SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE
and
SPECIAL BOARD MEETING *
AGENDA

Monday, November 17, 2014
10:00 A.M.

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

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

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

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

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

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

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

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

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

NON-AGENDA PUBLIC COMMENT:

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

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

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
   RECOMMENDATION: Approve the minutes of the August 18, 2014, regular meeting.

2. **EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2014, REPORTS: A) AUDITED FINANCIAL STATEMENT, B) COMPLIANCE (SINGLE AUDIT) REPORT, C) PASSENGER FACILITY CHARGE COMPLIANCE REPORT, D) CUSTOMER FACILITY CHARGE COMPLIANCE REPORT, AND E) REPORT TO THE AUDIT COMMITTEE:**
   RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for acceptance. ***(Requires five (5) affirmative votes of the Audit Committee)***
   Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management; BKD, LLP; and Mark A. Burchyett, Chief Auditor

3. **REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2014:**
   RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.
   Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management

4. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2015 FIRST QUARTER, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.
Presented by: Mark A. Burchyett, Chief Auditor; and Fred Bolger, Manager, Audit Services

5. ANNUAL INTERNAL QUALITY ASSESSMENT FOR THE OFFICE OF THE CHIEF AUDITOR – FISCAL YEAR 2014:
RECOMMENDATION: Information item only.
Presented by: Mark A. Burchyett, Chief Auditor

6. CONSTRUCTION AUDIT STATUS REPORT:
RECOMMENDATION: Information item only.
Presented by: Fred Bolger, Manager, Audit Services

NON-AGENDA PUBLIC COMMENT:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

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

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

Additional Meeting Information

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

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

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

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

DRAFT

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MINUTES
MONDAY, AUGUST 18, 2014
BOARD ROOM

CALL TO ORDER:

Chair Smisek called the meeting of the Audit Committee to order at 10:02 a.m., on Monday, August 18, 2014, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Committee Member Hubbs led the Pledge of Allegiance.

ROLL CALL:

PRESENT: Committee Members: Gleason, Hubbs, Sessom, Smisek

ABSENT: Committee Members: Hollingworth, Tartre, Van Sambeek

ALSO PRESENT: Thella F. Bowens, President/CEO; Amy Gonzalez, Sr. Director, General Counsel; Lorraine Bennett, Assistant Authority Clerk II; Linda Gehlken, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the May 12, 2014, regular meeting.

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

2. **FISCAL YEAR 2014 – ANNUAL REPORT FROM THE AUDIT COMMITTEE:**
Chair Smisek provided an overview of the Fiscal Year 2014 Annual Report from the Audit Committee, noting that one item missing from the report was that the Office of the Chief Auditor underwent an External Assessment Review during the fiscal year and passed satisfactorily.

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

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

3. FISCAL YEAR 2014 – ANNUAL AUDIT ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR, AND AUDIT RECOMMENDATIONS FROM THE OFFICE OF THE CHIEF AUDITOR FOR REVIEW:

Fred Bolger, Manager, Audit Services, provided a presentation on the Fiscal Year 2014 Annual Audit Activities Report from the Office of the Chief Auditor that included Audit Activities; Audits in Progress; Recommendation Follow-up; Fiscal Year 2014 Performance Measure Outcomes; and Non-Audit Activities and On-Going Activities.

In response to Board Member Gleason regarding the status of Revenue Contract Audit Report No. 14017, Nevada Lease and Rentals, Inc. (Payless), Kathy Kiefer, Sr. Director, Finance & Asset Management, stated that staff met with Payless to discuss the deficiency the audit found, and that Payless has hired a Certified Public Accountant (CPA) firm to assist them. She stated that upon receipt of the work papers from the CPA firm and its assessment of the issues, Authority staff will then meet with Payless to determine how to move forward.

In response to Board Member Gleason regarding business process audits, and whether staff has benefited from the audits in terms of process improvements, Thella F. Bowens, President/CEO, stated that these audits should be coordinated closely between the Audit team and Management and should only be included on the Audit Plan with total agreement beforehand from Management that there is a need.

Mark Burchyett, Chief Auditor, provided insight into the process involved in conducting business process audits, including that he holds meetings with Board Members and Authority staff to gain their input prior to the Audit Plan being brought to the Audit Committee for approval.

Ms. Bowens suggested that before the Audit Plan is established, a meeting with Management should be included about which, if any, performance audits are going to be included in the normal course of business for internal audit responsibilities.

Chair Smisek recommended that Ms. Bowens and Mr. Burchyett meet to discuss the process for conducting Performance Audits, and provide an update at the next Audit Committee meeting.

In response to Board Member Sessom's concern about why there should be agreement between Management and the Office of the Chief Auditor about what audits will be performed, Ms. Bowens stated that this applies to the performance audit function only. She further explained that these audits are in very specialized areas and requires a certain level of expertise by the auditors.

Mr. Burchyett stated that all of Office of the Chief Auditor staff has received specialized training in conducting Performance Audits.

Board Member Hubbs expressed concern about the auditor's involvement with the analysis for converting contract staff to Authority staff as presented in the Soft Savings Estimate table, stating that this should be Management's role.

Mark Burchyett, Chief Auditor, stated that the Office of Chief Auditor provides the analysis only as to show any cost benefit in hiring contract employees as full-time employees.

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

Chair Smisek requested, with consensus by the Committee, to forward this item to the Board.

ACTION: No action taken

4. REVISION TO THE CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR:
Mark Burchyett, Chief Auditor, provided a presentation of the revisions requested to the Charter for the Office of the Chief Auditor that included Background for Charter Change and Charter Change Recommendation to address consulting services as recommended in the Quality Assessment Review report issued April 2014.

RECOMMENDATION: Staff recommends that the Audit Committee approve and forward to the Board for approval revisions to the Charter for the Office of the Chief Auditor to address consulting services recommended as part of the Quality Assessment Review.

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

5. UPDATE ON CONCESSION AUDITS:

Michael Williams, Auditor, provided a presentation update on concession audits that included Background; New to the Authority; Audit Preparation; Office of the Chief Auditor's Role; What We Have Found; Recommendations; and The Road Ahead.

In response to Board Member Sessom's concern regarding what is being done to ensure that street pricing is being charged by the concessionaires to the traveling public at the Airport, Thella F. Bowens, President/CEO, stated that the Authority allows the concessionaires to perform their own surveys on street pricing. She further stated that these issues will continue until such time as the problems are corrected.

In response to Board Member Gleason regarding what is being done to fix this issue, Nyle Marmion, Program Manager, Concession Development, stated that a bottled water survey was conducted over the summer, and that staff is working with the concessionaires to address their bottled water pricing. He also stated that staff is looking at having the Authority provide the comps.

In response to Board Member Hubbs regarding the coordination of concessionaires' and tenants' reporting of information to the auditors, Mark Burchyett, Chief Auditor, stated that there is clear delineation made by the auditors between the Business & Financial Management data and that of the concessionaires. He stated that there is ongoing communication with both entities throughout the audit.

RECOMMENDATION: Information item only.

ACTION: No action taken.

6. UPDATE ON THE GREEN BUILD CONSTRUCTION AUDIT:

Callie Ullman, Senior Auditor, provided a Green Build Construction Audit update that included a Summary Report of Green Build Audit Activities; R.W. Block Consulting Activities; Office of the Chief Auditor Construction Audit Activities; Observations and Management Actions; and Close Out Activities.

RECOMMENDATION: Information item only.

ACTION: No action taken.

7. REVISION TO THE FISCAL YEAR 2015 AUDIT PLAN:

Mark A. Burchyett, Chief Auditor, reported that the audit of GGTW, LLC that was a special request from Board Member Cox is completed.

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

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

NON-AGENDA PUBLIC COMMENT: None

COMMITTEE MEMBER COMMENTS: None

ADJOURNMENT: The meeting was adjourned at 11:12 p.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 17TH DAY OF NOVEMBER, 2014.

____
MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:

____
LORRAINE BENNETT
ASSISTANT AUTHORITY CLERK II

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE

Item No.
2

Meeting Date: **NOVEMBER 17, 2014**

Subject:

External Auditor's Fiscal Year Ended June 30, 2014, Reports: A) Audited Financial Statement, B) Compliance (Single Audit) Report, C) Passenger Facility Charge Compliance Report, D) Customer Facility Charge Compliance Report, and E) Report to the Audit Committee

Recommendation:

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

Background/Justification:

An external audit of financial statements is the verification of the financial statements of a legal entity, conducted by external (independent) qualified accountant(s), with a view to express an audit opinion. Its objective is to determine, among other things, whether (1) the accounting records are accurate and complete, (2) prepared according to the provisions of Generally Accepted Accounting Principles (GAAP), and (3) the statements prepared from the accounts are a fair representation of the organization's financial position, and the results of its financial operations.

The National Council of Non Profits states that all non-federal government agencies and nonprofit organizations that expend $500,000 or more in federal awards in a given fiscal year are required to conduct a single audit, also known as a "A-133 Audit". The requirement for a nonprofit to conduct a "single audit" is triggered when a nonprofit receives funding from either one or several federal government funding sources (whether in the form of a government contract or a grant) and when that nonprofit expends a certain amount of government funding in a single year. The Single Audit Act of 1984 was passed by the government to ensure that those organizations receiving substantial federal funds use the funds in compliance with the federal government's funding requirements.

The government auditing standards and generally accepted auditing standards require that an independent external auditor perform an annual audit of the Airport Authority's financial statements.

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

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

During the May 12, 2014, Audit Committee Meeting, BKD, LLP communicated their scope, timing, and approach to planning the Authority's Fiscal Year Ended June 30, 2014, Financial and Compliance audit.

On November 17, 2014, a presentation by BKD, LLP on the Fiscal Year Ended June 30, 2014, audited financial statements (Attachments A through E) will be provided at a regular meeting of the Audit Committee for the members to review and accept.

Fiscal Impact:

Adequate funding for the audit conducted by BKD, LLP is included in the adopted FY 2015 and conceptually approved FY 2016 Operating Expense Budgets within the Accounting Department Services – Auditing line item.

Authority Strategies:

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

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

Environmental Review:

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

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

Application of Inclusionary Policies:

Inclusionary Policy requirements were included during the solicitation process prior to the contract award.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

Financial Statement

For the Fiscal Years Ended June 30, 2014 and 2013

San Diego County Regional Airport Authority

June 30, 2014 and 2013

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BKD LLP
CPAs & Advisors

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (Airport Authority) which are comprised of a statement of net position as of June 30, 2014, and statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2013 financial statements were audited by other auditors and their report thereon, dated October 18, 2013, expressed an unmodified opinion.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, 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* in considering the Airport Authority's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
October 24, 2014

Management's Discussion and Analysis

For The Period July 1, 2013 to June 30, 2014

INTRODUCTION

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

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

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

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

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

Legislative Background

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

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

(1) Operation of SDIA;

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

(3) Development of comprehensive airport land use plans for the airports in the county;

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

(5) In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

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

Airport Activities Highlights (2012 – 2014)

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

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

	FY 2012	FY 2013	**FY 2014**
Enplaned passengers	8,575,475	8,737,617	**9,082,244**
% increase	1.6%	1.9%	**3.9%**
Total passengers	17,138,911	17,440,968	**18,145,130**
% increase	1.6%	1.8%	**4.0%**
Aircraft operations	188,280	188,304	**187,790**
% increase	1.1%	0.0%	**-0.3%**
Freight and mail (in tons)	132,493	157,025	**164,966**
% increase	1.9%	18.5%	**5.1%**
Landed weight (in thousands)	10,820	11,016	**11,187**
% increase	2.0%	1.8%	**1.6%**

Overall, the improving economy is having a positive effect on aircraft operations at SDIA. The most significant increase since the 2008 economic downturn occurred in fiscal year 2014 with a 3.9 percent increase in enplanements. Also, total passengers increased by 4.0 percent and freight and mail tons increased 5.1 percent. Overall, it appears the improving economy continues to have a positive effect on aircraft operations at SDIA.

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

The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position increased consistently over the past two fiscal years by 9.7 percent in 2012, and 10.0 percent in 2013 and decreased slightly in 2014. The fiscal year 2014 decrease is primarily due to an increase in interest expense of approximately $40 million and an increase in depreciation and amortization of approximately $36 million. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2012	FY 2013	**FY 2014**
Operating revenues	$ 153,550	$ 177,498	**$ 195,737**
Operating expenses	(163,701)	(168,420)	**(214,026)**
Nonoperating revenues, net	47,951	41,020	**14,318**
Capital contributions and grants	20,834	16,077	**3,924**
Increase (decrease) in net position	58,634	66,175	**(47)**
Net position, beginning of year	602,255	660,889	**727,064**
Net position, end of year	$ 660,889	$ 727,064	**$ 727,017**

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

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

	FY 2013	**FY 2014**	From 2013 to 2014 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 19,658	**$ 19,107**	$ (551)	(2.8%)
Aircraft parking fees	3,191	**2,503**	(688)	(21.6%)
Building rentals	41,840	**46,001**	4,161	9.9%
Security surcharge	23,360	**25,777**	2,417	10.3%
Other aviation revenue	1,591	**4,488**	2,897	182.1%
Total airline revenue	89,640	**97,876**	8,236	9.2%
Non-airline terminal rent	972	**1,158**	186	19.1%
Concession revenue	42,041	**47,770**	5,729	13.6%
Parking and ground transportation revenue	35,750	**38,959**	3,209	9.0%
Ground rentals	8,190	**8,445**	255	3.1%
Other operating revenue	905	**1,529**	624	69.0%
Total operating revenue	$ 177,498	**$ 195,737**	$ 18,239	10.3%

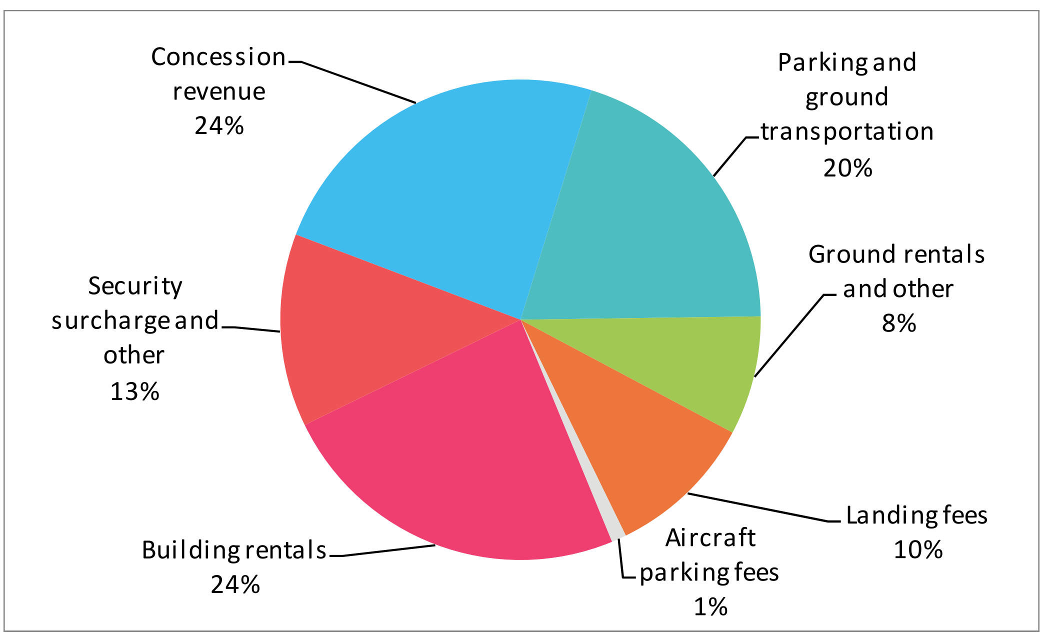
	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 18,419	$ 19,658	$ 1,239	6.7%
Aircraft parking fees	3,135	3,191	56	1.8%
Building rentals	30,633	41,840	11,207	36.6%
Security surcharge	18,649	23,360	4,711	25.3%
Other aviation revenue	1,595	1,591	(4)	(0.3%)
Total airline revenue	72,431	89,640	17,209	23.8%
Non-airline terminal rent	907	972	65	7.2%
Concession revenue	40,427	42,041	1,614	4.0%
Parking and ground transportation revenue	31,470	35,750	4,280	13.6%
Ground rentals	7,136	8,190	1,054	14.8%
Other operating revenue	1,179	905	(274)	(23.2%)
Total operating revenue	$ 153,550	$ 177,498	$ 23,948	15.6%

Operating Revenues, Continued

Fiscal year 2014 compared to 2013: Total airline revenues increased by $8.2 million or 9.2 percent, primarily reflecting the cost recovery system for the airlines which was higher in fiscal year 2014, compared to 2013. Building rentals increased due to the implementation of the new airline use and lease agreement and the additional costs incurred by the fiscal year 2014 grand opening of the airport expansion. Security surcharge revenue increased due to additional costs of services and expanded facilities. Combined in other aviation revenue, common use system support charges were implemented in fiscal year 2014. Offsetting the airline revenue were decreased landing fees due to lower maintenance costs and decreased aircraft parking fees due to vacant parking positions. Concession revenue increased by $5.7 million or 13.6 percent due to the new expanded concession program and the airport expansion. Parking and ground transportation revenue increased $3.2 million and 9.0 percent due to the reopening of Terminal 2 parking lot in front of the new expanded terminal and the increased enplanements.

Fiscal year 2013 compared to 2012: Total airline revenues increased by $17.2 million or 23.8 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was higher in fiscal year 2013, compared to 2012. Building rentals saw a graduated rate increase from 60 percent to 100 percent and the security surcharge increased from 85 percent to 100 percent reflecting the cost recovery formula. Landing fees increased by $1.2 million or 6.7 percent, due to increased airfield maintenance expenses and increased landed weight. Concession revenue increased by $1.6 million or 4.0 percent, reflecting slightly higher enplanements and higher per enplanement sales. Parking revenues increased by $4.3 million or 13.6 percent, due in part to the reopening of Terminal 2 parking that was temporarily closed in fiscal year 2012 to facilitate the construction of the Green Build. Ground rentals revenue increased in 2013 by $1.1 million or 14.8 percent, due to increased rental space by FedEx, and a consumer price index rent increase to FedEx, Southwest, and UPS. The $274 thousand or 23.2 percent decrease, in other operating revenue reflects a change in utility billing practices of the new concession program beginning January 2013, which are now included as part of the base rent.

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2014
Operating Revenues



Operating Expenses (in thousands)

	FY 2013	**FY 2014**	From 2013 to 2014 Increase (Decrease)	From 2013 to 2014 % Change
Salaries and benefits	$ 38,092	**$ 39,135**	$ 1,043	2.7%
Contractual services	29,284	**31,559**	2,275	7.8%
Safety and security	23,994	**24,151**	157	0.7%
Space rental	10,897	**10,478**	(419)	(3.8%)
Utilities	6,659	**8,680**	2,021	30.3%
Maintenance	11,204	**13,982**	2,778	24.8%
Equipment and systems	469	**643**	174	37.1%
Materials and supplies	406	**440**	34	8.4%
Insurance	795	**988**	193	24.3%
Employee development and support	1,235	**1,171**	(64)	(5.2%)
Business development	2,444	**2,661**	217	8.9%
Equipment rentals and repairs	1,317	**2,932**	1,615	122.6%
Total operating expenses before depreciation and amortization	126,796	**136,820**	10,024	7.9%
Depreciation and amortization	41,624	**77,205**	35,581	85.5%
Total operating expense	$ 168,420	**$ 214,025**	45,605	27.1%

	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	From 2012 to 2013 % Change
Salaries and benefits	$ 37,237	$ 38,092	$ 855	2.3%
Contractual services	26,906	29,284	2,378	8.8%
Safety and security	22,625	23,994	1,369	6.1%
Space rental	11,415	10,897	(518)	(4.5%)
Utilities	6,674	6,659	(15)	(0.2%)
Maintenance	8,497	11,204	2,707	31.9%
Equipment and systems	403	469	66	16.4%
Materials and supplies	304	406	102	33.6%
Insurance	764	795	31	4.1%
Employee development and support	916	1,235	319	34.8%
Business development	2,093	2,444	351	16.8%
Equipment rentals and repairs	1,335	1,317	(18)	(1.3%)
Total operating expenses before depreciation and amortization	119,169	126,796	7,627	6.4%
Depreciation and amortization	44,532	41,624	(2,908)	(6.5%)
Total operating expense	$ 163,701	$ 168,420	$ 4,719	2.9%

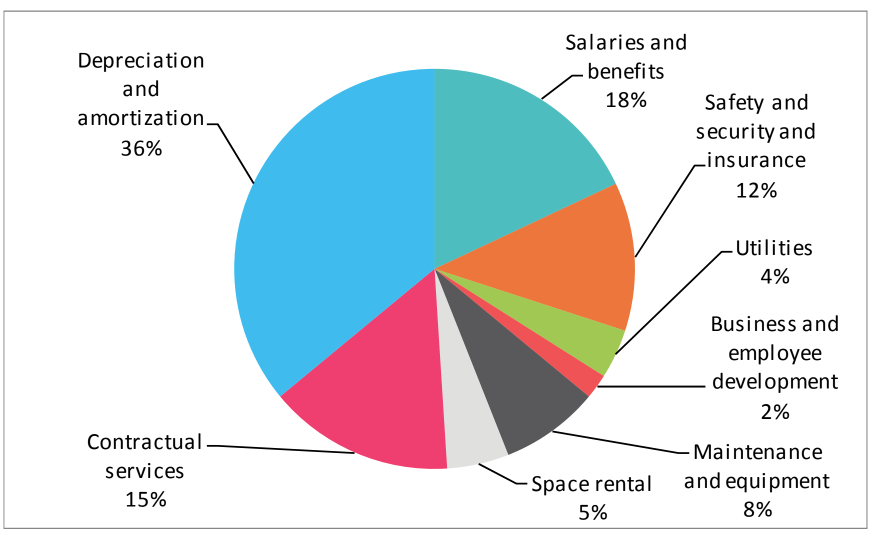
Fiscal year 2014 compared to 2013: Total fiscal year 2014 operating expenses increased by $45.6 million, or 27.1 percent. The primary increase was due to the full year's depreciation of the terminal expansion that was partially placed in service in fiscal year 2013 and continued to increase as the expansion was completed in fiscal year 2014, $35.6 million or 85.5 percent. Additionally contributing to the increase were the increased salaries and benefits of $1.0 million, primarily resulting from increased head count due to expansion, salary increases and higher costs for medical benefits. There were also increased contractual services of $2.2 million, primarily resulting from increased shuttles and parking contract costs; safety and security increased $157 thousand due to greater usage from the terminal expansion; utilities increased $2.0 million due to increased rates and usage; maintenance increased by $2.8 million, reflecting costs of airfield repairs, elevator and escalator repairs and runway restriping. Additional support was provided to a new common use passenger processing system, contributing to the $174 thousand increase. Insurance increased by $193 thousand, business development increased $217 thousand and equipment rental and repairs increased $1.6 million due to amortization of new system warranties on baggage handling systems and common use passenger systems.

Offsetting this increase were the following decreases: space rental of $419 thousand reflecting the cancellation of an employee parking lease, and other minor reductions in employee development and support.

Fiscal year 2013 compared to 2012: Total fiscal year 2013 operating expenses increased by $4.7 million, or 2.9 percent. Contributing to this increase included: increased salaries and benefits of $855 thousand, primarily due to salary increases and higher costs for medical benefits; increased contractual services of $2.4 million, primarily due to the Green Build associated consulting services such as, ramp control professional services and selecting software to manage the new systems and building. Additionally, safety and security increased by $1.4 million, due to increased Harbor Police salaries and benefits expense under a new proposed agreement; maintenance increased by $2.7 million reflecting costs of sink hole repair, elevator and escalator repairs and runway restriping; employee development and support increased by $319 thousand, due to the new Green Build systems training; business development increased by $351 thousand, reflecting advertising and marketing for Japan Airlines and Green Build related promotions.

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

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2014
Operating Expenses



Nonoperating Revenues and Expenses (in thousands)

	FY 2013	**FY 2014**	From 2013 to 2014 Increase (Decrease)	% Change
Passenger facility charges	$ 35,438	**$ 35,770**	$ 332	0.9%
Customer facility charges	19,117	**27,545**	8,428	44.1%
Quieter Home Program, net	(1,589)	**(2,750)**	(1,161)	73.1%
Joint studies program	(55)	**(152)**	(97)	176.4%
Interest income	4,140	**5,211**	1,071	25.9%
Interest expense, net	(11,752)	**(51,740)**	(39,988)	(340.3%)
Other nonoperating income (expenses)	(4,279)	**434**	4,713	110.1%
Nonoperating revenues, net	$ 41,020	**$ 14,318**	$ (26,702)	(65.1%)

	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	% Change
Passenger facility charges	$ 34,639	$ 35,438	$ 799	2.3%
Customer facility charges	11,487	19,117	7,630	66.4%
Quieter Home Program, net	(3,531)	(1,589)	1,942	(55.0%)
Joint studies program	(73)	(55)	18	(24.7%)
Interest income	5,491	4,140	(1,351)	(24.6%)
Interest expense, net	2,969	(11,752)	(14,721)	(495.8%)
Other nonoperating income (expenses)	(3,032)	(4,279)	(1,247)	(41.1%)
Nonoperating revenues, net	$ 47,950	$ 41,020	$ (6,930)	(14.5%)

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

Customer Facility Charges (CFCs) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a $10 per contract CFC on rental cars in May 2009. The revenues collected are being used to plan and construct a consolidated rental car facility and related ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of $10 per contract was changed to $6 per day up to five days. The fee was again increased in January 2014, to $7.50 per day up to five days. The fee is scheduled to increase to $9.00 per day in January 2017.

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 fiscal year 2014, the Airport Authority has spent $162.9 million and received reimbursement for $132.7 million.

