate bonds	4,030,620	4,030,620	-	-	-
U.S. Treasury notes	9,610,384	9,610,384	-	-	-
U.S. agency securities	68,114,416	21,456,076	13,001,390	33,656,950	-
Guaranteed investment contract	5,395,610	-	-	-	5,395,610
Total investments subject to interest rate risk	183,675,856	131,621,906	13,001,390	33,656,950	5,395,610
Deposits not subject to interest rate risk:					
Money market account	7,452,353	7,452,353	-	-	-
Certificates of deposit	16,031,421	16,031,421	-	-	-
Total deposits not subject to interest rate risk	23,483,774	23,483,774	-	-	-
	\$ 207,159,630	\$ 155,105,680	\$ 13,001,390	\$ 33,656,950	\$ 5,395,610

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 a minimum of 105 percent collateralization of these deposits which are authorized by the Airport Authority's investment policy. 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, 2010 for each investment type:

Investment Type	Total	Unrated	AAA
Investments subject to credit risk:			
LAIF	\$ 46,905,826	\$ 46,905,826	\$ -
SDCIP	49,619,000	-	49,619,000
Corporate bonds	4,030,620	-	4,030,620
U.S. Treasury notes	9,610,384	-	9,610,384
U.S. agency securities	68,114,416	-	68,114,416
Guaranteed investment contract	5,395,610	-	5,395,610
Total investments subject to credit risk	183,675,856	46,905,826	136,770,030
Deposits subject to credit risk:			
Money market account	7,452,353	4,240,091	3,212,262
Certificates of deposit	16,031,421	16,031,421	-
Total deposits subject to credit risk	23,483,774	20,271,512	3,212,262
	\$ 207,159,630	\$ 67,177,338	\$ 139,982,292

Source: Standard and Poor's

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, 2010 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
Federal National Mortgage Assoc.	U.S. agency securities	\$ 26,080,711	12.59%
Federal Home Loan Bank	U.S. agency securities	20,916,051	10.10%
Federal Home Loan Mortgage Corp.	U.S. agency securities	15,052,694	7.27%
		\$ 62,049,456	29.95%

Investment in state investment pool: 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 investment in this pool is 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 that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Investment in county investment pool: The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The Airport Authority's investment in this pool is 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.

Investment liquidity and potential impairment: On September 17, 2008, the Airport Authority initiated full redemption of its funds invested with the Primary Liquidity Fund operated by The Reserve Money Management Corporation of New York (The Reserve Fund). Under policies initiated by the Board of The Reserve Fund, the Airport Authority expected to receive funds in the amount of \$12,157,575 within seven days of its request.

The redemption was initiated due to the bankruptcy of Lehman Brothers for which the Primary Liquidity Fund had a position of nearly \$800 million in its securities. The Reserve Fund wrote down its Lehman holdings to zero value, causing a reduction in the value of holdings in their fund by 3 percent.

During that time period, The Reserve Fund filed an application with the SEC on behalf of two of its series, including the Primary Liquidity Fund, for a temporary suspension of the right of redemption of their outstanding redeemable securities and postponement of payment for shares which have been submitted for redemption for which payment has not been made.

Effective as of September 17, 2008, and released in a statement from the SEC on September 22, 2008, the SEC ordered the temporary suspension and postponement of payments from The Reserve Fund. The SEC believed the temporary suspension was in the best interest of each of The Reserve Fund's shareholders. The Reserve Fund, under this order, created a plan for orderly liquidation of each of The Reserve Fund's assets to meet redemption requests and payments to each shareholder subject to SEC supervision. This order also requires The Reserve Fund to suspend sales and maintain appropriate records of these events.

On August 25, 2009, The Reserve Fund issued a statement regarding calculations of potential distributions on a pro rata basis. The Reserve Fund and its Independent Trustees support the distribution of the fund's remaining assets on a fair and equitable basis as quickly as possible. Additionally, on August 25, they filed briefs with the U.S. District Court for the Southern District of New York, explaining that based on revised calculations and updated data, each unpaid shareholder may receive \$0.9857 per share, pro rata, and possibly up to \$0.99 per share, based on certain assumptions. The ultimate amount distributed will vary depending on the actual price received for the Lehman securities, the amount of Reserve Fund expenses and other factors.

To date, The Reserve Fund has distributed \$50.5 billion through six interim distributions on a pro rata basis to remaining shareholders, representing \$0.97 per share for each of the remaining 51.18 billion shares outstanding. The Reserve Fund holds \$328 million of remaining assets. Claims against The Reserve Fund for fees, expenses and indemnification equal approximately \$106 million. Until the U.S. District Court completes a review and determination, the amount to finally be received by the Airport Authority is unknown.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

To date, the Airport Authority has received four distributions totaling \$12,005,603 from The Reserve Fund. As of June 30, 2010 and 2009, the undistributed balance, including interest income, was \$166,515 and \$1,221,231, respectively. The investment was written down to zero in fiscal year 2008 and the Airport Authority will continue to recognize amounts received from The Reserve Fund, if any, in the period collected.

The Airport Authority's management, along with the Airport Authority's outside Investment and Financial Advisors, will continue to monitor this situation.

Investment in certificates of deposit: The Airport Authority has established a \$4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be 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. Both the Airport Authority and the sureties participate in the risk under this program. The objective of this program is to ensure that local small, disadvantaged, disabled veteran and other business enterprises have every opportunity to do business with the Airport Authority.

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. On October 3, 2005, the Airport Authority's Board authorized the District to issue an \$8,000,000 promissory note in favor of Carnival Corporation on parity with the \$50,000,000 note. At June 30, 2010 and 2009, the balance of the note receivable was \$45,221,133 and \$46,383,195, respectively. The current portion recorded on the note for the years ended June 30, 2010 and 2009 was \$1,227,612 and \$1,162,063, respectively.

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 an interest rate of prime (5.25 percent) plus 1.0 percent. 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, 2010 and 2009, the note receivable was recorded at a value of \$1,002,132 and \$1,367,651, respectively. The current portion for the years ended June 30, 2010 and 2009 was \$385,178 and \$365,519, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 3. Notes Receivable, Continued

