

# SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

## Board Members

C. April Boling  
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Greg Cox  
Jim Desmond  
Robert H. Gleason  
Lloyd B. Hubbs  
Jim Janney  
Mark Kersey  
Paul Robinson  
Mary Sessom

## Ex-Officio Board Members

Laurie Berman  
Eraina Ortega  
Col. Jason Woodworth

## President / CEO

Thella F. Bowens

## SPECIAL AUDIT COMMITTEE and SPECIAL BOARD MEETING \*

### AGENDA

Monday, December 5, 2016  
10:00 A.M. or immediately following the Executive/Finance Meeting

San Diego International Airport  
SDCRAA Administration Building -- Third Floor  
Board Room  
3225 N. Harbor Drive  
San Diego, CA 92101

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

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

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

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

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

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

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**CALL TO ORDER:**

**PLEDGE OF ALLEGIANCE:**

**ROLL CALL:**

Committee Members: Gleason, Hollingworth, Hubbs, Robinson (Chair), Sessom, Tartre, Van Sambeek

**NON-AGENDA PUBLIC COMMENT:**

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

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

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the September 6, 2016, regular meeting.

**2. EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2016, REPORTS: A) AUDITED FINANCIAL STATEMENTS, B) SINGLE AUDIT REPORTS, C) PASSENGER FACILITY CHARGE COMPLIANCE REPORT, D) CUSTOMER FACILITY CHARGE COMPLIANCE REPORT, AND E) LETTER TO THE BOARD:**

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for acceptance. *(Requires five (5) affirmative votes of the Audit Committee)*

Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management; David Coleman, CPA, Director, BKD, LLP; and Mark A. Burchyett, Chief Auditor

**3. REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2016:**

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

Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management

**4. FISCAL YEAR 2017 FIRST QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

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

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

**NON-AGENDA PUBLIC COMMENT:**

**COMMITTEE MEMBER COMMENTS:**

**ADJOURNMENT:**

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

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

**Additional Meeting Information**

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

For your convenience, the agenda is also available to you on our website at [www.san.org](http://www.san.org).

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

**You may also reach the Administration Building by using public transit via the San Diego Metropolitan Transit System, Route 992. The MTS bus stop at Terminal 1 is a very short walking distance from the Administration Building. ADA paratransit operations will continue to serve the Administration Building as required by Federal regulation. For MTS route, fare and paratransit information, please call the San Diego MTS at (619) 233-3004 or 511. For other Airport related ground transportation questions, please call (619) 400- 2685.**

**UPCOMING MEETING SCHEDULE (PROPOSED)**

<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
February 13	Monday	10:00 a.m.	Regular	Board Room



The meeting reconvened at 8:57 a.m.

**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the May 2, 2016, regular meeting.

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

**3. FISCAL YEAR 2016 ANNUAL AUDIT ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR:**

Mark Burchyett, Chief Auditor, provided a presentation on the Fiscal Year 2016 Annual Audit Activities Report from the Office of the Chief Auditor, which included Audit Activities, Audits in Progress as of June 30, 2016, Recommendation Follow-Up, Fiscal Year 2016 Measure Outcomes, and Summary of Ethics Inquiries.

In response to Committee Member Tartre's request for an update regarding the \$435,783 additional revenue identified from the Midway Rent A Car audit, Kathy Kiefer, Senior Director, Finance and Asset Management, stated that Midway Rent A Car requested a 30 day extension to review the finding, and that Authority staff would discuss a settlement and payment plan.

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

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

**4. REVISION TO THE FISCAL YEAR 2017 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:**

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

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

**NON-AGENDA PUBLIC COMMENT:** None.

**COMMITTEE MEMBER COMMENTS:** None.

**ADJOURNMENT:** The meeting was adjourned at 9:00 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO  
COUNTY REGIONAL AIRPORT AUTHORITY THIS 21<sup>st</sup> DAY OF NOVEMBER, 2016.

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MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:

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TONY R. RUSSELL  
DIRECTOR OF CORPORATE & INFORMATION  
GOVERNANCE/AUTHORITY CLERK

## **AUDIT COMMITTEE**

Meeting Date: **DECEMBER 5, 2016**

### **Subject:**

**External Auditor's Fiscal Year Ended June 30, 2016, Reports: A) Audited Financial Statements, B) Single Audit Reports, C) Passenger Facility Charge Compliance Report, D) Customer Facility Charge Compliance Report, and E) Letter to the Board**

### **Recommendation:**

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

### **Background/Justification:**

Government auditing standards and generally accepted auditing standards require that, annually, an independent external auditor perform an audit of the San Diego County Regional Airport Authority's financial statements.

As per Section 170018 (f) (5) of the *Public Utilities Code*, the Audit Committee is responsible for overseeing the Authority's annual audit by the external auditor and for any internal audits performed.

The Charter of the Audit Committee directs the Committee to review the CAFR and other external auditor annual reports, and to forward them to the San Diego County Regional Airport Authority Board for approval. The Charter of the Audit Committee encompasses the compliance and regulatory oversight responsibilities of the Committee regarding the engagement of the Authority's external auditor and the disclosure of financial matters.

In Fiscal Year 2014, Authority staff conducted a search for a new external auditor. On May 1, 2014, the Authority Board adopted Resolution No. 2014-0039, approving and authorizing the President/CEO to execute an agreement with BKD, LLP, for an amount not to exceed \$950,000 for a three year term with an option for two (2) one year extensions.

On December 5, 2016, the Authority's external auditor, BKD, LLP, will present the Fiscal Year Ended June 30, 2016, audited financial statements and reports (Attachments A through E) to the Audit Committee for their review.

### **Fiscal Impact:**

Adequate funding for the audit conducted by BKD, LLP, is included in the adopted Fiscal Year 2017 and conceptually approved Fiscal Year 2018 Operating Expense Budgets within the Accounting Department Services – Auditing line item.

**Authority Strategies:**

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

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

**Environmental Review:**

A. CEQA: 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. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

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

**Application of Inclusionary Policies:**

Not Applicable

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR

# **San Diego County Regional Airport Authority**

Financial Statement

For the Fiscal Years Ended

June 30, 2016 and 2015



# San Diego County Regional Airport Authority

June 30, 2016 and 2015

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## Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, as listed in the table of contents, of San Diego County Regional Airport Authority (Airport Authority).

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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



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

***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, 2016 and 2015, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory and Statistical Sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Dallas, Texas  
October 31, 2016

# **SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY**

## **Management's Discussion and Analysis**

### **For The Period July 1, 2015 to June 30, 2016**

#### ***INTRODUCTION***

The San Diego County Regional Airport Authority (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 (District) to the Airport Authority.

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

#### ***SAN DIEGO INTERNATIONAL AIRPORT***

##### ***History of Ownership***

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

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

##### ***Legislative Background***

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (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 plans for the airports in the county;
- (4) Serving as the region's Airport Land Use Commission; and
- (5) In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

In August 2013, Assembly Bill 1058 was signed into law. This bill made minor clarifying and technical changes to the Airport Authority Act.

### ***Airport Activities Highlights (2014 – 2016)***

The Airport Authority experienced continued growth in all areas during the current and prior two fiscal years. This followed the trend seen at many commercial airports reflecting the gradual improvements in the economy.

The changes in the SDIA's major activities for the three years are as follows:

	FY 2014	FY 2015	FY 2016
Enplaned passengers	9,082,244	9,713,066	<b>10,206,222</b>
% increase	3.9%	6.9%	<b>5.1%</b>
Total passengers	18,145,130	19,409,683	<b>20,397,170</b>
% increase	4.0%	7.0%	<b>5.1%</b>
Aircraft operations	187,790	195,265	<b>193,451</b>
% increase (decrease)	-0.3%	4.0%	(0.9%)
Freight and mail (in tons)	164,966	178,615	<b>185,655</b>
% increase	5.1%	8.3%	<b>3.9%</b>
Landed weight (in thousands)	11,187	11,524	<b>12,048</b>
% increase	1.6%	3.0%	<b>4.5%</b>

Overall, the improving economy is having a positive effect on aircraft operations at SDIA. There was a significant increase in enplaned passengers in fiscal year 2016 with a 5.1 percent increase in enplanements. Also, total passengers increased by 5.1 percent and freight and mail tons increased 3.9 percent. Due to higher load factors with different aircraft, there were slightly fewer operations.

### ***Statement of Revenues, Expenses and Changes in Net Position (in thousands)***

The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position decreased slightly in 2014, had a 2.2 percent increase in 2015, and was followed by a 4.7 percent increase in 2016. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2014	FY 2015	FY 2016
Operating revenues	\$ 195,737	\$ 210,505	<b>\$ 233,994</b>
Operating expenses	(214,026)	(217,808)	<b>(237,229)</b>
Nonoperating revenues, net	14,318	20,255	<b>27,690</b>
Capital contributions and grants	3,924	10,765	<b>10,477</b>
Increase (decrease) in net position	(47)	23,717	<b>34,932</b>
Net position, beginning of year	727,064	727,017	<b>742,741</b>
Prior-period adjustment GASB 68	-	(7,993)	<b>-</b>
Net position, end of year	<b>\$ 727,017</b>	<b>\$ 742,741</b>	<b>\$ 777,673</b>

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow. The implementation of GASB 68 in fiscal year 2015 caused a prior-period adjustment in that year. The cumulative changes in accounting for pension liabilities are reflected in this adjustment.

## FINANCIAL HIGHLIGHTS

### Operating Revenues (in thousands)

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 21,390	\$ 23,985	\$ 2,595	12.1%
Aircraft parking fees	2,716	2,701	(15)	(0.6%)
Building rentals	48,153	51,273	3,120	6.5%
Security surcharge	25,180	29,223	4,043	16.1%
Other aviation revenue	4,893	5,023	130	2.7%
Total airline revenue	102,332	112,205	9,873	9.6%
Non-airline terminal rent	1,505	1,032	(473)	(31.4%)
Concession revenue	52,496	56,274	3,778	7.2%
Parking and ground transportation revenue	41,633	48,106	6,473	15.5%
Ground rentals	11,568	15,194	3,626	31.3%
Other operating revenue	971	1,183	212	21.8%
Total operating revenue	\$ 210,505	\$ 233,994	\$ 23,489	11.2%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 19,107	\$ 21,390	\$ 2,283	11.9%
Aircraft parking fees	2,503	2,716	213	8.5%
Building rentals	46,001	48,153	2,152	4.7%
Security surcharge	25,777	25,180	(597)	(2.3%)
Other aviation revenue	4,488	4,893	405	9.0%
Total airline revenue	97,876	102,332	4,456	4.6%
Non-airline terminal rent	1,158	1,505	347	30.0%
Concession revenue	47,770	52,496	4,726	9.9%
Parking and ground transportation revenue	38,959	41,633	2,674	6.9%
Ground rentals	8,445	11,568	3,123	37.0%
Other operating revenue	1,529	971	(558)	(36.5%)
Total operating revenue	\$ 195,737	\$ 210,505	\$ 14,768	7.5%

## ***Operating Revenues, Continued***

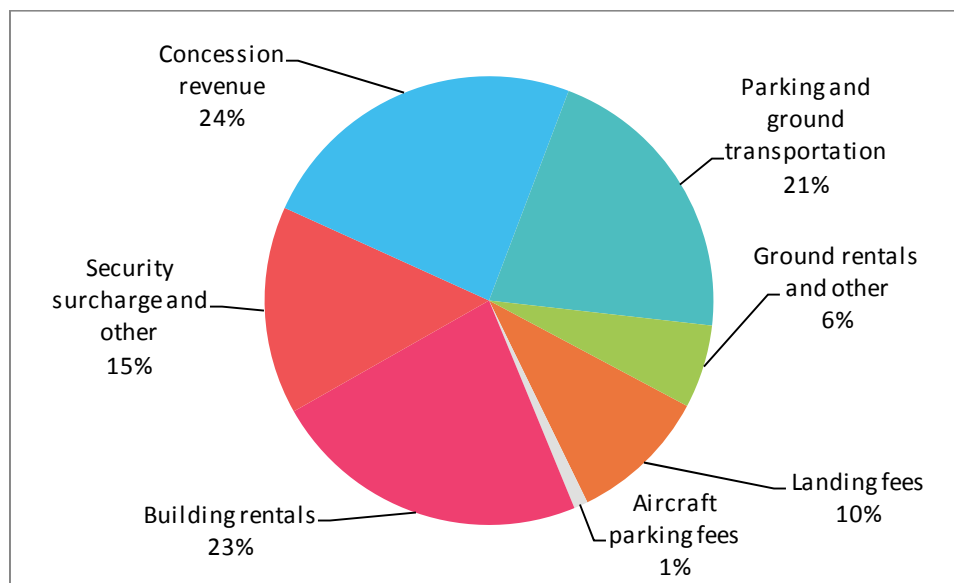
### ***Fiscal year 2016 compared to 2015:***

Total airline revenues increased by \$9.9 million, or 9.6 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2016, compared to 2015. Landing fees increased by \$2.6 million or 12.1 percent due to increased airfield costs. Building rentals increased by \$3.1 million or 6.5 percent due to increased terminal costs. Security surcharge increased by \$4.0 million or 16.1 percent, primarily due to increased Harbor Police expenses and higher terminal rental rate for security checkpoints. Non-airline terminal rent decreased by \$473 thousand or 31.4 percent, primarily due to consolidation of ground servicing companies. Concession revenue increased by \$3.8 million or 7.2 percent, reflecting increased enplanements and higher sales per enplaned passenger. Parking and ground transportation increased by \$6.5 million or 15.5 percent, due to higher enplanements and higher cost recovery on ground transportation. Ground rentals increased by \$3.6 million or 31.3 percent, primarily due to the Rental Car Center land lease starting January 2016. Other operating revenue increased by \$212 thousand or 21.8 percent, primarily due to higher landing fees at the Fixed Base Operator, higher utility reimbursements, and higher fees for miscellaneous services.

### ***Fiscal year 2015 compared to 2014:***

Total airline revenues increased by \$4.5 million or 4.6 percent, primarily reflecting an increased cost recovery for the airlines which was higher in fiscal year 2015, compared to 2014. Landing fees increased by \$2.3 million or 11.9 percent and aircraft parking fees increased by \$213 thousand or 8.5 percent, both due to increased airfield costs. Building rentals increased by \$2.2 million or 4.7 percent reflecting a recovery of higher service debt, maintenance, and operating costs for the new and existing facility. The increase in other aviation revenue of \$405 thousand reflects an increased volume in fuel delivered by the Fixed Base Operator. Offsetting the airline revenue was a decrease in the security surcharge of \$597 thousand, primarily reflecting a decrease of airline security charges. Concession revenue increased by \$4.7 million or 9.9 percent, mainly due to a full year of the expanded concession development program. Parking and ground transportation revenue increased by \$2.7 million or 6.9 percent, primarily due to a full year of expanded parking capacity after the Green Build completion and increased enplanements. Ground rentals revenue increased \$3.1 million or 37 percent, primarily due to rent from the new Fixed Base Operator facility which opened in the summer of 2014. Non-airline terminal rent increased by \$347 thousand, mostly due to renewed leases with a higher rental rate. Offsetting the non-airline revenue was a decrease in other operating revenue of \$558 thousand, primarily due to lower miscellaneous one-time charges.

## **San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2016 Operating Revenues**



### Operating Expenses (in thousands)

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 39,212	\$ 42,067	\$ 2,855	7.3%
Contractual services	32,422	38,215	5,793	17.9%
Safety and security	23,466	28,721	5,255	22.4%
Space rental	10,433	10,367	(66)	(0.6%)
Utilities	10,152	11,480	1,328	13.1%
Maintenance	14,516	14,122	(394)	(2.7%)
Equipment and systems	1,805	709	(1,096)	(60.7%)
Materials and supplies	519	536	17	3.3%
Insurance	1,145	950	(195)	(17.0%)
Employee development and support	1,136	1,242	106	9.3%
Business development	2,493	2,390	(103)	(4.1%)
Equipment rentals and repairs	2,951	2,852	(99)	(3.4%)
Total operating expenses before depreciation and amortization	140,250	153,651	13,401	9.6%
Depreciation and amortization	77,559	83,578	6,019	7.8%
Total operating expense	\$ 217,809	\$ 237,229	19,420	8.9%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 39,135	\$ 39,212	\$ 77	0.2%
Contractual services	31,559	32,422	863	2.7%
Safety and security	24,151	23,466	(685)	(2.8%)
Space rental	10,478	10,433	(45)	(0.4%)
Utilities	8,680	10,152	1,472	17.0%
Maintenance	13,982	14,516	534	3.8%
Equipment and systems	643	1,805	1,162	180.7%
Materials and supplies	440	519	79	18.0%
Insurance	988	1,145	157	15.9%
Employee development and support	1,171	1,136	(35)	(3.0%)
Business development	2,661	2,493	(168)	(6.3%)
Equipment rentals and repairs	2,932	2,951	19	0.6%
Total operating expenses before depreciation and amortization	136,820	140,250	3,430	2.5%
Depreciation and amortization	77,205	77,559	354	0.5%
Total operating expense	\$ 214,025	\$ 217,809	\$ 3,784	1.8%

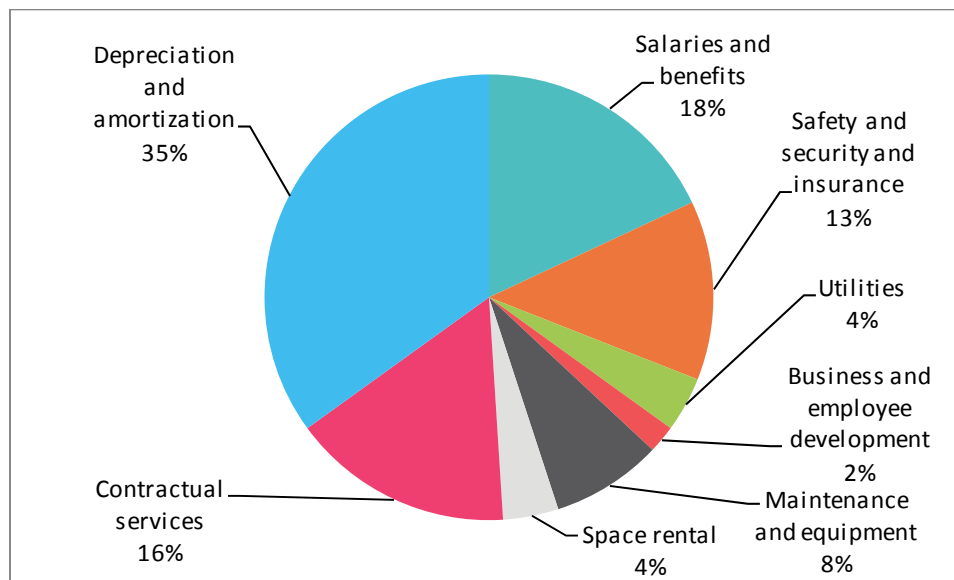
*Fiscal year 2016 compared to 2015:* Total fiscal year 2016 operating expenses increased by \$19.4 million or 8.9%. Salaries and benefits increased \$2.9 million or 7.3 percent, mostly due to planned wage and benefit increases. Contractual services increased by \$5.8 or 17.9 percent, resulting in higher bussing costs of the Rental Car Center that opened in January 2016. Safety and Security increased \$5.3 million or 22.4 percent, reflecting an increase in law enforcement training and benefit costs. Utilities increased \$1.3 million or 13.1 percent, due to higher rates and increased power usage of the Rental Car Center. Materials and supplies increased slightly by \$ 17 thousand or 3.3 percent, mainly due to higher purchases of small equipment and operating supplies. Employee development and support increased by \$106 thousand or 9.3 percent, primarily due to higher training costs.

Offsetting this increase in operating expenses were the following decreases: Space rental of \$66 thousand due to fee write offs; Maintenance of \$394 thousand due to lower major maintenance project costs; Equipment and systems of \$1.1 million due to lower IT equipment purchases; Insurance of \$195 thousand primarily due to lower property insurance rates; Business development of \$103 thousand due to a delay in planned advertising; Equipment rentals and repairs of \$99 thousand due primarily to lower IT maintenance contracts and lower printer costs.

*Fiscal year 2015 compared to 2014:* Total fiscal year 2015 operating expenses increased by \$3.8 million or 1.8 percent. Salaries and benefits had a slight increase of \$77 thousand or 0.2 percent, mostly due to planned wage and benefit increases. Contractual services increased by \$863 thousand or 2.7 percent, resulting from increased cleaning costs of the new terminal facilities and increased aviation planning costs. Utilities increased by \$1.5 million or 17.0 percent, reflecting a full year of the Green Build expansion. Maintenance increased by \$534 thousand or 3.8 percent, reflecting increased operating and maintenance costs of new facilities. Equipment and systems increased by \$1.2 million or 180.7 percent, reflecting increased purchases of non-capital equipment. Materials and supplies increased by \$79 thousand or 18.0 percent, reflecting additional safety equipment and operating supplies. Insurance increased by \$157 thousand or 15.9 percent, largely due to higher property insurance premiums and equipment rentals and repairs had a slight increase.

Offsetting this increase in operating expenses were the following decreases: safety and security of \$685 thousand, due to lower City of San Diego Aircraft Rescue Fire Fighting (AARF) costs; space rental of \$45 thousand due to a lease cancellation; a minor reduction in employee development and support: business development of \$168 thousand or 6.3 percent, reflecting a reduction of international and domestic air services marketing costs.

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2016  
Operating Expenses**



**Nonoperating Revenues (Expenses) (in thousands)**

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 38,517	\$ 40,258	\$ 1,741	4.5%
Customer facility charges	32,465	33,208	743	2.3%
Quieter Home Program, net	(2,811)	(3,698)	(887)	(31.6%)
Joint studies program	(145)	(101)	44	30.3%
Interest income	5,747	5,999	252	4.4%
Interest expense, net	(54,885)	(50,222)	4,663	8.5%
Other nonoperating income (expenses)	1,367	2,246	879	64.3%
Nonoperating revenues, net	\$ 20,255	\$ 27,690	\$ 7,435	36.7%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 35,770	\$ 38,517	\$ 2,747	7.7%
Customer facility charges	27,545	32,465	4,920	17.9%
Quieter Home Program, net	(2,750)	(2,811)	(61)	(2.2%)
Joint studies program	(152)	(145)	7	4.6%
Interest income	5,211	5,747	536	10.3%
Interest expense, net	(51,740)	(54,885)	(3,145)	(6.1%)
Other nonoperating income (expenses)	434	1,367	933	215.0%
Nonoperating revenues, net	\$ 14,318	\$ 20,255	\$ 5,937	41.5%

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

**Customer Facility Charges (CFCs)** are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a \$10 per contract CFC on rental cars in May 2009. The revenues collected have been used to plan and construct a consolidated rental car facility and related ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of \$10 per contract was changed to \$6.00 per day up to five days. The fee was again increased in January 2014, to \$7.50 per day up to five days for rental car transactions. This fee applies to transactions that originated at the Rental Car Center. For car rental transactions of non-RCC tenants, the CFC rate is \$2.17 per day up to five days. The fee is scheduled to increase to \$9.00 per day in January 2017 for RCC rental car transactions.

**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 through the end of fiscal year 2016, the Airport Authority has spent \$184.9 million and received reimbursement for \$149.1 million.



**Interest income** is derived from interest earned by the Airport Authority on investments and notes receivable from the District.

**Interest expense** includes interest paid and accrued on the 2010, 2013 and 2014 Series Bonds, and Revolving Line of Credit Series B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in fiscal years ended June 30, 2016 and 2015, was \$12.4.0 million and \$9.0 million, respectively. The 2010 Series C Bonds were issued as Build America Bonds and, as such, the Airport Authority receives a cash subsidy from the U.S. Treasury equal to 32.62 percent of the interest payable. The interest subsidy for the fiscal years ended June 30, 2016 and 2015 was \$4.7 million and \$4.6 million, respectively.

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

*Fiscal year 2016 compared to 2015:* Nonoperating revenues (net) increased by \$7.4 million or 36.7 percent. Passenger facility charges increased by \$1.7 million or 4.35 percent, due to a 5.1 percent increase in enplaned passengers. Customer facility charges increased by \$743 thousand or 2.3 percent, due to an overall increase in rental car transactions. Interest income increased by \$252 thousand or 4.4 percent, primarily due to increased investment income. Other nonoperating income increased by \$879 thousand or 64.3 percent, mainly due to unrealized gains on investments.

Offsetting the nonoperating income was a higher net expense in the Quieter Home Program of \$887 thousand or 31.6 percent, due to increased program activity. Net Interest expense decreased by \$4.7 million or 8.5 percent, mainly due to higher capitalized interest.

*Fiscal year 2015 compared to 2014:* Nonoperating revenues (net) increased by \$5.9 million or 41.5 percent. Passenger facility charges increased by \$2.7 million or 7.7 percent, due to a 6.9 percent increase in enplaned passengers. Customer facility charges increased by \$4.9 million or 17.9 percent, due to a full year at the higher CFC collection rate. Interest income increased by \$536 thousand or 10.3 percent, primarily due to higher investment interest income. Other nonoperating income increased by \$933 thousand or 215.0 percent, primarily due to unrealized gains on sale of investments. There was also a slight decrease in Joint Studies Program expense as well.

Offsetting the nonoperating income was a slightly higher net expense in the Quieter Home Program, reflecting increased program activity. An increase in net interest expense of \$3.1 million or 6.1 percent was primarily due to a full year of interest expense paid on the 2014 Series bond.

**Capital Grant Contributions** are comprised of AIP entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

**Assets, Liabilities and Net Position (in thousands)**

The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities, deferred inflows and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2014, 2015 and 2016, is as follows:

	FY 2014	FY 2015	FY 2016
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 214,853	\$ 204,491	\$ 169,078
Capital assets, net	1,310,973	1,486,710	1,551,007
Noncurrent assets	695,698	540,472	491,362
Total assets	2,221,524	2,231,673	2,211,447
Deferred outflows of resources	758	5,853	5,985
Total assets and deferred outflows of resources	2,222,282	2,237,526	2,217,432
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	119,088	131,457	103,136
Long-term liabilities	1,376,177	1,355,160	1,334,816
Total liabilities	1,495,265	1,486,617	1,437,952
Deferred inflows of resources	-	8,168	1,807
Total liabilities and deferred inflows of resources	1,495,265	1,494,785	1,439,759
<b>Net Position</b>			
Net investment in capital assets	312,780	316,251	310,339
Restricted	204,643	215,968	214,533
Unrestricted	209,594	210,522	252,801
Total net position	\$ 727,017	\$ 742,741	\$ 777,673

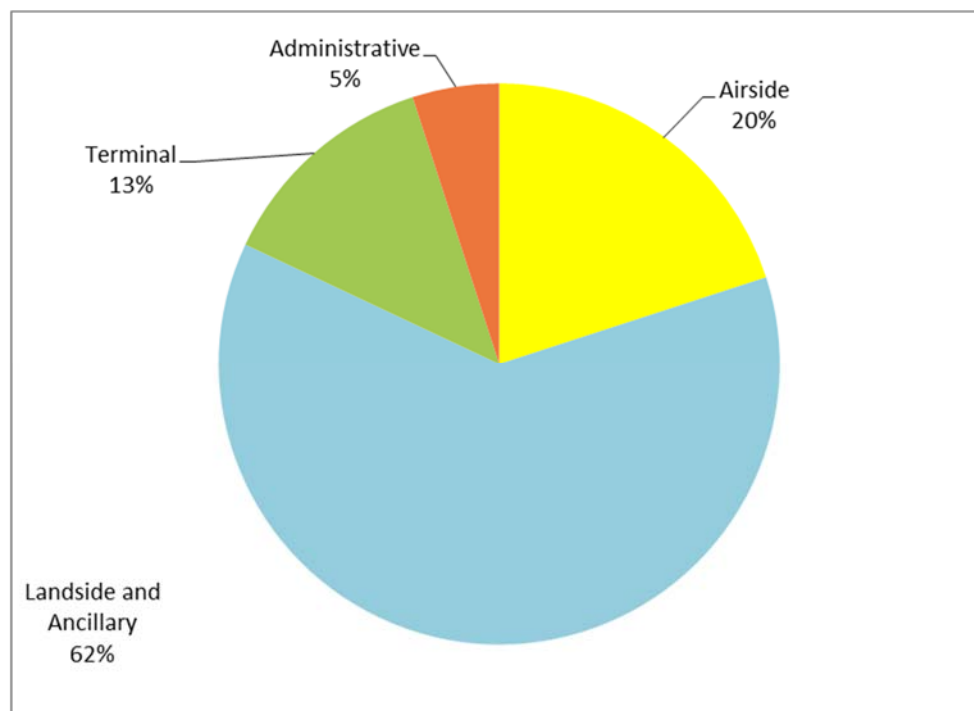
As of June 30, 2016, the Airport Authority's assets and deferred outflows of resources exceeded liabilities by \$777.7 million. This reflects a \$35.0 million increase in net position from June 30, 2015. The largest portion of the Airport Authority's net position represents its net investment in capital assets. 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 unrestricted net position of \$252.8 million as of June 30, 2016, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2016, 2015 and 2014, management has designated unrestricted funds in the amount of \$31.3 million, \$22.6 million, and \$17.1 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

### ***Capital Asset and Capital Improvement Program***

The capital program at SDIA consists of the Capital Improvement Program (CIP) and the Green Build. The CIP is a rolling five-year program that provides critical improvements and asset preservation. The program includes capital improvement projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration's Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds and short-term borrowing using commercial paper/revolving lines of credit.

In February 2014, \$305 million of Senior Special Facilities Revenue Bonds were issued to be used for the Rental Car Center completed in January 2016. The current CIP, which includes projects through 2021, consists of \$119.1 million for airside projects, \$582.7 million for landside projects, \$123.0 million for terminal projects, and \$47.4 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

**Capital Improvement Program (CIP) Projects by Type**



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

### ***Capital Financing and Debt Management***

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

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury; currently, 32.62 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.48 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it received through 2016. The amount of irrevocably committed PFCs was \$19.2 million annually for fiscal years 2014 through 2016. As of June 30, 2016, the principal balance on the subordinate Series 2010 Bonds was \$555.4 million.

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2015, amounted to \$18.5 million, including accrued interest of \$9.2 million. The principal balance on the Series 2013 Bonds as of June 30, 2015 was \$377.6 million.

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

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2.

On February 1, 2014, the Airport Authority issued \$305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds through January 1, 2016, fund deposits to the senior reserve fund, the rolling coverage fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent and mature in fiscal years 2019 to 2045. As of June 30, 2016, the principal balance on the Series 2014 Bonds was \$305.3 million.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, Customer Facility Charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the Customer Facility Charges and the Bond Funding Supplemental Consideration (as defined in the Indenture), are pledged to the payment of the Series 2014 Bonds.

On September 5, 2014, the Airport Authority replaced its commercial paper program with a \$125,000,000 revolving line of credit, issued by US Bank, which was used to refund the outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year facility. As of June 30, 2016, the Airport Authority's outstanding debt under this agreement consists of \$16.9 million of Series B (AMT) and \$15.7 million Series C (taxable).

The revolving line of credit is payable solely from and secured by a pledge of subordinate net revenues. Subordinate net revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after Senior Lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

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

The 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 authority to impose and use PFC revenue through November 1, 2037.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$500 thousand in grant awards for the federal fiscal year ended September 30, 2016, as compared to \$17.9 million for 2015. Grant awards are recognized as nonoperating revenue or capital 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](http://www.san.org).

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# Basic Financial Statements:

## San Diego County Regional Airport Authority

### Statements of Net Position June 30, 2016 and 2015

Assets and Deferred Outflows of Resources	2016	2015
<b>Current Assets</b>		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 16,244,182	\$ 7,873,038
Investments (Notes 2 and 10)	74,354,944	76,065,212
Tenant lease receivables, net	8,528,816	9,162,322
Grants receivable	7,623,419	10,909,798
Note receivable, current portion (Note 3)	1,705,491	1,608,986
Other current assets	3,392,579	3,954,115
<b>Total unrestricted current assets</b>	<b>111,849,431</b>	<b>109,573,471</b>
Restricted cash, cash equivalents and investments with trustees (Notes 2 and 5)	57,228,146	94,917,215
<b>Total current assets</b>	<b>169,077,577</b>	<b>204,490,686</b>
<b>Noncurrent Assets</b>		
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments not with trustees	168,074,212	166,050,576
Restricted investments with trustees	127,070,127	219,382,771
Passenger facility charges receivable (Note 1)	4,497,657	6,303,994
Customer facility charges receivable (Note 1)	2,968,920	3,851,910
Other restricted assets	3,033,990	4,273,584
<b>Total restricted assets</b>	<b>305,644,906</b>	<b>399,862,835</b>
Other noncurrent assets:		
Investments, noncurrent (Note 2)	119,052,416	77,419,978
Note receivable, long-term portion (Note 3)	35,043,779	36,749,270
Cash and cash equivalents designated for specific capital projects and other commitments (Notes 2 and 10)	31,270,718	22,588,383
Net pension asset (Note 6)	-	3,351,341
Workers' compensation security deposits	349,943	500,367
<b>Total other noncurrent assets</b>	<b>185,716,856</b>	<b>140,609,339</b>
<b>Capital assets (Note 4):</b>		
Land, land improvements and nondepreciable assets	109,974,224	72,563,518
Buildings and structures	1,415,691,585	1,115,452,539
Machinery and equipment	94,326,157	53,700,294
Runways, roads and parking lots	590,772,032	590,459,084
Construction in progress	152,703,001	387,054,944
	<b>2,363,466,999</b>	<b>2,219,230,379</b>
Less accumulated depreciation	(812,459,642)	(732,520,841)
Capital assets, net	<b>1,551,007,357</b>	<b>1,486,709,538</b>
<b>Total noncurrent assets</b>	<b>2,042,369,119</b>	<b>2,027,181,712</b>
<b>Total assets</b>	<b>2,211,446,696</b>	<b>2,231,672,398</b>
<b>Deferred outflows of resources</b>		
Deferred pension contributions (Note 6)	5,697,106	5,852,753
Deferred pension experience loss (Note 6)	288,051	-
<b>Total deferred outflows of resources</b>	<b>5,985,157</b>	<b>5,852,753</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,217,431,853</b>	<b>\$ 2,237,525,151</b>

See Notes to Financial Statements.

<b>Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>2016</b>	<b>2015</b>
<b>Current Liabilities</b>		
Payable from unrestricted assets:		
Accounts payable	\$ 9,643,474	\$ 9,483,545
Accrued liabilities	33,062,074	23,747,096
Compensated absences, current portion (Note 5)	2,833,970	2,652,960
Other current liabilities	92,887	401,644
Long-term debt, current portion (Note 5)	275,421	254,259
<b>Total payable from unrestricted assets</b>	<b>45,907,826</b>	<b>36,539,504</b>
Payable from restricted assets:		
Accounts payable	3,168,316	19,342,618
Accrued liabilities	10,016,026	31,729,043
Long-term debt, current portion (Note 5)	11,090,000	10,695,000
Accrued interest on bonds and commercial paper (Note 5)	32,953,804	33,150,554
<b>Total payable from restricted assets</b>	<b>57,228,146</b>	<b>94,917,215</b>
<b>Total current liabilities</b>	<b>103,135,972</b>	<b>131,456,719</b>
<b>Long-Term Liabilities</b>		
Compensated absences, net of current portion (Note 5)	528,143	523,551
Other noncurrent liabilities	827,143	1,124,560
Long-term debt, net of current portion (Note 5)	1,331,779,357	1,353,512,025
Net pension liability (Note 6)	1,680,759	-
<b>Total long-term liabilities</b>	<b>1,334,815,402</b>	<b>1,355,160,136</b>
<b>Total liabilities</b>	<b>1,437,951,374</b>	<b>1,486,616,855</b>
<b>Deferred inflows of resources</b>		
Deferred pension investment gains	1,807,420	8,167,978
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 1,439,758,794</b>	<b>\$ 1,494,784,833</b>
<b>Net Position</b>		
Net investment in capital assets (Note 1)	310,339,489	316,249,853
Restricted:		
Debt Service	80,712,157	79,488,690
Construction	113,669,206	115,338,776
Operation and maintenance expenses	13,118,064	12,866,926
Small business bond guarantee	4,000,000	4,000,000
OCIP loss reserve	3,033,990	4,273,585
Total restricted net position	214,533,417	215,967,977
Unrestricted net position	252,800,153	210,522,488
<b>Total net position</b>	<b>\$ 777,673,059</b>	<b>\$ 742,740,318</b>



# San Diego County Regional Airport Authority

## Statements of Revenues, Expenses and Changes in Net Position June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Airline revenue:		
Landing fees	\$ 23,984,793	\$ 21,390,056
Aircraft parking fees	2,701,219	2,715,854
Building rentals (Note 11)	51,273,320	48,152,670
Security surcharge	29,223,097	25,179,679
Other aviation revenue	5,022,809	4,892,840
Concession revenue	56,274,089	52,496,390
Parking and ground transportation revenue	48,105,641	41,632,530
Ground and non-airline terminal rentals (Note 11)	16,225,648	13,074,453
Other operating revenue	1,183,435	970,775
<b>Total operating revenues</b>	<b>233,994,051</b>	<b>210,505,247</b>
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	42,067,376	39,211,536
Contractual services (Note 13)	38,215,315	32,422,054
Safety and security	28,721,250	23,464,483
Space rental (Note 12)	10,367,148	10,433,251
Utilities	11,479,888	10,151,922
Maintenance	14,121,738	14,515,949
Equipment and systems	708,404	1,805,203
Materials and supplies	536,006	519,220
Insurance	949,491	1,145,376
Employee development and support	1,242,336	1,136,077
Business development	2,390,028	2,493,402
Equipment rentals and repairs	2,852,173	2,951,408
<b>Total operating expenses before depreciation and amortization</b>	<b>153,651,153</b>	<b>140,249,881</b>
<b>Income from operations before depreciation and amortization</b>	<b>80,342,898</b>	<b>70,255,366</b>
Depreciation and amortization	83,577,615	77,558,961
<b>Operating loss</b>	<b>(3,234,717)</b>	<b>(7,303,595)</b>

(Continued)

See Notes to Financial Statements.

	2016	2015
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 40,257,993	\$ 38,517,355
Customer facility charges	33,207,946	32,464,843
Quieter Home Program grant revenue (Note 1)	8,573,133	12,073,809
Quieter Home Program expenses (Note 1)	(12,270,742)	(14,885,182)
Joint Studies Program	(101,360)	(144,780)
Interest income	5,998,970	5,747,325
Interest expense (Note 5)	(54,878,276)	(59,516,437)
Build America Bonds subsidy (Note 5)	4,656,199	4,631,219
Other revenues (expenses), net	2,246,541	1,367,095
Nonoperating revenue, net	27,690,404	20,255,247
Income (loss) before federal grants	24,455,687	12,951,652
Federal grants (Note 1)	10,477,054	10,764,946
Change in net position	34,932,741	23,716,598
Net position, beginning of year	742,740,318	719,023,720
Net position, end of year	\$ 777,673,059	\$ 742,740,318

See Notes to Financial Statements.

# San Diego County Regional Airport Authority

## Statements of Cash Flows June 30, 2016 and 2015

	2016	2015
Cash Flow s From Operating Activities		
Receipts from customers	\$ 233,448,605	\$ 212,946,236
Payments to suppliers	(108,629,115)	(92,486,794)
Payments to employees	(43,605,962)	(38,904,804)
Other receipts (payments)	10,801,571	3,696,188
<b>Net cash provided by operating activities</b>	<b>92,015,099</b>	<b>85,250,826</b>
Cash Flow s From Noncapital Financing Activities		
Settlement receipts	377,167	16,075
Quieter Home Program grant receipts	5,784,088	10,318,509
Quieter Home Program payments	(12,270,742)	(14,885,182)
Joint Studies Program payments	(101,360)	(144,780)
<b>Net cash used in noncapital financing activities</b>	<b>(6,210,847)</b>	<b>(4,695,378)</b>
Cash Flow s From Capital and Related Financing Activities		
Capital outlay	(190,233,095)	(262,033,260)
Proceeds on Build America Bonds subsidy	4,656,199	4,631,219
Proceeds from sale of capital assets	248,255	11,273
Federal grants received (excluding Quieter Home Program)	16,552,478	7,547,794
Proceeds from passenger facility charges	42,064,330	36,279,609
Proceeds from customer facility charges	34,090,936	32,007,745
Payment of principal on bonds	(16,819,000)	(11,964,000)
Payment of capital lease	(254,258)	(188,356)
Interest and debt fees paid	(54,720,481)	(61,384,552)
<b>Net cash used in capital and related financing activities</b>	<b>(164,414,636)</b>	<b>(255,092,528)</b>
Cash Flow s From Investing Activities		
Sales and maturities of investments	250,352,658	317,888,179
Purchases of investments	(162,296,751)	(163,821,054)
Interest received on investments and note receivable	5,998,970	5,747,325
Principal payments received on notes receivable	1,608,986	1,528,512
<b>Net cash provided by in investing activities</b>	<b>95,663,863</b>	<b>161,342,962</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>17,053,479</b>	<b>(13,194,118)</b>
Cash and cash equivalents, beginning of year	30,461,421	43,655,539
Cash and cash equivalents, end of year	\$ 47,514,900	\$ 30,461,421

(Continued)

See Notes to Financial Statements.

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	\$ 16,244,182	\$ 7,873,038
Cash and cash equivalents designated for specific capital projects and other commitments	31,270,718	22,588,383
	<b>\$ 47,514,900</b>	<b>\$ 30,461,421</b>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (3,234,717)	\$ (7,303,595)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense	83,577,615	77,558,961
Changes in assets and liabilities:		
Tenant lease receivables	633,506	(49,639)
Other assets	1,833,936	824,274
Accounts payable	159,929	(3,206,994)
Accrued liabilities	9,465,402	18,381,996
Compensated absences	185,602	81,826
Other liabilities	(606,174)	(1,036,003)
<b>Net cash provided by operating activities</b>	<b>\$ 92,015,099</b>	<b>\$ 85,250,826</b>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	\$ 13,184,342	\$ 51,071,661
Additions to capital lease obligations	\$ -	\$ 349,422

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# San Diego County Regional Airport Authority

## Notes to Financial Statements

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### 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 in accordance with, 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 (SB 10), the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of SB 10, the Airport Authority completed a Regional Aviation Strategic Plan and the Airport Authority prepared and adopted an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements should 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. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

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

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

**Use of estimates:** The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, as well as the 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.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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

**Cash and cash equivalents:** For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted (including designated) cash on hand, demand deposits and investment securities with original maturities of three months or less from the date of acquisition.

**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. 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. 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.

**Federal grants:** Outlays for airport capital improvements and certain airport nonoperating expenses, primarily those relating to the Airport Authority's Quieter Home Program, are subject to reimbursement from federal grant programs. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

**Airport Improvement Program (AIP):** AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2016 and 2015, the Airport Authority recovered \$10,477,054 and \$10,764,946, respectively, for approved capital projects and \$8,573,133 and \$12,073,809 respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2016 and 2015 were \$10,454,351 and \$12,926,028 respectively, for capital projects and \$12,270,742 and \$14,885,179, respectively, for the Quieter Home Program.

**Passenger facility charges (PFC):** 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, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2016 and 2015, accrued PFC receivables totaled \$4,497,657 and \$6,303,994, respectively, and there were \$73,279,889 and \$63,361,948 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2016 and 2015, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, there are four active applications that allow the Airport Authority to impose and use \$1.2 billion in PFC revenue through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately \$32 million in PFC revenue. The latest application was approved by the FAA in July 2012. During the fiscal year 2016 this application was segmented into two resulting in the addition of application #11, which was substantially completed as of June 30, 2016, pending FAA approval for application closure. 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.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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

**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 \$10.00 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. Effective January 1, 2014, the CFC rate went from \$6.00 to \$7.50 per day for a maximum of five days. As of June 30, 2016 and 2015, accrued CFC receivables totaled \$2,968,920 and \$3,851,910, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2016 and 2015, were \$32,922,068 and \$41,820,925, respectively.

**Deferred inflows of resources:** The Airport Authority defers recognition of gains incurred on net differences on projected and actual earnings associated with its pension investments held with its pension plan and reports such losses as deferred inflows of resources in the statements of net position. Deferred gains on these investments are recognized over a five year period.

**Deferred outflows of resources:** The Airport Authority defers recognition of contributions to its pension plan made between the measurement date of the pension liability and the Airport Authority's fiscal year-end. Other deferred outflows of resources include differences from expected to actual experience which are amortized over a six year period.

**Capital assets:** Capital assets are recorded at cost, except for capital assets contributed by third parties, which are recorded at acquisition value as of the date of acquisition. 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.

The Airport Authority recognizes lessee-financed improvements as capital assets based upon the asset's estimated value at the time the asset reverts to the Airport Authority.



# San Diego County Regional Airport Authority

## Notes to Financial Statements

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

Depreciation is computed by use of the straight-line method over the following estimated useful lives:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2016 and 2015, the Airport Authority capitalized interest of \$12,387,045 and \$8,964,526, respectively.

**Capital asset impairment:** 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 evaluates 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. The Airport Authority reports the effects of capital asset impairments in its financial statements when they occur and accounts for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairments of capital assets currently exist.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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

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

**Compensated absences:** All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation and based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

**Bond discounts, premiums and issuance costs:** Bond discounts and premiums are deferred and amortized over the term of the respective bonds using the effective interest method. Bond issuance costs are expensed as incurred.