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

Interest expense includes interest paid and accrued on the 2010, 2013 and 2014 Series Bonds and Commercial Paper Series A, B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in fiscal years ended June 30, 2014 and 2013 was $7 million and $29.4 million, respectively. Also included in interest expense is the Series C Bonds that were issued as Build America Bonds and include a cash subsidy from the U.S. Treasury equal to 35 percent of the interest payable. During mid- fiscal year 2013 the 35 percent subsidy ended due to the federal government’s sequestration measures and was replaced with a reduced rate of 31.96 percent. The interest subsidy for the fiscal years ended June 30, 2014 and 2013 was $4.6 million and $4.8 million, respectively.

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

Fiscal year 2014 compared to 2013: Nonoperating revenues (net) decreased by $26.7 million or 65.1 percent. This is primarily due to the $40 million increased interest expense that no longer was capitalized in fiscal year 2014 due to the completion of the Green Build assets and the additional 2014 bond debt. Additionally, there was a net $1.1 million in reduced Quieter Home Program.

Offsetting the decrease was the $8.4 million in customer facility charges due to the January 1, 2014 increase from $6 to $7.50 per day per transaction up to five days. Other nonoperating income increased by $4.7 million due to fiscal year 2013 unrealized investment losses of $2.3 million and loss on disposal of assets, $2.3 million, due to the Green Build expansion and replacement of assets.

Fiscal year 2013 compared to 2012: Nonoperating revenues (net) decreased by $6.9 million or 14.5 percent. This is primarily due to the increased interest expense on the 2013 bonds. Additionally, there was reduced interest income of $1.4 million due to lower interest rates and other nonoperating income (expenses) of $1.2 million due to unrealized investment losses.

Offsetting the decrease is the $799 thousand increase in passenger facility charges reflecting increased enplanements and $7.6 million increased customer facility charges. The increased customer facility charges are due to a rate increase effective November 1, 2012, from $10 per contract to $6 per day up to five days. Additionally, the Quieter Home Program contributed $1.9 million due to higher activity.

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

Assets, Liabilities and Net Position

The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities, deferred inflows and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2012, 2013 and 2014 is as follows:

	FY 2012	FY 2013	**FY 2014**
Assets			
Current assets	$ 197,586	$ 224,303	**$ 214,853**
Capital assets, net	896,477	1,178,144	**1,310,973**
Noncurrent assets	333,352	528,336	**695,698**
Total assets	1,427,415	1,930,783	**2,221,524**
Deferred outflows of resources	1,855	4,397	**758**
Total assets and deferred outflows of resources	$ 1,429,270	$ 1,935,180	**$ 2,222,282**
Liabilities			
Current liabilities	$ 115,071	$ 121,384	**$ 119,088**
Long-term liabilities	653,310	1,086,732	**1,376,177**
Total liabilities	768,381	1,208,116	**1,495,265**
Net Position			
Net investment in capital assets	339,467	359,640	**312,781**
Restricted	172,076	167,384	**204,642**
Unrestricted	149,346	200,040	**209,594**
Total net position	660,889	727,064	**727,017**
Total liabilities and net position	$ 1,429,270	$ 1,935,180	**$ 2,222,282**

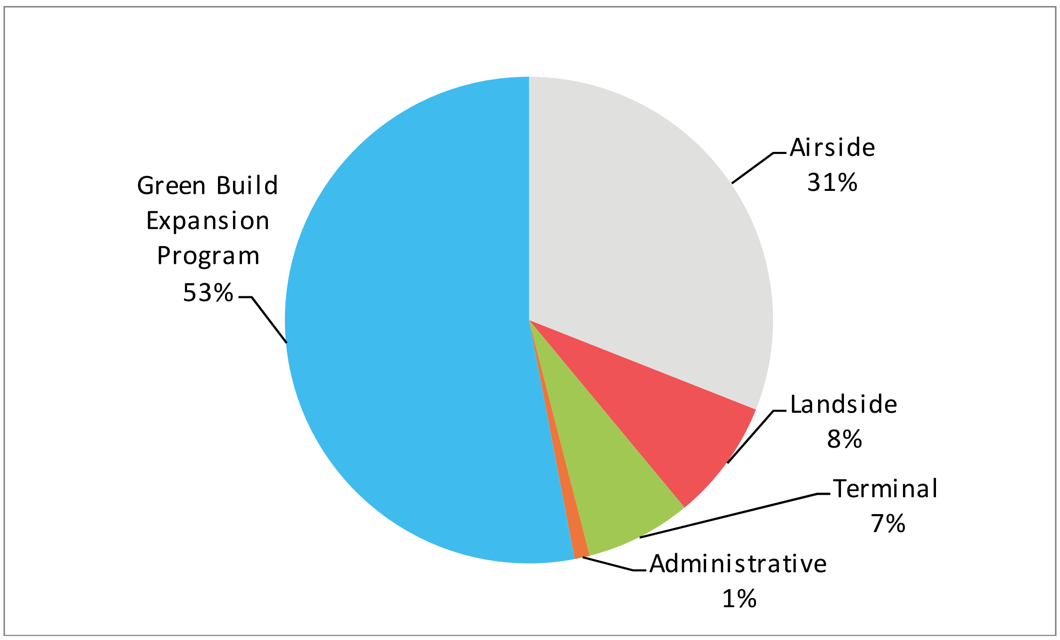
As of June 30, 2014, the Airport Authority's assets and deferred outflows of resources exceeded liabilities by $727.0 million, a $47 thousand decrease from June 30, 2013. The June 30, 2013 total net position was $66.2 million greater than June 30, 2012. The largest portion of the Airport Authority's net position represents its net investment in capital assets. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The unrestricted net position of $209.6 million as of June 30, 2014, $200 million as of 2013 and $149.3 million as of 2012, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2014, 2013, and 2012 management has designated unrestricted funds in the amount of $17.1 million, $9.5 million, and $9.0 million respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance, net pension asset and operating contingency.

Capital Asset and Capital Improvement Program

The capital program at SDIA consists of the Capital Improvement Program (CIP) and the Green Build. The CIP is a rolling five-year program that provides critical improvements and asset preservation. The program includes capital improvement projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration's Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds and short-term borrowing using commercial paper/revolving line of credit. The capital program includes funding for the Green Build to expand Terminal 2 with 10 additional passenger gates, a dual-level roadway at Terminal 2 and additional overnight parking areas. The Green Build is substantially complete and closeout tasks are currently underway. The total budget for the Green Build is $820 million.

In February 2014, $305 million of Senior Special Facilities Revenue Bonds were issued to be used for the rental car center scheduled for completion January 2016. The current CIP, which includes projects through 2019, consists of $193.3 million for airside projects, $814.4 million for landside projects, $639.3 million for terminal projects, and $19.7 million for administrative projects. The current SDIA CIP does not include noise reduction, and related projects.

Capital Improvement Program (CIP) Projects by Type



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

Capital Financing and Debt Management

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

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury; currently, 31.96 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.48 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs; it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are $19 million annually for fiscal years 2014 through 2016. As of June 30, 2014, the principal balance on the subordinate Series 2010 Bonds was $569.9 million.

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2014 amounted to $18.48 million, including accrued interest of $9.2 million. The principal balance on the Series 2013 Bonds as of June 30, 2014 was $379.6 million.

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

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

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

The Series 2014 A Bond were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 3.73 percent.

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

As of June 30, 2014, $44.9 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non-AMT), Series B (AMT) and Series C (taxable) is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to $250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the letter of credit expiration date. The letter of credit is currently securing the commercial paper notes. At the expiration date, 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.

The Airport Authority will replace the commercial paper program with a $125,000,000 revolving line of credit, issued by US Bank, which will be used to refund the outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year facility and will take effect on September 5, 2014.

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

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

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

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $18 million in grant awards for the federal fiscal year ended September 30, 2014, as compared to $22.3 million for 2013. Grant awards are recognized as nonoperating revenue or capital contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

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

Basic Financial Statements:

San Diego County Regional Airport Authority

Statements of Net Position
June 30, 2014 and 2013

Assets	2014	2013
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	$ 26,510,543	$ 63,626,765
Investments (Note 2)	70,752,557	42,223,353
Tenant lease receivables, net	9,112,683	8,037,665
Grants receivable	5,937,346	3,828,572
Note receivable, current portion (Note 3)	1,528,512	1,446,896
Other current assets	4,265,960	6,279,146
Total unrestricted current assets	118,107,601	125,442,397
Restricted cash, cash equivalents and investments with trustees (Notes 2 and 5)	96,745,172	98,860,395
Total current assets	214,852,773	224,302,792
Noncurrent Assets		
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments not with trustees	161,369,744	150,891,087
Restricted investments with trustees	406,579,651	265,568,939
Passenger facility charges receivable (Note 1)	4,066,248	5,545,716
Customer facility charges receivable (Note 1)	3,394,812	2,301,027
Other restricted assets	4,908,711	5,380,813
Total restricted assets	580,319,166	429,687,582
Other noncurrent assets:		
Investments, noncurrent (Note 2)	52,455,753	41,931,321
Note receivable, long-term portion (Note 3)	38,358,256	39,886,768
Cash and cash equivalents designated for specific capital projects and other commitments (Notes 2 and 12)	17,144,996	9,565,751
Net OPEB asset (Notes 8)	6,919,775	6,648,142
Workers' compensation security deposits	500,367	616,495
Total other noncurrent assets	115,379,147	98,648,477
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	71,081,846	65,865,787
Buildings and structures	1,026,068,015	715,421,387
Machinery and equipment	51,618,837	50,717,389
Runways, roads and parking lots	568,935,877	526,061,707
Construction in progress	250,103,154	401,825,140
	1,967,807,729	1,759,891,410
Less accumulated depreciation	(656,835,195)	(581,747,601)
Capital assets, net	1,310,972,534	1,178,143,809
Total noncurrent assets	2,006,670,847	1,706,479,868
Total assets	2,221,523,620	1,930,782,660
Deferred outflows of resources		
Deferred loss on debt refunding	758,047	4,396,671
Total assets and deferred outflows of resources	$ 2,222,281,667	$ 1,935,179,331

Liabilities and Net position	**2014**	2013
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	**$ 12,690,539**	$ 9,830,408
Accrued liabilities	**5,365,100**	8,548,307
Compensated absences, current portion (Note 5)	**2,659,580**	2,357,925
Other current liabilities	**1,447,098**	1,458,891
Leases payable, current portion (Note 5)	**180,559**	328,012
Total payable from unrestricted assets	**22,342,876**	22,523,543
Payable from restricted assets:		
Accounts payable	**18,451,369**	22,491,968
Accrued liabilities	**41,420,014**	51,744,366
Bonds and commercial paper notes payable, current portion (Note 5)	**5,785,000**	1,000,000
Accrued interest on bonds and commercial paper (Note 5)	**31,088,789**	23,624,061
Total payable from restricted assets	**96,745,172**	98,860,395
Total current liabilities	**119,088,048**	121,383,938
Long-Term Liabilities		
Compensated absences, net of current portion (Note 5)	**435,105**	731,831
Other noncurrent liabilities	**1,115,109**	795,430
Commercial paper notes payable (Note 5)	**44,884,000**	50,969,000
Bonds payable and capital leases	**1,329,742,959**	1,034,235,764
Total long-term liabilities	**1,376,177,173**	1,086,732,025
Total liabilities	**1,495,265,221**	1,208,115,963
Net Position		
Net investment in capital assets (Note 1)	**312,780,398**	359,639,832
Restricted:		
Debt Service	**73,153,425**	43,638,543
Construction	**110,194,470**	102,712,335
Operation and maintenance expenses	**12,385,784**	11,651,772
Small business bond guarantee	**4,000,000**	4,000,000
OCIP loss reserve	**4,908,711**	5,380,813
Total restricted net position	**204,642,390**	167,383,463
Unrestricted net position	**209,593,658**	200,040,073
Total net position	**$ 727,016,446**	$ 727,063,368

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position
June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Airline revenue:		
Landing fees	**$ 19,107,258**	$ 19,658,173
Aircraft parking fees	**2,503,180**	3,190,928
Building rentals (Note 10)	**46,001,154**	41,839,619
Security surcharge	**25,776,517**	23,359,938
Other aviation revenue	**4,488,115**	1,591,266
Concession revenue	**47,769,865**	42,040,742
Parking and ground transportation revenue	**38,959,020**	35,750,484
Ground and non-airlilne terminal rentals (Note 10)	**9,602,842**	9,161,514
Other operating revenue	**1,528,886**	905,150
Total operating revenues	**195,736,837**	177,497,814
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	**39,135,299**	38,092,464
Contractual services (Note 12)	**31,559,247**	29,283,526
Safety and security	**24,150,563**	23,994,020
Space rental (Note 11)	**10,478,262**	10,897,338
Utilities	**8,680,410**	6,659,333
Maintenance	**13,981,689**	11,204,465
Equipment and systems	**643,225**	468,699
Materials and supplies	**440,007**	405,863
Insurance	**988,382**	794,984
Employee development and support	**1,170,551**	1,234,757
Business development	**2,661,224**	2,444,407
Equipment rentals and repairs	**2,931,796**	1,316,543
Total operating expenses before depreciation and amortization	**136,820,655**	126,796,399
Income from operations before depreciation and amortization	**58,916,182**	50,701,415
Depreciation and amortization	**77,205,256**	41,623,629
Operating income (loss)	**(18,289,074)**	9,077,786

(Continued)

See Notes to Financial Statements.

	2014	2013
Nonoperating revenues (expenses):		
Passenger facility charges	**$ 35,769,515**	$ 35,437,453
Customer facility charges	**27,545,001**	19,117,217
Quieter Home Program grant revenue (Note 1)	**12,373,861**	13,241,658
Quieter Home Program expenses (Note 1)	**(15,124,141)**	(14,830,457)
Joint Studies Program	**(151,855)**	(55,254)
Interest income	**5,210,853**	4,140,068
Interest expense (Note 5)	**(56,375,726)**	(16,530,425)
Build America Bonds subsidy (Note 5)	**4,636,215**	4,778,599
Other revenues (expenses), net	**434,097**	(4,279,123)
Nonoperating revenue, net	**14,317,820**	41,019,736
Income (loss) before capital grant contributions	**(3,971,254)**	50,097,522
Capital grant contributions (Note 1)	**3,924,332**	16,077,280
Change in net position	**(46,922)**	66,174,802
Net position, beginning of year	**727,063,368**	660,888,566
Net position, end of year	**$ 727,016,446**	$ 727,063,368

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Receipts from customers	$ 193,452,612	$ 174,459,266
Payments to suppliers	(90,999,011)	(81,174,308)
Payments to employees	(40,315,057)	(37,008,283)
Other receipts (payments)	(1,821,619)	(149,956)
Net cash provided by operating activities	60,316,925	56,126,719
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	434,097	4,756
Quieter Home Program grant receipts	10,265,087	13,264,899
Quieter Home Program payments	(15,124,141)	(14,832,460)
Joint Studies Program payments	(151,855)	(53,251)
Net cash used in noncapital financing activities	(4,576,812)	(1,616,056)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(224,557,658)	(325,984,231)
Proceeds on Build America Bonds subsidy	4,636,215	4,778,599
Proceeds from sale of capital assets	11,273	694,150
Federal grants received (excluding Quieter Home Program)	3,924,332	16,093,276
Proceeds from passenger facility charges	37,248,983	34,304,024
Proceeds from customer facility charge	26,451,216	17,905,417
Proceeds from issuance of commercial paper	-	31,045,000
Payment of principal on bonds and commercial paper	(7,085,000)	(39,745,000)
Proceeds from issuance of Series 2013 Bond	-	435,519,101
Proceeds from issuance of Series 2014 Bond	305,879,266	-
Payment of capital lease	(341,661)	-
Interest and debt fees paid	(49,674,023)	(4,215,620)
Net cash provided by capital and related financing activities	96,492,943	170,394,716
Cash Flows From Investing Activities		
Sales and maturities of investments	209,856,636	127,453,246
Purchases of investments	(398,284,418)	(363,755,197)
Interest received on investments and note receivable	5,210,853	5,122,356
Principal payments received on notes receivable	1,446,896	1,580,698
Net cash used in investing activities	(181,770,033)	(229,598,897)
Net decrease in cash and cash equivalents	(29,536,977)	(4,693,518)
Cash and cash equivalents, beginning of year	73,192,516	77,886,034
Cash and cash equivalents, end of year	$ 43,655,539	$ 73,192,516

(Continued)

See Notes to Financial Statements.

	2014		2013	
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Unrestricted cash and cash equivalents	**$**	**26,510,543**	$	63,626,765
Cash and cash equivalents designated for specific capital projects and other commitments		**17,144,996**		9,565,751
	$	**43,655,539**	$	73,192,516
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	**$**	**(18,289,074)**	$	9,077,786
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization expense		**77,321,384**		41,623,629
Bad debt expense (recapture)				4,565
Changes in assets and liabilities:				
Tenant lease receivables		**(1,075,018)**		(1,386,723)
OPEB asset		**(271,633)**		578,664
Other assets		**2,641,527**		(892,748)
Accounts payable		**2,860,131**		(1,440,698)
Accrued liabilities		**(3,183,207)**		8,437,880
Compensated absences		**4,929**		156,771
Other liabilities		**307,886**		(32,407)
Net cash provided by operating activities	**$**	**60,316,925**	$	56,126,719
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities				
Additions to capital assets included in accounts payable	**$**	**59,871,383**	$	74,236,334
Additions to capital lease obligations	**$**	**-**	$	7,955,912

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

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

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

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

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

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

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

Investments: Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. 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. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

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

Airport Improvement Program (AIP): AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2014 and 2013, the Airport Authority recovered $3,924,332 and $16,077,280, respectively, for approved capital projects and $12,373,861 and $13,241,658, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2014 and 2013 were $4,633,107 and $20,096,600, respectively, for capital projects and $15,124,141 and $14,830,457, respectively, for the Quieter Home Program.

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

In accordance with the program, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2014 and 2013, accrued PFC receivables totaled $4,066,248 and $5,545,716, respectively, and there were $60,769,935 and $53,856,259 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2014 and 2013, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from $3.00 to $4.50, beginning August 1, 2003. Currently, the Airport Authority's impose and use authority of $1.2 billion from three active applications allows collection through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately $32 million in PFC revenue. The latest application was approved by the FAA in July 2012. 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.

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

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

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. Effective January 1, 2014, the CFC rate went from $6.00 to $7.50 per day for a maximum of five days. As of June 30, 2014 and 2013, accrued CFC receivables totaled $3,394,812 and $2,301,027, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2014 and 2013 were $41,652,322 and $41,009,333, respectively.

Net pension asset: The Airport Authority funds additional contributions to the defined pension plan in excess of the annual required contribution (ARC) to strive for a 95 percent funding ratio. The difference between the Airport Authority's actual contributions and its ARCs results in a net pension asset.

Net other postemployment benefit (OPEB) asset: Annually, the Airport Authority funds 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset.

Deferred outflows of resources: The Airport Authority defers recognition of losses incurred on debt refundings and reports such losses as deferred outflows of resources in the statements of net position. Deferred losses on debt refundings are amortized using the effective interest method over the lesser of the remaining life of the original bonds or the life of the new bonds.

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:

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2014 and 2013, the Airport Authority capitalized interest of $6,962,979 and $29,438,080, respectively.

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.

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

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

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

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

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

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

Unrestricted net position as of June 30, 2014, includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2014	2013
Operating contingency	$ 2,000,000	$ 2,000,000
Insurance contingency (Note 9)	7,377,978	6,659,982
Capital projects and other commitments (Note 12)	7,767,018	905,769
Total designated net position	$ 17,144,996	$ 9,565,751

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, PFCs, CFCs and grant revenue related to the Quieter Home Program.

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

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

	2014	2013
Southwest Airlines	36.9%	37.2%
United Airlines	12.5%	13.5%
Delta Airlines	10.1%	10.4%

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.

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

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.

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* effective for the Airport Authority's year ending June 30, 2015;
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for the Airport Authority's year ending June 30, 2015; and
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* effective for the Airport Authority's year ending June 30, 2015.

Pronouncements adopted: The Airport Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2014:

- GASB Statement No. 66, *Technical Corrections—2012—and amendment of GASB Statements No. 10 and No. 62*; and
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statements No. 66 and No. 70 did not impact net position or the change in net position of the Airport Authority as of or for the year ended June 30, 2014.

Reclassifications: Certain reclassifications have been made to the 2013 financial information in order to conform to the 2014 presentation. These reclassifications had no impact on the Airport Authority's net position or change in net position.

Note 2. Cash, Cash Equivalents and Investments

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

	2014	2013
Unrestricted and undesignated:		
Cash and cash equivalents	$ 26,510,543	$ 63,626,765
Current investments	70,752,557	42,223,353
Noncurrent investments	52,455,753	41,931,321
Total unrestricted and undesignated	149,718,853	147,781,439
Designated for specific capital projects and other commitments: cash and cash equivalents	17,144,996	9,565,751
Restricted cash, cash equivalents and investments:		
Bond reserves		
Operation and maintenance reserve subaccount	37,157,351	34,955,315
Operation and maintenance subaccount	12,385,784	11,651,772
Renewal and replacement reserve	5,400,000	5,400,000
	54,943,135	52,007,087
Passenger facility charges unapplied	60,769,935	53,856,259
Customer facility charges unapplied	41,652,322	41,009,333
Small business development bond guarantee	4,000,000	4,000,000
Commercial paper reserve	4,352	18,408
Total restricted	161,369,744	150,891,087
Total cash, cash equivalents and investments not with trustees	328,233,593	308,238,277
Cash, cash equivalents and investments with trustees:		
Commercial paper interest	12,906	12,906
Customer facility charges	311,153	-
2010 Series debt service account	21,640,387	16,869,731
2010 Series construction fund	2,204	2,728,626
2010 Series debt service reserve fund	50,988,876	51,108,152
2013 Series debt service account	8,938,429	1,648,415
2013 Series capitalized interest account	752,446	8,357,832
2013 Series construction fund	100,500,234	250,974,607
2013 Series debt service reserve fund	32,993,011	32,729,065
2014 Series rolling coverage fund	6,556,757	-
2014 Series capitalized interest account	30,432,045	-
2014 Series construction fund	228,270,006	-
2014 Series debt service reserve fund	21,926,369	-
Total cash, cash equivalents and investments with trustees	503,324,823	364,429,334
Total cash, cash equivalents and investments	$ 831,558,416	$ 672,667,611

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

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

	2014	2013
Unrestricted cash on deposit:		
Cash on hand	**$ 51,976**	$ 51,976
Cash in banks	**21,224,402**	5,043,576
Total unrestricted cash on deposit	**21,276,378**	5,095,552
Unrestricted and restricted cash equivalents:		
Money market accounts	**40,630,745**	62,559,806
Money market mutual funds	**56,013**	537,158
Total unrestricted and restricted cash equivalents	**40,686,758**	63,096,964
Unrestricted and restricted investments:		
Certificates of deposit	**15,192,964**	10,117,110
CalTrust Fund	**15,027,791**	5,000,000
Local Agency Investment Fund (LAIF)	**47,535,117**	47,416,828
San Diego County Investment Pool (SDCIP)	**48,476,017**	48,088,210
Commercial paper	**15,494,684**	35,485,205
Medium-term notes	**22,018,642**	8,126,320
U.S. Treasury notes	**64,082,562**	11,759,303
U.S. agency securities	**38,442,680**	74,052,785
Total unrestricted and restricted investments	**266,270,457**	240,045,761
Total cash, cash equivalents and investments not with trustees	**328,233,593**	308,238,277
Cash, cash equivalents, and investments with trustees:		
Money market accounts	**31,184,103**	16,124,492
Money market mutual funds	**27,957,467**	24,620,178
Certificates of deposit	**20,615,554**	20,461,517
San Diego County Investment Pool (SDCIP)	**287,809,151**	207,199,007
Local Agency Investment Fund (LAIF)	**135,758,548**	96,024,140
Total cash, cash equivalents and investments with trustees	**503,324,823**	364,429,334
Total cash, cash equivalents and investments	**$ 831,558,416**	**$ 672,667,611**

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

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

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	10 percent
	25-36 months	AA	15 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	$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	N/A	*	None	None
Time certificates of deposit	3 years	*	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.