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>
2011	\$ 1,613,000
2012	1,696,000
2013	1,581,000
2014	1,447,000
2015	1,529,000
2016-2020	9,025,000
2021-2025	11,884,000
2026-2030	15,635,000
2031	1,813,000
	<u>\$ 46,223,000</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, 2009	Increases	Decreases	Balance at June 30, 2010
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ -	\$ 22,432,655
Construction in progress	103,275,230	145,391,874	(65,653,409)	183,013,695
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	<u>126,147,885</u>	<u>145,391,874</u>	<u>(65,653,409)</u>	<u>205,886,350</u>
Depreciable assets:				
Land improvements	1,129,612	-	(128,059)	1,001,553
Buildings and structures	411,197,780	54,863,979	(3,193,866)	462,867,893
Machinery and equipment	37,218,852	10,251,525	(2,258,546)	45,211,831
Runways, roads and parking lots	228,860,559	678,438	(1,668,736)	227,870,261
Total capital assets being depreciated	<u>678,406,803</u>	<u>65,793,942</u>	<u>(7,249,207)</u>	<u>736,951,538</u>
Less accumulated depreciation for:				
Land improvements	(1,108,980)	(7,115)	114,542	(1,001,553)
Building and structures	(250,281,933)	(23,468,205)	3,193,866	(270,556,272)
Machinery and equipment	(22,386,496)	(5,627,029)	2,258,545	(25,754,980)
Runaways, roads and parking lots	(150,227,942)	(13,248,452)	1,668,734	(161,807,660)
Total accumulated depreciation	<u>(424,005,351)</u>	<u>(42,350,801)</u>	<u>7,235,687</u>	<u>(459,120,465)</u>
Total capital assets being depreciated, net	<u>254,401,452</u>	<u>23,443,141</u>	<u>(13,520)</u>	<u>277,831,073</u>
Capital assets, net	<u>\$ 380,549,337</u>	<u>\$ 168,835,015</u>	<u>\$ (65,666,929)</u>	<u>\$ 483,717,423</u>

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets, Continued

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ -	\$ 22,432,655
Construction in progress	53,453,659	80,720,960	(30,899,389)	103,275,230
Intangible asset	-	440,000	-	440,000
Total nondepreciable assets	<u>75,886,314</u>	<u>81,160,960</u>	<u>(30,899,389)</u>	<u>126,147,885</u>
Depreciable assets:				
Land improvements	1,129,612	-	-	1,129,612
Buildings and structures	390,442,393	22,046,567	(1,291,180)	411,197,780
Machinery and equipment	31,240,168	6,325,130	(346,446)	37,218,852
Runways, roads and parking lots	226,837,515	3,132,834	(1,109,790)	228,860,559
Total capital assets being depreciated	<u>649,649,688</u>	<u>31,504,531</u>	<u>(2,747,416)</u>	<u>678,406,803</u>
Less accumulated depreciation for:				
Land improvements	(1,100,443)	(8,537)	-	(1,108,980)
Building and structures	(231,434,285)	(20,128,651)	1,281,003	(250,281,933)
Machinery and equipment	(17,949,298)	(4,763,850)	326,652	(22,386,496)
Runaways, roads and parking lots	(138,111,877)	(13,225,855)	1,109,790	(150,227,942)
Total accumulated depreciation	<u>(388,595,903)</u>	<u>(38,126,893)</u>	<u>2,717,445</u>	<u>(424,005,351)</u>
Total capital assets being depreciated, net	<u>261,053,785</u>	<u>(6,622,362)</u>	<u>(29,971)</u>	<u>254,401,452</u>
Capital assets, net	<u>\$ 336,940,099</u>	<u>\$ 74,538,598</u>	<u>\$ (30,929,360)</u>	<u>\$ 380,549,337</u>

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt and Subsequent Event

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

	Principal Balance at June 30, 2009	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2010	Due Within One Year
Debt obligations:					
Commercial paper	\$ 84,430,000	\$ 80,000,000	\$ -	\$ 164,430,000	\$ -
Bonds payable:					
Series 2005 Bonds	47,280,000	-	(2,950,000)	44,330,000	3,105,000
Bond premium	2,499,975	-	(227,271)	2,272,704	-
Deferred amounts on refunding	(2,550,605)	-	231,874	(2,318,731)	-
Total bonds payable	47,229,370	-	(2,945,397)	44,283,973	3,105,000
Total debt obligations	131,659,370	80,000,000	(2,945,397)	208,713,973	3,105,000
Compensated absences	2,585,848	2,079,520	(2,133,766)	2,531,602	2,133,766
Total long-term liabilities	\$ 134,245,218	\$ 82,079,520	\$ (5,079,163)	\$ 211,245,575	\$ 5,238,766

	Principal Balance at June 30, 2008	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2009	Due Within One Year
Debt obligations:					
Commercial paper	\$ 49,430,000	\$ 35,000,000	\$ -	\$ 84,430,000	\$ -
Bonds payable:					
Series 2005 Bonds	50,085,000	-	(2,805,000)	47,280,000	2,950,000
Bond premium	2,727,246	-	(227,271)	2,499,975	-
Deferred amounts on refunding	(2,782,479)	-	231,874	(2,550,605)	-
Total bonds payable	50,029,767	-	(2,800,397)	47,229,370	2,950,000
Total debt obligations	99,459,767	35,000,000	(2,800,397)	131,659,370	2,950,000
Compensated absences	2,385,663	2,249,245	(2,049,060)	2,585,848	2,049,060
Total long-term liabilities	\$ 101,845,430	\$ 37,249,245	\$ (4,849,457)	\$ 134,245,218	\$ 4,999,060

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt and Subsequent Event, Continued

Commercial paper Series A and B: In November 1997, the District authorized borrowing of up to \$100,000,000 through September 2007. Proceeds from the issuance were designated to be used to finance further improvements to SDIA. The new commercial paper offering is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 2005 Bonds. Each commercial paper note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The commercial paper is classified as a long-term liability because the Airport Authority has an irrevocable letter of credit that expires no later than September 10, 2014 and is available if the commercial paper is not reissued. If the letter of credit is drawn upon and is not paid off within 90 days of being drawn upon, quarterly payments equal to the amount drawn will be paid. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank.

On September 6, 2007, the Board authorized issuance of \$250,000,000 of subordinate commercial paper. The Airport Authority entered into an agreement with Lloyds TSB Bank as the letter-of-credit provider. This has replaced the letter of credit for \$100,000,000 that expired on September 26, 2007.

In fiscal year 2008, the Airport Authority used a portion of the \$250,000,000 to refinance \$52,000,000 of expiring commercial paper. Approximately \$125,000,000 will be used as interim funding of capital improvement projects. The commercial paper notes secured by the irrevocable letter of credit from Lloyds TSB Bank is rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service.

During fiscal years 2010 and 2009, the Airport Authority issued an additional \$80,000,000 and \$35,000,000 in commercial paper, respectively. This additional Series A, B and C commercial paper was executed in accordance with the existing agreement with Lloyds TSB Bank that was previously authorized by the Board. The additional proceeds were used to reimburse the Airport Authority for prior expenditure reimbursement and future project expenditures. Commercial paper interest expense for the years ended June 30, 2010 and 2009 amounted to \$165,947 and \$541,494, respectively, including accrued interest of \$55,866 and \$101,053, respectively.