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

Restricted net position represents amounts that are appropriated or legally segregated for a specific purpose. The Airport Authority's net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted net position as of June 30, 2016 and 2015, includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2016	2015
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency	8,813,970	8,095,974
Capital projects and other commitments	20,456,748	12,492,409
Total designated net position	\$ 31,270,718	\$ 22,588,383

When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

**Revenue and expense recognition:** Revenues from airlines, concessionaires, lessees and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, including depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions and grants.

# San Diego County Regional Airport Authority

## Notes to Financial Statements

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

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

The four largest airlines in terms of enplaned passengers are as follows:

	2016	2015
Southwest Airlines	37.6%	38.5%
American Airlines	13.4%	7.7%
United Airlines	11.4%	11.5%
Delta	10.4%	10.2%

**Defined Benefit Pension Plan:** The Airport Authority has a single-employer defined benefit pension plan (Plan) administered through San Diego City Employee Retirement System (SDCERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the Airport Authority's year ending June 30, 2018.
- GASB Statement No. 82, *Pension Issues –an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the Airport Authority's year ending June 30, 2018.

**Pronouncements adopted:** The Airport Authority has adopted and implemented the following GASB statements during the year ended June 30, 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the Airport Authority's year ending June 30, 2016.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the Airport Authority's year ending June 30, 2016.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the Airport Authority's year ending June 30, 2016.

The implementation of GASB Statements No. 72 and No. 76 did not impact net position or the change in net position of the Airport Authority as of or for the year ended June 30, 2016.

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 2. Cash, Cash Equivalents and Investments

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

	2016	2015
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 16,244,182	\$ 7,873,038
Current investments	74,354,944	76,065,212
Noncurrent investments	119,052,416	77,419,978
Total unrestricted and undesignated	209,651,542	161,358,228
Designated for specific capital projects and other commitments: cash and cash equivalents	31,270,718	22,588,383
Restricted:		
Current cash, cash equivalents and investments, with trustees	57,228,146	94,917,215
Noncurrent cash, cash equivalents and investments, not with trustees	168,074,212	166,050,576
Noncurrent investments, with trustees	127,070,127	219,382,771
Total restricted cash, cash equivalents and investments	352,372,485	480,350,562
Total cash, cash equivalents and investments	\$ 593,294,745	\$ 664,297,173

The components of restricted cash, cash equivalents and investments at June 30, are summarized below:

	2016	2015
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	\$ 39,354,191	\$ 38,600,777
Operation and maintenance subaccount	13,118,064	12,866,926
Renewal and replacement account	5,400,000	5,400,000
Total reserves	57,872,255	56,867,703
Passenger facility charges unapplied	73,279,889	63,361,948
Customer facility charges unapplied	32,922,068	41,820,925
Small business development bond guarantee	4,000,000	4,000,000
Customer facility charges	672	-
2010 Series debt service reserve fund	51,351,322	51,191,339
2010 Series debt service account	24,660,324	24,424,169
2013 Series construction fund	13,037,611	42,856,631
2013 Series debt service reserve fund	33,460,392	33,213,393
2013 Series debt service account	11,297,645	11,063,748
2013 Series capitalized interest account	-	220,469
2014 Series construction fund	13,582,767	106,253,356
2014 Series debt service reserve fund	22,170,728	22,040,300
2014 Series capitalized interest account	8,087,171	16,436,026
2014 Series rolling coverage fund	6,649,641	6,600,555
Total restricted cash, cash equivalents and investments	\$ 352,372,485	\$ 480,350,562

## San Diego County Regional Airport Authority

### Notes to Financial Statements

#### Note 2. Cash, Cash Equivalents and Investments (Continued)

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

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Supranationals	5 years	AA	30 percent	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	5 years	A	30 percent	10 percent
Medium-term notes	5 years	A	15 percent	10 percent
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	\$50 million
San Diego County Investment Pool	N/A	N/A	None	\$50 million
Local Government Investment Pool	N/A	N/A	None	\$50 million
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	10 percent
Time certificates of deposit	3 years	*	20 percent	10 percent
Bank deposits	N/A	*	None	None

\* 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.

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

**Investment in county investment pool:** The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

#### Note 2. Cash, Cash Equivalents and Investments (Continued)

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
State obligations	None	AAA/Aaa	None	None
Commercial paper	None	A-1; P-1; F-1	None	None
Negotiable certificates of deposit	None	AAA/Aaa	None	None
Long-term and medium-term notes	None	Two highest ratings	None	None
Money market mutual funds	None	Two highest ratings	None	None
Municipal bonds	None	Two highest ratings	None	None
Repurchase agreements	None	BBB*	None	None
Investment agreements	None	N/A	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Deposit accounts	None	N/A	None	None

Any other investment which is a permitted investment of the Authority in accordance with the laws of the state.

\*Investment requires collateralization

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

**Investments held by Trustee:** The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments, the payment of bond interest during construction and the payment of capital project costs.

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

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 2. Cash, Cash Equivalents and Investments (Continued)

**Custodial credit risk (deposits):** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured deposits.

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

**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.

**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. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority.

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 2. Cash, Cash Equivalents and Investments (Continued)

The maturity ranges and credit ratings for the Airport Authority's investment securities as of June 30, are presented in the following tables:

Investment Type	2016				
	Total	Investment Maturities (in Years)			Ratings
		0 - 1	1 - 2	2 - 5	
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	\$ 95,094,109	\$ -	\$ 47,437,150	\$ 47,656,959	AAA (1)
U.S. agency securities	50,679,745	-	21,004,503	29,675,242	AAA (1)
Supranationals	3,010,290	-	-	3,010,290	AAA (1)
Commercial paper	13,942,250	13,942,250	-	-	A-1+/P-1
Negotiable certificates of deposit	3,999,640	3,999,640	-	-	A-1+/P-1
	21,013,400	4,000,000	17,013,400	-	AA
	17,500,000	9,000,000	8,500,000	-	A
Medium-term notes	25,955,952	800,272	19,057,880	6,097,800	AA
	12,742,165	-	5,039,500	7,702,665	A
Money market mutual funds	40,427,839	40,427,839	-	-	AAA
Local Agency Investment Fund	47,906,365	47,906,365	-	-	Unrated
San Diego County Investment Pool	172,695,968	172,695,968	-	-	AAA (1)
CalTrust Fund	15,177,301	15,177,301	-	-	AAA (1)
Total investments subject to credit and interest rate risk:	520,145,024	\$ 307,949,635	\$ 118,052,433	\$ 94,142,956	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	36,247,049				
Total Investments	\$ 556,392,073				

Investment Type	2015				
	Total	Investment Maturities (in Years)			Ratings
		0 - 1	1 - 2	2 - 5	
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	\$ 70,189,787	\$ -	\$ 22,525,974	\$ 47,663,813	AAA (1)
U.S. agency securities	46,898,857	4,999,650	22,358,342	19,540,865	AAA (1)
Commercial paper	3,999,800	3,999,800	-	-	A-1+/P-1
Negotiable certificates of deposit	8,000,000	4,000,000	4,000,000	-	A-1+/P-1
	17,000,280	-	13,002,520	3,997,760	AA
	9,000,000	-	9,000,000	-	A
Medium-term notes	19,801,690	5,014,900	800,680	13,986,110	AA
	4,827,981	4,827,981	-	-	A
Money market mutual funds	35,593,542	35,593,542	-	-	AAA
Local Agency Investment Fund	98,381,500	98,381,500	-	-	Unrated
San Diego County Investment Pool	241,042,718	241,042,718	-	-	AAA (1)
CalTrust Fund	15,074,776	15,074,776	-	-	AAA (1)
Total investments subject to credit and interest rate risk:	569,810,931	\$ 412,934,867	\$ 71,687,516	\$ 85,188,548	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	25,313,449				
Total Investments	\$ 595,124,380				

Ratings per Standard and Poor's, Moody's and Fitch.

(1) Includes investments that have split ratings between S&P (AA+), Moody's (AAA) and Fitch (AAA)



## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 2. Cash, Cash Equivalents and Investments (Continued)

**Concentration of credit risk:** The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of securities. The Airport Authority had no concentrations of credit risk at June 30, 2016 and 2015.

**Foreign currency risk:** The Airport Authority's investment policy does not allow investments in foreign securities.

#### Note 3. Note Receivable

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2016 and 2015, the balance of the note receivable was \$36,749,270 and \$38,358,256, respectively.

The required principal payments owed from the District for note receivable for the fiscal years ending June 30 are as follows (rounded):

Years Ending June 30,	Amount
2017	\$ 1,705,000
2018	1,802,000
2019	1,903,000
2020	2,006,000
2021	2,124,000
2022-2026	12,554,000
2027-2031	14,655,000
	<hr/>
	\$ 36,749,000

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2016 and 2015, are as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Nondepreciable assets:				
Land	\$ 22,415,850	\$ -	\$ (248,255)	\$ 22,167,595
Construction in progress	387,054,944	150,231,346	(384,583,289)	152,703,001
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	409,910,794	150,231,346	(384,831,544)	175,310,596
Depreciable assets:				
Land improvements	50,147,668	37,658,961	-	87,806,629
Buildings and structures (1)	1,115,012,539	307,002,484	(6,763,438)	1,415,251,585
Machinery and equipment (2)	53,700,294	41,027,046	(401,183)	94,326,157
Runw ays, roads and parking lots	590,459,084	1,252,586	(939,638)	590,772,032
Total capital assets being depreciated	1,809,319,585	386,941,077	(8,104,259)	2,188,156,403
Less accumulated depreciation for:				
Land improvements	(6,249,662)	(3,065,596)	-	(9,315,258)
Building and structures	(441,622,939)	(57,470,295)	6,611,457	(492,481,777)
Machinery and equipment	(44,701,987)	(5,327,455)	409,528	(49,619,914)
Runw ays, roads and parking lots	(239,946,253)	(21,957,518)	861,078	(261,042,693)
Total accumulated depreciation	(732,520,841)	(87,820,864)	7,882,063	(812,459,642)
Total capital assets being depreciated, net	1,076,798,744	299,120,213	(222,196)	1,375,696,761
Capital assets, net	\$ 1,486,709,538	\$ 449,351,559	\$ (385,053,740)	\$ 1,551,007,357

(1) Includes capitalized lease of building with a net present value of future lease payments of \$7,442,013

(2) Includes capitalized leases of office equipment with a net present value of future lease payments of \$275,723

Construction in progress contains projects such as upgrading certain major equipment, and improvements to the runway, parking lots and terminals. Current contracts with the Airport Authority related to these projects are discussed later in these notes.

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 4. Capital Assets (Continued)

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Nondepreciable assets:				
Land	\$ 22,415,850	\$ -	\$ -	\$ 22,415,850
Construction in progress	250,103,154	257,367,772	(120,415,982)	387,054,944
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	272,959,004	257,367,772	(120,415,982)	409,910,794
Depreciable assets:				
Land improvements	48,665,996	1,481,672	-	50,147,668
Buildings and structures (1)	1,025,628,015	94,821,353	(5,436,829)	1,115,012,539
Machinery and equipment (2)	51,618,837	3,000,209	(918,752)	53,700,294
Runways, roads and parking lots	568,935,877	21,523,207	-	590,459,084
Total capital assets being depreciated	1,694,848,725	120,826,441	(6,355,581)	1,809,319,585
Less accumulated depreciation for:				
Land improvements	(4,114,899)	(2,134,763)	-	(6,249,662)
Building and structures	(393,898,118)	(53,054,000)	5,329,179	(441,622,939)
Machinery and equipment	(42,041,579)	(3,532,848)	872,440	(44,701,987)
Runways, roads and parking lots	(216,780,599)	(23,165,654)	-	(239,946,253)
Total accumulated depreciation	(656,835,195)	(81,887,265)	6,201,619	(732,520,841)
Total capital assets being depreciated, net	1,038,013,530	159,765,617	(6,509,543)	1,076,798,744
Capital assets, net	\$ 1,310,972,534	\$ 674,501,161	\$ (247,341,507)	\$ 1,486,709,538

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

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

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 5. Long-Term Liabilities

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2016 and 2015:

	Principal Balance at June 30, 2015	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2016	Due Within One Year
Debt obligations					
Line of credit Series B tax-exempt	\$ 17,909,000	\$ -	\$ (1,025,000)	\$ 16,884,000	\$ -
Line of credit Series C taxable	20,796,000	-	(5,099,000)	15,697,000	-
Total line of credit	38,705,000	-	(6,124,000)	32,581,000	-
Bonds payable:					
Series 2010 Bonds	564,085,000	-	(8,665,000)	555,420,000	9,000,000
Series 2013 Bonds	379,585,000	-	(2,030,000)	377,555,000	2,090,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	68,829,291	-	(4,243,248)	64,586,043	-
Total bonds payable	1,317,784,291	-	(14,938,248)	1,302,846,043	11,090,000
Capital Leases	7,971,993	-	(254,258)	7,717,735	275,421
Total debt obligations	1,364,461,284	-	(21,316,506)	1,343,144,778	11,365,421
Net pension obligation (asset)	(3,351,341)	5,032,100	-	1,680,759	-
Compensated absences	3,176,511	3,019,571	(2,833,969)	3,362,113	2,833,970
Total other accruals	(174,830)	8,051,671	(2,833,969)	5,042,872	2,833,970
Total long-term liabilities	\$ 1,364,286,454	\$ 8,051,671	\$ (24,150,475)	\$ 1,348,187,650	\$ 14,199,391

	Principal Balance at June 30, 2014	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2015	Due Within One Year
Debt obligations					
Commercial paper	\$ 44,884,000	\$ -	\$ (44,884,000)	\$ -	\$ -
Line of credit Series B tax-exempt	-	18,929,000	(1,020,000)	17,909,000	-
Line of credit Series C taxable	-	25,955,000	(5,159,000)	20,796,000	-
Total line of credit	44,884,000	44,884,000	(51,063,000)	38,705,000	-
Bonds payable:					
Series 2010 Bonds	569,870,000	-	(5,785,000)	564,085,000	8,665,000
Series 2013 Bonds	379,585,000	-	-	379,585,000	2,030,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	73,157,591	-	(4,328,300)	68,829,291	-
Total bonds payable	1,327,897,591	-	(10,113,300)	1,317,784,291	10,695,000
Capital Leases	7,810,927	349,422	(188,356)	7,971,993	254,259
Total debt obligations	1,380,592,518	45,233,422	(61,364,656)	1,364,461,284	10,949,259
Net pension obligation (asset)	6,743,798	-	(10,095,139)	(3,351,341)	-
Compensated absences	3,094,685	2,734,786	(2,652,960)	3,176,511	2,652,960
Total other accruals	9,838,483	2,734,786	(12,748,099)	(174,830)	2,652,960
Total long-term liabilities	\$ 1,390,431,001	\$ 47,968,208	\$ (74,112,755)	\$ 1,364,286,454	\$ 13,602,219

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

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

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2016 and 2015, the amount held in escrow by the trustee was \$25,668,549 and \$30,735,483, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was \$23,145,000 and \$27,130,000, respectively.

**Commercial Paper Series A, B and C (CP Notes):** On September 6, 2007, the Board authorized issuance of subordinate CP Notes with up to \$250,000,000 of principal outstanding at any time. The CP Notes were issued from time to time and proceeds from the issuance of the CP Notes were used, among other things, to finance improvements to SDIA. The CP Notes were obligations secured by a pledge of airport revenues subordinated to the pledge of net airport revenues securing payment of the senior lien Series 2013 and Series 2014 Bonds and on parity to the subordinate Series 2010 Bonds. Each commercial paper note matured at the end of a period not to exceed 270 days. As noted below, the commercial paper program was replaced by a revolving line of credit.

**Revolving Line of Credit program in Fiscal Year 2015:** During fiscal year 2015, the Airport Authority replaced its commercial paper program with a \$125,000,000 revolving line of credit issued by US Bank. The revolving line of credit was used to refund the outstanding Series B and Series C CP Note balances. The revolving line of credit is a three-year agreement and took effect on September 5, 2014 and expires on September 4, 2017.

The revolving line of credit is payable solely from and secured by a pledge of "Subordinate Net Revenues." Subordinate Net Revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after senior lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

At June 30 2016 and 2015, the principal balance of the Series B Notes were \$16,884,000 and \$17,909,000, respectively, and bears interest at the tax-exempt LIBOR rate. The balances of the Series C Notes for the same periods were \$15,697,000 and \$20,796,000 respectively, and bear interest at the taxable LIBOR rate.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

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

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds (BAB), which benefit from periodic cash subsidy payments from the U.S. Treasury, originally equal to 35 percent of interest payable on such bonds. As a result of the automatic spending cuts imposed under the Budget Control Act of 2011, the Airport Authority's BAB subsidies were reduced by 7.2 percent (the BAB Sequester) from October 2013 through September 2014 and 7.3 percent from October 2014 through September 2015. Due to the continued extension of the BAB Sequester, BAB subsidies for the remainder of fiscal year 2016 were reduced by 6.8 percent and such reduction will remain in place through September 2016. The BAB interest subsidies received by the Airport Authority for fiscal years ended June 30, 2016 and 2015, amounted to \$4,656,199 and \$4,631,219, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.47 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2016 and 2015, amounted to \$31,151,799 and \$31,484,399, respectively, including accrued interest of \$15,575,899 and \$15,742,199, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2016 and 2015, was \$555,420,000 and \$564,085,000, respectively.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include 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. The irrevocably committed PFC amount of \$19,209,388 and \$19,206,113 were fully utilized in fiscal year 2016 and 2015, respectively.

As subordinate lien bonds, the Series 2010 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2016 and 2015, the amount held by the trustee was \$76,011,646 and \$75,615,508, respectively, which included the July 1 payment and a debt service reserve fund.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

The public ratings of the Series 2010 Bonds as of June 30, 2016, are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2017	\$ 9,000,000	\$ 30,934,023	\$ 39,934,023
2018	9,430,000	30,487,998	39,917,998
2019	9,890,000	30,020,298	39,910,298
2020	10,365,000	29,529,823	39,894,823
2021	10,865,000	29,007,173	39,872,173
2022-2026	62,945,000	136,240,023	199,185,023
2027-2031	80,190,000	118,557,929	198,747,929
2032-2036	161,025,000	85,746,886	246,771,886
2037-2041	201,710,000	31,615,633	233,325,633
	<u>\$ 555,420,000</u>	<u>\$ 522,139,787</u>	<u>\$ 1,077,559,787</u>

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1, of each year. Interest for the fiscal years ended June 30, 2016 and 2015, was \$18,414,600 and \$18,475,500, respectively, including accrued interest of \$9,207,300 and \$9,237,750 for fiscal years ending June 30, 2016 and 2015, respectively. The principal balance on the Series 2013 Bonds as of June 30, 2016 and 2015, was \$377,555,000 and \$379,585,000, respectively.

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

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2016 and 2015, the amount held by the trustee was \$57,795,658 and \$87,354,241, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds. The total additional amounts reserved by the Airport Authority for fiscal years 2016 and 2015 was \$57,782,255 and \$56,867,703, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2016, are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2017	\$ 2,090,000	\$ 18,382,275	\$ 20,472,275
2018	2,155,000	18,306,850	20,461,850
2019	2,240,000	18,218,950	20,458,950
2020	2,320,000	18,127,750	20,447,750
2021	7,925,000	17,883,225	25,808,225
2022-2026	45,940,000	82,907,000	128,847,000
2027-2031	58,435,000	70,163,750	128,598,750
2032-2036	25,815,000	60,048,125	85,863,125
2037-2041	46,130,000	51,281,250	97,411,250
2042-2044	184,505,000	13,792,875	198,297,875
	<u>\$ 377,555,000</u>	<u>\$ 369,112,050</u>	<u>\$ 746,667,050</u>

**Senior Lien Airport Revenue Bonds, Series 2014:** On February 1, 2014, the Airport Authority issued \$305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds through January 1, 2016, fund deposits to the senior reserve fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent. The bonds were issued at a premium of \$594,226, which is amortized over the life of the bonds. Interest on the Series 2014 Bonds is payable semiannual on January 1 and July 1 of each year. Interest for fiscal years ended June 30, 2016 and 2015, was \$16,341,210, including accrued interest of \$8,179,605 each year. The principal balance on the Series 2014 Bonds as of June 30, 2016 was \$305,385,000.



## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, customer facility charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the customer facility charges and the Bond Funding Supplemental Consideration (as defined in the bond indenture), are pledged to the payment of the Series 2014 Bonds. The Series 2014 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as show previously in the notes. For the fiscal years ended June 30, 2016 and 2015, the amount held by the trustee was \$50,490,307 and \$151,330,237, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund, capitalized interest funds and the rolling coverage fund.

The required debt service payments for the Series 2014 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 16,341,210	\$ 16,341,210
2018	-	16,341,210	16,341,210
2019	5,580,000	16,270,428	21,850,428
2020	5,720,000	16,114,217	21,834,217
2021	5,890,000	15,928,365	21,818,365
2022-2026	33,565,000	75,148,059	108,713,059
2027-2031	43,925,000	64,443,360	108,368,360
2032-2036	57,665,000	50,319,070	107,984,070
2037-2041	75,700,000	31,777,897	107,477,897
2042-2045	77,240,000	8,370,662	85,610,662
	<u>\$ 305,285,000</u>	<u>\$ 311,054,477</u>	<u>\$ 616,339,477</u>

**Line of credit:** In fiscal year 2016, the Airport Authority replaced a \$4,000,000 line of credit previously held with Wells Fargo by one now maintained by US Bank, which is collateralized with a bank certificate of deposit. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2016, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

#### Capital Leases

**Office equipment leases:** The Airport Authority has entered into five year capital lease agreements for office equipment that require monthly lease payments of \$6,849.

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

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 5. Long-Term Liabilities (Continued)

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2016:

June 30,	Amount
2017	\$ 959,486
2018	959,486
2019	959,486
2020	932,090
2021	877,298
2022-2026	4,386,489
2027-2031	4,386,489
2032	1,242,839
Total lease payments	14,703,663
Less amount representing interest	(6,985,928)
Present value of future lease payments	<u>\$ 7,717,735</u>

#### Note 6. Defined Benefit Plan

**Plan description:** The Airport Authority's defined benefit pension plan is separately administered by SDCERS. SDCERS is governed by a 13-member Board, responsible for the administration of retirement benefits for the City, the District, and the Airport Authority and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member and one ex-officio member.

SDCERS administers three separate single-employer defined benefit pension plans for the City, the District and Airport Authority, and SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified employer defined benefit plan for the City, the District and Airport Authority. However, as of July 1, 2007, the City, the District and the Airport Authority plans were separated into independent, qualified, single-employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, the District and the Airport Authority, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year period. Airport Authority safety members who are participants under the California Public Employees' Pension Reform Act (PEPRA) are subject to pensionable compensation caps.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 6. Defined Benefit Plan (Continued)

The 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 SDCERS to the SDCERS Board. The Airport Authority contributes to the Federal Social Security Program. The SDCERS Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. 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.

**Benefits provided:** The Airport Authority provides retirement, disability and death benefits.

There are two types of participants, the classic participants and the PEPRA participants. A classic participant means any member who is not a PEPRA participant. A PEPRA participant is any member hired on or after January 1, 2013, who has never been a member of a public retirement system or who had a break in service of more than six months before their Airport Authority hire date.

The classic participant retirement benefit is calculated by using monthly salary amounts based on the highest continuous 26 bi-weekly pay periods divided by 12. The eligibility of the classic participants begins at age 62 with five years of service, or age 55 with 20 years of service.

The PEPRA participant's benefit is calculated by using monthly salary amounts based on the highest 36 consecutive months divided by 36. Base salary cannot exceed 100 percent of the Social Security contribution and benefit base, indexed to the CPI-U. The eligibility of the PEPRA participants begins at age 52 with five years of service.

The Airport Authority provides monthly payments for the life of the employee, with 50 percent continuance to the eligible spouse, domestic partner, or dependent child under 21 years of age upon the member's death. If there is no eligible spouse, the member may receive either a lump sum payment equal to the accumulated surviving spouse contributions or an actuarially equivalent annuity.

Employees with ten years of continuous service are eligible to receive non-industrial disability and employees with no service requirement can receive industrial disability.

The death benefit for non-industrial death before the employee is eligible to retire is a refund of the employee contributions, with interest plus one month's salary for each completed year of service to a maximum of six months' salary. A non-industrial death benefit after the employee is eligible to retire from service is 50 percent of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. The industrial death benefit is 50 percent of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner or dependent child under 21 years of age.

Membership in the Plan by membership class at June 30, 2016 and 2015, are as follows:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	64	55
Inactive employees entitled to but not yet receiving benefits	99	91
Active employees	381	374
	<u>544</u>	<u>520</u>

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 6. Defined Benefit Plan (Continued)

**Actuarial Assumptions:** The total pension liability in the June 30, 2015 and 2014, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- The rates of retirement were based on age and service as opposed to just the service of a member.
- The percent married assumption was 55 percent for females and 80 percent for males, and the assumed age difference between husbands and wives was three years.
- The reciprocity assumption was 10 percent.
- Rates of termination were based on service as opposed to the age of a member.
- Disability rates were modified to reflect actual experience through June 30, 2010, and include a projection to 2014 and 2015.
- Mortality rates for active Airport Authority members (RP-2000 Combined Mortality Table) were modified to reflect actual experience through June 30, 2010, and include a projection to 2014 and 2015.
- Mortality rates for retired Airport Authority members were modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.
- The investment return assumption was 7.25 percent.
- The inflation assumption was 3.3 percent
- Cost of living adjustment was assumed 2 percent.
- Actuarial cost method is entry age normal
- Amortization method is level percent closed
- Asset valuation method is expected value method

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 6. Defined Benefit Plan (Continued)

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publically available information. The target allocations and best estimates of rates of return for each major asset class are summarized below:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	21%	4.5%
Non-U.S. equity	14%	4.6%
Emerging market equity	1%	5.8%
Global equity	5%	4.7%
U.S. fixed income	22%	0.6%
Emerging market debt	5%	3.7%
Real estate	11%	4.1%
Private equity and infrastructure	13%	6.6%
Opportunity fund	8%	4.1%
	<hr/>	
	100%	

**Discount Rate:** For the June 30, 2014 and 2015, actuarial valuations, the discount rate used to measure the total pension liability (asset) was 7.25 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability (asset).

**Contributions:** SDCERS uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for the Plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contribution rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the SDCERS Board annually.

The actuarial valuation is completed as of June 30, of each year. Once accepted by the SDCERS Board, the approved rates for Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2016, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2014, actuarial valuation.

The funding objective of SDCERS is to fully fund the plan's actuarially accrued liability with contributions, which over time will remain as a level percent of payroll for the Airport Authority. Under this approach, the contribution rate is based on the normal cost rate and an amortization of any unfunded actuarial liability.

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 6. Defined Benefit Plan (Continued)

For the years ended June 30, 2016 and 2015, employees contributed \$1,073,028 and \$1,019,220, respectively, and the Airport Authority contributed \$5,664,755 and \$5,670,847, respectively, to the Plan. For the years ended June 30, 2016 and 2015, the Airport Authority paid 7.00% or 8.50% of general member employee payroll and 10.47% of executive member payroll as employer paid contributions.

Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) through the year ended June 30, 2016 and 2015, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of 6/30/14	\$ 126,851,793	\$ 130,203,134	\$ (3,351,341)
Changes for the year:			
Service cost	6,154,579	-	6,154,579
Interest on total pension liability	9,327,538	-	9,327,538
Difference between expected and actual experience	345,661	-	345,661
Benefit payments	(2,482,523)	(2,482,523)	-
Administrative expenses	-	(332,290)	332,290
Member contributions	-	1,073,028	(1,073,028)
Employer contributions	-	5,664,755	(5,664,755)
Net investment income	-	4,390,185	(4,390,185)
Net changes	13,345,255	8,313,155	5,032,100
Balances as of 6/30/15	\$ 140,197,048	\$ 138,516,289	\$ 1,680,759

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of 6/30/13	\$ 115,200,048	\$ 108,456,250	\$ 6,743,798
Changes for the year:			
Service cost	6,099,481	-	6,099,481
Interest on total pension liability	8,465,485	-	8,465,485
Benefit payments	(2,913,221)	(2,913,221)	-
Administrative expenses	-	(332,645)	332,645
Member contributions	-	1,019,220	(1,019,220)
Employer contributions	-	5,670,847	(5,670,847)
Net investment income	-	18,302,683	(18,302,683)
Net changes	11,651,745	21,746,884	(10,095,139)
Balances as of 6/30/14	\$ 126,851,793	\$ 130,203,134	\$ (3,351,341)

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 6. Defined Benefit Plan (Continued)

**Sensitivity to Interest Rate Changes:** The following presents the resulting net pension liability (asset) calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate for the fiscal years ended June 30, 2016:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Total pension liability	\$ 159,472,645	\$ 140,197,047	\$ 124,200,218
Plan fiduciary net position	(138,516,288)	(138,516,288)	(138,516,288)
Net pension liability	<u>\$ 20,956,357</u>	<u>\$ 1,680,759</u>	<u>\$ (14,316,070)</u>
Plan fiduciary net position as a percentage of the total pension liability	-86.9%	-98.8%	-111.5%

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Plan:** For the year ended June 30, 2016 and 2015, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$4,048,248 and \$3,743,686, respectively. At June 30, 2016 and 2015, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	\$ -	\$ (1,807,422)
Differences between expected & actual experience	288,051	-
Employer contributions made subsequent to June 30, 2015 measurement date	5,697,106	-
Total	<u>\$ 5,985,157</u>	<u>\$ (1,807,422)</u>

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	\$ -	\$ (8,167,978)
Employer contributions made subsequent to June 30, 2014 measurement date	5,852,754	-
Total	<u>\$ 5,852,754</u>	<u>\$ (8,167,978)</u>

The deferred outflows of resources, at June 30, 2016 and 2015, related to pensions resulting from Airport Authority contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net pension liability at June 30, 2017 and 2016, respectively.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 6. Defined Benefit Plan (Continued)

Other amounts reported as deferred inflows of resources related to the plan will be recognized in pension expense as follows:

Year Ending June 30	
2017	\$ (904,744)
2018	(904,744)
2019	(904,746)
2020	1,137,252
2021	57,611

#### Note 7. Employees' Deferred Compensation Plan

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

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

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. Accordingly, employee assets are not reflected in the Airport Authority's financial statements.

#### Note 8. Other Postemployment Benefits

The Airport Authority provides a single-employer postemployment benefit plan (the OPEB Plan). The OPEB Plan provides postretirement medical, dental, vision and life insurance 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. 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, an irrevocable 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.



# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 8. Other Postemployment Benefits (Continued)

**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 annual required contributions (ARCs). As of May 9, 2009, the agreement with CERBT was approved. Retirees contribute 5 percent of plan costs for single coverage and the entire cost of vision benefits. Annually, the Airport Authority funds 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset.

**Annual OPEB cost and actuarial methods and assumptions:** The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2015. According to the July 1, 2015, actuarial valuation, the ARC was \$ 1,752,000 and \$2,403,000 for fiscal year 2016, and 2015, respectively. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.28 percent investment rate of return, (7.36 percent was used in the prior valuations), net of administrative expenses, RP-2015 Mortality Tables with fully generational projection using MP-2015 scale and (b) projected salary increases of 3.00 percent. The annual healthcare cost trend rate ranged from 18 to 21 percent for medical and assumes a 5.0 percent rate for dental and 3.0 percent rate for vision. In establishing the discount rate, an inflation rate of 2.75 percent was used. The 2015 actuarial valuation included a 10 percent retirees' contribution of plan costs for single coverage; previously it was 5 percent.

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

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

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

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO/(Asset) End of Year	Interest on NOO/(Asset)	Adjustment to the ARC	Annual OPEB Cost
7/1/13	13/14	\$ 2,328	\$ 2,328	\$ (59)	\$ (4)	\$ 4	\$ 2,328
7/1/13	14/15	2,403	2,403	(59)	(4)	4	2,403
7/1/15	15/16	1,959	1,959	(59)	(4)	4	1,959

## San Diego County Regional Airport Authority

### Notes to Financial Statements

#### Note 8. Other Postemployment Benefits (Continued)

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2015, 2014 and 2013, were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/14	\$ 2,328	\$ 2,328	100.0%	\$ (59)
6/30/15	2,403	2,403	100.0%	(59)
6/30/16	1,959	1,959	100.0%	(59)

**Funded status and funding progress:** The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the accompanying notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of the Plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2015, was as follows (dollars in thousands):

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
7/1/15	\$ 18,917	\$ 34,587	\$ 15,670	54.7%	\$ 16,809	93.2%	7.3%	3.0%

#### Note 9. Risk Management

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

##### Commercially issued insurance:

- The Airport Authority maintains \$500 million in limits for owners' and operators' general liability insurance with a war, hijacking and other perils endorsement in the amount of \$150 million.
- The Airport Authority maintains a property insurance policy with limits of \$750 million providing all risk and flood coverage on physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime and public officials and employment practices liability, among others.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 9. Risk Management (Continued)

**Self-insurance:** Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management 5Agency and the California Disaster Assistance Act. As of June 30, 2016 and 2014, the Airport Authority has designated \$8,813,970 and \$8,095,974, respectively, from its net position, as an insurance contingency.

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

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

During fiscal year 2016, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

#### Note 10. Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

# San Diego County Regional Airport Authority

## Notes to Financial Statements

### Note 10. Disclosures About Fair Value of Assets (Continued)

#### Recurring Measurements:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2016</b>				
<b>Investments by fair value level</b>				
U.S. Treasury obligations	\$ 95,094,109	\$ 95,094,109	\$ -	\$ -
U.S. agency securities	50,679,745	-	50,679,745	-
Non-U.S. Securities	3,010,290	3,010,290	-	-
Commercial paper	13,942,250	-	13,942,250	-
Negotiable certificates of deposit	42,513,040	-	42,513,040	-
Medium-term notes	38,698,117	-	38,698,117	-
Local Agency Investment Fund	47,906,365	47,906,365	-	-
San Diego County Investment Pool	172,695,968	172,695,968	-	-
Total investments by fair value level	464,539,884	\$ 318,706,732	\$ 145,833,152	\$ -
Investment measured at amortized cost	40,427,839			
Investment measured at net asset value	15,177,301			
Non-negotiable certificate of deposit	36,247,049			
Total investments	\$ 556,392,073			

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2015</b>				
<b>Investments by fair value level</b>				
U.S. Treasury obligations	\$ 70,189,787	\$ 70,189,787	\$ -	\$ -
U.S. agency securities	46,898,857	-	46,898,857	-
Commercial paper	3,999,800	-	3,999,800	-
Negotiable certificates of deposit	34,000,280	-	34,000,280	-
Medium-term notes	24,629,671	-	24,629,671	-
Local Agency Investment Fund	98,381,500	98,381,500	-	-
San Diego County Investment Pool	241,042,718	241,042,718	-	-
Total investments by fair value level	519,142,613	\$ 409,614,005	\$ 109,528,608	\$ -
Investment measured at amortized cost	35,593,542			
Investment measured at net asset value	15,074,776			
Non-negotiable certificate of deposit	25,313,449			
Total investments	\$ 595,124,380			

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 10. Disclosures About Fair Value of Assets (Continued)

##### Investments:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

#### Note 11. 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. Substantially all capital assets are held by the Airport Authority for the purpose of rental or related use. A majority of the lease payments are determined each year based upon the 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 primarily on a month-to-month basis and accordingly are not reflected in the schedule below.

The Airport Authority's recent expansion of approximately 25,000 additional square feet results in the increase of the number of food service and retail concession locations from 55 to 87. The Authority has implemented a comprehensive Concessions Development Program (CDP) to provide a world class shopping and dining experience for the millions of passengers who use SDIA each year. The full program build out was completed during fiscal year 2015. The CDP replaces the Airport Authority's one master concessionaire.

The Airport Authority's CFC revenues and Bonds funded construction of the Rental Car Center Facility (RCC), which was completed and placed in service on January 20, 2016. The RCC facility sits on 24.85 acres of land and houses all the major and small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and will continue until the Bonds are repaid or defeased. This land rent is a non-cancellable lease and will convert to Facility Rent when bonds are repaid.

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

Years Ending June 30,	Amount
2017	\$ 12,586,824
2018	11,906,653
2019	11,998,494
2020	12,138,378
2021	12,281,759
2022-2026	63,914,519
2027-2031	69,716,722
2032-2036	76,792,708
2037-2041	85,196,761
2042-2046	95,178,138
2047-2049	40,883,957
	<u>\$ 492,594,913</u>

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 12. Lease Commitments

##### Operating Leases

**General Dynamics lease:** The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement, as amended, calls for rent payments of \$6,750,000 annually through December 31, 2068. A portion of the land is leased back to the District for employee parking 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 an annual rent of \$1 per year under a lease that expires December 31, 2068.

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

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.

The future rental commitment under the above operating lease agreements as of June 30, are due as follows:

Years Ending June 30,	Amount
2017	\$ 10,172,520
2018	10,172,520
2019	10,172,520
2020	10,172,520
2021	10,172,520
2022-2026	50,862,600
2027-2031	50,862,600
2032-2036	50,862,600
2037-2041	50,862,600
2042-2046	50,862,600
2047-2051	50,862,600
2052-2056	50,862,600
2057-2061	50,862,600
2062-2066	50,862,600
2067-2068	25,431,300
	<u>\$ 534,057,300</u>

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

	2016	2015
Rental payments made	<u>\$ 10,367,148</u>	<u>\$ 10,433,251</u>

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 13. Commitments and Contingencies

**Commitments:** As of June 30, 2016 and 2015, 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, 2016 and 2015, these funds totaled approximately \$20.5 million and \$12.5 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.
- ii. Support services — As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2016 and 2015, the Airport Authority expensed \$18,764,780 and \$15,847,455, respectively, for these services.
- iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of \$29.7 million and the second for the airport shuttle services in the amount of \$31.3 million. The total amounts spent as of June 30, 2016, were \$23.2 million for parking management services and \$29.5 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2016, the Airport Authority's remaining commitment is approximately \$6.5 million for the parking management contract and \$1.8 million for the shuttle service contract.
- iv. In fiscal year 2014, the Board approved a contract with Austin-Sundt JV for the design and construction of the Rental Car Center in the amount of \$14.0 million and an additional approval of \$10.0 million. In fiscal year 2015, the Board approved an additional \$223.9 million. In fiscal year 2016, the Board approved an additional \$5.1 million. As of June 30, 2016, \$247.7 million had been spent and the contract is due to be completed in fiscal year 2017.
- v. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of \$10.0 million and an additional approval of \$12.0 million. In fiscal year 2015, the Board approved an additional \$5.0 million. As of June 30, 2016, \$25.2 million had been spent and the contract is due to be completed in fiscal year 2017.
- vi. In fiscal year 2015, the Board approved a \$29.2 million contract with SP Plus Corporation to transport rental car companies' customers between the Rental Car Center facility and the terminals and includes the operation, management and maintenance of the shuttle vehicles. In fiscal year 2016, the Board approved an additional \$1.2 million. As of June 30, 2016, \$3.7 million had been spent and the contract is due to be completed in fiscal year 2021.
- vii. In fiscal year 2015, the Board approved a \$5.9 million contract with Granite Construction Company for the construction of the Northside bypass Taxiway. As of June 30, 2016, \$5.6 million had been spent and the contract is due to be completed in the early fiscal year 2017.

## San Diego County Regional Airport Authority

### Notes to Financial Statements

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#### Note 13. Commitments and Contingencies (Continued)

- viii. In fiscal year 2015, the Board approved a \$60.0 million contract with AECOM Technical Services, Inc. for project support for the development of the Northside solar projects. As of June 30, 2016, \$11.6 million had been spent and the contract is due to be completed in fiscal year 2018.
- ix. In fiscal year 2016, the Board approved a \$3.2 million contract with Granite Construction Company for the Employee Parking Lot 6 Expansion. As of June 30, 2016, \$3 million had been spent and the contract is due to be completed in early fiscal year 2017.
- x. In fiscal year 2016, the Board approved a \$12 million contract with Swinerton Builders for a Design-Build for the T2 Parking Plaza. As of June 30, 2016, \$4.5 million had been spent and the contract is due to be completed in early fiscal year 2020.
- xi. In fiscal year 2016, the Board approved a \$3.2 million contract with Hazard Construction Company for a Taxi hold lot. As of June 30, 2016, \$1.6 million had been spent and the contract is due to be completed in fiscal year 2017.
- xii. In fiscal year 2016, the Board approved a \$4.7 million contract with Hazard Construction Company to rehabilitate the Cross Taxiway. As of June 30, 2016, \$2.5 million had been spent and the contract is due to be completed in fiscal year 2017.

**Contingencies:** As of June 30, 2016, 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 tenants/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. When these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.



# San Diego County Regional Airport Authority

## Required Supplementary Information (Unaudited)

**Fiscal Year Ended June 30, 2016**

Schedule of OPEB funding progress for the Airport Authority is as follows (dollars in thousands)\*:

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
7/1/09	\$ 2,674	\$ 12,206	\$ 9,532	21.9%	\$ 19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/12	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%
7/1/15	18,917	34,587	15,670	54.7%	16,809	93.2%	7.36%	3.00%

\* In accordance with GASB Statement No. 45, the Airport Authority has an actuarial valuation completed biennially.

# San Diego County Regional Airport Authority

## Required Supplementary Information (Unaudited)

### Fiscal Year Ended June 30, 2016

Schedule of changes in the net pension liability (asset), last 10 fiscal years (GASB Statement No. 68):

	2016	2015
<b>Total Pension Liability:</b>		
Service cost	\$ 6,154,579	\$ 6,099,481
Interest (includes interest on service cost)	9,327,538	8,465,485
Differences between expected and actual experience	345,661	-
Benefit payments, including refunds of member contributions	(2,482,523)	(2,913,221)
Net change in total pension liability	13,345,255	11,651,745
Total pension liability - beginning	126,851,792	115,200,048
Total pension liability - ending	<u>\$ 140,197,047</u>	<u>\$ 126,851,793</u>
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 5,664,753	\$ 5,670,847
Contributions - employee	1,073,028	1,019,220
Net investment income	4,390,185	18,302,683
Benefit payments, including refunds of member contributions	(2,482,523)	(2,913,221)
Administrative expense	(332,290)	(332,645)
Net change in plan fiduciary net position	8,313,153	21,746,884
Plan fiduciary net position - beginning	130,203,134	108,456,250
Plan fiduciary net position - ending	<u>\$ 138,516,287</u>	<u>\$ 130,203,134</u>
Net pension liability (asset) - ending	\$ 1,680,760	\$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	98.80%	102.64%
Covered employee payroll	\$ 27,955,455	\$ 26,380,323
Net pension liability as a percentage of covered employee payroll	6.01%	-12.70%

**Note to schedule:** This schedule is intended to display the most recent 10 years of data for annual changes in the net pension liability. Until such time has elapsed after implementing GASB Statement No. 68, this schedule will only present information from those years that are available.

# San Diego County Regional Airport Authority

## Required Supplementary Information (Unaudited)

### Fiscal Year Ended June 30, 2016

Schedule of contributions, last 10 fiscal years (in thousands) (GASB Statement No. 68):

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 3,823	\$ 2,900	\$ 2,600	\$ 3,800	\$ 4,300	\$ 3,000	\$ 3,000	\$ 2,200	\$ 2,600	\$ 2,879	\$ 2,312
Contributions in relation to the actuarially determined contribution	3,823	3,728	2,600	3,800	4,300	7,600	3,035	2,520	2,962	3,300	7,625
Contribution deficiency (excess)	\$ -	\$ (828)	\$ -	\$ -	\$ -	\$ (4,600)	\$ (35)	\$ (320)	\$ (362)	\$ (421)	\$ (5,313)
Covered-employee payroll	\$ 27,955	\$ 26,380	\$ 24,840	\$ 25,148	\$ 25,596	\$ 24,693	\$ 23,488	\$ 21,957	\$ 19,116	\$ 17,609	\$ 15,606
Contributions as a percentage of covered-payroll	13.68%	14.13%	10.47%	15.11%	16.80%	30.78%	12.92%	11.48%	15.49%	18.74%	48.86%

# **San Diego County Regional Airport Authority**

Single Audit Reports

Year Ended June 30, 2016  
(With Independent Auditor's Report Thereon)



**San Diego County Regional Airport Authority**  
**June 30, 2016**

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**San Diego County Regional Airport Authority**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

<b>Federal Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Transportation - Federal Aviation Administration:</u></b>			
<b>Direct Programs:</b>			
Airport Improvement Program (AIP)	20.106*	3-06-0214-70	\$ 5,465,698
Airport Improvement Program (AIP)	20.106*	3-06-0214-71	1,093,181
Airport Improvement Program (AIP)	20.106*	3-06-0214-72	3,990,629
Airport Improvement Program (AIP)	20.106*	3-06-0214-73	7,479,950
Airport Improvement Program (AIP)	20.106*	3-06-0214-75	<u>1,020,726</u>
<b>Total U.S. Department of Transportation - Federal Aviation Administration</b>			<u>19,050,184</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b>Direct Programs:</b>			
TSA Law Enforcement Personnel Reimbursement Agreement	97.100	HSTS02-08-H-SLR254	292,730
<b>Total U.S. Department of Homeland Security</b>			<u>292,730</u>
<b>Total Federal Awards Expended</b>			<u><u>\$ 19,342,914</u></u>

\* Denotes major program

**Notes to Schedule:**

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of San Diego County Regional Airport Authority (Airport Authority) under programs of the federal government for the year ended June 30, 2016. The accompanying notes are an integral part of this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airport Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Airport Authority.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Airport Authority has elected not to use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.
3. The Airport Authority provided no federal awards to subrecipients.