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

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

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

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

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

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

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

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

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

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

	2014				
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:					
CalTrust	**$ 15,027,791**	**$ 15,027,791**	**$ -**	**$ -**	**$ -**
LAIF	**183,293,665**	**183,293,665**	**-**	**-**	**-**
SDCIP	**336,285,168**	**336,285,168**	**-**	**-**	**-**
Commercial paper	**15,494,684**	**15,494,684**	**-**	**-**	**-**
Medium-term notes	**22,018,642**	**-**	**21,219,370**	**799,272**	**-**
Money market mutual funds	**28,013,480**	**28,013,480**	**-**	**-**	**-**
U.S. Treasury notes	**64,082,562**	**-**	**36,552,992**	**27,529,570**	**-**
U.S. agency securities	**38,442,680**	**-**	**17,972,890**	**20,469,790**	**-**
Total investments subject to interest rate risk:	**$ 702,658,672**	**$ 578,114,788**	**$ 75,745,252**	**$ 48,798,632**	**$ -**
Investments not subject to interest rate risk:					
Certificates of deposit	**35,808,518**				
	$ 738,467,190				

	2013				
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:					
CalTrust	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
LAIF	143,440,968	143,440,968	-	-	-
SDCIP	255,287,217	255,287,217	-	-	-
Commercial paper	35,485,205	35,485,205	-	-	-
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market mutual funds	25,157,336	25,157,336	-	-	-
U.S. Treasury notes	11,759,303	-	-	11,759,303	-
U.S. agency securities	74,052,785	-	4,992,950	69,059,835	-
Total investments subject to interest rate risk:	$ 558,309,134	$ 459,370,726	$ 9,992,950	$ 88,945,458	$ -
Investments not subject to interest rate risk:					
Certificates of deposit	30,578,627				
	$ 588,887,761				

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

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

Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or are collateralized in accordance with the California Government Code.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority. Presented below is the actual rating for each investment type held by the Airport Authority as of June 30, 2014 and 2013:

	2014					
Investment Type	**Total**	**Unrated[1]**	**AAA/Aaa[1]**	**AA/ Aa[1]**	**A[1]**	**A-1+/P-1[1]**
Investments subject to credit rate risk:						
CalTrust	$ 15,027,791	$ -	$ 15,027,791	$ -	$ -	$ -
LAIF	183,293,665	183,293,665	-	-	-	-
SDCIP	336,285,168	-	336,285,168	-	-	-
Commercial paper	15,494,684	-	-	-	-	15,494,684
Medium-term notes	22,018,642	-	-	17,011,542	5,007,100	-
Money market mutual funds	28,013,480	-	28,013,480	-	-	-
U.S. Treasury notes	64,082,562	-	64,082,562	-		-
U.S. agency securities	38,442,680	-	38,442,680	-		-
Total investments subject to credit risk:	$ 702,658,672	$ 183,293,665	$ 481,851,681	$ 17,011,542	$ 5,007,100	$ 15,494,684
Investments not subject to credit risk:						
Certificates of deposit	35,808,518					
	$ 738,467,190					

[1] *Source: Standard and Poor's, Moodys and Fitch*

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

Investment Type	2013 Total	Unrated[(1)]	AAA/Aaa[(1)]	AA/ Aa[(1)]	A-1+/P-1[(1)]
Investments subject to credit rate risk:					
CalTrust	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
LAIF	143,440,968	143,440,968	-	-	-
SDCIP	255,287,217	-	255,287,217	-	-
Commercial paper	35,485,205	-	-	-	35,485,205
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market mutual funds	25,157,336	-	25,157,336	-	-
U.S. Treasury notes	11,759,303	-	11,759,303	-	-
U.S. agency securities	74,052,785	-	74,052,785	-	-
Total investments subject to credit risk:	$ 558,309,134	$ 143,440,968	$ 371,256,641	$ 8,126,320	$ 35,485,205
Investments not subject to credit risk:					
Certificates of deposit	30,578,627				
	$ 588,887,761				

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

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of securities. The Airport Authority had no concentrations of credit risk at June 30, 2014.

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

Note 3. Note Receivable

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a $50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2014 and 2013, the balance of the note receivable was $39,886,768 and $41,333,664, respectively.

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

Years Ending June 30,	Amount
2015	$ 1,529,000
2016	1,609,000
2017	1,705,000
2018	1,802,000
2019	1,903,000
2020-2024	11,244,000
2025-2029	14,802,000
2030-2034	5,293,000
	$ 39,887,000

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013 are as follows:

	Balance at June 30, 2013	Increases	Decreases	**Balance at June 30, 2014**
Nondepreciable assets:				
Land	$ 22,415,851	$ -	$ -	**$ 22,415,851**
Construction in progress	401,825,140	214,293,229	(366,015,215)	**250,103,154**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	424,680,991	214,293,229	(366,015,215)	**272,959,005**
Depreciable assets:				
Land improvements	43,009,936	5,656,060	-	**48,665,996**
Buildings and structures (1)	715,421,387	317,174,867	(6,968,239)	**1,025,628,015**
Machinery and equipment (2)	50,717,389	1,573,410	(671,962)	**51,618,837**
Runw ays, roads and parking lots	526,061,707	43,041,675	(167,505)	**568,935,877**
Total capital assets being depreciated	1,335,210,419	367,446,012	(7,807,706)	**1,694,848,725**
Less accumulated depreciation for:				
Land improvements	(2,298,540)	(1,816,359)	-	**(4,114,899)**
Building and structures	(346,153,840)	(52,962,879)	5,218,601	**(393,898,118)**
Machinery and equipment	(38,920,696)	(3,792,848)	671,965	**(42,041,579)**
Runw ays, roads and parking lots	(194,374,525)	(22,573,579)	167,505	**(216,780,599)**
Total accumulated depreciation	(581,747,601)	(81,145,665)	6,058,071	**(656,835,195)**
Total capital assets being depreciated, net	753,462,818	286,300,347	(1,749,635)	**1,038,013,530**
Capital assets, net	$ 1,178,143,809	$ 500,593,576	$ (367,764,850)	**$1,310,972,535**

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

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

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

Note 4. Capital Assets (Continued)

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

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

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

Note 5. Long-Term Liabilities

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2014 and 2013:

	Principal Balance at June 30, 2013	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2014**	Due Within One Year
Debt obligations:					
Commercial paper	$ 50,969,000	$ -	$ (6,085,000)	**$ 44,884,000**	$ -
Bonds payable:					
Series 2010 Bonds	570,870,000	-	(1,000,000)	**569,870,000**	5,785,000
Series 2013 Bonds	379,585,000	-	-	**379,585,000**	-
Series 2014 Bonds	-	305,285,000	-	**305,285,000**	-
Bond premiums	76,956,188	594,266	(4,392,863)	**73,157,591**	-
Total bonds payable	1,027,411,188	305,879,266	(5,392,863)	**1,327,897,591**	5,785,000
Total debt obligations	1,078,380,188	305,879,266	(11,477,863)	**1,372,781,591**	5,785,000
Capital Leases	8,152,588	-	(341,661)	**7,810,927**	180,559
Compensated absences	3,089,756	2,664,509	(2,659,580)	**3,094,685**	2,659,580
Total long-term liabilities	$ 1,089,622,532	$ 308,543,775	$ (14,479,104)	**$ 1,383,687,203**	$ 8,625,139

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

Note 5. Long-Term Liabilities (Continued)

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

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

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2014 and 2013, the amount held in escrow by the trustee was $35,775,109 and $36,489,675, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $30,920,000 and $34,530,000, respectively.

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

The CP Notes are secured by an irrevocable letter of credit provided by Lloyds TSB Bank that expires no later than September 10, 2014. There were no unreimbursed draws by the Airport Authority on this letter of credit during the year ended June 30, 2014, nor were there any amounts outstanding under this letter of credit agreement at June 30, 2014.

On October 6 and 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, 2014, the aggregate principal amount outstanding of the CP Notes was $44,884,000, carrying a weighted-average interest rate of 0.17 percent. At June 30, 2013, the principal amount of CP Notes outstanding was $50,969,000, carrying a weighted-average interest rate of 0.19 percent. Commercial paper interest expense for the years ended June 30, 2014 and 2013 amounted to $85,142 and $87,683 respectively, including accrued interest of $6,513 and $6,867, respectively.

Note 5. Long-Term Liabilities (Continued)

As subordinate obligations, the CP Notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the 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, 2014 and 2013, the amount held by the trustee was $12,906 for both years and the amount reserved by the Airport Authority was $4,352 and $18,408, respectively.

Revolving Line of Credit program in Fiscal Year 2015: Subsequent to June 30, 2014, the Airport Authority replaced its commercial paper program with a $125,000,000 revolving line of credit issued by US Bank. The revolving line of credit will be used to refund the outstanding Series B and Series C CP Note balances. The revolving line of credit is a three-year agreement and will take effect on September 5, 2014.

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

The existing balance of the Series B CP Notes of $18,929,000 will be reconstituted as the Series B Revolving Line of Credit and will bear interest at the tax-exempt LIBOR rate. The existing balance of the Series C CP Notes of $25,955,000 will be reconstituted as the Series C revolving line of credit and will bear interest at the taxable LIBOR rate.

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

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds, which benefit from periodic cash subsidy payments from the U.S. Treasury equal to 35 percent of interest payable. However, in fiscal year ended June 30, 2013, due to the impact of the federal government's sequestration measures, subsidy payments were reduced by 4.3 percent. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2014 and 2013 was $4,636,215 and $4,778,599, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of $26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2014 and 2013 amounted to $31,705,498 and $31,735,498, respectively, including accrued interest of $15,852,749 and $15,867,749, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2014 and 2013 was $569,870,000 and $570,870,000, respectively.

Note 5. Long-Term Liabilities (Continued)

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 PFCs it has received and expects to receive through 2016. The irrevocably committed PFC amount of $19,208,838 was fully utilized in fiscal year 2014. The irrevocably committed PFC amounts for fiscal years ended June 30, 2015 and 2016 are $19,206,113 and $19,209,388 respectively.

As subordinate lien bonds, the Series 2010 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2014 and 2013, the amount held by the trustee was $72,631,467 and $70,706,509, respectively, which included the July 1 payment, unspent project fund proceeds and a debt service reserve fund.

The public ratings of the Series 2010 Bonds as of June 30, 2014 are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2015	$ 5,785,000	$ 31,594,948.00	$ 37,379,948
2016	8,665,000	31,318,098.00	39,983,098
2017	9,000,000	30,934,023.00	39,934,023
2018	9,430,000	30,487,998.00	39,917,998
2019	9,890,000	30,020,298.00	39,910,298
2020-2024	57,155,000	142,174,548.00	199,329,548
2025-2029	72,780,000	126,152,054.00	198,932,054
2030-2034	126,555,000	102,133,609.00	228,688,609
2035-2039	184,500,000	54,968,046.00	239,468,046
2040-2041	86,110,000	5,269,210.00	91,379,210
	$ 569,870,000	$ 585,052,832	$ 1,154,922,832

Note 5. Long-Term Liabilities (Continued)

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2014 and 2013 was $18,475,501 and $7,749,446, respectively, including accrued interest of $9,237,750 and $7,749,446. The principal balance on the Series 2013 Bonds as of June 30, 2014 and 2013 was $379,585,000.

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

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2014 and 2013, the amount held by the trustee was $143,184,120 and $293,709,919, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund, and capitalized interest funds. The total amount reserved by the Airport Authority for fiscal years 2014 and 2013 was $54,943,135 and $52,007,087, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2014 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2015	$ -	$ 18,475,500	$ 18,475,500
2016	2,030,000	18,445,050	20,475,050
2017	2,090,000	18,382,275	20,472,275
2018	2,155,000	18,306,850	20,461,850
2019	2,240,000	18,218,950	20,458,950
2020-2024	36,455,000	87,143,275	123,598,275
2025-2029	53,155,000	75,547,025	128,702,025
2030-2034	38,740,000	63,204,425	101,944,425
2035-2039	36,645,000	55,408,875	92,053,875
2040-2044	206,075,000	32,900,375	238,975,375
	$ 379,585,000	$ 406,032,600	$ 785,617,600

Note 5. Long-Term Liabilities (Continued)

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

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014B Bond were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 3.73 percent.

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

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

Years Ending June 30,	Principal	Interest	Total
2015	$ -	$ 16,341,210	$ 16,341,210
2016	-	16,341,210	16,341,210
2017	-	16,341,210	16,341,210
2018	5,580,000	16,341,210	21,921,210
2019	5,720,000	16,199,646	21,919,646
2020-2024	32,015,000	77,578,877	109,593,877
2025-2029	41,600,000	67,999,047	109,599,047
2030-2034	54,610,000	54,986,842	109,596,842
2035-2039	71,690,000	37,905,564	109,595,564
2040-2044	94,070,000	15,531,476	109,601,476
	$ 305,285,000	$ 335,566,292	$ 640,851,292

Note 5. Long-Term Liabilities (Continued)

Line of credit: In fiscal year 2013, the Airport Authority established a $4,000,000 line of credit with Wells Fargo, which is collateralized with a certificate of deposit. This line of credit replaced a line maintained with Union Bank. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2014, nothing had been drawn on the line of credit and one issued letter of credit was outstanding, totaling $687,320 for projects in progress. The letter of credit is due to expire June 16, 2015.

Capital Leases

Office equipment leases: The Ai rport Authority en tered into capital lease agreements for office equipment that require monthly lease payments of $14,806.

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

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2014:

Years Ending June 30,	Amount
2015	$ 829,321
2016	877,298
2017	877,298
2018	877,298
2019	877,298
2020-2024	4,386,489
2025-2029	4,386,489
2030-2032	2,997,434
Total Lease Payments	16,108,925
Less amount representing interest	(8,297,998)
Present value of future lease payments	$ 7,810,927

Note 6. Defined Benefit Plan

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

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate, as determined through actuarial valuation, was 11.9 percent for 2014, 10.9 percent for 2013, and 14.5 percent for 2012, and is expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2014, 2013 and 2012, the annual pension cost included in salaries and benefits was $4,882,000, $4,582,000 and $4,356,000, respectively, for the CERS pension. Comparing the June 30, 2013 actuarial valuation to the June 30, 2012 actuarial valuation, total membership increased by 3.0 percent. The increase was attributable to both the growth in active membership, terminated vested, disabled, retirees and beneficiaries. Active member payroll increased by 1.8 percent. Additionally, active member total payroll increased by 6.2 percent, and the average pay per active member increased by 4.4 percent. The actuarial liability increased by 18.5 percent but the actuarial value of assets increased by 12.3 percent. The funding ratio decreased from 98.5 percent as of June 30, 2012 to 93.4 percent as of June 30, 2013. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not decrease as much as the market value (94.6 percent).

Valuation basis: Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) are subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. PEPRA also requires New Members to pay at least 50 percent of the normal cost, with more than 50 percent allowed subject to collective bargaining. There are less significant changes for current employees and retirees.

There are a few New Members in the current valuation. In calculating the fiscal year 2015 annual required contribution (ARC), the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2014 and subsequent valuations, the actual cost implications will vary and further study may be required.

Note 6. Defined Benefit Plan (Continued)

As of the latest actuarial valuation dated June 30, 2013, significant actuarial assumptions are as follows:

- The rates of retirement were based on age and service as opposed to just the service of a member.
- The percent married assumption was 55 percent for females and 80 percent for males, and the assumed age difference between husbands and wives was three years.
- The reciprocity assumption was 10 percent.
- Rates of termination were based on service as opposed to the age of a member.
- Disability rates were modified to reflect actual experience through June 30, 2010 and include a projection to 2013.
- Mortality rates for active Airport Authority members were modified to reflect actual experience through June 30, 2010 and include a projection to 2013.
- Mortality rates for retired Airport Authority members were modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.
- The investment return assumption was 7.25 percent.
- The inflation assumption was 3.0 percent
- Cost of living adjustment was assumed 2 percent.
- Actuarial funding method is entry age normal
- Amortization method is level percent closed
- Asset valuation method is expected value method
- Equivalent single amortization period is 13.539 years. This consists of 9 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.
- The rate of employer contributions to CERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

Note 6. Defined Benefit Plan (Continued)

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. In April 2014, the Airport Authority again made a contribution of $827,945 to increase the funded ratio to 94 percent. At June 30, 2014, the total contribution of $10,841,572 less amortization of $3,921,797 is recorded as a net pension asset of $6,919,775. At June 30, 2013 and 2012, the total contribution of $10,013,627 less amortization of $3,365,485 and $2,809,172, respectively, is recorded as a net pension asset of $6,648,142, and $7,204,455, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2015 measured as a percentage of membership payroll increased from 11.9 percent to 14.29 percent. The required beginning of year contribution, paid July 1 2014, increased by $918,149. The following is a schedule of the annual pension cost and net pension asset for CERS (dollars in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Airport Cost Funded	% of APC Contributed	ARC	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.50%/7.25%
6/30/12	$ 4,356	$ 3,800	87%	$ 3,800	$ 7,204	$ (556)	$ (256)	$ 751
6/30/13	4,582	2,600	57%	2,600	6,648	(556)	556	751
6/30/14	4,882	2,904	59%	2,904	6,920	272	556	786

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL/Asset UAAL/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/13	$ 107,616	$ 115,200	$ 7,584	93.4%	$ 26,380	28.7%

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.

Note 7. Employees' Deferred Compensation Plan (Continued)

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

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

Note 8. Other Postemployment Benefits

The Airport Authority provides a single-employer postemployment benefit plan (OPEB). The plan provides postretirement medical, dental, vision and life insurance benefits for nonunion employees hired prior to May 1, 2006 and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

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

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. Retirees contribute 5 percent of plan costs for single coverage and the entire cost of vision benefits.

Annual OPEB cost and actuarial methods and assumptions: The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2013. According to the July 1, 2013 actuarial valuation, the ARC was $2,328,000 for both fiscal year 2014 and 2013. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Note 8. Other Postemployment Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.36 percent investment rate of return, (7.61 percent was used in the prior valuations), net of administrative expenses, and (b) projected salary increases of 3.00 percent. The annual health care cost trend rate ranged from 5.0 to 9.5 percent for medical and assumes a 5.0 percent rate for dental and 3.0 percent rate for vision. In establishing the discount rate, an inflation rate of 2.75% was used.

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

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

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

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO/(Asset) End of Year	Interest on NOO/(Asset)	Adjustment to the ARC	Annual OPEB Cost
7/1/11	11/12	$ 2,165	$ 2,164	$ (60)	$ (5)	$ 4	$ 2,164
7/1/12	12/13	2,238	2,236	(59)	-	4	2,238
7/1/13	13/14	2,328	2,328	(59)	(4)	4	2,328

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/12	$ 2,164	$ 2,164	100.0%	$ (60)
6/30/13	2,238	2,236	99.9%	(59)
6/30/14	2,328	2,328	100.0%	(59)

Note 8. Other Postemployment Benefits (Continued)

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

The funded status of the plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2013, was as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/13	$ 12,667	$ 31,553	$ 18,886	40.1%	$ 17,567	107.5%	7.4%	3.0%

Note 9. Risk Management

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

Commercially issued insurance:

- The Airport Authority maintains $500 million in limits for owners' and operators' general liability insurance with a war, hijacking and other perils endorsement in the amount of $150 million.

- The Airport Authority maintains a property insurance policy with limits of $500 million providing all risk and flood coverage on physical assets.

- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability and public official liability.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2014 and 2013, the Airport Authority has designated $7,377,978 and $6,659,982, respectively, from its net position, as an insurance contingency.

Note 9. Risk Management (Continued)

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

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

During fiscal year 2014, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 10. Lease Revenues

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

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

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

Years Ending June 30,	Amount
2015	$ 7,547,637
2016	5,342,072
2017	5,422,203
2018	5,503,536
2019	5,595,376
2020	5,735,261
	$ 35,146,085

Note 10. Lease Revenues (Continued)

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of $440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of $440,000. The license, an intangible asset with no expiration date, is included in non-depreciable assets in Note 4. As of June 30, 2014 and 2013, the Airport Authority recognized lease revenue of $86,996 for each year, under the World Trade Center lease.

Note 11. Lease Commitments

Operating Leases

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

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

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

Other District leases: The Airport Authority leases from the District two additional properties adjacent to SDIA. These properties required monthly rentals of $86,083 and $12,521. As of January 1, 2013, the lease for $86,083 was terminated with the District. In December 2013, the lease for $12,521 expired and was not renewed.

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 required monthly rental of $1,366 through the expiration date of August 2013. This lease was not renewed.

Note 11. Lease Commitments (Continued)

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

Years Ending June 30	Amount
2015	$ 10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019	10,159,920
2020-2024	50,799,600
2025-2029	50,799,600
2030-2034	50,799,600
2035-2039	50,799,600
2040-2044	50,799,600
2045-2049	50,799,600
2050-2054	50,799,600
2055-2059	50,799,600
2060-2064	50,799,600
2065-2069	50,799,600
	$ 558,817,200

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

	2014	2013
Rental payments made	**$ 10,478,262**	$ 10,897,338

Note 12. Commitments and Contingencies

Commitments: As of June 30, 2014 and 2013, 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, 2014 and 2013, these funds totaled approximately $7.8 million and $906 thousand, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

Note 12. Commitments and Contingencies (Continued)

ii. Support services— As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2014 and 2013, the Airport Authority expensed $16,577,044 and $17,289,681, respectively, for these services.

iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of $29.7 million and the second for the airport shuttle services in the amount of $28.8 million. The total amount spent as of June 30, 2014, were $6.9 million for parking management services and $9.1 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2014, the Airport Authority's remaining commitment is approximately $17.4 million for the parking management contract and $12.6 million for the shuttle service contract.

iv. In fiscal year 2014, the Board approved a contract with Austin-Sundt JV for the design and construction of the proposed Rental Car Center in the amount of $14 million and additional approval of $10 million. As of June 30, 2014, $55.3 million had been spent and the contract is due to be completed in fiscal year 2016.

v. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of $10 million and an additional approval of $12 million. As of June 30, 2014, $16.6 million had been spent and the contract is due to be completed in fiscal year 2016.

Contingencies: As of June 30, 2014, 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. 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.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/ (Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/08	$ 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	3,046	96.0%	25,709	11.8%
6/30/11	86,309	84,042	(2,267)	102.7%	25,148	(9.0%)
6/30/12	95,793	97,225	1,432	98.5%	24,726	5.8%
6/30/13	107,616	115,200	7,584	93.4%	26,380	28.7%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability AAL	Unfunded Actuarial Accrued Liability UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/08	$ -	$ 10,327	$ 10,327	0.0%	$ 19,417	53.2%	7.75%	3.25%
7/1/09	2,674	12,206	9,532	21.9%	19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11*	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/12*	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%

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

ATTACHMENT B

San Diego County Regional Airport Authority

Single Audit Reports

Year Ended June 30, 2014
(With Independent Auditor's Report Thereon)

BKD LLP
CPAs & Advisors

San Diego County Regional Airport Authority
June 30, 2014

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San Diego County Regional Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Federal Expenditures
U.S. Department of Transportation:			
Direct Programs:			
Airport Improvement Program (AIP)	20.106*	3-06-0214-64	$ 234,613
Airport Improvement Program (AIP)	20.106*	3-06-0214-65	411,992
Airport Improvement Program (AIP)	20.106*	3-06-0214-66	383,957
Airport Improvement Program (AIP)	20.106*	3-06-0214-67	7,345,398
Airport Improvement Program (AIP)	20.106*	3-06-0214-69	803,402
Airport Improvement Program (AIP)	20.106*	3-06-0214-70	835,719
Airport Improvement Program (AIP)	20.106*	3-06-0214-71	4,605,550
Total funded under Airport Improvement Grants			14,620,631
Total U.S. Department of Transporation			14,620,631
U.S. Department of Homeland Security			
Direct Programs:			
TSA Law Enforcement Personnel Reimbursement Agreement	97.100	HSTS02-08-H-SLR254	368,355
ARRA - TSA Checked Baggage Screening Project	97.117*	HSTS04-10-H-REC118	1,663,744
Total U.S. Department of Homeland Security			2,032,099
Total Federal Awards Expended			$ 16,652,730

* Denotes major program.
ARRA = American Recovery and Reinvestment Act

Notes to Schedule:

1. This schedule includes the federal awards activity of the San Diego County Regional Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. The San Diego County Regional Airport Authority provided no federal awards to subrecipients.

BKD LLP
CPAs & Advisors

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the San Diego County Regional Airport Authority (Airport Authority), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 24, 2014, which included a reference to other auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance

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

Purpose of this Report

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

BKD, LLP

Dallas, Texas
October 24, 2014

BKD LLP
CPAs & Advisors

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of San Diego County Regional Airport Authority (Airport Authority) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the basic financial statements of the Airport Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated October 24, 2014, which contained an unmodified opinion on those financial statements and included a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Dallas, Texas
October 24, 2014

San Diego County Regional Airport Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Airport Authority's major programs were:

Cluster/Program	CFDA Number
Airport Improvement Program (AIP)	20.106
TSA Checked Baggage Screening Project (ARRA)	97.117

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $499,582.

9. The Airport Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

San Diego County Regional Airport Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs

No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs

No matters are reportable.

San Diego County Regional Airport Authority

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

Reference Number	Summary of Finding	Status

No matters are reportable.

San Diego County Regional Airport Authority

Passenger Facility Charge Compliance Report

Year Ended June 30, 2014
(With Independent Auditor's Report Thereon)

BKD LLP
CPAs & Advisors

San Diego County Regional Airport Authority

Passenger Facility Charge Program

June 30, 2014

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San Diego County Regional Airport Authority

Passenger Facility Charge Program

Schedule of Passenger Facility Charge Collections and Expenditures

Year Ended June 30, 2014

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - June 30, 2013	Quarter Ended September 30, 2013	Quarter Ended December 31, 2013	Quarter Ended March 31, 2014	Quarter Ended June 30, 2014	Year Ended June 31, 2014	Cumulative Total - June 30, 2014
Passenger facility charge collections			$ 494,365,977	$ 10,822,448	$ 8,122,467	$ 8,278,708	$ 10,025,361	$ 37,248,984	$ 531,614,961
Interest earned			11,440,684	54,472	62,011	61,758	74,738	252,979	11,693,663
Total passenger facility charge revenue received			505,806,661	10,876,920	8,184,478	8,340,466	10,100,099	37,501,963	543,308,624
Expenditures									
Application 95-01-C-04-SAN	7/26/1995	$ 103,804,864	103,804,864	-	-	-	-	-	103,804,864
Application 98-02-C-04-SAN	7/24/1998	45,496,665	45,496,665	-	-	-	-	-	45,496,665
Application 03-03-C-01-SAN	5/20/2003	65,058,035	65,058,035	-	-	-	-	-	65,058,035
Application 05-04-C-01-SAN	11/22/2005	44,822,518	44,822,518	-	-	-	-	-	44,822,518
Application 08-05-C-01-SAN	6/27/2008	19,031,690	19,031,690	-	-	-	-	-	19,031,690
Application 09-07-C-00-SAN	9/30/2009	85,181,950	79,489,990	-	-	-	-	-	79,489,990
Application 10-08-C-00-SAN	11/24/2010	1,118,567,229	80,424,686	100,751	13,948,824	7,137,038	6,964,791	28,151,404	108,576,090
Application 12-10-C-00-SAN	7/3/2012	27,835,280	13,821,954	499,741	536,916	494,429	905,797	2,436,883	16,258,837
Total passenger facility charge revenue expended		$ 1,509,798,231	$ 451,950,402	$ 600,492	$ 14,485,740	$ 7,631,467	$ 7,870,588	$ 30,588,287	$ 482,538,689

San Diego County Regional Airport Authority

Passenger Facility Charge Program

Notes to Schedule of Passenger Facility Charge Collections and Expenditures

Year Ended June 30, 2014

Note 1. General

This schedule includes the Passenger Facility Charge (PFC) Program activity of the San Diego County Regional Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis of accounting, PFC revenues are recognized when received rather when earned and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this schedule is presented in accordance with the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PFC expenditures may consist of direct project costs, administrative costs, debt service and bond financing costs, as applicable to active applications. The accompanying schedule of Passenger Facility Charge Collections and Expenditures includes eligible expenditures that have been applied against PFCs collected as of June 30, 2014.