At June 30, 2010, the principal amount outstanding for Series A was \$67,376,000, with an average annual interest rate of 0.36 percent; the principal amount outstanding for Series B was \$57,254,000, with an average annual interest rate of 0.40 percent; and the principal amount outstanding for Series C was \$39,800,000, with an average annual interest rate of 0.35 percent. At June 30, 2009, the principal amount outstanding for Series A was \$27,176,000, with an average annual interest rate of 1.07 percent; and the principal amount outstanding for Series B was \$57,254,000, with an average annual interest rate of 0.94 percent.

The commercial paper notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the debt service for that year. In addition, the commercial paper 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, 2010 and 2009, the amount held by the trustee was \$12,853 and \$12,849, respectively, and the amount reserved by the Airport Authority was \$63,686 and \$94,712, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt and Subsequent Event, Continued

Airport Revenue Bonds, Series 2005 and Refunded Series 1995: In fiscal year 1996, the California Maritime Infrastructure Authority issued 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. The Series 1995 Bonds were issued in the aggregate principal amount of \$76,690,000, consisting of \$29,895,000 in serial bonds and \$46,795,000 in term bonds.

The Series 2005 Bonds were issued in the aggregate principal amount of \$56,270,000 and 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. The bonds were issued at a premium of \$3,333,300, with deferred amounts on refunding of \$3,400,800, which are being amortized over the life of the bonds. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the years ended June 30, 2010 and 2009 amounted to \$2,244,475 and \$2,391,975, respectively, including accrued interest of \$1,122,237 and \$1,195,988, respectively. The principal balance on the Series 2005 Bonds as of June 30, 2010 and 2009 was \$44,330,000 and \$47,280,000, respectively.

The Series 2005 Bonds are payable solely from and secured by pledged revenues. Pledged revenues are defined as all revenues and other cash receipts of the Airport Authority's airport operations, reduced by operation and maintenance expenses. Pledged revenues do not include cash received from PFCs or federal grants.

The Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the debt service for that year. In addition, the Series 2005 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 discussed in Note 2. At the years ended June 30, 2010 and 2009, the amount held by the trustee was \$5,394,063 and \$5,394,063, respectively. An additional amount of \$4,227,238 and \$4,149,082 was held at June 30, 2010 and 2009, respectively, for the July 1 payments. The total amount reserved by the Airport Authority for 2010 and 2009 was \$45,707,776 and \$47,302,857, respectively. The underlying public ratings of the Series 2005 Bonds as of June 30, 2010 and 2009 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The debt is insured by the American Municipal Bond Assurance Corporation (AMBAC). On June 26, 2008, Fitch withdrew its ratings on AMBAC at the insurer's request. On July 29, 2009, Moody's downgraded its rating from Ba3 to Caa2. On March 25, 2010, Standard & Poor's downgraded its rating from CC to R.

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt and Subsequent Event, Continued

The required debt service payments for the Series 2005 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>
2011	\$ 3,105,000	\$ 2,166,850	\$ 5,271,850
2012	3,265,000	2,007,600	5,272,600
2013	3,430,000	1,840,225	5,270,225
2014	3,610,000	1,664,225	5,274,225
2015	3,790,000	1,479,225	5,269,225
2016-2020	22,005,000	4,329,832	26,334,832
2021	5,125,000	134,531	5,259,531
	<u>\$ 44,330,000</u>	<u>\$ 13,622,488</u>	<u>\$ 57,952,488</u>

A cumulative rebate liability relating to arbitrage of the Series 2005 Bonds was recorded for \$183,422 and \$131,353 as of the fiscal years ended June 30, 2010 and 2009, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2010. Additionally, should the bonds be retired prior to July 1, 2010, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

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 2009 the Airport Authority established a \$4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be 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, 2010, nothing had been drawn on the line of credit and one letter of credit was issued, at \$400,000, for a project completed in fiscal year 2010. The letter of credit is due to expire on September 23, 2010.

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt and Subsequent Event, Continued

Subordinate Series 2010 Bonds: On October 5, 2010, the Airport Authority issued \$572,565,000 of Series A, B and C subordinate airport revenue bonds. These bonds are due to mature in 2040. The interest rates on the Series A bonds range from 4.0 percent to 5.0 percent and Series B bonds range from 2.0 percent to 5.0 percent. The interest rate on the Series C bonds, including the "Build America Bonds" interest subsidy, is 4.3 percent. 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 commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds. 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 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 commercial paper notes, which were outstanding in the aggregate principal amount of \$164,430,000 as of September 1, 2010.

	Principal	Interest	Total
2011	\$ -	\$ 7,589,356	\$ 7,589,356
2012	715,000	31,762,248	32,477,248
2013	980,000	31,745,298	32,725,298
2014	1,000,000	31,720,498	32,720,498
2015	5,785,000	31,594,948	37,379,948
2016-2020	47,350,000	152,290,242	199,640,242
2021-2025	59,970,000	139,283,710	199,253,710
2026-2030	76,400,000	122,446,679	198,846,679
2031-2035	143,425,000	94,538,155	237,963,155
2036-2040	192,925,000	43,567,408	236,492,408
2041	44,015,000	1,331,692	45,346,692
	<u>\$ 572,565,000</u>	<u>\$ 687,870,234</u>	<u>\$ 1,260,435,234</u>

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan, Continued

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 contribution rate, as determined through actuarial valuation, was 12.08 percent for 2010, 12.69 percent for 2009 and 10.79 percent for 2008, and is expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2010, 2009 and 2008, the annual pension cost included in salaries and benefits was \$4,999,976, \$4,894,371 and \$2,503,543, respectively, for the CERS pension. Comparing 2009 to 2008, the total actuarial liability increased by 19.5 percent, but the actuarial value of assets only increased by 1.5 percent. The funding ratio decreased from 101.7 percent as of June 30, 2008 to 86.9 percent as of June 30, 2009. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets increased slightly, whereas the market value fell by 10.4 percent. The return on investments, as reported by CERS' investment advisor, was negative 19.2 percent for 2009, negative 4.66 percent for 2008 and positive 16.50 percent for 2007. On an actuarial (smoothed) value of assets basis, the return for fiscal year 2009 was negative 6.18 percent. The annual pension costs are equal to the Airport Authority's required and actual contributions for each year. The required annual contribution will be determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, which is the method utilized by CERS.

As of June 30, 2010, significant actuarial assumptions are as follows:

- The rates of retirement are assumed that retirement will occur, provided they have at least five years of service on the later of attained age or the earlier of age 62 or 55 and at least 20 years of service.
- Termination rates vary based on selected ages and years of service. The rates range from age 20 at 12.78 percent to age 60 at 2.78 percent. Additionally, 20 percent of terminating employees with at least five years of service at termination are assumed to subsequently work for a reciprocal employer and receive 4.50 percent pay increases per year.
- Disability rates are assumed to be 60 percent from industrial disability retirements. Nonindustrial disability retirement is subject to a service requirement.
- Mortality rates for active Airport Authority members were set to the RP2000 Combined Healthy table projected to 2008.
- Mortality rates for retired Airport Authority members were set to the RP2000 Combined Healthy table.
- The investment return assumption was 7.75 percent.
- The inflation assumption was 4.00 percent.

