Annual Report
for the Fiscal Year Ended June 30, 2011

Relating to:

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

$56,270,000 Airport Revenue Refunding Bonds, Series 2005

$313,150,000 Subordinate Airport Revenue Bonds, Series 2010A (Non-Amt)

$44,055,000 Subordinate Airport Revenue Bonds, Series 2010B (Non-Amt)

$215,360,000 Subordinate Airport Revenue Bonds, Series 2010C (Federally Taxable – Build America Bonds – Direct Payment To Issuer)

Dated as of:

December 21, 2011

This Annual Report (this "Report") is being furnished by the San Diego County Regional Airport Authority (the "Authority") to provide updated financial and operating information of the Authority of the type included in the final official statements for the:

- $56,270,000 aggregate principal amount of Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds");
- $313,150,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010A (the "Series 2010A Bonds");
- $44,055,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010B (the "Series 2010B Bonds");
- $215,360,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010C (the "Series 2010C Bonds" and, collectively with the Series 2010A Bonds and Series 2010B Bonds, the "Series 2010 Bonds"). The Series 2005 Bonds and the Series 2010 Bonds are referred to in this Report as the "Bonds."

This Report is provided pursuant to covenants made by the Authority in connection with the issuance of: (i) the Series 2005 Bonds pursuant to that certain Continuing Disclosure Certificate of the Authority dated November 9, 2005 (the "2005 Continuing Disclosure Certificate") and (ii) the Series 2010 Bonds pursuant to that certain Continuing Disclosure Certificate of the Authority dated October 5, 2010 (the "2010 Continuing Disclosure Certificate" and, together with the 2005 Continuing Disclosure Certificate, the "Continuing Disclosure Certificates").

Official Statements and Prior Reports

For further information and a more complete description of the Authority and the Bonds, reference is made to the Official Statement for the Series 2005 Bonds (the "2005 Official Statement"), the Official Statement for the Series 2010 Bonds (the "2010 Official Statement") and the Authority's previous Continuing Disclosure Reports beginning with the report for the Fiscal Year ended June 30, 2006 (the "Prior Reports"), respectively, each of which are incorporated by reference in this Report and all of which speak only as of their respective dates. The 2005 Official Statement and the 2010 Official Statement are together referred to in this Report as the "Official Statements." Capitalized terms used but not defined in this Report have the meanings given to them in the Official Statements and the Continuing Disclosure Certificates.

This Report contains financial and operating information updating certain information contained in the Official Statements issued in conjunction with the Bonds. Reference is made to the Authority's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011, including the Financial Report and Independent Auditor's Report included therein (collectively, the "CAFR"), a copy of which is filed with and hereby made part of this Report. Due to its date of publication, certain information contained in this Report, including information concerning prior years, has been updated and is more current than some of the information contained in the CAFR, previous audited financial statements and Prior Reports of the Authority, including, but not limited to, the unaudited information therein.

Pursuant to the Continuing Disclosure Certificates, the Authority is obligated to provide only the information specified therein. The tables contained in this Report reference and update tables in the Official Statements. To the extent the Authority provides information in this Report that the Authority is not obligated under the Continuing Disclosure Certificates to present or update, such as that contained in the section hereof entitled "Recent Developments," the Authority is not obligated to present or update such information in future annual reports.

The Bonds are special obligations of the Authority, payable solely from and secured by a pledge of net revenues derived by the Authority from the operations of the Airport System and certain limited funds and accounts held by the trustee under the Indenture. None of the properties of the airport system is subject to any mortgage or other lien for the benefit of the owners of the Bonds, and neither the full faith and credit nor the taxing power of the Authority (if any), the City of San Diego (the "City"), the County of San Diego, the State of California or any political subdivision or agency of the State of California is pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

By providing the information in this Report, the Authority does not imply or represent (a) that all information provided in this Report is material to investors' decisions regarding investment in the Bonds, (b) the completeness or accuracy of any financial, operational or other information not included in this Report or in the Official Statements, (c) that no changes, circumstances or events have occurred since the end of the Fiscal Year ended June 30, 2011 (other than as contained in this Report), or (d) that no other information exists which may have a bearing on the Authority's financial condition, the security for the Bonds or an investor's decision to buy, sell or hold the Bonds.

No statement contained in this Report should be construed as a prediction or representation about future financial performance of the Authority. Historical results presented in this Report, including the historical financial and enplanement figures contained in this Report, may not be indicative of future operating results.

* * *

Recent Developments

Airline Bankruptcies

On November 29, 2011, AMR Corporation, the parent company of American Airlines and American Eagle, and certain of its United States-based subsidiaries, including American Airlines and American Eagle (collectively, "American"), filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. American has announced that its operations will conduct business as usual, including operating flights and paying suppliers for goods and services received during the reorganization process. American Airlines is responsible for approximately 7.8%, and American Eagle is responsible for approximately 1.8%, of passenger enplanements at San Diego International Airport ("SDIA"). In the past, certain airline bankruptcies have resulted in reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. It is not possible to predict the impact on SDIA of the recent, potential and any future bankruptcies, liquidations or major restructurings of American or other airlines. For more information regarding the effect of airline bankruptcies generally, see "CERTAIN INVESTMENT CONSIDERATIONS – Bankruptcy by Airlines and Concessionaries" in the 2010 Official Statement.

Pension and Retirement Plans

The information in this paragraph relates to the Authority's defined benefit plan and is derived from the most recent actuarial valuation of the Authority Pension Plan, dated as of February 2011, performed by Cheiron, Inc. (the "Actuarial Valuation") and the CAFR. Based on the Actuarial Valuation, for the Fiscal Year ending June 30, 2012, the Authority's annual required contribution calculated in compliance with applicable GASB standards is estimated to be approximately $3.9 million (assuming the annual required contribution is paid at the beginning of Fiscal Year 2012). The actuarial valuation percentage does not include a fixed additional percentage applied to the employees' salary ranging from 7.0% to 8.5%. Because of this fixed additional percentage, the actual contribution is significantly higher than $3.9 million. Based on the contribution rate provided in the Actuarial Valuation, and the fixed additional contribution percentage, the Authority has budgeted approximately $6.9 million for the Authority's Fiscal Year ending June 30, 2012 annual required contribution. For the Fiscal Year ended June 30, 2011, the Authority's annual required contribution calculated in compliance with applicable GASB standards was approximately $6.3 million. The Authority contributed, to SDCERS, approximately $6.3 million for the Fiscal Year ended June 30, 2011 and approximately $9.6 million (including a special one-time contribution of approximately $4.6 million) for the Fiscal Year ended June 30, 2010. In each of these Fiscal Years, the Authority's contribution was equal to 100% of its annual required contribution, as calculated by SDCERS and its actuaries, and the fixed additional percentage. As of June 30, 2010, the Authority's unfunded actuarial liability was approximately $3.0 million and as of June 30, 2009, the Authority's unfunded actuarial liability was approximately $8.9 million. As of June 30, 2010, the SDCERS' ratio of actuarial value of assets to actuarial liabilities was approximately 96.0% and as of June 30, 2009, the SDCERS' ratio of actuarial value of assets to actuarial liabilities was approximately 86.9%.

The information in this paragraph is derived from the CAFR and relates to the Authority's other post-employment benefit plan pursuant to the Authority's agreement with the California Employer's Retiree Benefit Trust ("CERBT") fund administered by CalPERS. For the Fiscal Year ended June 30, 2010, the Authority's annual required contribution calculated in compliance with applicable GASB standards was approximately $1.8 million and for the Fiscal Year ended June 30, 2009, the Authority's annual required contribution calculated in compliance with applicable GASB standards was approximately $1.7 million. The Authority contributed to the CERBT fund approximately $1.8 million for the Fiscal Year ended June 30, 2010 and approximately $1.7 million for the Fiscal Year ended June 30, 2011. In each of these Fiscal Years, the Authority's contribution was equal to 105.3% and 100% of its annual required contribution as calculated by CalPERS and its actuaries, respectively. As of June 30, 2010, the Authority's unfunded actuarial liability was approximately $9.7 million and as of June 30, 2009, the Authority's unfunded actuarial liability was approximately $9.5 million. As of June 30, 2010, the ratio of actuarial value of assets to actuarial liabilities was approximately 31.6% and as of June 30, 2009, the ratio of actuarial value of assets to actuarial liabilities was approximately 21.9%.

The Authority's benefits costs vary from year to year, depending on, among other things, the annual contribution rate determined by SDCERS, CalPERS and their actuaries, the number of the Authority's employees covered and the retirement benefits accruing to those employees. Due to smoothing methodologies, certain investment losses may not have not been recognized in the determination of Authority's unfunded actuarial liabilities. Contribution rates are subject to change due to changes in market conditions, assumptions and funding methodologies. The Authority's unfunded actuarial liabilities and increases in the costs of providing retirement and health subsidy benefits may require the Authority to make substantial contributions to SDCERS in the future and may adversely affect the Authority's financial condition. Factors beyond the Authority's control, including, but not limited to, the interest rate environment and returns on SDCERS plan assets, may affect the Authority's retirement and health subsidy benefit expenses and may increase the Authority's related funding obligations. The Authority expects to be required to make substantial contributions to SDCERS in the future to fund the Authority's unfunded actuarial liabilities.

Investors are cautioned that information about SDCERS and CalPERS, including unfunded actuarial liabilities, funded ratios and calculations of required contributions, are "forward looking" information. Such "forward looking" information reflects the judgment of SDCERS and CalPERS and their actuaries as to the amount of assets that SDCERS and CalPERS will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Additional information regarding SDCERS' assumptions, plan details and investment of plan assets can be found in the "San Diego City Employees' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010" and the Actuarial Valuation (together, the "SDCERS Reports"), both of which are available on SDCERS' website. Additional information regarding CalPERS' assumptions, plan details and investment of plan assets can be found in the "California Public Employees' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010" (the "CalPERS Report"). The Authority is relying upon, and has not independently confirmed or verified, the accuracy or completeness of the SDCERS Reports, CalPERS Report or other information incorporated by reference therein, nor any events subsequent to the dates of these documents.

Pending Claims or Litigation

From time to time, the Authority is a party to litigation and is subject to claims arising out of its normal course of business and operations. Summaries of notable litigation and claims relating to the Authority are provided in Note 12 of the CAFR, and while the Authority cannot predict the new exposure to the Authority with respect to these matters, or the possibility or remoteness of any outcome in these matters, the Authority does not reasonably expect that these matters or any other pending litigation relating to the Authority, SDIA or the Authority's operations or business will have a material impact on the Authority's revenues or the operation of SDIA.

Investment Agreement Downgrade

On December 1, 2011 the Authority received notice that on November 30, 2011 the credit rating of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("Assured") was downgraded by S&P to "AA-." Assured is the counterparty in connection with a Collateralized Investment Agreement between FSA Capital Management Services LLC (as predecessor in interest to Assured) and The Bank of New York Trust Company, N.A. (the "Investment Agreement"). The Investment Agreement was entered into in connection with the funding of the reserve fund for the 2005 Bonds. If Assured were to fail to maintain a credit rating of "A3" by Moody's, "A-" by S&P or "A-" by Fitch, the Investment Agreement would not comply with certain requirements of the indenture for the 2005 Bonds relating to investment agreements generally and the Investment Agreement could, among other things, be terminated. The downgrade of Assured by S&P has not triggered these consequences.

Updated Tables

Following are updated tables provided pursuant to the Certificate.

As of June 30, 2011, the Authority estimated future rental commitments under the Authority's lease agreements to be as follows.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FUTURE RENTAL COMMITMENTS
AS OF JUNE 30, 2011*

Fiscal Year Ending	**Rental Payments**
2012	$ 11,428,105
2013	11,382,352
2014	10,741,176
2015	10,100,000
2016	10,100,000
Total	$ 53,751,633
Five-Fiscal-Year Periods	
2017-2021	$ 50,500,000
2022-2026	50,500,000
2027-2031	50,500,000
2032-2036	50,500,000
2037-2041	50,500,000
2042-2046	50,500,000
2047-2051	50,500,000
2052-2056	50,500,000
2057-2061	50,500,000
2062-2066	50,500,000
2067-2069	25,250,000
Total	$ 530,250,000

* Shown as Table 1 "Future Rental Commitments" in the 2005 Official Statement and as Table 3 "Future Rental Commitments" in the 2010 Official Statement.

Source: San Diego County Regional Airport Authority

The following table sets forth the air carriers serving the Authority as of June 30, 2011.

SAN DIEGO INTERNATIONAL AIRPORT
AIR CARRIERS SERVING
SAN DIEGO INTERNATIONAL AIRPORT*[(1)]
AS OF JUNE 30, 2011

Scheduled U.S. Carriers	Foreign Flag Carriers	All-Cargo Carriers
Alaska Airlines	Air Canada	ABX Air, Inc
Allegiant	British Airways	Ameriflight
American Airlines[(2)]	WestJet	Air Transport International, LLC
American Eagle Airlines[(2),(3)]		Federal Express
Continental Airlines[(4)]		United Parcel Service
Delta Air Lines		West Air, Inc.
Frontier Airlines[(5)]		
Hawaiian Airlines		
JetBlue Airways		
Mesa Airlines[(6)]		
Sun Country Airlines		
SkyWest Airlines[(7)]		
Southwest Airlines[(8)]		
Republic Airlines[(9)]		
United Airlines[(4)]		
US Airways		
Virgin America		

* Shown as Table 2 "Air Carriers Serving San Diego International Airport" in the 2005 Official Statement and as Table 4 "Air Carriers Serving San Diego International Airport" in the 2010 Official Statement.
(1) For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table.
(2) On November 29, 2011, American filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. For more information, please see "Recent Developments – Airline Bankruptcies" above.
(3) An affiliate of and doing business as American Airlines.
(4) In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.
(5) On November 8, 2011, Republic Airways Holdings, which is the airline holding company that owns Frontier Airlines and Republic Airlines, announced that it planned to sell Frontier Airlines.
(6) An affiliate of and doing business as US Airways.
(7) An affiliate of and doing business as United Express and Delta Connection.
(8) In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran. The acquisition has closed. Southwest and AirTran will operate as separate airlines until they receive a single operating certificate.
(9) An affiliate of and doing business as Frontier Airlines.
Source: San Diego County Regional Airport Authority

The following table sets forth the total domestic and international enplanements at SDIA for the last five Fiscal Years.