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

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

We have audited, 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, the financial statements of the San Diego County Regional Airport Authority (Airport Authority), which comprise the statement of financial position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

**BKD, LLP**

Dallas, Texas  
October 31, 2016



**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance;  
and Report on Schedule of Expenditure of Federal Awards  
Required by the Uniform Guidance**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Airport Authority's major federal programs for the year ended June 30, 2016. The Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Airport Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

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

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

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

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

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*BKD, LLP*

Dallas, Texas  
October 31, 2016

**San Diego County Regional Airport Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

***Summary of Auditor's Results***

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:  
☒ Unmodified      ☐ Qualified      ☐ Adverse      ☐ Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  
Significant deficiency(ies)?      ☐ Yes      ☒ None reported  
Material weakness(es)?      ☐ Yes      ☒ No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?      ☐ Yes      ☒ No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:  
Significant deficiency(ies)?      ☐ Yes      ☒ None reported  
Material weakness(es)?      ☐ Yes      ☒ No
  
5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:  
☒ Unmodified      ☐ Qualified      ☐ Adverse      ☐ Disclaimer
  
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?      ☐ Yes      ☒ No

**San Diego County Regional Airport Authority**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2016**

7. The Airport Authority's major program was:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

**San Diego County Regional Airport Authority**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2016**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by Uniform Guidance**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**San Diego County Regional Airport Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.

# **San Diego County Regional Airport Authority**

## **Passenger Facility Charge Compliance Report**

Year Ended June 30, 2016  
(With Independent Auditor's Report Thereon)





**San Diego County Regional Airport Authority**  
**Passenger Facility Charge Program**  
**June 30, 2016**

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**San Diego County Regional Airport Authority**  
**Passenger Facility Charge Program**  
**Schedule of Passenger Facility Charge Collections and Expenditures**  
**Year Ended June 30, 2016**

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - June 30, 2015	Quarter Ended				Year Ended June 30, 2016	Cumulative Total - June 30, 2016
				September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016		
Passenger facility charge collections			\$ 567,894,569	\$ 11,942,892	\$ 9,631,609	\$ 10,070,455	\$ 10,419,374	\$ 42,064,330	\$ 609,958,899
Interest earned			11,962,897	89,606	95,562	110,590	129,131	424,889	12,387,786
Total passenger facility charge revenue received			<u>\$ 579,857,466</u>	<u>\$ 12,032,498</u>	<u>\$ 9,727,171</u>	<u>\$ 10,181,045</u>	<u>\$ 10,548,505</u>	<u>\$ 42,489,219</u>	<u>\$ 622,346,685</u>
<b>Expenditures</b>									
Application 95-01-C-04-SAN	7/26/1995	\$ 103,804,864	\$ 103,804,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,804,864
Application 98-02-C-04-SAN	7/24/1998	45,496,665	45,496,665	-	-	-	-	-	45,496,665
Application 03-03-C-01-SAN	5/20/2003	65,058,035	65,058,035	-	-	-	-	-	65,058,035
Application 05-04-C-01-SAN	11/22/2005	44,822,518	44,822,518	-	-	-	-	-	44,822,518
Application 08-05-C-01-SAN	6/27/2008	19,031,690	19,031,690	-	-	-	-	-	19,031,690
Application 09-07-C-00-SAN	9/30/2009	85,181,950	79,489,990	-	-	-	-	-	79,489,990
Application 10-08-C-00-SAN	11/24/2010	1,118,567,229	139,072,084	7,455,501	7,457,568	7,455,501	7,455,501	29,824,071	168,896,155
Application 12-10-C-00-SAN	7/3/2012	27,835,280	19,720,339	499,469	701,481	154,359	-	1,355,309	21,075,648
Application 15-11-U-00-SAN	7/1/2008	1,391,894	-	-	1,391,894	-	-	1,391,894	1,391,894
Total passenger facility charge revenue expended		<u>\$1,511,190,125</u>	<u>\$ 516,496,185</u>	<u>\$ 7,954,970</u>	<u>\$ 9,550,943</u>	<u>\$ 7,609,860</u>	<u>\$ 7,455,501</u>	<u>\$ 32,571,274</u>	<u>\$ 549,067,459</u>

**San Diego County Regional Airport Authority**  
**Passenger Facility Charge Program**  
**Notes to Schedule of Passenger Facility Charge Collections and Expenditures**  
**Year Ended June 30, 2016**

**Note 1. General**

This schedule includes the Passenger Facility Charge (PFC) Program activity of the San Diego County Regional Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis of accounting, PFC revenues are recognized when received rather than when earned and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this schedule is presented in accordance with the requirements of 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 and bond financing costs, as applicable to active applications. The accompanying schedule of Passenger Facility Charge Collections and Expenditures includes eligible expenditures that have been applied against PFCs collected as of June 30, 2016.

**Report on Compliance for the Passenger Facility Charge Program;  
Report on Internal Control Over Compliance; and Report  
on Schedule of Passenger Facility Charge Collections and Expenditures**

**Independent Auditor's Report**

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

**Report on Compliance for Passenger Facility Charge Program**

We have audited the compliance of San Diego County Regional Airport Authority (Airport Authority) with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2016.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Airport Authority's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Passenger Facility Charge Program***

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

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

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

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

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

**Report on Schedule of Passenger Facility Charge Collections and Expenditures**

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Passenger Facility Charge Collections and Expenditures is presented for purposes of additional analysis, as specified in the Guide, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Collections and Expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

*BKD, LLP*

Dallas, Texas  
October 31, 2016

# San Diego County Regional Airport Authority

## Passenger Facility Charge Audit Summary

### Year Ended June 30, 2016

#### ***Summary of Auditor's Results***

- |  |  |   |
|--|--|---|
| 1. Type of report issued on PFC financial statements.  | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified                                  |
| 2. Type of report on PFC compliance.   | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified                                  |
| 3. Quarterly revenue and expenditures reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.          | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 4. PFC revenue and interest is accurately reported on FAA Form 5100-127.   | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 5. The Public Agency maintains a separate financial accounting record for each application.  | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 6. Funds disbursed were for PFC eligible items as identified in the FAA decision to pay only for the allowable costs of the project.                 | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 7. Monthly carrier receipts were reconciled with quarterly carrier reports.  | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 9. Serving carriers were notified of PFC program actions/changes approved by the FAA.  | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 10. Quarterly reports were transmitted (or available via website) to remitting carriers.   | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 11. The Public Agency is in compliance with Assurances 5, 6, 7 and 8.  | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 12. Project design and implementation is carried out in accordance with Assurance 9.   | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 13. Program administration is carried out in accordance with Assurance 10.   | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No   |
| 14. For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.      | <input type="checkbox"/> Yes                   | <input type="checkbox"/> No <input checked="" type="checkbox"/> N/A |

**San Diego County Regional Airport Authority**  
**Schedule of Passenger Facility Charge Program**  
**Findings and Questioned Costs**  
**Year Ended June 30, 2016**

***Findings Required to be Reported by the Guide***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.



**San Diego County Regional Airport Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.

# **San Diego County Regional Airport Authority**

## **Customer Facility Charge Compliance Report**

Year Ended June 30, 2016  
(With Independent Auditor's Report Thereon)



**San Diego County Regional Airport Authority**  
**Customer Facility Charge Program**  
**June 30, 2016**

**Contents**

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**San Diego County Regional Airport Authority**  
**Customer Facility Charge Program**  
**Schedule of Customer Facility Charge Collections and Expenditures**  
**Year Ended June 30, 2016**

<b>Description</b>	<b>Beginning Balance, Unapplied CFC</b>	<b>CFC Collections</b>	<b>Interest Earned</b>	<b>Expenditures</b>	<b>Ending Balance, Unapplied CFC</b>
Collections and expenditures, quarter ended September 30, 2015	\$ 41,833,626	\$ 9,879,143	\$ 46,532	\$ 9,879,143	\$ 41,880,158
Collections and expenditures, quarter ended December 31, 2015	41,880,158	7,589,939	44,350	7,276,713	42,237,734
Collections and expenditures, quarter ended March 31, 2016	42,237,734	6,396,420	43,985	12,122,170	36,555,969
Collections and expenditures, quarter ended June 30, 2016	36,555,969	<u>10,225,431</u>	<u>41,059</u>	<u>13,887,692</u>	32,934,767
		<u><u>\$ 34,090,933</u></u>	<u><u>\$ 175,926</u></u>	<u><u>\$ 43,165,718</u></u>	

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

**San Diego County Regional Airport Authority**  
**Customer Facility Charge Program**  
**Notes to Schedule of Customer Facility Charge Collections and Expenditures**  
**Year Ended June 30, 2016**

**Note 1. General**

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

On October 4, 2012, the Airport Authority Board of Directors approved an alternative CFC rate modification from the \$10 CFC rate per contract to \$6.00 per day (up to a maximum of five days) to allow for the collection of sufficient CFC funds to cover the future costs of the anticipated consolidated rental car facility and centralized busing system. Effective January 1, 2014, the CFC fee increased from \$6.00 to \$7.50 per day up to a maximum of five days. As of June 30, 2016, a CFC forecast was in preparation to be examined to collect an alternative fee. This would result in a CFC increase from \$7.50 to \$9.00 for an anticipated effective date of January 1, 2017.

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

**Note 2. Basis of Presentation**

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

CFC expenditures may consist of direct project costs, administrative costs, debt service and related financing costs. The accompanying Schedule of Customer Facility Charge Collections and Expenditures includes the eligible expenditures that have been applied against CFCs collected as of June 30, 2016.

**Report on Compliance for the Customer Facility Charge Program;  
Report on Internal Control Over Compliance; and Report on  
Schedule of Customer Facility Charge Collections and Expenditures**

**Independent Auditor's Report**

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

**Report on Compliance for Customer Facility Charge Program**

We have audited the compliance of San Diego County Regional Airport Authority (Airport Authority) with the types of compliance requirements described in the *California Civil Code Section 1936* (Code) that could have a direct and material effect on the customer facility charge program for the year ended June 30, 2016.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws and regulations applicable to its customer facility charge program.

***Auditor's Responsibility***

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Code. Those standards and the Code 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 customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Customer Facility Charge Program***

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the customer facility charge program. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Customer Facility Charge Collections and Expenditures**

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2016, and have issued our report thereon, dated October 31, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Customer Facility Charge (CFC) Collections and Expenditures is presented for purposes of additional analysis, as specified in the Code, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Customer Facility Charge Collections and Expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

*BKD, LLP*

Dallas, Texas  
October 31, 2016



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

As part of our audits of the financial statements and compliance of San Diego County Regional Airport Authority (Airport Authority) as of and for the year ended June 30, 2016, we wish to communicate the following to you.

## AUDIT SCOPE AND RESULTS

**Auditor's Responsibility Under 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 and the U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); the Passenger Facility Charge Audit Guide for Public Agencies (Guide) Issued by the Federal Aviation Administration, and the California Civil Code Section 1936, an ordinance of the State of California.**

An audit performed 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 and OMB Uniform Guidance is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on a major federal program or passenger facility charge program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

## **Qualitative Aspects of Significant Accounting Policies and Practices**

### **Significant Accounting Policy**

The Airport Authority's significant accounting policies are described in *Note 1* of the Comprehensive Annual Financial Report (CAFR). With the adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, the Airport Authority's accounting policies for contributed capital assets was revised.

### **Alternative Accounting Treatments**

No matters are reportable.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Fair market value of investments
- Valuation allowance for the various receivables
- Estimated useful lives used to depreciate capital assets
- Actuarial assumptions used to estimate the net pension liability/asset
- Pollution remediation obligations
- Litigation and other loss contingencies

### **Financial Statement Disclosures**

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Cash, cash equivalents and investments
- Long-term liabilities
- Defined benefit plan
- Disclosure about fair value of assets
- Commitments and contingencies

## **Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. There were no proposed audit adjustments for the year ended June 30, 2016.

### **Auditor's Judgments About the Quality of the Entity's Accounting Principles**

No matters are reportable.

### **Other Information in Documents Containing Audited Financial Statements**

The audited financial statements are included in the Company's annual report to stockholders. As part of our procedures, we read the entire report to determine if financial information discussed in sections outside the financial statements materially contradicts the audited financial statements. If we identify any such matters, we bring them to management's attention and review subsequent revisions.

### **Difficulties Encountered in Performing the Audit**

Our audit requires cooperative effort between management and the audit team. There were no difficulties encountered during the course of our audit. Management of the Airport Authority assisted with all audit requests in a timely manner.

### **Other Material Written Communications**

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (*attached*)

### **OTHER MATTERS**

We observed the following matter related to ongoing standard setting by the GASB. This matter is offered as a constructive suggestion for the consideration of management as a part of the ongoing process of modifying and improving financial accounting and reporting in accordance with accounting standards generally accepted in the United States of America. We can discuss this matter further at your convenience and may provide assistance with implementation including initial and ongoing considerations.

### **Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement)**

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended, Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*, as they relate to governmental employers that that account for OPEB provided through trusts that meet certain criteria.

This statement includes guidance for accounting for participating employers in single-employer and multiple-employer OPEB plans. This statement requires governments providing OPEB plans to recognize their long-term obligation for OPEB benefits as a liability, to provide consistent and comprehensive guidance for all postemployment benefits, parallel to the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**Governmental Accounting Standards Board (GASB) Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (Statement)**

**Presentation of Payroll-Related Measures in RSI**

This Statement amends the presentation requirements of payroll-related measures in required supplementary information (RSI) by replacing the measure of covered-employee payroll with the measure of covered payroll. Covered payroll is compensation to active employees on which the employer bases contributions to a pension plan. Covered-employee payroll is the payroll of employees provided with pensions through the pension plan.

The amendment applies to single-employer and cost-sharing pension plans administered through trusts that meet the criteria in paragraph three of GASB 67 as well as for employers that provide pensions through pension plans administered through trusts meeting the criteria in paragraph four of this Statement.

**Selection of Assumptions**

This Statement contains clarifying language similar to the language included in the other post-employment benefits (OPEB) statements regarding a deviation from Actuarial Standards of Practice (ASP) issued by the Actuarial Standards Board (ASB) in selecting assumptions. When determining the total pension liability and related measures, a deviation (as the term is used in ASP issued by the ASB) from the guidance in an ASP should not be considered in conformity with the requirements of GASB Statements 67, 68 or 73.

The amendments stem from concerns expressed during deliberations of GASB Statements No. 74 and 75 related to OPEB that certain language could be interpreted to mean that deviations from ASP guidance related to the selection of assumptions would be considered in conformity with the GASB statements.

**Classification of Employer-Paid Member Contributions**

This Statement clarifies that pension plans should classify contributions in a manner consistent with the designation as an employee or employer contribution pursuant to the pension plan terms. For purposes of applying GASB 67, payments made by an employer to satisfy contribution requirements identified by the plan's terms as plan-member contribution requirements should be classified as plan-member contributions. Payments made should be classified as plan-member contributions, including for purposes of determining a cost-sharing employer's proportion (and proportionate share of the collective net pension liability) and pension expense, when applying this Statement.

This communication is intended solely for the information and use of the Audit Committee, Members of the Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 31, 2016



**SAN DIEGO**  
INTERNATIONAL AIRPORT  
LET'S GO.

October 31, 2016

**BKD, LLP**

Certified Public Accountants  
14241 Dallas Parkway, Suite 1100  
Dallas, Texas 95254

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2016 and 2015 and your audit of our compliance with requirements applicable to each of our major federal awards programs and our compliance with requirements of the passenger facility charge and customer facility charge programs as of and for the year ended June 30, 2016. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement 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.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated June 7, 2016 for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - (b) Additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the San Diego County Regional Airport Authority (Airport Authority) from whom you determined it necessary to obtain audit evidence.
  - (d) All minutes of meetings of the governing body held through the date of this letter.
  - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
  - (a) Misappropriation of assets.
  - (b) Misrepresented or misstated assets, liabilities or net position.
8. We have no knowledge of any known or suspected:
  - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
  - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, customers, regulators, suppliers or others.
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

11. Except as reflected in the financial statements, there are no:
  - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
  - (b) Material transactions omitted or improperly recorded in the financial statements.
  - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
  - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
  - (e) Agreements to purchase assets previously sold.
  - (f) Restrictions on cash balances or compensating balance agreements.
  - (g) Guarantees, whether written or oral, under which the Airport Authority is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We have no reason to believe the Airport Authority owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
15. Adequate provisions and allowances have been accrued for any material losses from:
  - (a) Uncollectible receivables.
  - (b) Reducing obsolete or excess inventories to estimated net realizable value.
  - (c) Lease commitments, including those unable to be fulfilled.
  - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.



16. Except as disclosed in the financial statements, we have:
  - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
  - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
18. With regard to deposit and investment activities:
  - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
  - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
  - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
19. With respect to any nonattest services you have provided us during the year, including assistance in the preparation of the Comprehensive Annual Financial Report (CAFR):
  - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
  - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
  - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
  - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
20. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
21. 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 determination of amounts in our financial statements or other financial data significant to the audit objectives.

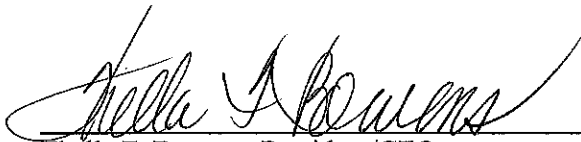
22. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
23. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
24. We have a process to track the status of audit findings and recommendations.
25. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
26. With regard to federal awards, passenger facility charge and customer facility charge programs:
  - (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
  - (b) We have identified the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance (or availability) of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations. We have also identified all compliance requirements of the passenger facility charge and customer facility charge programs.
  - (c) We are responsible for complying, and have complied, with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
  - (d) We are responsible to understand and comply with the requirements of federal statutes, regulations and the terms and conditions of federal awards related to each of our federal awards programs, as well as the passenger facility charge and customer facility charge programs, and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any

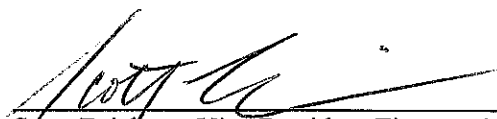
instances of noncompliance we have disclosed to you, we believe the Airport Authority has complied with all applicable compliance requirements.

- (e) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards, passenger facility charge and customer facility charge programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.
  - (f) We have made available to you all federal awards (including amendments, if any) and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.
  - (g) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
  - (h) The costs charged to federal awards are in accordance with applicable cost principles.
  - (i) The reports provided to you related to federal awards programs are true copies of reports submitted or electronically transmitted to the federal awarding agency, the applicable payment system or pass-through entity in the case of a subrecipient.
  - (j) Amounts claimed or used for matching were determined in accordance with Uniform Guidance regarding cost principles.
  - (k) We have no subrecipients of federal awards, as defined under Uniform Guidance.
  - (l) We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.
  - (m) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.
  - (n) The reporting package does not contain any protected personally identifiable information.
27. The financial statements disclose all significant estimates and material concentrations known to us. 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. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

28. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, pension information and postemployment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
29. With regard to supplementary information:
- (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
  - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
  - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
  - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
  - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

  
Thella F. Bowens, President/CEO

  
Scott Brickner, Vice President Finance & Asset  
Management/Treasurer



Report to the Audit Committee

December 5, 2016

Annual Audit - Year Ended June 30, 2016

## 2016 Highlights

- Independent Auditor's Report on Basic Financial Statements Unmodified
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards* Unmodified
- Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance Unmodified
- Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Passenger Facility Charge Collections and Expenditures Unmodified
- Report on Compliance for the Customer Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Customer Facility Charge Collections and Expenditures Unmodified
- During fiscal year 2016, the Airport Authority received its Certificate of Achievement for Excellence in Financial Reporting for its 2015 CAFR. This was the 13th consecutive year the Airport Authority has received this prestigious award. There was only one minor comment received from the GFOA.
- There were no material weaknesses or significant deficiencies in internal controls identified during the audit.
- For fiscal year 2016, the Airport Authority had one major federal award program that required testing, the FAA's *Airport Improvement Program*. We identified no compliance or internal control matters related to this program during compliance audit testing.

## 2016 Highlights (Cont.)

- **Asset highlights:** Cash, cash equivalents and investments were down \$71 million primarily due primarily to construction costs of the Rental Car Center. Capital assets grew by \$64 million (after depreciation, which increased by \$88 million) with the nearly completed Rental Car Center. Grants receivable decreased by \$3 million, primarily due to reimbursement of funded costs under the Quieter Home Program outstanding as of June 30, 2015. The net pension asset recognized under GASB Statement No. 68 decreased from \$3 million to a net pension liability of \$2 million primarily due to differences between actual and forecasted investment return.

- **Liability highlights:** Accrued liabilities decreased by \$12 million related to the Rental Car Center, decreasing the amount of construction related accruals and retainages payable. Long-term debt decreased by \$21 million due to repayment of bond principal and amortization of related bond premium balances. Accrued interest payable decreased slightly in line with decreasing outstanding principle balances.

- **Net position highlights:** Net investment in capital assets decreased by \$6 million, which is primarily reflective of the Rental Car Center being near project completion. Amounts restricted for debt service remained consistent year over year. Amounts restricted for construction decreased by \$123 million, as Series 2013 and 2014 bond proceeds have provided for significant capital payments in 2016. Unrestricted net position rose by \$42 million, which is primarily due to the accumulation of additional liquid reserves, complemented by decreases in accrued liabilities and debt payable from restricted and unrestricted resources.

- **Revenue highlights:** Airline revenue grew by \$10 million, reflecting higher cost recovery from the airlines in 2016. Concession revenue increased by \$4 million, primarily stemming from the Airport Authority's expanded concession program and an increase in enplaned passengers. Parking and ground transportation revenue rose by \$6 million due to increased parking utilization after completion of the Green Build, as well as increased enplanements. Ground rentals revenue increased \$4 million, which is attributable to rental changes for the Rental Car Center placed in service early calendar 2016.

- **Expense highlights:** Contractual services increased by \$6 million as a result of higher bussing costs of the Rental Car Center. Utilities increased by \$1 million due to rate increases and power usage of the Rental Car Center. Safety and security increased \$5 million primarily due to an increase in security fees under the Port agreement. Equipment and systems decreased by \$1 million reflecting decreased purchases of non-capital equipment.

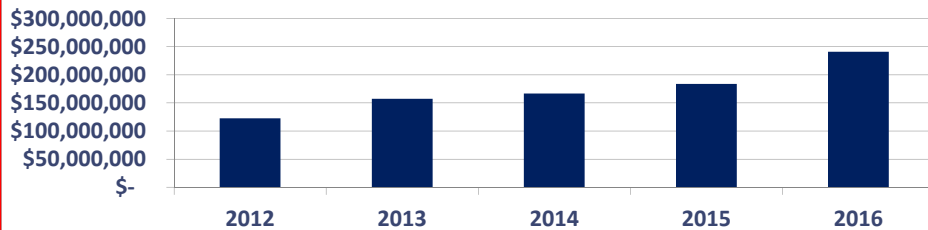
- **Cash flow highlights:** Cash flows from operating activities continue to grow and reflect a strong trend and unrestricted liquid reserves (\$241 million) are significant, representing 95% of total unrestricted net position and more than one year of current operating expenses (exclusive of depreciation).

- **Current change in accounting principles:** There were no significant changes to the Airport Authority's significant accounting policies, except with regard to fair value disclosures. Significant and/or sensitive financial statement disclosures in the 2016 CAFR include: Cash, Cash Equivalents and Investments; Long-Term Liabilities; Defined Benefit Plan (GASB 68); Other Postemployment Benefits; Fair Values (GASB 72/79); and Commitments and Contingencies.

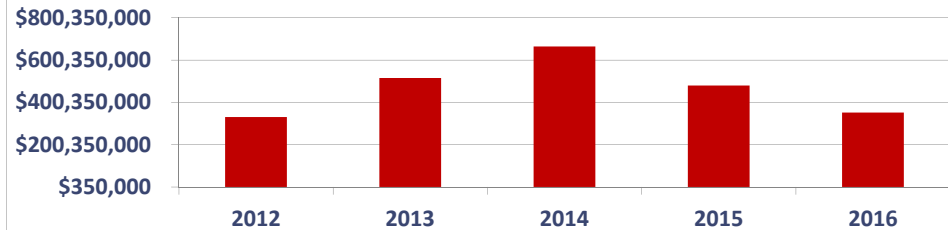
- **Future change in accounting principles:** Future accounting/reporting issues of significance to consider include the future implementation of GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

## Assets and Deferred Outflows Composition Trends

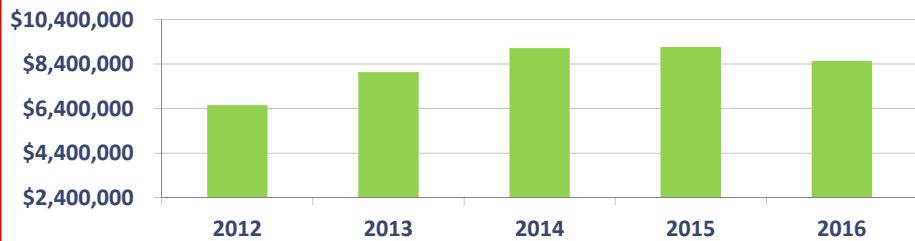
Cash, Cash Equivalents and Investments - Unrestricted



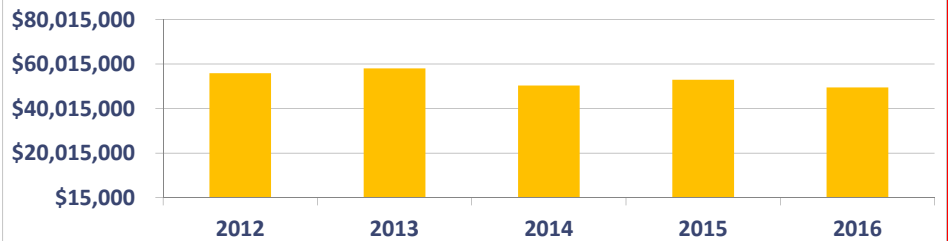
Cash, Cash Equivalents and Investments - Restricted



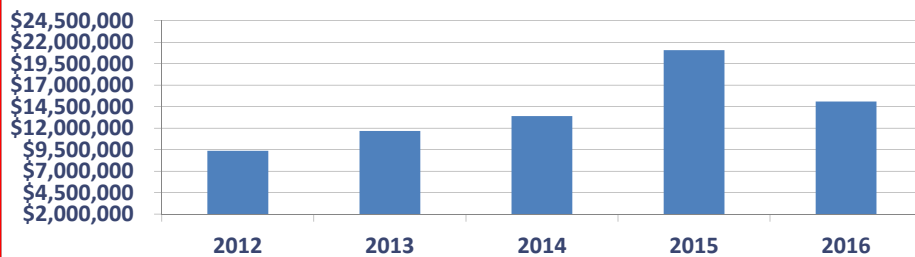
Tenant Lease Receivables



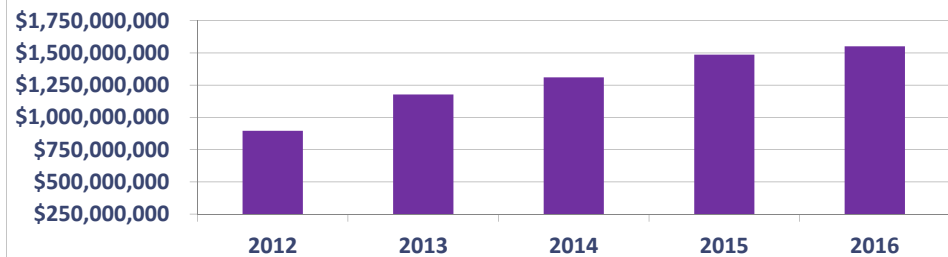
Other Assets and Deferred Outflows



Grant, PFC & CFC Receivables



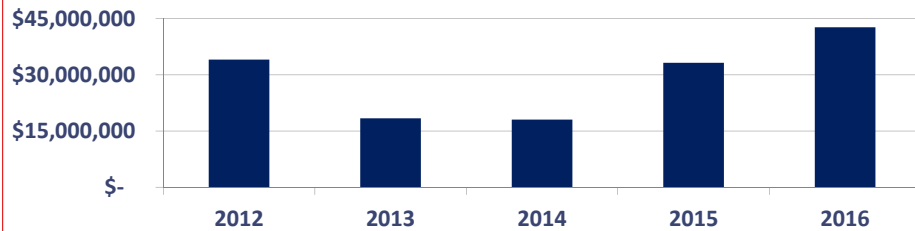
Capital Assets, Net



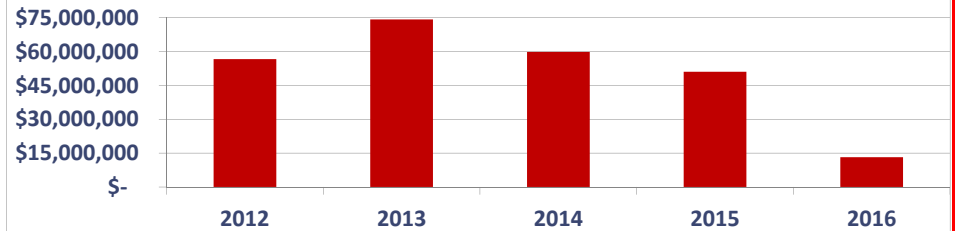


## Liabilities and Deferred Inflows Composition Trends

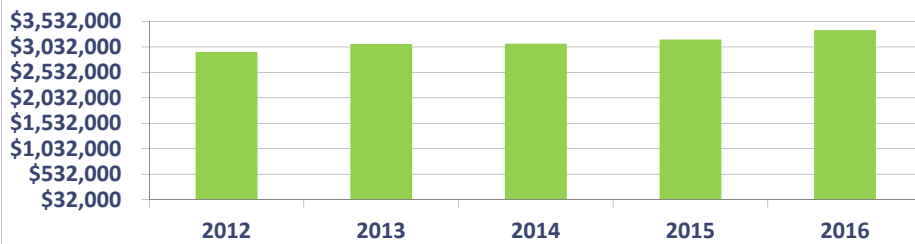
Accounts Payable and Accrued Liabilities- Unrestricted



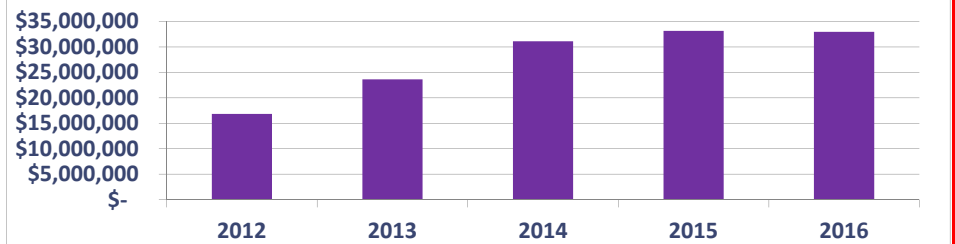
Accounts Payable and Accrued Liabilities- Restricted



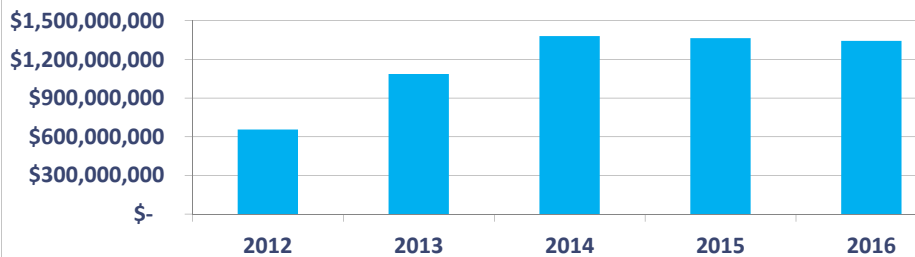
Compensated Absences



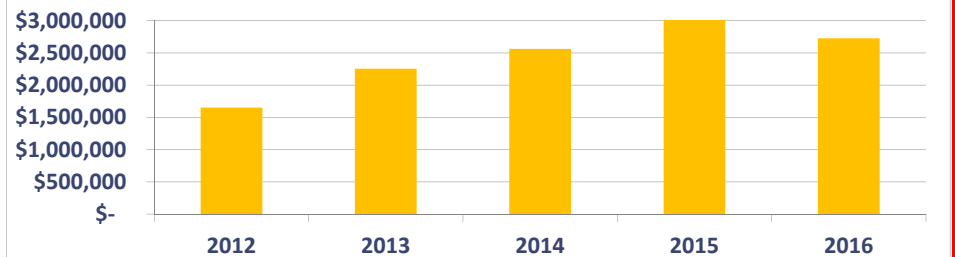
Accrued Interest on Debt



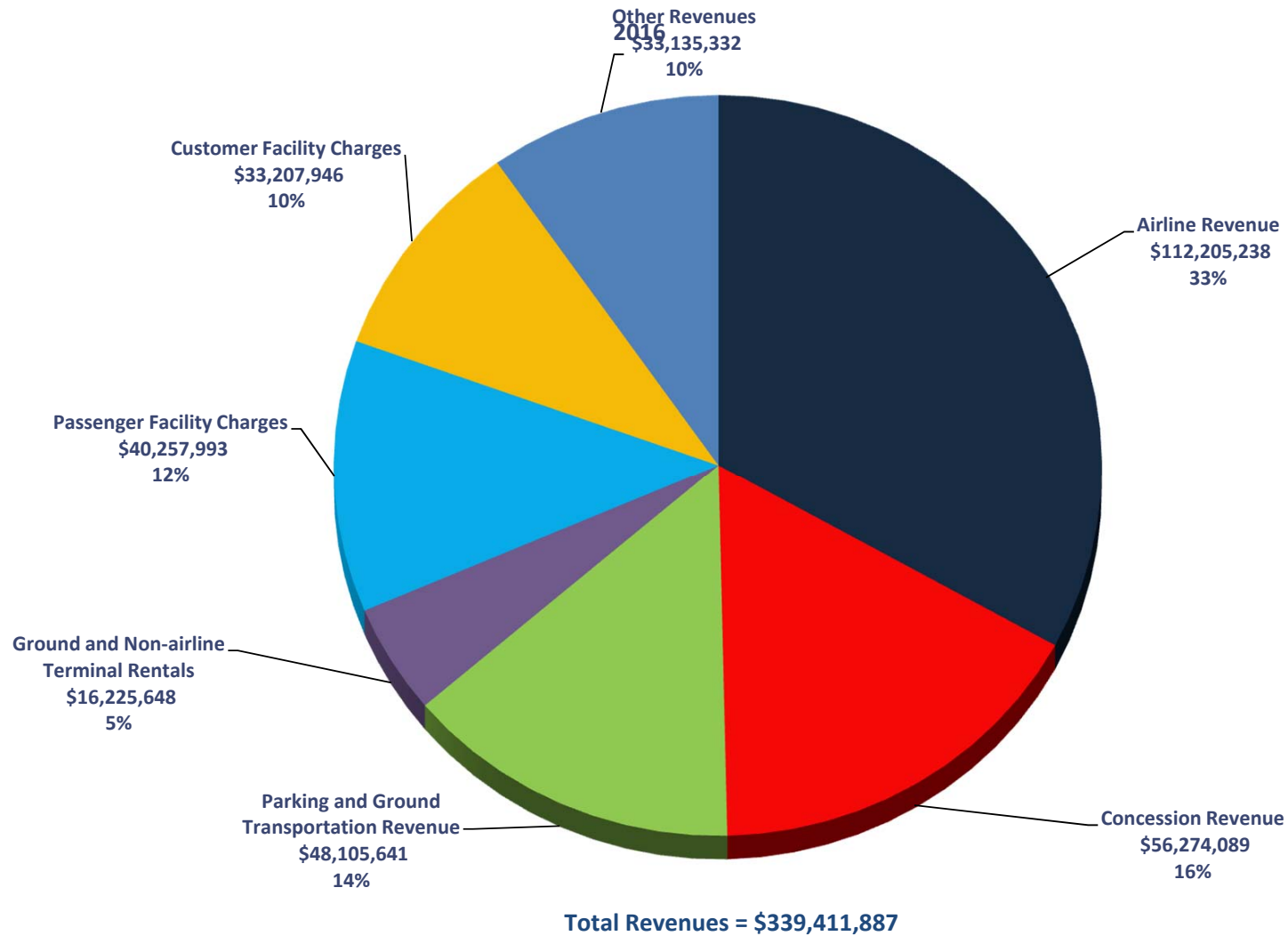
Long-Term Debt



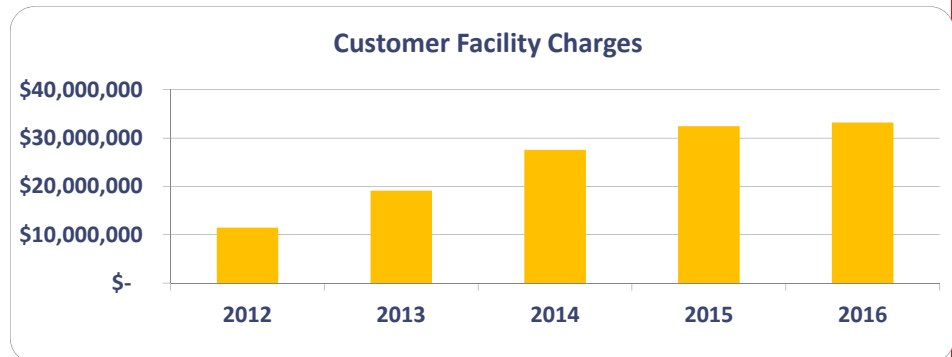
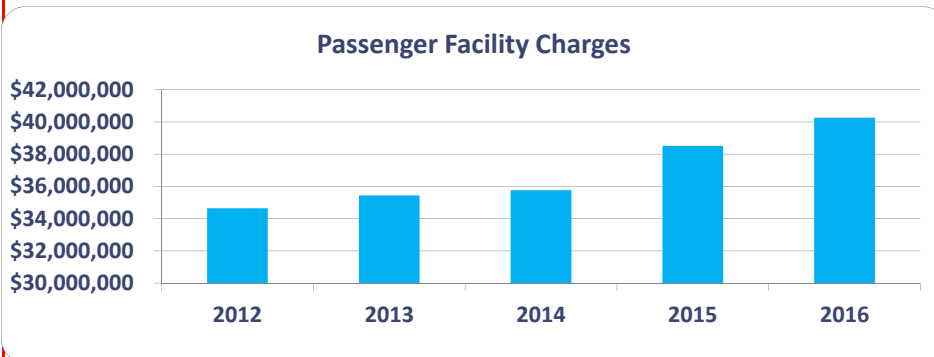
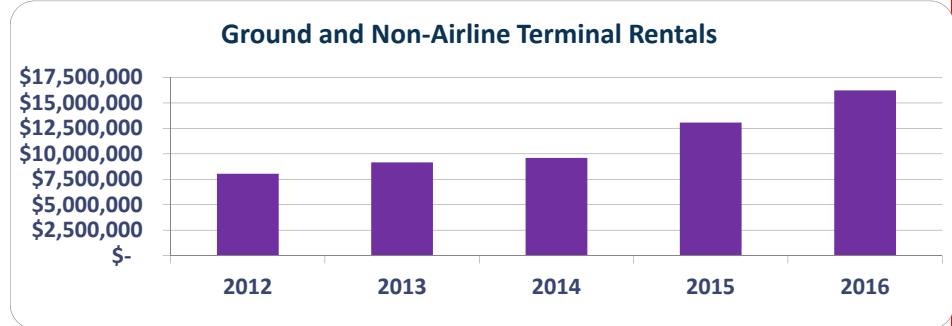
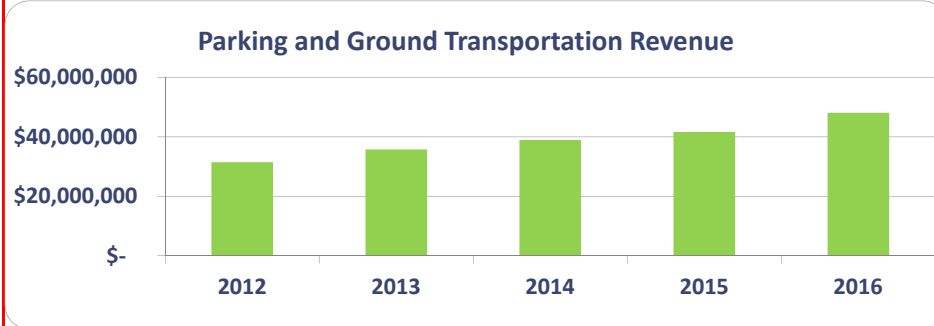
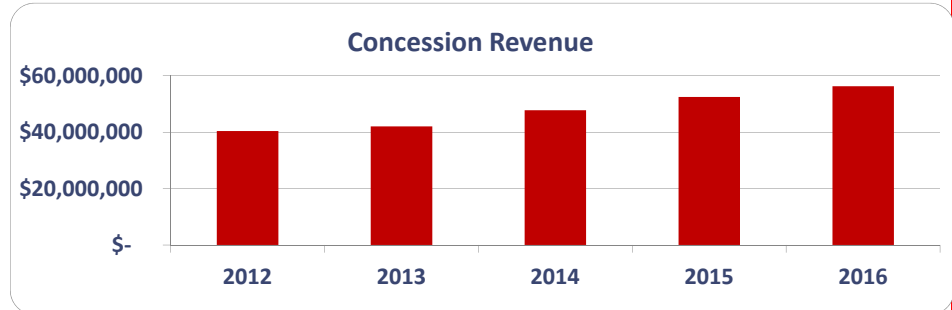
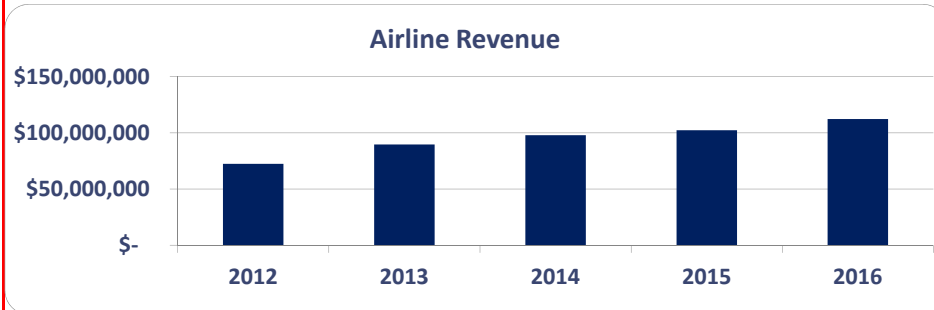
Other Liabilities and Deferred Inflows



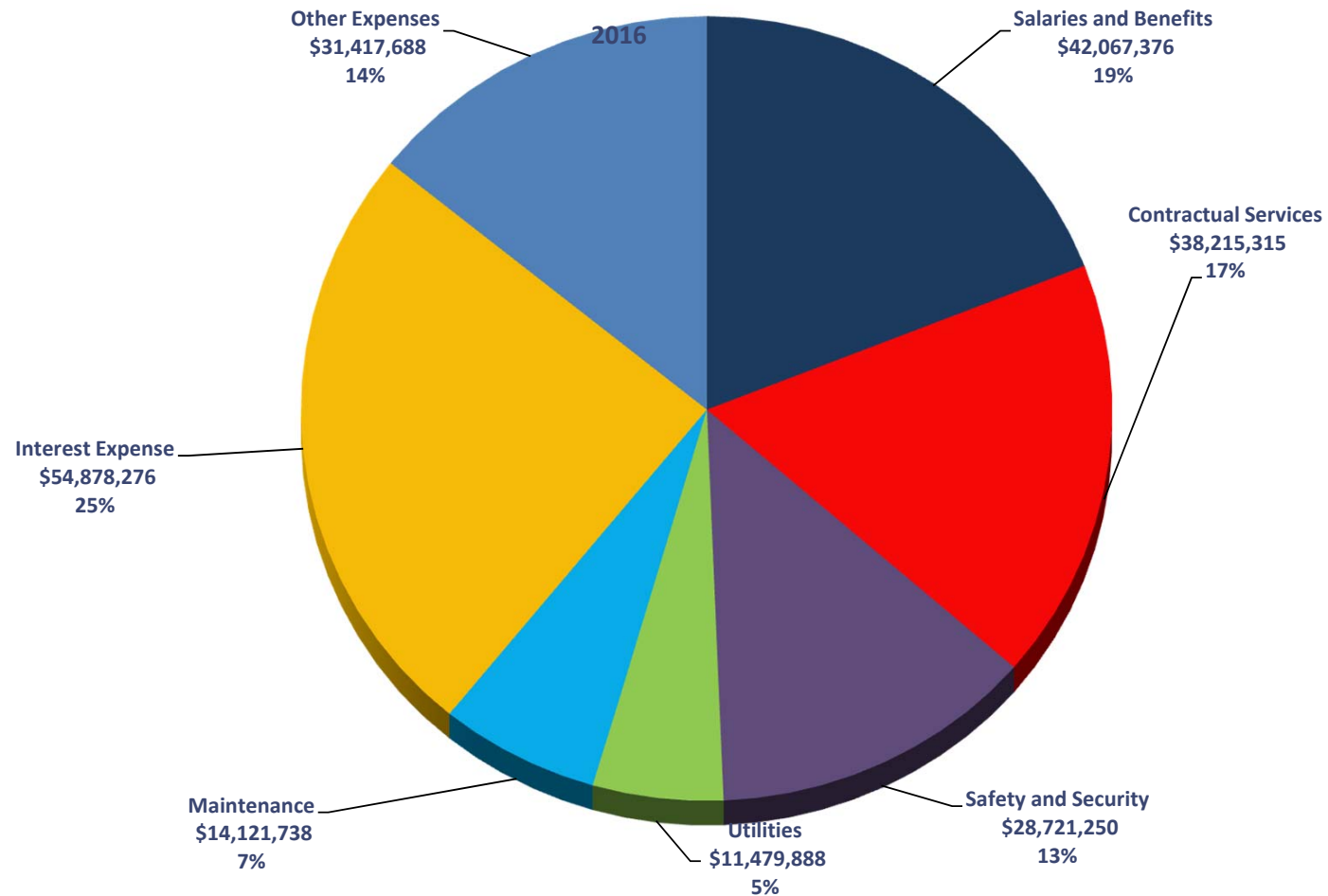
## Total Revenues and Capital Contributions Composition for the Year Ended June 30, 2016