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan, Continued

As of September 2006, the actuarial value of assets was equal to the market value of assets. The following year, the actuarial value was calculated by accepting 100 percent of the expected asset value plus 25 percent of the difference between the actual market value next year and the expected asset value. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payrolls over a closed 18-year period. 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, 2010, 2009 and 2008, the total contribution of \$10,013,627 less amortization of \$1,696,547, \$1,395,790 and \$1,095,033, respectively, is recorded as a net pension asset of \$8,317,080, \$4,017,837 and \$4,318,594, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2011 measured as a percentage of membership payroll increased from 12.08 percent to 16.60 percent. The required beginning-of-year contribution paid July 1, 2010 increased by \$1,300,000. The Airport Authority does not think that the increased rates or increased annual contribution will have a significant adverse effect on its future financial statements.

Schedule of funding progress for CERS (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Pension Cost	% ARC Funded	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	ARC	Interest on the NPO at 7.75%	ARC Adjustment
6/30/07	\$ 50,753	\$ 46,637	\$ (4,117)	108.8	\$ 21,957	(18.8%)	\$ 2,503	100%	\$ 4,319	\$ -	\$ 300	\$ 2,503	\$ 392	\$ -
6/30/08	57,748	56,808	(940)	101.7	23,488	(4.0%)	4,894	100%	4,018	-	300	4,894	392	-
6/30/09	58,981	67,871	8,890	86.9	24,683	36.0%	9,526	193%	8,317	4,600	300	4,926	433	-

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.

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San Diego County Regional Airport Authority

Notes to Financial Statements

Note 7. Employees' Deferred Compensation Plan, Continued

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 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.

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 which 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, 2009 actuarial valuation for the ARC net of the employer contribution was \$1,733,000 for fiscal year 2010, \$1,429,000 for 2009 and \$1,251,000 for 2008. 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 7.75 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 3.25 percent. The inflation component ranged from 11 percent to 5 percent from one to seven years for medical and 7 percent to 5 percent for dental.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits, Continued

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) and annual OPEB cost (dollars in thousands):

Actuarial Valuation Date	ARCs	Employer Contribution	NOO End of Year	Interest on NOO	Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
7/1/2008	\$ 1,309	\$ 58	\$ 1,251	\$ -	\$ -	\$ 1,309	7.75%	3.25%	16.6
7/1/2009	1,429	2,758	(58)	97	77	1,449	7.75%	3.25%	16.3

Schedule of funding progress (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	7/1/07	\$ -	\$ 8,924	\$ 8,924	0%	\$ 18,806	47.5%	7.75%	3.25%
Update	7/1/08	-	10,327	10,327	0%	19,417	53.2%	7.75%	3.25%
Actual	7/1/09	2,674	12,206	9,532	21.9%	19,514	48.8%	7.75%	3.25%

Schedule of employer contributions (dollars in thousands):

Fiscal Year Ending	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB Asset (Obligation)
6/30/08	\$ 1,309	\$ 58	4.4%	\$ (1,251)
6/30/09	1,449	2,758	190.3%	58
6/30/10	1,733	1,825	105.3%	92

Note 9. Risk Management

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 maintains \$50 million in limits for primary owners' and operators' general liability insurance with a War, Hijacking and Other Perils endorsement. The war endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Airport Authority maintains \$450 million of general liability insurance in excess of the \$50 million primary liability coverage. The Airport Authority's coverage includes a variety of retentions or deductibles.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 9. Risk Management, Continued

The cost of earthquake coverage remains exorbitant and is not available in significant amounts. The Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay a minimum of 25 percent of the balance for nationally declared disasters. In addition, the California legislature has paid any remaining loss costs for all declared disasters since 1989. The Airport Authority in the past relied on these laws to pay loss costs beneath the attachment point for insurance coverage and above the coverage limit purchased. Effective July 1, 2007, based on the status of these laws and the condition of the insurance marketplace, 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. As of June 30, 2010 and 2009, the Airport Authority had \$2,349,994 and \$1,475,998, respectively, for an earthquake contingency reserve. This reserve is intended to increase as deemed by management.

A \$2,000,000 contingency reserve has been established, within unrestricted net assets, 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.

The Airport Authority participates in an insurance purchasing program, with a \$1 billion limit to provide all risk and flood coverage on physical assets. During fiscal year 2010, 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.

The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, a risk analyst, 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.

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. 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 lease commitments are on a month-to-month basis and accordingly 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>
2011	\$ 8,590,665
2012	8,463,687
2013	6,072,045
2014	4,645,507
2015	4,485,090
2016-2020	6,640,169
	<u>\$ 38,897,163</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 10. Lease Revenues, Continued

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, 2010 and 2009, the Airport Authority recognized lease revenue of \$86,996 and \$41,627, respectively, under the World Trade Center lease.

Note 11. Lease Commitments

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. 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, which 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 three additional properties adjacent to SDIA. These properties require monthly rentals of \$86,083, \$12,521 and \$4,589 and expire in December 2013, December 2013 and April 2012, respectively.

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 it 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.

Building lease: The Airport Authority leased modular buildings from an unrelated third party that requires monthly rental of \$1,366 through the expiration date of August 2013.

Copier leases: The Airport Authority entered into a five-year capital lease agreement for 22 copiers that require monthly lease payments of \$8,259.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments, Continued

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>
2011	\$ 11,437,233
2012	11,428,105
2013	11,382,353
2014	10,741,176
2015	10,100,000
2016-2020	50,500,000
2021-2025	50,500,000
2026-2030	50,500,000
2031-2035	50,500,000
2036-2040	50,500,000
2041-2045	50,500,000
2046-2050	50,500,000
2051-2055	50,500,000
2056-2060	50,500,000
2061-2065	50,500,000
2066-2069	35,350,000
	<u>\$595,438,867</u>

The total rental expense charged to operations for the year ending June 30, 2010 and 2009 were \$10,905,899 and \$10,887,936, respectively.