SAN DIEGO INTERNATIONAL AIRPORT
TOTAL ENPLANEMENTS*
FISCAL YEARS 2007-2011

	Domestic		International(1)		Total Enplanements	
Fiscal Year	**Enplanements**	**Percent of Total**	**Enplanements**	**Percent of Total**	**Enplanements**	**Percent Change**
2007	8,797,153	98.9%	94,916	1.1%	8,892,069	--
2008	9,302,073	99.1	87,254	0.9	9,389,327	5.6%
2009	8,479,221	99.3	56,553	0.7	8,535,774	(9.1)
2010	8,339,147	98.6	114,739	1.4	8,453,886	(1.0)
2011	8,316,322	98.5	124,798	1.5	8,441,120	(0.2)

* Shown as Table 5 "Total Enplanements" in the 2010 Official Statement. Not included in the 2005 Official Statement.
(1) International enplanements include enplanements by foreign air carriers serving SDIA, as well as periodic international enplanements reported by domestic air carriers serving SDIA.
Source: San Diego County Regional Airport Authority

The following table sets forth total revenue operations (landings and takeoffs) and total enplaned and deplaned passengers at SDIA for Fiscal Years 2007 through 2011.

SAN DIEGO INTERNATIONAL AIRPORT
AIR TRAFFIC DATA*
FISCAL YEARS 2007-2011

Fiscal Year	Total Operations	Operations Growth	Total Passengers(1)	Passenger Growth
2007	225,444	--	17,753,839	--
2008	240,289	6.6%	18,771,550	5.7%
2009	208,783	(13.1)	17,073,818	(9.0)
2010	194,509	(6.8)	16,917,595	(0.9)
2011	186,181	(4.3)	16,868,732	(0.3)

* Shown as Table 3 "Air Traffic Data" in the 2005 Official Statement and as Table 6 "Air Traffic Data" in the 2010 Official Statement.
(1) Enplaned and deplaned passengers.
Source: San Diego County Regional Airport Authority

The following table sets forth information concerning cargo traffic (enplaned and deplaned cargo) over the last five Fiscal Years.

SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL ENPLANED AND DEPLANED
FREIGHT AND U.S. MAIL CARGO
(IN TONS)
FISCAL YEARS 2007-2011*

Fiscal Year	Freight	Annual Percentage Change	U.S. Mail	Annual Percentage Change	Total	Annual Percentage Change
2007	157,478	(0.5)%	33,566	7.3%	191,044	0.8%
2008	128,456	(18.4)	16,067	(52.1)	144,523	(24.4)
2009	104,750	(18.5)	16,032	(0.2)	120,782	(16.4)
2010	108,823	3.9	16,690	4.1	125,513	3.9
2011	113,160	4.0	16,801	0.7	129,961	3.5

* Shown as Table 5 "Historical Mail, Freight and Express Air Cargo" in the 2005 Official Statement and as Table 7 "Historical Enplaned and Deplaned Freight and U.S. Mail Cargo" in the 2010 Official Statement.
Source: San Diego County Regional Airport Authority.

The following table presents total enplanements for each air carrier serving SDIA for the last five Fiscal Years.

[Remainder of page intentionally left blank.]

SAN DIEGO INTERNATIONAL AIRPORT
ENPLANEMENTS BY AIR CARRIERS
(RANKED ON 2011 RESULTS)*[(1),(2)]

Air Carrier	2007	2007 Percent Share	2008	2008 Percent Share	2009	2009 Percent Share	2010	2010 Percent Share	2011	2011 Percent Share
Southwest[(3)]	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%
Delta	920,724	10.4	982,828	10.5	890,811	10.4	900,510	10.7	919,323	10.9
United[(4)]	990,725	11.1	978,816	10.4	927,023	10.9	920,960	10.9	878,307	10.4
American[(5)]	873,624	9.8	808,790	8.6	735,067	8.6	704,909	8.3	658,752	7.8
US Airways	674,640	7.6	631,049	6.7	563,392	6.6	512,558	6.1	523,378	6.2
Alaska	536,784	6.0	498,169	5.3	428,515	5.0	435,722	5.2	514,498	6.1
Continental[(4)]	503,189	5.7	520,856	5.5	503,242	5.9	507,443	6.0	496,100	5.9
Frontier[(6)]	231,149	2.6	274,689	2.9	212,069	2.5	196,628	2.3	219,008	2.6
Jet Blue	151,984	1.7	224,205	2.4	235,199	2.8	167,031	2.0	141,684	1.7
Virgin America	--	--	57,292	0.6	155,649	1.8	151,110	1.8	133,377	1.6
Hawaiian	154,932	1.7	160,939	1.7	100,626	1.2	90,874	1.1	98,887	1.2
Air Canada	55,398	0.6	55,031	0.6	27,255	0.3	46,959	0.6	58,539	0.7
Sun Country Airlines	45,931	0.5	44,454	0.5	35,885	0.4	24,984	0.3	24,175	0.3
AirTran Airways[(3)]	7,983	0.1	97,937	1.0	66,475	0.8	37,530	0.4	17,978	0.2
British Airways	--	--	--	--	--	--	--	--	6,912	0.1
Aeromexico[(7)]	39,518	0.4	32,223	0.3	27,772	0.3	24,335	0.3	--	--
Aloha	38,418	0.4	33,620	0.4	--	--	--	--	--	--
Other	8,128	0.1	47,257	0.5	25,457	0.3	51,541	0.6	37,776	0.4
Total Air Carrier	8,339,558	93.8	8,754,541	93.2	8,056,527	94.4	7,956,178	94.1	8,006,625	94.9
Regional										
SkyWest – United Express[(8)]	161,956	1.8	140,502	1.5	136,760	1.6	178,386	2.1	179,547	2.1
American Eagle[(5), (9)]	275,087	3.1	238,147	2.5	232,289	2.7	207,272	2.5	155,421	1.8
SkyWest – Delta Connection[(8)]	55,646	0.6	36,610	0.4	66,783	0.8	93,380	1.1	92,818	1.1
Mesa[(10)]	42,219	0.5	17,098	0.2	7,381	0.1	18,670	0.2	6,709	0.1
Express Jet[(11)]	17,603	0.2	202,429	2.2	36,034	0.4	--	--	--	--
Total Commuter	552,511	6.2	634,786	6.8	479,247	5.6	497,708	5.9	434,495	5.1
Total Enplanements	8,892,069	100.0%	9,389,327	100.0%	8,535,774	100.0%	8,453,886	100.0%	8,441,120	100.0%

* Shown as Table 4 "Historical Airline Enplanements" in the 2005 Official Statement and as Table 8 "Enplanements by Air Carriers" in the 2010 Official Statement.

(1) For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the activity for the airlines that are now a part of the surviving airline is included in the information presented.

(2) Totals may not add due to rounding.

(3) In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran. The acquisition has closed. Southwest and AirTran will operate as separate airlines until they receive a single operating certificate.

(4) In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.

(5) On November 29, 2011, American filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. For more information, please see "Recent Developments – Airline Bankruptcies" above.

(6) On November 8, 2011, Republic Airways Holdings, which is the airline holding company that owns Frontier Airlines and Republic Airlines, announced that it planned to sell Frontier Airlines. Republic Airways is an affiliate of and doing business as Frontier Airlines.

(7) Ceased operating at SDIA in May, 2010.

[8] An affiliate of and doing business as United Express and Delta Connection.
[9] An affiliate of and doing business as American Airlines.
[10] An affiliate of and doing business as US Airways.
[11] Express Jet initiated scheduled service from SDIA in May 2007 and ceased scheduled service from SDIA in September 2008.
Source: San Diego County Regional Airport Authority

The following table sets forth the total revenue landed weight for the 15 largest air and cargo carriers serving SDIA for the last five Fiscal Years, ranked on Fiscal Year 2011 results.

SAN DIEGO INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT[*(1),(2)]
FISCAL YEARS 2007-2011
(TOP 15 RANKED ON FISCAL YEAR 2011 RESULTS)
(IN THOUSANDS OF LBS.)

Airline	2007	2008	2009	2010	2011	2011% of Total
Southwest[3]	3,956,170	4,416,996	4,415,780	4,068,974	4,001,530	37.7%
United[4]	1,270,371	1,222,906	1,148,637	1,249,030	1,075,569	10.1
Delta	1,124,244	1,173,864	1,007,769	1,101,367	1,062,254	10.0
American[5]	961,143	890,796	848,513	766,151	672,059	6.3
US Airways[6]	391,358	713,030	684,354	626,510	603,439	5.7
Alaska	668,390	612,282	535,410	511,813	595,238	5.6
Continental[4]	533,322	538,786	521,842	514,981	507,803	4.8
Federal Express	456,152	447,636	402,665	400,303	421,239	4.0
SkyWest[7]	246,559	195,777	219,416	176,862	338,813	3.2
Frontier[8]	283,898	287,387	237,274	227,848	249,492	2.4
American Eagle[5],[9]	321,712	280,234	280,413	254,088	174,888	1.6
Virgin America	--	3,122	221,333	205,348	173,686	1.6
JetBlue	175,333	288,239	297,340	201,071	167,369	1.6
Hawaiian	211,840	235,200	137,145	121,600	134,080	1.3
United Parcel Services	125,822	128,880	127,900	118,874	120,158	1.1
Others	1,047,643	1,066,356	410,967	348,047	308,543	2.9
Total	11,773,957	12,501,491	11,496,758	10,892,867	10,606,160	100%
Annual % Change	--	6.2%	(8.0%)	(5.3%)	(2.6%)	

___

[*] Shown as Table 6 "Total Revenue Landed Weight" in the 2005 Official Statement and as Table 9 "Total Revenue Landed Weight" in the 2010 Official Statement.

[(1)] For those airlines that were party to a completed merger or acquisition and operate under a single FAA certificate, only the surviving entity is presented in this table. However, the activity for the airlines that are now a part of the surviving airline is included in the information presented.

[(2)] Totals may not add due to rounding.

[(3)] In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran. The acquisition has closed. Southwest and AirTran will operate as separate airlines until they receive a single operating certificate.

[(4)] In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.

[(5)] On November 29, 2011, American filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. For more information, please see "Recent Developments – Airline Bankruptcies" above.

[(6)] Includes figures for Mesa Airlines, an affiliate of and doing business as US Airways.

[(7)] An affiliate of and doing business as United Express and Delta Connection.

[(8)] On November 8, 2011, Republic Airways Holdings, which is the airline holding company that owns Frontier Airlines and Republic Airlines, announced that it planned to sell Frontier Airlines. Republic Airways is an affiliate of and doing business as Frontier Airlines.

[(9)] An affiliate of and doing business as American Airlines.

Source: San Diego County Regional Airport Authority

The following table sets forth a summary of the Authority's investments as of June 30, 2011.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
INVESTMENTS*
(AS OF JUNE 30, 2011)(1)

Security Type	Market Value as of June 30, 2011	Percentage of Portfolio
Money Market Funds	$76,595,074	12.3%
California Asset Management Program	23,363	0.0(2)
Local Agency Investment Fund (LAIF)	146,923,132	23.6
San Diego County Investment Pool	268,584,597	43.2
CDARS - Certificate of Deposit	36,007,476	5.8
Commercial Paper	3,490,340	0.6
U.S. Treasury Notes	11,037,820	1.8
U.S. Agency Securities	74,017,386	11.9
Guaranteed Investment Contract	5,394,063	0.9
Total	$622,073,251	100.0%

* Shown as Table 9 "Investments" in the 2005 Official Statement and as Table 11 "Investments" in the 2010 Official Statement.
(1) Totals may not add due to rounding.
(2) Less than 0.0%.
Source: San Diego County Regional Airport Authority June 30, 2011 Investment Report

The following table summarizes the financial results from operations for the Authority for Fiscal Years 2007 through 2011 (derived from audited financial statements).

SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL OPERATING STATEMENTS*
(DOLLARS IN THOUSANDS)(1)
FISCAL YEARS 2007-2011

	2007	2008	2009	2010	2011
Operating revenue:					
Aviation revenue					
Landing fees	$ 24,006	$ 24,763	$ 18,689	$ 18,672	$ 18,579
Aircraft parking fees	--	--	3,222	3,406	2,921
Building rentals	22,495	24,265	23,057	23,835	26,980
Security surcharge	8,441	8,618	10,204	11,900	14,887
Other aviation revenue	1,757	1,808	1,565	1,584	1,597
Concession revenue	34,201	38,785	36,280	36,249	37,103
Parking and ground transportation revenue	28,392	31,038	31,492	30,296	31,645
Ground rentals	4,994	5,207	5,776	5,923	8,656
Other operating revenue	1,080	1,197	693	1,829	1,640
Total operating revenue	125,366	135,682	130,977	133,695	144,007
Operating expenses:					
Salaries and benefits	28,333	32,912	34,741	35,386	38,266
Contractual services	26,391	27,378	27,465	27,999	26,113
Safety & security	15,946	19,110	19,930	20,131	21,344
Space rental	10,842	10,901	10,888	10,906	10,906
Utilities	6,421	6,429	6,912	6,871	6,413
Maintenance	8,393	8,735	8,002	9,231	8,174
Equipment and systems	980	1,333	678	891	570
Material and supplies	761	795	641	413	344
Insurance	1,999	1,227	1,096	1,166	1,066
Employee development & support	909	1,035	1,030	990	1,041
Business development	2,096	2,733	2,509	2,033	2,275
Equipment rental and repair	1,479	1,396	1,387	1,271	1,327
Total operating expenses before depreciation and amortization	104,551	113,985	115,278	117,288	117,841
Income from operations before depreciation and amortization	20,816	21,697	15,699	16,407	26,165
Depreciation and amortization	33,468	36,765	38,196	42,424	49,138
Operating income (loss)	(12,652)	(15,067)	(22,498)	(26,018)	(22,973)
Non-operating revenues (expenses):					
Passenger facility charges	36,452	37,401	33,219	34,049	33,998
Customer facility charges	--	--	1,695	10,783	10,986
Quieter Home Program, net	(3,212)	(4,954)	(5,753)	(1,873)	(3,488)
Interest income	11,969	13,432	9,434	6,667	6,408
Interest expense	(4,683)	(4,086)	(2,998)	(2,684)	(8,084)
Other non-operating revenue (expenses), net	(3,282)	12	316	(1,004)	3,599
Net non-operating revenue	37,245	41,806	35,913	45,937	43,419
Income before capital grant contributions	24,593	26,738	13,416	19,919	20,446
Capital grant contributions	7,150	2,850	4,646	27,350	26,355
Change in net assets	31,742	29,588	18,061	47,270	46,802
Net assets, beginning of year	433,791	465,533	495,121	513,183	560,452
Net assets, end of year	$465,533	$495,121	$513,183	$560,452	$607,254

* Shown as Table 10 "Historical Operating Statements" in the 2005 Official Statement and as Table 12 "Historical Operating Statements" in the 2010 Official Statement.
(1) Totals may not add due to rounding.
Source: San Diego County Regional Airport Authority

The following table sets forth the top ten operating revenue providers at SDIA for Fiscal Year 2011.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
TOP TEN OPERATING REVENUE PROVIDERS*
FISCAL YEAR 2011

	Revenue Provider	Revenues	Percent of Total Operating Revenue
1.	Southwest Airlines(1)	$21,306,108	14.8%
2.	Host International	10,360,436	7.2
3.	United Airlines(2)	9,280,812	6.4
4.	Delta Air Lines	8,003,895	5.6
5.	American Airlines(3)	7,611,443	5.3
6.	Hertz Rent-A-Car	5,635,151	3.9
7.	Enterprise Rent-A-Car	4,431,129	3.1
8.	US Airways	3,899,253	2.7
9.	Continental Airlines(2)	3,858,514	2.7
10.	Avis Budget Rent-A-Car Group	3,842,594	2.7

* Shown as Table 13 "Top Ten Operating Revenue Providers" in the 2010 Official Statement. Not included in the 2005 Official Statement.