## Total Revenues and Capital Contributions Trends



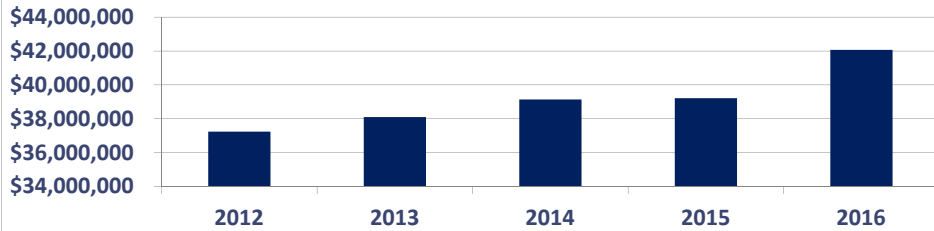
## Expense Composition for the Year Ended June 30, 2016 (Excl. Depreciation)



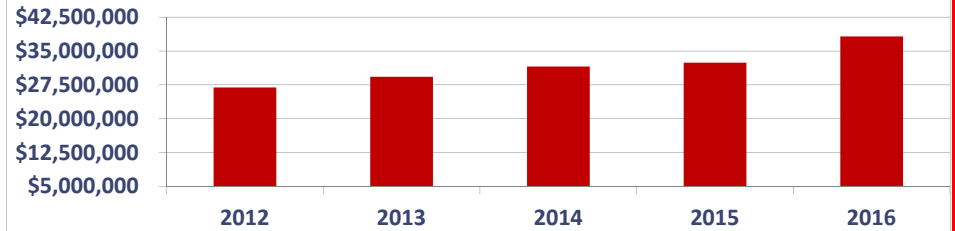
Total Expenses (Excl. Depreciation of \$83,577,615) = \$220,901,531

## Expense Trends

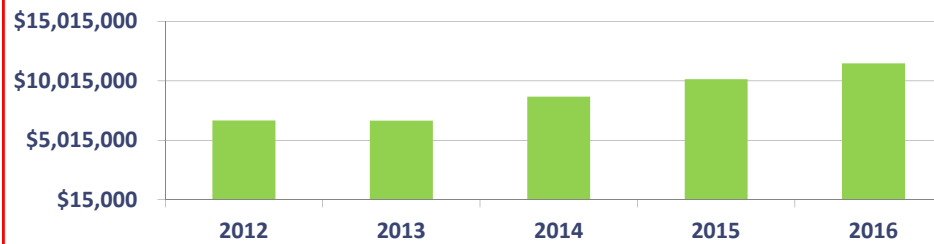
Salaries and Benefits



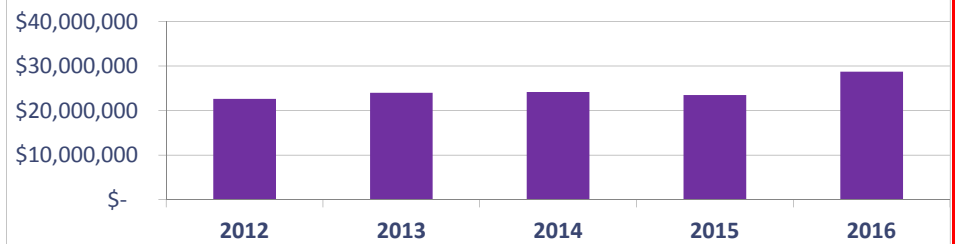
Contractual Services



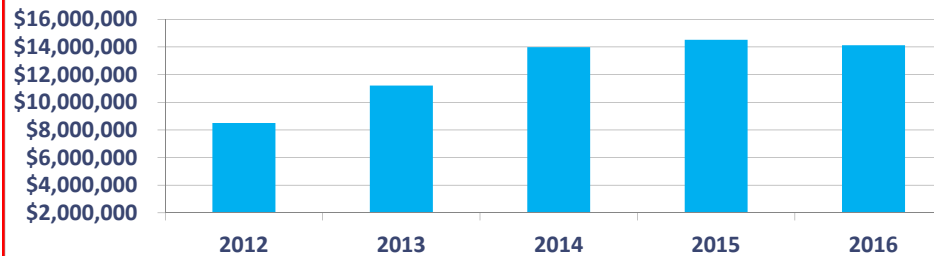
Utilities



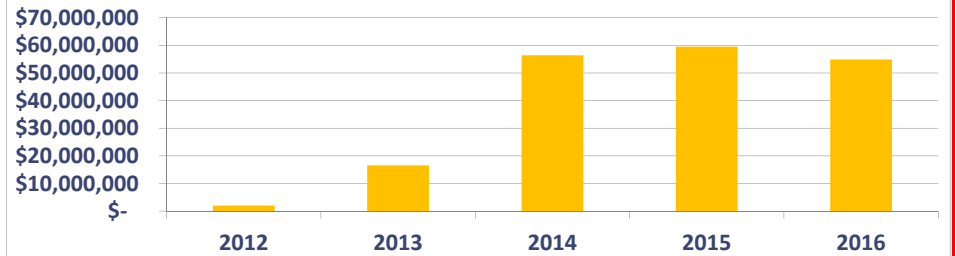
Safety and Security



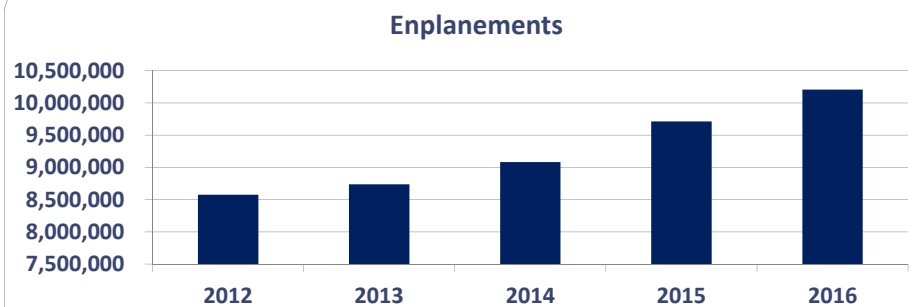
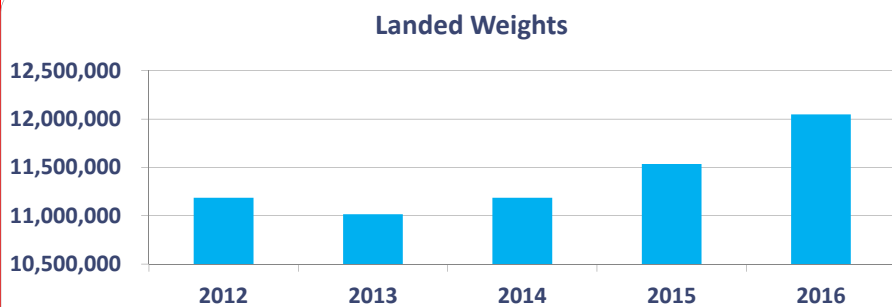
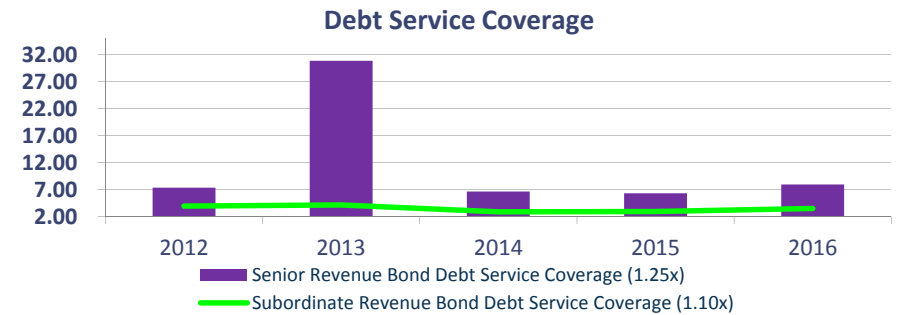
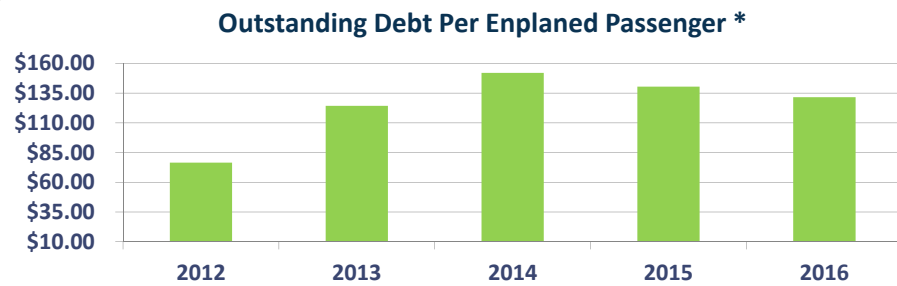
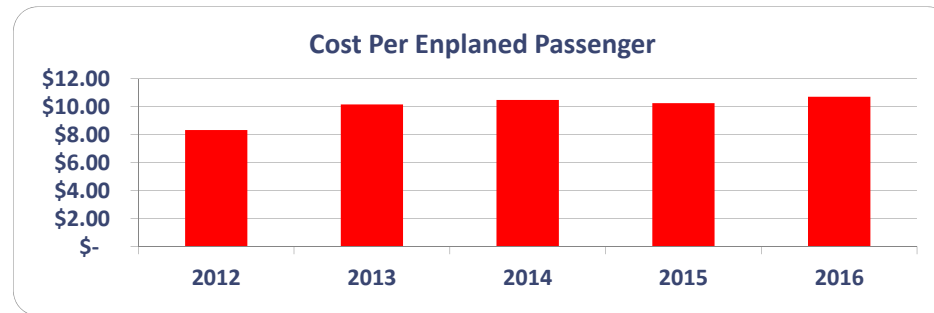
Maintenance



Interest Expense



## Other Relevant Trends



## **AUDIT COMMITTEE**

Meeting Date: **DECEMBER 5, 2016**

### **Subject:**

**Review of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2016**

### **Recommendation:**

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

### **Background/Justification:**

A Comprehensive Annual Financial Report (CAFR) is a set of U.S. government financial statements that encompass the financial report of a state, municipal, or other governmental entity that conforms with the accounting requirements of the Governmental Accounting Standards Board (GASB).

The CAFR provides a measure of financial transparency on local and state government spending. It is a more thorough report when compared to the audited financial statements, and includes three major sections: the introductory section, which provides general information on the Airport's organization structure; the financial section, which includes the Airport's audited financial statements; and the statistical section, which provides data trends.

The Charter of the Audit Committee directs the Committee to review the CAFR and other external auditor annual reports, and to forward them to the San Diego County Regional Airport Authority Board for approval.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, is submitted as Attachment A.

### **Fiscal Impact:**

Adequate funding for the audit conducted by BKD, LLP, is included in the adopted Fiscal Year 2017 and conceptually approved Fiscal Year 2018 Operating Expense Budgets within the Accounting Department Services – Other line item.

### **Authority Strategies:**

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

- |   |   |  |  |   |
|---|---|--|--|---|
| <input type="checkbox"/> Community Strategy | <input checked="" type="checkbox"/> Customer Strategy | <input type="checkbox"/> Employee Strategy | <input checked="" type="checkbox"/> Financial Strategy | <input checked="" type="checkbox"/> Operations Strategy |
|---|---|--|--|---|

**Environmental Review:**

- A. CEQA: 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. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

**Application of Inclusionary Policies:**

Not Applicable

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2016 & 2015

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PREPARED BY

FINANCE DIVISION OF THE  
SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY

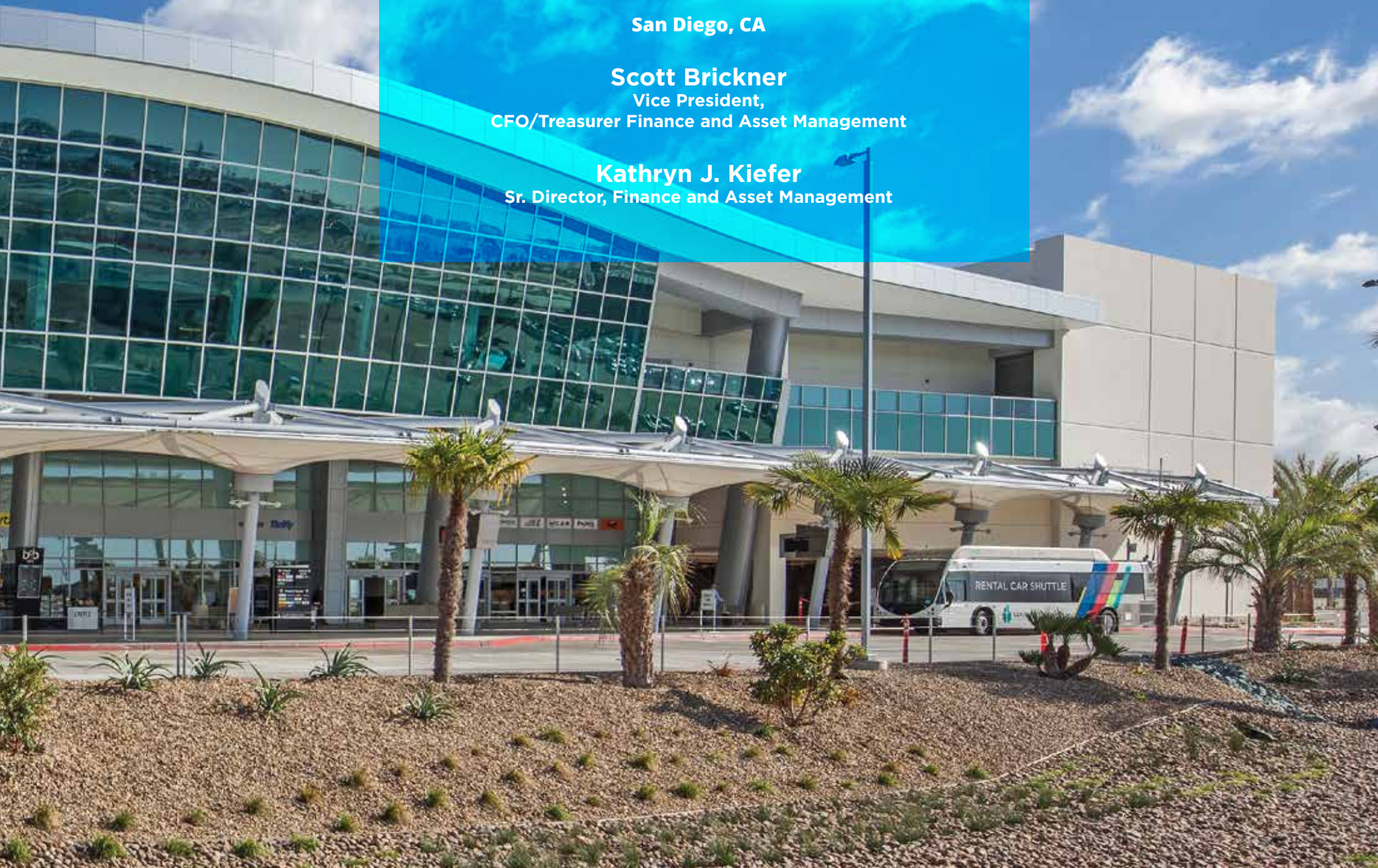
San Diego, CA

**Scott Brickner**

Vice President,  
CFO/Treasurer Finance and Asset Management

**Kathryn J. Kiefer**

Sr. Director, Finance and Asset Management



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 & 2015

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# AUTHORITY OVERVIEW

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THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY WAS ESTABLISHED BY STATE LAW IN 2002 TO OPERATE SAN DIEGO INTERNATIONAL AIRPORT AND ADDRESS THE REGION'S LONG-TERM AIR TRANSPORTATION NEEDS. A 12-MEMBER APPOINTED BOARD REPRESENTING ALL AREAS OF THE COUNTY GOVERNS THE AIRPORT AUTHORITY.

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# INTRODUCTORY SECTION

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AUTHORITY OVERVIEW

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

AUTHORITY ORGANIZATION CHART





To the Public:

The Comprehensive Annual Financial Report of the San Diego County Regional Airport Authority (“Airport Authority”) for the fiscal years ended June 30, 2016 and 2015, is submitted herewith. The Airport Authority’s Accounting Department prepared this report.

Responsibility for the accuracy, completeness and fairness of the presented data, including all disclosures, rests with the Airport Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport Authority’s financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (referred to as “GAAP”).

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

PROFILE OF AIRPORT  
AUTHORITY AND  
ORGANIZATIONAL STRUCTURE

The San Diego County Regional Airport Authority began operations on January 1, 2003, as an independent agency to manage the day-to-day operations of San Diego International Airport and address the region’s long-term air transportation needs.

The legislation that created the Airport Authority mandates three main responsibilities:

- Operate San Diego International Airport
- Plan for the future air transportation needs of the region
- Serve as the region’s Airport Land Use Commission – and ensure the adoption of land use plans that protect public health and safety surrounding all 16 of the county’s airports.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members serve as the Executive Committee consisting of one Board member from each of the following “defined jurisdictions”: the City of San Diego, the County of San Diego, and one Board member from among the east county cities, south county cities, north county coastal or north county inland cities. The Board members serve three-year terms. The management and operations of the Airport Authority are carried out by a staff headed by the President/Chief Executive Officer, who is appointed by and reports directly to the Airport Authority Board of Directors (“Board”).



The Air Trade Area for SDIA includes the County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The California Department of Finance estimates that as of January 1, 2016, San Diego County is the second most populous county in California, behind Los Angeles County, and the fifth largest county in the United States, with a population of 3.3 million. The County's population has grown at an average rate of 0.9 percent in the past five years. The majority of the County's population is concentrated in the western portion. The largest cities in the County are San Diego (42 percent), Chula Vista (8 percent), Oceanside (6 percent), Escondido (5 percent), Carlsbad (3 percent), El Cajon (3 percent), Vista (3 percent), San Marcos (3 percent) and Encinitas (2 percent). The combined San Diego/Tijuana metropolitan population exceeds five million inhabitants.

Typically, San Diego County has enjoyed a stable economic climate, with unemployment rates lower than the State of California's. In

June 2016, the County's unemployment rate was 5.1 percent compared to June 2015, at 5.2 percent (revised). This compares with an unemployment rate of 5.4 percent in June 2016 and 6.2 percent in June 2015 for California, and 4.9 percent as of June 2016 compared to 5.3 percent for the nation as of June 2015. The region's economy is diversified and provides an attractive mix of leisure, business, and governmental sectors. The County is home to more than 200 publicly traded companies.

Enplaned passengers grew 5.1 percent in fiscal year 2016, reflecting continuing economic improvement. Total enplaned passengers were 10.21 million, compared to 9.71 million in fiscal year 2015. See the MD&A section of the Financial Section of this report for further discussion of the current year activity.





## MAJOR INITIATIVES, AWARDS AND ACCOMPLISHMENTS:

### NEW RENTAL CAR CENTER (RCC) OFFICIALLY OPENS AT SAN

**New Rental Car Center Opens on San Diego International Airport's North Side** – The new consolidated Rental Car Center officially opened for business at San Diego International Airport on January 20, 2016. The 2-million-square-foot center houses most of the rental car companies serving SDIA, including national brands, as well as local, independent and small business rental car companies, in one central location off Pacific Highway.

The new facility replaced the buildings on Harbor Drive that for years housed most rental car companies serving SDIA. In a related change, all rental car customers are now carried to and from the terminals in 25 alternative-fuel shuttles owned and operated by the Airport Authority. This fleet, which

replaced approximately 81 shuttles that were previously operated by the rental car companies, runs almost exclusively on a new interior airport roadway.

Moving the rental car companies to the north side of the airport and consolidating them into one building dramatically reduced rental car traffic on Harbor Drive, as well as the number of shuttle buses competing with passengers getting to and from SDIA.

The \$316 million facility generated approximately 4,600 construction jobs, with \$186 million in construction contracts going to local businesses, of that \$70.4 million went to small businesses.





**New International Flights Added at SAN** – The Airport Authority announced in June 2016, that it had significantly expanded its list of overseas destinations with new nonstop flights to Germany and Switzerland.

New seasonal service between San Diego and Frankfurt will begin in summer 2017 on Condor Airlines. Germany is a key international market for travel to California and San Diego. The addition of approximately 14,000 new seats to San Diego on Condor, Germany's most popular leisure airline, will support the local tourism industry's efforts to increase the share of international travelers to our region.

A second leisure market carrier, Edelweiss, will begin direct service to Zurich, also in the summer of 2017. This new connection allows Swiss and European tourists to reach San Diego in a comfortable, convenient and efficient way. California is very popular among Swiss tourists, and this flight is expected to bring approximately 15,000 visitors to San Diego per year, creating an economic impact of around \$50 million per year.

The new nonstop service to Frankfurt and Zurich means San Diegans will have direct flights to six countries from San Diego International Airport. Each of these global markets brings significant economic benefits to the San Diego region. Visitors who travel to San Diego by air spend approximately \$2.3 billion in the region each year.

## NEW INTERNATIONAL FLIGHTS ADDED AT SAN



**San Diego International Airport Reaches 20 Million Annual Passenger Mark in 2015** – For the first time in its 88-year history, SAN surpassed 20 million passengers in a single year. The 2015 total represents a 7 percent increase over 2014. SAN posted record-breaking passenger totals the last two years in a row.

In another important category, SAN set a record for total enplanements (departing passengers), in 2015 with just over 10 million; a 7 percent increase over the previous record set in 2014.

SAN also served nearly 700,000 international passengers in 2015, an increase over 2014 of nearly 4 percent.

The increases were attributed to a number of factors, including the improved economy and robust tourism industry.

## SAN DIEGO INTERNATIONAL AIRPORT REACHES 20 MILLION ANNUAL PASSENGER MARK IN 2015

## AIRPORT AUTHORITY RECEIVES PRESTIGIOUS ENVIRONMENTAL AWARD FOR WASTE REDUCTION EFFORTS

**Airport Authority Receives Prestigious Environmental Award for Waste Reduction Efforts** – The California Environmental Protection Agency (CalEPA) awarded the Airport Authority with a 2015 Governor’s Environmental and Economic Leadership Award (GEELA), considered one of California’s highest environmental honors.

The award was presented to the Airport Authority during a special reception on January 19, 2016.

The Airport Authority earned the award in the “Waste Reduction” category, which honors “exemplary achievements in conserving and

protecting natural resources and reducing costs by incorporating efforts such as waste prevention, reuse, recycling, composting, environmentally-preferable purchasing, and product design and stewardship,” according to CalEPA.

The award specifically recognized San Diego International Airport’s food waste collection program, air conditioning condensate water recovery and recycling initiative and the airport’s Environmentally Preferred Product purchasing program.



## TERMINAL 2 WEST EXPANSION EARNS ISI’S ENVISION® SUSTAINABLE INFRASTRUCTURE PLATINUM AWARD

**Terminal 2 West Expansion Earns ISI’s Envision® Sustainable Infrastructure Platinum Award** – The “Green Build” expansion of Terminal 2 West received the Institute for Sustainable Infrastructure’s (ISI) Envision rating system’s Platinum award in early 2016. The project is the first airport development to receive an ISI Envision award.

The Green Build development comprised a major expansion of San Diego International Airport’s Terminal 2, which included 10 new gates, a dual-level roadway, enhanced curbside check in, more security lanes and expanded concession area. The project began construction in 2009 with the construction of the apron improvements, additional aircraft

parking and new USO facilities. During the next several years, construction commenced on the terminal itself and a dual-level roadway to separate arriving and departing traffic. In 2013, the airport’s new gates, facilities and roadway improvements opened to the public.

The Green Build project was the largest construction project in the airport’s history and now serves as a hallmark for developing future airport projects using sustainable building practices.





**Airport Authority Releases Sustainability Report** – The Airport Authority released its fourth Sustainability Report in June 2016. The report covered calendar years 2014-2015, and generally highlights the Airport Authority's activities and accomplishments in the areas of environmental, economic and social sustainability.

The Airport Authority defines sustainability as “building an enduring and resilient enterprise by effectively managing our financial, social and environmental risks, obligations and opportunities.”

The report is comprised of five key sections: Community, Customer, Employee, Financial and Operational. These areas align with the Airport Authority's five organizational strategies of the same names.

Examples of topics covered in the report include:

- A carefully thought-out financial strategy that serves as the bedrock for the Airport Authority's four other core organizational strategies,
- Updates on the Airport Authority's water, storm water, energy and air quality management plans,

- The Airport Authority's extensive community outreach efforts in regards to major capital improvement projects, traffic and noise mitigation,
- Customer satisfaction survey results and initiatives regarding security, ground transportation, concessions and more, and
- Efforts to attract new employee talent in the face of an aging workforce.

The Airport Authority consulted the Global Reporting Initiative's (GRI) G4 guidelines in the production of this report. The index lists the economic, environmental and social criteria that the GRI guidelines suggest, as well as certain specific criteria from the GRI Airport Operators Sector Supplement. The report was developed in accordance with the GRI G4's “Core” standards.

The Sustainability Report is available in digital format only and can be found at [sustain.san.org](http://sustain.san.org).

## AIRPORT AUTHORITY RELEASES SUSTAINABILITY REPORT





Wind farm project in Idaho



Forest restoration project



Water restoration project in the Colorado Delta

## SAN DIEGO INTERNATIONAL AIRPORT PUTS CARBON OFFSETS ON THE MENU

**San Diego International Airport Puts Carbon Offsets on the Menu** – San Diego International Airport (SAN) officially launched The Good Traveler program in September 2015.

The Good Traveler is designed to encourage sustainable travel by enabling individuals to offset the environmental impact of their journey in an affordable, easy and meaningful way. Through The Good Traveler program, individuals can purchase carbon offsets and merchandise online at [www.thegoodtraveler.org](http://www.thegoodtraveler.org) or at select locations, with proceeds going toward conservation projects that help counteract the effect of greenhouse gas emissions on the environment.

For \$1, travelers can buy a collectible Good Traveler tag or sticker that can be placed on a bag, laptop or phone cover. The purchase will offset 500 miles of air travel or 200 miles of driving, with 100 percent of proceeds going into three projects: a forest restoration project in California, a wind farm project in Idaho, and a water restoration project in the Colorado Delta.

To extend the reach of The Good Traveler, SAN is partnering with businesses in the local hospitality and travel industry, including Ryan Bros. Coffee and Paradise Point Resort & Spa. The Good Traveler tags will be offered at the point of purchase to customers and guests as a convenient and simple option to offset their journey.

## SAN DIEGO INTERNATIONAL AIRPORT ENHANCES RIDESHARING OPERATIONS

**San Diego International Airport Enhances Ridesharing Operations** – In July 2015, the Airport Authority signed permits for ridesharing companies Lyft and Uber to begin operations at San Diego International Airport.

Airport Authority staff had worked with the ridesharing industry over the past year to draft a permit for Transportation Network Companies (TNCs) to operate at SAN. The Airport Authority Board adopted a resolution that removes the fingerprinting requirement

from the Airport Authority's background check process for several ground transportation providers, including TNCs, taxi cab providers and shared ride vans or Vehicles for Hire. The TNCs will continue to conduct their own accredited background checks of their drivers. The decision helped facilitate the issuance of TNC permits, while taking steps to level the playing field for all ground transportation providers at SAN.



The Airport Authority has been the recipient of numerous awards. A few of the recognitions presented during the fiscal year ended June 30, 2016 were as follows:

**The Government Finance Officers Association of the United States and Canada ("GFOA") Certificate of Achievement for Excellence in Financial Reporting** – This recognition is for the Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2015. The Airport Authority has received this award each year since its inception in 2003. In order to be awarded a Certificate of Achievement, a government unit must publish an easily

readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Airport Authority believes its current CAFR continues to meet the Certificate of Achievement Program's requirements. We will submit it to the GFOA to determine its eligibility for another certificate.

THE GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA ("GFOA") CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

**The GFOA Distinguished Budget Presentation Award** – The achievement of this award is based on a governmental entity's preparation and issuance of budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council

on State and Local Budgeting and the GFOA's recommended practices on budgeting. This was the eleventh consecutive year that the Airport Authority received this award.

THE GFOA DISTINGUISHED BUDGET PRESENTATION AWARD



**Excellence in Procurement Award** – The Achievement of Excellence in Procurement Award is designated to recognize organizational excellence within Procurement. The continuously evolving criteria measures innovation, ethics, electronic commerce, leadership, trends and best practices. The Airport Authority was one of 28 special districts in the United States and Canada to receive the award. The team also received special recognition for innovation. This is the seventh year that the Authority has received this award.

EXCELLENCE IN PROCUREMENT AWARD

## FINANCIAL INFORMATION



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

The Airport Authority completed fiscal year 2016 with operating income (before depreciation and amortization) of \$80.3 million, a \$10.1 million (14%) increase over fiscal year 2015. The accompanying MD&A provides a detailed narrative overview of the Airport Authority's financial activities for the fiscal years ended June, 30, 2016 and 2015.

## BUDGET PROCESS AND FINANCIAL PLAN



Annually, the Airport Authority prepares three budgets. The three budgets are, a five year capital improvement program budget, an operating budget for the fiscal year and a conceptual budget for the next year. The budget process begins in the fall with senior management collaborating with the Board to update, review and formulate the strategies and initiatives that drive business performance. The management team engages in cross-functional discussions to arrive at key decisions and agreements. The effort is designed to align divisional requirements with the Airport Authority's overall strategies and initiatives.

The capital improvement program provides critical improvements and asset preservation. The security, environmental remediation, terminal upgrades and development are the main focus of the capital improvement program.

To ensure that the budget and the financial plan is funded adequately and to maintain the Airport Authority's strong financial condition, the Financial Management team prepares a revenue budget that incorporates budget expenditure requests into the rate setting formula to determine projected rates, fees and charges to the airlines and other tenants.

The financial plan includes the operating budget, the next year conceptual operating budget and the capital improvement program. Other major factors affecting the Airport Authority's financial plan include the airline operating agreement, master and subordinate bond indentures, Memorandum of Understanding with the California Attorney General, and various levels of federal funding.

The financial records of the Airport Authority are audited annually by independent public accountants. BKD, LLP performed the audit for the current fiscal year ended June 30, 2016 and have issued an unqualified ("clean") opinion. The auditor's report on the financial statements is presented in the Financial Section of this report.

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service and efforts of the Airport Authority's Accounting Department. We sincerely appreciate everyone's efforts in preparing this report.

Respectfully submitted,



**Thella F. Bowens**

President | Chief Executive Officer



**Scott Brickner, CPA**

Vice President Finance & Asset Management | Treasurer





The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. This is the thirteenth consecutive year that the Airport Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized

Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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







Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**San Diego County  
Regional Airport Authority  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO

**AIRPORT AUTHORITY BOARD**



**EXECUTIVE COMMITTEE MEMBERS**

**ROBERT H. GLEASON**, CHAIR  
**PAUL ROBINSON**, VICE CHAIR  
**LLOYD B. HUBBS**

**GENERAL MEMBERS**

**C. APRIL BOLING**  
**GREG COX**  
**MAYOR JIM DESMOND**  
**JIM JANNEY**  
**MARK KERSEY**  
**MARY SESSOM**

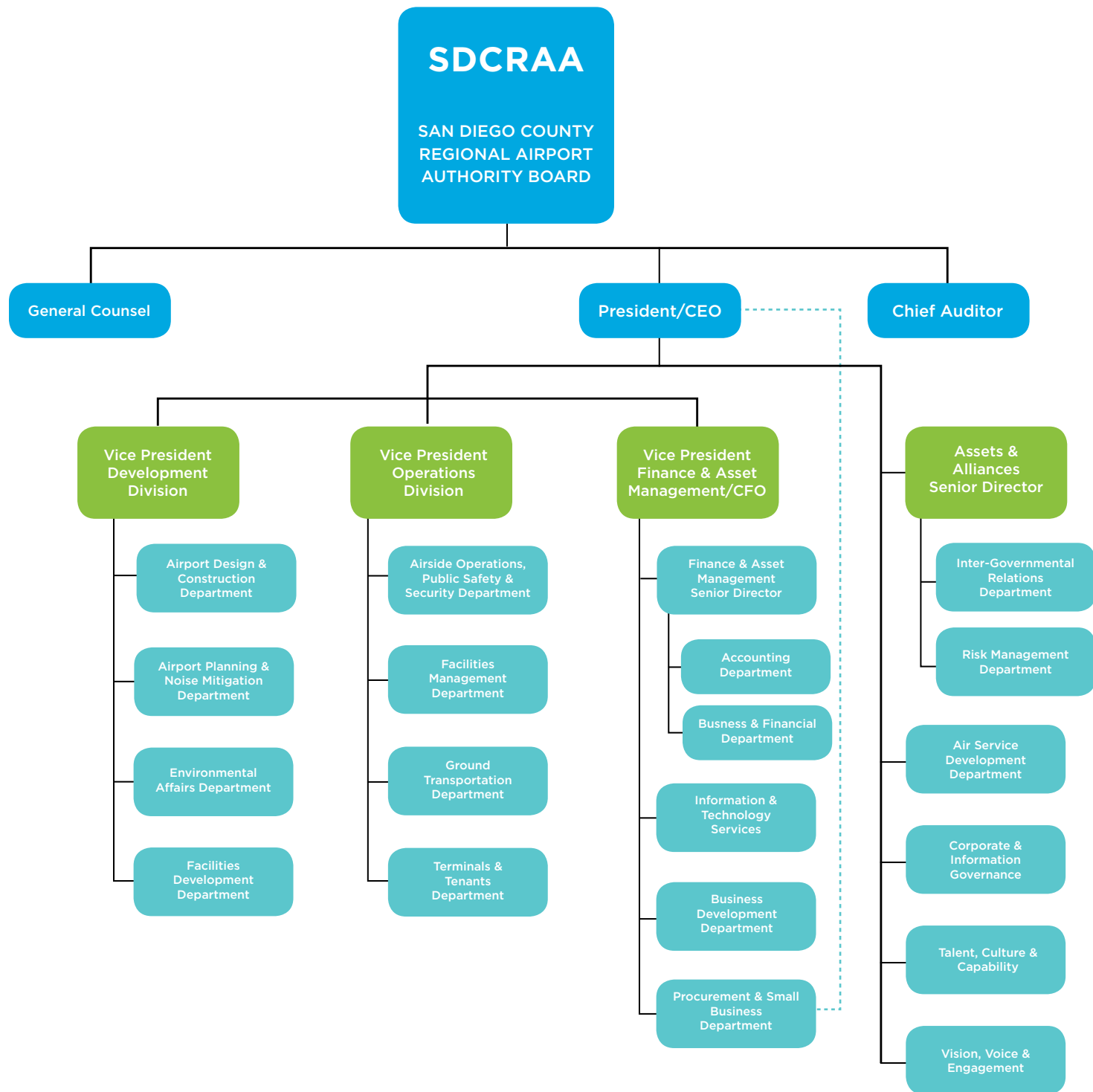
**EX-OFFICIO MEMBERS**

**LAURIE BERMAN**  
**COLONEL JASON G. WOODWORTH**  
**ERAINA ORTEGA**

**EXECUTIVE STAFF**



**THELLA F. BOWENS**, PRESIDENT/CHIEF EXECUTIVE OFFICER  
**SCOTT BRICKNER**, VICE PRESIDENT, CFO/TREASURER, FINANCE AND ASSET MANAGEMENT  
**ANGELA SHAFER-PAYNE**, VICE PRESIDENT, OPERATIONS DIVISION  
**JEFFREY WOODSON**, VICE PRESIDENT, DEVELOPMENT DIVISION  
**MARK BURCHYETT**, CHIEF AUDITOR  
**AMY GONZALEZ**, GENERAL COUNSEL  
**HAMPTON BROWN**, DIRECTOR, AIR SERVICE DEVELOPMENT  
**KURT GERING**, DIRECTOR, TALENT CULTURE & CAPABILITY  
**MATT HARRIS**, SENIOR DIRECTOR, ASSETS AND ALLIANCES  
**DIANA LUCERO**, DIRECTOR, VISION, VOICE AND ENGAGEMENT  
**TONY RUSSELL**, DIRECTOR/AUTHORITY CLERK, CORPORATE AND INFORMATION GOVERNANCE



The dotted line relationship indicates the appointed Disadvantaged Business Enterprise Liaison Officer designated from Procurement & Small Business Development Department reports directly to the Authority CEO. Boxes in grey reside in the Executive Division



# KEEPING THE COMMUNITY INFORMED

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ONE OF THE SAN DIEGO COUNTY REGIONAL  
AIRPORT AUTHORITY'S FIVE KEY STRATEGIES IS  
FOCUSED ON THE COMMUNITY: STRIVING TO BE  
A TRUSTED AND HIGHLY RESPONSIVE REGIONAL  
AGENCY. AS SUCH, COMMUNICATION WITH THE  
PUBLIC IS AN IMPORTANT ASPECT OF WHAT WE  
DO AT THE AIRPORT, AND WE TAKE THIS  
RESPONSIBILITY SERIOUSLY.

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# FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)

BASIC FINANCIAL STATEMENTS:

- STATEMENTS OF NET POSITION
- STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION
- STATEMENTS OF CASH FLOWS
- NOTES TO FINANCIAL STATEMENTS
- REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)





14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961  
972.702.8262 // fax 972.702.0673 // [bkd.com](http://bkd.com)

## Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, as listed in the table of contents, of San Diego County Regional Airport Authority (Airport Authority).

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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





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

*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, 2016 and 2015, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory and Statistical Sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Dallas, Texas  
October 31, 2016









The San Diego County Regional Airport Authority (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 (District) to the Airport Authority.

The Airport Authority is a self-sustaining entity receiving most of its revenues through user fees and rents from airline and non-airline business partners operating at SDIA. Since the

Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain, and acquire necessary services and facilities.

## INTRODUCTION

### 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 (Commission). The Commission was established to evaluate regional governance in San Diego County and report recommended improvement measures to the California State Legislature.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) 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.

## SAN DIEGO INTERNATIONAL AIRPORT

### LEGISLATIVE BACKGROUND

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (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 plans for the airports in the county;
- (4) Serving as the region's Airport Land Use Commission; and
- (5) In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

In August 2013, Assembly Bill 1058 was signed into law. This bill made minor clarifying and technical changes to the Airport Authority Act.

AIRPORT ACTIVITIES HIGHLIGHTS  
(2014 - 2016)

The Airport Authority experienced continued growth in all areas during the current and prior two fiscal years. This followed the trend seen at many commercial airports reflecting the gradual improvements in the economy.

The changes in the SDIA's major activities for the three years are as follows:

	FY 2014	FY 2015	FY 2016
Enplaned passengers	9,082,244	9,713,066	10,206,222
% increase	3.9%	6.9%	5.1%
Total passengers	18,145,130	19,409,683	20,397,170
% increase	4.0%	7.0%	5.1%
Aircraft operations	187,790	195,268	193,451
% increase	(0.3%)	4.0%	(0.9%)
Freight and mail (in tons)	164,966	178,615	185,655
% increase	5.1%	8.3%	3.9%
Landed weight (in thousands)	11,187	11,535	12,048
% increase	1.6%	3.1%	4.5%

Overall, the improving economy is having a positive effect on aircraft operations at SDIA. There was a significant increase in enplaned passengers in fiscal year 2016 with a 5.1 percent increase in enplanements. Also, total passengers increased by 5.1 percent and freight and mail tons increased 3.9 percent. Due to higher load factors with different aircraft, there were slightly less operations.

STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN  
NET POSITION (IN THOUSANDS)

The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position decreased slightly in 2014, had a 2.2 percent increase in 2015, and was followed by a 4.7 percent increase in 2016.

Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

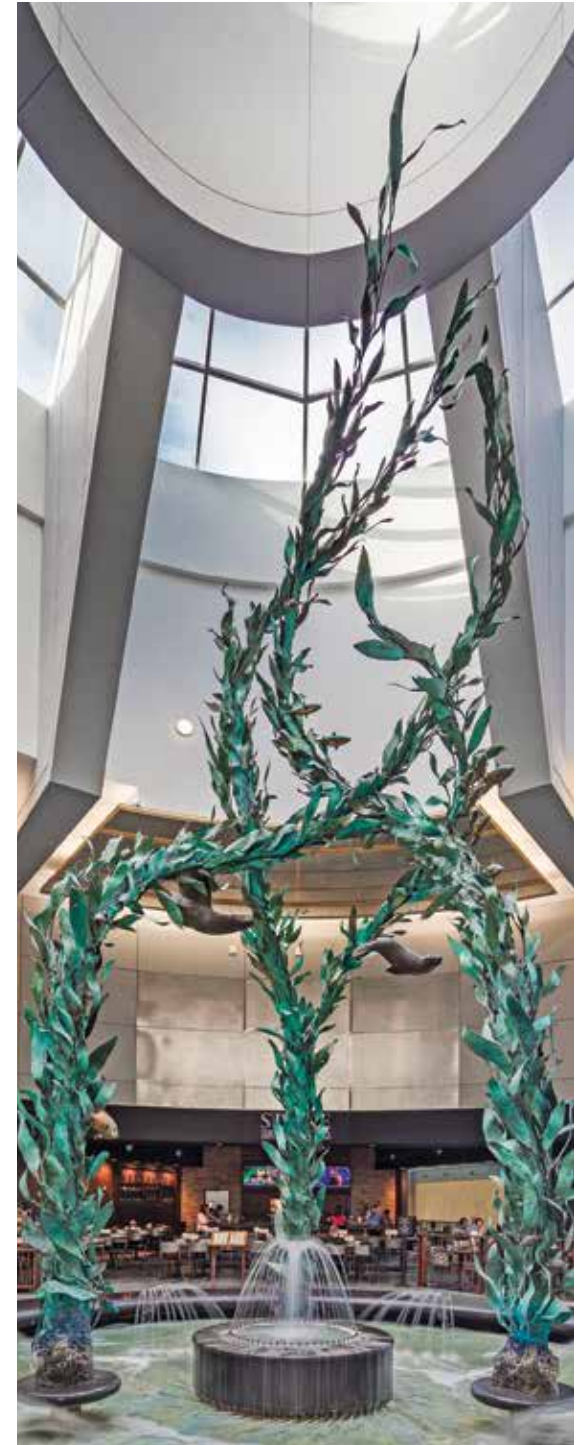
	FY 2014	FY 2015	FY 2016
Operating revenues	\$ 195,737	\$ 210,505	\$ 233,994
Operating expenses	(214,026)	(217,808)	(237,229)
Nonoperating revenues, net	14,318	20,255	27,690
Capital contributions and grants	3,924	10,765	10,477
Increase (decrease) in net position	(47)	23,717	34,932
Net position, beginning of year	727,064	727,017	742,741
Prior-period adjustment GASB 68	-	(7,993)	-
Net position, end of year	\$ 727,017	\$ 742,741	\$ 777,673

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow. The implementation of GASB 68 in fiscal year 2015 caused a prior-period adjustment in that year. The cumulative changes in accounting for pension liabilities are reflected in this adjustment.