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CPAs & Advisors

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

Independent Auditor's Report

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

Report on Compliance

We have audited the compliance of San Diego County Regional Airport Authority (Airport Authority) with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Passenger Facility Charge Program

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Passenger Facility Charge Collections and Expenditures

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated October 24, 2014, which contained an unmodified opinion on those financial statements and included a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Passenger Facility Charge Collections and Expenditures is presented for purposes of additional analysis, as specified in the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Collections and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Dallas, Texas
October 24, 2014

San Diego County Regional Airport Authority

Passenger Facility Charge Audit Summary

Year Ended June 30, 2014

Summary of Auditor's Results

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

San Diego County Regional Airport Authority
Schedule of Passenger Facility Charge Program
Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by the Guide

Reference Number	Finding	Questioned Costs

No matters are reportable.

San Diego County Regional Airport Authority

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

Reference Number	Summary of Finding	Status

No matters are reportable.

San Diego County Regional Airport Authority

Customer Facility Charge Compliance Report

Year Ended June 30, 2014
(With Independent Auditor's Report Thereon)

BKD LLP
CPAs & Advisors

San Diego County Regional Airport Authority

Customer Facility Charge Program

June 30, 2014

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San Diego County Regional Airport Authority
Customer Facility Charge Program
Schedule of Customer Facility Charge Collections and Disbursements
Year Ended June 30, 2014

Description	Beginning Balance, Unapplied CFC	CFC Revenues[1]	Interest Earned	Disbursements	Ending Balance, Unapplied CFC[2]
Collections and disbursements, quarter ended September 30, 2013	$ 41,009,333	$ 6,792,983	$ 27,461	$ 6,536,115	$ 41,293,662
Collections and disbursements, quarter ended December 31, 2013	41,293,662	5,390,883	53,109	8,018,861	38,718,793
Collections and disbursements, quarter ended March 31, 2014	38,718,793	5,690,964	39,640	3,461,156	40,988,241
Collections and disbursements, quarter ended June 30, 2014	40,988,241	8,601,884	27,430	7,965,233	41,652,322
		$ 26,476,714	$ 147,640	$ 25,981,365	

[1] Customer Facility Charge (CFC) revenues (collections) are reported when the cash is received.
[2] Unapplied CFCs are collections that have not been applied to approved CFC projects.

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

San Diego County Regional Airport Authority
Customer Facility Charge Program
Notes to Schedule of Customer Facility Charge Collections and Disbursements
Year Ended June 30, 2014

Note 1. General

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

On October 4, 2012, the Airport Authority Board of Directors approved an alternative CFC rate modification from the $10 CFC rate per contract to $6.00 per day (up t a maximum of five days) to allow for the collection of sufficient CFC funds to cover the future costs of the anticipated consolidated rental car facility and centralized busing system. Effective January 1, 2014, the CFC fee increased from $6.00 to $7.50 per day up to a maximum of five days.

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

Note 2. Basis of Presentation

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

CFC disbursements may consist of direct project costs, administrative costs, debt service and related financing costs. The accompanying Schedule of Customer Facility Charge Collections and Disbursements includes the eligible disbursements that have been applied against CFCs collected as of June 30, 2014.

BKD LLP
CPAs & Advisors

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Report on Compliance for the Customer Facility Charge Program and Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance

We have audited the compliance of San Diego County Regional Airport Authority (Airport Authority) with the types of compliance requirements described in the *California Civil Code Section 1936* (Code) that could have a direct and material effect on the customer facility charge program for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Customer Facility Charge Program

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Customer Facility Charge Collections and Disbursements

We have audited the basic financial statements of the Airport Authority as of and for the year ended June 30, 2014, and have issued our report thereon, dated October 24, 2014, which included a reference to previous auditors. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Customer Facility Charge (CFC) Collections and Disbursements is presented for purposes of additional analysis, as specified in Code, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Customer Facility Charge Collections and Disbursements is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Dallas, Texas
October 24, 2014

BKD LLP
CPAs & Advisors

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

As part of our audits of the financial statements and compliance of San Diego County Regional Airport Authority (Airport Authority) as of and for the year ended June 30, 2014, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America; the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States; U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*; and the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) Issued by the Federal Aviation Administration

An audit performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133; and the Guide issued by the Federal Aviation is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 and the Guide that could have a direct and material effect on a major federal program or passenger facility charge program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

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

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

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Airport Authority's significant accounting policies did not change from the prior year and are described in Note 1 to the comprehensive annual financial statements (CAFR).

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

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

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

Financial Statement Disclosures

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

- Cash, cash equivalents and investments
- Capital assets
- Long-term liabilities
- Defined benefit plan
- Other postemployment benefits
- Lease revenues
- Commitments and contingencies

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed audit adjustment recorded:

- Accrual of year-end unclaimed grant reimbursements

Proposed audit adjustments not recorded (see attached summary of uncorrected misstatements):

- Prior period impact of unclaimed grant reimbursements accrual
- Reclassification of grant revenue from operating revenues to nonoperating revenues

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

No matters are reportable.

Other Information in Documents Containing Audited Financial Statements

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

Significant Issues Discussed with Management

During the Audit Process

During the audit process, we had discussions with management regarding the accounting and reporting treatments being applied to the Quieter Home Program grant revenues and expenditures. There appears to be disparity in treatment across the airport industry for federally funded sound insulation programs, but we attribute this disparity primarily to the individual facts and circumstances that pertain to each situation. Ultimately, we concluded that the Airport Authority's past accounting and reporting practices for such activity are appropriate under the circumstances.

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. There were no difficulties encountered during the course of our audit. Management of the Airport Authority was very patient and extremely cooperative throughout the audit process. We very much appreciate their hard work in preparing for the audit and in seeing it through to completion.

Other Material Written Communications

Other material written communications between management and BKD related to the audit include the following:

- Report on the Airport Authority's passenger facility charge program
- Report on the Airport Authority's customer facility charge program
- A management representation letter, a copy of which is attached.

OTHER MATTERS

We observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Information Technology Control Enhancements

During the course of our audit, we performed procedures to evaluate the design of the Airport Authority's information technology (IT) general controls. The scope of our procedures included a review of the supporting infrastructure for financial significant systems, namely Oracle's JD Edwards EnterpriseOne. More specifically, we reviewed the IT general controls in the following areas: (1) entity-level, (2) systems development and change management, (3) security and (4) operations. In the course of our procedures, we observed the following opportunities for improvement and offer these suggestions.

The EnterpriseOne system user logical access is created using specific roles. Roles are assigned to individual users when they are employed or transfer job responsibilities. However, formal periodic reviews of user access are not performed to ensure the propriety of user access.

We therefore recommend that a formal review of user access to the system be performed on a periodic basis.

Standard best practice password policies are not in place for the Active Directory environment, specifically the following current settings:

- **Enforce password history:** 0 passwords remembered
- **Maximum password age:** 366 days
- **Account lockout threshold:** 50 invalid logon attempts

Management should consider changing the settings to adhere to the following best practices:

- **Enforce password history:** 12 passwords remembered
- **Maximum password age:** 90-180 days
- **Account lockout threshold:** 3-5 invalid logon attempts

Passenger Facility Charge (PFC) Reporting

During the course of our audit, we noted that the Airport Authority's underlying accounting records used to support the required quarterly and cumulative reporting of PFC activity do not agree to the amounts reported to the Federal Aviation Administration. The Airport Authority's accounting records show that it has collected more PFCs on a cumulative basis than is currently being reported.

We recommend the Airport Authority invest the time necessary to resolve this and any other differences in order to correct its reporting of PFCs. Procedures should be established to ensure further differences do not arise in the future.

Significant Changes to Federal Grant Policies

In December 2013, the Office of Management and Budget issued final guidance to supersede and streamline requirements from OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133 by consolidating into one document the federal government's guidance on "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." This guidance, commonly referred to as the Omni- or Super Circular, is effective for all federal awards or funding increments provided after December 26, 2014, and the audit requirement changes contained therein will be effective for years beginning on or after December 26, 2014. The final guidance is located in Title 2 of the Code of Federal Regulations. The new guidance raises the audit threshold and the minimum Type A/B program threshold to $750,000, simplifies, in many instances, the support requirements for the indirect cost rate used and increases the focus on internal controls over compliance with federal program rules.

Personnel within the Airport Authority responsible for federal grant administration will need to become familiar with this new guidance and, in most cases, certain controls over compliance with federal program rules and guidance will require modification as a result of implementing this new guidance.

Governmental Accounting Standards Board (GASB) Statement No. 68, ***Accounting and Financial Reporting for Pensions*** **(Statement)**

This Statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria.

The statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined-benefit pension plans, cost-sharing plans, defined-contribution plans and plans with insured benefits. More specifically, this Statement requires governments providing defined-benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The effective date for this standard is generally for periods beginning after June 15, 2014.

Governmental Accounting Standards Board Statement No. 69, ***Government Combinations and Disposals of Government Operations*** **(Statement)**

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Effective for periods beginning after June 15, 2013, this Statement will require a government that extends a transaction financial guarantee to another government, not-for-profit organization, private entity, or individual, without directly receiving equal or approximate value in exchange (nonexchange transaction), to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. Examples of such qualitative factors include, but are not limited to, the following:

- Initiation of the process of entering into bankruptcy or financial reorganization.
- Breach of a debt contract in relation to the guaranteed obligation, such as failure to meet rate covenants, failure to meet coverage ratios, or default or delinquency in interest or principal payments.
- Indicators of significant financial difficulty, such as failure to make payments to paying agents or trustees on a timely basis; drawing on a reserve fund to make debt service payments; initiation of a process to intercept receipts to make debt service payments; debt holder concessions; significant investment losses; loss of a major revenue source; significant increase in noncapital disbursements in relation to operating or current revenues; or commencement of financial supervision by another government.

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

BKD, LLP

October 24, 2014

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

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

October 24, 2014

BKD, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 75254

We are providing this letter in connection with your audit of our financial statements as of and for the year ended June 30, 2014 and your audit of our compliance with requirements applicable to each of our major federal awards programs; and our compliance with the requirements of the passenger facility charge and customer facility charge programs as of and for the year ended June 30, 2014. We confirm that the Authority is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

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

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated May 28, 2014, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the San Diego County Regional Airport Authority (Airport Authority) from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of meetings of the governing body held through the date of this letter.

   (e) All significant contracts and grants.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by the Airport Authority procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net position.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

9. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, customers, regulators, suppliers or others.

11. We have disclosed to you the identity of the Airport Authority's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted

for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the Airport Authority may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

12. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial statements.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the statement of net position date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Airport Authority is contingently liable.

13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

15. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Reducing obsolete or excess inventories to estimated net realizable value.

    (c) Lease commitments, including those unable to be fulfilled.

    (d) Purchase commitments in excess of normal requirements or above prevailing market prices.

16. Except as disclosed in the financial statements, we have:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

18. With regard to deposit and investment activities:

    (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

19. We have provided the information necessary to determine the Airport Authority's restricted cash, cash equivalents and investments and such restricted amounts are accurately reflected in the audited financial statements.

20. With respect to any nonattest services you have provided us during the year, including assistance in the preparation of the Comprehensive Annual Financial Report:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

(b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

(c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

(d) We have evaluated the adequacy of the services performed and any findings that resulted.

21. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

22. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

23. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

24. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

25. We have a process to track the status of audit findings and recommendations.

26. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

27. With regard to federal awards, passenger facility charge and customer facility charge programs:

(a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.

(b) We have identified the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance*

Supplement regarding activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; program income; real property acquisition and relocation assistance; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations. We have also identified all compliance requirements of the passenger facility charge and customer facility charge programs.

(c) We are responsible to understand and comply with the requirements of laws, regulations, contracts and grants applicable to each of our federal awards programs and our passenger facility charge and customer facility charge programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. We believe the Airport Authority has complied with all applicable compliance requirements.

(d) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards, passenger facility charge and customer facility charge programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.

(e) We have made available to you all contracts and grant agreements, including any amendments, and any other correspondence or documentation relevant to each of our federal awards, passenger facility charge and customer facility charge programs and to our compliance with applicable requirements of those programs.

(f) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.

(g) Amounts claimed or used for matching were determined in accordance with the applicable OMB Circular regarding cost principles.

(h) We have disclosed to you any communications from grantors, pass-through entities and others concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, as well as our passenger facility charge and customer facility charge programs, including any communications received from the end of the period of your audit through the date of this letter.

(i) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audits, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.

(j) The summary schedules of prior audit findings correctly state the status of all prior year OMB Circular A-133 and passenger facility charge program audit findings and any uncorrected open findings included in the prior year summary schedules of prior audit findings as of the date of this letter.

28. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

29. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, pension and other postemployment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

30. With regard to the schedule of expenditures of federal awards, schedule of passenger facility charge collections and expenditures and schedule of customer facility charge collections and expenditures:

(a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.

(b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

(c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

(d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

(e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

Thella F. Bowens, President/CEO

Scott Brickner, Vice President Finance & Asset Management/Treasurer

San Diego County Regional Airport Authority

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	214,852,773		214,852,773	
Non-Current Assets	2,007,428,894		2,007,428,894	
Current Liabilities	(119,088,048)		(119,088,048)	
Non-Current Liabilities	(1,376,177,173)		(1,376,177,173)	
Current Ratio	1.804		1.804	
Total Assets	2,222,281,667		2,222,281,667	
Total Liabilities	(1,495,265,221)		(1,495,265,221)	
Total Net Position	(727,016,446)		(727,016,446)	
Operating Revenues	(195,736,837)	368,386	(195,368,451)	-0.19%
Operating Expenses	214,025,911		214,025,911	
Nonoperating (Revenues) Exp	(18,242,152)	231,614	(18,010,538)	-1.27%
Change in Net Position	46,922	600,000	646,922	1278.72%

Client: San Diego County Regional Airport Authority

Period Ending: June 30, 2014

Overall F/S Materiality: $0

Performance Materiality: $0

PAJE Scope: $0

Use the New BKD custom ribbon to modify the PAJE schedule

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	AWP REF	Factual (F), Judgmental (J) Projected (P)	Assets: *Current* DR (CR)	Assets: *Non-Current* DR (CR)	Liabilities: *Current* DR (CR)	Liabilities: *Non-Current* DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating (Revenues) Exp DR (CR)	Net Position DR (CR)	Net Effect on Following Year: *Change in Net Position* DR (CR)	Net Effect on Following Year: *Net Position* DR (CR)	Post to AWP305? Yes (Y) or No (N)	Management's Reason(s) for Not Making an Adjustment to the F/S
To record prior year impact for not accruing year end grant reimbursements for unclaimed grant expenditures.			F											N	PY auditor's did not want Authority to book receivable and revenue because of the delays that would sometimes occur in the submission of requests for reimbursement; told the client to record on a cash basis but reported to the feds that they were on an accrual basis for the SEFA.
	Net position, beginning of year										(600,000)				
	Quiter Home Program grant revenue									600,000					
To reclass LEO grant revenues from operating to nonoperating to be in conformity with GAAP.			F											N	I/M reclass entry.
	Operating revenue							368,386							
	Nonoperating revenue									(368,386)					
				0	0	0	0	0	0	0	0	0	0		
				0	0	0	0	0	0	0	0	0	0		
				0	0	0	0	0	0	0	0	0	0		
				0	0	0	0	0	0	0	0	0	0		
Total passed adjustments				0	0	0	0	368,386	0	231,614	(600,000)	0	0		

Impact on Change in Net Position	**600,000**
Impact on Net Position	**0**

ITEM 2

Report to the Audit Committee

November 17, 2014

Annual Audit - Year Ended June 30, 2014

experience BKD LLP
CPAs & Advisors

2014 Highlights

■ Independent Auditor's Report on Basic Financial Statements	**Unmodified**
■ Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*	**Unmodified**
■ Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	**Unmodified**
■ Independent Auditor's Report on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance; and Report on Schedule of Passenger Facility Charge Collections and Expenditures	**Unmodified**
■ Independent Auditor's Report on Compliance for the Customer Facility Charge Program and Report on Internal Control Over Compliance	**Unmodified**

- During fiscal year 2014, the Airport Authority received its Certificate of Achievement for Excellence in Financial Reporting for its 2013 CAFR. This was the 11th consecutive year the Airport Authority has received this prestigious award.
- There were no material weaknesses or significant deficiencies in internal controls identified during the audit. There was one audit adjustment made, relating to the recognition of an accrual for unclaimed grant reimbursements.
- For fiscal year 2014, the Airport Authority had two major federal award programs that required testing, the FAA's Airport Improvement Program and TSA's Checked Baggage Screening Project. We identified no compliance or internal control matters related to these programs during our single audit testing.

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2014 Highlights (Cont.)

- **Asset highlights:** Cash, cash equivalents and investments were up $159 million due to the issuance of the 2014 bonds and continued accumulation of PFCs. Capital assets grew by $133 million (after depreciation, which increased by $75 million) with the completion of the Green Build. Grants receivable increased by $2 million, primarily due to the accrual for unclaimed grant reimbursements at June 30, 2014. Other current assets declined by $2 million, which relates entirely to the accrual for a BAB subsidy in 2013.
- **Liability highlights:** Accrued liabilities decreased by $13 million as the Green Build came to a close in 2014, thus reducing the amount of construction related accruals and retainages payable. Long-term debt grew by $294 million with the issuance of the 2014 bonds. Accrued interest payable increased by $7 million, primarily due to the semiannual interest due on the 2014 bonds, as well as a full semiannual period of interest due on the 2013 bonds at June 30, 2014 versus less than six month's due at June 30, 2013.
- **Net position highlights:** Net investment in capital assets declined by $47 million, which is primarily reflective of an increase in long-term debt associated with capital asset acquisition. Amounts restricted for debt service and construction grew by $29 million and $7 million, respectively, as the amount of interest funded from bond proceeds declined and the amount of unapplied PFCs grew. Unrestricted net position rose by $10 million, which is almost entirely due to the accumulation of additional liquid reserves.
- **Revenue highlights:** Airline revenue grew by $8 million, reflecting higher cost recovery form the airlines in 2014 as compared to 2013. Concession revenue increased by $6 million due to the Airport Authority's newly expanded concession program. Parking and ground transportation revenue rose by $3 million upon the reopening of the Terminal 2 parking lot and partially due to an increase in enplaned passengers. CFCs grew by $8 million over the prior year as a result of a fee increase that went into effect January 1, 2014.
- **Expense highlights:** Contractual services increased $2 million, primarily attributable to greater shuttle and parking contract costs. Utilities were up $2 million over 2013 as rates rose and usage increased with the Green Build coming fully on line. Maintenance expenses grew by $3 million, generally the result of additional airfield, elevator and escalator repairs. Depreciation and amortization increased $36 million due to continued capitalization of the Green Build. Interest expense increased by $40 million, both due to increased debt and a reduction in the amount of bond proceeds available to pay interest.
- **Cash flows from operating activities** continue to grow and reflect a strong trend and unrestricted liquid reserves ($167 million) are significant, representing 80% of total unrestricted net position and more than one year of current operating expenses (exclusive of depreciation).
- There were no significant changes to the Airport Authority's significant accounting policies. Significant and/or sensitive financial statement disclosures in the 2014 CAFR include: Cash, Cash Equivalents and Investments; Capital Assets; Long-Term Liabilities; Defined Benefit Plan, Other Postemployment Benefits. Lease Revenues; Lease Commitments; and Commitments and Contingencies.
- Future accounting/reporting issues of significance to consider include the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* Also, the Airport Authority should carefully study the implications of the recently released OMB "Super Circular" and plan for implementation and ongoing monitoring to ensure compliance with the federal grant program guidance therein provided.

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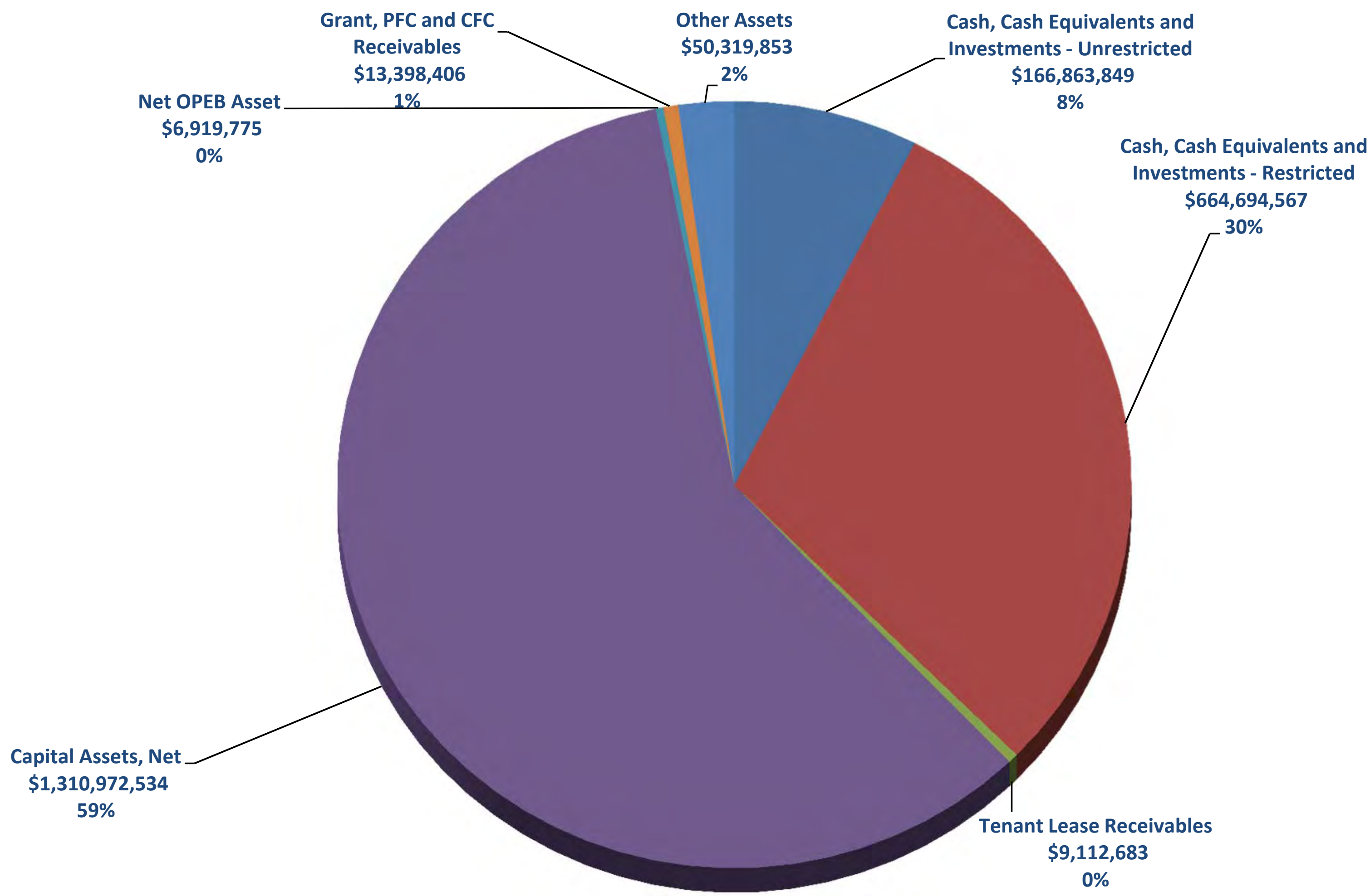
There were no difficulties encountered in the course or performing our audit and we received excellent cooperation form management throughout the process. We appreciate the support they provided, as well as the time and attention of the Audit Committee to this very important process.