(1) In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran. The acquisition has closed. Southwest and AirTran will operate as separate airlines until they receive a single operating certificate.

(2) In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.

(3) On November 29, 2011, American filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. For more information, please see "Recent Developments – Airline Bankruptcies" above.

Source: San Diego County Regional Airport Authority

The following table sets forth the top ten top ten revenue sources at SDIA for Fiscal Year 2011.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
TOP TEN OPERATING REVENUE SOURCES*
FISCAL YEAR 2011

	Source	Revenue
1.	Parking[(1)]	$30,909,430
2.	Terminal Rent-Airlines[(2)]	26,980,351
3.	Car Rental License Fees[(3)]	21,686,823
4.	Landing Fees	18,578,574
5.	Security Surcharge	14,886,586
6.	Ground Rent	8,656,004
7.	Food and Beverages	6,181,761
8.	News/Retail	3,857,205
9.	Aircraft Parking Fees	2,920,891
10.	Advertising, ATM Smarte Carte	2,773,504

* Shown as Table 14 "Top Ten Operating Revenue Sources" in the 2010 Official Statement. Not included in the 2005 Official Statement.

(1) Since April of 2011, the Authority has temporarily closed the Terminal 2 parking lot as a result of planned construction for the Green Build Program, which has resulted in an average reduction in parking revenues of approximately $300,000 per month. The Authority expects to begin reopening parking in the Terminal 2 lot in the fall of 2012.

(2) Includes FIS revenues.

(3) Excludes CFC revenues, of which the Authority recorded the receipt of $10,986,467 in Fiscal Year 2011.

Source: San Diego County Regional Airport Authority

The following table shows historical debt service coverage for Fiscal Years 2007 through 2011.

SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL SENIOR DEBT SERVICE COVERAGE AND
HISTORICAL SUBORDINATE DEBT SERVICE COVERAGE*
FISCAL YEARS 2007-2011

	2007	2008	2009	2010	2011[(6)]
Revenues[(1)]	$ 133,924,976	$144,379,133	$138,334,601	$138,113,792	$152,655,102
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	$ 35,554,156
Senior Bonds Debt Service[(3)]					
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
Total Debt Service for the Senior Bonds	$ 5,335,725	$ 5,337,225	$ 5,341,975	$ 5,349,475	$ 5,354,225
Senior Bonds Debt Service Coverage	5.62x	5.62x	4.33x	4.08x	6.64x
Subordinate Net Revenues[(2)]	$ --	$ --	$ --	$ --	$ 30,199,931
Subordinate Annual Debt Service[(4)]					
Principal	$ --	$ --	$ --	$ --	$ 715,000
Interest	--	--	--	--	6,663,415
Commercial Paper[(5)]	--	--	--	--	934,788
Total Subordinate Annual Debt Service	$ --	$ --	$ --	$ --	$ 8,313,203
Subordinate Obligations Debt Service Coverage	--	--	--	--	3.63x

* Shown as Table 11 "Historical Debt Service Coverage" in the 2005 Official Statement and as Table 15 "Historical Senior Debt Service Coverage" in the 2010 Official Statement.

(1) Revenues are calculated pursuant to the provisions of the Master Senior Indenture and the Master Subordinate Indenture.

(2) Net Revenues and Subordinate Net Revenues are calculated pursuant to the provisions of the Master Senior Indenture and Master Subordinate Indenture, as appropriate.

(3) Debt service with respect to the Senior Bonds is calculated pursuant to the provisions of the Master Senior Indenture.

(4) Subordinate Annual Debt Service is calculated pursuant to the provisions of the Master Subordinate Indenture.

(5) Includes principal and interest.

(6) Information regarding Subordinate Obligations Debt Service Coverage provided in connection with the first fiscal year for which Subordinate Annual Debt Service was due with respect to the 2010 Bonds. Subordinate Annual Debt Service for prior years consisted of debt service on the Authority's Subordinate Commercial Paper Notes and is not presented for Fiscal Years 2007-2010.

Source: San Diego County Regional Airport Authority

The following table presents the historical airline costs (landing fees, terminal building rentals, airport police/security reimbursement fees and fuel and other franchise fees) of operating at SDIA for the past five Fiscal Years.

SAN DIEGO INTERNATIONAL AIRPORT
AIRLINE DERIVED REVENUE PER PASSENGER*(1)
FISCAL YEARS 2007-2011

Airline Revenues	2007	2008	2009	2010	2011
Landing Fees(2)	$ 24,006,493	$ 24,763,236	$ 18,677,650	$ 18,656,620	$18,840,062
Aircraft Parking Fees(3)	--	--	3,189,492	3,382,020	2,920,891
Terminal Rentals(4)	21,880,249	23,569,899	22,046,636	22,868,249	26,849,412
FIS Use Charges	--	--	148,035	102,843	136,087
Security Surcharge	8,440,960	8,618,400	10,203,808	11,900,070	14,886,586
Other Aviation Revenue(5)	1,756,782	1,807,979	--	--	--
Total Airline Revenue	$ 56,084,484	$ 58,759,514	$ 54,265,621	$ 56,909,803	$ 63,633,039
Enplaned Passengers	8,892,069	9,389,327	8,535,774	8,453,886	8,441,120
Airline Derived Revenue Per Passenger	$6.31	$6.26	$6.36	$6.73	$ 7.54

* Shown as Table 12 "Airline Derived Revenue Per Passenger" in the 2005 Official Statement and as Table 16 "Airline Derived Revenue Per Passenger" in the 2010 Official Statement.
(1) Totals may not add due to rounding.
(2) Amount excludes airline rebate
(3) Amount excludes general aviation remote overnight parking.
(4) Amount excludes exclusive space rebate and federal inspection services (FIS).
(5) Includes revenue received for fuel franchise fees/capital recovery, tunnel fees, and loading bridges. Beginning in Fiscal Year 2009, other aviation revenue is excluded in accordance with the terms of the Airline Lease Agreements.
Source: San Diego County Regional Airport Authority

The following table sets forth a summary of the Authority's approved PFC applications through June 30, 2011. Additionally, on November 24, 2010, the Authority received approval from the FAA to impose and use $1,118,567,229 of PFC revenues to finance a portion of the costs of the Green Build Program.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
APPROVED PFC APPLICATIONS*
AS OF JUNE 30, 2011

PFC Application	Approval Date	Amended Approval Amount(1),(2)
1	1995	$103,804,844
2	1998	45,496,665
3	2003	83,075,730
4(3)	2005	110,064,925
5	2008	26,301,763
7	2009	85,181,950
8	2010	1,118,567,229
Total		$1,572,493,106

* Shown as Table 19 "Approved PFC Applications" in the 2010 Official Statement. Not included in the 2005 Official Statement.
(1) Includes the amount of PFCs the FAA has authorized the Authority to collect at SDIA.
(2) Authorization to collect PFCs under all of the applications and amendments expires on October 1, 2036; however, such authorization to collect PFCs could expire earlier if the total authorized amount is collected prior to October 1, 2036.
(3) The Authority received authorization to collect $110,064,925 of PFCs under the 4th PFC Application, but only received authorization to use $64,964,925 of such PFCs. This application was subsequently closed out at a used amount of $44,822,518 as of September 20, 2011. The 6th application seeking authorization to use the remaining $45,100,000 approved under the 4th PFC Application was cancelled on July 13, 2011. Collected and unused PFCs will be applied to eligible project costs under the remaining approved applications.
Source: San Diego County Regional Airport Authority

The following table sets forth the amount of PFCs received by the Authority in Fiscal Years 2007 through 2011.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
ANNUAL RECEIPT OF PFCS*(1)
FISCAL YEARS 2007-2011

Fiscal Year	PFCs Collected
2007	$36,452,013
2008	37,401,373
2009	33,219,261
2010	34,048,981
2011	33,997,963

* Shown as Table 20 "Annual Receipt of PFCs" in the 2010 Official Statement. Not included in the 2005 Official Statement.
(1) The information in this table is presented on an accrual basis.
Source: San Diego County Regional Airport Authority

Future Financings*

The Authority does not anticipate any new financings for the Fiscal Year ending June 30, 2012 other than pursuant to the Authority's existing commercial paper program. In addition, the Authority currently is reviewing plans to issue approximately $515 million of Additional Senior Bonds and/or Additional Subordinate Obligations through calendar year 2013, to, among other things, complete the Green Build Program and certain of the projects set forth in the Fiscal Year 2012 – Fiscal Year 2016 Capital Improvement Program. Although the forecasts in the Financial Feasibility Report assume the issuance of Additional Senior Bonds and Additional Subordinate Obligations in Fiscal Years 2012 and 2013, respectively (please see the 2010 Official Statement "APPENDIX A – FINANCIAL FEASIBILITY REPORT"), the Authority is currently contemplating only one issuance in Fiscal Year 2013.

During the Feasibility Consultant's projection period (through Fiscal Year 2016), the Authority may pursue additional capital projects beyond those described in the preceding paragraph and Additional Senior Bonds and/or Additional Subordinate Obligations may be issued to fund such additional projects. These projects and the funding therefor are not included in the projections included in the Financial Feasibility Report. For more information, please see the 2010 Official Statement "CERTAIN INVESTMENT CONSIDERATIONS – Unavailability of, or Delay in, Anticipated Funding Sources." For a discussion of certain projects that the Authority is considering undertaking, please see the Financial Feasibility Report contained in the 2010 Official Statement. Additionally, the Authority continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more Series of Senior Bonds and/or Subordinate Obligations.

Further Information

For additional information about the Authority, please see the Official Statements for the Bonds available from the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board. For further information regarding this Report, you may contact:

Mr. Vernon D. Evans, Vice President, Finance/CFO and Treasurer
San Diego County Regional Airport Authority
3225 North Harbor Drive
San Diego, California 92101

* Pursuant to Section 4(iii) of the 2005 Continuing Disclosure Certificate.

San Diego County Regional Airport Authority

Financial Report
June 30, 2011

Contents

McGladrey

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 of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011 on our consideration of the Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

McGladrey & Pullen, LLP

San Diego, CA
October 14, 2011

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2010 TO JUNE 30, 2011

INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Airport Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport Authority for the fiscal years ended June 30, 2011 and 2010.

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

USING THE FINANCIAL STATEMENTS

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

The comparative Balance Sheets depict the Airport Authority's financial position as of a point in time—June 30, 2011, and June 30, 2010—and include all assets and liabilities of the Airport Authority. The Balance Sheets demonstrate that the Airport Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Airport Authority's assets after liabilities are deducted. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The comparative Statements of Revenues, Expenses and Change in Net Assets report total operating revenues, operating expenses, nonoperating revenues and expenses, and change in Airport Authority net assets for the years ended June 30, 2011 and 2010. Revenues and expenses are categorized as either operating or nonoperating, based upon management's policy as established in accordance with definitions set forth in Governmental Accounting Standards Board (GASB) No. 33 and GASB No. 34. Significant recurring sources of the Airport Authority's revenues, including Passenger Facility Charges (PFC), Customer Facility Charges (CFC) and investment income, are reported as nonoperating revenues. The Airport Authority's interest expense is reported as nonoperating expense. Capital grant contributions represent grants for capital improvement purposes.

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

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

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

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

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

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

Legislative Background

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

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

(1) Operation of SDIA.

(2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA.

(3) Development of comprehensive airport land use compatibility plans for the airports in the County of San Diego.

(4) Serving as the region's Airport Land Use Commission.

(5) Preparation of a Regional Aviation Strategic Plan, which was completed in fiscal year 2011.

Transfer of Assets and Liabilities/Joint Audit

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

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

Airport Activities Highlights

After experiencing enplanement growth in fiscal years 2008, the Airport Authority experienced a decline in enplanements in fiscal years 2009, 2010 and 2011 as did almost all commercial airports across the country due to the downturn in the economy.

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

	FY 2009	FY 2010	**FY 2011**
Enplaned Passengers	8,535,774	8,453,886	**8,441,120**
% increase (decrease)	(9.1) %	(1.0) %	**(0.2) %**
Total Passengers	17,073,886	16,917,595	**16,868,732**
% increase (decrease)	(9.1) %	(0.9) %	**(0.3) %**
Aircraft Operations	206,675	194,508	**186,181**
% increase (decrease)	(11.8) %	(5.9) %	**(4.3) %**
Freight and Mail (in tons)	120,782	125,513	**129,961**
% increase (decrease)	(16.4) %	3.9 %	**3.5 %**
Landed Weight (in thousands)	11,279	10,893	**10,606**
% increase (decrease)	(9.7) %	(3.4) %	**(2.6) %**

SDIA is a destination airport and is not a hub for any airlines. Further, there is a balanced mixture of SDIA travelers of 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements in comparison to most airports. However, SDIA continued to decline in enplanements by 0.2 percent in fiscal year 2011 compared to 2010, and by 1.0 percent in fiscal year 2010 compared to 2009, as the U.S. and local economies went into a steep recession. Prior to the economic downturn, SDIA showed healthy growth of 5.6 percent in passenger enplanements in fiscal year 2008, despite continued financial turmoil in the airline industry.