OPERATING REVENUES  
(IN THOUSANDS)

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 21,390	\$ 23,985	\$ 2,595	12.1%
Aircraft parking fees	2,716	2,701	(15)	(0.6%)
Building rentals	48,153	51,273	3,120	6.5%
Security surcharge	25,180	29,223	4,043	16.1%
Other aviation revenue	4,893	5,023	130	2.7%
Total airline revenue	102,332	112,205	9,873	9.6%
Non-airline terminal rent	1,505	1,032	(473)	(31.4%)
Concession revenue	52,496	56,274	3,778	7.2%
Parking and ground transportation revenue	41,633	48,106	6,473	15.5%
Ground rentals	11,568	15,194	3,626	31.3%
Other operating revenue	971	1,183	212	21.8%
Total operating revenue	\$ 210,505	\$ 233,994	\$ 23,489	11.2%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 19,107	\$ 21,390	\$ 2,283	11.9%
Aircraft parking fees	2,503	2,716	213	8.5%
Building rentals	46,001	48,153	2,152	4.7%
Security surcharge	25,777	25,180	(597)	(2.3%)
Other aviation revenue	4,488	4,893	405	9.0%
Total airline revenue	97,876	102,332	4,456	4.6%
Non-airline terminal rent	1,158	1,505	347	30.0%
Concession revenue	47,770	52,496	4,726	9.9%
Parking and ground transportation revenue	38,959	41,633	2,674	6.9%
Ground rentals	8,445	11,568	3,123	37.0%
Other operating revenue	1,529	971	(558)	(36.5%)
Total operating revenue	\$ 195,737	\$ 210,505	\$ 14,768	7.5%



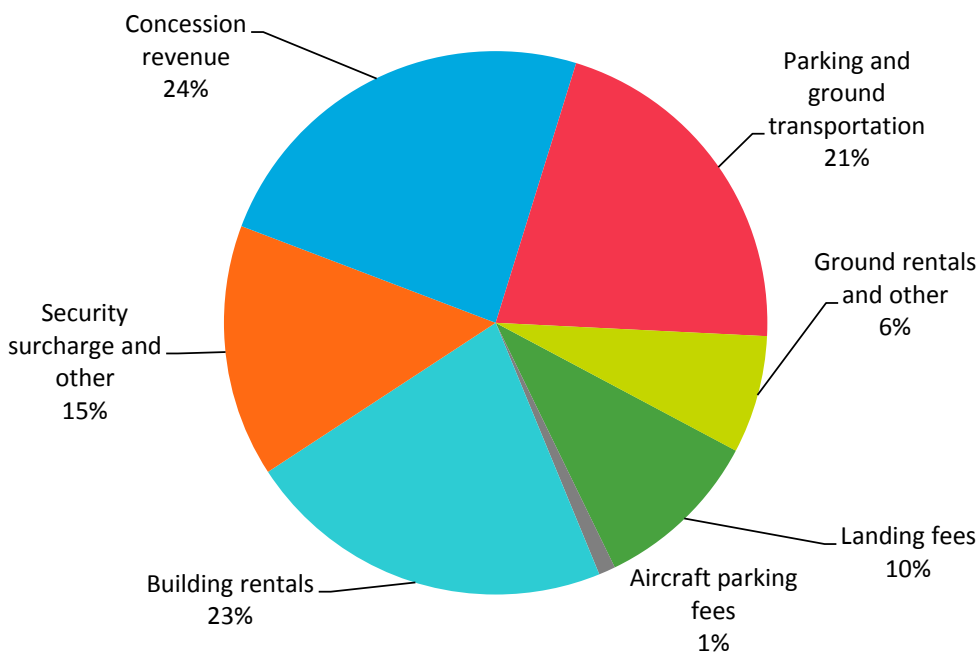
# OPERATING REVENUES (CONTINUED)

**FISCAL YEAR 2016 COMPARED TO 2015:** Total airline revenues increased by \$9.9 million, or 9.6 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2016, compared to 2015. Landing fees increased by \$2.6 million or 12.1 percent due to increased airfield costs. Building rentals increased by \$3.1 million or 6.5 percent due to increased terminal costs. Security surcharge increased by \$4.0 million or 16.1 percent, primarily due to increased Harbor Police expenses and higher terminal rental rate for security checkpoints. Non-airline terminal rent decreased by \$473 thousand or 31.4 percent, primarily due to consolidation of ground servicing companies. Concession revenue increased by \$3.8 million or 7.2 percent, reflecting increased enplanements and higher sales per enplaned passenger. Parking and ground transportation increased by \$6.5 million or 15.5 percent, due to higher enplanements and higher cost recovery on ground transportation. Ground rentals increased by \$3.6 million or 31.3 percent,

primarily due to the Rental Car Center land lease starting January 2016. Other operating revenue increased by \$212 thousand or 21.8 percent, primarily due to higher landing fees at the Fixed Base Operator, higher utility reimbursements, and higher fees for miscellaneous services.

**FISCAL YEAR 2015 COMPARED TO 2014:** Total airline revenues increased by \$4.5 million or 4.6 percent, primarily reflecting an increased cost recovery for the airlines which was higher in fiscal year 2015, compared to 2014. Landing fees increased by \$2.3 million or 11.9 percent and aircraft parking fees increased by \$213 thousand or 8.5 percent, both due to increased airfield costs. Building rentals increased by \$2.2 million or 4.7 percent reflecting a recovery of higher service debt, maintenance, and operating costs for the new and existing facility. The increase in other aviation revenue of \$405 thousand reflects an increased volume in fuel delivered by the Fixed Base Operator. Offsetting the airline revenue was a decrease in the security surcharge of \$597 thousand, primarily reflecting a decrease of airline security charges. Concession revenue increased by \$4.7 million or 9.9 percent, mainly due to a full year of the expanded concession development program. Parking and ground transportation revenue increased by \$2.7 million or 6.9 percent, primarily due to a full year of expanded parking capacity after the Green Build completion and increased enplanements. Ground rentals revenue increased \$3.1 million or 37 percent, primarily due to rent from the new Fixed Base Operator facility which opened in the summer of 2014. Non-airline terminal rent increased by \$347 thousand, mostly due to renewed leases with a higher rental rate. Offsetting the non-airline revenue was a decrease in other operating revenue of \$558 thousand, primarily due to lower miscellaneous one-time charges.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
FISCAL YEAR ENDED JUNE 30, 2016 | OPERATING REVENUES





## OPERATING EXPENSES (IN THOUSANDS)

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 39,212	\$ 42,067	\$ 2,855	7.3%
Contractual services	32,422	38,215	5,793	17.9%
Safety and security	23,466	28,721	5,255	22.4%
Space rental	10,433	10,367	(66)	(0.6%)
Utilities	10,152	11,480	1,328	13.1%
Maintenance	14,516	14,122	(394)	(2.7%)
Equipment and systems	1,805	709	(1,096)	(60.7%)
Materials and supplies	519	536	17	3.3%
Insurance	1,145	950	(195)	(17.0%)
Employee development and support	1,136	1,242	106	9.3%
Business development	2,493	2,390	(103)	(4.1%)
Equipment rentals and repairs	2,951	2,852	(99)	(3.4%)
Total operating expenses before depreciation and amortization	140,250	153,651	13,401	9.6%
Depreciation and amortization	77,559	83,578	6,019	7.8%
Total operating expense	\$ 217,809	\$ 237,229	19,420	8.9%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 39,135	\$ 39,212	\$ 77	0.2%
Contractual services	31,559	32,422	863	2.7%
Safety and security	24,151	23,466	(685)	(2.8%)
Space rental	10,478	10,433	(45)	(0.4%)
Utilities	8,680	10,152	1,472	17.0%
Maintenance	13,982	14,516	534	3.8%
Equipment and systems	643	1,805	1,162	180.7%
Materials and supplies	440	519	79	18.0%
Insurance	988	1,145	157	15.9%
Employee development and support	1,171	1,136	(35)	(3.0%)
Business development	2,661	2,493	(168)	(6.3%)
Equipment rentals and repairs	2,932	2,951	19	0.6%
Total operating expenses before depreciation and amortization	136,820	140,250	3,430	2.5%
Depreciation and amortization	77,205	77,559	354	0.5%
Total operating expense	\$ 214,025	\$ 217,809	\$ 3,784	1.8%

### FISCAL YEAR 2016 COMPARED TO 2015:

Total fiscal year 2016 operating expenses increased by \$19.4 million or 8.9%. Salaries and benefits increased \$2.9 million or 7.3 percent, mostly due to planned wage and benefit increases. Contractual services increased by \$5.8 or 17.9 percent, resulting in higher bussing costs of the Rental Car Center that opened in January 2016. Safety and

Security increased \$5.3 million or 22.4 percent, reflecting an increase in law enforcement training and benefit costs. Utilities increased \$1.3 million or 13.1 percent, due to higher rates and increased power usage of the Rental Car Center. Materials and supplies increased slightly by \$17 thousand or 3.3 percent, mainly due to higher purchases of small equipment and operating supplies. Employee



## OPERATING EXPENSES (CONTINUED)

development and support increased by \$106 thousand or 9.3 percent, primarily to higher training costs.

Offsetting this increase in operating expenses were the following decreases: Space rental of \$66 thousand due to fee write offs; Maintenance of \$394 thousand due to lower major maintenance project costs; Equipment and systems of \$1.1 million due to lower IT equipment purchases; Insurance of \$195 thousand primarily due to lower property insurance rates; Business development of \$103 thousand due to a delay in planned advertising; Equipment rentals and repairs of \$99 thousand due primarily to lower IT maintenance contracts and lower printer costs.

### Fiscal year 2015 compared to 2014:

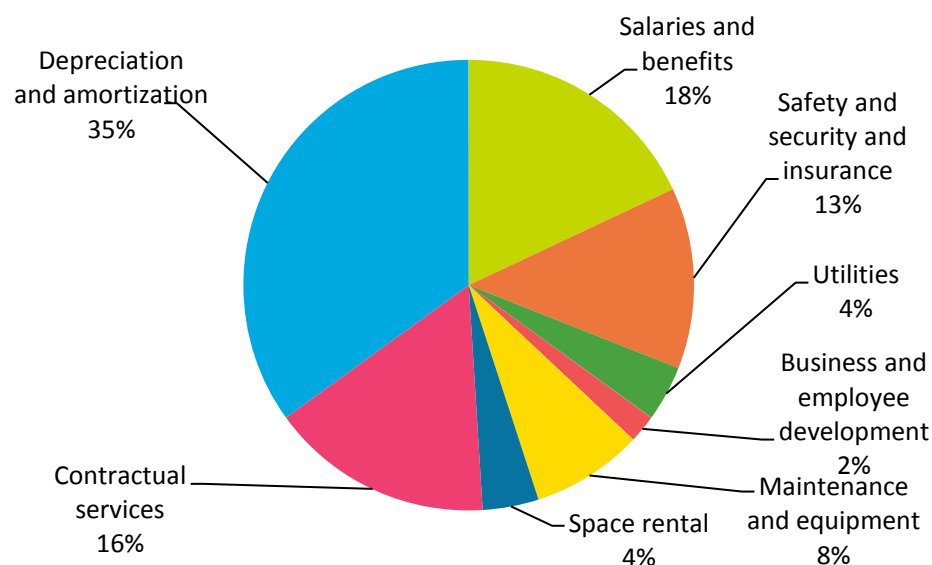
Total fiscal year 2015 operating expenses increased by \$3.8 million or 1.8 percent. Salaries and benefits had a slight increase of \$77 thousand or 0.2 percent, mostly due to planned wage and benefit increases. Contractual services increased by \$863 thousand or 2.7 percent, resulting from increased cleaning costs of the new terminal

facilities and increased aviation planning costs. Utilities increased by \$1.5 million or 17.0 percent, reflecting a full year of the Green Build expansion. Maintenance increased by \$534 thousand or 3.8 percent, reflecting increased operating and maintenance costs of new facilities. Equipment and systems increased by \$1.2 million or 180.7 percent, reflecting increased purchases of non-capital equipment. Materials and supplies increased by \$79 thousand or 18.0 percent, reflecting additional safety equipment and operating supplies. Insurance increased by \$157 thousand or 15.9 percent, largely due to higher property insurance premiums and equipment rentals and repairs had a slight increase.

Offsetting this increase in operating expenses were the following decreases: safety and security of \$685 thousand, due to lower City of San Diego Aircraft Rescue Fire Fighting (AARF) costs; space rental of \$45 thousand due to a lease cancellation; a minor reduction in employee development and support: business development of \$168 thousand or 6.3 percent, reflecting a reduction of international and domestic air services marketing costs.



### San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2016 | Operating Expenses



## NON-OPERATING REVENUES & EXPENSES (IN THOUSANDS)

	FY 2015	FY 2016	From 2015 to 2016	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 38,517	\$ 40,258	\$ 1,741	4.5%
Customer facility charges	32,465	33,208	743	2.3%
Quieter Home Program, net	(2,811)	(3,698)	(887)	(31.6%)
Joint studies program	(145)	(101)	44	30.3%
Interest income	5,747	5,999	252	4.4%
Interest expense, net	(54,885)	(50,222)	4,663	8.5%
Other nonoperating income (expenses)	1,367	2,246	879	64.3%
Nonoperating revenues, net	\$ 20,255	\$ 27,690	\$ 7,435	36.7%

	FY 2014	FY 2015	From 2014 to 2015	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 35,770	\$ 38,517	\$ 2,747	7.7%
Customer facility charges	27,545	32,465	4,920	17.9%
Quieter Home Program, net	(2,750)	(2,811)	(61)	(2.2%)
Joint studies program	(152)	(145)	7	4.6%
Interest income	5,211	5,747	536	10.3%
Interest expense, net	(51,740)	(54,885)	(3,145)	(6.1%)
Other nonoperating income (expenses)	434	1,367	933	215.0%
Nonoperating revenues, net	\$ 14,318	\$ 20,255	\$ 5,937	41.5%

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

**CUSTOMER FACILITY CHARGES (CFCs)** are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a \$10 per contract CFC on rental cars in May 2009. The revenues collected have been used to plan and construct a consolidated rental car facility and related ground

transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of \$10 per contract was changed to \$6.00 per day up to five days. The fee was again increased in January 2014, to \$7.50 per day up to five days for rental car transactions. This fee applies to transactions that originated at the Rental Car Center. For car rental transactions of non-RCC tenants, the CFC rate is \$2.17 per day up to five days. The fee is scheduled to increase to \$9.00 per day in January 2017 for RCC rental car transactions.

**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





## NON-OPERATING REVENUES & EXPENSES (CONTINUED)

through the end of fiscal year 2016, the Airport Authority has spent \$184.9 million and received reimbursement for \$149.1 million.

**INTEREST INCOME** is derived from interest earned by the Airport Authority on investments and notes receivable from the District.

**INTEREST EXPENSE** includes interest paid and accrued on the 2010, 2013 and 2014 Series Bonds, and Revolving Line of Credit Series B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in fiscal years ended June 30, 2016 and 2015, was \$12.4.0 million and \$9.0 million, respectively. The 2010 Series C Bonds were issued as Build America Bonds and, as such, the Airport Authority receives a cash subsidy from the U.S. Treasury equal to 32.62 percent of the interest payable. The interest subsidy for the fiscal years ended June 30, 2016 and 2015 was \$4.7 million and \$4.6 million, respectively.

**OTHER NONOPERATING INCOME (EXPENSE)** includes proceeds and expenses for legal settlements, gain (loss) on the sale of assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

**FISCAL YEAR 2016 COMPARED TO 2015:** Nonoperating revenues (net) increased by \$7.4 million or 36.7 percent. Passenger facility charges increased by \$1.7 million or 4.35 percent, due to a 5.1 percent increase in enplaned passengers. Customer facility charges increased by \$743 thousand or 2.3 percent, due to an overall increase in rental car transactions. Interest income increased by \$252 thousand or 4.4 percent, primarily due to increased investment income. Other nonoperating income increased by \$879 thousand or 64.3 percent, mainly due to unrealized gains on investments.

Offsetting the nonoperating income was a higher net expense in the Quieter Home Program of \$887 thousand or 31.6 percent, due to increased program activity. Net Interest expense decreased by \$4.7 million or 8.5 percent, mainly due to higher capitalized interest.

### **FISCAL YEAR 2015 COMPARED TO 2014:**

Nonoperating revenues (net) increased by \$5.9 million or 41.5 percent. Passenger facility charges increased by \$2.7 million or 7.7 percent, due to a 6.9 percent increase in enplaned passengers. Customer facility charges increased by \$4.9 million or 17.9 percent, due to a full year at the higher CFC collection rate. Interest income increased by \$536 thousand or 10.3 percent, primarily due to higher investment interest income. Other nonoperating income increased by \$933 thousand or 215.0 percent, primarily due to unrealized gains on sale of investments. There was also a slight decrease in Joint Studies Program expense as well.

Offsetting the nonoperating income was a slightly higher net expense in the Quieter Home Program, reflecting increased program activity. An increase in net interest expense of \$3.1 million or 6.1 percent was primarily due to a full year of interest expense paid on the 2014 Series bond.

**CAPITAL GRANT CONTRIBUTIONS** are comprised of AIP entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.





The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities,

deferred inflows and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2014, 2015 and 2016, is as follows:

## ASSETS, LIABILITIES & NET POSITION (IN THOUSANDS)

	FY 2014	FY 2015	FY 2016
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 214,853	\$ 204,491	\$ <b>169,078</b>
Capital assets, net	1,310,973	1,486,710	<b>1,551,007</b>
Noncurrent assets	695,698	540,472	<b>491,362</b>
Total assets	2,221,524	2,231,673	<b>2,211,447</b>
Deferred outflows of resources	758	5,853	<b>5,985</b>
Total assets and deferred outflows of resources	2,222,282	2,237,526	<b>2,217,432</b>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	119,088	131,457	<b>103,136</b>
Long-term liabilities	1,376,177	1,355,160	<b>1,334,816</b>
Total liabilities	1,495,265	1,486,617	<b>1,437,952</b>
Deferred inflows of resources	-	8,168	<b>1,807</b>
Total liabilities and deferred inflows of resources	1,495,265	1,494,785	<b>1,439,759</b>
<b>Net Position</b>			
Net investment in capital assets	312,780	316,251	<b>310,339</b>
Restricted	204,643	215,968	<b>214,533</b>
Unrestricted	209,594	210,522	<b>252,801</b>
Total net position	\$ 727,017	\$ 742,741	\$ <b>777,673</b>

As of June 30, 2016, the Airport Authority's assets and deferred outflows of resources exceeded liabilities by \$777.7 million. This reflects a \$35.0 million increase in net position from June 30, 2015. The largest portion of the Airport Authority's net position represents its net investment in capital assets. 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 unrestricted net position of \$252.8 million as of June 30, 2016, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2016, 2015 and 2014, management has designated unrestricted funds in the amount of \$31.3 million, \$22.6 million, and \$17.1 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.



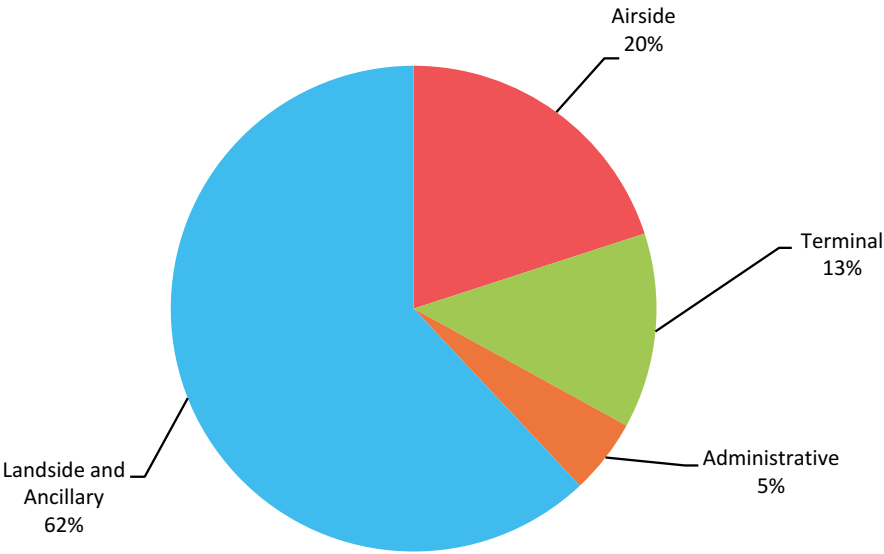
CAPITAL ASSET AND CAPITAL IMPROVEMENT PROGRAM

The capital program at SDIA consists of the Capital Improvement Program (CIP) and the Green Build. The CIP is a rolling five-year program that provides critical improvements and asset preservation. The program includes capital improvement projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration’s Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds and short-term borrowing using commercial paper/revolving lines of credit.

In February 2014, \$305 million of Senior Special Facilities Revenue Bonds were issued to be used for the Rental Car Center completed in January 2016. The current CIP, which includes projects through 2021, consists of \$119.1 million for airside projects, \$582.7 million for landside projects, \$123.0 million for terminal projects, and \$47.4 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

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

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS BY TYPE



CAPITAL FINANCING AND DEBT MANAGEMENT

On October 5, 2010, the Airport Authority issued \$572.6 million of Subordinate Airport Revenue Bonds Series 2010 A, B and C (Series 2010 Bonds). The bonds are rated A/A2/A by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, respectively. The Subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA,

fund a portion of the interest accruing on the Subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142.2 million of the Airport Authority’s outstanding commercial paper notes, fund the subordinate bond reserve fund and pay the costs of issuance of the Subordinate Series 2010 Bonds.

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury; currently, 32.62 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.48 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it received through 2016. The amount of irrevocably committed PFCs was \$19.2 million annually for fiscal years 2014 through 2016. As of June 30, 2016, the principal balance on the subordinate Series 2010 Bonds was \$555.4 million.

On January 30 2013, the Airport Authority issued \$379.6 million of Senior Airport Revenue Bonds Series 2013 A and B (Series 2013 Bonds). The Series 2013 Bonds are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The Senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the

interest accruing on the senior Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the Senior Series 2013 Bonds.

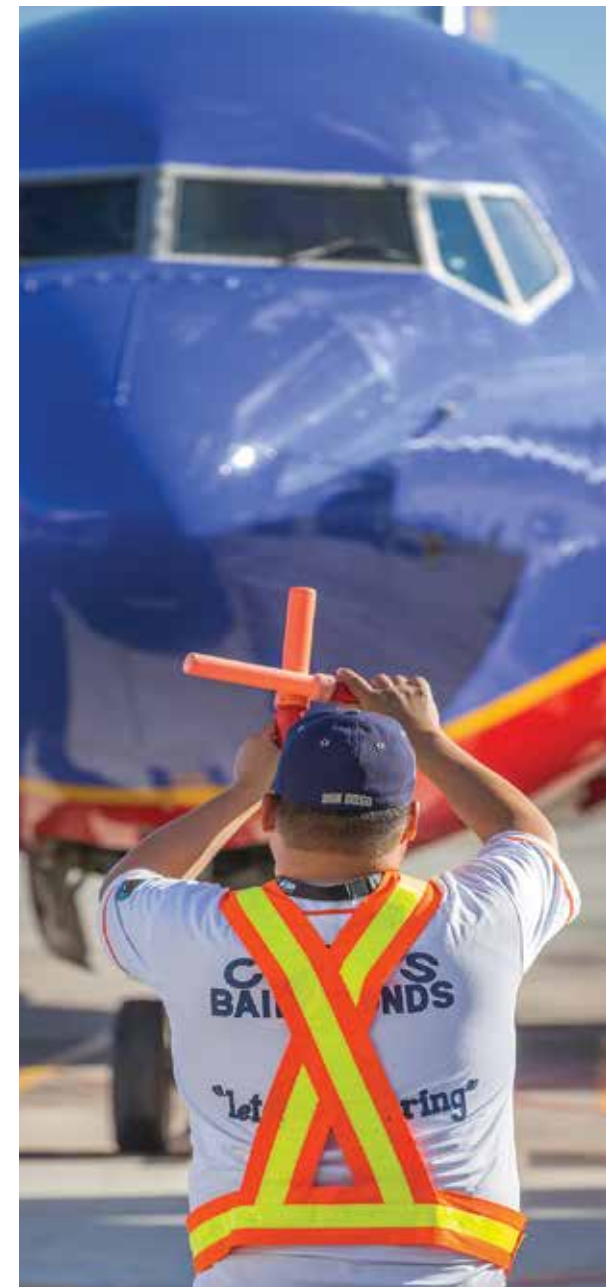
The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2015, amounted to \$18.5 million, including accrued interest of \$9.2 million. The principal balance on the Series 2013 Bonds as of June 30, 2015 was \$377.6 million.

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

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2.

On February 1, 2014, the Airport Authority issued \$305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to

## CAPITAL FINANCING & DEBT MANAGEMENT (CONTINUED)



## CAPITAL FINANCING & DEBT MANAGEMENT (CONTINUED)

finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds through January 1, 2016, fund deposits to the senior reserve fund, the rolling coverage fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent and mature in fiscal years 2019 to 2045. As of June 30, 2016, the principal balance on the Series 2014 Bonds was \$305.3 million.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, Customer Facility Charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the Customer Facility Charges and the Bond Funding Supplemental Consideration (as defined in the Indenture), are pledged to the payment of the Series 2014 Bonds.

On September 5, 2014, the Airport Authority replaced its commercial paper program with a \$125,000,000 revolving line of credit, issued by US Bank, which was used to refund the

outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year facility. As of June 30, 2016, the Airport Authority's outstanding debt under this agreement consists of \$16.9 million of Series B (AMT) and \$15.7 million Series C (taxable).

The revolving line of credit is payable solely from and secured by a pledge of subordinate net revenues. Subordinate net revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after Senior Lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

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

The 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 authority to impose and use PFC revenue through November 1, 2037.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$500 thousand in grant awards for the federal fiscal year ended September 30, 2016, as compared to \$17.9 million for 2015. Grant awards are recognized as nonoperating revenue or capital 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](http://www.san.org).



# PERFORMING ARTS RESIDENCY PROGRAM

OVER THE COURSE OF ITS YEAR-LONG RESIDENCY, FERN STREET CIRCUS CREATED, REHEARSED, AND PERFORMED NEW CONTENT INSPIRED BY THE AIRPORT ENVIRONMENT. SPECTATORS WATCHED COLORFULLY COSTUMED MUSICIANS, JUGGLERS, CLOWNS AND MORE, ENTERTAIN AND BRING THE SAN DIEGO TRAVEL EXPERIENCE TO LIFE.



**SAN DIEGO COUNTY REGIONAL  
AIRPORT AUTHORITY**

**STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015**

<b>Assets and Deferred Outflows of Resources</b>	<b>2016</b>	<b>2015</b>
Current Assets		
Unrestricted:		
Cash and cash equivalents ( <i>Note 2</i> )	\$ 16,244,182	\$ 7,873,038
Investments ( <i>Notes 2 and 10</i> )	74,354,944	76,065,212
Tenant lease receivables, net	8,528,816	9,162,322
Grants receivable	7,623,419	10,909,798
Note receivable, current portion ( <i>Note 3</i> )	1,705,491	1,608,986
Other current assets	3,392,579	3,954,115
<b>Total unrestricted current assets</b>	<b>111,849,431</b>	<b>109,573,471</b>
Restricted cash, cash equivalents and investments with trustees ( <i>Notes 2 and 5</i> )	57,228,146	94,917,215
<b>Total current assets</b>	<b>169,077,577</b>	<b>204,490,686</b>
Noncurrent Assets		
Restricted assets ( <i>Notes 2 and 5</i> ):		
Restricted cash, cash equivalents and investments not with trustees	168,074,212	166,050,576
Restricted investments with trustees	127,070,127	219,382,771
Passenger facility charges receivable ( <i>Note 1</i> )	4,497,657	6,303,994
Customer facility charges receivable ( <i>Note 1</i> )	2,968,920	3,851,910
Other restricted assets	3,033,990	4,273,584
<b>Total restricted assets</b>	<b>305,644,906</b>	<b>399,862,835</b>
Other noncurrent assets:		
Investments, noncurrent ( <i>Note 2</i> )	119,052,416	77,419,978
Note receivable, long-term portion ( <i>Note 3</i> )	35,043,779	36,749,270
Cash and cash equivalents designated for specific capital projects and other commitments ( <i>Notes 2 and 10</i> )	31,270,718	22,588,383
Net pension asset ( <i>Note 6</i> )	-	3,351,341
Workers' compensation security deposits	349,943	500,367
<b>Total other noncurrent assets</b>	<b>185,716,856</b>	<b>140,609,339</b>
Capital assets ( <i>Note 4</i> ):		
Land, land improvements and nondepreciable assets	109,974,224	72,563,518
Buildings and structures	1,415,691,585	1,115,452,539
Machinery and equipment	94,326,157	53,700,294
Runways, roads and parking lots	590,772,032	590,459,084
Construction in progress	152,703,001	387,054,944
	2,363,466,999	2,219,230,379
Less accumulated depreciation	(812,459,642)	(732,520,841)
Capital assets, net	1,551,007,357	1,486,709,538
<b>Total noncurrent assets</b>	<b>2,042,369,119</b>	<b>2,027,181,712</b>
<b>Total assets</b>	<b>2,211,446,696</b>	<b>2,231,672,398</b>
Deferred outflows of resources		
Deferred pension contributions ( <i>Note 6</i> )	5,697,106	5,852,753
Deferred pension experience loss ( <i>Note 6</i> )	288,051	-
<b>Total deferred outflows of resources</b>	<b>5,985,157</b>	<b>5,852,753</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,217,431,853</b>	<b>\$ 2,237,525,151</b>

See Notes to Financial Statements.



## SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

### STATEMENTS OF NET POSITION JUNE 30, 2016 AND 2015

Liabilities, Deferred Inflows of Resources and Net Position	2016	2015
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 9,643,474	\$ 9,483,545
Accrued liabilities	33,062,074	23,747,096
Compensated absences, current portion (Note 5)	2,833,970	2,652,960
Other current liabilities	92,887	401,644
Long-term debt, current portion (Note 5)	275,421	254,259
<b>Total payable from unrestricted assets</b>	<b>45,907,826</b>	<b>36,539,504</b>
Payable from restricted assets:		
Accounts payable	3,168,316	19,342,618
Accrued liabilities	10,016,026	31,729,043
Long-term debt, current portion (Note 5)	11,090,000	10,695,000
Accrued interest on bonds and commercial paper (Note 5)	32,953,804	33,150,554
<b>Total payable from restricted assets</b>	<b>57,228,146</b>	<b>94,917,215</b>
<b>Total current liabilities</b>	<b>103,135,972</b>	<b>131,456,719</b>
Long-Term Liabilities		
Compensated absences, net of current portion (Note 5)	528,143	523,551
Other noncurrent liabilities	827,143	1,124,560
Long-term debt, net of current portion (Note 5)	1,331,779,357	1,353,512,025
Net pension liability (Note 6)	1,680,759	-
<b>Total long-term liabilities</b>	<b>1,334,815,402</b>	<b>1,355,160,136</b>
<b>Total liabilities</b>	<b>1,437,951,374</b>	<b>1,486,616,855</b>
Deferred inflows of resources		
Deferred pension investment gains	1,807,420	8,167,978
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 1,439,758,794</b>	<b>\$ 1,494,784,833</b>
Net Position		
Net investment in capital assets (Note 1)	310,339,489	316,249,853
Restricted:		
Debt Service	80,712,157	79,488,690
Construction	113,669,206	115,338,776
Operation and maintenance expenses	13,118,064	12,866,926
Small business bond guarantee	4,000,000	4,000,000
OCIP loss reserve	3,033,990	4,273,585
Total restricted net position	214,533,417	215,967,977
Unrestricted net position	252,800,153	210,522,488
<b>Total net position</b>	<b>\$ 777,673,059</b>	<b>\$ 742,740,318</b>

See Notes to Financial Statements.





**SAN DIEGO COUNTY REGIONAL  
AIRPORT AUTHORITY**

**STATEMENTS OF REVENUES,  
EXPENSES AND CHANGES  
IN NET POSITION  
JUNE 30, 2016 AND 2015**

	2016	2015
Operating revenues:		
Airline revenue:		
Landing fees	\$ 23,984,793	\$ 21,390,056
Aircraft parking fees	2,701,219	2,715,854
Building rentals (Note 11)	51,273,320	48,152,670
Security surcharge	29,223,097	25,179,679
Other aviation revenue	5,022,809	4,892,840
Concession revenue	56,274,089	52,496,390
Parking and ground transportation revenue	48,105,641	41,632,530
Ground and non-airline terminal rentals (Note 11)	16,225,648	13,074,453
Other operating revenue	1,183,435	970,775
<b>Total operating revenues</b>	<b>233,994,051</b>	<b>210,505,247</b>
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	42,067,376	39,211,536
Contractual services (Note 13)	38,215,315	32,422,054
Safety and security	28,721,250	23,464,483
Space rental (Note 12)	10,367,148	10,433,251
Utilities	11,479,888	10,151,922
Maintenance	14,121,738	14,515,949
Equipment and systems	708,404	1,805,203
Materials and supplies	536,006	519,220
Insurance	949,491	1,145,376
Employee development and support	1,242,336	1,136,077
Business development	2,390,028	2,493,402
Equipment rentals and repairs	2,852,173	2,951,408
<b>Total operating expenses before depreciation and amortization</b>	<b>153,651,153</b>	<b>140,249,881</b>
<b>Income from operations before depreciation and amortization</b>	<b>80,342,898</b>	<b>70,255,366</b>
Depreciation and amortization	83,577,615	77,558,961
<b>Operating loss</b>	<b>(3,234,717)</b>	<b>(7,303,595)</b>

(Continued)

See Notes to Financial Statements.

## SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION JUNE 30, 2016 AND 2015

	2016	2015
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 40,257,993	\$ 38,517,355
Customer facility charges	33,207,946	32,464,843
Quieter Home Program grant revenue (Note 1)	8,573,133	12,073,809
Quieter Home Program expenses (Note 1)	(12,270,742)	(14,885,182)
Joint Studies Program	(101,360)	(144,780)
Interest income	5,998,970	5,747,325
Interest expense (Note 5)	(54,878,276)	(59,516,437)
Build America Bonds subsidy (Note 5)	4,656,199	4,631,219
Other revenues (expenses), net	2,246,541	1,367,095
Nonoperating revenue, net	27,690,404	20,255,247
Income (loss) before federal grants	24,455,687	12,951,652
Federal grants (Note 1)	10,477,054	10,764,946
Change in net position	34,932,741	23,716,598
Net position, beginning of year	742,740,318	719,023,720
Net position, end of year	\$ 777,673,059	\$ 742,740,318

See Notes to Financial Statements.



**SAN DIEGO COUNTY REGIONAL  
AIRPORT AUTHORITY**

**STATEMENTS OF CASH FLOWS  
JUNE 30, 2016 AND 2015**

	2016	2015
Cash Flows From Operating Activities		
Receipts from customers	\$ 233,448,605	\$212,946,236
Payments to suppliers	(108,629,115)	(92,486,794)
Payments to employees	(43,605,962)	(38,904,804)
Other receipts (payments)	10,801,571	3,696,188
<b>Net cash provided by operating activities</b>	<b>92,015,099</b>	<b>85,250,826</b>
Cash Flows From Noncapital Financing Activities		
Settlement receipts	377,167	16,075
Quieter Home Program grant receipts	5,784,088	10,318,509
Quieter Home Program payments	(12,270,742)	(14,885,182)
Joint Studies Program payments	(101,360)	(144,780)
<b>Net cash used in noncapital financing activities</b>	<b>(6,210,847)</b>	<b>(4,695,378)</b>
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(190,233,095)	(262,033,260)
Proceeds on Build America Bonds subsidy	4,656,199	4,631,219
Proceeds from sale of capital assets	248,255	11,273
Federal grants received (excluding Quieter Home Program)	16,552,478	7,547,794
Proceeds from passenger facility charges	42,064,330	36,279,609
Proceeds from customer facility charges	34,090,936	32,007,745
Payment of principal on bonds	(16,819,000)	(11,964,000)
Payment of capital lease	(254,258)	(188,356)
Interest and debt fees paid	(54,720,481)	(61,384,552)
<b>Net cash used in capital and related financing activities</b>	<b>(164,414,636)</b>	<b>(255,092,528)</b>
Cash Flows From Investing Activities		
Sales and maturities of investments	250,352,658	317,888,179
Purchases of investments	(162,296,751)	(163,821,054)
Interest received on investments and note receivable	5,998,970	5,747,325
Principal payments received on notes receivable	1,608,986	1,528,512
<b>Net cash provided by in investing activities</b>	<b>95,663,863</b>	<b>161,342,962</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>17,053,479</b>	<b>(13,194,118)</b>
Cash and cash equivalents, beginning of year	30,461,421	43,655,539
Cash and cash equivalents, end of year	\$ 47,514,900	\$ 30,461,421

(Continued)

See Notes to Financial Statements.

## SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

### STATEMENTS OF CASH FLOWS JUNE 30, 2016 AND 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	\$ 16,244,182	\$ 7,873,038
Cash and cash equivalents designated for specific capital projects and other commitments	31,270,718	22,588,383
	<b>\$ 47,514,900</b>	<b>\$ 30,461,421</b>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (3,234,717)	\$ (7,303,595)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense	83,577,615	77,558,961
Changes in assets and liabilities:		
Tenant lease receivables	633,506	(49,639)
Other assets	1,833,936	824,274
Accounts payable	159,929	(3,206,994)
Accrued liabilities	9,465,402	18,381,996
Compensated absences	185,602	81,826
Other liabilities	(606,174)	(1,036,003)
<b>Net cash provided by operating activities</b>	<b>\$ 92,015,099</b>	<b>\$ 85,250,826</b>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	\$ 13,184,342	\$ 51,071,661
Additions to capital lease obligations	\$ -	\$ 349,422

See Notes to Financial Statements.







**REPORTING ENTITY:**

The San Diego County Regional Airport Authority (the Airport Authority), an autonomous public agency, was established in accordance with, 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 (SB 10), the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of SB 10, the Airport Authority completed a Regional Aviation Strategic Plan and the Airport Authority prepared and adopted an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements should 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. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

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

**MEASUREMENT FOCUS AND BASIS  
OF ACCOUNTING:**

The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded

**NOTE 1.**

**NATURE OF ORGANIZATION  
& SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

## NOTE 1.

### NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position.

#### USE OF ESTIMATES:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, as well as the 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.

#### CASH, CASH EQUIVALENTS AND INVESTMENTS:

For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted (including designated) cash on hand, demand deposits and investment securities with original maturities of three months or less from the date of acquisition.

#### 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. 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. 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.

#### FEDERAL GRANTS:

Outlays for airport capital improvements and certain airport nonoperating expenses, primarily those relating to the Airport Authority's Quieter Home Program, are subject to reimbursement from federal grant programs. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

#### AIRPORT IMPROVEMENT PROGRAM (AIP):

AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2016 and 2015, the Airport Authority recovered \$10,477,054 and \$10,764,946, respectively, for approved capital projects and \$8,573,133 and \$12,073,809 respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2016 and 2015 were \$10,454,351 and \$12,926,028 respectively, for capital projects and \$12,270,742 and \$14,885,179, respectively, for the Quieter Home Program.

#### PASSENGER FACILITY CHARGES (PFC):

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, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2016 and 2015, accrued PFC receivables totaled \$4,497,657 and \$6,303,994, respectively, and there were \$73,279,889 and \$63,361,948 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2016 and 2015, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, there are four active applications that allow the Airport Authority to impose and use \$1.2 billion in PFC revenue through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately \$32 million in PFC revenue. The latest application was approved by the FAA in July 2012. During the fiscal Year 2016 this application was segmented into two, resulting in the addition of application #11, which was substantially completed as of June 30, 2016, pending FAA approval for application closure. 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 \$10.00 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. Effective January 1, 2014, the CFC rate went from \$6.00 to \$7.50 per day for a maximum of five days. As of June 30, 2016 and 2015, accrued CFC receivables totaled \$2,968,920 and \$3,851,910,

respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2016 and 2015, were \$32,922,068 and \$41,820,925, respectively.

#### **DEFERRED INFLOWS OF RESOURCES:**

The Airport Authority defers recognition of gains incurred on net differences on projected and actual earnings associated with its pension investments held with its pension plan and reports such losses as deferred inflows of resources in the statements of net position. Deferred gains on these investments are recognized over a five year period.

#### **DEFERRED OUTFLOWS OF RESOURCES:**

The Airport Authority defers recognition of contributions to its pension plan made between the measurement date of the pension liability and the Airport Authority's fiscal year-end. Other deferred outflows of resources include differences from expected to actual experience which are amortized over a six year period.

#### **CAPITAL ASSETS:**

Capital assets are recorded at cost, except for capital assets contributed by third parties, which are recorded at acquisition value as of the date of acquisition. 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.

The Airport Authority recognizes lessee-financed improvements as capital assets based upon the asset's estimated value at the time the asset reverts to the Airport Authority.

## **NOTE 1.**

### **NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

NATURE OF ORGANIZATION  
& SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES  
(CONTINUED)

**NOTE 1.** Depreciation is computed by use of the straight-line method over the following estimated useful lives:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2016 and 2015, the Airport Authority capitalized interest of \$12,387,045 and \$8,964,526, respectively.

**CAPITAL ASSET IMPAIRMENT:**

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 evaluates 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. The Airport Authority reports the effects of capital asset impairments in its financial statements when they occur and accounts for insurance recoveries in the same manner. The Airport Authority’s management has determined that no impairments of capital assets currently exist.

**RETENTIONS PAYABLE:**

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

**COMPENSATED ABSENCES:**

All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation and based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

**BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS:**

Bond discounts and premiums are deferred and amortized over the term of the respective bonds using the effective interest method. Bond issuance costs are expensed as incurred.

**AIRPORT AUTHORITY NET POSITION:**

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

Restricted net position represents amounts that are appropriated or legally segregated for a specific purpose. The Airport Authority's net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted net position as of June 30, 2016 and 2015, includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2016	2015
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency	8,813,970	8,095,974
Capital projects and other commitments	20,456,748	12,492,409
Total designated net position	\$ 31,270,718	\$ 22,588,383

When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

**NOTE 1.****NATURE OF ORGANIZATION  
& SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES  
(CONTINUED)**

NATURE OF ORGANIZATION  
& SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES  
(CONTINUED)

**NOTE 1. REVENUE AND EXPENSE RECOGNITION:**  
Revenues from airlines, concessionaires, lessees and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, including depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions and grants.

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

The four largest airlines in terms of enplaned passengers are as follows:

	2016	2015
Southwest Airlines	37.6%	38.5%
American Airlines	13.4%	7.7%
United Airlines	11.4%	11.5%
Delta	10.4%	10.2%

**DEFINED BENEFIT PENSION PLAN:**  
The Airport Authority has a single-employer defined benefit pension plan (Plan) administered through San Diego City Employee Retirement System (SDCERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED:**  
GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 75, *Accounting and*

*Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the Airport Authority's year ending June 30, 2018.

- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the Airport Authority's year ending June 30, 2018.

**PRONOUNCEMENTS ADOPTED:**  
The Airport Authority has adopted and implemented the following GASB statements during the year ended June 30, 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the Airport Authority's year ending June 30, 2016.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the Airport Authority's year ending June 30, 2016.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the Airport Authority's year ending June 30, 2016.

The implementation of GASB Statements No. 72 and No. 76 did not impact net position or the change in net position of the Airport Authority as of or for the year ended June 30, 2016.





**NOTE 2. SUMMARY OF CASH, CASH EQUIVALENTS AND INVESTMENTS:****CASH, CASH EQUIVALENTS  
& INVESTMENTS**

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

	2016	2015
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 16,244,182	\$ 7,873,038
Current investments	74,354,944	76,065,212
Noncurrent investments	119,052,416	77,419,978
Total unrestricted and undesignated	209,651,542	161,358,228
Designated for specific capital projects and other commitments: cash and cash equivalents	31,270,718	22,588,383
Restricted:		
Current cash, cash equivalents and investments, with trustees	57,228,146	94,917,215
Noncurrent cash, cash equivalents and investments, not with trustees	168,074,212	166,050,576
Noncurrent investments, with trustees	127,070,127	219,382,771
Total restricted cash, cash equivalents and investments	352,372,485	480,350,562
Total cash, cash equivalents and investments	\$ 593,294,745	\$ 664,297,173

The components of restricted cash, cash equivalents and investments at June 30, are summarized below:

	2016	2015
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	\$ 39,354,191	\$ 38,600,777
Operation and maintenance subaccount	13,118,064	12,866,926
Renewal and replacement account	5,400,000	5,400,000
Total reserves	57,872,255	56,867,703
Passenger facility charges unapplied	73,279,889	63,361,948
Customer facility charges unapplied	32,922,068	41,820,925
Small business development bond guarantee	4,000,000	4,000,000
Customer facility charges	672	-
2010 Series debt service reserve fund	51,351,322	51,191,339
2010 Series debt service account	24,660,324	24,424,169
2013 Series construction fund	13,037,611	42,856,631
2013 Series debt service reserve fund	33,460,392	33,213,393
2013 Series debt service account	11,297,645	11,063,748
2013 Series capitalized interest account	-	220,469
2014 Series construction fund	13,582,767	106,253,356
2014 Series debt service reserve fund	22,170,728	22,040,300
2014 Series capitalized interest account	8,087,171	16,436,026
2014 Series rolling coverage fund	6,649,641	6,600,555
Total restricted cash, cash equivalents and investments	\$ 352,372,485	\$ 480,350,562

**INVESTMENTS AUTHORIZED IN ACCORDANCE WITH CALIFORNIA GOVERNMENT CODE SECTION 53601 AND UNDER THE PROVISIONS OF THE AIRPORT AUTHORITY'S INVESTMENT POLICY:**

The table that follows identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's

investment policy that address interest rate risk, credit risk and concentration of credit risk.