Assets and Deferred Outflows Composition as of June 30, 2014



Total Assets = $2,222,281,667

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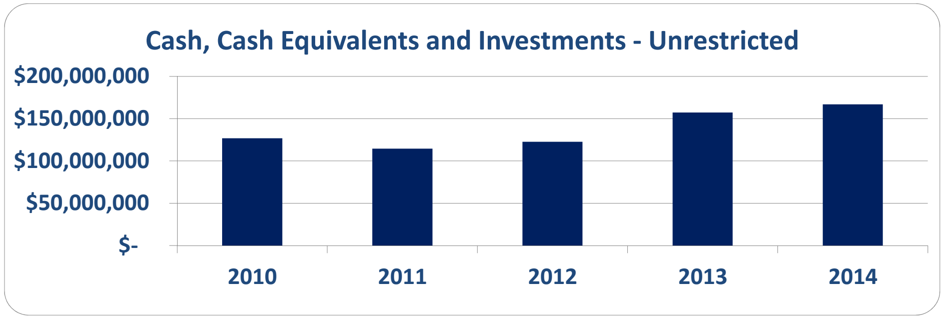
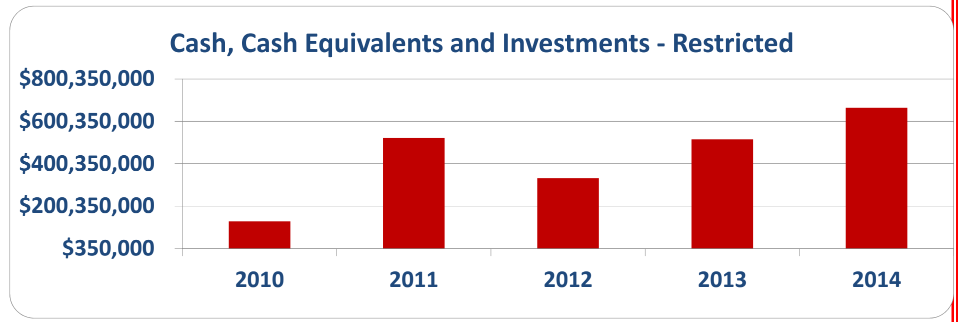
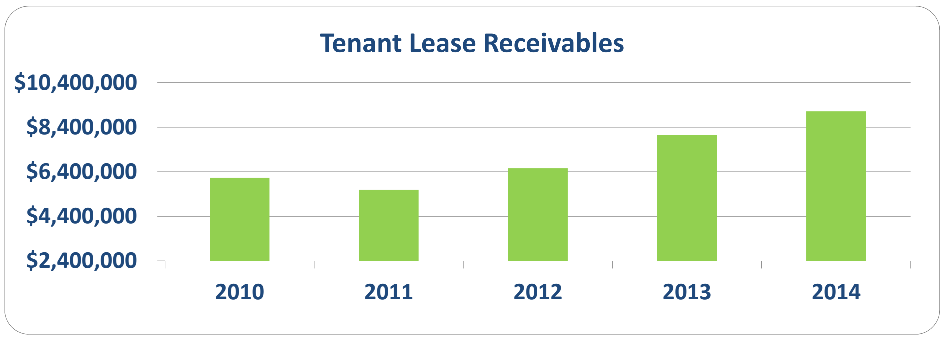
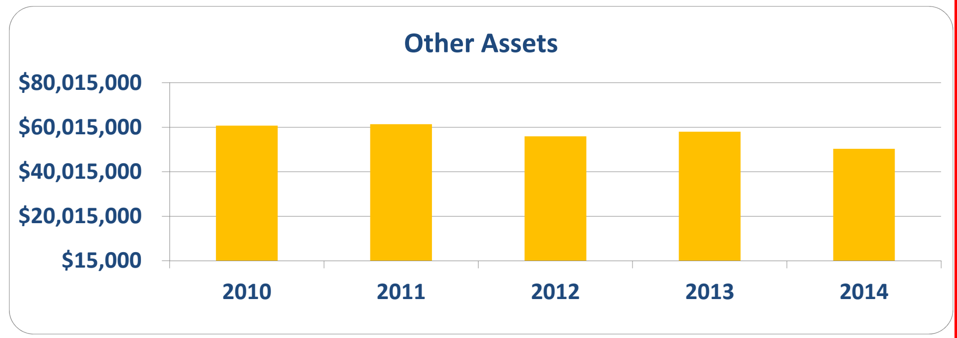
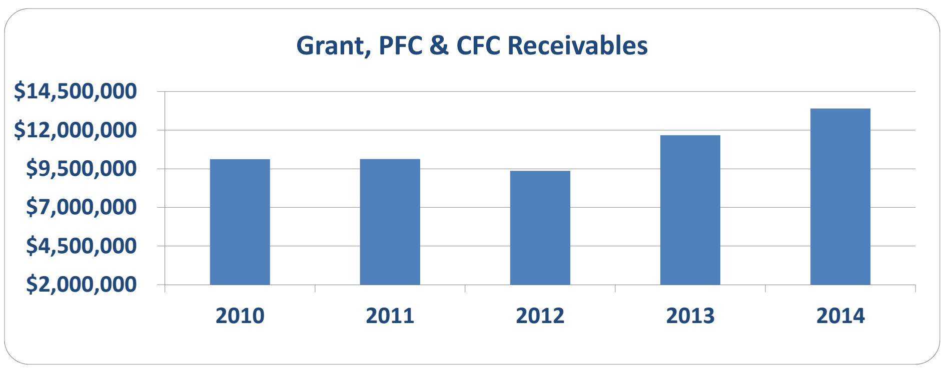
Asset and Deferred Outflows Composition Trends

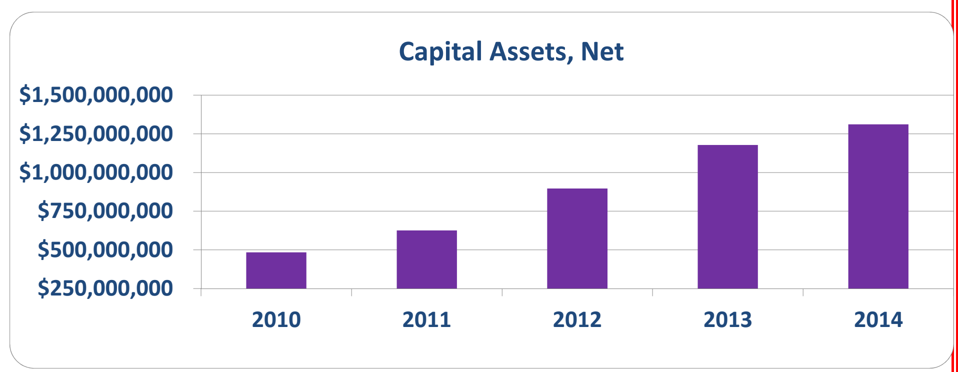












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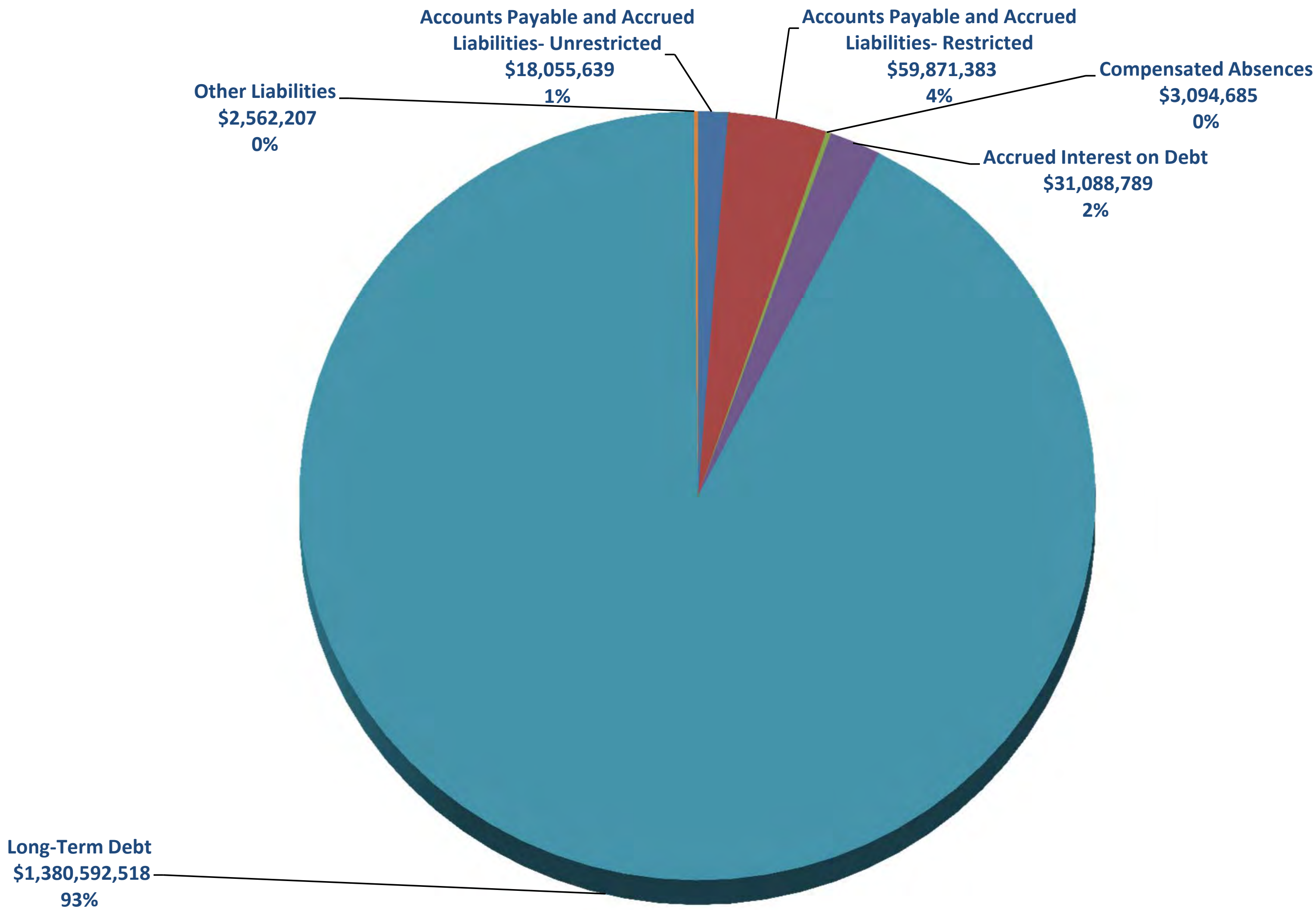
Liability Composition as of June 30, 2014



Total Liabilities = $1,495,265,221

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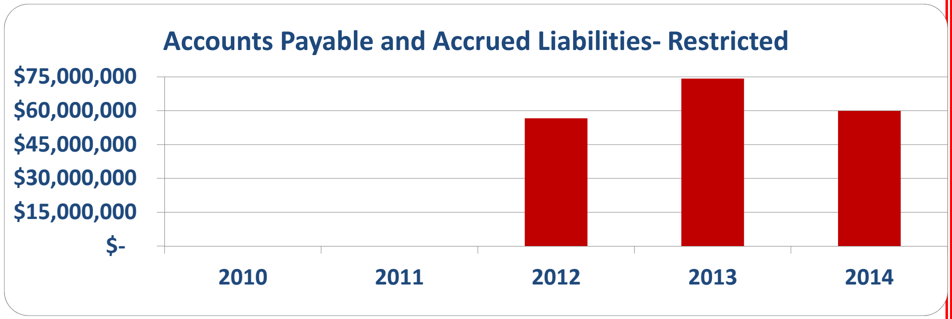
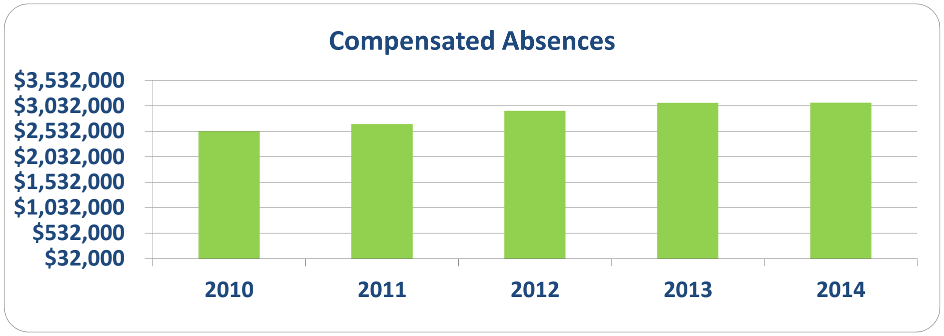
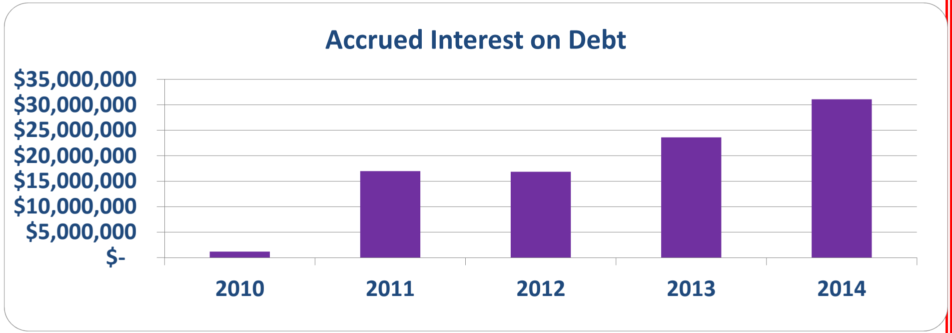
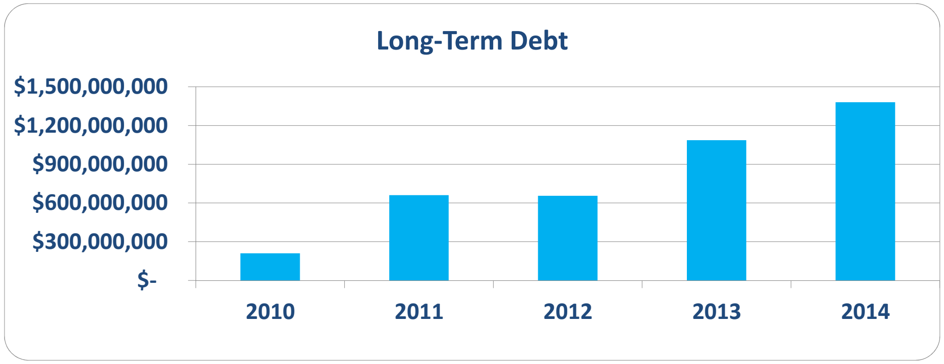
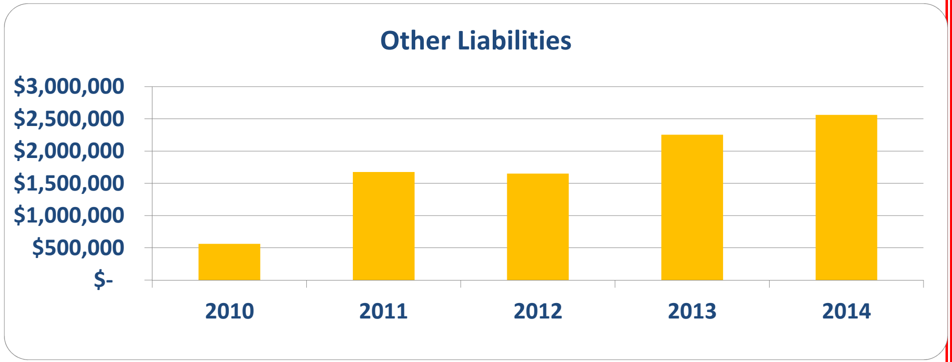
Liability Composition Trends











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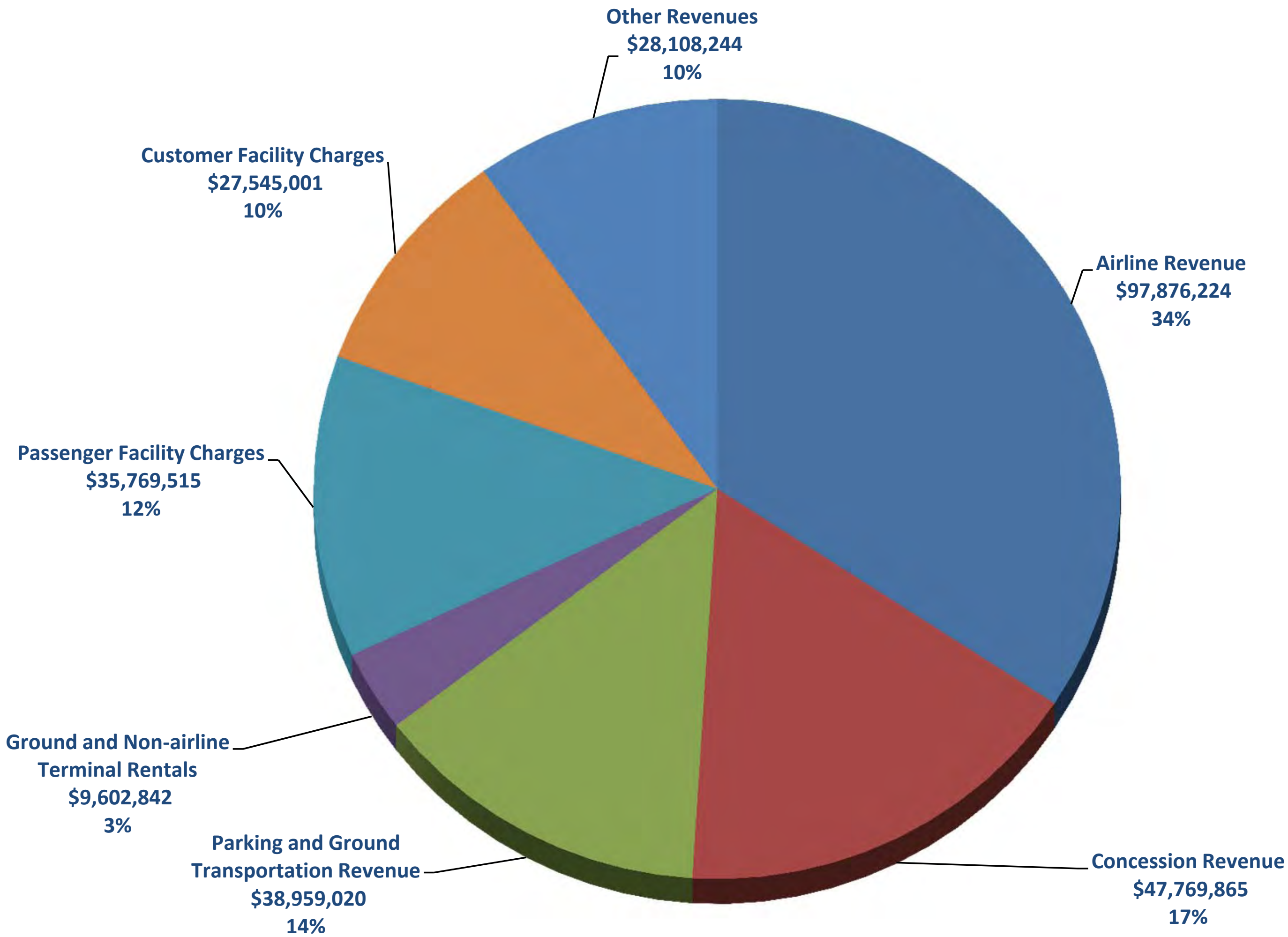
Total Revenues and Capital Contributions Composition for the Year Ended June 30, 2014



Total Revenues = $285,630,711

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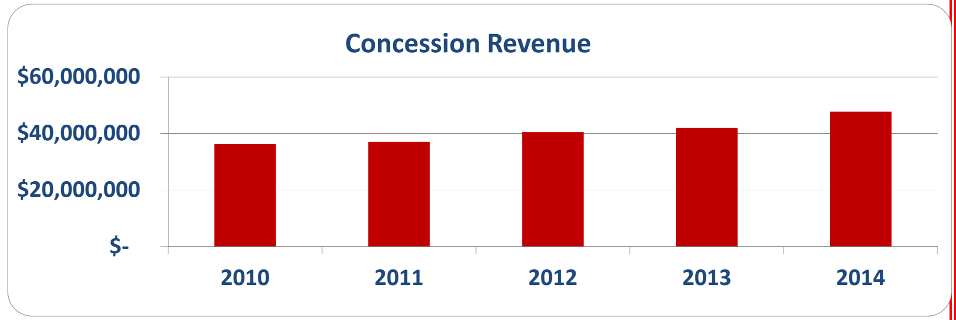
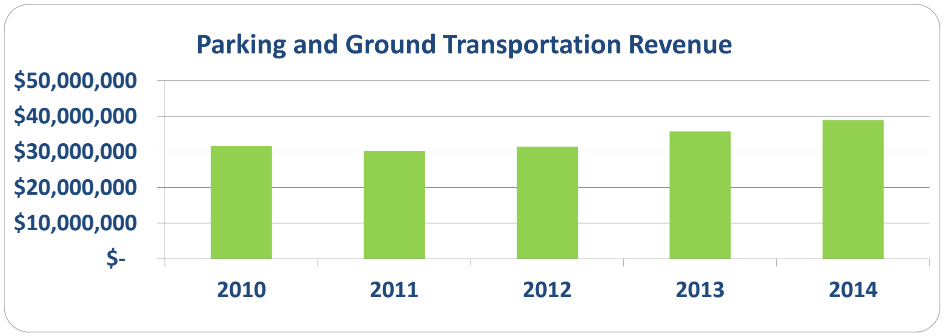
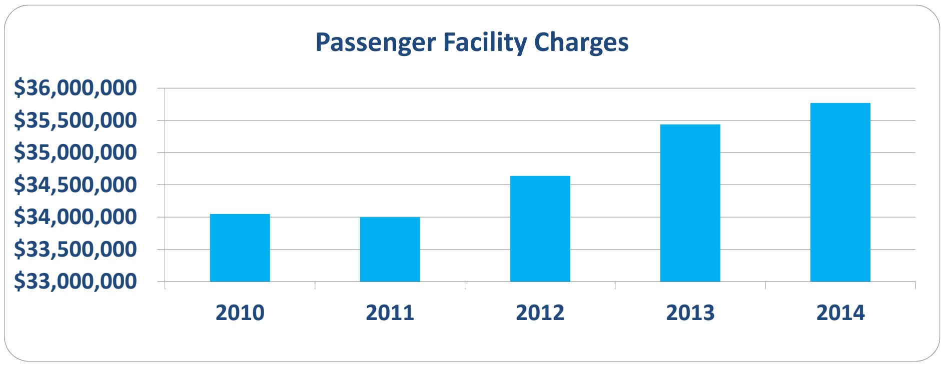
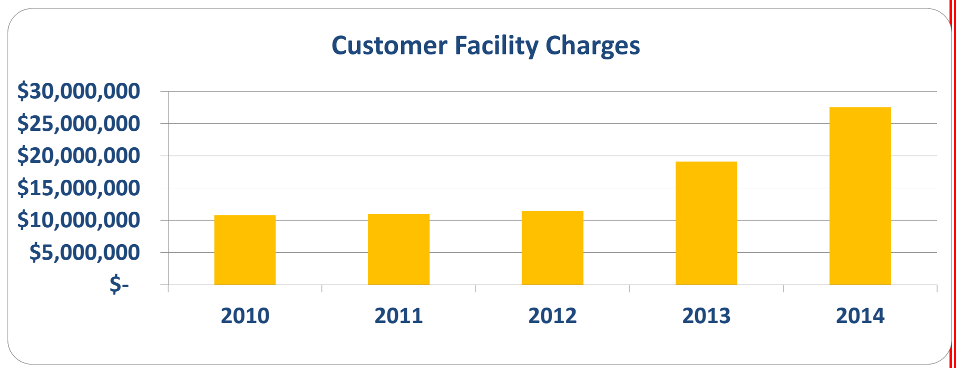
Total Revenues and Capital Contributions Trends









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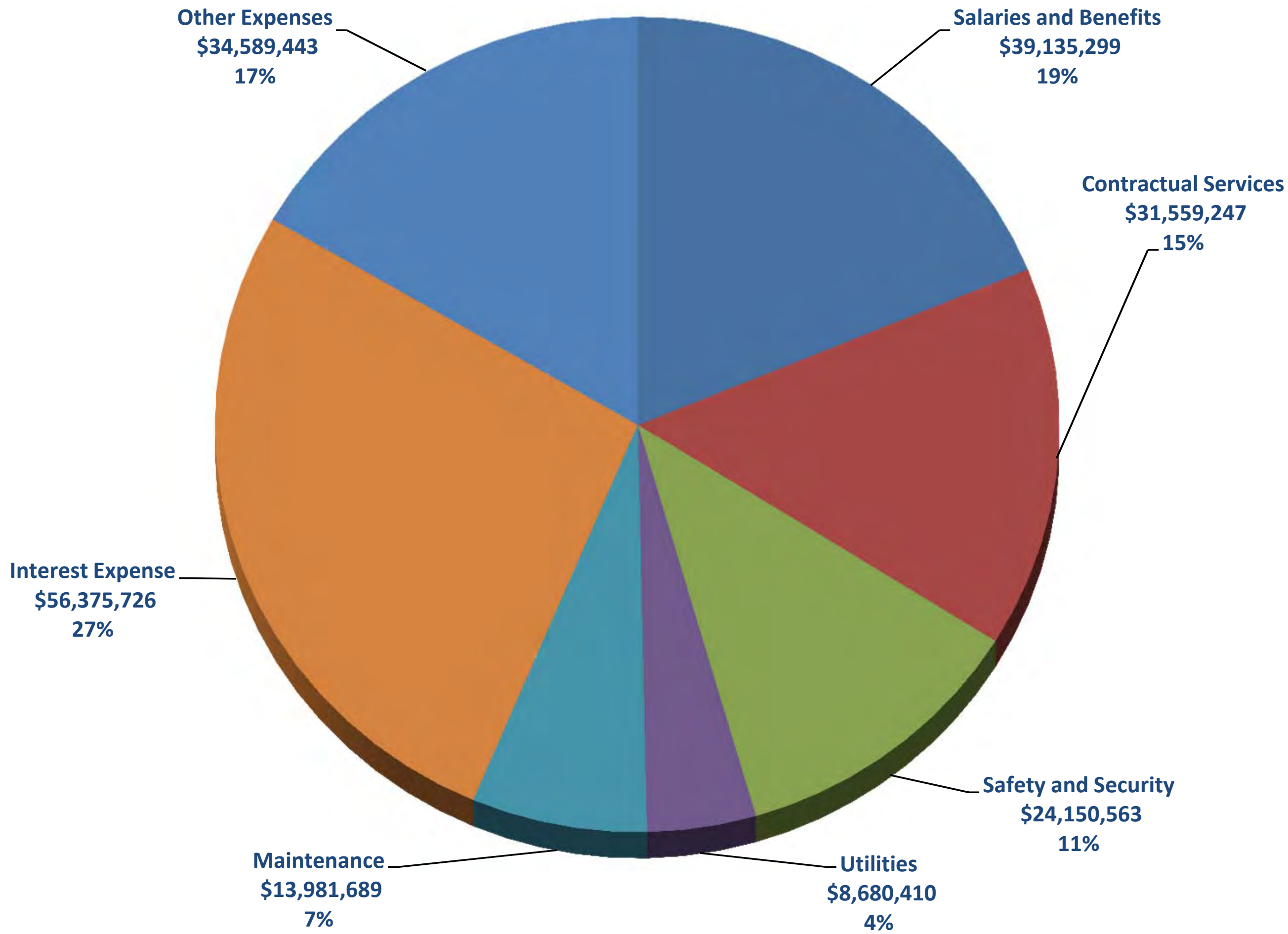
Expense Composition for the Year Ended June 30, 2014 (Excl. Depreciation)