Overall SDIA experienced declines in aircraft operations of 4.3 percent, an increase in freight and mail of 3.5 percent, and decreased landed weight of 2.6 percent in fiscal year 2011. Most of these reductions are attributed to the economic recession. In comparison to fiscal years 2009 and 2010 most of the declines have leveled off.

Statement of Revenues, Expenses and Change in Net Assets (in thousands)

The metric 'Change in Net Assets' is an indicator of whether the Authority's overall financial condition has improved or deteriorated during the fiscal year. Net assets consistently increased from a healthy 9.2 percent in 2010 to another healthy increase of 8.3 percent for the year ended June 30, 2011. Following is a summary of the statements of revenues, expenses and change in net assets (in thousands):

	FY2009	FY2010	**FY2011**
Operating revenues	$ 130,977	$ 133,695	**$ 144,007**
Operating expenses	(153,474)	(159,712)	**(166,979)**
Nonoperating revenues, net	35,913	45,937	**43,419**
Capital grant contributions	4,645	27,350	**26,355**
Increase in net assets	18,061	47,270	**46,802**
Net assets, beginning of year	495,121	513,182	**560,452**
Net assets, end of year	$ 513,182	$ 560,452	**$ 607,254**

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

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

	FY 2010	FY 2011	From 2010 to 2011 Increase (Decrease)	From 2010 to 2011 % Change
Airline revenue:				
Landing fees	$ 18,672	**$ 18,578**	$ (94)	(0.5) %
Aircraft parking fees	3,406	**2,921**	(485)	(14.3) %
Building rentals	22,971	**26,980**	4,009	17.5 %
Security surcharge	11,900	**14,887**	2,987	25.1 %
Other aviation revenue	1,585	**1,597**	12	0.8 %
Total airline revenue	58,534	**64,963**	6,429	11.0 %
Non airline terminal rent	864	**869**	5	0.6 %
Concession revenue	36,249	**37,103**	854	2.4 %
Parking and ground transportation revenue	30,296	**31,645**	1,349	4.5 %
Ground rentals	5,923	**7,787**	1,864	31.4 %
Other operating revenue	1,829	**1,640**	(189)	(10.3) %
Total operating revenue	$ 133,695	**$ 144,007**	$ 10,312	7.7 %

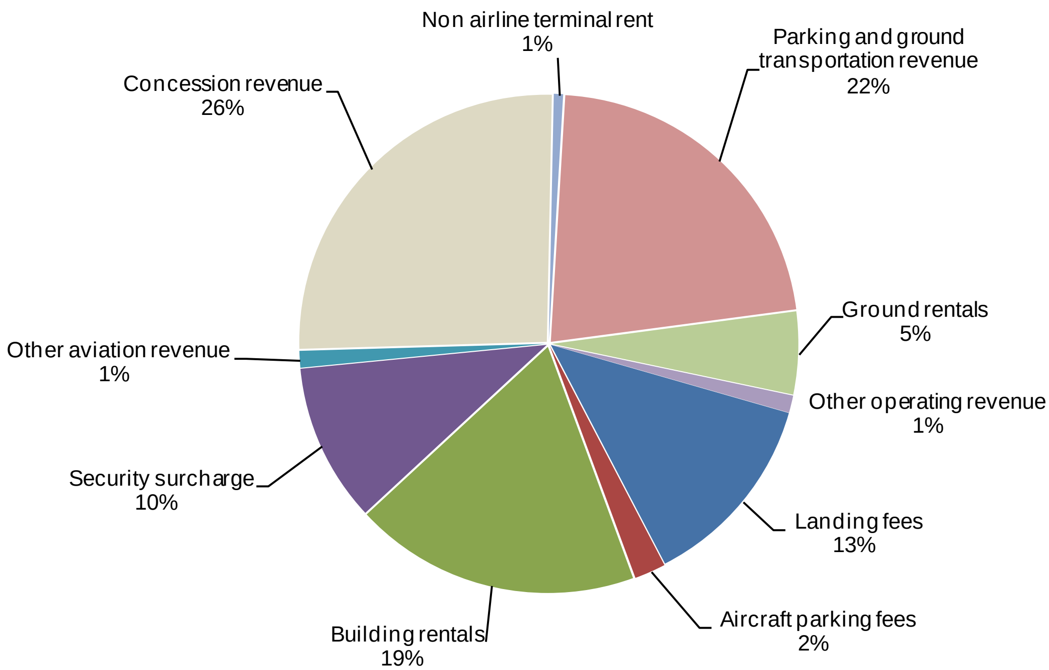
	FY 2009	FY 2010	From 2009 to 2010 Increase (Decrease)	From 2009 to 2010 % Change
Airline revenue:				
Landing fees	$ 18,689	$ 18,672	$ (17)	(0.1) %
Aircraft parking fees	3,221	3,406	185	5.7 %
Building rentals	22,195	22,971	776	3.5 %
Security surcharge	10,204	11,900	1,696	16.6 %
Other aviation revenue	1,565	1,585	20	1.3 %
Total airline revenue	55,874	58,534	2,660	4.8 %
Non airline terminal rent	862	864	2	0.2 %
Concession revenue	36,280	36,249	(31)	(0.1) %
Parking and ground transportation revenue	31,492	30,296	(1,196)	(3.8) %
Ground rentals	5,776	5,923	147	2.5 %
Other operating revenue	693	1,829	1,136	163.9 %
Total operating revenue	$ 130,977	$ 133,695	$ 2,718	2.1 %

Fiscal year 2011 compared to 2010: Airline revenue billed to the airlines on a progressive cost recovery system was slightly higher in fiscal year 2011 in comparison to 2010 by approximately $6.4 million, due to the graduated rate increase from 50 percent to 55 percent for building rentals and 55 percent to 70 percent for security surcharge. Parking revenues increased by approximately $1.3 million for 2011 due to rate increases for short term parking effective July, 2010 and also long term parking had rate increases in two locations in April, 2011. Ground rentals increased by $1.9 million due to new lease agreements with FedEx, Southwest, and UPS.

Operating Revenues (Continued)

Fiscal year 2010 compared to 2009: Airline revenue billed to the airlines on a progressive cost recovery system was slightly higher in fiscal year 2010 in comparison to 2009 due to the graduated rate increase from 45 percent to 55 percent. Parking revenues decreased by approximately $1.2 million for 2010 due to reduced enplanements and transactions compared to 2009. The 2010 increase in other operating revenue is primarily due to the federal grant reimbursement of approximately $1.0 million for the Regional Aviation Strategic Plan (RASP), a requirement of SB 10.

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2011
Operating Revenues



Operating Expenses (in thousands)

	FY 2010	**FY 2011**	From 2010 to 2011 Increase (Decrease)	% Change
Salaries and benefits	$ 35,386	**$ 38,267**	$ 2,881	8.1 %
Contractual services	27,999	**26,113**	(1,886)	(6.7) %
Safety and security	20,131	**21,344**	1,213	6.0 %
Space rental	10,906	**10,907**	1	-
Utilities	6,871	**6,413**	(458)	(6.7) %
Maintenance	9,231	**8,174**	(1,057)	(11.5) %
Equipment and systems	891	**570**	(321)	(36.0) %
Materials and supplies	413	**344**	(69)	(16.7) %
Insurance	1,166	**1,066**	(100)	(8.6) %
Employee development and support	990	**1,041**	51	5.1 %
Business development	2,033	**2,275**	242	11.9 %
Equipment rentals and repairs	1,271	**1,327**	56	4.4 %
Total operating expenses before depreciation and amortization	117,288	**117,841**	553	0.5 %
Depreciation and amortization	42,424	**49,138**	6,714	15.8 %
Total operating expenses	$ 159,712	**$ 166,979**	$ 7,267	4.5 %

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

Operating Expenses (Continued)

Fiscal year 2011 compared to 2010: Fiscal year 2011 operating expenses before depreciation and amortization expense are only slightly higher, growing $553 thousand, 0.5 percent, from $117.3 million to $117.8 million, when compared to 2010. Contributing to this increase are the following: increased salaries and benefits expense, $2.9 million, primarily due to increased costs of medical and retirement benefits; increased security and safety by $1.2 million due to utilization of emergency services reflecting the increased costs of salaries and benefits; and business development by $242 thousand, due to marketing and promotions for the new British Airways daily international flight.

The small 2011 increase was due to continued cost containment and was also reflected by decreased contractual services by $1.9 million, primarily due to decreased consultants for airport planning; decreased utilities by $458 thousand due to implementation of energy and efficiency modifications to existing equipment; decreased maintenance by $1.1 million due to decreased elevator and escalators expenses; equipment and systems decreased by $321 thousand due to replacement schedule of computers and small equipment replaced in 2010; and insurance expense decreased by $100 thousand, due to negotiated premium savings.

Total operating expenses increased $7.3 million from $159.7 million to $166.9 million, or 4.5 percent, primarily due to depreciation and amortization expense of $6.7 million. In fiscal year 2011, $51.3 million of capital projects were completed and placed in service. They consisted of $32 million in Taxiway C improvements, $5 million in airfield signs, $4 million in parking improvements, $2 million in roadway access improvements, $1 million in waterline fire suppression improvements, and many smaller projects.

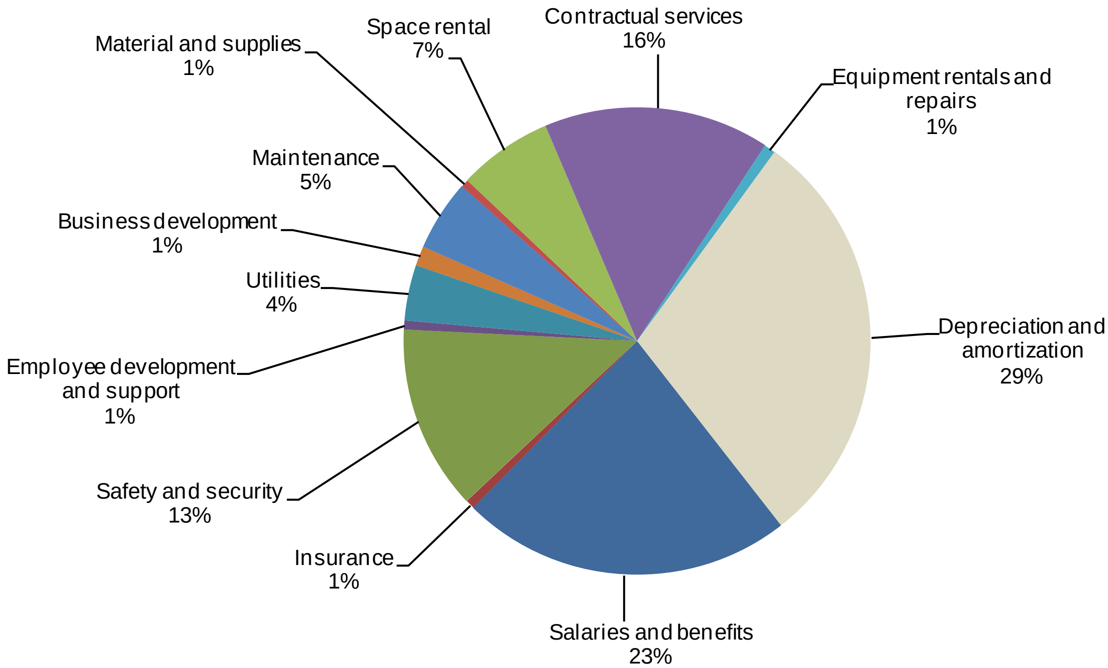
Fiscal year 2010 compared to 2009: Fiscal year 2010 operating expenses before depreciation and amortization expense are only slightly higher, growing $2.0 million, or 1.7 percent, from $115 million to $117 million, when compared to 2009. Contributing to this increase are the following; increased salaries and benefits expense, $645 thousand, primarily due to increase costs of medical and retirement benefits, (the continued hiring freeze contributes to a lower increased variance); increased contractual services, $534 thousand, primarily due to a new Federal Acquisition Regulation 150 study to map qualified homeowners as candidates for the Quieter Home Program; increased security and safety by $201 thousand, due to the required utilization of the Port Authority Harbor Police reflecting the increased costs of their salaries and benefits; increased maintenance expenses by $1.2 million, due to increased maintenance of escalators, elevators, air conditioning system and pavement restriping; increased equipment and systems, $213 thousand, due to replacement of small computer equipment and servers.

The small 2010 increase was due to continued cost containment and was also reflected by decreased materials and supplies expense by $228 thousand, and business development expense by $476 thousand, resulted from decreased travel and recovery of bad debt; as well as, decreased equipment rentals and repairs by $116 thousand, primarily due to decreased costs of tenant leasehold improvements.

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

Operating Expenses (Continued)

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2011
Operating Expenses



Nonoperating Revenues and Expenses (in thousands)

	FY 2010	**FY 2011**	From 2010 to 2011 Increase (Decrease)	% Change
Passenger facility charge	$ 34,049	**$ 33,998**	$ (51)	(0.1) %
Customer facility charge	10,783	**10,986**	203	2.0 %
Quieter Home Program, net	(1,629)	**(3,359)**	(1,730)	(106.2) %
Joint Studies Program	(245)	**(129)**	116	47.7 %
Interest income	6,667	**10,100**	3,433	51.4 %
Interest expense	(2,684)	**(8,084)**	(5,400)	51.5 %
Other nonoperating income (expenses)	(1,004)	**(93)**	911	(90.8) %
Nonoperating revenues, net	$ 45,937	**$ 43,419**	$ (2,518)	5.5 %

	FY 2009	FY 2010	From 2009 to 2010 Increase (Decrease)	% Change
Passenger facility charge	$ 33,219	$ 34,049	$ 830	2.5 %
Customer facility charge	1,695	10,783	9,088	536.1 %
Quieter Home Program, net	(5,574)	(1,629)	3,945	70.8 %
Joint Studies Program	(179)	(245)	(66)	(36.9) %
Interest income	9,434	6,667	(2,767)	(29.3) %
Interest expense	(2,998)	(2,684)	314	10.5 %
Other nonoperating income (expenses)	316	(1,004)	(1,320)	423.8 %
Nonoperating revenues, net	$ 35,913	$ 45,937	$ 10,024	27.9 %

Passenger Facility Charges (PFCs) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The 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 Authority the month following collection less a $0.11 administration fee.