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

**NOTE 2.**

**CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)**

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
Supranationals	5 years	AA	30 percent	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	5 years	A	30 percent	10 percent
Medium-term notes	5 years	A	15 percent	10 percent
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	\$50 million
San Diego County Investment Pool	N/A	N/A	None	\$50 million
Local Government Investment Pool	N/A	N/A	None	\$50 million
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	10 percent
Time certificates of deposit	3 years	*	20 percent	10 percent
Bank deposits	N/A	*	None	None

\* 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.

**INVESTMENT IN STATE INVESTMENT POOLS:**

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

**INVESTMENT IN COUNTY INVESTMENT POOL:**

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



CASH, CASH EQUIVALENTS  
& INVESTMENTS  
(CONTINUED)

NOTE 2. INVESTMENTS AUTHORIZED BY DEBT AGREEMENTS:

Investments held by the bond trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the

bond trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the debt agreement shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
State obligations	None	AAA/Aaa	None	None
Commercial paper	None	A-1; P-1; F-1	None	None
Negotiable certificates of deposit	None	AAA/Aaa	None	None
Long-term and medium-term notes	None	Two highest ratings	None	None
Money market mutual funds	None	Two highest ratings	None	None
Municipal bonds	None	Two highest ratings	None	None
Repurchase agreements	None	BBB*	None	None
Investment agreements	None	N/A	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Deposit accounts	None	N/A	None	None

Any other investment which is a permitted investment of the Authority in accordance with the laws of the state.  
\*Investment requires collateralization

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

INVESTMENTS HELD BY TRUSTEE:

The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments, the payment of bond interest during construction and the payment of capital project costs.

DISCLOSURES RELATED TO INTEREST RATE RISK:

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

**CUSTODIAL CREDIT RISK (DEPOSITS):**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured deposits.

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

requirement. 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 are collateralized in accordance with the California Government Code.

**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.

**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. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority.

**NOTE 2.****CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)**

## NOTE 2.

The maturity ranges and credit ratings for the Airport Authority's investment securities as of June 30, are presented in the following tables:

### CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

Investment Type	2016				
	Total	Investment Maturities (in Years)			Ratings
		0 - 1	1 - 2	2 - 5	
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	\$ 95,094,109	\$ -	\$ 47,437,150	\$ 47,656,959	AAA (1)
U.S. agency securities	50,679,745	-	21,004,503	29,675,242	AAA (1)
Supranationals	3,010,290	-	-	3,010,290	AAA (1)
Commercial paper	13,942,250	13,942,250	-	-	A-1+/P-1
Negotiable certificates of deposit	3,999,640	3,999,640	-	-	A-1+/P-1
	21,013,400	4,000,000	17,013,400	-	AA
	17,500,000	9,000,000	8,500,000	-	A
Medium-term notes	25,955,952	800,272	19,057,880	6,097,800	AA
	12,742,165	-	5,039,500	7,702,665	A
Money market mutual funds	40,427,839	40,427,839	-	-	AAA
Local Agency Investment Fund	47,906,365	47,906,365	-	-	Unrated
San Diego County Investment Pool	172,695,968	172,695,968	-	-	AAA (1)
CalTrust Fund	15,177,301	15,177,301	-	-	AAA (1)
Total investments subject to credit and interest rate risk:	520,145,024	\$ 307,949,635	\$ 118,052,433	\$ 94,142,956	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	36,247,049				
Total Investments	\$ 556,392,073				

Investment Type	2015				
	Total	Investment Maturities (in Years)			Ratings
		0 - 1	1 - 2	2 - 5	
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	\$ 70,189,787	\$ -	\$ 22,525,974	\$ 47,663,813	AAA (1)
U.S. agency securities	46,898,857	4,999,650	22,358,342	19,540,865	AAA (1)
Commercial paper	3,999,800	3,999,800	-	-	A-1+/P-1
Negotiable certificates of deposit	8,000,000	4,000,000	4,000,000	-	A-1+/P-1
	17,000,280	-	13,002,520	3,997,760	AA
	9,000,000	-	9,000,000	-	A
Medium-term notes	19,801,690	5,014,900	800,680	13,986,110	AA
	4,827,981	4,827,981	-	-	A
Money market mutual funds	35,593,542	35,593,542	-	-	AAA
Local Agency Investment Fund	98,381,500	98,381,500	-	-	Unrated
San Diego County Investment Pool	241,042,718	241,042,718	-	-	AAA (1)
CalTrust Fund	15,074,776	15,074,776	-	-	AAA (1)
Total investments subject to credit and interest rate risk:	569,810,931	\$ 412,934,867	\$ 71,687,516	\$ 85,188,548	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	25,313,449				
Total Investments	\$ 595,124,380				

Ratings per Standard and Poor's, Moody's and Fitch.

(1) Includes investments that have split ratings between S&P (AA+), Moody's (AAA) and Fitch (AAA)





**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 in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of

securities. The Airport Authority had no concentrations of credit risk at June 30, 2016 and 2015.

**FOREIGN CURRENCY RISK:**

The Airport Authority's investment policy does not allow investments in foreign securities.

**NOTE 2.**

**CASH, CASH EQUIVALENTS  
& INVESTMENTS  
(CONTINUED)**

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond

indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2016 and 2015, the balance of the note receivable was \$36,749,270 and \$38,358,256, respectively.

**NOTE 3.**

**NOTE RECEIVABLE**

The required principal payments owed from the District for note receivable for the fiscal years ending June 30 are as follows (rounded):

Years Ending June 30,	Amount
2017	\$ 1,705,000
2018	1,802,000
2019	1,903,000
2020	2,006,000
2021	2,124,000
2022-2026	12,554,000
2027-2031	14,655,000
	<u>\$ 36,749,000</u>



**NOTE 4.** Capital asset activity for the years ended June 30, 2016 and 2015, are as follows:

**CAPITAL ASSETS**

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Nondepreciable assets:				
Land	\$ 22,415,850	\$ -	\$ (248,255)	\$ 22,167,595
Construction in progress	387,054,944	150,231,346	(384,583,289)	152,703,001
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	409,910,794	150,231,346	(384,831,544)	175,310,596
Depreciable assets:				
Land improvements	50,147,668	37,658,961	-	87,806,629
Buildings and structures (1)	1,115,012,539	307,002,484	(6,763,438)	1,415,251,585
Machinery and equipment (2)	53,700,294	41,027,046	(401,183)	94,326,157
Runways, roads and parking lots	590,459,084	1,252,586	(939,638)	590,772,032
Total capital assets being depreciated	1,809,319,585	386,941,077	(8,104,259)	2,188,156,403
Less accumulated depreciation for:				
Land improvements	(6,249,662)	(3,065,596)	-	(9,315,258)
Building and structures	(441,622,939)	(57,470,295)	6,611,457	(492,481,777)
Machinery and equipment	(44,701,987)	(5,327,455)	409,528	(49,619,914)
Runways, roads and parking lots	(239,946,253)	(21,957,518)	861,078	(261,042,693)
Total accumulated depreciation	(732,520,841)	(87,820,864)	7,882,063	(812,459,642)
Total capital assets being depreciated, net	1,076,798,744	299,120,213	(222,196)	1,375,696,761
Capital assets, net	\$ 1,486,709,538	\$ 449,351,559	\$ (385,053,740)	\$ 1,551,007,357

(1) Includes capitalized lease of building with a net present value of future lease payments of \$7,442,013

(2) Includes capitalized leases of office equipment with a net present value of future lease payments of \$275,723

Construction in progress contains projects such as upgrading certain major equipment, and improvements to the runway, parking lots and terminals. Current contracts with the Airport Authority related to these projects are discussed later in these notes.



## NOTE 4.

### CAPITAL ASSETS (CONTINUED)

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Nondepreciable assets:				
Land	\$ 22,415,850	\$ -	\$ -	\$ 22,415,850
Construction in progress	250,103,154	257,367,772	(120,415,982)	387,054,944
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	272,959,004	257,367,772	(120,415,982)	409,910,794
Depreciable assets:				
Land improvements	48,665,996	1,481,672	-	50,147,668
Buildings and structures (1)	1,025,628,015	94,821,353	(5,436,829)	1,115,012,539
Machinery and equipment (2)	51,618,837	3,000,209	(918,752)	53,700,294
Runways, roads and parking lots	568,935,877	21,523,207	-	590,459,084
Total capital assets being depreciated	1,694,848,725	120,826,441	(6,355,581)	1,809,319,585
Less accumulated depreciation for:				
Land improvements	(4,114,899)	(2,134,763)	-	(6,249,662)
Building and structures	(393,898,118)	(53,054,000)	5,329,179	(441,622,939)
Machinery and equipment	(42,041,579)	(3,532,848)	872,440	(44,701,987)
Runways, roads and parking lots	(216,780,599)	(23,165,654)	-	(239,946,253)
Total accumulated depreciation	(656,835,195)	(81,887,265)	6,201,619	(732,520,841)
Total capital assets being depreciated, net	1,038,013,530	159,765,617	(6,509,543)	1,076,798,744
Capital assets, net	\$ 1,310,972,534	\$ 674,501,161	\$ (247,341,507)	\$ 1,486,709,538

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

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





**NOTE 5.** The following is a summary of changes in the long-term liability activity for the years ended June 30, 2016 and 2015:

## LONG-TERM LIABILITIES

	Principal Balance at June 30, 2015	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2016	Due Within One Year
Debt obligations					
Line of credit Series B tax-exempt	\$ 17,909,000	\$ -	\$ (1,025,000)	\$ 16,884,000	\$ -
Line of credit Series C taxable	20,796,000	-	(5,099,000)	15,697,000	-
Total line of credit	38,705,000	-	(6,124,000)	32,581,000	-
Bonds payable:					
Series 2010 Bonds	564,085,000	-	(8,665,000)	555,420,000	9,000,000
Series 2013 Bonds	379,585,000	-	(2,030,000)	377,555,000	2,090,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	68,829,291	-	(4,243,248)	64,586,043	-
Total bonds payable	1,317,784,291	-	(14,938,248)	1,302,846,043	11,090,000
Capital Leases	7,971,993	-	(254,258)	7,717,735	275,421
Total debt obligations	1,364,461,284	-	(21,316,506)	1,343,144,778	11,365,421
Net pension obligation (asset)	(3,351,341)	5,032,100	-	1,680,759	-
Compensated absences	3,176,511	3,019,571	(2,833,969)	3,362,113	2,833,970
Total other accruals	(174,830)	8,051,671	(2,833,969)	5,042,872	2,833,970
Total long-term liabilities	\$ 1,364,286,454	\$ 8,051,671	\$ (24,150,475)	\$ 1,348,187,650	\$ 14,199,391

	Principal Balance at June 30, 2014	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2015	Due Within One Year
Debt obligations					
Commercial paper	\$ 44,884,000	\$ -	\$ (44,884,000)	\$ -	\$ -
Line of credit Series B tax-exempt	-	18,929,000	(1,020,000)	17,909,000	-
Line of credit Series C taxable	-	25,955,000	(5,159,000)	20,796,000	-
Total line of credit	\$ 44,884,000	\$ 44,884,000	\$ (51,063,000)	\$ 38,705,000	\$ -
Bonds payable:					
Series 2010 Bonds	569,870,000	-	(5,785,000)	564,085,000	8,665,000
Series 2013 Bonds	379,585,000	-	-	379,585,000	2,030,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	73,157,591	-	(4,328,300)	68,829,291	-
Total bonds payable	1,327,897,591	-	(10,113,300)	1,317,784,291	10,695,000
Capital Leases	7,810,927	349,422	(188,356)	7,971,993	254,259
Total debt obligations	1,380,592,518	45,233,422	(61,364,656)	1,364,461,284	10,949,259
Net pension obligation (asset)	6,743,798	-	(10,095,139)	(3,351,341)	-
Compensated absences	3,094,685	2,734,786	(2,652,960)	3,176,511	2,652,960
Total other accruals	9,838,483	2,734,786	(12,748,099)	(174,830)	2,652,960
Total long-term liabilities	\$ 1,390,431,001	\$ 47,968,208	\$ (74,112,755)	\$ 1,364,286,454	\$ 13,602,219





**SENIOR LIEN AIRPORT REVENUE BONDS, SERIES 2005 AND REFUNDED SERIES 1995:**

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

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2016 and 2015, the amount held in escrow by the trustee was \$25,668,549 and \$30,735,483, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was \$23,145,000 and \$27,130,000, respectively.

**COMMERCIAL PAPER SERIES A, B AND C (CP NOTES):**

On September 6, 2007, the Board authorized issuance of subordinate CP Notes with up to \$250,000,000 of principal outstanding at any time. The CP Notes were issued from time to time and proceeds from the issuance of the CP Notes were used, among other things, to finance improvements to SDIA. The CP Notes were obligations secured by a pledge of airport revenues subordinated to the pledge of net airport revenues securing payment of the senior lien Series 2013 and Series 2014 Bonds

and on parity to the subordinate Series 2010 Bonds. Each commercial paper note matured at the end of a period not to exceed 270 days. As noted below, the commercial paper program was replaced by a revolving line of credit.

**REVOLVING LINE OF CREDIT PROGRAM IN FISCAL YEAR 2015:**

During fiscal year 2015, the Airport Authority replaced its commercial paper program with a \$125,000,000 revolving line of credit issued by US Bank. The revolving line of credit was used to refund the outstanding Series B and Series C CP Note balances. The revolving line of credit is a three-year agreement and took effect on September 5, 2014 and expires on September 4, 2017.

The revolving line of credit is payable solely from and secured by a pledge of "Subordinate Net Revenues." Subordinate Net Revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after senior lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

At June 30 2016 and 2015, the principal balance of the Series B Notes were \$16,884,000 and \$17,909,000, respectively, and bears interest at the tax-exempt LIBOR rate. The balances of the Series C Notes for the same periods were \$15,697,000 and \$20,796,000 respectively, and bear interest at the taxable LIBOR rate.

**NOTE 5.**

**LONG-TERM LIABILITIES (CONTINUED)**



## LONG-TERM LIABILITIES (CONTINUED)

### NOTE 5. SUBORDINATE LIEN SERIES 2010 BONDS:

On October 5, 2010, the Airport Authority issued \$572,565,000 of Series A, B and C Subordinate Airport Revenue Bonds (Series 2010 Bonds). The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142,176,000 of the Airport Authority's then outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds (BAB), which benefit from periodic cash subsidy payments from the U.S. Treasury, originally equal to 35 percent of interest payable on such bonds. As a result of the automatic spending cuts imposed under the Budget Control Act of 2011, the Airport Authority's BAB subsidies were reduced by 7.2 percent (the BAB Sequester) from October 2013 through September 2014 and 7.3 percent from October 2014 through September 2015. Due to the continued extension of the BAB Sequester, BAB subsidies for the remainder of fiscal year 2016 were reduced by 6.8 percent and such reduction will remain in place through September 2016. The BAB interest subsidies received by the Airport Authority for fiscal years ended June 30, 2016 and 2015, amounted to \$4,656,199 and \$4,631,219, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.47 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2016 and 2015, amounted to \$31,151,799 and \$31,484,399, respectively, including accrued interest of \$15,575,899 and \$15,742,199, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2016 and 2015, was \$555,420,000 and \$564,085,000, respectively.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include 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. The irrevocably committed PFC amount of \$19,209,388 and \$19,206,113 were fully utilized in fiscal year 2016 and 2015, respectively.

As subordinate lien bonds, the Series 2010 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2016 and 2015, the amount held by the trustee was \$76,011,646 and \$75,615,508, respectively, which included the July 1 payment and a debt service reserve fund.

The public ratings of the Series 2010 Bonds as of June 30, 2016, are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings.



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

Years Ending June 30,	Principal	Interest	Total
2017	\$ 9,000,000	\$ 30,934,023	\$ 39,934,023
2018	9,430,000	30,487,998	39,917,998
2019	9,890,000	30,020,298	39,910,298
2020	10,365,000	29,529,823	39,894,823
2021	10,865,000	29,007,173	39,872,173
2022-2026	62,945,000	136,240,023	199,185,023
2027-2031	80,190,000	118,557,929	198,747,929
2032-2036	161,025,000	85,746,886	246,771,886
2037-2041	201,710,000	31,615,633	233,325,633
	<u>\$ 555,420,000</u>	<u>\$ 522,139,787</u>	<u>\$ 1,077,559,787</u>

**SENIOR LIEN AIRPORT REVENUE BONDS,  
SERIES 2013:**

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1, of each year. Interest for the fiscal years ended June 30, 2016 and 2015, was \$18,414,600 and \$18,475,500, respectively, including accrued interest of \$9,207,300 and \$9,237,750 for fiscal years ending June 30, 2016 and 2015, respectively. The principal balance on the Series 2013 Bonds as of June

30, 2016 and 2015, was \$377,555,000 and \$379,585,000, respectively.

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

**NOTE 5.**

**LONG-TERM LIABILITIES  
(CONTINUED)**





## LONG-TERM LIABILITIES (CONTINUED)

### NOTE 5.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2016 and 2015, the amount held by the

trustee was \$57,795,658 and \$87,354,241, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds. The total additional amounts reserved by the Airport Authority for fiscal years 2016 and 2015 was \$57,782,255 and \$56,867,703, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2016, are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2017	\$ 2,090,000	\$ 18,382,275	\$ 20,472,275
2018	2,155,000	18,306,850	20,461,850
2019	2,240,000	18,218,950	20,458,950
2020	2,320,000	18,127,750	20,447,750
2021	7,925,000	17,883,225	25,808,225
2022-2026	45,940,000	82,907,000	128,847,000
2027-2031	58,435,000	70,163,750	128,598,750
2032-2036	25,815,000	60,048,125	85,863,125
2037-2041	46,130,000	51,281,250	97,411,250
2042-2044	184,505,000	13,792,875	198,297,875
	<u>\$ 377,555,000</u>	<u>\$ 369,112,050</u>	<u>\$ 746,667,050</u>



### SENIOR LIEN AIRPORT REVENUE BONDS, SERIES 2014:

On February 1, 2014, the Airport Authority issued \$305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds through January 1, 2016, fund deposits to the senior reserve fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent. The bonds were issued at a premium of \$594,226, which is amortized over the life of the bonds. Interest on the Series 2014 Bonds is payable semiannual on January 1 and July 1 of each year. Interest for fiscal years ended June 30, 2016 and 2015, was \$16,341,210, including accrued interest of \$8,179,605 each year. The principal balance on the Series 2014 Bonds as of June 30, 2016 was \$305,385,000.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, customer facility charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the customer facility charges and the Bond Funding Supplemental Consideration (as defined in the bond indenture), are pledged to the payment of the Series 2014 Bonds. The

Series 2014 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as show previously in the notes. For the fiscal years ended June 30, 2016 and 2015, the amount held by the trustee was \$50,490,307 and \$151,330,237, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund, capitalized interest funds and the rolling coverage fund.

## NOTE 5.

### LONG-TERM LIABILITIES (CONTINUED)

The required debt service payments for the Series 2014 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 16,341,210	\$ 16,341,210
2018	-	16,341,210	16,341,210
2019	5,580,000	16,270,428	21,850,428
2020	5,720,000	16,114,217	21,834,217
2021	5,890,000	15,928,365	21,818,365
2022-2026	33,565,000	75,148,059	108,713,059
2027-2031	43,925,000	64,443,360	108,368,360
2032-2036	57,665,000	50,319,070	107,984,070
2037-2041	75,700,000	31,777,897	107,477,897
2042-2045	77,240,000	8,370,662	85,610,662
	<u>\$ 305,285,000</u>	<u>\$ 311,054,477</u>	<u>\$ 616,339,477</u>

#### LINE OF CREDIT:

In fiscal year 2016, the Airport Authority replaced a \$4,000,000 line of credit previously held with Wells Fargo by one now maintained by US Bank, which is collateralized with a bank certificate of deposit. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2016, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

#### CAPITAL LEASES

##### OFFICE EQUIPMENT LEASES:

The Airport Authority has entered into five year capital lease agreements for office equipment that require monthly lease payments of \$6,849.

##### RECEIVING DISTRIBUTION CENTER LEASE:

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



**NOTE 5.**  
**LONG-TERM LIABILITIES**  
**(CONTINUED)**

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2016:

June 30,	Amount
2017	\$ 959,486
2018	959,486
2019	959,486
2020	932,090
2021	877,298
2022-2026	4,386,489
2027-2031	4,386,489
2032	1,242,839
Total lease payments	14,703,663
Less amount representing interest	(6,985,928)
Present value of future lease payments	<u>\$ 7,717,735</u>









## NOTE 6.

### DEFINED BENEFIT PLAN



#### PLAN DESCRIPTION:

The Airport Authority's defined benefit pension plan is separately administered by SDCERS. SDCERS is governed by a 13-member Board, responsible for the administration of retirement benefits for the City, the District, and the Airport Authority and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member and one ex-officio member.

SDCERS administers three separate single-employer defined benefit pension plans for the City, the District and Airport Authority, and SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified employer defined benefit plan for the City, the District and Airport Authority. However, as of July 1, 2007, the City, the District and the Airport Authority plans were separated into independent, qualified, single-employer governmental defined benefit plans and trusts.

The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, the District and the Airport Authority, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year period. Airport Authority safety members who are participants under the California Public Employees' Pension Reform Act (PEPRA) are subject to pensionable compensation caps.

The 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 SDCERS to the SDCERS Board. The Airport Authority contributes to the Federal Social Security Program. The SDCERS Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. 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.

**BENEFITS PROVIDED:**

The Airport Authority provides retirement, disability and death benefits.

There are two types of participants, the classic participants and the PEPRAs participants. A classic participant means any member who is not a PEPRAs participant. A PEPRAs participant is any member hired on or after January 1, 2013, who has never been a member of a public retirement system or who had a break in service of more than six months before their Airport Authority hire date.

The classic participant retirement benefit is calculated by using monthly salary amounts based on the highest continuous 26 bi-weekly pay periods divided by 12. The eligibility of the classic participants begins at age 62 with five years of service, or age 55 with 20 years of service.

The PEPRAs participant's benefit is calculated by using monthly salary amounts based on the highest 36 consecutive months divided by 36. Base salary cannot exceed 100 percent of the

Social Security contribution and benefit base, indexed to the CPI-U. The eligibility of the PEPRAs participants begins at age 52 with five years of service.

The Airport Authority provides monthly payments for the life of the employee, with 50 percent continuance to the eligible spouse, domestic partner, or dependent child under 21 years of age upon the member's death. If there is no eligible spouse, the member may receive either a lump sum payment equal to the accumulated surviving spouse contributions or an actuarially equivalent annuity.

Employees with ten years of continuous service are eligible to receive non-industrial disability and employees with no service requirement can receive industrial disability.

The death benefit for non-industrial death before the employee is eligible to retire is a refund of the employee contributions, with interest plus one month's salary for each completed year of service to a maximum of six months' salary. A non-industrial death benefit after the employee is eligible to retire from service is 50 percent of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. The industrial death benefit is 50 percent of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner or dependent child under 21 years of age.

**NOTE 6.**

**DEFINED BENEFIT PLAN  
(CONTINUED)**

Membership in the Plan by membership class at June 30, 2016 and 2015, are as follows:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	64	55
Inactive employees entitled to but not yet receiving benefits	99	91
Active employees	381	374
	544	520

**NOTE 6.**  
**DEFINED BENEFIT PLAN**  
**(CONTINUED)**

**ACTUARIAL ASSUMPTIONS:**

The total pension liability in the June 30, 2015 and 2014, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- The rates of retirement were based on age and service as opposed to just the service of a member.
- The percent married assumption was 55 percent for females and 80 percent for males, and the assumed age difference between husbands and wives was three years.
- The reciprocity assumption was 10 percent.
- Rates of termination were based on service as opposed to the age of a member.
- Disability rates were modified to reflect actual experience through June 30, 2010, and include a projection to 2014 and 2015.
- Mortality rates for active Airport Authority members (RP-2000 Combined Mortality Table) were modified to reflect actual experience through June 30, 2010, and include a projection to 2014 and 2015.
- Mortality rates for retired Airport Authority members were modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.
- The investment return assumption was 7.25 percent.
- The inflation assumption was 3.3 percent
- Cost of living adjustment was assumed 2 percent.
- Actuarial cost method is entry age normal
- Amortization method is level percent closed
- Asset valuation method is expected value method





The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted

for changes in target portfolio allocations and recent changes in long-term interest rates based on publically available information.

The target allocations and best estimates of rates of return for each major asset class are summarized below:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	21%	4.5%
Non-U.S. equity	14%	4.6%
Emerging market equity	1%	5.8%
Global equity	5%	4.7%
U.S. fixed income	22%	0.6%
Emerging market debt	5%	3.7%
Real estate	11%	4.1%
Private equity and infrastructure	13%	6.6%
Opportunity fund	8%	4.1%
	<u>100%</u>	

#### DISCOUNT RATE:

For the June 30, 2014 and 2015, actuarial valuations, the discount rate used to measure the total pension liability (asset) was 7.25 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability (asset).

#### CONTRIBUTIONS:

SDCERS uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for the Plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member

contribution rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the SDCERS Board annually.

The actuarial valuation is completed as of June 30, of each year. Once accepted by the SDCERS Board, the approved rates for Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2016, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2014, actuarial valuation.

The funding objective of SDCERS is to fully fund the plan's actuarially accrued liability with contributions, which over time will remain as a level percent of payroll for the Airport Authority. Under this approach, the contribution rate is based on the normal cost rate and an amortization of any unfunded actuarial liability.

## NOTE 6.

### DEFINED BENEFIT PLAN (CONTINUED)



**NOTE 6.**  
**DEFINED BENEFIT PLAN**  
**(CONTINUED)**

For the years ended June 30, 2016 and 2015, employees contributed \$1,073,028 and \$1,019,220, respectively, and the Airport Authority contributed \$5,664,755 and \$5,670,847, respectively, to the Plan. For the years ended June 30, 2016 and 2015, the Airport Authority paid 7.00% or 8.50% of general member employee payroll and 10.47% of executive member payroll as employer paid contributions.

Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) through the year ended June 30, 2016 and 2015, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of 6/30/14	\$ 126,851,793	\$ 130,203,134	\$ (3,351,341)
Changes for the year:			
Service cost	6,154,579	-	6,154,579
Interest on total pension liability	9,327,538	-	9,327,538
Difference between expected and actual experience	345,661	-	345,661
Benefit payments	(2,482,523)	(2,482,523)	-
Administrative expenses	-	(332,290)	332,290
Member contributions	-	1,073,028	(1,073,028)
Employer contributions	-	5,664,755	(5,664,755)
Net investment income	-	4,390,185	(4,390,185)
Net changes	13,345,255	8,313,155	5,032,100
Balances as of 6/30/15	\$ 140,197,048	\$ 138,516,289	\$ 1,680,759

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of 6/30/13	\$ 115,200,048	\$ 108,456,250	\$ 6,743,798
Changes for the year:			
Service cost	6,099,481	-	6,099,481
Interest on total pension liability	8,465,485	-	8,465,485
Benefit payments	(2,913,221)	(2,913,221)	-
Administrative expenses	-	(332,645)	332,645
Member contributions	-	1,019,220	(1,019,220)
Employer contributions	-	5,670,847	(5,670,847)
Net investment income	-	18,302,683	(18,302,683)
Net changes	11,651,745	21,746,884	(10,095,139)
Balances as of 6/30/14	\$ 126,851,793	\$ 130,203,134	\$ (3,351,341)



**SENSITIVITY TO INTEREST RATE CHANGES:**

The following presents the resulting net pension liability (asset) calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate for the fiscal years ended June 30, 2016:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Total pension liability	\$ 159,472,645	\$ 140,197,047	\$ 124,200,218
Plan fiduciary net position	(138,516,288)	(138,516,288)	(138,516,288)
Net pension liability	<u>\$ 20,956,357</u>	<u>\$ 1,680,759</u>	<u>\$ (14,316,070)</u>
Plan fiduciary net position as a percentage of the total pension liability	-86.9%	-98.8%	-111.5%

**PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE PLAN:**

For the year ended June 30, 2016 and 2015, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$4,048,248 and \$3,743,686, respectively. At June 30, 2016 and 2015, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	\$ -	\$ (1,807,422)
Differences between expected & actual experience	288,051	-
Employer contributions made subsequent to June 30, 2015 measurement date	5,697,106	-
Total	<u>\$ 5,985,157</u>	<u>\$ (1,807,422)</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	\$ -	\$ (8,167,978)
Employer contributions made subsequent to June 30, 2014 measurement date	5,852,754	-
Total	<u>\$ 5,852,754</u>	<u>\$ (8,167,978)</u>

The deferred outflows of resources, at June 30, 2016 and 2015, related to pensions resulting from Airport Authority contributions subsequent to the measurement date and prior to year end will be recognized as a reduction of the net pension liability at June 30, 2017 and 2016, respectively.

**NOTE 6.****DEFINED BENEFIT PLAN  
(CONTINUED)**

<b>NOTE 6.</b>  <b>DEFINED BENEFIT PLAN (CONTINUED)</b>	Other amounts reported as deferred inflows of resources related to the plan will be recognized in pension expense as follows:	
	Year Ending	
	June 30	
	2017	\$ (904,744)
	2018	(904,744)
	2019	(904,746)
	2020	1,137,252
	2021	57,611

<b>NOTE 7.</b>  <b>EMPLOYEES' DEFERRED COMPENSATION PLAN</b>	<p>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.</p> <p>The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC</p>	
	<p>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.</p> <p>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. Accordingly, employee assets are not reflected in the Airport Authority's financial statements.</p>	

<b>NOTE 8.</b>  <b>OTHER POSTEMPLOYMENT BENEFITS</b>	<p>The Airport Authority provides a single-employer postemployment benefit plan (the OPEB Plan). The OPEB Plan provides postretirement medical, dental, vision and life insurance 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.</p> <p><b>PLAN DESCRIPTION:</b> As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. This is managed by California Public Employees Retirement System (CalPERS). CalPERS</p>	
	<p>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, an irrevocable 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.</p>	

**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 annual required contributions (ARCs). As of May 9, 2009, the agreement with CERBT was approved. Retirees contribute 5 percent of plan costs for single coverage and the entire cost of vision benefits. Annually, the Airport Authority funds 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset.

**ANNUAL OPEB COST AND ACTUARIAL METHODS AND ASSUMPTIONS:**

The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2015. According to the July 1, 2015, actuarial valuation, the ARC was \$ 1,752,000 and \$2,403,000 for fiscal year 2016, and 2015, respectively. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.28

percent investment rate of return, (7.36 percent was used in the prior valuations), net of administrative expenses, RP-2015 Mortality Tables with fully generational projection using MP-2015 scale and (b) projected salary increases of 3.00 percent. The annual healthcare cost trend rate ranged from 18 to 21 percent for medical and assumes a 5.0 percent rate for dental and 3.0 percent rate for vision. In establishing the discount rate, an inflation rate of 2.75 percent was used. The 2015 actuarial valuation included a 10 percent retirees' contribution of plan costs for single coverage; previously it was 5 percent.

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

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

**NOTE 8.****OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

## NOTE 8.

### OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Valuation Date	Fiscal Year	ARCs	Employer Contribution	(Asset) End of Year	NOO/ (Asset)	Adjustment to the ARC	OPEB Cost
7/1/13	13/14	\$ 2,328	\$ 2,328	\$ (59)	\$ (4)	\$ 4	\$ 2,328
7/1/13	14/15	2,403	2,403	(59)	(4)	4	2,403
7/1/15	15/16	1,959	1,959	(59)	(4)	4	1,959

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2015, 2014 and 2013, were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/14	\$ 2,328	\$ 2,328	100.0%	\$ (59)
6/30/15	2,403	2,403	100.0%	(59)
6/30/16	1,959	1,959	100.0%	(59)

#### FUNDED STATUS AND FUNDING PROGRESS:

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to

continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the accompanying notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of the Plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2015, was as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/15	\$ 18,917	\$ 34,587	\$ 15,670	54.7%	\$ 16,809	93.2%	7.3%	3.0%

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

**COMMERCIALLY ISSUED INSURANCE:**

- The Airport Authority maintains \$500 million in limits for owners' and operators' general liability insurance with a war, hijacking and other perils endorsement in the amount of \$150 million.
- The Airport Authority maintains a property insurance policy with limits of \$750 million providing all risk and flood coverage on physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime and public officials and employment practices liability, among others.

**SELF-INSURANCE:**

Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal

Emergency Management 5Agency and the California Disaster Assistance Act. As of June 30, 2016 and 2014, the Airport Authority has designated \$8,813,970 and \$8,095,974, respectively, from its net position, as an insurance contingency.

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

**LOSS PREVENTION:**

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

During fiscal year 2016, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

**NOTE 9.**

**RISK MANAGEMENT**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**LEVEL 1**

Quoted prices in active markets for identical assets or liabilities

**LEVEL 2**

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**LEVEL 3**

Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**NOTE 10.**

**DISCLOSURES ABOUT FAIR VALUE OF ASSETS**

**NOTE 10.**  
**DISCLOSURES ABOUT FAIR**  
**VALUE OF ASSETS**  
**(CONTINUED)**

**RECURRING MEASUREMENTS:**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016	Fair Value			
Investments by fair value level				
U.S. Treasury obligations	\$ 95,094,109	\$ 95,094,109	\$ -	\$ -
U.S. agency securities	50,679,745	-	50,679,745	-
Non-U.S. Securities	3,010,290	3,010,290	-	-
Commercial paper	13,942,250	-	13,942,250	-
Negotiable certificates of deposit	42,513,040	-	42,513,040	-
Medium-term notes	38,698,117	-	38,698,117	-
Local Agency Investment Fund	47,906,365	47,906,365	-	-
San Diego County Investment Pool	172,695,968	172,695,968	-	-
Total investments by fair value level	464,539,884	\$ 318,706,732	\$ 145,833,152	\$ -
Investments measured at amortized cost	40,427,839			
Investments measured at net asset value	15,177,301			
Non-negotiable certificate of deposit	36,247,049			
Total investments	\$ 556,392,073			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015	Fair Value			
Investments by fair value level				
U.S. Treasury obligations	\$ 70,189,787	\$ 70,189,787	\$ -	\$ -
U.S. agency securities	46,898,857	-	46,898,857	-
Commercial paper	3,999,800	-	3,999,800	-
Negotiable certificates of deposit	34,000,280	-	34,000,280	-
Medium-term notes	24,629,671	-	24,629,671	-
Local Agency Investment Fund	98,381,500	98,381,500	-	-
San Diego County Investment Pool	241,042,718	241,042,718	-	-
Total investments by fair value level	519,142,613	\$ 409,614,005	\$ 109,528,608	\$ -
Investments measured at amortized cost	35,593,542			
Investments measured at net asset value	15,074,776			
Non-negotiable certificate of deposit	25,313,449			
Total investments	\$ 595,124,380			



## INVESTMENTS:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-

based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

## NOTE 10.

### DISCLOSURES ABOUT FAIR VALUE OF ASSETS (CONTINUED)

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. Substantially all capital assets are held by the Airport Authority for the purpose of rental or related use. A majority of the lease payments are determined each year based upon the 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 primarily on a month-to-month basis and accordingly are not reflected in the schedule below.

The Airport Authority's recent expansion of approximately 25,000 additional square feet results in the increase of the number of food service and retail concession locations from 55 to 87. The Authority has implemented a

comprehensive Concessions Development Program (CDP) to provide a world class shopping and dining experience for the millions of passengers who use SDIA each year. The full program build out was completed during fiscal year 2015. The CDP replaces the Airport Authority's one master concessionaire.

The Airport Authority's CFC revenues and Bonds funded construction of the Rental Car Center Facility (RCC), which was completed and placed in service on January 20, 2016. The RCC facility sits on 24.85 acres of land and houses all the major and small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and will continue until the Bonds are repaid or defeased. This land rent is a non-cancellable lease and will convert to Facility Rent when bonds are repaid.

## NOTE 11.

### LEASE REVENUES

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

Years Ending June 30,	Amount
2017	\$ 12,586,824
2018	11,906,653
2019	11,998,494
2020	12,138,378
2021	12,281,759
2022-2026	63,914,519
2027-2031	69,716,722
2032-2036	76,792,708
2037-2041	85,196,761
2042-2046	95,178,138
2047-2049	40,883,957
	<u>\$ 492,594,913</u>



NOTE 12.

LEASE COMMITMENTS

OPERATING LEASES

GENERAL DYNAMICS LEASE:

The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement, as amended, calls for rent payments of \$6,750,000 annually through December 31, 2068. A portion of the land is leased back to the District for employee parking 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 an annual rent of \$1 per year under a lease that expires December 31, 2068.

TELEDYNE RYAN LEASE:

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

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.

The future rental commitment under the above operating lease agreements as of June 30, are due as follows:

Years Ending June 30,	Amount
2017	\$ 10,172,520
2018	10,172,520
2019	10,172,520
2020	10,172,520
2021	10,172,520
2022-2026	50,862,600
2027-2031	50,862,600
2032-2036	50,862,600
2037-2041	50,862,600
2042-2046	50,862,600
2047-2051	50,862,600
2052-2056	50,862,600
2057-2061	50,862,600
2062-2066	50,862,600
2067-2068	25,431,300
	<u>\$ 534,057,300</u>

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

	2016	2015
Rental payments made	\$ 10,367,148	\$ 10,433,251

## COMMITMENTS:

As of June 30, 2016 and 2015, 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, 2016 and 2015, these funds totaled approximately \$20.5 million and \$12.5 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.
- ii. Support services — As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continue to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2016 and 2015, the Airport Authority expensed \$18,764,780 and \$15,847,455, respectively, for these services.
- iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of \$29.7 million and the second for the airport shuttle services in the amount of \$31.3 million. The total amounts spent as of June 30, 2016, were \$23.2 million for parking management services and \$29.5 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2016, the Airport Authority's remaining commitment is approximately \$6.5 million for the parking management contract and \$1.8 million for the shuttle service contract.
- iv. In fiscal year 2014, the Board approved a contract with Austin-Sundt JV for the design and construction of the Rental Car Center in the amount of \$14.0 million and an additional approval of \$10.0 million. In fiscal year 2015, the Board approved an additional \$223.9 million. In fiscal year 2016, the Board approved an additional \$5.1 million. As of June 30, 2016, \$247.7 million had been spent and the contract is due to be completed in fiscal year 2017.
- v. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of \$10.0 million and an additional approval of \$12.0 million. In fiscal year 2015, the Board approved an additional \$5.0 million. As of June 30, 2016, \$25.2 million had been spent and the contract is due to be completed in fiscal year 2017.

## NOTE 13.

## COMMITMENTS & CONTINGENCIES

**NOTE 13.**  
**COMMITMENTS &  
CONTINGENCIES  
(CONTINUED)**

- vi. In fiscal year 2015, the Board approved a \$29.2 million contract with SP Plus Corporation to transport rental car companies' customers between the Rental Car Center facility and the terminals and includes the operation, management and maintenance of the shuttle vehicles. In fiscal year 2016, the Board approved an additional \$1.2 million. As of June 30, 2016, \$3.7 million had been spent and the contract is due to be completed in fiscal year 2021.
- vii. In fiscal year 2015, the Board approved a \$5.9 million contract with Granite Construction Company for the construction of the Northside bypass Taxiway. As of June 30, 2016, \$5.6 million had been spent and the contract is due to be completed in the early fiscal year 2017.
- viii. In fiscal year 2015, the Board approved a \$60.0 million contract with AECOM Technical Services, Inc. for project support for the development of the Northside solar projects. As of June 30, 2016, \$11.6 million had been spent and the contract is due to be completed in fiscal year 2018.
- ix. In fiscal year 2016, the Board approved a \$3.2 million contract with Granite Construction Company for the Employee Parking Lot 6 Expansion. As of June 30, 2016, \$3 million had been spent and the contract is due to be completed in early fiscal year 2017.
- x. In fiscal year 2016, the Board approved a \$12 million contract with Swinerton Builders for a Design-Build for the T2 Parking Plaza. As of June 30, 2016, \$4.5 million had been spent and the contract is due to be completed in early fiscal year 2020.
- xi. In fiscal year 2016, the Board approved a \$3.2 million contract with Hazard Construction Company for a Taxi hold lot. As of June 30, 2016, \$1.6 million had been spent and the contract is due to be completed in fiscal year 2017.
- xii. In fiscal year 2016, the Board approved a \$4.7 million contract with Hazard Construction Company to rehabilitate the Cross Taxiway. As of June 30, 2016, \$2.5 million had been spent and the contract is due to be completed in fiscal year 2017.





**CONTINGENCIES:**

As of June 30, 2016, 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 tenants/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. 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.

**NOTE 13.****COMMITMENTS &  
CONTINGENCIES  
(CONTINUED)**

Schedule of OPEB funding progress for the Airport Authority is as follows (dollars in thousands)\*:

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
7/1/09	\$ 2,674	\$ 12,206	\$ 9,532	21.9%	\$ 19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/12	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%
7/1/15	18,917	34,587	15,670	54.7%	16,809	93.2%	7.36%	3.00%

\* In accordance with GASB Statement No. 45, the Airport Authority has an actuarial valuation completed biennially.





SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET), LAST 10 FISCAL YEARS  
(GASB STATEMENT NO. 68):

**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**  
FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)

	2016	2015
<b>Total Pension Liability:</b>		
Service cost	\$ 6,154,579	\$ 6,099,481
Interest (includes interest on service cost)	9,327,538	8,465,485
Differences between expected and actual experience	345,661	-
Benefit payments, including rerefunds of member contributions	(2,482,523)	(2,913,221)
Net change in total pension liability	13,345,255	11,651,745
 Total pension liability - beginning	 126,851,792	 115,200,048
 Total pension liability - ending	 \$ 140,197,047	 126,851,793
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 5,664,753	\$ 5,670,847
Contributions - employee	1,073,028	1,019,220
Net investment income	4,390,185	18,302,683
Benefit payments, including rerefunds of member contributions	(2,482,523)	(2,913,221)
Administrative expense	(332,290)	(332,645)
Net change in plan fiduciary net position	8,313,153	21,746,884
 Plan fiduciary net position - beginning	 130,203,134	 108,456,250
 Plan fiduciary net position - ending	 \$ 138,516,287	 \$ 130,203,134
 Net pension liability (asset) - ending	 \$ 1,680,760	 \$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	98.80%	102.64%
 Covered employee payroll	 \$ 27,955,455	 \$ 26,380,323
Net pension liability as a percentage of covered employee payroll	6.01%	-12.70%

**NOTE TO SCHEDULE:**

This schedule is intended to display the most recent 10 years of data for annual changes in the net pension liability. Until such time has elapsed after implementing GASB Statement No. 68, this schedule will only present information from those years that are available.

**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**  
FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)

**Schedule of Contributions Last 10 Fiscal Years (in thousands) (GASB Statement No. 68):**

	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 3,823	\$ 2,900	\$ 2,600	\$ 3,800	\$ 4,300
Contributions in relation to the actuarially determined contribution	3,823	3,728	2,600	3,800	4,300
Contribution deficiency (excess)	\$ -	\$ (828)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 27,955	\$ 26,380	\$ 24,840	\$ 25,148	\$ 25,596
Contributions as a percentage of covered-payroll	13.68%	14.13%	10.47%	15.11%	16.80%

	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 3,000	\$ 3,000	\$ 2,200	\$ 2,600	\$ 2,879
Contributions in relation to the actuarially determined contribution	7,600	3,035	2,520	2,962	3,300
Contribution deficiency (excess)	\$ (4,600)	\$ (35)	\$ (320)	\$ (362)	\$ (421)
Covered-employee payroll	\$ 24,693	\$ 23,488	\$ 21,957	\$ 19,116	\$ 17,609
Contributions as a percentage of covered-payroll	30.78%	12.92%	11.48%	15.49%	18.74%









# WE MOVE PEOPLE

IN 2015, SAN DIEGO INTERNATIONAL AIRPORT,  
FOR THE FIRST TIME IN ITS 88-YEAR HISTORY  
HAS SURPASSED 20 MILLION TOTAL  
PASSENGERS IN A SINGLE YEAR, A 7 PERCENT  
INCREASE OVER 2014. ADDITIONALLY,  
INTERNATIONAL PASSENGERS INCREASED  
TO NEARLY 700,000,  
A 4 PERCENT INCREASE OVER 2014.





# STATISTICAL SECTION

The Statistical Section is divided into five areas: financial trend data; revenue capacity data; operating information; demographic and economic information, and debt capacity data.