Note 12. Commitments, Contingencies and Subsequent Event

Commitments: As of June 30, 2010 and 2009, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Airport Authority has funds which 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, 2010 and 2009, these funds totaled \$1,537,894 and \$4,182,128, respectively, and are classified on the accompanying balance sheets as cash and investments designated for specific capital projects and other commitments.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event, Continued

- 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 provided 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 years ended June 30, 2010 and 2009, the Airport Authority expensed \$13,467,406 and \$13,318,272, respectively, for these services.
- iii. In addition, the Airport Authority has a profit sharing plan as defined under Section 401(a) of the IRC. Under the plan, eligible employees receive annual discretionary employer contributions. Airport Authority contributions are immediately vested by the participants. For fiscal years 2010 and 2009, \$145,000 and \$155,000 were deposited, respectively.
- iv. Major contracts—During 2007 the Airport Authority Board approved a contract with The Jones Payne Group for \$30 million for on-call architectural and engineering consultant services and support services associated with the capital improvement and airport master plan programs. At June 30, 2010, approximately \$13.8 million had been spent and the remaining contract is due to be completed during fiscal year 2011. The Airport Authority Board approved a contract with C & S Engineers for \$30 million in 2007 for on-call architectural and engineering consultant services. At June 30, 2010, approximately \$6.5 million had been spent and the remaining contract is due to be completed during fiscal year 2011. These major contracts are associated with the capital improvement and airport master plan programs. During 2006 the Airport Authority Board approved a contract with AECOM Aviation for \$37.8 million, and in 2009 the Board approved additional funds of \$38.7 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. At June 30, 2010, approximately \$64.5 million had been spent and the remaining contract is due to be completed during fiscal year 2011. 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 2013. 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 \$13.1 million. In 2010 another \$124 million was approved to be added to the contract. The second was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$11 million approved in 2009 and another \$76.2 million in 2010. As of June 30, 2010, \$27.6 million had been spent for the Kiewit/Sundt Joint Venture contract. Both contracts are scheduled for completion in fiscal year 2013. In August 2009, the Board approved a contract with Flatiron West, Inc., an airport engineering construction firm, for rehabilitation of an airport taxiway for \$23 million. At June 30, 2010, approximately \$17 million had been spent on this contract.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event, Continued

Contingencies: As of June 30, 2010, 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.

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District

The former TDY property consists of approximately 44 acres of property located at 2701 N. Harbor Drive, San Diego, California. During 2004 the Airport Authority initiated litigation against the District. The litigation (State Court Case 779490 and Federal Case 3:03CV1146) has concluded and resulted in a comprehensive settlement agreement between the District, the Airport Authority and TDY. The property is still the subject of a Cleanup and Abatement Order (CAO) that names TDY as the only responsible party for the contamination on the site.

Cleanup and Abatement Order (CAO) No. R9-2004-0258: This action is ongoing and involves an order by the California Regional Water Quality Control Board, San Diego Region, entitled Cleanup and Abatement Order (CAO) No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304. The demolition of the buildings and improvements currently located on the property are the joint financial responsibility of the District and the Airport Authority. The Airport Authority's share of the cost is estimated to be \$9 million and will result in the creation of a long-term capital asset. As a result, the Airport Authority will capitalize its share of the demolition costs as these costs are incurred.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event, Continued

Save Our Heritage Organization v. San Diego Unified Port District, et al. (San Diego Superior Court Case No. 37-2009-000097828-CU-TT-CTL)

On September 4, 2009, Save Our Heritage Organization (SOHO) filed a Petition for Writ of Mandamus (Action) challenging the approval and certification of the TDY demolition project/EIR. The parties to the Action are: (1) the Petitioner, SOHO; (2) Respondents, San Diego Unified Port District and the Board of Port Commissioners (the lead agency under CEQA that approved the TDY demolition project and certified the EIR); and (3) Real Party in Interest, San Diego County Regional Airport Authority. The Action alleges violations of the California Environmental Quality Act (CEQA). SOHO requests the following remedy from the District: (1) set aside and void the certification of the EIR, set aside and void the approval of the demolition project, and set aside and void any other related approvals; (2) issue a temporary stay and preliminary injunction staying the District and their agents from physical actions pursuant to the TDY demolition project, including predemolition or demolition while the Action is pending; (3) issue a permanent injunction pending the District's full compliance with CEQA and all other applicable planning laws and ordinance; (4) award SOHO its reasonable costs and attorney fees; and (5) award such other relief as the court finds proper. The Airport Authority has defended the case successfully, obtaining a final decision from the court denying relief to the plaintiff. On October 5, 2010, judgment was entered in favor of the District and the Airport Authority. SOHO has filed a Writ of Supersedeas with the Court of Appeals and a request for a temporary emergency stay on the demolition of two buildings. The Airport Authority's legal counsel does not believe a loss contingency, if any, would have a material effect on the financial statements.

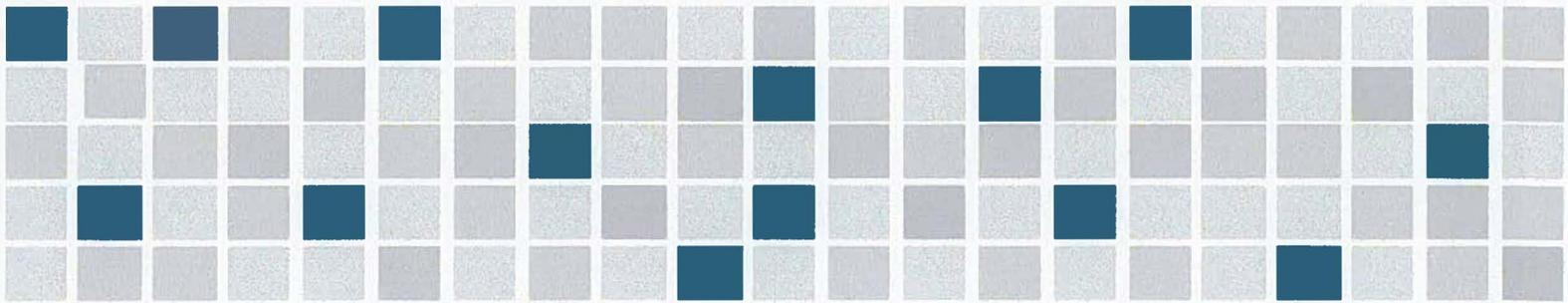
West-Tech Contracting, Inc.—Project No. 103044 Landfill Remediation-Phase 2

On June 25, 2010, West-Tech Contracting, Inc. (West-Tech) filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately \$1,500,000 resulting from an alleged breach of contract by the Airport Authority. In April 2008, the Airport Authority entered into a public works contract with West-Tech for Project No. 103044-NTC Landfill Remediation-Phase 2 (Contract) for the remediation of burn ash and other material at the old Naval Training Center. West-Tech alleges that the Airport Authority breached the contract because: (1) it refused to allow West-Tech to use a landfill that West-Tech believed met the specifications set forth in the Contract and (2) the estimated amount of burn ash identified in the Contract as requiring removal was grossly underestimated. The Airport Authority does not agree with either of these contentions. No lawsuit has been filed. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

San Diego County Regional Airport Authority

Compliance Report

June 30, 2010



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San Diego County Regional Airport Authority