Customer Facility Charges (CFCs) in May, 2009 the Authority began collecting a $10 per contract CFC on rental cars, which fees are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The revenues collected will be used to plan and construct a consolidated rental car facility and improved transportation system. The rental car agencies remit to the Authority collection of the fee monthly.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2011, the Airport Authority has spent $119.4 million and received reimbursement for $96.2 million.

Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves, Build America Bond rebates on 2010 Series B bond and notes receivable from the District.

Nonoperating Revenues and Expenses (Continued)

Interest expense includes interest paid and accrued on the 2005 and 2010 Series Bonds and Commercial Paper Series A, B and C.

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

Capital Grant Contributions

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

Fiscal year 2011 compared to 2010: Nonoperating revenue (net) decreased by $2.5 million, or 5.5 percent. This is primarily due to the Quieter Home Program which decreased $1.7 million, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement. Interest expense increased $5.4 million, due to the $573 million 2010 bond issuance in October, 2010. Offsetting the decrease was the $203 thousand increase in CFCs, $116 thousand decrease in Joint studies, $3.4 million increase in interest income on Build American bonds rebate on the 2010 Series B bonds issued October, 2010, and $911 thousand increase in other nonoperating expenses.

Fiscal year 2010 compared to 2009: Nonoperating revenue (net) increased by $10.0 million, or 27.9 percent. This is primarily due to the $9.1 million of collection of CFCs, which began May, 2009. PFCs have slightly increased by $830 thousand, due to the timing of when passengers book their flights, compared to the overall reduction of enplanements, at 1.2 percent. The Quieter Home Program increased $3.9 million as a result of an expanded program and the timing of when invoices were paid to become eligible for FAA grant reimbursement. Interest income decreased $2.8 million, primarily due to decreased rate of return on invested funds and interest expense decreased $315 thousand, due to lower interest rates and despite a larger outstanding commercial paper balance. Other nonoperating expenses compared to 2009 increased $1.3 million due to unrealized losses on market value of investments.

Assets, Liabilities and Net Assets

The balance sheets present the financial position of the Airport Authority at June 30, 2009, 2010 and 2011. The statements include all assets, liabilities and net assets of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net assets at June 30, 2009, 2010, and 2011 is as follows:

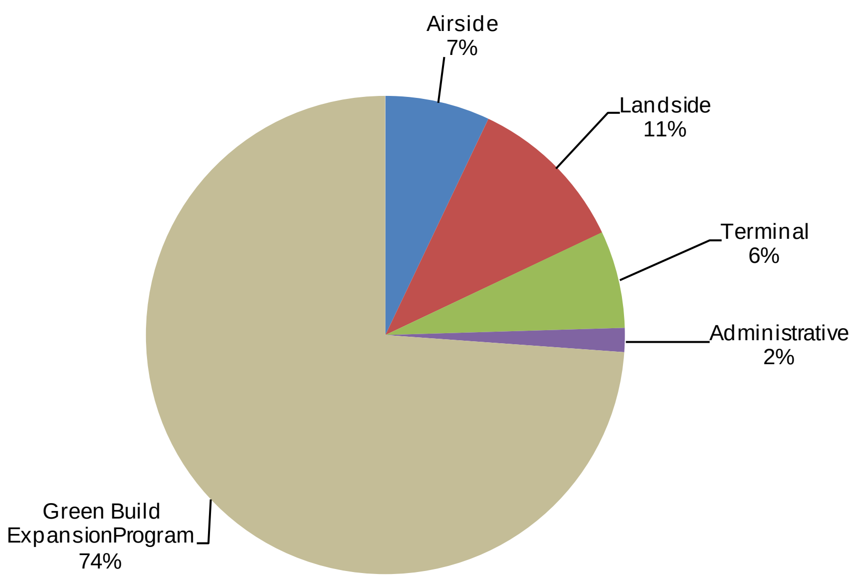
(*in thousands)*	FY2009	FY2010	**FY2011**
Assets			
Current assets	$ 78,954	$ 128,219	**$ 110,397**
Capital assets, net	380,549	483,717	**625,421**
Noncurrent assets	231,716	212,207	**610,823**
Total assets	$ 691,219	$ 824,143	**$ 1,346,641**
Liabilities			
Current liabilities	$ 47,029	$ 56,219	**$ 82,149**
Long-term liabilities	131,007	207,472	**657,238**
Total liabilities	178,036	263,691	**739,387**
Net Assets			
Invested in capital assets, net of related debt	249,498	275,556	**357,275**
Bond reserves, unapplied PFCs and other restricted	167,827	139,672	**147,513**
Unrestricted	95,858	145,224	**102,466**
Total net assets	513,183	560,452	**607,254**
Total liabilities and net assets	$ 691,219	$ 824,143	**$ 1,346,641**

As of June 30, 2011, the Airport Authority's assets exceeded liabilities by $607 million, a $47 million increase over June 30, 2010 and comparing 2010 to 2009, another $47 million increase over June 30, 2009. The largest portion of the Airport Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net assets of $102 million as of June 30, 2011, $145 million as of 2010 and $96 million as of 2009, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2011, 2010, and 2009 management has designated unrestricted funds in the amount of $16 million, $21 million and $6 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and unspent commercial paper for capital projects. In addition, as of fiscal years ended 2011, 2010, and 2009, management has designated unrestricted net assets of $8 million, $6 million and $5 million respectively for operating and insurance contingencies.

Capital Asset and Capital Improvement Program

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

Capital Improvement Program (CIP) Projects by Type



Among the larger projects undertaken during fiscal year 2011 was the Taxiway C improvements, $32 million, to expand the taxiway in compliance with FAA requirements.

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

Capital Financing and Debt Management

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

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

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

As of June 30, 2011, $41.2 million in bonds were outstanding. The ratings of the Series 2005 Bonds as of June 30, 2011 and 2010, are A+/A1/A+ by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, respectively. Additionally, the Airport Authority holds a fully funded debt service reserve equal to one year’s annual debt service.

On October 5, 2010, the Airport Authority issued $572.6 million of Series A, B and C subordinate airport revenue bonds. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund $142.2 million of the Airport Authority’s outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series A and B bonds were structured as serial bonds that bear interest at rates ranging from 2 percent to 5 percent and mature is fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury equal to 35 percent of interest payable. The interest rate on the Series C bonds, net of subsidy, is 4.31 percent and the bonds mature in fiscal year 2041.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority’s subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the Passenger Facility Charges, PFCs, it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are $14.7 million, for fiscal year 2013, and $19 million annually for fiscal years 2014 through 2016. As of June 30, 2011, the principal balance on the subordinate Series 2010 Bonds was $572.6 million.

As of June 30, 2011, $21.5 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable) is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to $250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the date. At that time, the total outstanding principal becomes due. The commercial paper notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues of at least 1.10 times the debt service on subordinate obligations, including the commercial paper notes, for that year.

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

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements on pages 41-45 of this report.

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 collection authority through October 2036. A ninth application is expected to be approved January 2012.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $10.1 million in grant awards for the federal fiscal year ended September 30, 2011, and $51.6 million in 2010. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

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

Thella F. Bowens
Chief Executive Officer/President

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

San Diego County Regional Airport Authority

Balance Sheets
June 30, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	**$ 45,858,618**	$ 30,192,220
Investments (Note 2)	**43,680,088**	74,853,720
Tenant lease receivables, net of allowance of 2011 $14,918 and 2010 $59,341	**5,593,539**	6,133,899
Grants receivable	**3,984,567**	3,866,272
Notes receivable, current portion (Note 3)	**1,696,413**	1,612,790
Other current assets	**5,272,763**	7,318,364
Total unrestricted current assets	**106,085,988**	123,977,265
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	**4,311,160**	4,241,638
Total current assets	**110,397,148**	128,218,903
Noncurrent Assets		
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	**24,901,120**	23,874,208
Buildings and structures	**466,463,764**	462,867,893
Machinery and equipment	**46,246,697**	45,211,831
Runways, roads and parking lots	**273,449,104**	227,870,261
Construction in progress	**322,289,133**	183,013,695
	1,133,349,818	942,837,888
Less accumulated depreciation	**(507,928,798)**	(459,120,465)
Capital assets, net	**625,421,020**	483,717,423
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments, not with Trustee	**124,954,885**	118,507,384
Restricted investments with Trustee	**392,604,561**	5,394,063
Passenger facility charges receivable	**5,121,210**	5,015,518
Customer facility charges receivable	**1,029,040**	1,235,660
Other restricted assets	**6,239,213**	6,400,000
Total restricted assets	**529,948,909**	136,552,625
Investments, noncurrent (Note 2)	**16,827,172**	950,564
Notes receivable, long-term portion (Note 3)	**42,914,061**	44,610,475
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	**8,148,558**	20,895,687
Deferred costs, bonds, net	**4,998,888**	788,084
Net pension asset and net OPEB asset (Notes 6 and 8)	**7,760,767**	8,409,409
Workers' comp security deposits	**225,000**	
	80,874,446	75,654,219
Total noncurrent assets	**1,236,244,375**	695,924,267
Total assets	**$ 1,346,641,523**	$ 824,143,170

See Notes to Financial Statements.

San Diego County Regional Airport Authority
Balance Sheets
June 30, 2011 and 2010

Liabilities and Net Assets	**2011**	2010
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	**$ 29,007,175**	$ 4,444,312
Accrued liabilities (Note 8)	**28,695,759**	44,795,725
Compensated absences, current portion (Note 5)	**2,188,755**	2,133,766
Deposits and other current liabilities	**505,513**	562,068
Total payable from unrestricted assets	**60,397,202**	51,935,871
Payable from restricted assets:		
Current portion of Series 2010 and 2005 Bonds and commercial paper (Note 5)	**4,760,000**	3,105,000
Accrued interest on bonds and commercial paper (Note 5)	**16,992,426**	1,178,102
Total payable from restricted assets	**21,752,426**	4,283,102
Total current liabilities	**82,149,628**	56,218,973
Noncurrent Liabilities		
Deferred rent liability (Note 11)	**-**	450,073
Compensated absences, net of current portion (Note 5)	**484,683**	397,836
Tenant security deposits and other noncurrent liabilities	**1,170,513**	1,014,896
Commercial paper notes payable (Note 5)	**20,729,000**	164,430,000
Series 2010 and 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	**634,853,456**	41,178,973
Total noncurrent liabilities	**657,237,652**	207,471,778
Total liabilities	**739,387,280**	263,690,751
Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
Net Assets		
Invested in capital assets, net of related debt (Note 1)	**357,275,035**	275,556,504
Restricted net assets:		
Bond reserves	**50,493,766**	51,103,386
Debt service, bond and commercial paper	**4,835,970**	3,181,539
Small business bond guarantee	**4,000,000**	4,000,000
Passenger facility charges	**59,940,505**	62,910,055
Customer facility charges	**22,003,359**	12,077,045
OCIP loss reserve	**6,239,213**	6,400,000
Total restricted net assets (Note 1)	**147,512,813**	139,672,025
Unrestricted net assets	**102,466,395**	145,223,890
Total net assets	**607,254,243**	560,452,419
Total liabilities and net assets	**$ 1,346,641,523**	$ 824,143,170

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Change in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Airline revenue:		
Landing fees	**$ 18,578,574**	$ 18,672,255
Aircraft parking fees	**2,920,891**	3,406,011
Building rentals (Note 10)	**26,980,351**	23,835,039
Security surcharge	**14,886,586**	11,900,070
Other aviation revenue	**1,596,665**	1,584,408
Concession revenue	**37,103,485**	36,248,999
Parking and ground transportation revenue	**31,644,673**	30,295,843
Ground rentals (Note 10)	**8,656,005**	5,923,301
Other operating revenue	**1,639,621**	1,828,757
Total operating revenues	**144,006,851**	133,694,683
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	**38,266,477**	35,386,258
Contractual services (Note 12)	**26,112,942**	27,998,903
Safety and security	**21,343,967**	20,131,013
Space rental (Note 11)	**10,906,405**	10,905,899
Utilities	**6,413,206**	6,871,136
Maintenance	**8,174,021**	9,230,943
Equipment and systems	**570,394**	890,964
Materials and supplies	**344,471**	412,911
Insurance	**1,066,326**	1,166,209
Employee development and support	**1,040,787**	990,129
Business development	**2,275,311**	2,032,861
Equipment rentals and repairs	**1,327,158**	1,270,944
Total operating expenses before depreciation and amortization	**117,841,465**	117,288,170
Income from operations before depreciation and amortization	**26,165,386**	16,406,513
Depreciation and amortization	**49,137,886**	42,424,317
Operating (loss)	**(22,972,500)**	(26,017,804)

(Continued)

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Change in Net Assets (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Nonoperating revenues (expenses):		
Passenger facility charges	$ 33,997,963	$ 34,048,981
Customer facility charges	10,986,467	10,782,512
Quieter Home Program grant revenue	14,411,926	18,998,445
Quieter Home Program expenses	(17,770,495)	(20,627,644)
Joint Studies Program	(129,191)	(244,243)
Interest income	6,408,130	6,666,720
Interest expense (Note 5)	(8,084,334)	(2,683,595)
“Build America Bonds” Rebate	3,691,431	-
Other (expenses), net	(92,924)	(1,003,948)
Nonoperating revenue, net	43,418,973	45,937,228
Income before capital grant contributions	20,446,473	19,919,424
Capital grant contributions	26,355,351	27,350,431
Change in net assets	46,801,824	47,269,855
Net assets, beginning of year	560,452,419	513,182,564
Net assets, end of year	$ 607,254,243	$ 560,452,419