Total Expenses (Excl. Depreciation of $77,205,256) = $208,472,377

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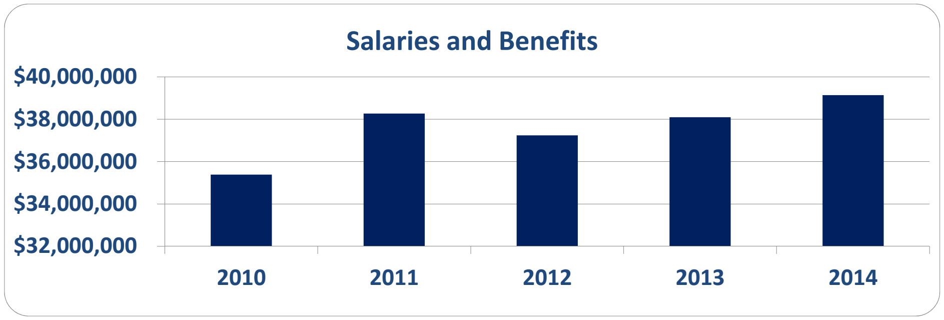
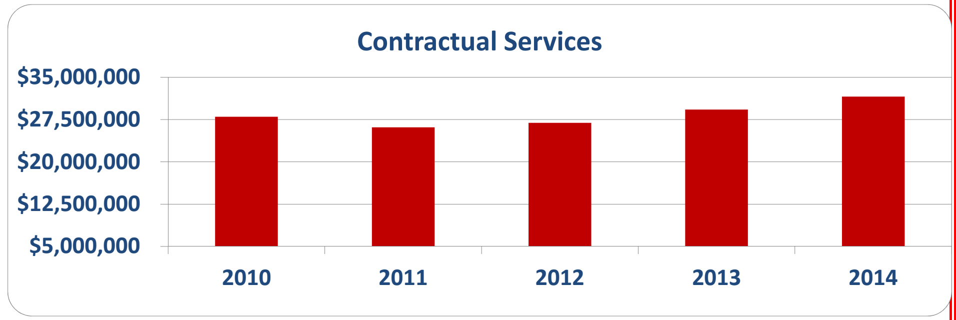
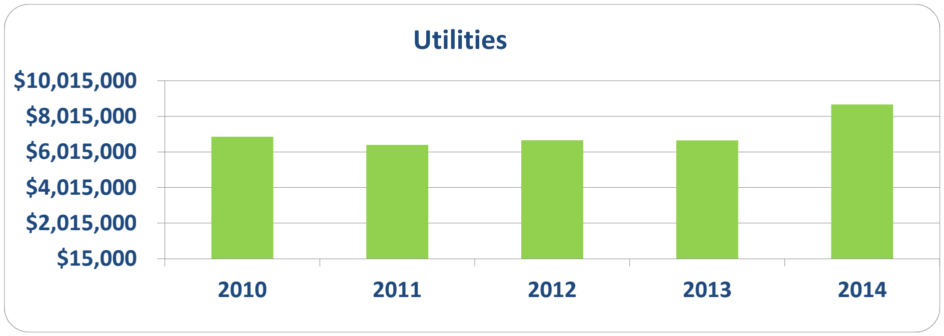
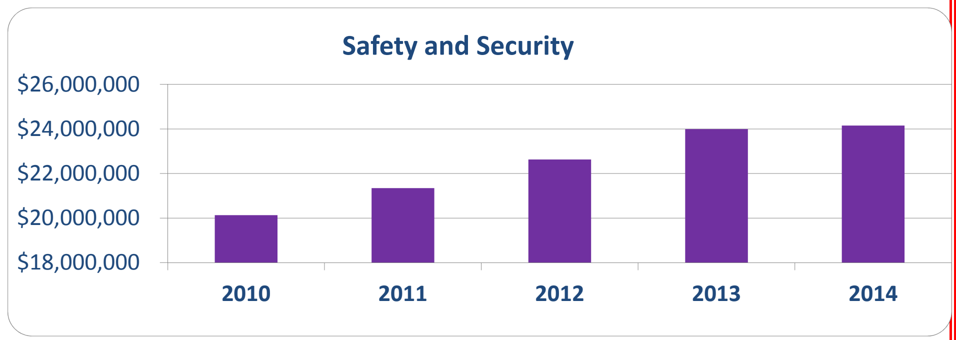
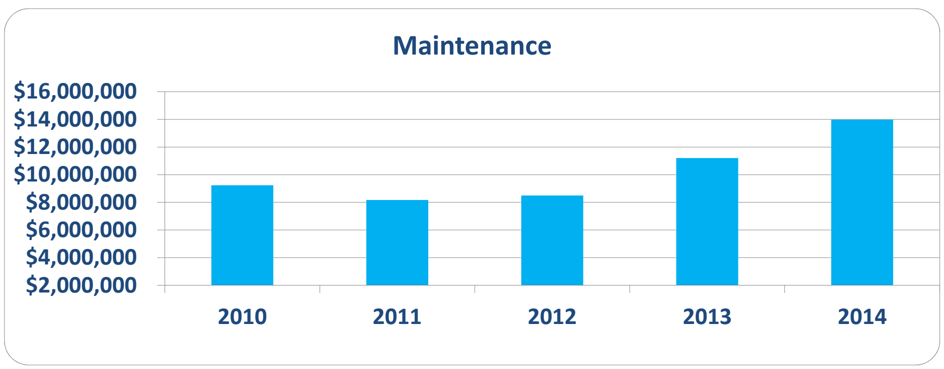
Expense Trends

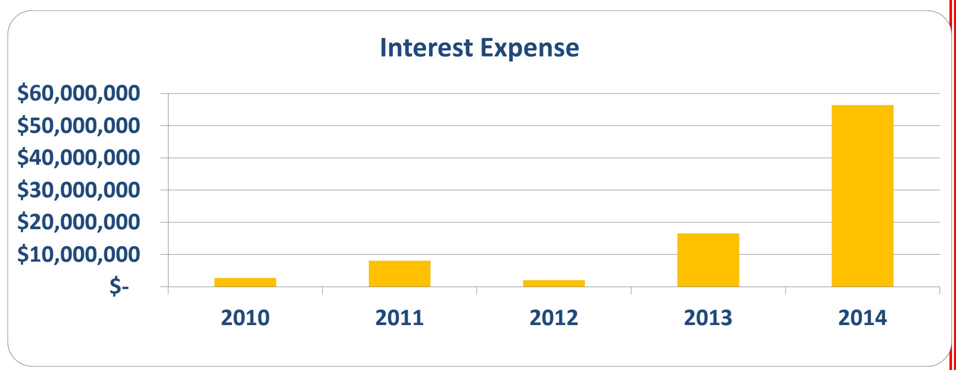












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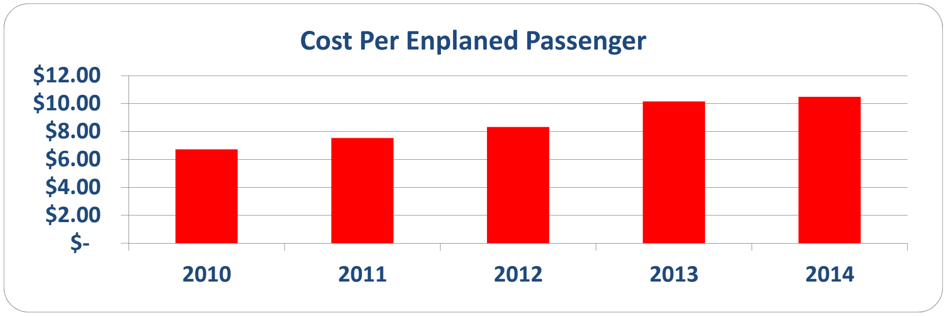
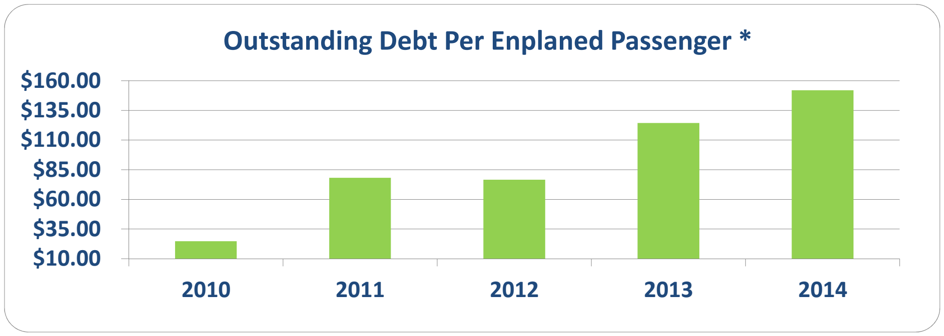
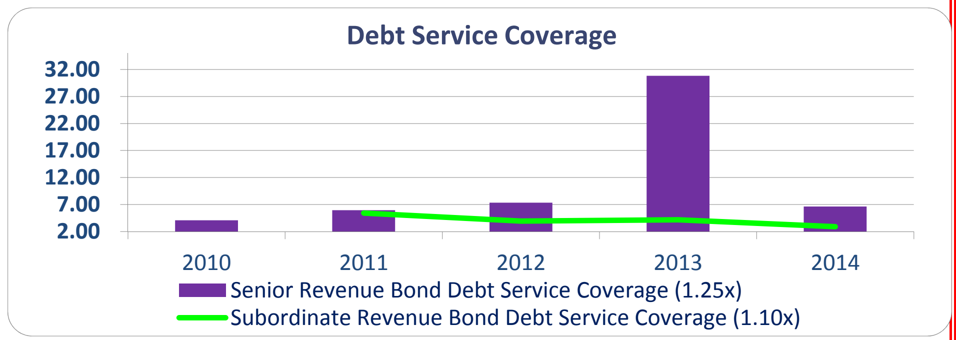
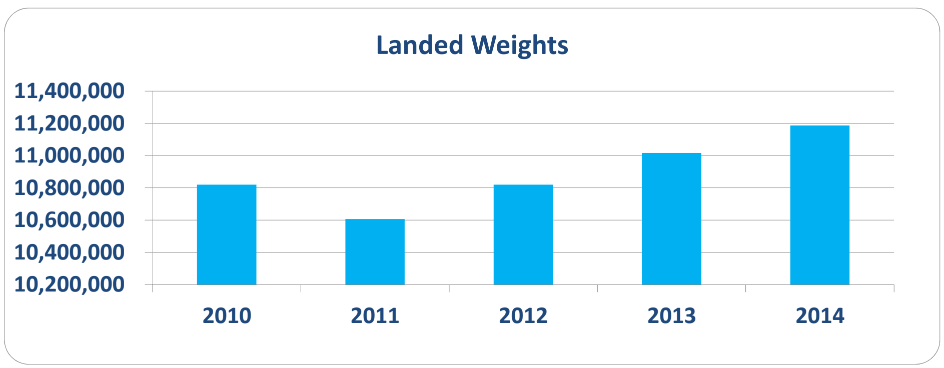
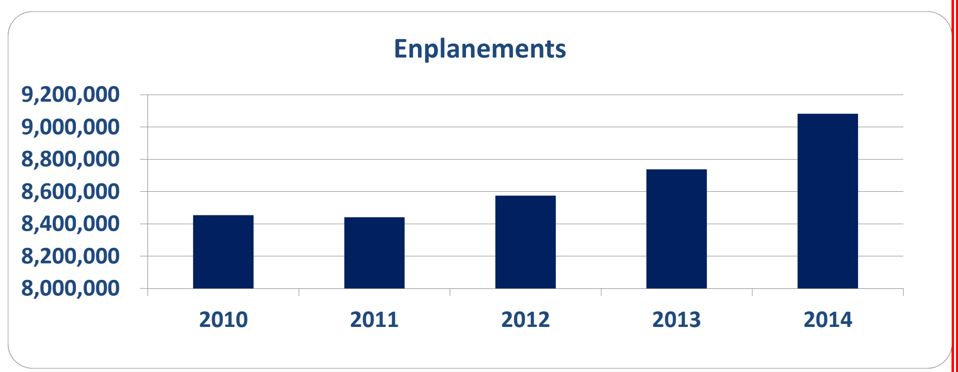
Other Relevant Trends











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*** Beginning in 2014, outstanding debt includes the Series 2014 CFC Bonds.**

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE

Item No. 3

Meeting Date: **NOVEMBER 17, 2014**

Subject:

Review of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2014

Recommendation:

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

Background/Justification:

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

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

The Airport Authority CAFR for the Fiscal Year Ended June 30, 2014, is submitted as Attachment A.

Fiscal Impact:

Adequate funding to produce the Comprehensive Annual Financial Report is included in the adopted FY 2015 and conceptually approved FY 2016 Operating Expense Budgets within the Accounting Department Services – Other line item.

Authority Strategies:

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

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

Environmental Review:

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

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

ATTACHMENT A

ITEM 3

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY San Diego, California

COMPREHENSIVE ANNUAL FINANCIAL Report

FISCAL YEARS ENDED JUNE 30, 2014 & 2013

US GREEN BUILDING COUNCIL
LEED PLATINUM
USGBC

Increased use of natural light was integrated throughout The Green Build Terminal 2 expansion, creating a more pleasant indoor environment and saving on energy costs.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY San Diego, California

COMPREHENSIVE ANNUAL FINANCIAL Report

FISCAL YEARS ENDED JUNE 30, 2014 & 2013

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

Scott Brickner
Vice President, CFO/Treasurer, Finance and Asset Management

Kathryn J. Kiefer
Sr. Director, Finance and Asset Management

Power and air for airplanes parked at the gates used to come from the airplanes themselves, forcing them to run their engines while parked. Power and air is now provided to parked aircraft from the gates, reducing greenhouse gas emissions.

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San Diego County Regional Airport Authority
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the fiscal years ended June 30, 2014 & 2013

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INTRODUCTORY Section

Authority Overview

Letter of Transmittal

GFOA Certificate of Achievement for Excellence in Financial Reporting

Authority Board Members and Executive Staff

Authority Organization Chart

Authority OVERVIEW

The San Diego County Regional Airport Authority was established by state law in 2002 to operate San Diego International Airport and address the region's long-term air transportation needs. A 12-member appointed Board representing all areas of the County governs the Airport Authority.

Terminal parking offers free and convenient Charge Point Stations for visitors who drive electric and hybrid-electric vehicles. This service rewards those that drive sustainable vehicles with a great parking location while also promoting clean-fuel vehicles and enhancing the airport's customer service.

SAN DIEGO INTERNATIONAL AIRPORT

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
P.O. BOX 82776, SAN DIEGO, CA 92138-2776
619.400.2400 WWW.SAN.ORG

October 24, 2014

To the Public:

The Comprehensive Annual Financial Report (the "CAFR") of the San Diego County Regional Airport Authority ("SDCRAA" or the "Airport Authority") for the fiscal year ended June 30, 2014 is submitted herewith. The Airport Authority's Accounting Department prepared this report. Responsibility for the accuracy, completeness and fairness of the presented data, including all disclosures, rests with the Airport Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport Authority's financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (referred to as "GAAP").

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

PROFILE OF AIRPORT AUTHORITY AND ORGANIZATIONAL STRUCTURE

The Airport Authority was established pursuant to California State Act AB 93 (the "Act"), which was signed into California State law in October 2001. The Act established the Airport Authority, effective January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego (the "County"). The Airport Authority is vested with five principal responsibilities: (1) the operation of San Diego International Airport ("SDIA" or the "Airport"), (2) the planning and operation of any future airport that could be developed as a supplement to or replacement for SDIA, (3) the development of a comprehensive land use plan for the entire County, (4) to serve as the region's Airport Land Use Commission, and (5) to prepare a RegionaL Aviation Strategic Plan.

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

The management and operations of the Airport Authority are carried out by a staff headed by the President/Chief Executive Officer, who is appointed by and reports directly to the Airport Authority Board of Directors.

ECONOMIC CONDITION

The Air Trade Area for the airport includes the County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The California Department of Finance estimates that as of January 1, 2014, San Diego County is the second most populous county in California, just behind Los Angeles County, and the fifth largest county in the United States, with a population of 3.2 million. The County's population has grown at an average rate of 0.7 percent in the past five years. The majority of the County's population is concentrated in the western portion. The largest cities in the County are San Diego (42 percent), Chula Vista (8 percent), Oceanside (5 percent), Escondido (5 percent), Carlsbad (3 percent), El Cajon (3 percent), Vista (3 percent), San Marcos (3 percent) and Encinitas (2 percent). The combined San Diego/Tijuana metropolitan population exceeds five million inhabitants.

Typically, San Diego County has enjoyed a stable economic climate, with unemployment rates lower than the State of California's. The economy continues to improve as seen in decreased unemployment. In June 2014, the County's unemployment rate dropped to 6.1 percent compared to June 2013, at 7.8 percent. This compares with an unemployment rate of 7.4 percent in 2014 and 8.5 percent in 2013 for California and 6.1 percent in 2014 compared to 7.6 percent for the nation as of June 2013. The region's economy is diversified and provides an attractive mix of leisure, business, and governmental sectors. The County is home to more than 150 publicly traded companies.

Enplaned passengers grew 3.9 percent in fiscal year 2014, reflecting the gradual economic improvement totaling 9.08 million, compared to 8.73 million in fiscal year 2013. See the Management's Discussion and Analysis section of the Financial Section of this report for further discussion of the current year activity.

MAJOR INITIATIVES, AWARDS, AND ACCOMPLISHMENTS

SDIA Earns the World's First LEED Platinum Certified Commercial Airport Terminal – In April 2014, SDIA was awarded Leadership in Energy and Environmental Design (LEED) Platinum certification for the Green Build terminal expansion from the U.S. Green Building Council (USGBC). LEED certification is considered the industry standard in defining and measuring "green," sustainable construction, with LEED Platinum being the highest certification attainable. The award makes SDIA the first LEED Platinum certified commercial airport terminal in the world.

LEED Platinum was awarded for the terminal portion of the Green Build, including the 460,000 square-foot expansion of Terminal 2 West and 1.3 million square feet of new aircraft apron and taxiway areas. The design/build contractor for the project was Turner/PCL/Flatiron.

Sustainable elements of the terminal and airside improvements include solar energy, water conservation, energy conservation, storm water pollution prevention and air quality.

Materials for the project were sourced, whenever possible, from within 500 miles of the airport, minimizing fuel usage and emissions in materials delivery. More than 95 percent of construction material waste was diverted from landfills by reuse on site or recycling. Construction teams used alternative fuel equipment as part of the construction process, reducing on site fuel usage and emissions.

Green Build Gives Back to Small and Local Businesses with Millions in Contract Awards – With the grand opening of San Diego International Airport's (SDIA) Green Build Terminal 2 West improvement program, the $1 billion project upheld its commitment to provide business opportunities to local and small businesses, including women and minority owned and disabled veteran businesses. Local businesses won a total of $415 million in contracts, and small businesses were awarded contracts totaling $118 million. In addition, nearly 8,000 workers had a role in the project, and at the peak construction, there were 1,000 construction workers on site.

The Airport Authority received awards from the San Diego Chapter of the American Subcontracting Association, Airport Minority Advisory Council, San Diego Hispanic Chamber of Commerce and Federal Aviation Administration for its small business outreach efforts.

ACI-North America Honors San Diego County Regional Airport Authority (SDIA), with Inaugural Inclusion Champion Awards – On September 25, 2013, the Airport Authority was awarded Airports Council International North America's (ACI-NA) first Inclusion Champion Award, which recognized exceptional achievement in promotion and sustaining diversity throughout the airport industry's workforce.

The Airport Authority makes diversity a cornerstone of its success, actively recruiting a diverse workforce which mirrors the demographics of the greater San Diego area: 43 percent of employees identify as an ethnicity other than Caucasian, with 20 percent identifying as Hispanic, 12 percent as African American, 8 percent as Asian and 3 percent as Native Hawaiian/Pacific Islander. The Airport Authority made a strong commitment to ensuring a diverse future through Project LIFT, a partnership between the Airport Authority, San Diego City College and the Airport Minority Advisory Council (AMAC) which introduces students to aviation careers. Additionally, the Airport Authority has tailored its contracting process, such as that for its recently completed Green Build construction project, to improve participation by small, minority and women owned businesses.

Airport Authority Wins Two Orchid Awards for Green Build Public Art and Interior Architecture – The 2013 Orchids & Onions Awards Ceremony awarded the Airport Authority two Orchids for the public art and interior architecture of the Green Build. The annual event was held by the San Diego Architectural Foundation. The Orchids & Onions jury called the Green Build "breathtaking from a distance, up close, outside and inside," and said it "creates a sense of place, provides an awesome esthetic journey, and combines the very best of form and function."

The Orchids & Onions jury described The Green Build's interior architecture as "open, airy and light," adding that "extensive use of glass takes advantage of natural light for energy efficiency." Regarding the public art in The Green Build, the jury said it "adds a dimension of beauty that elevates the experience."

Construction Begins for the Rental Car Center at SDIA - Groundbreaking took place in October 2013 for the new Rental Car Center at SDIA. The facility will house a number of rental car companies, including the leading national brands, as well as local, independent and small business rental car companies. The Rental Car Center is being constructed by joint venture Austin/Sundt, with Demattei Wong Architecture leading the design effort Building on the airport's ongoing commitment to sustainability, the Rental Car Center will be designed to achieve LEED certification, incorporating "green" design principles such as use of alternative energy sources, recycled materials, renewable resources and water saving fixtures. The design and construction of the Rental Car Center will be funded by customer facility charges. The estimated cost for the center is $316 million.

Major Bond Sale Completed with Favorable Terms for Future Rental Car Center at SDIA – In February 2014, the Airport Authority completed a major bond sale to fund the construction of a Rental Car Center and related improvements on the north side of SDIA. The bonds are secured by future Customer Facility Charge (CFC) revenue from customers who will use the Rental Car Center, which is scheduled to open in January 2016.

The Rental Car Center bond sale was the largest stand-alone CFC-backed bond deal to date and the first issued in California. The Airport Authority scheduled pricing for the bond sale in early February to take advantage of favorable market flows and lower rates, resulting in the bond offering being extremely well received. The All-in True Interest Cost for the entire transaction was 5.49 percent.

The bond sale's favorable circumstances were due to several factors, including the Airport Authority's careful timing of market entry for the sale, pricing during a time when rates were more attractive, and strong credit ratings for the bonds. Moody's Investors Services and Standard & Poor's Ratings Services rated the bonds A3 (Stable) and A- (Stable), respectively.

The bond sale was comprised of $305.3 million in Senior Special Facility Revenue Bonds, sold on February 5, 2014. The Rental Car Center will serve as a central location for rental car customers, with consolidated shuttle service for all rental car companies, versus the many brand-specific shuttles that have historically served the airport. This will dramatically reduce our carbon footprint with reduced emissions, rental car traffic and the number of shuttle buses circulating around the airport.

San Diego County Regional Airport Authority Wins Major Route Service Award – In October 2013, SDIA was given a World Routes award for its air service development efforts. It is the first time the airport has won the award in a global competition. The annual World Routes Awards are considered the most prestigious awards in the industry as they are voted for and judged by the airline network planning community. The awards recognize airports that provide the best overall air service marketing to airlines, including establishing new or developing existing routes, delivering

results and providing data. SDIA won the Routes Americas 2013 award, and was also named Overall Regional Winner for the Americas. SDIA went on to represent North, Central and South America in the World Routes contest.

SDIA was recognized for its work with four separate airlines to increase route service from San Diego. In 2012, the Airport Authority inaugurated service to Tokyo, Orlando and Reagan National Airport in Washington, DC, and expanded service to Hawaii and Mexico. In all, through its partner airlines, the SDIA added 10 new routes in 2012.

Landmark Aviation Holds a Groundbreaking at SDIA – Landmark Aviation held a groundbreaking ceremony on October 17, 2013 to design, build and operate a new, state of the art fixed base operator campus, with a 20,000 square-foot terminal, a 250,000 square-foot ramp and five hangars on 12.4 acres of airfield. The new facility is committed to achieve LEED Platinum certification from the USGBC. Landmark Aviation is investing approximately $40 million for this project.

This facility will enhance the SDIA community and provide general aviation customers a comfortable, spacious terminal with many new amenities than previously offered. The grand opening is scheduled for early August 2014.

FINANCIAL INFORMATION

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

The Airport Authority completed fiscal year 2014 with operating income (before depreciation and amortization) of $58.9 million. Fiscal year 2014 also grew as compared to fiscal year 2013, with enplanements increasing 3.9 percent, total passengers increasing 4 percent and freight and mail tons increasing 5.1 percent. The accompanying Management’s Discussion and Analysis provides a detailed narrative overview.

INDEPENDENT AUDIT

The financial records of the Airport Authority are audited annually by independent public accountants. BKD, LLP performed the audit for the current fiscal year ended June 30, 2014. Its report on the financial statements is presented in the Financial Section of this report.

US GREEN BUILDING COUNCIL
LEED PLATINUM
USGBC

Power and air for airplanes parked at the gates used to come from the airplanes themselves, forcing them to run their engines while parked. Power and air is now provided to parked aircraft from the gates, reducing greenhouse gas emissions.

ADDITIONAL AWARDS AND ACKNOWLEDGEMENTS

The Airport Authority has been the recipient of numerous awards. A few of the recognitions presented during the fiscal year ended June 30, 2014 were as follows:

The Government Finance Officers Association of the United States and Canada ("GFOA") Certificate of Achievement for Excellence in Financial Reporting – This recognition is for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the eleventh year in a row that the Airport Authority received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

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

Airport Authority Receives Achievement of Excellence in Procurement Award – The Achievement of Excellence in Procurement Award is designed to recognize organizational excellence in procurement. Elements measured for this award include innovation, ethics, electronic commerce, productivity and leadership. The Airport Authority scored in the top 20 percent of all winners and is one of only 36 government agencies in California to win this prestigious award. This is the fourth year in a row that the Airport Authority received this award.