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010**

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*	3-06-0214-45	\$ 2,973,274
Airport Improvement Program (AIP)	20.106*	3-06-0214-48	6,966,470
Airport Improvement Program (AIP)	20.106*	3-06-0214-50	6,771,087
Airport Improvement Program (AIP)	20.106*	3-06-0214-51	167,386
Airport Improvement Program (AIP)	20.106*	3-06-0214-52	789,750
Airport Improvement Program (AIP)	20.106*	3-06-0214-53	1,623,677
Airport Improvement Program (AIP)	20.106*	3-06-0214-54	11,937,411
Airport Improvement Program (AIP)	20.106*	3-06-0214-55	1,043,619
Airport Improvement Program (AIP)	20.106*	3-06-0214-56	663,937
Airport Improvement Program (AIP)	20.106*	3-06-0214-57	3,271,575
Airport Improvement Program (AIP)	20.106*	3-06-0214-59	7,380,074
Total funded under Airport Improvement Program grants			43,588,260
Airport Improvement Program (AIP)	ARRA-20.106*	3-06-0214-58	3,798,922
Total funded under American Recovery and Reinvestment Act of 2009			3,798,922
Total U.S. Department of Transportation			47,387,182
U.S. Department of Homeland Security			
Direct Programs:			
TSA CCTV	N/A	HSTS04-07-A-CTO208	5,312
Law Enforcement Personnel Reimbursement Agreement	97.100	HSTS02-08-H-SLR254	213,636
Utility Agreement	97.090	HSTS03-04-A-AOP082	181,201
Total U.S. Department of Homeland Security			400,149
Total federal awards expended			\$ 47,787,331

N/A - Not applicable and/or available

* - Denotes major program

See Note to Schedule of Expenditures of Federal Awards.

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San Diego County Regional Airport Authority

Note 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). The Schedule includes only federal awards received directly from federal agencies as the Authority does not receive federal awards passed through other agencies. The Airport Authority's reporting entity is defined in Note 1 to the Airport Authority's financial statements. 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 of the Airport Authority.

The accompanying Schedule is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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 the financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over financial reporting.

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 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. Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the Board, management of the Airport Authority and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010



Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Its Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of the San Diego County Regional Airport Authority (the Airport Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major program for the year ended June 30, 2010. The Airport Authority's major federal program is identified in the "Summary of Auditor's Results" section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the 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. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

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

Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Airport Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Airport Authority as of and for the year ended June 30, 2010 and have issued our report thereon dated October 15, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board, management of the Airport Authority and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

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: Unqualified

- 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,433,620

Auditee qualified as low-risk auditee? Yes No

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

II. Financial Statement Findings

A. Internal Control Deficiencies

None reported.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control Deficiencies

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

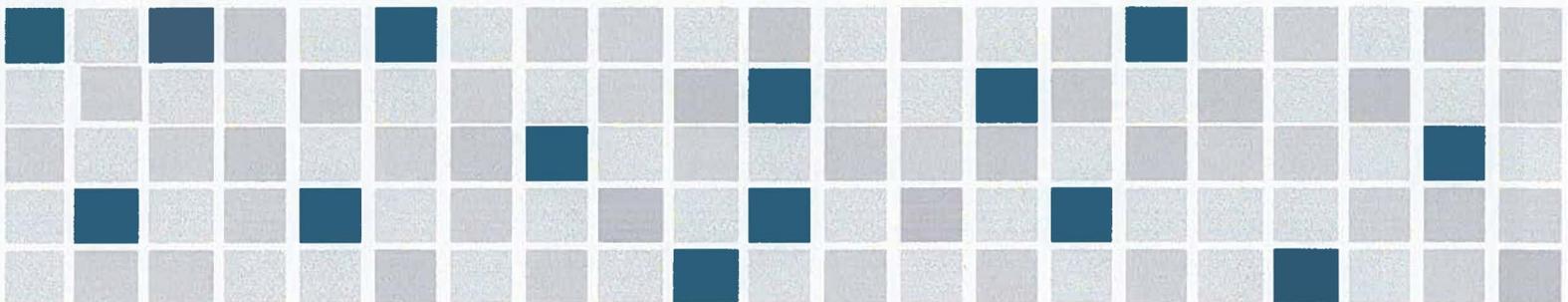
**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2010**

There were no audit findings reported for the year ended June 30, 2009.

San Diego County Regional Airport Authority

Passenger Facility Charge Compliance Report

June 30, 2010



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**Independent Auditor's Report on the
Supplementary Schedule**

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

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

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Passenger Facility Charge Collections and Expenditures, prepared on a modified cash basis, 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, 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, passenger facility charge collections are recognized when received rather than when earned, and expenditures are recognized when the obligation is incurred. Such supplemental modified cash basis information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010

San Diego County Regional Airport Authority

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

Description	Beginning Balance, Unapplied PFC	PFC Revenues ¹	Interest Earned					Total	Ending Balance, Unapplied PFC ²
				Application #3	Application #4	Application #5	Application #7		
Cash receipts and expenditures, quarter ended September 30, 2009	\$ 100,366,289	\$ 9,173,755	\$ 479,415	\$ 1,586,934	\$ 651,747	\$ 278,683	\$ -	\$ 2,517,364	\$ 107,502,095
Cash receipts and expenditures, quarter ended December 31, 2009	107,502,095	8,637,536	178,863	1,716,375	1,210,213	325,649	58,521,361	61,773,598	54,544,896
Cash receipts and expenditures, quarter ended March 31, 2010	54,544,896	8,362,573	155,588	787,722	358,758	380,171	3,527,492	5,054,143	58,008,914
Cash receipts and expenditures, quarter ended June 30, 2010	58,008,914	7,800,898	133,786	684,440	56,446	702,863	6,605,312	8,049,061	57,894,537
Cash receipts and expenditures, year ended June 30, 2010		<u>\$ 33,974,762</u>	<u>\$ 947,652</u>	<u>\$ 4,775,471</u>	<u>\$ 2,277,164</u>	<u>\$ 1,687,366</u>	<u>\$ 68,654,165</u>	<u>\$ 77,394,166</u>	

¹ PFC revenues 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 (PFC) Collections and Expenditures.

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San Diego County Regional Airport Authority

Note to Schedule of Passenger Facility Charge (PFC) 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. 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 may differ from amounts presented in, or used in the 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 (PFC) Collections and Expenditures includes the eligible expenditures that have been applied against PFCs collected as of June 30, 2010.



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

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

Compliance

We have audited the compliance of the San Diego County Regional Airport Authority (the Airport Authority) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2010. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 could have a direct and material effect on the passenger facility charge program. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

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

Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the Passenger Facility Charge Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls in accordance with the Guide 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.

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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 the federal program will not be prevented, or detected and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management of the Airport Authority and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010

San Diego County Regional Airport Authority

**Summary of Auditor's Results
Year Ended June 30, 2010**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

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 Passenger Facility Charge 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 Passenger Facility Charge program: Unqualified

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

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

I. Financial Statement Findings

A. Internal Control Deficiencies

None reported.

B. Compliance Findings

None reported.

II. Findings and Questioned Costs for Passenger Facility Charges

A. Internal Control Deficiencies

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010**

There were no audit findings reported for the year ended June 30, 2009.