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Receipts from customers	**$ 146,473,362**	$ 131,978,851
Payments to suppliers	**(80,454,483)**	(90,872,611)
Payments to employees	**(36,728,904)**	(35,231,569)
Pension contribution	**-**	(4,600,000)
Other receipts (payments)	**(50,815)**	346,810
Net cash provided by operating activities	**29,239,160**	1,621,481
Cash Flows From Noncapital Financing Activities		
Settlement receipts	**101,477**	716,580
Quieter Home Program grant receipts	**14,781,355**	19,430,088
Quieter Home Program payments	**(18,102,591)**	(21,868,009)
Joint Studies Program payments	**(84,068)**	(191,865)
Net cash (used in) noncapital financing activities	**(3,303,827)**	(1,913,206)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	**(166,861,753)**	(133,158,619)
Proceeds on BABs	**3,691,431**	-
Proceeds (payments) on sale of capital assets	**3,820**	(10,921)
Federal grants received (excluding Quieter Home Program)	**25,867,627**	26,207,830
Proceeds from passenger facility charges	**33,892,271**	33,974,761
Proceeds from customer facility charge	**11,193,087**	10,581,258
Proceeds from issuance of commercial paper	**-**	80,000,000
Proceeds from issuance of bonds	**598,719,344**	-
Payment of principal on bonds and commercial paper	**(146,026,000)**	(2,950,000)
Payment to Trustee for debt service	**(82,375)**	(81,250)
Interest and debt fees paid	**(8,154,709)**	(2,802,532)
Cost of debt issuance	**(4,424,462)**	-
Net cash provided by capital and related financing activities	**347,818,281**	11,760,527
Cash Flows From Investing Activities		
Sales of investments	**24,342,907**	46,581,401
Purchases of investments	**(402,840,092)**	(37,871,306)
Interest received on investments	**1,680,735**	2,816,795
Principal payments received on notes receivable	**1,612,791**	1,527,581
Interest received from notes receivable, commercial paper and bonds	**4,369,314**	3,797,890
Net cash provided by (used in) investing activities	**(370,834,345)**	16,852,361
Net increase in cash and cash equivalents	**2,919,269**	28,321,163
Cash and Cash Equivalents, beginning of year	**51,087,907**	22,766,744
Cash and Cash Equivalents, end of year	**$ 54,007,176**	$ 51,087,907

(Continued)

San Diego County Regional Airport Authority

Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	**$ 45,858,618**	$ 30,192,220
Cash and investments designated for specific capital projects and other commitments	**8,148,558**	20,895,687
	$ 54,007,176	$ 51,087,907
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	**$ (22,972,500)**	$ (26,017,804)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	**49,137,886**	42,424,317
Bad debt (recapture)	**(44,423)**	(322,387)
Changes in assets and liabilities:		
Tenant lease receivables	**584,783**	(297,304)
Net pension asset	**556,313**	(4,299,243)
Other current assets	**2,475,298**	(7,360,475)
Accounts payable (on noncapital items)	**2,493,492**	2,007,086
Accrued liabilities (on noncapital items)	**(2,694,519)**	(4,427,175)
Postretirement benefits obligation	**31,736**	26,374
Deposits	**80,450**	134,100
Deferred rent liability and other	**(587,863)**	(249,634)
Tenant security deposits	**36,671**	57,872
Compensated absences	**141,836**	(54,246)
Net cash provided by operating activities	**$ 29,239,160**	$ 1,621,481
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions (deductions) to capital assets included in accounts payable	**$ (13,118,472)**	$ 12,360,267
Loss on Investments	**$ (292,730)**	$ (869,842)

See Notes to Financial Statements.

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

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

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

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

Measurement focus and basis of accounting: The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Airport Authority net assets. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed by the Airport Authority to the extent that those standards do not conflict with or contradict guidance of the GASB. The Airport Authority also has the option of following subsequent private-sector guidance for its activities subject to the same limitation. The Airport Authority has elected to follow the standards set by the GASB, as opposed to subsequently issued private sector guidance.

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

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

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

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

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

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

Restricted assets: Funds are set aside as restricted, and they are not available for current expenses, when constraints placed on their use are legally enforceable due to either:

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

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

Designated assets: The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2011 and 2010, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling $8,148,558 and $20,895,687, respectively.

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

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

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

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

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

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed.

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

Airport Improvement Program (AIP): The District initially received approval from the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants. These grants transferred to the Airport Authority, effective January 1, 2003. AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Airport Authority believes that no significant liabilities to the Airport Authority would result from such an audit.

Passenger facility charges (PFC): The District initially received approval from the FAA to impose a PFC at SDIA. The approval for the PFC was transferred by the FAA to the Airport Authority, effective January 1, 2003. The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2011 and 2010, accrued PFC receivables totaled $5,121,210 and $5,015,518, respectively, and there were $54,819,295 and $57,894,537 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2011 and 2010, respectively.

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

On May 20, 2003, the FAA approved the Airport Authority's PFC charge per enplaned passenger from $3.00 to $4.50, beginning August 1, 2003. Currently, impose and use authority of $1.3 billion from four active applications allows collection through October 1, 2036. The Airport Authority has formally closed three previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use of approximately $42 million in PFC revenue. The ninth application is in process with completion anticipated by January 2012. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a $4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

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

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2011 and 2010, accrued CFC receivables totaled $1,029,040 and $1,235,660, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2011 and 2010 were $20,974,319 and $10,841,385, respectively.

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

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

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

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

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

	2011	2010
Capital assets	**$ 1,133,349,818**	$ 942,837,888
Less accumulated depreciation	**(507,928,798)**	(459,120,465)
Less outstanding debt	**(268,145,985)**	(208,160,919)
Invested in capital assets, net	**$ 357,275,035**	$ 275,556,504

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

Restricted net assets as of June 30 are as follows:

	2011	2010
Bond reserves:		
Operations and maintenance reserve	$ 29,773,617	$ 30,230,832
Operations and maintenance subaccount reserve	9,924,539	10,076,944
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	5,395,610	5,395,610
Debt service principal	4,760,000	3,105,000
Commercial paper reserve	63,115	63,686
Commercial paper held by Trustee	12,855	12,853
Small Business Development Bond Guarantee	4,000,000	4,000,000
Passenger facility charges unapplied	54,819,295	57,894,537
Passenger facility charges receivable	5,121,210	5,015,518
Customer facility charges unapplied	20,974,319	10,841,385
Customer facility charges receivable	1,029,040	1,235,660
Owner Controlled Insurance Program (OCIP) loss reserve	6,239,213	6,400,000
Total restricted net assets	$ 147,512,813	$ 139,672,025

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

	2011	2010
Operating contingency	$ 2,000,000	$ 2,000,000
Insurance contingency (Note 9)	5,223,990	4,349,994
Net pension asset	7,760,767	8,317,080
Capital projects and other commitments (Note 12)	924,568	18,545,693
	$ 15,909,325	$ 33,212,767

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

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

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

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

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

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

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

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

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

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

Implementation of new accounting pronouncement: GASB Statement No. 59, *Financial Instruments Omnibus*, was issued in June 2010 and implemented by the Airport Authority for the year ended June 30, 2011. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

Pronouncements issued, but not yet effective: The GASB issued pronouncements prior to June 30, 2011 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 57*, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 60*, Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61*, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62*, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 64*, Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

Reclassifications: Certain reclassifications have been made to the 2010 financial information in order to conform to the 2011 presentation. These reclassifications had no impact on net income or Airport Authority net assets.

Note 2. Cash and Investments and Subsequent Event

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

	2011	2010
Unrestricted and undesignated:		
Cash and cash equivalents	$ 45,858,618	$ 30,192,220
Current investments	43,680,088	74,853,720
Noncurrent investments	16,827,172	950,564
Total unrestricted and undesignated	106,365,878	105,996,504
Designated for specific capital projects and other commitments, cash and cash equivalents	8,148,558	20,895,687
Restricted cash and investments:		
Bond reserves		
Operations and maintenance reserve	29,773,617	30,230,832
Operations and maintenance subaccount reserve	9,924,539	10,076,944
Renewal and replacement reserve	5,400,000	5,400,000
	45,098,156	45,707,776
Passenger facility charges unapplied	54,819,295	57,894,537
Customer facility charges unapplied	20,974,319	10,841,385
Small Business Development Bond Guarantee	4,000,000	4,000,000
Commercial paper reserve	63,115	63,686
Total restricted cash and investments	124,954,885	118,507,384
Total cash and investments not with Trustee	239,469,321	245,399,575
Investments held by Trustee:		
Money market funds	36,899,689	4,241,638
Guaranteed investment contract	5,394,063	5,394,063
Certificates of deposit	20,119,036	-
California Asset Management Program (CAMP)	23,363	-
Local Agency Investment Fund (LAIF)	99,791,287	-
San Diego County Investment Pool (SDCIP)	219,593,285	-
U.S. agency securities	15,094,998	-
Total held by Trustee	396,915,721	9,635,701
Total cash and investments	$ 636,385,042	$ 255,035,276

Note 2. Cash and Investments and Subsequent Event (Continued)

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

	2011	2010
Unrestricted cash on deposit:		
Cash on hand	**$ 51,976**	$ 51,976
Cash in banks	**14,259,815**	47,823,670
Total unrestricted cash on deposit	**14,311,791**	47,875,646
Unrestricted cash equivalents:		
Money market funds	**39,695,385**	3,212,262
Unrestricted and restricted investments:		
Certificates of deposit	**15,888,440**	16,031,421
Local Agency Investment Fund	**47,131,845**	46,905,826
San Diego County Investment Pool	**48,991,312**	49,619,000
Corporate bonds	**-**	4,030,620
Commercial Paper	**3,490,340**	-
U.S. Treasury notes	**11,037,820**	9,610,384
U.S. agency securities	**58,922,388**	68,114,416
Total unrestricted and restricted investments	**185,462,145**	194,311,667
Total cash equivalents and investments not with Trustee	**225,157,530**	197,523,929
Investments held by Trustee:		
Money market funds	**36,899,689**	4,241,638
Bond reserve, guaranteed investment contract	**5,394,063**	5,394,063
Certificates of deposit	**20,119,036**	-
California Asset Management Program	**23,363**	-
Local Agency Investment Fund	**99,791,287**	-
San Diego County Investment Pool	**219,593,285**	-
U.S. agency securities	**15,094,998**	-
Total investments held by Trustee	**396,915,721**	9,635,701
Total cash equivalents and investments	**622,073,251**	207,159,630
Total cash, cash equivalents and investments	**$ 636,385,042**	$ 255,035,276

Note 2. Cash and Investments and Subsequent Event (Continued)

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Banker's acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	5 percent
	25-36 months	AA	15 percent	5 percent
Repurchase agreements	1 year	A	None	None
Mortgage-backed securities	5 years	AAA	20 percent	None
Local Agency Investment Fund	N/A	N/A	None	$50 million
San Diego County Investment Pool	N/A	N/A	None	$50 million
Local Government Investment Pool	N/A	N/A	None	$50 million
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	10 percent
Bank deposits (DOA/CDs)	N/A	*	20 percent	10 percent

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

Note 2. Cash and Investments and Subsequent Event (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 indentures shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

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

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policies:

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

Note 2. Cash and Investments and Subsequent Event (Continued)

- Medium-term notes issued by corporations organized and operating within the United States shall be rated “A” or better by an NRSRO for maturities less than 24 months and “AA” for maturities less than or equal to 36 months.

- U.S. government-sponsored agencies rated “AAA/Aaa” issued mortgage-backed security with a maximum of five years maturity.

- Money market mutual funds with management companies that are money market funds registered with the Securities and Exchange Commission (SEC), investing in the securities and obligations as authorized by California Government Code 53601. These companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) retain an investment advisor registered with the SEC with not less than five years experience investing in the securities and obligation market as authorized by California Government Code 53601, subdivision (a) to (m) inclusive, and with assets under management in excess of $500 million.

Investments held by Trustee: The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds require the Airport Authority to maintain reserve accounts with a bond trustee for security and the payment of the bonds. At June 30, 2011 and 2010, the investments held by the Trustee related to the Series 2005 Bonds were $9,718,078 and $9,635,701, respectively, which included the July 1 payment in the amount of $4,309,613 and $4,227,238, respectively. The subordinate Series 2010 Bonds require the Airport Authority maintain a reserve account and deposit all unused bond proceeds with a bond trustee. At June 30, 2011, the amount held by the Trustee related to the subordinate Series 2010 Bond was $387,197,643, which included the July 1 payment in the amount of $2,247,976. The commercial paper notes require the Airport Authority to maintain an interest reserve account with the note Trustee. At June 30, 2011 and 2010, the commercial paper interest held by the Trustee was $12,855 and $12,853, respectively.

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

Note 2. Cash and Investments and Subsequent Event (Continued)

Information about the sensitivity of the fair values of the Airport Authority's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table, which shows the distribution of the entity's investments by maturity as of June 30, 2011:

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
CAMP	$ 23,363	$ 23,363	$ -	$ -	$ -
LAIF	146,923,132	146,923,132	-	-	-
SDCIP	268,584,597	268,584,597	-	-	-
Commercial paper	3,490,340	3,490,340	-	-	-
U.S. Treasury notes	11,037,820	8,034,880	3,002,940	-	-
U.S. agency securities	74,017,386	15,094,998	11,994,370	46,928,018	-
Guaranteed investment contract	5,394,063	-	-	-	5,394,063
Total investments subject to interest rate risk	509,470,701	442,151,310	14,997,310	46,928,018	5,394,063
Deposits not subject to interest rate risk:					
Money market funds	76,595,074	76,595,074	-	-	-
Certificates of deposit	36,007,476	36,007,476	-	-	-
Total deposits not subject to interest rate risk	112,602,550	112,602,550	-	-	-
	$ 622,073,251	$ 554,753,860	$ 14,997,310	$ 46,928,018	$ 5,394,063

Custodial credit risk (deposits): Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires a minimum of 105 percent collateralization of these deposits which are authorized by the Airport Authority's investment policy. Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or collateralized in accordance with the California Government Code.

Note 2. Cash and Investments and Subsequent Event (Continued)

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2011 for each investment type:

Investment Type	Total	Unrated		AAA/Aaa	A-1+/P-1
Investments subject to credit rate risk:					
CAMP	$ 23,363	$ -		$ 23,363	$ -
SDCIP	268,584,597	-		268,584,597	-
LAIF	146,923,132	146,923,132		-	-
Commercial paper	3,490,340	-		-	3,490,340
U.S. Treasury notes	11,037,819	-	(1)	11,037,820	-
U.S. agency securities	58,922,387	-	(1)	58,922,388	-
Guaranteed investment contract	20,489,061	-		20,489,061	-
Total investments subject to credit risk	509,470,699	146,923,132		359,057,229	3,490,340
Deposits subject to credit risk:					
Money market funds	76,595,074	76,595,074		-	-
Certificates of deposit	36,007,476	36,007,476		-	-
Total deposits subject to credit risk	112,602,550	112,602,550		-	-
	$ 622,073,249	$ 259,525,682		$ 359,057,229	$ 3,490,340

Source: Standard & Poor's, Moodys and Fitch

(1) On August 5, 2011, Standard & Poor's (S&P) lowered the long-term sovereign credit rating of U.S. Government debt obligations from AAA to AA+. On August 8, 2011, S&P also downgraded the long-term credit ratings of U.S. government-sponsored enterprises. To date, Moody's and Fitch have maintained Aaa and AAA ratings, respectively, for both U.S. Government and U.S. government-sponsored enterprises' debt obligations. While there has been no immediately apparent adverse impact to the Authority's investment portfolio from the S&P action, the ultimate impacts on global markets and our business, financial condition, and liquidity are unpredictable given the unprecedented nature of negative credit rating actions with respect to U.S. government obligations.