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

Respectfully submitted,

Thella F. Bowens
President/Chief Executive Officer

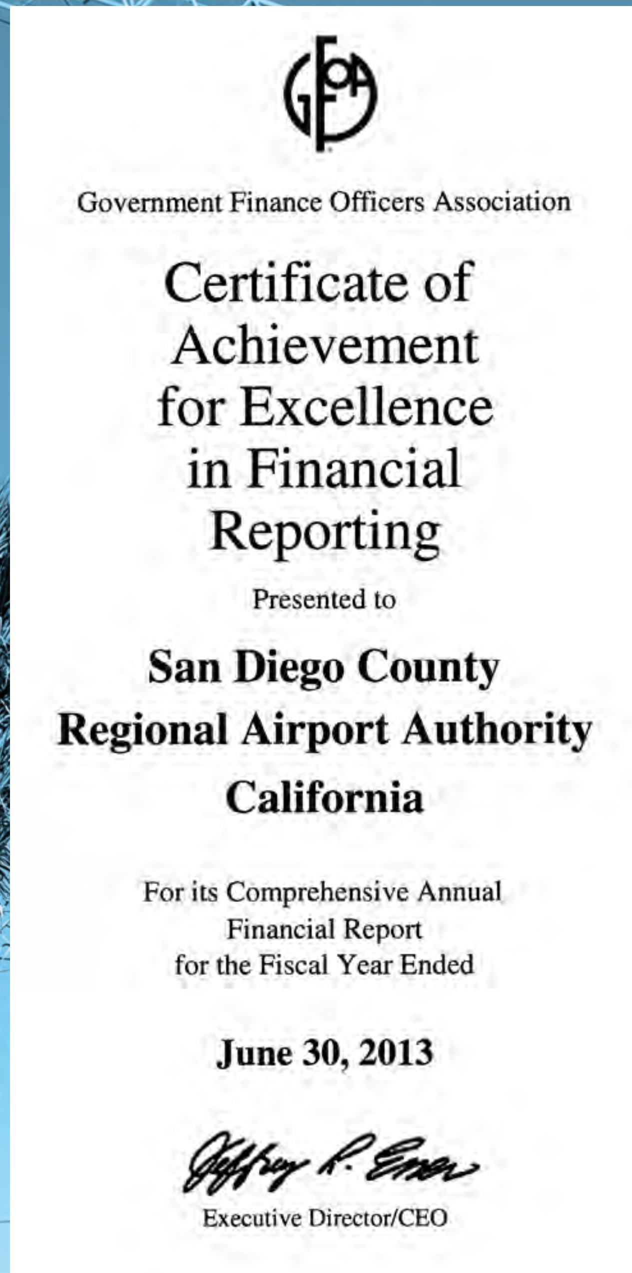
Scott Brickner, CPA
Vice President, CFO/Treasurer, Finance & Asset Mgmt.

GFOA CERTIFICATE OF ACHIEVEMENT IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This is the eleventh consecutive year that the Airport Authority has achieved this prestigious award.

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

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


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County Regional Airport Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO


AUSTIN SUNDT

AUTHORITY BOARD MEMBERS & EXECUTIVE STAFF

As of June 30, 2014

Airport Authority Board

Executive Committee

Robert H. Gleason, Chair

Paul Robinson, Vice Chair

Tom Smisek

General Members

David Alvarez

Bruce R. Boland *

Greg Cox

Jim Desmond

Lloyd B. Hubbs

Mary Sessom

Ex-Officio Members

Laurie Berman

Colonel John Farnam

Eraina Ortega

Executive Staff

Thella F. Bowens, President/Chief Executive Officer

Scott Brickner, Vice President, CFO/Treasurer, Finance and Asset Mgmt.

Angela Shafer-Payne, Vice President, Operations Division

Jeffrey Woodson, Vice President, Development Division

Mark Burchyett, Chief Auditor

Breton K. Lobner, General Counsel

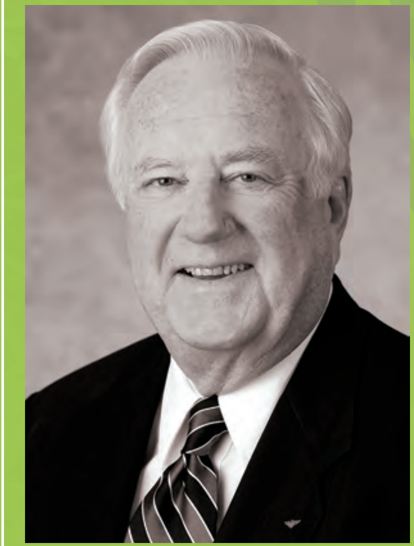
Hampton Brown, Director, Air Service Development

Matt Harris, Senior Director, Assets and Alliances

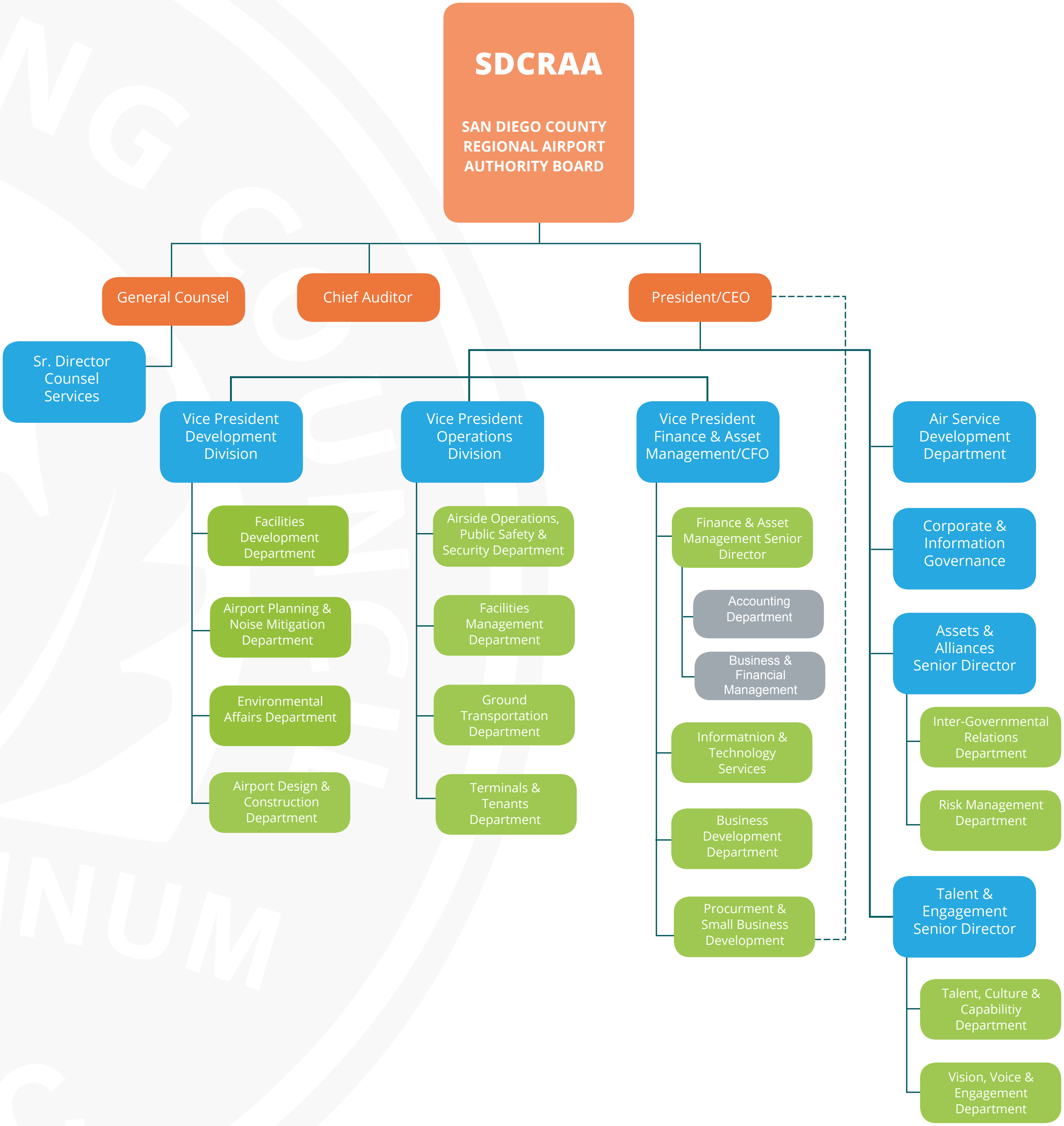
Jeffrey Lindeman, Senior Director, Organizational Performance & Development

Diana Lucero, Director, Vision, Voice, and Engagement

Tony Russell, Director/Authority Clerk, Corporate and Information Governance



* Ret. Rear Admiral Bruce Boland passed away on August 19, 2014. Bruce Boland served on the Airport Authority Board from 2006 until his passing. He was instrumental in the success of numerous major initiatives at the airport, including The Green Build Terminal 2 expansion and the largest airport USO in the nation, completed in August 2013. A military hero, he was a proud and tireless advocate for the military, veterans, San Diego International Airport and the San Diego region. He is greatly missed.


SDCRAA
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY BOARD
General Counsel
Chief Auditor
President/CEO
Sr. Director Counsel Services
Vice President Development Division
Vice President Operations Division
Vice President Finance & Asset Management/CFO
Air Service Development Department
Corporate & Information Governance
Assets & Alliances Senior Director
Talent & Engagement Senior Director
Facilities Development Department
Airport Planning & Noise Mitigation Department
Environmental Affairs Department
Airport Design & Construction Department
Airside Operations, Public Safety & Security Department
Facilities Management Department
Ground Transportation Department
Terminals & Tenants Department
Finance & Asset Management Senior Director
Accounting Department
Business & Financial Management
Informatnion & Technology Services
Business Development Department
Procurment & Small Business Development
Inter-Governmental Relations Department
Risk Management Department
Talent, Culture & Capabilitiy Department
Vision, Voice & Engagement Department

Drought-tolerant landscaping, satellite-controlled irrigation, and recycling stations are just a few of the airport's many sustainability initiatives.

FINANCIAL SECTION (Unaudited)

Independent Auditor's Report

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information (Unaudited)

BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (Airport Authority) which are comprised of a statement of net position as of June 30, 2014, and statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Members of the Board
San Diego County Regional Airport Authority
Page 2

Prior Year Audited by Other Auditors

The 2013 financial statements were audited by other auditors and their report thereon, dated October 18, 2013, expressed an unmodified opinion.

Other Matters

Required Supplementary Information

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

Other Information

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

BKD, LLP

Dallas, Texas
October 24, 2014

Customer service was enhanced with the opening of the Reflection Room in Terminal 2 West. This room offers customers a serene location to contemplate and relax. Artist – Norie Sato

Management's Discussion and Analysis

For the period July 1, 2013 to June 30, 2014

INTRODUCTION

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

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

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

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

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

Legislative Background

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

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

(1) Operation of SDIA;

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

(3) Development of comprehensive airport land use plans for the airports in the county;

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

(5) In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

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

Airport Activities Highlights (2012 – 2014)

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

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

	FY 2012	FY 2013	FY 2014
Enplaned passengers	8,575,475	8,737,617	9,082,244
% increase	1.6%	1.9%	3.9%
Total passengers	17,138,911	17,440,968	18,145,130
% increase	1.6%	1.8%	4.0%
Aircraft operations	188,280	188,304	187,790
% increase	1.1%	0.0%	-0.3%
Freight and mail (in tons)	132,493	157,025	164,966
% increase	1.9%	18.5%	5.1%
Landed weight (in thousands)	10,820	11,016	11,187
% increase	2.0%	1.8%	1.6%

Overall, the improving economy is having a positive effect on aircraft operations at SDIA. The most significant increase since the 2008 economic downturn occurred in fiscal year 2014 with a 3.9 percent increase in enplanements. Also, total passengers increased by 4.0 percent and freight and mail tons increased 5.1 percent. Overall, it appears the improving economy continues to have a positive effect on aircraft operations at SDIA.

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

The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position increased consistently over the past two fiscal years by 9.7 percent in 2012, and 10.0 percent in 2013 and decreased slightly in 2014. The fiscal year 2014 decrease is primarily due to an increase in interest expense of approximately $40 million and an increase in depreciation and amortization of approximately $36 million. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2012	FY 2013	FY 2014
Operating revenues	$ 153,550	$ 177,498	$ 195,737
Operating expenses	(163,701)	(168,420)	(214,026)
Nonoperating revenues, net	47,951	41,020	14,318
Capital contributions and grants	20,834	16,077	3,924
Increase (decrease) in net position	58,634	66,175	(47)
Net position, beginning of year	602,255	660,889	727,064
Net position, end of year	$ 660,889	$ 727,064	$ 727,017

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

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

	FY 2013	FY 2014	From 2013 to 2014 Increase (Decrease)	From 2013 to 2014 % Change
Airline revenue:				
Landing fees	$ 19,658	$ 19,107	$ (551)	(2.8%)
Aircraft parking fees	3,191	2,503	(688)	(21.6%)
Building rentals	41,840	46,001	4,161	9.9%
Security surcharge	23,360	25,777	2,417	10.3%
Other aviation revenue	1,591	4,488	2,897	182.1%
Total airline revenue	89,640	97,876	8,236	9.2%
Non-airline terminal rent	972	1,158	186	19.1%
Concession revenue	42,041	47,770	5,729	13.6%
Parking and ground transportation revenue	35,750	38,959	3,209	9.0%
Ground rentals	8,190	8,445	255	3.1%
Other operating revenue	905	1,529	624	69.0%
Total operating revenue	$ 177,498	$ 195,737	$ 18,239	10.3%

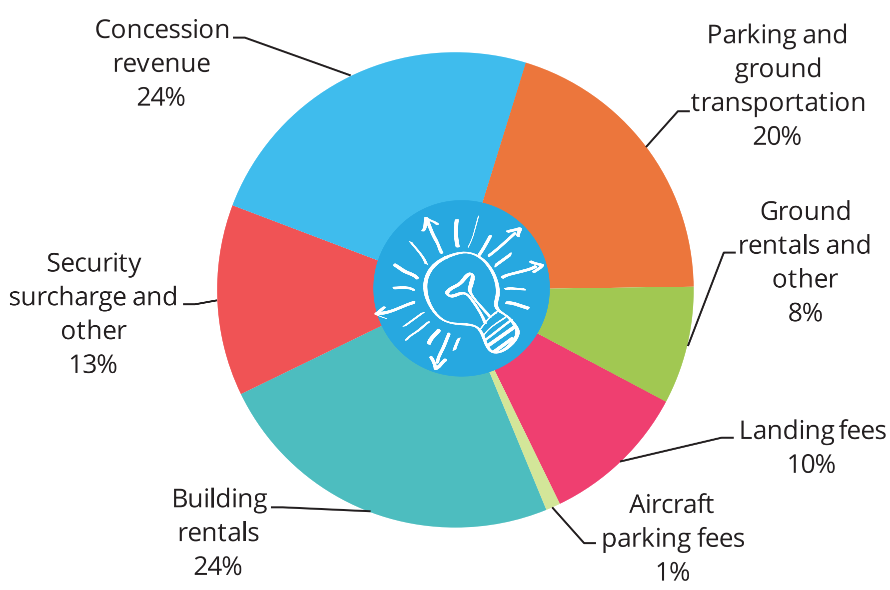
	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	From 2012 to 2013 % Change
Airline revenue:				
Landing fees	$ 18,419	$ 19,658	$ 1,239	6.7%
Aircraft parking fees	3,135	3,191	56	1.8%
Building rentals	30,633	41,840	11,207	36.6%
Security surcharge	18,649	23,360	4,711	25.3%
Other aviation revenue	1,595	1,591	(4)	(0.3%)
Total airline revenue	72,431	89,640	17,209	23.8%
Non-airline terminal rent	907	972	65	7.2%
Concession revenue	40,427	42,041	1,614	4.0%
Parking and ground transportation revenue	31,470	35,750	4,280	13.6%
Ground rentals	7,136	8,190	1,054	14.8%
Other operating revenue	1,179	905	(274)	(23.2%)
Total operating revenue	$ 153,550	$ 177,498	$ 23,948	15.6%

Operating Revenues, Continued

Fiscal year 2014 compared to 2013: Total airline revenues increased by $8.2 million or 9.2 percent, primarily reflecting the cost recovery system for the airlines which was higher in fiscal year 2014, compared to 2013. Building rentals increased due to the implementation of the new airline use and lease agreement and the additional costs incurred by the fiscal year 2014 grand opening of the airport expansion. Security surcharge revenue increased due to additional costs of services and expanded facilities. Combined in other aviation revenue, common use system support charges were implemented in fiscal year 2014. Offsetting the airline revenue were decreased landing fees due to lower maintenance costs and decreased aircraft parking fees due to vacant parking positions. Concession revenue increased by $5.7 million or 13.6 percent due to the new expanded concession program and the airport expansion. Parking and ground transportation revenue increased $3.2 million and 9.0 percent due to the reopening of Terminal 2 parking lot in front of the new expanded terminal and the increased enplanements.

Fiscal year 2013 compared to 2012: Total airline revenues increased by $17.2 million or 23.8 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was higher in fiscal year 2013, compared to 2012. Building rentals saw a graduated rate increase from 60 percent to 100 percent and the security surcharge increased from 85 percent to 100 percent reflecting the cost recovery formula. Landing fees increased by $1.2 million or 6.7 percent, due to increased airfield maintenance expenses and increased landed weight. Concession revenue increased by $1.6 million or 4.0 percent, reflecting slightly higher enplanements and higher per enplanement sales. Parking revenues increased by $4.3 million or 13.6 percent, due in part to the reopening of Terminal 2 parking that was temporarily closed in fiscal year 2012 to facilitate the construction of the Green Build. Ground rentals revenue increased in 2013 by $1.1 million or 14.8 percent, due to increased rental space by FedEx, and a consumer price index rent increase to FedEx, Southwest, and UPS. The $274 thousand or 23.2 percent decrease, in other operating revenue reflects a change in utility billing practices of the new concession program beginning January 2013, which are now included as part of the base rent.

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2014
Operating Revenues



Operating Expenses (in thousands)

	FY 2013	FY 2014	From 2013 to 2014 Increase (Decrease)	% Change
Salaries and benefits	$ 38,092	**$ 39,135**	$ 1,043	2.7%
Contractual services	29,284	**31,559**	2,275	7.8%
Safety and security	23,994	**24,151**	157	0.7%
Space rental	10,897	**10,478**	(419)	(3.8%)
Utilities	6,659	**8,680**	2,021	30.3%
Maintenance	11,204	**13,982**	2,778	24.8%
Equipment and systems	469	**643**	174	37.1%
Materials and supplies	406	**440**	34	8.4%
Insurance	795	**988**	193	24.3%
Employee development and support	1,235	**1,171**	(64)	(5.2%)
Business development	2,444	**2,661**	217	8.9%
Equipment rentals and repairs	1,317	**2,932**	1,615	122.6%
Total operating expenses before depreciation and amortization	126,796	**136,820**	10,024	7.9%
Depreciation and amortization	41,624	**77,205**	35,581	85.5%
Total operating expense	$ 168,420	**$ 214,025**	45,605	27.1%

	FY 2012	FY 2013	Increase (Decrease)	% Change
Salaries and benefits	$ 37,237	$ 38,092	$ 855	2.3%
Contractual services	26,906	29,284	2,378	8.8%
Safety and security	22,625	23,994	1,369	6.1%
Space rental	11,415	10,897	(518)	(4.5%)
Utilities	6,674	6,659	(15)	(0.2%)
Maintenance	8,497	11,204	2,707	31.9%
Equipment and systems	403	469	66	16.4%
Materials and supplies	304	406	102	33.6%
Insurance	764	795	31	4.1%
Employee development and support	916	1,235	319	34.8%
Business development	2,093	2,444	351	16.8%
Equipment rentals and repairs	1,335	1,317	(18)	(1.3%)
Total operating expenses before depreciation and amortization	119,169	126,796	7,627	6.4%
Depreciation and amortization	44,532	41,624	(2,908)	(6.5%)
Total operating expense	$ 163,701	$ 168,420	$ 4,719	2.9%

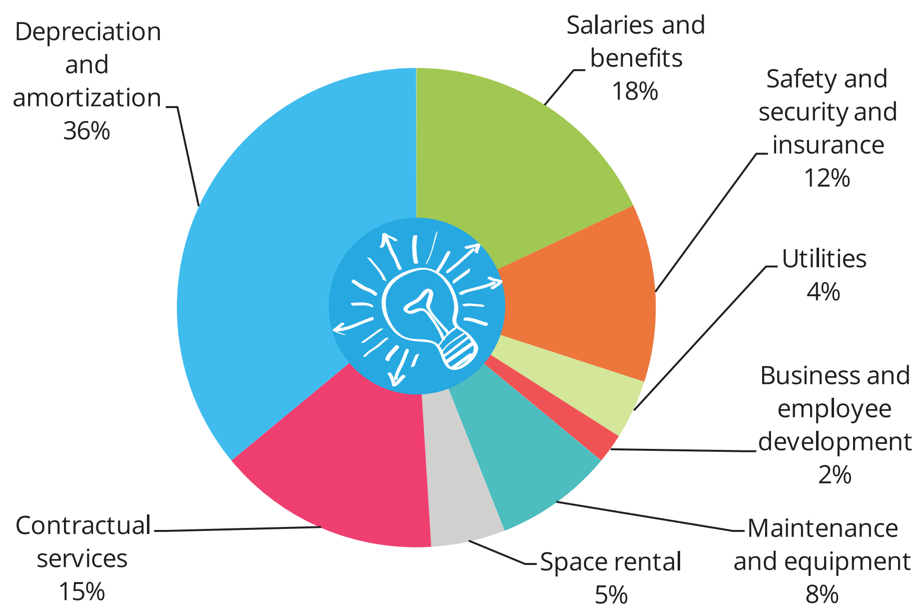
Fiscal year 2014 compared to 2013: Total fiscal year 2014 operating expenses increased by $45.6 million, or 27.1 percent. The primary increase was due to the full year's depreciation of the terminal expansion that was partially placed in service in fiscal year 2013 and continued to increase as the expansion was completed in fiscal year 2014, $35.6 million or 85.5 percent. Additionally contributing to the increase were the increased salaries and benefits of $1.0 million, primarily resulting from increased head count due to expansion, salary increases and higher costs for medical benefits. There were also increased contractual services of $2.2 million, primarily resulting from increased shuttles and parking contract costs; safety and security increased $157 thousand due to greater usage from the terminal expansion; utilities increased $2.0 million due to increased rates and usage; maintenance increased by $2.8 million, reflecting costs of airfield repairs, elevator and escalator repairs and runway restriping. Additional support was provided to a new common use passenger processing system, contributing to the $174 thousand increase. Insurance increased by $193 thousand, business development increased $217 thousand and equipment rental and repairs increased $1.6 million due to amortization of new system warranties on baggage handling systems and common use passenger systems.

Offsetting this increase were the following decreases: space rental of $419 thousand reflecting the cancellation of an employee parking lease, and other minor reductions in employee development and support.

Fiscal year 2013 compared to 2012: Total fiscal year 2013 operating expenses increased by $4.7 million, or 2.9 percent. Contributing to this increase included: increased salaries and benefits of $855 thousand, primarily due to salary increases and higher costs for medical benefits; increased contractual services of $2.4 million, primarily due to the Green Build associated consulting services such as, ramp control professional services and selecting software to manage the new systems and building. Additionally, safety and security increased by $1.4 million, due to increased Harbor Police salaries and benefits expense under a new proposed agreement; maintenance increased by $2.7 million reflecting costs of sink hole repair, elevator and escalator repairs and runway restriping; employee development and support increased by $319 thousand, due to the new Green Build systems training; business development increased by $351 thousand, reflecting advertising and marketing for Japan Airlines and Green Build related promotions.

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

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2014
Operating Expenses



Nonoperating Revenues and Expenses (in thousands)

	FY 2013	FY 2014	From 2013 to 2014 Increase (Decrease)	From 2013 to 2014 % Change
Passenger facility charges	$ 35,438	**$ 35,770**	$ 332	0.9%
Customer facility charges	19,117	**27,545**	8,428	44.1%
Quieter Home Program, net	(1,589)	**(2,750)**	(1,161)	73.1%
Joint studies program	(55)	**(152)**	(97)	176.4%
Interest income	4,140	**5,211**	1,071	25.9%
Interest expense, net	(11,752)	**(51,740)**	(39,988)	(340.3%)
Other nonoperating income (expenses)	(4,279)	**434**	4,713	110.1%
Nonoperating revenues, net	$ 41,020	**$ 14,318**	$ (26,702)	(65.1%)

	FY 2012	FY 2013	From 2012 to 2013 Increase (Decrease)	From 2012 to 2013 % Change
Passenger facility charges	$ 34,639	$ 35,438	$ 799	2.3%
Customer facility charges	11,487	19,117	7,630	66.4%
Quieter Home Program, net	(3,531)	(1,589)	1,942	(55.0%)
Joint studies program	(73)	(55)	18	(24.7%)
Interest income	5,491	4,140	(1,351)	(24.6%)
Interest expense, net	2,969	(11,752)	(14,721)	(495.8%)
Other nonoperating income (expenses)	(3,032)	(4,279)	(1,247)	(41.1%)
Nonoperating revenues, net	$ 47,950	$ 41,020	$ (6,930)	(14.5%)

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

Customer Facility Charges (CFCs) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a $10 per contract CFC on rental cars in May 2009. The revenues collected are being used to plan and construct a consolidated rental car facility and related ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of $10 per contract was changed to $6 per day up to five days. The fee was again increased in January 2014, to $7.50 per day up to five days. The fee is scheduled to increase to $9.00 per day in January 2017.

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 fiscal year 2014, the Airport Authority has spent $162.9 million and received reimbursement for $132.7 million.