## FINANCIAL TRENDS DATA:

- AUTHORITY OPERATING REVENUES AND O&M EXPENSES
- AUTHORITY NET POSITION BY COMPONENT
- AUTHORITY CHANGES IN NET POSITION
- AUTHORITY LARGEST SOURCES OF REVENUE

## REVENUE CAPACITY DATA :

- AUTHORITY LANDING FEE RATE
- TERMINAL RATES BILLED TO AIRLINES
- AIRLINE COST PER ENPLANED PASSENGER

## OPERATING INFORMATION:

- AUTHORITY EMPLOYEE HEADCOUNT
- AIRCRAFT OPERATIONS
- AIRCRAFT LANDED WEIGHTS
- AIRCRAFT LANDED WEIGHTS BY AIRLINE
- PASSENGER ENPLANEMENTS

## • ENPLANEMENT MARKET SHARE BY AIRLINE BY FISCAL YEAR

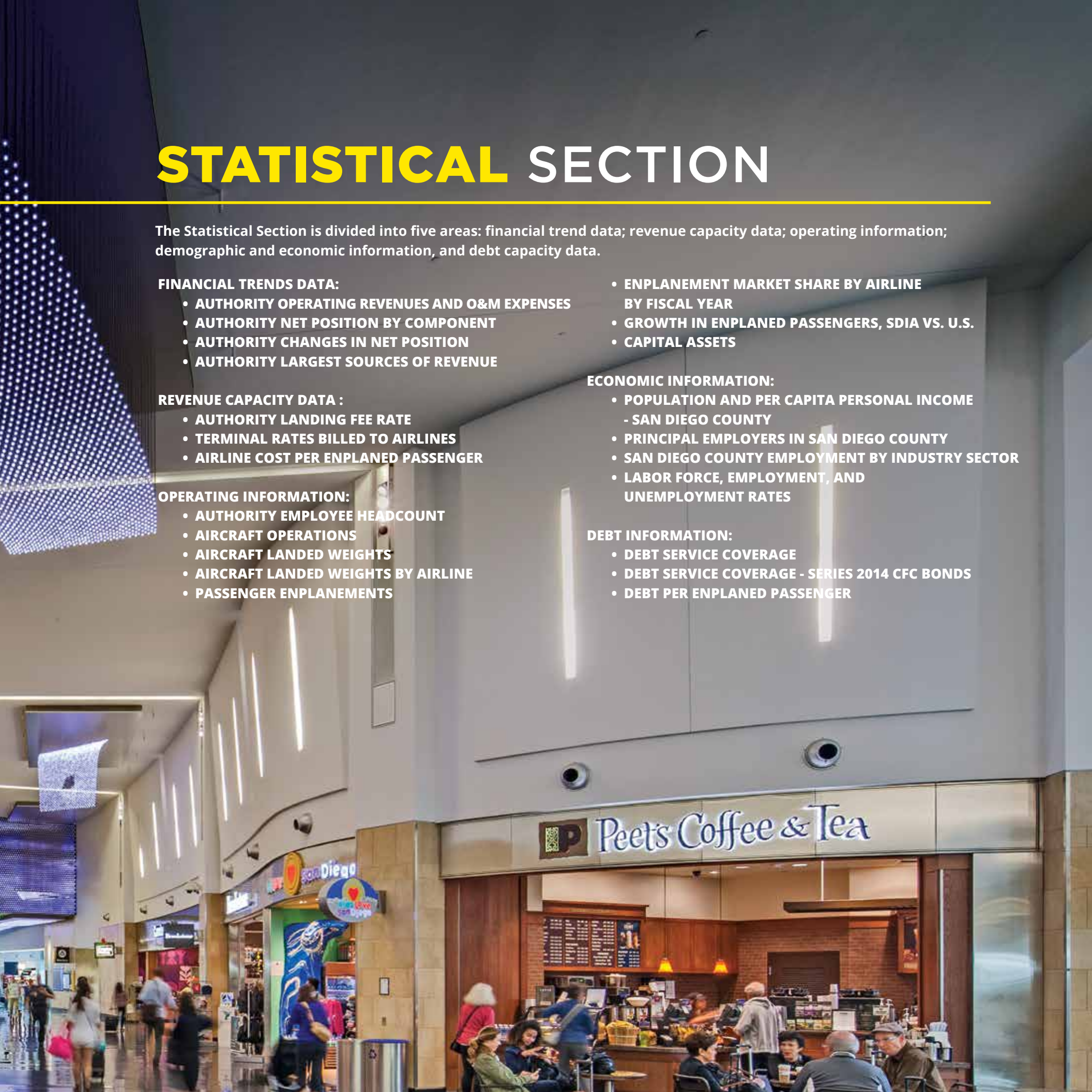
- GROWTH IN ENPLANED PASSENGERS, SDIA VS. U.S.
- CAPITAL ASSETS

## ECONOMIC INFORMATION:

- POPULATION AND PER CAPITA PERSONAL INCOME  
- SAN DIEGO COUNTY
- PRINCIPAL EMPLOYERS IN SAN DIEGO COUNTY
- SAN DIEGO COUNTY EMPLOYMENT BY INDUSTRY SECTOR
- LABOR FORCE, EMPLOYMENT, AND  
UNEMPLOYMENT RATES

## DEBT INFORMATION:

- DEBT SERVICE COVERAGE
- DEBT SERVICE COVERAGE - SERIES 2014 CFC BONDS
- DEBT PER ENPLANED PASSENGER



## EXHIBIT S-1 AUTHORITY REVENUES AND O&M EXPENSES (\$000)

Fiscal Years Ended June 30,

### Operating Revenues

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Airline revenue										
Landing fees	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579	\$ 18,419	\$ 19,658	\$ 19,107	\$ 21,390	\$ 23,985
Aircraft parking fees	-	-	3,221	3,406	2,921	3,134	3,191	2,503	2,716	2,701
Building rentals	22,495	24,265	23,057	23,835	26,980	30,633	41,840	46,001	48,153	51,273
Security surcharge	8,441	8,619	10,204	11,900	14,886	18,649	23,360	25,777	25,180	29,223
Other aviation revenue	1,757	1,808	1,565	1,585	1,597	1,595	1,591	4,488	4,893	5,023
Concession revenue	34,201	38,785	36,280	36,249	37,103	40,427	42,041	47,770	52,496	56,274
Parking and ground transportation revenue	28,392	31,038	31,492	30,296	31,645	31,470	35,750	38,959	41,633	48,106
Ground rentals	4,994	5,207	5,776	5,923	8,656	8,044	9,162	9,603	13,074	16,226
Other operating revenue	1,081	1,197	693	1,829	1,640	1,179	905	1,529	971	1,183
<b>Total Operating Revenues</b>	<b>\$ 125,367</b>	<b>\$ 135,682</b>	<b>\$ 130,977</b>	<b>\$ 133,695</b>	<b>\$ 144,007</b>	<b>\$ 153,550</b>	<b>\$ 177,498</b>	<b>\$ 195,737</b>	<b>\$ 210,505</b>	<b>\$ 233,994</b>

### Operating Expenses Before Depreciation

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Salaries and benefits	\$ 28,333	\$ 32,912	\$ 34,741	\$ 35,386	\$ 38,267	\$ 37,237	\$ 38,092	\$ 39,135	\$ 39,211	\$ 42,067
Contractual services	26,391	27,378	27,464	27,999	26,113	26,906	29,284	31,559	32,422	38,215
Safety and security	15,946	19,110	19,930	20,131	21,344	22,625	23,994	24,151	23,464	28,721
Space rental	10,842	10,901	10,888	10,906	10,906	11,415	10,897	10,478	10,433	10,367
Utilities	6,421	6,430	6,912	6,871	6,413	6,674	6,659	8,680	10,152	11,480
Maintenance	8,393	8,735	8,002	9,231	8,174	8,497	11,204	13,982	14,516	14,122
Equipment and systems	980	1,333	678	891	570	403	469	643	1,805	708
Materials and supplies	762	795	641	413	345	304	406	440	519	536
Insurance	1,999	1,227	1,096	1,166	1,066	764	795	988	1,145	949
Employee development and support	909	1,035	1,030	990	1,041	916	1,235	1,171	1,136	1,242
Business development	2,096	2,733	2,509	2,033	2,275	2,093	2,444	2,661	2,493	2,390
Equipment rentals and repairs	1,479	1,396	1,387	1,271	1,327	1,335	1,317	2,932	2,951	2,852
<b>Total Operating Expenses Before Depreciation</b>	<b>\$ 104,551</b>	<b>\$ 113,985</b>	<b>\$ 115,278</b>	<b>\$ 117,288</b>	<b>\$ 117,841</b>	<b>\$ 119,169</b>	<b>\$ 126,796</b>	<b>\$ 136,821</b>	<b>\$ 140,250</b>	<b>\$ 153,651</b>

## EXHIBIT S-2 AUTHORITY NET POSITION BY COMPONENT (\$000)

Fiscal Years Ended June 30,

	2007	2008	2009	2010*	2011	2012	2013	2014	2015**	2016
Net investment in capital assets	\$ 236,762	\$ 238,144	\$ 249,498	\$ 274,769	\$ 352,276	\$ 339,467	\$ 359,640	\$ 312,780	\$ 316,250	\$ 310,340
Other restricted net position	103,787	136,548	167,827	139,672	147,513	172,076	167,384	204,642	215,968	214,533
Unrestricted net position	124,984	120,429	95,858	145,224	102,466	149,346	200,040	209,594	210,522	252,800
<b>Total net position</b>	<b>\$ 465,533</b>	<b>\$ 495,121</b>	<b>\$ 513,183</b>	<b>\$ 559,664</b>	<b>\$ 602,255</b>	<b>\$ 660,889</b>	<b>\$ 727,064</b>	<b>\$ 727,016</b>	<b>\$ 742,740</b>	<b>\$ 777,673</b>

\* Amounts for 2010 and after were restated as per GASB 65

\*\* Amounts for 2015 were restated as per GASB 68

Source: San Diego County Regional Airport Authority



# EXHIBIT S-3 AUTHORITY CHANGES IN NET POSITION (\$000)

Fiscal Years Ended June 30,

	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
Operating revenues:										
Airline revenue:										
Landing fees	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579	\$ 18,419	\$ 19,658	\$ 19,107	\$ 21,390	\$ 23,985
Aircraft parking fees	-	-	3,221	3,406	2,921	3,134	3,191	2,503	2,716	2,701
Building rentals	22,495	24,265	23,057	23,835	26,980	30,633	41,840	46,001	48,153	51,273
Security surcharge	8,441	8,619	10,204	11,900	14,886	18,649	23,360	25,777	25,180	29,223
Other aviation revenue	1,757	1,808	1,565	1,584	1,597	1,595	1,591	4,488	4,893	5,023
Concession revenue	34,201	38,785	36,280	36,249	37,103	40,427	42,041	47,770	52,496	56,274
Parking and ground transportation revenue	28,392	31,038	31,492	30,296	31,645	31,470	35,750	38,959	41,633	48,106
Ground rentals	4,994	5,207	5,776	5,923	8,656	8,044	9,162	9,603	13,074	16,226
Other operating revenue	1,081	1,197	693	1,829	1,640	1,179	905	1,529	971	1,183
Total operating revenues	125,367	135,682	130,977	133,695	144,007	153,550	177,498	195,737	210,505	233,994
Operating expenses:										
Salaries and benefits	28,333	32,912	34,741	35,386	38,267	37,237	38,092	39,135	39,211	42,067
Contractual services	26,391	27,378	27,464	27,999	26,113	26,906	29,284	31,559	32,422	38,215
Safety and security	15,946	19,110	19,930	20,131	21,344	22,625	23,994	24,151	23,464	28,721
Space rental	10,842	10,901	10,888	10,906	10,906	11,415	10,897	10,478	10,433	10,367
Utilities	6,421	6,430	6,912	6,871	6,413	6,674	6,659	8,680	10,152	11,480
Maintenance	8,393	8,735	8,002	9,231	8,174	8,497	11,204	13,982	14,516	14,122
Equipment and systems	980	1,333	678	891	570	403	469	643	1,805	708
Materials and supplies	762	795	641	413	345	304	406	440	519	536
Insurance	1,999	1,227	1,096	1,166	1,066	764	795	988	1,145	949
Employee development and support	909	1,035	1,030	990	1,041	916	1,235	1,171	1,136	1,242
Business development	2,096	2,733	2,509	2,033	2,275	2,093	2,444	2,661	2,493	2,390
Equipment rentals and repairs	1,479	1,396	1,387	1,271	1,327	1,335	1,317	2,932	2,951	2,852
Total operating expenses before depreciation and amortization	104,551	113,985	115,278	117,288	117,841	119,169	126,796	136,821	140,250	153,651
Income from operations before depreciation and amortization	20,816	21,697	15,699	16,407	26,166	34,381	50,702	58,916	70,256	80,343
Depreciation and amortization	33,468	36,764	38,196	42,424	49,138	44,532	41,624	77,205	77,559	83,577
Operating income (loss)	(12,652)	(15,067)	(22,497)	(26,017)	(22,972)	(10,151)	9,078	(18,289)	(7,304)	(3,234)
Nonoperating revenues (expenses):										
Passenger facility charges	36,452	37,401	33,219	34,049	33,998	34,639	35,437	35,770	38,517	40,258
Customer facility charges	-	-	1,695	10,783	10,986	11,487	19,117	27,545	32,465	33,208
Quieter Home Program, net	(3,092)	(3,990)	(5,573)	(1,629)	(3,359)	(3,531)	(1,589)	(2,750)	(2,811)	(3,698)
Joint Studies Program	(120)	(963)	(180)	(244)	(129)	(73)	(55)	(152)	(145)	(101)
Interest income	11,969	13,431	9,434	6,667	6,408	5,492	4,140	5,211	5,747	5,999
Interest expense	(4,683)	(4,086)	(2,998)	(3,472)	(12,295)	(2,027)	(16,530)	(56,376)	(59,516)	(54,878)
Build America Bonds Rebate	-	-	-	-	3,691	4,996	4,779	4,636	4,631	4,656
Other revenues (expenses), net	(3,282)	12	316	(1,004)	(92)	(3,032)	(4,279)	434	1,367	2,246
Nonoperating revenue, net	37,244	41,805	35,913	45,149	39,208	47,951	41,020	14,318	20,255	27,690
Income before capital grant contributions	24,592	26,738	13,416	19,132	16,236	37,800	50,098	(3,971)	12,951	12,951
Capital grant contributions	7,150	2,850	4,646	27,350	26,355	20,834	16,077	3,924	10,765	10,477
Change in net position	31,742	29,588	18,062	46,482	42,591	58,634	66,175	(47)	23,717	34,933
Prior Period Adjustment as per GASB 68	-	-	-	-	-	-	-	-	(7,995)	
Net position, beginning of year	433,791	465,533	495,121	513,183	559,664	602,255	660,889	727,064	727,018	742,740
Net position, end of year	\$ 465,533	\$ 495,121	\$ 513,183	\$ 559,666	\$ 602,255	\$ 660,889	\$ 727,064	\$ 727,018	\$ 742,740	\$ 777,673

\* Amounts for 2010 and after were restated as per GASB 65  
Source: San Diego County Regional Airport Authority

# EXHIBIT S-4 AUTHORITY LARGEST SOURCES OF REVENUE (\$000)

Fiscal Years Ended June 30,

Tenant	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016 % of Total Operating Revenue
Southwest Airlines	\$ 15,624,767	\$ 16,920,722	\$ 17,658,629	\$ 19,428,103	\$ 21,306,108	\$ 23,357,007	\$ 27,598,908	\$ 29,548,565	\$ 33,107,335	\$ 33,838,686	14.5%
American Airlines	10,017,978	11,798,393	9,022,521	11,449,947	11,510,696	12,585,537	15,173,458	15,785,140	15,888,023	15,321,505	6.5%
United Airlines	6,623,373	6,522,426	6,344,127	7,905,284	9,280,812	10,931,601	15,817,886	15,364,094	15,687,045	14,518,119	6.2%
Delta Airlines	5,347,415	5,168,634	4,647,333	6,663,671	8,003,895	8,911,886	10,898,540	12,005,146	13,560,515	14,418,056	6.2%
Alaska Airlines	2,843,993	2,800,385	2,754,173	2,951,554	3,482,098	4,265,739	6,167,257	8,008,057	9,712,564	10,612,367	4.5%
Enterprise Rent-A-Car	2,007,684	2,530,192	2,501,720	2,517,682	4,431,129	7,290,392	6,934,784	7,162,116	7,998,222	9,451,127	4.0%
Hertz Rent-A-Car	6,728,751	6,860,949	5,816,230	5,861,737	5,635,151	5,795,690	5,961,730	6,149,759	6,236,082	8,225,179	3.5%
Avis Budget Rent-A-Car Group	4,465,182	6,193,565	5,505,770	3,378,607	3,842,594	4,507,266	4,697,455	4,822,212	5,131,645	5,540,949	2.4%
Landmark Aviation	-	-	-	-	-	-	-	2,027,308	5,042,672	5,536,511	2.4%
SSP America	-	-	-	-	-	-	-	-	-	4,476,873	1.9%

\* On December 9, 2013, AMR Corporation (American Airlines) merged with US Airways Group, forming American Airlines Group. A single operating certificate was issued by the FAA andoperational integration was on April 7, 2015. Data for US Airways and American Airlines have been combined in this table.

Source: San Diego County Regional Airport Authority

# EXHIBIT S-5 AUTHORITY LANDING FEE RATE (\$ PER 1,000 LBS)

Fiscal Years Ended June 30,

AUTHORITY LANDING FEE RATE



Source: San Diego County Regional Airport Authority

**Landing Fees** are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

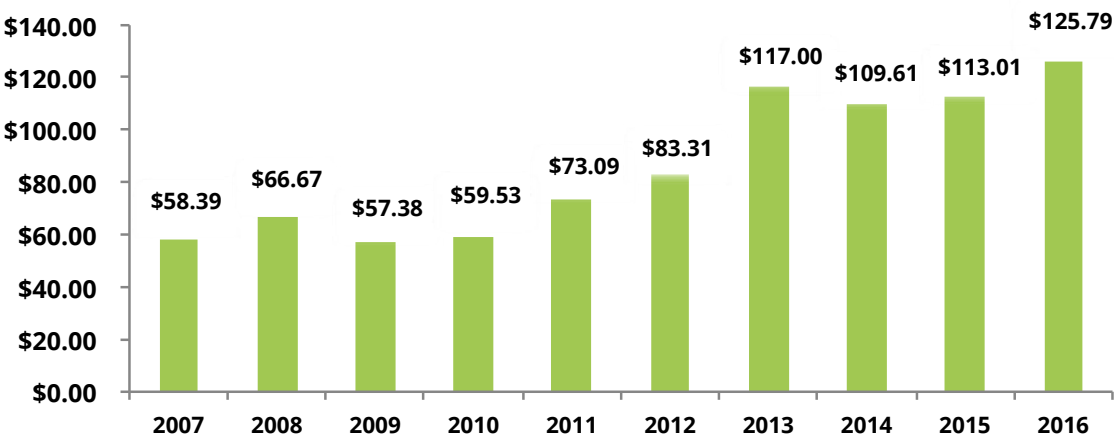
EXHIBIT S-6  
TERMINAL RATES BILLED  
TO AIRLINES

Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates	
	Per Square Foot*	% Change
2007	\$58.39	3.1 %
2008	\$66.67	14.2 %
2009	\$57.38	(13.9)%
2010	\$59.53	3.7 %
2011	\$73.09	22.8 %
2012	\$83.31	14.0 %
2013	\$117.00	40.4 %
2014	\$109.61	(6.3)%
2015	\$113.01	3.1 %
2016	\$125.79	11.3 %

\* Net of janitorial credit

TERMINAL RATE PER SQUARE FOOT



Source: San Diego County Regional Airport Authority  
Information presented reflects those years that the Airport Authority was in operation.

**Landing Fees** are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.



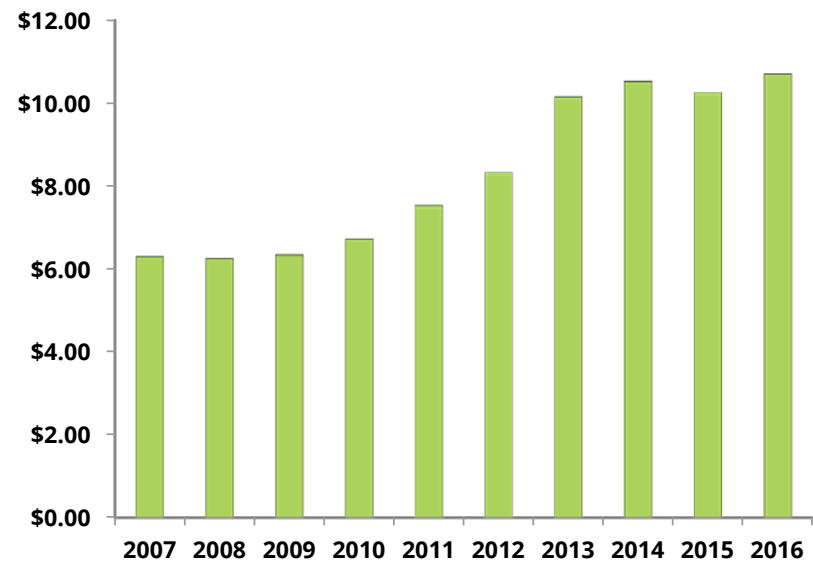
EXHIBIT S-7  
AIRLINE COST PER  
ENPLANED PASSENGER

Fiscal Years Ended June 30,



Fiscal Year	Enplaned Passengers	Cost per Enplaned Passenger
2007	8,892,069	\$6.31
2008	9,389,327	\$6.26
2009	8,535,774	\$6.36
2010	8,453,886	\$6.73
2011	8,441,120	\$7.54
2012	8,575,475	\$8.33
2013	8,737,617	\$10.16
2014	9,082,244	\$10.54
2015	9,713,066	\$10.26
2016	10,206,222	\$10.71

COST PER ENPLANED PASSENGER

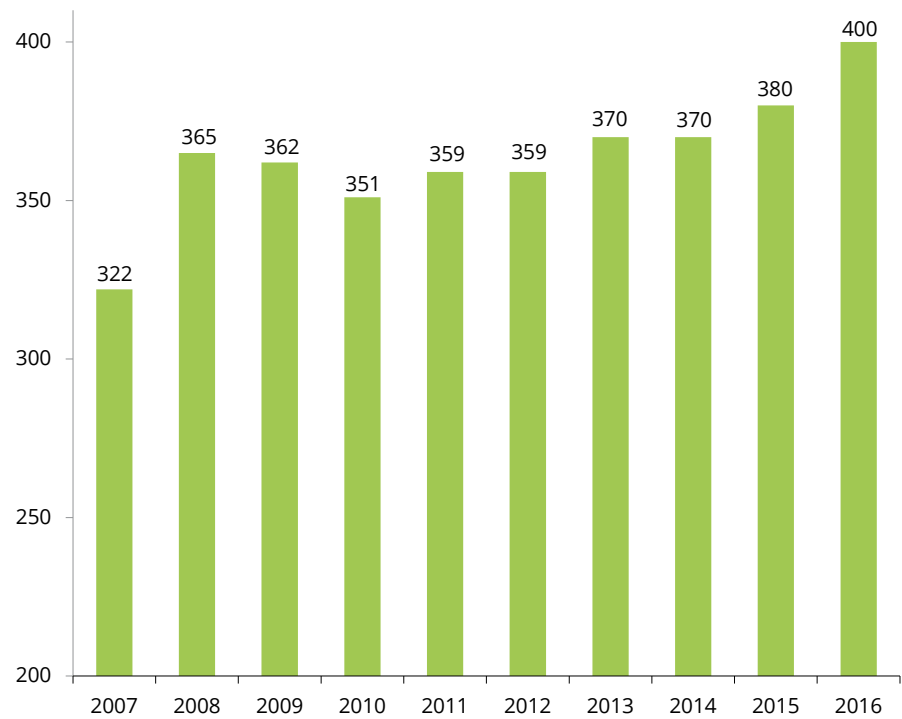


Source: San Diego County Regional Airport Authority

**Airline Cost per Enplaned Passenger** is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.

AUTHORITY EMPLOYEE HEADCOUNT

Fiscal Years Ended June 30,



Source: San Diego County Regional Airport Authority

The Airport Authority does not have part-time employees. This chart reflects the average number of employees for the fiscal years shown above.





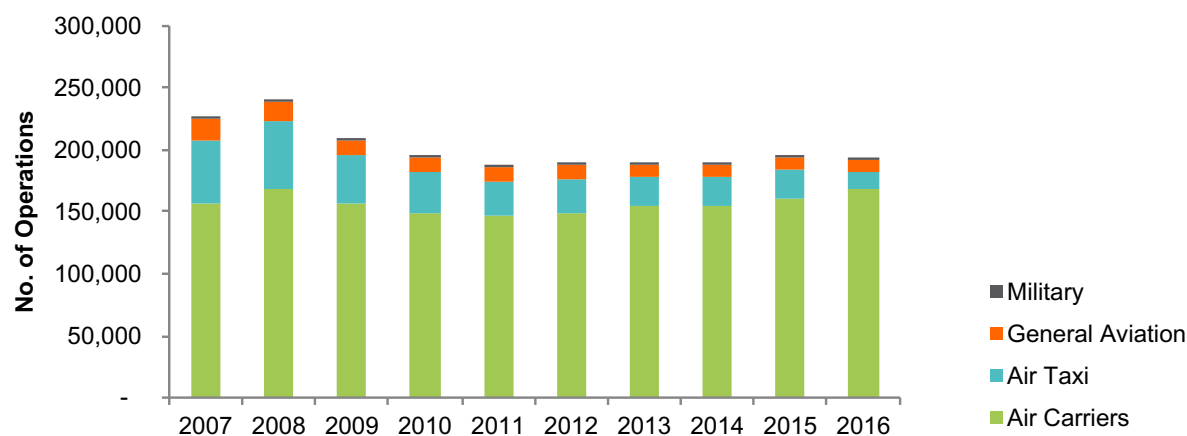
# EXHIBIT S-9 AIRCRAFT OPERATIONS (TAKEOFFS & LANDINGS)

Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
2007	157,198	50,068	17,195	983	225,444
2008	167,753	55,373	16,123	1,040	240,289
2009	155,766	39,122	12,721	1,174	208,783
2010	149,718	32,100	11,674	1,017	194,509
2011	146,215	28,273	10,938	755	186,181
2012	149,104	26,398	12,120	658	188,280
2013	154,781	23,370	9,586	567	188,304
2014	155,310	22,953	8,930	597	187,790
2015	160,726	24,336	9,534	669	195,265
2016	169,365	13,741	9,439	906	193,451

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)

## AIRCRAFT OPERATIONS



Source: San Diego County Regional Airport Authority

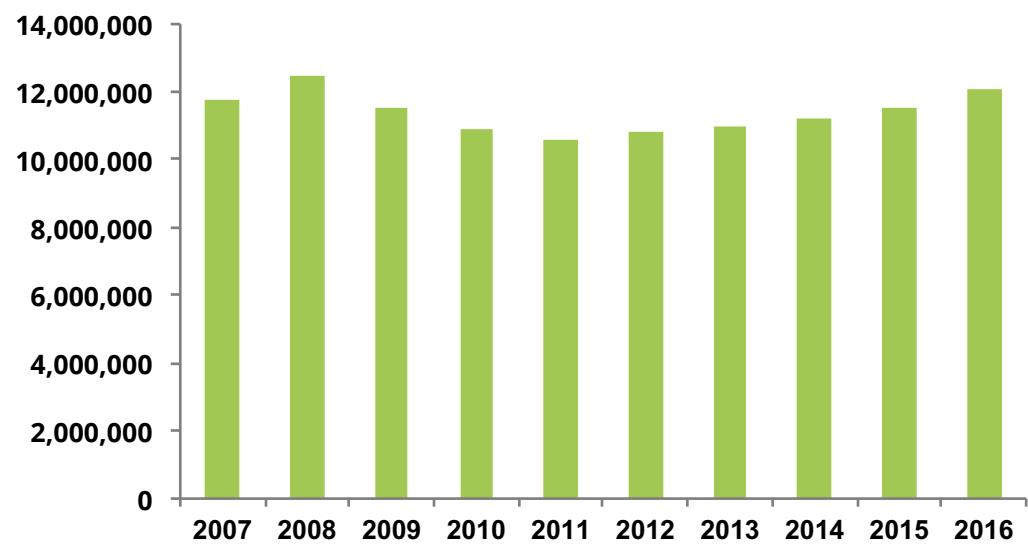
**Aircraft operations** are the takeofs and landings at SDIA. They represent the level of demand for air service by the airlines operating at SDIA.

EXHIBIT S-10  
AIRCRAFT LANDED  
WEIGHTS

Fiscal Years Ended June 30,

Fiscal Year	1000lbs	% Change
2007	11,773,957	1.5 %
2008	12,501,191	6.2 %
2009	11,496,758	(8.0)%
2010	10,892,867	(5.3)%
2011	10,606,160	(2.6)%
2012	10,819,902	2.0 %
2013	11,015,716	1.8 %
2014	11,186,768	1.6 %
2015	11,523,720	3.0 %
2016	12,048,142	4.6 %

AIRCRAFT LANDED WEIGHTS (000 LBS)



Source: San Diego County Regional Airport Authority

**Landed Weight** is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.



# EXHIBIT S-11

## AIRCRAFT LANDED WEIGHTS BY AIRLINE (THOUSAND POUNDS)

Fiscal Years Ended June 30,

Airline	% of		% of		% of		% of		% of	
	2007	Total	2008	Total	2009	Total	2010	Total	2011	Total
Southwest Airlines	3,956,170	33.6%	4,416,996	35.3%	4,415,780	38.4%	4,068,974	37.4%	4,001,530	37.7%
American Airlines *	1,352,501	11.5%	1,603,826	12.8%	1,532,867	13.3%	1,392,660	12.8%	1,275,498	12.0%
United Airlines **	1,803,693	15.3%	1,761,692	14.1%	1,670,479	14.5%	1,662,541	15.3%	1,583,372	14.9%
Delta Airlines	798,104	6.8%	839,172	6.7%	713,622	6.2%	893,467	8.2%	1,062,254	10.0%
Alaska Airlines	668,390	5.7%	612,282	4.9%	536,281	4.7%	511,813	4.7%	595,238	5.6%
Federal Express	456,152	3.9%	447,636	3.6%	402,665	3.5%	400,303	3.7%	421,239	4.0%
Skywest Airlines	246,559	2.1%	195,777	1.6%	219,416	1.9%	332,408	3.1%	338,812	3.2%
Spirit Airlines	-	-	-	-	-	-	-	-	-	-
Compass Airlines	-	-	-	-	-	-	-	-	-	-
Virgin America	-	-	3,122	0.0%	221,333	1.9%	205,348	1.9%	173,686	1.6%
JetBlue Airlines	175,333	1.5%	288,239	2.3%	297,340	2.6%	201,071	1.8%	167,369	1.6%
British Airways	-	-	-	-	-	-	-	-	13,800	0.1%
Hawaiian Airlines	211,840	1.8%	235,200	1.9%	137,145	1.2%	121,600	1.1%	134,080	1.3%
Japan Airlines	-	-	-	-	-	-	-	-	-	-
United Parcel	-	-	-	-	127,900	1.1%	118,874	1.1%	120,158	1.1%
<b>Subtotal</b>	<b>9,668,741</b>	<b>82.1%</b>	<b>10,403,942</b>	<b>83.2%</b>	<b>10,274,828</b>	<b>89.4%</b>	<b>9,909,059</b>	<b>91.0%</b>	<b>9,887,036</b>	<b>93.2%</b>
All Others	2,105,216	17.9%	2,097,549	16.8%	1,221,930	10.6%	983,808	9.0%	719,124	6.8%
<b>Total</b>	<b>11,773,957</b>	<b>100.0%</b>	<b>12,501,491</b>	<b>100.0%</b>	<b>11,496,758</b>	<b>100.0%</b>	<b>10,892,867</b>	<b>100.0%</b>	<b>10,606,160</b>	<b>100.0%</b>
<b>Annual % Change</b>	1.5%		6.2%		(8.0%)		(5.3%)		(2.6%)	

\* On December 9, 2013, AMR Corporation (American Airlines) merged with US Airways Group, forming American Airlines Group. A single operating certificate was issued by the FAA and operational integration was on April 7, 2015.

\*\* United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table.

Source: San Diego County Regional Airport Authority.

EXHIBIT S-11  
AIRCRAFT LANDED WEIGHTS BY  
AIRLINE (THOUSAND POUNDS)

Fiscal Years Ended June 30,

Airline	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total	2016	% of Total
Southwest Airlines	3,953,536	36.5%	3,907,554	35.5%	3,925,362	35.1%	4,214,314	36.6%	4,257,162	35.3%
American Airlines *	1,344,140	12.4%	1,339,751	12.2%	1,349,554	12.1%	1,359,911	11.8%	1,467,922	12.2%
United Airlines **	1,502,203	13.9%	1,387,854	12.6%	1,340,736	12.0%	1,227,974	10.7%	1,250,500	10.4%
Delta Airlines	1,047,068	9.7%	1,023,608	9.3%	1,016,878	9.1%	1,077,103	9.3%	1,153,074	9.6%
Alaska Airlines	648,359	6.0%	750,000	6.8%	884,727	7.9%	888,065	7.7%	924,310	7.7%
Federal Express	452,453	4.2%	451,797	4.1%	419,127	3.7%	384,686	3.3%	444,038	3.7%
Skywest Airlines	306,789	2.8%	428,595	3.9%	396,054	3.5%	408,608	3.5%	359,197	3.0%
Spirit Airlines	98,931	0.9%	208,200	1.9%	245,669	2.2%	296,925	2.6%	351,977	2.9%
Compass Airlines	-	-	-	-	10,979	0.1%	172,754	1.5%	307,793	2.6%
Virgin America	208,253	1.9%	235,934	2.1%	232,136	2.1%	240,781	2.1%	281,411	2.3%
JetBlue Airlines	166,232	1.5%	168,080	1.5%	189,979	1.7%	193,848	1.7%	199,232	1.7%
British Airways	167,440	1.5%	163,760	1.5%	166,980	1.5%	166,980	1.4%	183,760	1.5%
Hawaiian Airlines	118,088	1.1%	140,637	1.3%	147,325	1.3%	146,284	1.3%	147,406	1.2%
Japan Airlines	-	-	47,125	0.4%	138,700	1.2%	138,700	1.2%	139,080	1.2%
United Parcel	120,454	1.1%	118,180	1.1%	121,742	1.1%	127,660	1.1%	135,318	1.1%
Subtotal	10,133,945	93.7%	10,371,076	94.1%	10,585,948	94.6%	11,044,593	95.8%	11,602,178	96.3%
All Others	685,956	6.3%	644,639	5.9%	600,817	5.4%	479,127	4.2%	445,964	3.7%
Total	10,819,902	100.0%	11,015,716	100.0%	11,186,766	100.0%	11,523,720	100.0%	12,048,142	100.0%
Annual % Change	2.0%		1.8%		1.6%		3.0%		4.6%	



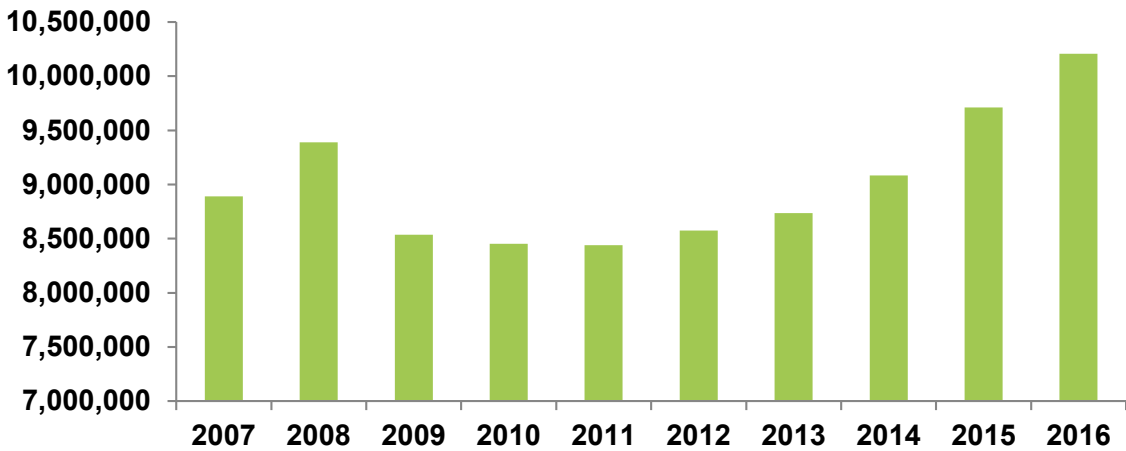
EXHIBIT S-12  
PASSENGER  
ENPLANEMENTS

Fiscal Years Ended June 30,



Fiscal Year	Enplanements	% Change
2007	8,892,069	18.5%
2008	9,389,327	5.6%
2009	8,535,774	(9.1%)
2010	8,453,886	(1.0%)
2011	8,441,120	(0.2%)
2012	8,575,475	1.6%
2013	8,737,617	1.9%
2014	9,082,244	3.9%
2015	9,713,066	6.9%
2016	10,206,222	5.1%

PASSENGER ENPLANEMENTS



Source: San Diego County Regional Airport Authority

**Enplaned Passenger** is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e. connecting passenger).





↑ Baggage Claim  
1-8  
Gates 33-51

33

# EXHIBIT S-13

## ENPLANEMENT MARKET SHARE BY AIRLINE BY FISCAL YEAR

Fiscal Years Ended June 30,

Air Carrier	2007		2008		2009				2011	
	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share
Aeromexico	39,518	0.4%	32,223	0.3%	27,772	0.3%	24,335	0.3%	-	-
Air Canada	55,398	0.6%	55,031	0.6%	27,255	0.3%	46,959	0.6%	58,539	0.7%
AirTran Airways [2]	7,983	0.1%	97,937	1.0%	66,475	0.8%	37,530	0.4%	17,978	0.2%
Alaska Airlines	536,784	6.0%	498,169	5.3%	428,515	5.0%	435,722	5.2%	514,498	6.1%
American Airlines [3]	873,624	9.8%	808,790	8.6%	735,067	8.6%	704,909	8.3%	658,752	7.8%
British Airways	-	-	-	-	-	-	-	-	6,912	0.1%
Continental Airlines [1]	503,189	5.7%	520,856	5.5%	503,242	5.9%	507,443	6.0%	496,100	5.9%
Delta Airlines	633,772	7.1%	687,104	7.3%	618,127	7.2%	900,510	10.7%	919,323	10.9%
Frontier Airlines	196,598	2.2%	231,926	2.5%	203,689	2.4%	196,628	2.3%	219,008	2.6%
Hawaiian Airlines	154,932	1.7%	160,939	1.7%	100,626	1.2%	90,874	1.1%	98,887	1.2%
Japan Airlines	-	-	-	-	-	-	-	-	-	-
JetBlue Airlines	151,984	1.7%	224,205	2.4%	235,199	2.8%	167,031	2.0%	141,684	1.7%
Midwest Airlines	34,551	0.4%	42,763	0.5%	8,380	0.1%	-	-	-	-
Northwest Airlines	286,952	3.2%	295,724	3.1%	272,684	3.2%	-	-	-	-
Southwest Airlines [2]	3,106,431	34.9%	3,306,386	35.2%	3,122,090	36.6%	3,183,084	37.7%	3,277,931	38.8%
Spirit	-	-	-	-	-	-	-	-	-	-
Sun Country Airlines	45,931	0.5%	44,454	0.5%	35,885	0.4%	24,984	0.3%	24,175	0.3%
United Airlines [1]	990,725	11.1%	978,816	10.4%	927,023	10.9%	920,960	10.9%	878,307	10.4%
US Airways [3]	300,568	3.4%	552,751	5.9%	563,392	6.6%	512,558	6.1%	523,378	6.2%
Virgin America	-	-	57,292	0.6%	155,649	1.8%	151,110	1.8%	133,377	1.6%
Volaris	-	-	-	-	-	-	-	-	-	-
WestJet	-	-	-	-	1,526	0.0%	18,738	0.2%	19,360	0.2%
Allegiant	8,128	0.1%	47,257	0.5%	21,309	0.2%	32,803	0.4%	18,416	0.2%
Other					2,622	0.0%	-	-	-	-
<b>Total Air Carrier</b>	<b>8,339,558</b>	<b>93.8%</b>	<b>8,754,541</b>	<b>93.2%</b>	<b>8,056,527</b>	<b>94.4%</b>	<b>7,956,178</b>	<b>94.1%</b>	<b>8,006,625</b>	<b>94.9%</b>
<b>Regional</b>										
American Eagle	275,087	3.1%	238,147	2.5%	232,289	2.7%	207,272	2.5%	155,421	1.8%
Compass	-	-	-	-	-	-	-	-	-	-
Express Jet Airlines	17,603	0.2%	202,429	2.2%	36,034	0.4%	-	-	-	-
Horizon	-	-	-	-	-	-	-	-	-	-
Mesa Airlines	42,219	0.5%	17,098	0.2%	7,381	0.1%	18,670	0.2%	6,709	0.1%
Seaport Airlines	-	-	-	-	-	-	-	-	-	-
Skywest Airlines	217,602	2.4%	177,112	1.9%	203,543	2.4%	271,766	3.2%	272,365	3.2%
<b>Total Regional</b>	<b>552,511</b>	<b>6.2%</b>	<b>634,786</b>	<b>6.8%</b>	<b>479,247</b>	<b>5.6%</b>	<b>497,708</b>	<b>5.9%</b>	<b>434,495</b>	<b>5.1%</b>
<b>Total Passengers</b>	<b>8,892,069</b>	<b>100%</b>	<b>9,389,327</b>	<b>100%</b>	<b>8,535,774</b>	<b>100%</b>	<b>8,453,886</b>	<b>100%</b>	<b>8,441,120</b>	<b>100%</b>

[1] United and Continental completed their merger on October 1, 2010 and began operating as United Airlines on November 30, 2011.

[2] Airtran was acquired by Southwest in May 2011 and began operating as Southwest Airlines on March 1, 2012

[3] On December 9, 2013, AMR Corporation (American Airlines) merged with US Airways Group, forming American Airlines Group. The enplanements are shown separately for the purpose of this table.



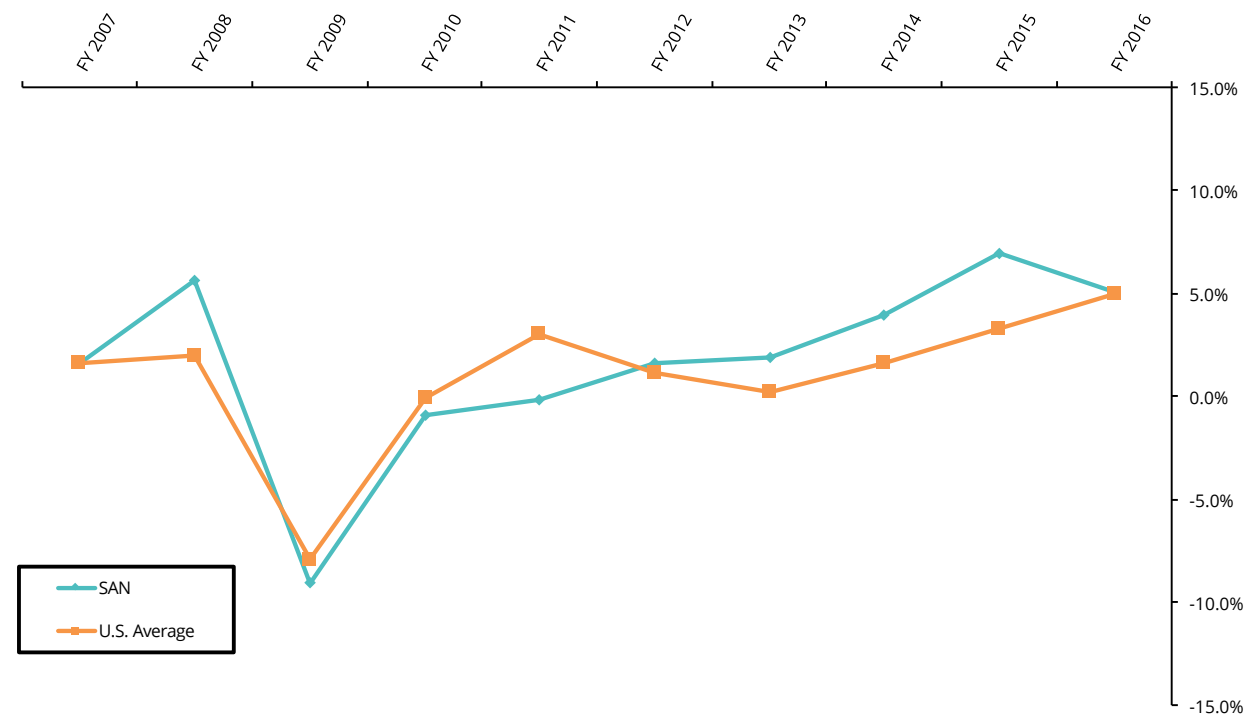
# EXHIBIT S-13 ENPLANEMENT MARKET SHARE BY AIRLINE BY FISCAL YEAR

Fiscal Years Ended June 30,

Air Carrier	2012		2013		2014		2015		2016	
	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share
Aeromexico	-	-	-	-	-	-	-	-	-	-
Air Canada	56,470	0.7%	45,058	0.5%	36,636	0.4%	41,175	0.4%	48,985	0.5%
AirTran Airways [2]	-	-	-	-	-	-	-	-	-	-
Alaska Airlines	579,457	6.8%	673,731	7.7%	830,349	9.1%	871,775	9.0%	902,705	8.8%
American Airlines [3]	664,466	7.7%	650,826	7.4%	693,995	7.6%	747,493	7.7%	1,369,003	13.4%
British Airways	81,437	0.9%	81,534	0.9%	84,600	0.9%	84,263	0.9%	89,723	0.9%
Continental Airlines [1]	-	0.0%	-	-	-	-	-	-	-	-
Delta Airlines	935,777	10.9%	904,734	10.4%	915,907	10.1%	992,498	10.2%	1,061,889	10.4%
Frontier Airlines	198,708	2.3%	184,020	2.1%	185,270	2.0%	150,595	1.6%	118,990	1.2%
Hawaiian Airlines	86,211	1.0%	94,283	1.1%	98,667	1.1%	96,963	1.0%	102,462	1.0%
Japan Airlines	-	-	18,249	0.2%	54,213	0.6%	59,372	0.6%	59,647	0.6%
JetBlue Airlines	147,051	1.7%	152,571	1.7%	173,282	1.9%	178,590	1.8%	182,605	1.8%
Midwest Airlines	-	-	-	-	-	-	-	-	-	-
Northwest Airlines	-	-	-	-	-	-	-	-	-	-
Southwest Airlines [2]	3,252,290	37.9%	3,253,225	37.2%	3,352,870	36.9%	3,736,688	38.5%	3,840,455	37.6%
Spirit	77,873	0.9%	164,189	1.9%	201,414	2.2%	252,219	2.6%	327,183	3.2%
Sun Country Airlines	15,889	0.2%	23,836	0.3%	27,276	0.3%	28,732	0.3%	34,886	0.3%
United Airlines [1]	1,266,007	14.8%	1,175,869	13.5%	1,167,661	12.9%	1,113,510	11.5%	1,165,565	11.4%
US Airways [3]	535,906	6.2%	560,738	6.4%	554,244	6.1%	523,034	5.4%	—	0.0%
Virgin America	166,326	1.9%	168,297	1.9%	156,729	1.7%	175,973	1.8%	211,075	2.1%
Volaris	45,589	0.5%	30,885	0.4%	23,285	0.3%	20,004	0.2%	21,343	0.2%
Westjet	25,535	0.3%	27,746	0.3%	31,805	0.4%	33,723	0.3%	34,516	0.3%
Allegiant	18,099	0.2%	15,466	0.2%	7,859	0.1%	7,406	0.1%	16,825	0.2%
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Air Carrier</b>	<b>8,153,091</b>	<b>95.1%</b>	<b>8,225,257</b>	<b>94.1%</b>	<b>8,596,062</b>	<b>94.6%</b>	<b>9,114,013</b>	<b>93.8%</b>	<b>9,587,857</b>	<b>93.9%</b>
<b>Regional</b>										
American Eagle	140,574	1.6%	82,377	0.9%	51,126	0.6%	-	-	—	-
Compass	-	-	-	-	8,563	0.1%	140,012	1.4%	249,723	2.4%
Express Jet Airlines	-	-	-	-	-	-	-	-	—	-
Horizon	5,900	0.1%	77,392	0.9%	84,000	0.9%	83,764	0.9%	64,758	0.6%
Mesa Airlines	12,766	0.1%	206	0.0%	-	-	-	-	—	-
Seaport Airlines	-	-	196	0.0%	1,128	0.0%	3,298	0.0%	2,292	0.0%
Skywest Airlines	263,144	3.1%	352,189	4.0%	341,365	3.8%	371,979	3.8%	301,592	3.0%
<b>Total Regional</b>	<b>422,384</b>	<b>4.9%</b>	<b>512,360</b>	<b>5.9%</b>	<b>486,182</b>	<b>5.4%</b>	<b>599,053</b>	<b>6.2%</b>	<b>618,365</b>	<b>6.1%</b>
<b>Total Passengers</b>	<b>8,575,475</b>	<b>100%</b>	<b>8,737,617</b>	<b>100%</b>	<b>9,082,244</b>	<b>100%</b>	<b>9,713,066</b>	<b>100%</b>	<b>10,206,222</b>	<b>100%</b>

EXHIBIT S-14  
GROWTH IN ENPLANED  
PASSENGERS - SDIA VS. U.S.