San Diego County Regional Airport Authority

Report to the Audit Committee

October 25, 2010





October 25, 2010

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

Attention: Mr. Tom Smisek, Audit Committee Chair

We are pleased to present this report related to our audit of the financial statements of San Diego County Regional Airport Authority (the Airport Authority) for the year ended June 30, 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Airport Authority's financial reporting process.

This report is intended solely for the information and use of the audit committee, 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 regarding this report. We appreciate the opportunity to continue to be of service to the Airport Authority.

McGladrey & Pullen, LLP

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Summary of Uncorrected Misstatements	6
Exhibit—Certain Written Communications Between Management and Our Firm	
Representation Letter	

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility 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, has been described to you in our arrangement letter dated June 10, 2010.
Accounting Practices	Adoption of, or Change In, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Airport Authority. In the current year, the Airport Authority adopted the following Governmental Accounting Standards Board (GASB) Statement: <ul style="list-style-type: none"><li data-bbox="813 1073 1386 1188">• GASB Statement No. 53, <i>Accounting and Financial Reporting for Derivative Instruments</i>. The adoption did not have a material effect on the financial statements.
Management's Judgments and Accounting Estimates	Significant or Unusual Transactions 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. Alternative Treatments Discussed With Management We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period. 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 Accounting Estimates.

Area	Comments
Financial Statement Disclosures	<p>In our meeting with you, we will discuss with you the following items as they relate to the neutrality, consistency and clarity of the disclosures in the financial statements:</p> <ul style="list-style-type: none"> • Subsequent event related to the revenue bond offering • Fair value of investments
Audit Adjustments	Audit adjustments recorded by the Airport Authority are shown on the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.
Disagreements With Management	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.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered In Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiencies and Material Weaknesses	We did not identify any significant deficiencies and material weaknesses as well as 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.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our Firm and the management of the Airport Authority are attached as the Exhibit.

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**San Diego County Regional Airport Authority
Summary of Accounting Estimates
Year Ended June 30, 2010**

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 compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Airport Authority's June 30, 2010 basic financial statements:

<u>Area</u>	<u>Accounting Policy</u>	<u>Estimation Process</u>	<u>Comments</u>
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.
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, five to 30 years; buildings, structures and improvements, five to 30 years; and machinery and equipment, three to 10 years. 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	We tested the reasonableness of information underlying management's estimate. Based on our procedures, we concluded that assigned useful lives of long-lived assets are reasonable.

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<u>Area</u>	<u>Accounting Policy</u>	<u>Estimation Process</u>	<u>Comments</u>
Useful Lives of Long-Lived Assets, Continued		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.	
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.

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**San Diego County Regional Airport Authority
 Summary of Recorded Audit Adjustments
 Year Ended June 30, 2010**

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
• Client provided entry to adjust construction in progress accruals as of June 30, 2010	\$ (176,834)	\$ (176,834)	\$ -	\$ -	\$ -
• Client provided entry to properly state accrued liabilities as of June 30, 2010	-	67,321	-	-	67,321
• Client provided entry to adjust concession revenue receivable	133,333	-	-	133,333	-
• Client provided entry to adjust accrual for rates, fees and charges	-	(182,683)	-	182,683	-
• To reverse gain on amounts not collected as of June 30, 2010	(166,515)	-	-	(166,515)	-
Total effect	<u>\$ (210,016)</u>	<u>\$ (292,196)</u>	-	<u>\$ 149,501</u>	<u>\$ 67,321</u>
Current year effect of change in net assets			82,180		
Effect on ending net assets			<u>\$ 82,180</u>		

**San Diego County Regional Airport Authority
Summary of Uncorrected Misstatements
Year Ended June 30, 2010**

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of financial position, results of operations and cash flows, and to the related financial statement disclosures. Following is a summary of those differences:

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
Current Year Misstatement					
• To record self-insurance liability	\$ -	\$ 185,297	\$ -	\$ -	\$ 185,297
Total effect	<u>\$ -</u>	<u>\$ 185,297</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 185,297</u>
Current year effect of change in net assets			(185,297)		
Effect on ending net assets			<u>\$ (185,297)</u>		

Exhibit—Certain Written Communications Between Management and Our Firm

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SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

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

October 15, 2010

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

In connection with your audit of the basic financial statements of San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2010 and 2009, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of October 15, 2010, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. There are no organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, 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 reporting entity's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. We have indicated to you that the Airport Authority operates as a single proprietary fund.
4. We have properly classified all activities.
5. We are responsible for compliance with laws and regulations applicable to the Airport Authority including adopting, approving, and amending budgets.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities.
7. We have made available to you:
 - a. All financial records and related data of all activities in existence at any time during the period covered by your audit.
 - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.



SAN DIEGO
INTERNATIONAL
AIRPORT

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8. We have no knowledge of fraud or suspected fraud affecting the entity 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.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, former employees, analysts, regulators, or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
14. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Security agreements in effect under the Uniform Commercial Code.
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - c. 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.
 - d. The fair value of investments.
 - e. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - f. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - g. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - h. Debt issue provisions.
 - i. All leases and material amounts of rental obligations under long-term leases.
 - j. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet 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.
 - k. Authorized but unissued Commercial Paper Series A, B and C, or any other bonds or notes.
 - l. Risk financing activities.
 - m. The effect which has not been determined on the financial statements of GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* and GASB No. 59, *Financial Instruments Omnibus* which have been issued, but which we have not yet adopted.
 - n. Deposits and investment securities categories of risks.

- o. Arbitrage rebate liabilities.
 - p. Environmental clean-up obligations.
 - q. Pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2010.
 - r. Defined pension plan disclosures.
 - s. Board designated unrestricted net assets.
15. We are responsible for making the accounting estimates included in the 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 post-retirement benefits other than pensions attributable to employee services rendered through June 30, 2010.
16. There are no:
- a. Communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory, or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
 - b. Related party transactions as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
 - c. Guarantees, whether written or oral, under which the Airport Authority is contingently liable.
 - d. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.
 - f. Derivative financial instruments.
 - g. Special and extraordinary items.
 - h. Impairment of capital assets.
 - i. Obsolete, damaged, or excess inventories.
 - j. Investments, intangibles, or other assets which have permanently declined in value.
 - k. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - l. Material losses to be sustained as a result of purchase commitments.
 - m. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - n. Uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2010 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2010.
 - o. 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

Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.

- p. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10, other than as disclosed in the footnotes to the basic financial statements as follows:

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District

The former TDY property consists of approximately 44 acres of property located at 2701 N. Harbor Drive, San Diego, California. During 2004 the Airport Authority initiated litigation against the District. The litigation (State Court Case 779490 and Federal Case 3:03CV1146) has concluded and resulted in a comprehensive settlement agreement between the District and the Airport Authority and TDY. The property is still the subject of a Clean Up and Abatement Order (CAO) that names TDY as the only responsible party for the contamination on the site.