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2011 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
East West Bank	Money market funds and certificates of deposit	$ 58,267,979	9.16%
Federal National Mortgage Assoc.	U.S. agency securities	46,105,368	7.24%
		$ 104,373,347	16.40%

Note 2. Cash and Investments and Subsequent Event (Continued)

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

Investment in California Asset Management Program Pool: The Airport Authority is a voluntary participant in the California Asset Management Program Pool (CAMP or the Pool), which was established under provisions of the California Joint Exercise of Powers Act to provide California Public Agencies with comprehensive investment management services. The Airport Authority's investment in the Pool are reported in the accompanying financial statements at the net asset value per share as provided by CAMP.

CAMP is exempt from registration with the Securities and Exchange Commission under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds," of that Act. Accordingly, the Pool meets the definition of a "2a-7 like pool" set forth in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. While the Pool itself is exempt from SEC registration, the Pools Investment advisor and administrator, PFM Asset management LLC, is registered with the SEC as an investment advisor under the Investors Advisors Act of 1940. PFM Asset Management LLC has filed with the California Department of Corporations, as well as various other states, as an investment advisor under the state security laws. In addition, CAMP also meets the definition of "Municipal Fund Security" outlined by Municipal Rulemaking Board (MSRB) Rule 0-12. Therefore, contacts with prospective investors relating to shares of the pool are conducted through PFM Asset Management's wholly owned subsidiary, PFMAM, Inc., a broker/dealer that is registered with the SEC and MSRB, and is a member of (FINRA). CAMP files an income tax return annually with the Internal Revenue Service, though the new income of the Pool is generally exempt from federal income tax.

Small business development bond guarantee: The Airport Authority has established a $4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program. Both the Airport Authority and the sureties participate in the risk under this program. The objective of this program is to ensure that local small, disadvantaged, disabled veteran, and other business enterprises have every opportunity to do business with the Airport Authority.

Note 2. Cash and Investments and Subsequent Event (Continued)

Investment recovery: In fiscal year 2010, the Airport Authority recognized a loss of $166,515 on its investment in the Primary Liquidity Fund operated by The Reserve Money Management Corporation of New York (The Reserve Fund), the original investment of which was $12,157,575. During fiscal year 2011, the Airport Authority received a payment $49,238 from the fund that was reported as an investment recovery. Additionally, The Reserve Fund reduced the undistributed balance by $93,400 for fees and expenses of the liquidation. The remaining undistributed balance of the investment in The Reserve Fund as of June 30, 2011 and 2010 was $23,838 and $166,515, respectively. The Airport Authority will continue to recognize amounts received from The Reserve Fund, if any, in the period collected.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a $50,000,000 unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on January 1, 2006, the note is amortized over 25 years and matures on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5 percent per annum. On October 3, 2005, the Airport Authority's Board authorized the District to issue an $8,000,000 promissory note in favor of Carnival Corporation on parity with the $50,000,000 note. At June 30, 2011 and 2010, the balance of the note receivable was $43,993,521 and $45,221,133, respectively. The current portion recorded on the note for the years ended June 30, 2011 and 2010 was $1,290,520 and $1,227,612, respectively.

As part of the transfer of airport operations, pursuant to the Act, the District reimburses the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at an interest rate of 5.25 percent. A receivable for the Pond 20 property was recorded by the Airport Authority on January 1, 2003 at the District's preliminary appraised value of $2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value was $3,329,000. Repayment terms remain unchanged. June 30, 2011 and 2010, the note receivable was recorded at a value of $616,954 and $1,002,132, respectively. The current portion recorded on the note for the years ended June 30, 2011 and 2010 was $405,893 and $385,178, respectively.

Note 3. Notes Receivable (Continued)

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

Years Ending June 30,	Amount
2012	$ 1,696,000
2013	1,581,000
2014	1,447,000
2015	1,529,000
2016	1,609,000
2017-2021	9,540,000
2022-2026	12,554,000
2027-2031	14,654,000
	$ 44,610,000

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2010	Increases	Decreases	**Balance at June 30, 2011**
Nondepreciable assets:				
Land	$ 22,432,655	$ -	$ -	**$ 22,432,655**
Construction in progress	183,013,695	190,737,326	(51,461,888)	**322,289,133**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	205,886,350	190,737,326	(51,461,888)	**345,161,788**
Depreciable assets:				
Land improvements	1,001,553	1,026,912	-	**2,028,465**
Buildings and structures	462,867,893	4,399,285	(803,414)	**466,463,764**
Machinery and equipment	45,211,831	1,421,090	(386,224)	**46,246,697**
Runways, roads and parking lots	227,870,261	45,700,477	(121,634)	**273,449,104**
Total capital assets being depreciated	736,951,538	52,547,764	(1,311,272)	**788,188,030**
Less accumulated depreciation for:				
Land improvements	(1,001,553)	(47,295)	-	**(1,048,848)**
Building and structures	(270,556,272)	(28,272,258)	803,414	**(298,025,116)**
Machinery and equipment	(25,754,980)	(5,718,483)	286,161	**(31,187,302)**
Runaways, roads and parking lots	(161,807,660)	(15,981,506)	121,634	**(177,667,532)**
Total accumulated depreciation	(459,120,465)	(50,019,542)	1,211,209	**(507,928,798)**
Total capital assets being depreciated, net	277,831,073	2,528,222	(100,063)	**280,259,232**
Capital assets, net	$ 483,717,423	$ 193,265,548	$ (51,561,951)	**$ 625,421,020**

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

Note 4. Capital Assets (Continued)

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

Note 5. Debt

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

	Principal Balance at June 30, 2010	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2011**	Due Within One Year
Debt obligations:					
Commercial paper	$ 164,430,000	$ -	$ (142,921,000)	**$ 21,509,000**	$ 780,000
Bonds payable:					
Series 2005 Bonds	44,330,000	-	(3,105,000)	**41,225,000**	3,265,000
Series 2010 Bonds		572,565,000		**572,565,000**	715,000
Bond premiums	2,272,704	26,154,344	(1,296,734)	**27,130,314**	-
Deferred amounts on refunding	(2,318,731)	-	231,873	**(2,086,858)**	-
Total bonds payable	44,283,973	598,719,344	(4,169,861)	**638,833,456**	3,980,000
Total debt obligations	208,713,973	598,719,344	(147,090,861)	**660,342,456**	4,760,000
Compensated absences	2,531,602	2,330,591	(2,188,755)	**2,673,438**	2,188,755
Total long-term liabilities	$ 211,245,575	$ 601,049,935	$ (149,279,616)	**$ 663,015,894**	$ 6,948,755

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

Note 5. Debt (Continued)

Commercial paper Series A and B: On September 6, 2007, the Board authorized issuance of $250,000,000 of subordinate commercial paper. Proceeds from the issuance were designated to be used to finance further improvements to SDIA. Subordinate obligations issued or incurred under the program is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 2005 Bonds with parity to the subordinate Series 2010 Bonds revenue. Each commercial paper note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The commercial paper is classified as a long-term liability because the Airport Authority has an irrevocable letter of credit provided by Lloyds TSB Bank that expires no later than September 10, 2014 and is available if the commercial paper is not reissued. If the letter of credit is drawn upon and is not paid off within 90 days of being drawn upon, quarterly payments equal to the amount drawn will be paid. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank. The commercial paper notes are rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service.

On October 6, 2010 and October 13, 2010, the Airport Authority refinanced $115,776,000 and $26,400,000, respectively, of Series A, B and C commercial paper with proceeds from the sale of subordinated Series 2010 Bonds. At June 30, 2011, the principal amount outstanding for Series B was $21,509,000. The principal amounts of Series A and C were $0. The average annual interest rates for Series A, B and C were 0.26 percent, 0.31 percent and 0.30 percent, respectively.

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

Commercial paper interest expense for the years ended June 30, 2011 and 2010 amounted to $189,788 and $165,947, respectively, including accrued interest of $63,115 and $55,866, respectively.

The commercial paper notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the debt service for that year. In addition, the commercial paper notes require the Airport Authority to maintain an interest reserve account with the note trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2011 and 2010, the amount held by the trustee was $12,855 and $12,853, respectively, and the amount reserved by the Airport Authority was $63,115 and $63,686, respectively.

Airport Revenue Bonds, Series 2005 and Refunded Series 1995: In fiscal year 1996, the California Maritime Infrastructure Authority issued Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority. The Series 1995 Bonds were issued in the aggregate principal amount of $76,690,000, consisting of $29,895,000 in serial bonds and $46,795,000 in term bonds.

Note 5. Debt (Continued)

On November 9, 2005, the Airport Authority issued airport revenue refunding bonds. Series 2005 Bonds were issued in the aggregate principal amount of $56,270,000 to refund outstanding Series 1995 Bonds. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021. The bonds were issued at a premium of $3,333,300, with deferred amounts on refunding of $3,400,800, which are being amortized over the life of the bonds. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the years ended June 30, 2011 and 2010 amounted to $2,089,225 and $2,244,475, respectively, including accrued interest of $1,044,612 and $1,122,237, respectively. The principal balance on the Series 2005 Bonds as of June 30, 2011 and 2010 was $41,225,000 and $44,330,000, respectively.

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

The Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the debt service for that year. In addition, the Series 2005 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2. At the years ended June 30, 2011 and 2010, the amount held by the trustee was $5,394,063 and $5,394,063, respectively. An additional amount of $4,309,613 and $4,227,238 was held at June 30, 2011 and 2010, respectively, for the July 1 payments. The total amount reserved by the Airport Authority for 2011 and 2010 was $45,098,156 and $45,707,776, respectively. The underlying public ratings of the Series 2005 Bonds as of June 30, 2011 and 2010 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2005 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	$ 3,265,000	$ 2,007,600	$ 5,272,600
2013	3,430,000	1,840,225	5,270,225
2014	3,610,000	1,664,225	5,274,225
2015	3,790,000	1,479,225	5,269,225
2016	3,985,000	1,299,794	5,284,794
2017-2021	23,145,000	3,164,569	26,309,569
	$ 41,225,000	$ 11,455,638	$ 52,680,638

A cumulative rebate liability relating to arbitrage of the Series 2005 Bonds was recorded for $46,417 and $183,422 as of the fiscal years ended June 30, 2011 and 2010, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2011. Additionally, should the bonds be retired prior to July 1, 2011, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

Note 5. Debt (Continued)

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

The Series A and B bonds were structured as serial bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury equal to 35 percent of interest payable. The Build America Bonds interest subsidy for the year ended June 30, 2011 was $3,691,431. The interest rate on the series C bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of $26,154,344, which is being amortized under the effective interest method over the life of the bonds. The premium amortization for fiscal year 2011 was $1,069,464. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the year ended June 30, 2011 amounted to $13,029,402, of which $7,476,170 was capitalized to various capital projects. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2011 was $572,565,000.

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

The subordinate 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 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. The amount held by the Trustee as of June 30, 2011 was $387,197,643, which included the July 1 payment.

Note 5. Debt (Continued)

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

Years Ending June 30,	Principal	Interest	Total
2012	$ 715,000	$ 31,762,248	$ 32,477,248
2013	980,000	31,745,298	32,725,298
2014	1,000,000	31,720,498	32,720,498
2015	5,785,000	31,594,948	37,379,948
2016	8,665,000	31,318,098	39,983,098
2017-2021	49,550,000	149,979,317	199,529,317
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	31,615,634	233,325,634
	$ 572,565,000	$ 680,280,879	$ 1,252,845,879

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

Line of credit: In 2009 the Airport Authority established a $4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2011, nothing had been drawn on the line of credit and four letters of credit were issued, totaling $1,297,957, for projects in progress. One of the letters of credit is due to expire January 19, 2012 and the remaining three will expire on February 27, 2012.

Note 6. Defined-Benefit Plan

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

Note 6. Defined-Benefit Plan (Continued)

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate, as determined through actuarial valuation, was 16.60 percent for 2011, 12.08 percent for 2010 and 12.69 percent for 2009, and is expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2011, 2010 and 2009, the annual pension cost included in salaries and benefits was $6,289,996, $4,999,976 and $4,926,093, respectively, for the CERS pension. Comparing 2010 to 2009, total membership increased by 4 percent. The increase was attributable to both the growth in inactive membership, terminated vested, disabled, retirees and beneficiaries and active membership. The active member payroll increased by 3.7 percent, which is slightly below the assumed payroll inflation of 4 percent. The actuarial liability increased by 12.6 percent but the actuarial value of assets increased by 24.4 percent. The funding ratio increased from 86.9 percent as of June 30, 2009 to 96 percent as of June 30, 2010. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not increase as much as the market value (31.8 percent).

As of June 30, 2011, significant actuarial assumptions are as follows:

- The rates of retirement are assumed that retirement will occur, provided they have at least five years of service on the later of attained age or the earlier of age 62 or 55 and at least 20 years of service.
- Termination rates vary based on selected ages and years of service. The rates range from age 20 at 12.78 percent to age 60 at 2.78 percent. Additionally, 20 percent of terminating employees with at least five years of service at termination are assumed to subsequently work for a reciprocal employer and receive 4.50 percent pay increases per year.
- Disability rates are assumed to be 60 percent from industrial disability retirements. Nonindustrial disability retirement is subject to a service requirement.
- Mortality rates for active Airport Authority members were set to the RP2000 Combined Healthy table projected to 2008.
- Mortality rates for retired Airport Authority members were set to the RP2000 Combined Healthy table.
- The investment return assumption was 7.75 percent.
- The inflation assumption was 4.00 percent.
- Cost of living adjustments were 2.00 percent.
- The actuarial funding method is entry age normal.
- The amortization method is level percent closed.
- The asset valuation method is expected value method.
- The remaining amortization period is 24.481 years; this includes 11 years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

Note 6. Defined-Benefit Plan (Continued)

As of September 2006, the actuarial value of assets was equal to the market value of assets. The following year, the actuarial value was calculated by accepting 100 percent of the expected asset value plus 25 percent of the difference between the actual market value next year and the expected asset value. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payrolls over a closed 18-year period. On September 16, 2004, the Airport Authority made a contribution payment in the amount of $3,900,000, in addition to the ARC, to reflect a desired funded ratio of 90 percent. On June 21, 2005, the Airport Authority made an additional contribution of $1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of $513,627. On June 30, 2010, the Airport Authority made a contribution of $4,600,000 to increase the funded rate reported in the January 2010 CERS 2009 actuarial calculation from 86.9 percent to the desired funded ratio of 90 percent. At June 30, 2011, 2010 and 2009, the total contribution of $10,013,627 less amortization of $2,252,860, $1,696,547 and $1,395,790, respectively, is recorded as a net pension asset of $7,760,767, $8,317,080 and $4,017,837, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2012 measured as a percentage of membership payroll decreased from 16.60 percent to 15.06 percent. The required beginning-of-year contribution paid July 1, 2011 decreased by $400,000.