ENPLANED PASSENGERS - % CHANGE OVER PRIOR YEAR



This chart compares SDIA's year over year enplanement change compared to the US scheduled mainline service.

Source: San Diego County Regional Airport Authority and US Dept of Transportation's T-100 enplanement data.



**San Diego International Airport**

Number of runways	1
Length of runway (feet)	9,401 feet
Number of gates	51
Remote aircraft parking positions	24
Terminal rentable square footage	590,798
Airport Land Area	661 acres
On airport parking spaces (public)	3,784
Off airport parking spaces (public)	2,830

Source: San Diego County Regional Airport Authority

The parking spaces shown above are controlled and operated by the Airport Authority and reported on a weighted average basis.

The terminal rentable square footage is a weighted average figure that reflects square footage changes due to construction or remodeling.





## EXHIBIT S-16 POPULATION & PER CAPITA PERSONAL INCOME SAN DIEGO COUNTY

Calendar Year	Estimated Population <sup>[1]</sup>	% Change	Per Capita Personal Income <sup>[2]</sup>		Total Personal Income <sup>[2]</sup>	% Change
				% Change		
2007	3,100,132	1.1 %	45,911	7.3 %	142,330,160,252	8.5 %
2008	3,131,552	1.0 %	46,649	1.6 %	146,083,769,248	2.6 %
2009	3,173,407	1.3 %	42,325	(9.3)%	134,314,451,275	(8.1)%
2010	3,091,579	(2.6)%	43,104	1.8 %	133,259,421,216	(0.8)%
2011	3,118,876	0.9 %	48,066	11.5 %	149,911,893,816	12.5 %
2012	3,128,734	0.3 %	49,719	3.4 %	155,557,525,746	3.8 %
2013	3,150,178	0.7 %	49,778	0.1 %	156,809,560,484	0.8 %
2014	3,192,457	1.3 %	53,626	7.7 %	171,198,699,082	9.2 %
2015	3,227,496	1.1 %	55,273	3.1 %	178,393,386,408	4.2 %
2016	3,278,461	1.6 %	57,745	4.5 %	189,314,730,445	6.1 %

Sources:

[1] California Department of Transportation San Diego County, at January 1st of the calendar years shown. 2015 and 2016 population, per capita personal income and total personal income are estimates by the California Department of Transportation.

[2] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income. 2013 and 2014 per capita personal income are estimates by the California Department of Transportation. Prior year's 2011 and 2012 per capita personal income has been updated.

## EXHIBIT S-17 PRINCIPAL EMPLOYERS IN SAN DIEGO COUNTY

Employer	2016			Employer	2007		
	Local Employees	Rank	Percentage of Total Industry Employment		Local Employees	Rank	Percentage of Total Industry Employment
State of California	48,300	1	3.06%	U.S. Navy	49,000	1	3.23%
U.S. Federal Government	46,700	2	2.96%	U.S. Federal Government	38,700	2	2.55%
UC, San Diego	29,287	3	1.85%	State of California	37,100	3	2.45%
City of San Diego	19,400	4	1.23%	University of California, San Diego	24,790	4	1.64%
Sharp Health Care	16,896	5	1.07%	San Diego Unified School District	21,073	5	1.39%
Scripps Health	14,644	6	0.93%	City of San Diego	20,700	6	1.37%
Qualcomm Inc.	13,500	7	0.85%	County of San Diego	18,900	7	1.25%
Kaiser Foundation	7,535	8	0.48%	Sharp Health Care	13,269	8	0.88%
UC San Diego Health System	7,229	9	0.46%	U.S. Postal Service	11,611	9	0.77%
YMCA of San Diego County	5,487	10	0.35%	Scripps Health	10,313	10	0.68%
Total Civilian Labor Force in San Diego County (June 2007):			1,516,100				
Total Civilian Labor Force in San Diego County (June 2016):			1,580,100				

Source:

Employers - San Diego Journal Book of Lists: 2008 & 2016

Total Industry Employment - California Employment Development Dept.,  
Labor Market Info June 2016 - March 2007 Benchmark

EXHIBIT S-18  
SAN DIEGO COUNTY EMPLOYMENT  
BY INDUSTRY SECTOR

Industry Sectors	Industry Employment June 2015	% of Total
Trade, Transportation and Utilities	219,900	15.3%
Government	246,800	17.2%
Professional and Business Services	237,000	16.5%
Leisure and Hospitality	195,700	13.6%
Education and Health Services	198,800	13.8%
Manufacturing	106,500	7.4%
Construction and Mining	72,200	5.0%
Financial Activities	73,500	5.1%
Other Services	55,200	3.8%
Information	23,900	1.7%
Agriculture	9,500	0.7%
<b>Total</b>	<b>1,439,000</b>	

Source:

California Employment Development Dept., Labor Market Info:  
Industry Employment & Labor Force, March 2015 Benchmark.

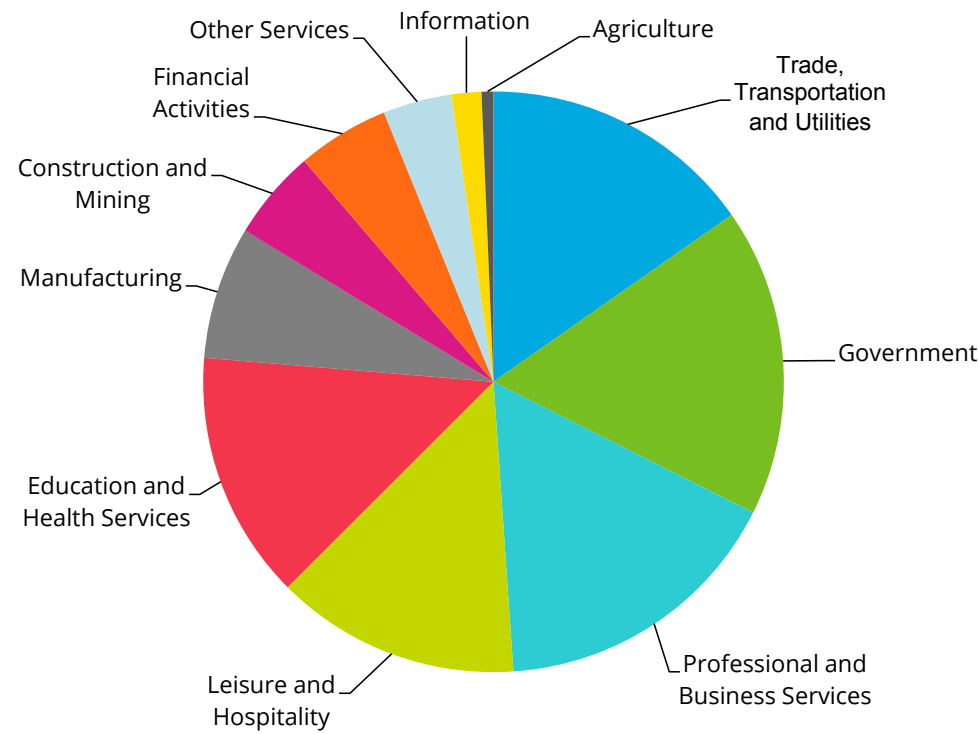


EXHIBIT S-19

LABOR FORCE, EMPLOYMENT & UNEMPLOYMENT RATES

Fiscal Years Ended June 30,

Year	Labor Force	Employment	Unemployment	Unemployment Rate	
				SD County	State
2007	1,542,445	1,471,600	70,900	4.6%	5.4%
2008	1,548,700	1,462,300	92,900	6.0%	7.2%
2009	1,554,100	1,406,100	151,300	9.7%	11.4%
2010	1,558,200	1,393,900	164,300	10.5%	12.4%
2011	1,583,700	1,419,400	164,300	10.4%	10.7%
2012	1,598,800	1,450,600	148,200	9.3%	10.7%
2013	1,596,000	1,470,900	125,100	7.8%	9.2%
2014	1,588,500	1,491,600	96,900	6.1%	8.9%
2015	1,565,900	1,487,900	77,900	5.0%	6.2%
2016	1,580,100	1,499,800	80,400	5.1%	5.7%

Source: California Employment Development Dept. Labor Market Information Division  
 Unemployment Rate and Labor Force, not seasonally adjusted





POINT OF ENTRY



Jan - Dec 2016

POINT OF ENTRY

GUS ERRO ARAS  
MATTHEW HAGG  
TIM CONWAY  
ST. WADSWORTH  
SCOTT'S CENTER  
OLIVIA VIVANCO  
CENTER FOR  
COMMUNITY SOLUTIONS  
KATE CLARK  
OSCAR ROMO  
RONNIE PHELLO  
THE ALA PROGET  
MICHAEL RUIZ  
CARLOS BUREO  
WAM DIAZ NOBLE  
CAT CHU PHILLIPS  
BHAVNA MEHTA



West End

EXHIBIT S-20  
DEBT SERVICE COVERAGE

<b>Senior Bonds</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>**2011(6)</b>
Revenues (1)	\$ 133,924,976	\$ 144,379,133	\$ 138,334,601	\$ 138,113,792	\$ 148,963,671
Operating and Maintenance Expenses	(103,942,210)	(114,375,096)	(115,221,068)	(116,275,132)	(117,100,946)
Net Revenues (2)	29,982,766	30,004,037	23,113,533	21,838,660	31,862,725
<b>Senior Bond Debt Service (3)</b>					
Principal	2,670,000	2,805,000	2,950,000	3,105,000	3,265,000
Interest	2,665,725	2,532,225	2,391,975	2,244,475	2,089,225
PFC Funds Applied to Senior Debt					
Total Debt Service for the Senior Bond	5,335,725	5,337,225	5,341,975	5,349,475	5,354,225
<b>Senior Bonds Debt Service Coverage (x)</b>	<b>5.62</b>	<b>5.62</b>	<b>4.33</b>	<b>4.08</b>	<b>5.95</b>
<b>Subordinate Debt</b>					
Subordinate Net Revenues (2)			\$ 17,771,558	\$ 16,489,185	\$ 26,508,500
Subordinate Annual Debt Service (4)					
Principal					715,000
Interest					2,971,984
Variable Rate Debt (5)			1,128,080	723,857	1,220,226
PFC Funds Applied to Debt Service					
Total Subordinate Annual Debt Service			\$ 1,128,080	\$ 723,857	\$ 4,907,210
<b>Subordinate Obligations Debt Service Coverage</b>			<b>15.75</b>	<b>22.78</b>	<b>5.40</b>
<b>Aggregate Debt</b>					
Aggregate Net Revenues			\$ 23,113,533	\$ 21,838,660	\$ 31,862,725
Aggregate Annual Debt Service					
Principal			2,950,000	3,105,000	3,980,000
Interest			2,391,975	2,244,475	5,061,209
Variable Rate Debt (5)			1,128,080	723,857	1,220,226
PFC Funds Applied to Debt Service					
Total Subordinate Annual Debt Service			\$ 6,470,055	\$ 6,073,332	\$ 10,261,435
<b>Aggregate Obligations Debt Service Coverage</b>			<b>3.57</b>	<b>3.60</b>	<b>3.11</b>

\*\* The increase in the 2011 debt service requirements is due to the a new bond issued October 2010.

- (1) Revenues are calculated pursuant to the provisions of the Master Senior Indenture and the (2)(2) Master Subordinate Indenture.
- (3) Debt service with respect to the Senior Bonds is calculated pursuant to the provisions of the Master Senior Indenture.
- (4) Subordinate Annual Debt Service is calculated pursuant to the provisions of the Master Subordinate Indenture.
- (5) Includes principal and interest.
- (6) Information regarding Subordinate Obligations Debt Service Coverage provided in connection with the first fiscal year for which Subordinate Annual Debt Service was due with respect to the 2010 Bonds. Subordinate Annual Debt Service for prior years consisted of debt service on the Authority's Subordinate Commercial Paper Notes and is not presented for Fiscal Years 2004-2010.





# EXHIBIT S-20 DEBT SERVICE COVERAGE

<b>Senior Bonds</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenues <sup>(1)</sup>	\$ 158,311,779	\$ 181,051,929	\$ 199,834,430	\$ 214,770,544	\$ 238,640,326
Operating and Maintenance Expenses	118,941,148	126,662,546	(136,604,105)	(142,781,639)	(151,327,220)
Net Revenues <sup>(2)</sup>	<u>\$ 39,370,631</u>	<u>\$ 54,389,383</u>	<u>\$ 63,230,325</u>	<u>\$ 71,988,905</u>	<u>\$ 87,313,106</u>
Senior Bond Debt Service <sup>(3)</sup>					
Principal	\$ 3,430,000	\$ -	\$ -	\$ 2,030,000	\$ 2,090,000
Interest	1,925,975	2,478,489	16,645,435	18,034,575	18,414,600
PFCs used to pay debt service	-	(714,077)	(7,140,301)	(8,669,966)	(9,490,326)
Total Debt Service for the Senior Bond	<u>\$ 5,355,975</u>	<u>\$ 1,764,412</u>	<u>\$ 9,505,134</u>	<u>\$ 11,394,609</u>	<u>\$ 11,014,274</u>
<b>Senior Bonds Debt Service Coverage (x)</b>	<b>7.35</b>	<b>30.83</b>	<b>6.65</b>	<b>6.32</b>	<b>7.93</b>
<b>Subordinate Debt</b>					
Subordinate Net Revenues <sup>(2)</sup>	<u>\$ 34,014,656</u>	<u>\$ 52,624,971</u>	<u>\$ 53,725,191</u>	<u>\$ 60,594,296</u>	<u>\$ 76,298,832</u>
Subordinate Annual Debt Service <sup>(4)</sup>					
Principal	\$ 980,000	\$ 1,000,000	\$ 5,785,000	\$ 8,665,000	\$ 9,000,000
Interest	6,599,760	26,194,616	27,069,283	26,853,179	26,435,600
Commercial Paper	1,077,867	5,519,872	6,446,951	6,736,945	6,760,189
PFCs used to pay debt service	-	(20,061,962)	(20,718,863)	(21,554,245)	(20,331,674)
Total Subordinate Annual Debt Service	<u>\$ 8,657,627</u>	<u>\$ 12,652,526</u>	<u>\$ 18,582,371</u>	<u>\$ 20,700,879</u>	<u>\$ 21,864,115</u>
<b>Subordinate Obligations Debt Service Coverage (x)</b>	<b>3.93</b>	<b>4.16</b>	<b>2.89</b>	<b>2.93</b>	<b>3.49</b>
<b>Aggregate Debt</b>					
Aggregate Net Revenues	\$ 39,370,631	\$ 54,389,383	\$ 63,230,325	\$ 71,988,905	\$ 87,313,106
Aggregate Annual Debt Service					
Principal	4,410,000	1,000,000	5,785,000	10,695,000	11,090,000
Interest	8,525,735	28,673,105	43,714,718	44,887,754	44,850,200
Variable Rate Debt (5)	1,077,867	5,519,872	6,446,951	6,736,945	6,760,189
PFC Funds Applied to Debt Service	-	(20,776,039)	(27,859,164)	(30,224,211)	(29,822,000)
Total Subordinate Annual Debt Service	<u>\$ 14,013,602</u>	<u>\$ 14,416,938</u>	<u>\$ 28,087,505</u>	<u>\$ 32,095,488</u>	<u>\$ 32,938,389</u>
<b>Aggregate Obligations Debt Service Coverage</b>	<b>2.81</b>	<b>3.77</b>	<b>2.25</b>	<b>2.24</b>	<b>2.65</b>



EXHIBIT S-21

DEBT SERVICE COVERAGE-

SERIES 2014 CFC BONDS

	2014	2015	2016
CFC Collections	\$ 27,545,001	\$ 32,464,843	\$ 33,207,946
Bond Funding Supplemental Consideration	-	-	-
Transfers from CFC Stabilization Fund	-	-	-
Interest Earnings <sup>1</sup>	204,194	295,726	332,761
Total Amounts Available	27,749,195	32,760,569	33,540,707
Rolling Coverage Fund Balance <sup>2</sup>	-	-	2,451,182
Total Amounts Available, plus Rolling Coverage Fund Balance	\$ 27,749,195	\$ 27,749,195	\$ 35,991,889
Series 2014 Debt Service Requirements	-	-	8,170,605
Coverage excluding Rolling Coverage Fund	N/A	N/A	4.11
Coverage including Rolling Coverage Fund	N/A	N/A	4.41

<sup>1</sup> Includes earnings on investments in the Senior Reserve Fund, the Rolling Coverage Fund and the CFC Surplus Fund.

<sup>2</sup> Includes amount on deposit in the Rolling Coverage Fund at the beginning of each Fiscal Year, up to an amount not to exceed 30% of the Series 2014 Debt Service Requirements for such Fiscal Year.



# EXHIBIT S-22 DEBT PER ENPLANED PASSENGER

Fiscal Year	Outstanding Bond Debt (1)	Outstanding Commercial Paper Debt	Capital Leases	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
2007	55,709,517	51,694,000	-	107,403,517	8,892,069	12.08
2008	52,812,246	49,430,000	-	102,242,246	9,389,327	10.89
2009	49,779,975	84,430,000	-	134,209,975	8,535,774	15.72
2010	46,602,704	164,430,000	377,172	211,409,876	8,453,886	25.01
2011	640,920,314	21,509,000	519,866	662,949,180	8,441,120	78.54
2012	635,307,968	20,729,000	361,641	656,398,609	8,575,475	76.54
2013	1,027,411,188	50,969,000	8,152,588	1,086,532,776	8,737,617	124.35
2014 (2)	1,327,897,591	44,884,000	7,810,927	1,380,592,518	9,082,244	152.01
2015	1,317,784,291	38,705,000	7,971,993	1,364,461,284	9,713,066	140.48
2016	1,302,846,043	32,581,000	7,717,734	1,343,144,777	10,206,222	131.60

Source: San Diego County Regional Airport Authority  
 (1) Outstanding Bond Debt includes unamortized bond premium  
 (2) Starting in 2014, Outstanding Bond Debt includes CFC Bond issuance



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY

COMPREHENSIVE  
**ANNUAL**  
FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2016 & 2015

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**SAN DIEGO**  
INTERNATIONAL AIRPORT

LET'S **GO.**

## **AUDIT COMMITTEE**

Meeting Date: **DECEMBER 5, 2016**

### **Subject:**

**Fiscal Year 2017 First Quarter Activities Report and Audit Recommendations  
Issued by the Office of the Chief Auditor**

### **Recommendation:**

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

### **Background/Justification:**

On October 2, 2003, the Charter of the Office of the Chief Auditor was instituted by Board approval establishing the role and requirements of the Office of the Chief Auditor (OCA). The Charter outlines the working relationship and responsibilities of the Chief Auditor to the Audit Committee and to the San Diego County Regional Airport Authority management.

As directed in the Charter of the Office of the Chief Auditor, the Chief Auditor shall annually report to the Board on audits completed, findings discovered, corrective action taken, and the implementation status on outstanding recommendations.

In accordance with the Charter, the Fiscal Year 2017 First Quarter Report (Attachment A) is submitted to the Audit Committee by the Chief Auditor. The report provides an account of activities accomplished by the Office of the Chief Auditor during the first quarter of Fiscal Year 2017 and details the status on recommendations still pending implementation.

### **Fiscal Impact:**

None

### **Authority Strategies:**

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

- |   |   |  |  |   |
|---|---|--|--|---|
| <input type="checkbox"/> Community Strategy | <input checked="" type="checkbox"/> Customer Strategy | <input type="checkbox"/> Employee Strategy | <input checked="" type="checkbox"/> Financial Strategy | <input checked="" type="checkbox"/> Operations Strategy |
|---|---|--|--|---|



**Environmental Review:**

- A. CEQA: 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. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

**Application of Inclusionary Policies:**

Not Applicable

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR

## FISCAL YEAR 2017 FIRST QUARTER REPORT



November 9, 2016

Fiscal Year 2017 First Quarter Report

Paul Robinson, Chair  
Audit Committee  
San Diego County Regional Airport Authority  
P.O. Box 82776  
San Diego, California 92138-2776

Dear Mr. Robinson:

The Office of the Chief Auditor (OCA) presents our Fiscal Year 2017 First Quarter Report. The report details both the audit and administrative activities of the OCA during the first quarter of Fiscal Year 2017, the resolutions of past audit findings, and information regarding the future plans of the OCA.

The First Quarter Report will be presented at the next Audit Committee meeting scheduled for November 21, 2016.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mark A. Burchyett". The signature is fluid and stylized, with a long horizontal stroke extending to the right.

Mark A. Burchyett  
Chief Auditor

## Audit Results

During the first quarter, the OCA began work, as authorized by the Audit Committee, on audits contained within the Fiscal Year 2017 Audit Plan while also completing work on audits contained within the Fiscal Year 2016 Audit Plan. In total, during the first quarter, the OCA issued eleven (11) audit reports. The audit reports issued during the quarter included five (5) recommendations for management, which mostly dealt with areas that could be improved upon regarding the management of contractors. The completed audits for the first quarter are listed in Figure 1 below.

*Figure 1: Audits Completed During the First Quarter of Fiscal Year 2017*

Audit	Report No.	Date	Type of Audit
Business and Travel Expenses	15004	7/11/2016	Internal Process
Airport Terminal Services, Inc.	16021	7/11/2016	Revenue Contract
Ricondo and Associates, Inc.	16010	7/12/2016	Expense Contract
Airport Security Management	16002	7/14/2016	Internal Process
SSP America, Inc. (FSP 6)	16026	7/14/2016	Revenue Contract
Agreements with Expenditure Limits Not to Exceed \$100,000	17033	8/11/2016	Internal Process
Duty Free Americas San Diego LLC	16028	8/24/2016	Revenue Contract
HSS, Inc.	17011	8/26/2016	Expense Contract
Board Member and Executive Business Expenses	17030	9/6/2016	Internal Process
AECOM Technical Services, Inc.	17009	9/9/2016	Expense Contract
Bradford Airport Logistics	17013	9/26/2016	Expense Contract

In addition to the completed audits, the Office of the Chief Auditor had ten (10) audits in progress as of September 30, 2016, as shown in Figure 2 below. Of the 10 audits, at the end of the quarter, two (2) draft audit reports were being developed or had been forwarded to the affected departments for review and comment.

*Figure 2: Audits In-Progress as of September 30, 2016*

Audit	Type of Audit
Aircraft Rescue and Fire Fighting (ARRF)	Expense Contract
Airline & Others (Ogden Aviation)	Revenue Contract
Avis Budget Car Rental, LLC	Revenue Contract
Enterprise Rent A Car Company (Enterprise, Alamo, National)	Revenue Contract
Jones Payne Group	Expense Contract
Orion Construction Corporation	Expense Contract
Process Control - Airport Development & Construction	Internal Process
SP Plus Corporation	Expense Contract
The Hertz Corporation	Revenue Contract
Transportation Network Company Reviews and Assistance	Internal Process

## Recommendation Follow-Up

To ensure that audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. For the quarter, the OCA tracked the implementation status of 14 recommendations that were issued during Fiscal Year 2017, or were outstanding as of June 30, 2016. As shown in Figure 3 below, six (6) of the recommendations have been completed or implemented while eight (8) remain outstanding.

See Appendix B for a complete listing of all outstanding recommendations and their status.

*Figure 3: Status of Recommendations as of September 30, 2016*

<b>Recommendations:</b>				
<b>Tracked</b>	<b>Completed</b>	<b>In Progress</b>	<b>Open</b>	<b>Not Accepted</b>
<b>14</b>	<b>6</b>	<b>8</b>	<b>0</b>	<b>0</b>

In tracking recommendations the OCA uses the following designations:

- **Completed:** This designation is used for recommendations that the OCA has determined to be adequately implemented or for recommendations where alternate action is taken that adequately addresses the risk identified.
- **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken. If adequate progress is not being made, it will be noted as such.
- **Open:** This category of recommendations have not yet been addressed. Usually, this designation is used when there has not been adequate time between report issuance and recommendation follow-up.
- **Not Accepted:** This designation is used for recommendations that an auditee does not accept; and, therefore, will not implement. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

In Fiscal Year 2016, we began to identify and measure an expected completion timeframe for each recommendation. Figure 4 below shows the status of recommendations issued along with our estimated implementation timeframe.

*Figure 4: Status of Recommendations with Estimated Implementation Timeframe*

<b>Estimated Completion Timeframe</b>	<b>Completed Within Estimate</b>	<b>Completed Outside Estimate</b>	<b>Outstanding</b>	<b>Total</b>
Zero to 6 Months	5	0	2	7
6 Months to 1 Year	0	1	3	4
Over 1 Year	0	0	3	3
<b>Total</b>	<b>5</b>	<b>1</b>	<b>8</b>	<b>14</b>

It appears that adequate progress is being made with the majority of recommendations. The OCA will continue its monthly tracking of their status. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse effect on the Authority.



## *Non-Audit Activities*

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Along with the audit activities detailed above, the Office of the Chief Auditor continues its involvement in several non-audit projects and activities. Specifically, the OCA was involved in the following:

### **Audit Committee:**

The Audit Committee met on September 6, 2016. The OCA prepared the meeting materials and coordinated the development of the Audit Committee's Fiscal Year Annual Report with the Committee Chair. During the September 6 meeting, the OCA presented its Fiscal Year 2016 Annual Activity Report and a revision to the OCA Fiscal Year 2017 Audit Plan. The next Audit Committee meeting is November 21, 2016.

### **Construction Audit Activity:**

During the first quarter of Fiscal Year 2017, Construction Audit activity, independent of the Fiscal Year Audit Plan, consisted of the continuation of the closeout audit of the Green Build. The review of the payments for the landside GMP with the Kiewit/Sundt Joint Venture has been completed and the remaining audit of closeout activities for this GMP should be completed during the second quarter of this fiscal year.

Through attendance at the Capital Improvement Committee meetings, Development Program meetings, Parking Plaza Stakeholders meetings, and other construction planning-related meetings, and, working closely with members of the Accounting and the Business & Financial Management Departments, the OCA Construction Auditor continues to provide assistance in ensuring that the Authority is meeting compliance requirements for ongoing and planned projects. Additionally, the OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team, Facilities Development team, and Authority Management, providing assistance and attending meetings specific to the aspects of the Authority's construction activity.

### **Ethics Compliance Program:**

During the quarter, there was little activity through the Ethics Hotline and the on-line Ethics Violation Form. A new ethics training program is in development, which will be rolled out to all departments of the Authority by the end of Fiscal Year 2017. A summary of the Ethics Program Hotline activities for the period July 1, 2016, through September 30, 2016, is provided in Appendix A.

### **Training:**

During the first quarter, OCA staff members attended a workshop for data analysis software, a regional Association of Local Government Auditors workshop, and numerous self-paced and internet based training courses.

## Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for Fiscal Year 2017, along with their current status, are detailed below in Figure 5.

*Figure 5: Status of Performance Measures as of September 30, 2016*

Performance Measure	Goal	Progress as of September 30, 2016
Percentage of the audit plan completed annually	100%	26%
Additional revenue/cost savings identified through audits	n/a	\$39,592
Percentage of staff time spent on audit activities	80% <sup>1</sup>	83%
Percentage of audits completed within budgeted time	80%	82%
Implementation of Recommendations	90%	43%

**Percentage of the audit plan completed annually:** This measure provides information on what has been accomplished regarding the planned audit projects for the year. To date the OCA has completed 26% of the plan and an additional 24% of the audit plan is currently in progress. We also have established quarterly goals for the completion of our audit plan. For the first quarter, we had a completion goal of 25% of the audit plan.

**Additional revenue/cost savings identified:** While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. During the first quarter of Fiscal Year 2017 we identified \$39,592 in additional revenue, as noted in Figure 6 below:

*Figure 6: Revenue and Cost savings Identified in FY 2016*

Audit	Revenue Identified	Revenue Collected
Duty Free Americas	\$39,592	\$0
<b>Total</b>	<b>\$39,592</b>	<b>\$0</b>

**Percentage of staff time spent on audit activities:** This measure helps ensure that the OCA spends an adequate amount of time on audit activities rather than administrative activities. To date, the OCA is over its current goal of 80%.

**Percentage of audits completed within budgeted time:** This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. For the fiscal year to date, the OCA is just over its goal, completing 82% of its projects within the budgeted time.

<sup>1</sup> This is the percentage of time staff spends on audit projects, construction audit activities, training, and the Ethics Program, vs. total staff time worked.

**Implementation of Recommendations:** This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, 6 of 14 recommendations were implemented. While the percentage of implemented recommendations is under our goal, we are on track to achieve the goal, with an aim to have 90% of our recommendations implemented within the year. Additionally, there have been no recommendations issued this fiscal year that have exceeded our estimated completion time.

## Going Forward

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For completion during the second quarter of Fiscal Year 2017, the OCA has targeted all of the audits currently in progress and four (4) additional audits. The completion of these audits will result in the accomplishment of 59% of the Fiscal Year 2017 Audit Plan. Figure 7 identifies the audits scheduled for completion in the second quarter.

*Figure 7: Audits Scheduled for Completion in the Second Quarter of Fiscal Year 2017*

Audit	Type of Audit
Aircraft Rescue and Fire Fighting (ARRF)	Expense Contract
Airline & Others (Ogden Aviation)	Revenue Contract
Airport Lost and Found	Internal Process
Avis Budget Car Rental, LLC	Revenue Contract
Enterprise Rent A Car Company (Enterprise, Alamo, National)	Revenue Contract
Fox Rent A Car	Revenue Contract
High Flying Foods San Diego (FSP 8)	Revenue Contract
Jones Payne Group	Expense Contract
Orion Construction Corporation	Expense Contract
Process Control - Airport Development & Construction	Internal Process
SP Plus Corporation	Expense Contract
Spa Didacus Inc. (RP 5)	Revenue Contract
The Hertz Corporation	Revenue Contract
Transportation Network Company Reviews and Assistance	Internal Process

## Ethics Hotline

July 1, 2016 – September 30, 2016

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
<b>General Workplace Concerns</b>					
Workplace Practices/Behavior	2	1	1	1	1



Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2016	OCA's Assessment	Estimated Completion Date
16-07	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16020, dated June 14, 2016, Midway Rent A Car, Inc.	18	Impact: 9 Probability: 9	The Business and Financial Management Department should request that the Accounting Department issue an invoice to Midway in the amount of \$435,783, for the underpayment of license fees due to the reclassification of non-airport revenue to airport revenue.	Discussions with Midway are continuing. Midway has been responsive in providing information for Authority Staff to review. Numerous meetings and discussions have been taking place. Midway has been asked to provide additional supplemental information which is anticipated this month (November). Business Management is working diligently to resolve this item prior to December 31, 2016.	In Progress	2nd Quarter FY17
16-04	INFORMATION & TECHNOLOGY SERVICES DEPARTMENT	Audit Report 16005, dated February 29, 2016, Information Technology Monitoring and Evaluation	17	Impact: 9 Probability: 8	Information & Technology Services Department should implement a proactive and systematic program for evaluating and monitoring compliance to IT cybersecurity policies.	I&TS has engaged a consultant to draft a scope of work to implement the NIST Cyber Security Framework. The Security Framework RFP process is expected to commence prior to 11/1/16.	In Progress	2nd Quarter FY17
17-02	RISK MANAGEMENT DEPARTMENT	Audit Report 16021, dated July 11, 2016, Airport Terminal Services, Inc.	16	Impact: 8 Probability: 8	The Risk Management Department should request ATS to provide a current certificate of insurance, and verify that the insurance limits comply with all requirements set forth within the License Agreement with the San Diego County Regional Airport Authority.	The certificates were received and upon review found to be in compliance. Further, Risk Management has implemented a new and more thorough vetting process.	Completed	N/A

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2016	OCA's Assessment	Estimated Completion Date																																
15-19	PROCUREMENT DEPARTMENT	Audit Report 15037, dated May 18, 2015, Procurement Card Program	15	Impact: 8 Probability: 7	Procurement should ensure that a fully trained backup is performing the full duties and responsibilities of the P-Card Program Analyst during extended absences. A formal training manual should be created and updated annually to address any new procedures or issues noted in the preceding year. The manual can then be used by the backup person to provide the annual training if the P-Card Analyst is not available.	The P-Card Program Analyst completed the desk manual and living document received final review.	Complete	N/A																																
15-31	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16018, dated December 23, 2015, DTG Operations, Inc., dba Thrifty and Dollar	14	Impact: 7 Probability: 7	Business and Financial Management should request that Accounting generate an invoice to DTG in the amount of \$35,847, as detailed below:  <b>License Fee and CFC Recalculation</b> <table><tr><td></td><td>Dollar</td><td>Thrifty</td><td>Total</td></tr><tr><td colspan="4"><b>Finding 1</b></td></tr><tr><td>License Fees</td><td>&lt;\$12,383&gt;</td><td>&lt;\$4,449&gt;</td><td>&lt;\$16,832&gt;</td></tr><tr><td colspan="4"><b>Finding 2</b></td></tr><tr><td>CFC</td><td>&lt;2,052&gt;</td><td>18,011</td><td>15,959</td></tr><tr><td colspan="4"><b>Finding 3</b></td></tr><tr><td>Non-Airport</td><td><u>27,476</u></td><td><u>9,244</u></td><td><u>36,720</u></td></tr><tr><td><b>Total</b></td><td><b>\$13,041</b></td><td><b>\$22,806</b></td><td><b>\$35,847</b></td></tr></table>		Dollar	Thrifty	Total	<b>Finding 1</b>				License Fees	<\$12,383>	<\$4,449>	<\$16,832>	<b>Finding 2</b>				CFC	<2,052>	18,011	15,959	<b>Finding 3</b>				Non-Airport	<u>27,476</u>	<u>9,244</u>	<u>36,720</u>	<b>Total</b>	<b>\$13,041</b>	<b>\$22,806</b>	<b>\$35,847</b>	DTG and Authority Staff are continuing to discuss the audited amount owed. It is anticipated to be resolved by December 2016.	In Progress	2nd Quarter FY17
	Dollar	Thrifty	Total																																					
<b>Finding 1</b>																																								
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17-04	AVIATION SECURITY & PUBLIC SAFETY DEPARTMENT	Audit Report 17011, dated August 26, 2016, HSS, Inc.	14	Impact: 7 Probability: 7	The Aviation Security & Public Safety Department should ensure that contract management and monitoring procedures include requiring HSS to submit a "schedule of billing details" with each invoice detailing the names, positions, date of work, hours worked, work performed (posts), compensation requested and the basis of calculation (rate), as required by the Agreements and to support the amounts billed. AVSEC/PS should perform verification between the information on the "schedule of billing details" and on the invoice to ascertain their consistency, and if any variance arises, require HSS to provide a description or an explanation of the variance, and make the necessary corrections on the invoice. A random verification of names, positions, and posts, should also be completed by AVSEC/PS to ensure that names, positions, and posts of the HSS employees invoiced are accurate.	The lack of billing detail by HSS, Inc. was due to a change in payroll systems by the contractor's corporate office. Since that change, staff has been working with local HSS management to rectify this problem; and has reached a resolution that will ensure the proper documentation as required by the Agreement moving forward.	Completed	N/A																																

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2016	OCA's Assessment	Estimated Completion Date
16-03	INFORMATION & TECHNOLOGY SERVICES DEPARTMENT	Audit Report 16005, dated February 29, 2016, Information Technology Monitoring and Evaluation	12	Impact: 6 Probability: 6	Information & Technology Services Department should take immediate measures to identify and protect data and systems by implementing comprehensive IT Cybersecurity policy.	Our Cyber Security Specialist has attended SANS Critical Security Controls Planning, Implementing, and Auditing training. This training has prepared him to plan the Critical Security Controls as documented by the Center for Internet Security (CIS). The ITS Information Security Policy is in progress and scheduled to be completed on 6/1/17.	In Progress	June 2017
16-06	AVIATION SECURITY & PUBLIC SAFETY DEPARTMENT	Audit Report 16039, dated June 7, 2016, Emergency Medical Technician-Paramedic Services - Expense for FY15	12	Impact: 6 Probability: 6	The Aviation Security & Public Safety Department should confer with the City of San Diego to identify the best method to remit the \$37,946 underpayment.	The Authority reimbursed the City for the underpayment immediately after it was identified.	Completed	N/A
15-29	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16030, dated December 8, 2015, NewZoom, Inc. dba ZoomSystems	11	Impact: 5 Probability: 6	Monitoring of requirements of each concessionaire lease agreement needs to be strengthened and well documented. Differences in processes used by concessionaires should be analyzed for adequacy to determine if they provide the outcome that the Authority is actually seeking. The pricing and product processes used by ZoomSystems appear to be reasonable and ones that can be easily monitored by the Authority, but the lease should be changed to reflect the processes used.	In the course of addressing this issue and processing the appropriate amendment; a discrepancy relating to Zoom's capital investment requirements was noted. Business Management staff has been working with Zoom to clarify its capital improvement obligations that are required to be addressed simultaneously with resolution of the items noted in the Audit. Zoom has been given through November to address these issues.	In Progress	2nd Quarter FY17

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2016	OCA's Assessment	Estimated Completion Date
16-08	PROCUREMENT DEPARTMENT/ AUTHORITY MANAGEMENT	Audit Report 16001, dated June 21, 2016, Contract Management	11	Impact: 6 Probability: 5	Authority Management should ensure that a complete formal contract management procedure manual is in place in all departments to ensure compliance with Board policies, consistent practices, and proper internal controls. Manuals should be reviewed and updated as needed, on a regular basis, preferably at least every two years.	Procurement is currently researching best practices from various industries that incorporate formal and informal contract management tools and strategies.	In Progress	Unknown
17-03	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16028, dated August 24, 2016, Duty Free Americas San Diego, LLC	11	Impact: 6 Probability: 5	The Business & Financial Management Department (BFM) should request that the Accounting Department generate an invoice for Duty Free Americas for the \$39,592 underpayment. Additionally, BFM should calculate and invoice Duty Free Americas for any underpaid rent due to the incorrect MAG during the months following the audit period.	Duty Free Americas has made payment consistent with the Audit.	Completed	N/A
17-05	AVIATION SECURITY & PUBLIC SAFETY DEPARTMENT	Audit Report 17011, dated August 26, 2016, HSS, Inc.	10	Impact: 6 Probability: 4	Aviation Security and Public Safety (AVSEC/PS) should ensure that their contract management and monitoring procedures include a requirement for HSS to revise their invoice to include the certification declaration and signature block at the end of the billing statement or invoice.	AVSEC/PS spoke directly with HSS, Inc. senior management to ensure they were aware of the requirements of the Agreement. Additionally, they were notified that future invoices would not be processed without the requisite certification.	Completed	N/A
16-05	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16004, dated March 30, 2016, Grant & Non-Airline Revenue Management	9	Impact: 5 Probability: 4	The Business and Financial Management Department (BFM) should expand and enhance documentation pertaining to the grant management program. In addition, the current grant manual should be updated and reviewed and formal training should be conducted periodically, to ensure consistent knowledge of procedures and regulations and to provide guidance for employee(s), including required documents needed by the employee(s) to complete their job duties, as well as the assignment of responsibility for tasks and actions.	Training sessions are being conducted and the manual is on track to be completed in December as originally planned.	In Progress	2nd Quarter FY17

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2016	OCA's Assessment	Estimated Completion Date
17-01	ACCOUNTING DEPARTMENT	Audit Report 15004, dated July 11, 2016, Business and Travel Expenses	9	Impact: 5 Probability: 4	The Accounting Department should continue with their current review activities, but, consider reminding employees of the need for President/CEO approval of in-town meals with contractors, proper use of P-cards when holding hotel room reservations, and of the requirement for submitting reimbursement of unused travel advances.	The recommendation will be integrated in to the required Annual Employee Business and Travel Expense training.	In Progress	3rd Quarter FY17

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.





Fiscal Year 2017  
First Quarter Activities Report  
and Audit Recommendations  
Issued by the Office of the Chief Auditor

July 1, 2016, through September 30, 2016

Audit Committee Meeting  
December 5, 2016

# Presentation Overview

## 1st Quarter Report

- Audit Activities
- Recommendation Follow-up
- Performance Measures
- Summary of Ethics Inquiries

# Audit Activities

- **Completed 11 Audits**
  - Internal Process: 4
  - Expenditure Contract: 4
  - Revenue Contract: 3
- **Ten (10) audits were in progress as of September 30, 2016**
- **Audit Results**
  - Issued 5 Recommendations during the 1st Quarter

# Audits in Progress as of November 21, 2016

Audit	Type of Audit	Status as of November 21, 2016
Aircraft Rescue and Fire Fighting (ARRF)	Expense	Fieldwork
Airline & Others (Ogden Aviation)	Revenue	Fieldwork
Avis Budget Car Rental, LLC	Revenue	Draft Report
Enterprise Rent A Car Company (Enterprise, Alamo, National)	Revenue	Fieldwork
Jones Payne Group	Expense	Fieldwork
Orion Construction Corporation	Expense	Draft Report
Process Control – Airport Development & Construction	Internal	Fieldwork
SP Plus Corporation	Expense	Report Issued
The Hertz Corporation	Revenue	Draft Report
Transportation Network Company Reviews and Assistance	Internal	Ongoing

# Recommendation Follow-Up

Status as of September 30<sup>th</sup> :

Tracked	Completed	In Progress	Open	Not Accepted
14	6	8	0	0



# Fiscal Year 2017 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	26%
Percentage of the audit plan completed during 1 <sup>st</sup> Quarter	25%	26%
Additional revenue/cost savings identified through audits	n/a	\$39,592
Percentage of staff time spent on audit activities	80%	83%
Percentage of audits completed within budgeted time	80%	82%
Implementation of Recommendations	90%	43%

# Summary of Ethics Inquiries

July 1, 2016, through September 30, 2016

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
General Workplace Concerns					
Workplace Practices/Behavior	2	1	1	1	1

# QUESTIONS?