Clean Up and Abatement Order (CAO) No. R9-2004-0258 This action is ongoing and involves an order by the California Regional Water Quality Control Board, San Diego Region, entitled Cleanup and Abatement Order (CAO) No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304. The demolition of the buildings and improvements currently located on the property is the joint financial responsibility of the Port and Airport Authority. The Airport Authority's share of the cost is estimated to be \$9 million and will result in the creation of a long-term capital asset. As a result, the Airport Authority will capitalize its share of the demolition costs as these costs are incurred.

Save Our Heritage Organization v. San Diego Unified Port District, et al., (San Diego Superior Court Case No. 37-2009-000097828-CU-TT-CTL).

On September 4, 2009, Save Our Heritage Organization (SOHO) filed a Petition for Writ of Mandamus (Action) challenging the approval and certification of the TDY demolition project/EIR. The parties to the Action are: (1) the Petitioner, SOHO; (2) Respondents, San Diego Unified Port District and the Board of Port Commissioners (the lead agency under CEQA that approved the TDY demolition project and certified the EIR); and (3) Real Party in Interest, San Diego County Regional Airport Authority. The Action alleges violations of the California Environmental Quality Act (CEQA). SOHO requests the following remedy from the District: (1) set aside and void the certification of the EIR, set aside and void the approval of the demolition project, and set aside and void any other related approvals; (2) issue a temporary stay and preliminary injunction staying the District and their agents from physical actions pursuant to the TDY demolition project, including pre-demolition or demolition while the Action is pending; (3) a permanent injunction pending the District's full compliance with CEQA and all other applicable planning laws and ordinance; (4) award SOHO its reasonable costs and attorney fees; (5) award such other relief as the court finds proper. The Airport Authority has defended the case successfully, obtaining a final decision from the court denying relief to the plaintiff. On October 5, 2010, judgment was entered in favor of the Port and the Authority. SOHO has filed a Writ of Supersedeas with the Court of Appeals and a request for a temporary emergency stay on demolition of two buildings.

West-Tech Contracting, Inc. – Project No. 103044 Landfill Remediation-Phase 2

On June 25, 2010, West-Tech Contracting, Inc. (West-Tech) filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately \$1,500,000 resulting from an alleged breach of contract by the Airport Authority. In April, 2008, the Airport Authority entered into a public works contract with West Tech for Project No. 103044-NTC Landfill Remediation-Phase 2 (Contract) for the remediation of burn ash and other material at the old Naval Training Center. West Tech alleges that the Airport Authority

breached the contract because: (1) it refused to allow West Tech to use a landfill that West Tech believed met the specifications set forth in the Contract and (2) the estimated amount of burn ash identified in the Contract as requiring removal was grossly underestimated. The Airport Authority does not agree with either of these contentions. No lawsuit has been filed. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

17. 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.
18. We have satisfactory title to all owned assets.
19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.
21. Capital assets are properly capitalized, reported, and depreciated.
22. Required supplementary information is properly measured and presented.
23. We are responsible for and have reviewed and approved the proposed adjustments to the trial balance identified during the audit, which include recording and accruing expenses and capital expenditures in the proper period, reconciling net assets, accruing for additional concession revenue, recording the true-up of the airline rates, fees and charges to the actual expenses incurred by the Airport Authority, and reversing gains not yet collected as of June 30, 2010. These adjustments were posted to the general ledger. We have reviewed, approved, and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
24. The Airport Authority has developed a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control and claims administration. The Authority has purchased excess liability, airport, workers' compensation and automotive insurance, in addition to property, machinery and other miscellaneous insurance coverage. The Authority also administers an owner-controller insurance program covering all projects in the Airport Capital Improvement Program. The Authority's coverage includes a variety of retentions or deductibles. A \$4,349,994 contingency reserve has been established, within unrestricted equity, by the Airport Authority's management. There are no amounts accrued for liabilities or unpaid claims against the Airport Authority at June 30, 2010.
25. Additionally, the Airport Authority relies upon the Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) which are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay at a minimum 25 percent of the balance for nationally declared disasters. Based on the status of these laws and the condition of the insurance market place, the Airport Authority previously removed the purchase of commercial earthquake insurance from the Risk Management program and increased reliance on the laws designed to assist public entities. As of June 30, 2010, the Authority has \$4,349,994 for earthquake contingency reserve. This reserve is intended to increase as deemed by management.
26. 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.
27. We have properly accounted for the pollution remediation costs incurred on the Teledyne Ryan property and the Naval Training Center property under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

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

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28. 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.
29. 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.
30. We have a process to track the status of audit findings and recommendations.
31. 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 repository or noncompliance.
 - b. Fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.
 - c. Previous financial 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.

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:

32. We are responsible for complying, and have complied, with the requirements of Circular A-133.
33. 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, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, direct appropriations, and other assistance.
34. 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.
35. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the Airport Authority is 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.
36. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of the Airport Authority's federal programs and have complied, in all material respects, with those requirements.
37. 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.
38. We are not aware of any compliance requirements that have varying interpretations.
39. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies or pass-through entities related to federal programs.

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40. We have charged costs to federal awards in accordance with applicable cost principles.
41. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
42. 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.
43. 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.
44. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
45. We have accurately completed the appropriate sections of the data collection form.
46. We have disclosed all contracts or other agreements with service organizations.
47. There have been no:
 - a. Amounts questioned or known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
 - b. Subrecipients which receive pass-through assistance as outlined in Circular A-133.
 - c. Prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - d. Communications from service organizations relating to noncompliance at those organizations.
 - e. Instances of known noncompliance occurring subsequent to the period for which compliance is audited.
 - f. Changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent of the date as of which compliance is audited.

No events or transactions other than those disclosed in the basic financial statements have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

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 have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

000145

As of and for the Year Ended June 30, 2010

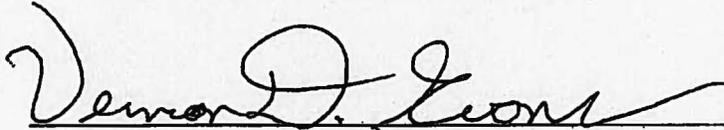
We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
Current Year Misstatements					
• To record worker's compensation claims liability as of 06/30/10	\$ -	\$ 185,297	\$ -	\$ -	\$ 185,297
Total Effect	\$ -	\$ 185,297	\$ -	\$ -	\$ 185,297
Current year effect of change in net assets			(185,297)		
Effect on ending net assets			\$ (185,297)		

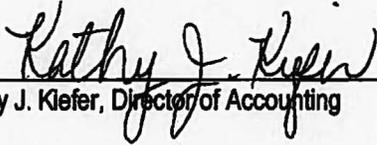
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY



Thella F. Bowens, Chief Executive Officer/President



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



Kathy J. Kiefer, Director of Accounting