Note 6. Defined-Benefit Plan (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/08	$ 57,748	$ 56,808	$ (940)	101.7	$ 23,488	(4.0%)
6/30/09	58,981	67,871	8,890	86.9	24,693	36.0%
6/30/10	73,401	76,447	3,047	96.0	25,709	11.9%

Actuarial Valuation Date	Annual Pension Cost	Airport Cost Funded	% ARC Funded	ARC	ARC Adjustment	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.75%
6/30/08	$ 4,894	$ 4,894	100%	4,894	$ -	$ 4,319	$ (300)	$ 300	$ 392
6/30/09	9,526	9,526	193%	4,926	4,600	4,018	4,300	300	433
6/30/10	5,000	5,000	100%	5,000	-	8,317	(556)	556	736
* 6/30/2011	6,290	6,290	100%	6,290	-	7,761	(556)	556	736

* Per audited financials, not per actuarial valuation date.

Note 7. Employees' Deferred Compensation Plan

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

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

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

Note 8. Other Postemployment Benefits

In addition to pension benefits as described in Notes 6 and 7, the Airport Authority provides other postemployment benefits (OPEB).

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

Plan description: As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. The CERBT fund is an irrevocable Section 115 trust. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.6 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 $1.879 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted which permitted CalPERS to form the CERBT fund, a Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

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

Annual OPEB cost and actuarial methods and assumptions: The July 1, 2009 actuarial valuation for the ARC, net of the employer contribution, was $1,713,000 for fiscal year 2011, $1,733,000 for 2010 and $1,429,000 for 2009. The ARC was determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, with unfunded liabilities amortized over a closed 30-year amortization period, which is the method utilized by CERBT. The actuarial assumptions used by CERBT include (a) a 7.75 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 3.25 percent. The inflation component ranged from 11 percent to 5 percent from one to seven years for medical and 7 percent to 5 percent for dental.

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

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)

Development of net OPEB obligation (NOO) and annual OPEB cost (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO End of Year	Interest on NOO	Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
7/1/2008	08/09	$ 1,429	$ 2,758	$ (58)	$ 97	$ 77	$ 1,449	7.75%	3.25%	16.3
7/1/2009	09/10	1,733	1,825	(150)	(4)	(4)	1,733	7.75%	3.25%	16.0
7/1/2010	10/11	1,791	1,791	(152)	(12)	(10)	1,789	7.75%	3.25%	15.7

Schedule of funding progress (dollars in thousands):

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Update	7/1/08	$ -	$ 10,327	$ 10,327	0%	$ 19,417	53.2%	7.75%	3.25%
Actual	7/1/09	2,674	12,206	9,532	21.9%	19,514	48.8%	7.75%	3.25%
Update	7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%

Schedule of employer contributions (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB Asset (Obligation)
6/30/09	$ 1,449	$ 2,758	190.3%	$ 58
6/30/10	1,733	1,825	105.3%	92
6/30/11	1,713	1,713	100.0%	-

Note 9. Risk Management

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

Note 9. Risk Management (Continued)

The cost of earthquake coverage remains exorbitant and is not available in significant amounts. The Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay a minimum of 25 percent of the balance for nationally declared disasters. In addition, the California legislature has paid any remaining loss costs for all declared disasters since 1989. The Airport Authority in the past relied on these laws to pay loss costs beneath the attachment point for insurance coverage and above the coverage limit purchased. Effective July 1, 2007, based on the status of these laws and the condition of the insurance marketplace, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities. As of June 30, 2011 and 2010, the Airport Authority had $5,223,990 and $4,349,994 respectively, for an earthquake contingency reserve. This reserve is intended to increase as deemed by management.

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

The Airport Authority participates in an insurance purchasing program, with a $1 billion pooled limit to provide all risk and flood coverage on physical assets. During fiscal year 2011, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

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

Note 10. Lease Revenues

The Airport Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc. A majority of the Airport Authority's lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

Note 10. Lease Revenues (Continued)

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
2012	$ 10,173,845
2013	7,396,982
2014	5,552,412
2015	4,485,090
2016	2,640,169
2017-2020	4,000,000
	$ 34,248,498

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of $440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of $440,000. The license is an intangible asset with no expiration date, and is included in non-depreciable assets in Note 4. As of June 30, 2011 and 2010, the Airport Authority recognized lease revenue of $86,996 for each year under the World Trade Center lease.

For the past three years the Airport Authority has planned for a new concession program at SDIA to replace the primary concession tenant whose lease will expire December 2012. The Concession Development Program (CDP) will incorporate additional concession opportunities from the Terminal 2 West, The Green Build, and Terminal 2 East expansion projects and a new concept for most of the existing locations beginning in December 2012. In February, 2011, eight food service and eight retail concession packages were released for request for proposal. When completed, the CDP will expand from the current approximately 60,000 square feet to approximately 85,000 square feet of food service and retail space. At full build-out in 2014, the number of food service and retail concession locations will increase from 55 to 86.

Note 11. Lease Commitments

Capital Leases:

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

Note 11. Lease Commitments (Continued)

The following is a schedule of future lease payments applicable to $760,332 of assets capitalized under lease agreements, and the net present value of the future lease payments as of June 30, 2011:

Years Ending June 30,	Amount
2012	$ 177,671
2013	177,671
2014	177,671
2015	25,131
Total lease payments	558,144
Less amount representing interest	(38,278)
Present value of future lease payments	$ 519,866

Operating Leases:

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

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

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

Other District leases: The Airport Authority leases from the District three additional properties adjacent to SDIA. These properties require monthly rentals of $86,083, $12,521 and $4,589 and expire in December 2013, December 2013 and April 2012, respectively. The Airport Authority received credits of $106,452 in reduced rent based on previous lease agreements for the properties during fiscal year 2006.

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

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

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

Note 11. Lease Commitments (Continued)

Deferred rent (benefit) liability: The Airport Authority accrues rent expense for its leases with predetermined escalating payments by the straight-line method over the respective lease terms. The accumulated benefit of the reduced scheduled payments of those leases is recorded as a deferred rent liability of $0 and $450,073 as of June 30, 2011 and 2010, respectively.

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

Years Ending June 30,	Amount
2012	$ 11,428,105
2013	11,382,352
2014	10,741,176
2015	10,100,000
2016	10,100,000
2017-2021	50,500,000
2022-2026	50,500,000
2027-2031	50,500,000
2032-2036	50,500,000
2037-2041	50,500,000
2042-2046	50,500,000
2047-2051	50,500,000
2052-2056	50,500,000
2057-2061	50,500,000
2062-2066	50,500,000
2067-2069	25,250,000
	$ 584,001,633

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

	2011	2010
Rental payments made	**$ 11,356,478**	$ 11,355,972
(Decrease) in accumulated benefit of reduced rents	**(450,073)**	(450,073)
	$ 10,906,405	$ 10,905,899

Note 12. Commitments and Contingencies

Commitments: As of June 30, 2011 and 2010, 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, 2011 and 2010, these funds totaled $924,568 and $1,537,894, respectively, and are classified on the accompanying balance sheets as cash and investments designated for specific capital projects and other commitments.

ii. Support services: As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provided monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2011 and 2010, the Airport Authority expensed $14,132,510 and $13,467,406, respectively, for these services.

iii. In addition, the Airport Authority has a profit sharing plan as defined under Section 401(a) of the IRC. Under the plan, eligible employees receive annual discretionary employer contributions. Airport Authority contributions are immediately vested by the participants. For fiscal years 2011 and 2010, $150,000 and $145,000 were deposited, respectively.

iv. Major contracts:

- During 2007 the Airport Authority Board approved a contract with The Jones Payne Group for $30 million for on-call architectural and engineering consultant services and support services associated with the capital improvement and airport master plan programs. At June 30, 2011, approximately $15.9 million had been spent and the remaining contract is due to be completed during fiscal year 2012.

- During 2006 the Airport Authority Board approved a contract with AECOM Aviation for $37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. The Board approved additional increases totaling $43.9 million in fiscal years 2009 and 2010. In 2011, the Board approved $45 million additional funds and approximately $85.2 million had been spent to date. The remaining contract is due to be completed during fiscal year 2014.

Note 12. Commitments and Contingencies (Continued)

- In 2009 the Board approved two design-build contracts for the Terminal Expansion Program, or The Green Build. The program is estimated to cost $864 million. The Green Build began in fiscal year 2010 and the projected completion date is 2013. The Green Build provides for 10 additional passenger gates, a new dual-level roadway at Terminal 2 and additional aircraft remain-overnight parking areas. The first Green Build contract was approved for the Terminal 2 West Building and Airside Expansion to Turner/PCL/FCI Joint Venture for $14 million. Additional amounts were approved in fiscal years 2009, 2010 and 2011, for $110.4 million, $228 million and $79 million respectively. As of June 30, 2011, $132.1 million had been spent and the contract is due to be completed during fiscal year 2013.

- The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for $43.8 million approved in 2009 and additional approvals in 2010 and 2011 for $76.2 million and $135 million respectively. As of June 30, 2011, $58.2 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is scheduled for completion in fiscal year 2013.

Contingencies: As of June 30, 2011, the Airport Authority is subject to contingencies arising from legal matters as described below:

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

Note 12. Commitments and Contingencies (Continued)

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

The former TDY property consists of approximately 47 acres of property located at 2701 N. Harbor Drive, San Diego, California. During 2004 the Airport Authority initiated litigation against the District. The litigation (State Court Case 779490 and Federal Case 3:03CV1146) has concluded and resulted in a comprehensive settlement agreement between the District, the Airport Authority and TDY. The property is still the subject of a Cleanup and Abatement Order (CAO) that names TDY as the only responsible party for the contamination on the site.

CAO No. R9-2004-0258: This action is ongoing and involves an order by the California Regional Water Quality Control Board, San Diego Region, entitled CAO No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304. The demolition of the buildings and improvements currently located on the property are the joint financial responsibility of the District and the Airport Authority. The Airport Authority's share of the cost is estimated to be $7 million and will result in the creation of a long-term capital asset. As a result, the Airport Authority will capitalize its share of the demolition costs as these costs are incurred.

Accurate Engineering Integrated Construction Services, Inc.

Accurate Engineering Integrated Construction Services, Inc. (AEICS) and the Airport Authority entered into a contract dated June 16, 2010 for work related to the Authority's Quieter Home Program (QHP), Project 380506 (the Contract). On June 13, 2011, the Authority gave AEICS a Notice of Default for failure to comply with the Contract terms and provided AEICS until June 28, 2011 to cure. On June 20, 2011, AEICS requested an extension to the cure date, and while the Authority was not legally required to grant the extension, agreed to the extension based upon AEICS' representation that it could complete all outstanding items by July 29, 2011. On July 29, 2011, AEICS had not cured all of the outstanding items and continued in default. On August 4, 2011, the Airport Authority terminated the Contract for cause. AEICS has filed claims under the contract alleging that the termination is improper. No lawsuit has been filed. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

Note 12. Commitments and Contingencies (Continued)

West-Tech Contracting, Inc. v. San Diego County Regional Airport Authority (San Diego Superior Court Case No. 37-2010-00106565CU-BC-CTL)

In April 2008, the Airport Authority entered into a public works contract with West-Tech for Project No. 103044-NTC Landfill Remediation-Phase 2 (the Landfill Contract) for the remediation of burn ash and other material at the old Naval Training Center. On June 25, 2010, West-Tech Contracting, Inc. (West-Tech) filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately $1,500,000 resulting from an alleged breach of contract by the Airport Authority. West-Tech alleges that the Airport Authority breached the Landfill Contract because: (1) it refused to allow West-Tech to use a landfill that West-Tech believed met the specifications set forth in the Landfill Contract and (2) the estimated amount of burn ash identified in the Landfill Contract as requiring removal was grossly underestimated; (3) West Tech was owed interest on late payments; (4) West Tech was owed attorneys fees on retention. On December 22, 2010, West Tech filed a lawsuit for breach of contract and declaratory relief. The claims in the lawsuit mirror the claims set forth in the claim filed pursuant to the Government Code. The Authority disputes all allegations. The Authority answered the complaint and filed a cross-complaint against West Tech for violations of the False Claims Act. The court has set a trial date of January 13, 2012. The Authority filed a Motion for Summary Adjudication/Motion for Summary Judgment seeking dismissal of the claims. The parties are engaged in discovery. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

Theresa M. Hopkins, Warren B. Hopkins, Carl W. Hopkins

On June 9, 2011, the Airport Authority received a claim pursuant to Government Code §910 alleging damages arising from the death of Wayne Hopkins. Wayne Hopkins was employed by the Airport Authority from April 1, 2005 until December 10, 2010. While employed by the Airport Authority, Mr. Hopkins' office was located on the TDY site from April 2008 until December 2010. Before being employed by the Airport Authority, Mr. Hopkins worked for the Port District and Teledyne Ryan where his office was located on the TDY site. Mr. Hopkins worked for TDY for approximately 30 years. The claim alleges that Wayne Hopkins was wrongfully exposed to toxic material while he worked at the Teledyne Ryan Aeronautical Facility located at 2701 North Harbor Drive. As a result of the exposure, he developed Non-Hodgkin's Lymphoma which caused his death on December 12, 2010. The claim seeks damages exceeding $3 million. The Airport Authority Board denied the claim on July 7, 2011. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.