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

Interest expense includes interest paid and accrued on the 2010, 2013 and 2014 Series Bonds and Commercial Paper Series A, B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in fiscal years ended June 30, 2014 and 2013 was $7 million and $29.4 million, respectively. Also included in interest expense is the Series C Bonds that were issued as Build America Bonds and include a cash subsidy from the U.S. Treasury equal to 35 percent of the interest payable. During mid-fiscal year 2013 the 35 percent subsidy ended due to the federal government's sequestration measures and was replaced with a reduced rate of 31.96 percent. The interest subsidy for the fiscal years ended June 30, 2014 and 2013 was $4.6 million and $4.8 million, respectively.

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

Fiscal year 2014 compared to 2013: Nonoperating revenues (net) decreased by $26.7 million or 65.1 percent. This is primarily due to the $40 million increased interest expense that no longer was capitalized in fiscal year 2014 due to the completion of the Green Build assets and the additional 2014 bond debt. Additionally, there was a net $1.1 million in reduced Quieter Home Program.

Offsetting the decrease was the $8.4 million in customer facility charges due to the January 1, 2014 increase from $6 to $7.50 per day per transaction up to five days. Other nonoperating income increased by $4.7 million due to fiscal year 2013 unrealized investment losses of $2.3 million and loss on disposal of assets, $2.3 million, due to the Green Build expansion and replacement of assets.

Fiscal year 2013 compared to 2012: Nonoperating revenues (net) decreased by $6.9 million or 14.5 percent. This is primarily due to the increased interest expense on the 2013 bonds. Additionally, there was reduced interest income of $1.4 million due to lower interest rates and other nonoperating income (expenses) of $1.2 million due to unrealized investment losses.

Offsetting the decrease is the $799 thousand increase in passenger facility charges reflecting increased enplanements and $7.6 million increased customer facility charges. The increased customer facility charges are due to a rate increase effective November 1, 2012, from $10 per contract to $6 per day up to five days. Additionally, the Quieter Home Program contributed $1.9 million due to higher activity.

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

Assets, Liabilities and Net Position

The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities, deferred inflows and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2012, 2013 and 2014 is as follows:

	FY 2012	FY 2013	FY 2014
Assets			
Current assets	$ 197,586	$ 224,303	$ 214,853
Capital assets, net	896,477	1,178,144	1,310,973
Noncurrent assets	333,352	528,336	695,698
Total assets	1,427,415	1,930,783	2,221,524
Deferred outflows of resources	1,855	4,397	758
Total assets and deferred outflows of resources	$ 1,429,270	$ 1,935,180	$ 2,222,282
Liabilities			
Current liabilities	$ 115,071	$ 121,384	$ 119,088
Long-term liabilities	653,310	1,086,732	1,376,177
Total liabilities	768,381	1,208,116	1,495,265
Net Position			
Net investment in capital assets	339,467	359,640	312,781
Restricted	172,076	167,384	204,642
Unrestricted	149,346	200,040	209,594
Total net position	660,889	727,064	727,017
Total liabilities and net position	$ 1,429,270	$ 1,935,180	$ 2,222,282

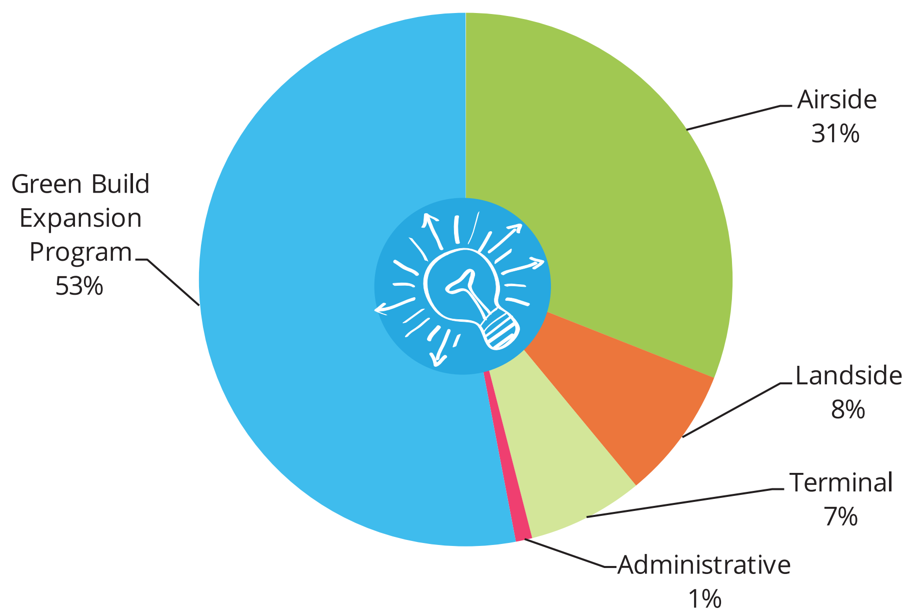
As of June 30, 2014, the Airport Authority's assets and deferred outflows of resources exceeded liabilities by $727.0 million, a $47 thousand decrease from June 30, 2013. The June 30, 2013 total net position was $66.2 million greater than June 30, 2012. The largest portion of the Airport Authority's net position represents its net investment in capital assets. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The unrestricted net position of $209.6 million as of June 30, 2014, $200 million as of 2013 and $149.3 million as of 2012, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2014, 2013, and 2012 management has designated unrestricted funds in the amount of $17.1 million, $9.5 million, and $9.0 million respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance, net pension asset and operating contingency.

Capital Asset and Capital Improvement Program

The capital program at SDIA consists of the Capital Improvement Program (CIP) and the Green Build. The CIP is a rolling five-year program that provides critical improvements and asset preservation. The program includes capital improvement projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration's Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds and short-term borrowing using commercial paper/revolving line of credit. The capital program includes funding for the Green Build to expand Terminal 2 with 10 additional passenger gates, a dual-level roadway at Terminal 2 and additional overnight parking areas. The Green Build is substantially complete and closeout tasks are currently underway. The total budget for the Green Build is $820 million.

In February 2014, $305 million of Senior Special Facilities Revenue Bonds were issued to be used for the rental car center scheduled for completion January 2016. The current CIP, which includes projects through 2019, consists of $193.3 million for airside projects, $814.4 million for landside projects, $639.3 million for terminal projects, and $19.7 million for administrative projects. The current SDIA CIP does not include noise reduction, and related projects.

Capital Improvement Program (CIP) Projects by Type



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

Capital Financing and Debt Management

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

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury; currently, 31.96 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.48 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs; it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are $19 million annually for fiscal years 2014 through 2016. As of June 30, 2014, the principal balance on the subordinate Series 2010 Bonds was $569.9 million.

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

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2014 amounted to $18.48 million, including accrued interest of $9.2 million. The principal balance on the Series 2013 Bonds as of June 30, 2014 was $379.6 million.

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

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

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

The Series 2014 A Bond was structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bond was structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 3.73 percent.

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

As of June 30, 2014, $44.9 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non-AMT), Series B (AMT) and Series C (taxable) is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to $250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the letter of credit expiration date. The letter of credit is currently securing the commercial paper notes. At the expiration date, 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.

The Airport Authority will replace the commercial paper program with a $125,000,000 revolving line of credit, issued by US Bank, which will be used to refund the outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year facility and will take effect on September 5, 2014.

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

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

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

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $18 million in grant awards for the federal fiscal year ended September 30, 2014, as compared to $22.3 million for 2013. Grant awards are recognized as nonoperating revenue or capital contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

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

The Volunteer Airport Ambassador Program is the largest program in any U.S. airport, providing assistance to travelers and visitors in the terminals as well as service members and their families in the airport's USO facility.

Basic Financial Statements:

San Diego County Regional Airport Authority

Statements of Net Position
June 30, 2014 and 2013

Assets and Deferred Outflows of Resources	**2014**	2013
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	**$ 26,510,543**	$ 63,626,765
Investments (Note 2)	**70,752,557**	42,223,353
Tenant lease receivables, net	**9,112,683**	8,037,665
Grants receivable	**5,937,346**	3,828,572
Note receivable, current portion (Note 3)	**1,528,512**	1,446,896
Other current assets	**4,265,960**	6,279,146
Total unrestricted current assets	**118,107,601**	125,442,397
Restricted cash, cash equivalents and investments with trustees (Notes 2 and 5)	**96,745,172**	98,860,395
Total current assets	**214,852,773**	224,302,792
Noncurrent Assets		
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments not with trustees	**161,369,744**	150,891,087
Restricted investments with trustees	**406,579,651**	265,568,939
Passenger facility charges receivable (Note 1)	**4,066,248**	5,545,716
Customer facility charges receivable (Note 1)	**3,394,812**	2,301,027
Other restricted assets	**4,908,711**	5,380,813
Total restricted assets	**580,319,166**	429,687,582
Other noncurrent assets:		
Investments, noncurrent (Note 2)	**52,455,753**	41,931,321
Note receivable, long-term portion (Note 3)	**38,358,256**	39,886,768
Cash and cash equivalents designated for specific capital projects and other commitments (Notes 2 and 12)	**17,144,996**	9,565,751
Net OPEB asset (Notes 8)	**6,919,775**	6,648,142
Workers' compensation security deposits	**500,367**	616,495
Total other noncurrent assets	**115,379,147**	98,648,477
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	**71,081,846**	65,865,787
Buildings and structures	**1,026,068,015**	715,421,387
Machinery and equipment	**51,618,837**	50,717,389
Runways, roads and parking lots	**568,935,877**	526,061,707
Construction in progress	**250,103,154**	401,825,140
	1,967,807,729	1,759,891,410
Less accumulated depreciation	**(656,835,195)**	(581,747,601)
Capital assets, net	**1,310,972,534**	1,178,143,809
Total noncurrent assets	**2,006,670,847**	1,706,479,868
Total assets	**2,221,523,620**	1,930,782,660
Deferred outflows of resources		
Deferred loss on debt refunding	**758,047**	4,396,671
Total assets and deferred outflows of resources	**$ 2,222,281,667**	$ 1,935,179,331

See Notes to Financial Statements.

Liabilities and Net position	2014	2013
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	$ 12,690,539	$ 9,830,408
Accrued liabilities	5,365,100	8,548,307
Compensated absences, current portion (Note 5)	2,659,580	2,357,925
Other current liabilities	1,447,098	1,458,891
Leases payable, current portion (Note 5)	180,559	328,012
Total payable from unrestricted assets	22,342,876	22,523,543
Payable from restricted assets:		
Accounts payable	18,451,369	22,491,968
Accrued liabilities	41,420,014	51,744,366
Bonds and commercial paper notes payable, current portion (Note 5)	5,785,000	1,000,000
Accrued interest on bonds and commercial paper (Note 5)	31,088,789	23,624,061
Total payable from restricted assets	96,745,172	98,860,395
Total current liabilities	119,088,048	121,383,938
Long-Term Liabilities		
Compensated absences, net of current portion (Note 5)	435,105	731,831
Other noncurrent liabilities	1,115,109	795,430
Commercial paper notes payable (Note 5)	44,884,000	50,969,000
Bonds payable and capital leases	1,329,742,959	1,034,235,764
Total long-term liabilities	1,376,177,173	1,086,732,025
Total liabilities	1,495,265,221	1,208,115,963
Net Position		
Net investment in capital assets (Note 1)	312,780,398	359,639,832
Restricted:		
Debt Service	73,153,425	43,638,543
Construction	110,194,470	102,712,335
Operation and maintenance expenses	12,385,784	11,651,772
Small business bond guarantee	4,000,000	4,000,000
OCIP loss reserve	4,908,711	5,380,813
Total restricted net position	204,642,390	167,383,463
Unrestricted net position	209,593,658	200,040,073
Total net position	$ 727,016,446	$ 727,063,368

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position
June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Airline revenue:		
Landing fees	$ 19,107,258	$ 19,658,173
Aircraft parking fees	2,503,180	3,190,928
Building rentals (Note 10)	46,001,154	41,839,619
Security surcharge	25,776,517	23,359,938
Other aviation revenue	4,488,115	1,591,266
Concession revenue	47,769,865	42,040,742
Parking and ground transportation revenue	38,959,020	35,750,484
Ground and non-airlilne terminal rentals (Note 10)	9,602,842	9,161,514
Other operating revenue	1,528,886	905,150
Total operating revenues	195,736,837	177,497,814
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	39,135,299	38,092,464
Contractual services (Note 12)	31,559,247	29,283,526
Safety and security	24,150,563	23,994,020
Space rental (Note 11)	10,478,262	10,897,338
Utilities	8,680,410	6,659,333
Maintenance	13,981,689	11,204,465
Equipment and systems	643,225	468,699
Materials and supplies	440,007	405,863
Insurance	988,382	794,984
Employee development and support	1,170,551	1,234,757
Business development	2,661,224	2,444,407
Equipment rentals and repairs	2,931,796	1,316,543
Total operating expenses before depreciation and amortization	136,820,655	126,796,399
Income from operations before depreciation and amortization	58,916,182	50,701,415
Depreciation and amortization	77,205,256	41,623,629
Operating income (loss)	(18,289,074)	9,077,786

(Continued)

See Notes to Financial Statements.

	2014	2013
Nonoperating revenues (expenses):		
Passenger facility charges	**$ 35,769,515**	$ 35,437,453
Customer facility charges	**27,545,001**	19,117,217
Quieter Home Program grant revenue (Note 1)	**12,373,861**	13,241,658
Quieter Home Program expenses (Note 1)	**(15,124,141)**	(14,830,457)
Joint Studies Program	**(151,855)**	(55,254)
Interest income	**5,210,853**	4,140,068
Interest expense (Note 5)	**(56,375,726)**	(16,530,425)
Build America Bonds subsidy (Note 5)	**4,636,215**	4,778,599
Other revenues (expenses), net	**434,097**	(4,279,123)
Nonoperating revenue, net	**14,317,820**	41,019,736
Income (loss) before capital grant contributions	**(3,971,254)**	50,097,522
Capital grant contributions (Note 1)	**3,924,332**	16,077,280
Change in net position	**(46,922)**	66,174,802
Net position, beginning of year	**727,063,368**	660,888,566
Net position, end of year	**$ 727,016,446**	$ 727,063,368

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Receipts from customers	$ 193,452,612	$ 174,459,266
Payments to suppliers	(90,999,011)	(81,174,308)
Payments to employees	(40,315,057)	(37,008,283)
Other receipts (payments)	(1,821,619)	(149,956)
Net cash provided by operating activities	60,316,925	56,126,719
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	434,097	4,756
Quieter Home Program grant receipts	10,265,087	13,264,899
Quieter Home Program payments	(15,124,141)	(14,832,460)
Joint Studies Program payments	(151,855)	(53,251)
Net cash used in noncapital financing activities	(4,576,812)	(1,616,056)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(224,557,658)	(325,984,231)
Proceeds on Build America Bonds subsidy	4,636,215	4,778,599
Proceeds from sale of capital assets	11,273	694,150
Federal grants received (excluding Quieter Home Program)	3,924,332	16,093,276
Proceeds from passenger facility charges	37,248,983	34,304,024
Proceeds from customer facility charge	26,451,216	17,905,417
Proceeds from issuance of commercial paper	-	31,045,000
Payment of principal on bonds and commercial paper	(7,085,000)	(39,745,000)
Proceeds from issuance of Series 2013 Bond	-	435,519,101
Proceeds from issuance of Series 2014 Bond	305,879,266	-
Payment of capital lease	(341,661)	-
Interest and debt fees paid	(49,674,023)	(4,215,620)
Net cash provided by capital and related financing activities	96,492,943	170,394,716
Cash Flows From Investing Activities		
Sales and maturities of investments	209,856,636	127,453,246
Purchases of investments	(398,284,418)	(363,755,197)
Interest received on investments and note receivable	5,210,853	5,122,356
Principal payments received on notes receivable	1,446,896	1,580,698
Net cash used in investing activities	(181,770,033)	(229,598,897)
Net decrease in cash and cash equivalents	(29,536,977)	(4,693,518)
Cash and cash equivalents, beginning of year	73,192,516	77,886,034
Cash and cash equivalents, end of year	$ 43,655,539	$ 73,192,516

(Continued)

See Notes to Financial Statements.

	2014	2013
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	**$ 26,510,543**	$ 63,626,765
Cash and cash equivalents designated for specific capital		
projects and other commitments	**17,144,996**	9,565,751
	$ 43,655,539	$ 73,192,516
Reconciliation of Operating Income (Loss) to Net Cash Provided by		
Operating Activities		
Operating income (loss)	**$ (18,289,074)**	$ 9,077,786
Adjustments to reconcile operating income (loss) to net cash provided		
by operating activities:		
Depreciation and amortization expense	**77,321,384**	41,623,629
Bad debt expense (recapture)		4,565
Changes in assets and liabilities:		
Tenant lease receivables	**(1,075,018)**	(1,386,723)
OPEB asset	**(271,633)**	578,664
Other assets	**2,641,527**	(892,748)
Accounts payable	**2,860,131**	(1,440,698)
Accrued liabilities	**(3,183,207)**	8,437,880
Compensated absences	**4,929**	156,771
Other liabilities	**307,886**	(32,407)
Net cash provided by operating activities	**$ 60,316,925**	$ 56,126,719
Supplemental Disclosure of Noncash Investing, Capital and		
Financing Activities		
Additions to capital assets included in accounts payable	**$ 59,871,383**	$ 74,236,334
Additions to capital lease obligations	**$ -**	$ 7,955,912

See Notes to Financial Statements.

Specialized seating in Terminal 2 West offers customers with disabilities a comfortable place to rest while traveling.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

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

Investments: Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. 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. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

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

Airport Improvement Program (AIP): AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2014 and 2013, the Airport Authority recovered $3,924,332 and $16,077,280, respectively, for approved capital projects and $12,373,861 and $13,241,658, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2014 and 2013 were $4,633,107 and $20,096,600, respectively, for capital projects and $15,124,141 and $14,830,457, respectively, for the Quieter Home Program.

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

In accordance with the program, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2014 and 2013, accrued PFC receivables totaled $4,066,248 and $5,545,716, respectively, and there were $60,769,935 and $53,856,259 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2014 and 2013, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from $3.00 to $4.50, beginning August 1, 2003. Currently, the Airport Authority's impose and use authority of $1.2 billion from three active applications allows collection through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately $32 million in PFC revenue. The latest application was approved by the FAA in July 2012. 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.

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

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

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. Effective January 1, 2014, the CFC rate went from $6.00 to $7.50 per day for a maximum of five days. As of June 30, 2014 and 2013, accrued CFC receivables totaled $3,394,812 and $2,301,027, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2014 and 2013 were $41,652,322 and $41,009,333, respectively.

Net pension asset: The Airport Authority funds additional contributions to the defined pension plan in excess of the annual required contribution (ARC) to strive for a 95 percent funding ratio. The difference between the Airport Authority's actual contributions and its ARCs results in a net pension asset.

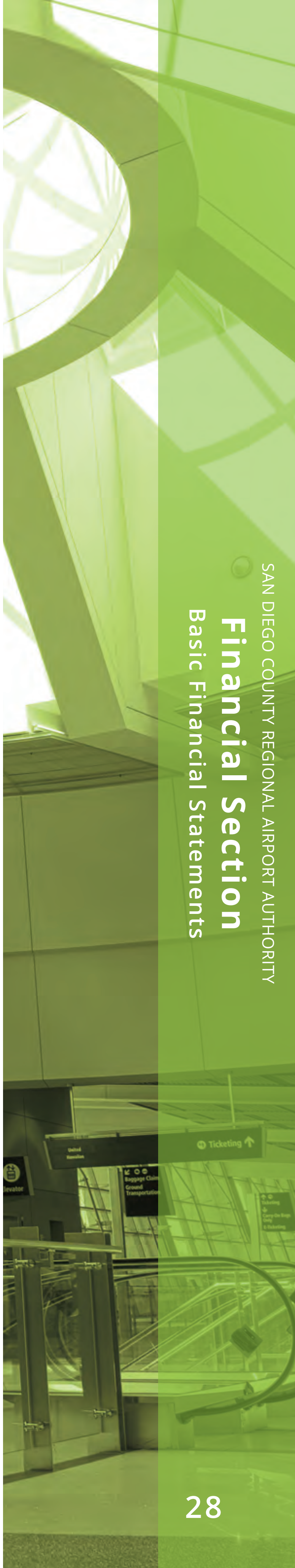
Net other postemployment benefit (OPEB) asset: Annually, the Airport Authority funds 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset.

Deferred outflows of resources: The Airport Authority defers recognition of losses incurred on debt refundings and reports such losses as deferred outflows of resources in the statements of net position. Deferred losses on debt refundings are amortized using the effective interest method over the lesser of the remaining life of the original bonds or the life of the new bonds.

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:

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



Notes to Financial Statements

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2014 and 2013, the Airport Authority capitalized interest of $6,962,979 and $29,438,080, respectively.

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.

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

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

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

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

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

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

Unrestricted net position as of June 30, 2014, includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2014	2013
Operating contingency	**$ 2,000,000**	$ 2,000,000
Insurance contingency (Note 9)	**7,377,978**	6,659,982
Capital projects and other commitments (Note 12)	**7,767,018**	905,769
Total designated net position	**$ 17,144,996**	$ 9,565,751

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, PFCs, CFCs and grant revenue related to the Quieter Home Program.

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

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

	2014	2013
Southwest Airlines	**36.9%**	37.2%
United Airlines	**12.5%**	13.5%
Delta Airlines	**10.1%**	10.4%

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.

Notes to Financial Statements

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

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.

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* effective for the Airport Authority's year ending June 30, 2015;

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for the Airport Authority's year ending June 30, 2015; and

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* effective for the Airport Authority's year ending June 30, 2015.

Pronouncements adopted: The Airport Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2014:

- GASB Statement No. 66, *Technical Corrections—2012—and amendment of GASB Statements No. 10 and No. 62*; and

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statements No. 66 and No. 70 did not impact net position or the change in net position of the Airport Authority as of or for the year ended June 30, 2014.

Reclassifications: Certain reclassifications have been made to the 2013 financial information in order to conform to the 2014 presentation. These reclassifications had no impact on the Airport Authority's net position or change in net position.

Projects on the north side of the airfield are being designed to achieve LEED Certification from the United States Green Building Council.

Notes to Financial Statements

Note 2. Cash, Cash Equivalents and Investments

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

	2014	2013
Unrestricted and undesignated:		
Cash and cash equivalents	**$ 26,510,543**	$ 63,626,765
Current investments	**70,752,557**	42,223,353
Noncurrent investments	**52,455,753**	41,931,321
Total unrestricted and undesignated	**149,718,853**	147,781,439
Designated for specific capital projects and other commitments: cash and cash equivalents	**17,144,996**	9,565,751
Restricted cash, cash equivalents and investments:		
Bond reserves		
Operation and maintenance reserve subaccount	**37,157,351**	34,955,315
Operation and maintenance subaccount	**12,385,784**	11,651,772
Renewal and replacement reserve	**5,400,000**	5,400,000
	54,943,135	52,007,087
Passenger facility charges unapplied	**60,769,935**	53,856,259
Customer facility charges unapplied	**41,652,322**	41,009,333
Small business development bond guarantee	**4,000,000**	4,000,000
Commercial paper reserve	**4,352**	18,408
Total restricted	**161,369,744**	150,891,087
Total cash, cash equivalents and investments not with trustees	**328,233,593**	308,238,277
Cash, cash equivalents and investments with trustees:		
Commercial paper interest	**12,906**	12,906
Customer facility charges	**311,153**	-
2010 Series debt service account	**21,640,387**	16,869,731
2010 Series construction fund	**2,204**	2,728,626
2010 Series debt service reserve fund	**50,988,876**	51,108,152
2013 Series debt service account	**8,938,429**	1,648,415
2013 Series capitalized interest account	**752,446**	8,357,832
2013 Series construction fund	**100,500,234**	250,974,607
2013 Series debt service reserve fund	**32,993,011**	32,729,065
2014 Series rolling coverage fund	**6,556,757**	-
2014 Series capitalized interest account	**30,432,045**	-
2014 Series construction fund	**228,270,006**	-
2014 Series debt service reserve fund	**21,926,369**	-
Total cash, cash equivalents and investments with trustees	**503,324,823**	364,429,334
Total cash, cash equivalents and investments	**$ 831,558,416**	$ 672,667,611

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

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

	2014	2013
Unrestricted cash on deposit:		
Cash on hand	**$ 51,976**	$ 51,976
Cash in banks	**21,224,402**	5,043,576
Total unrestricted cash on deposit	**21,276,378**	5,095,552
Unrestricted and restricted cash equivalents:		
Money market accounts	**40,630,745**	62,559,806
Money market mutual funds	**56,013**	537,158
Total unrestricted and restricted cash equivalents	**40,686,758**	63,096,964
Unrestricted and restricted investments:		
Certificates of deposit	**15,192,964**	10,117,110
CalTrust Fund	**15,027,791**	5,000,000
Local Agency Investment Fund (LAIF)	**47,535,117**	47,416,828
San Diego County Investment Pool (SDCIP)	**48,476,017**	48,088,210
Commercial paper	**15,494,684**	35,485,205
Medium-term notes	**22,018,642**	8,126,320
U.S. Treasury notes	**64,082,562**	11,759,303
U.S. agency securities	**38,442,680**	74,052,785
Total unrestricted and restricted investments	**266,270,457**	240,045,761
Total cash, cash equivalents and investments not with trustees	**328,233,593**	308,238,277
Cash, cash equivalents, and investments with trustees:		
Money market accounts	**31,184,103**	16,124,492
Money market mutual funds	**27,957,467**	24,620,178
Certificates of deposit	**20,615,554**	20,461,517
San Diego County Investment Pool (SDCIP)	**287,809,151**	207,199,007
Local Agency Investment Fund (LAIF)	**135,758,548**	96,024,140
Total cash, cash equivalents and investments with trustees	**503,324,823**	364,429,334
Total cash, cash equivalents and investments	**$ 831,558,416**	**$ 672,667,611**

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

Notes to Financial Statements

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

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	10 percent
	25-36 months	AA	15 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	$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	N/A	*	None	None
Time certificates of deposit	3 years	*	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.

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

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

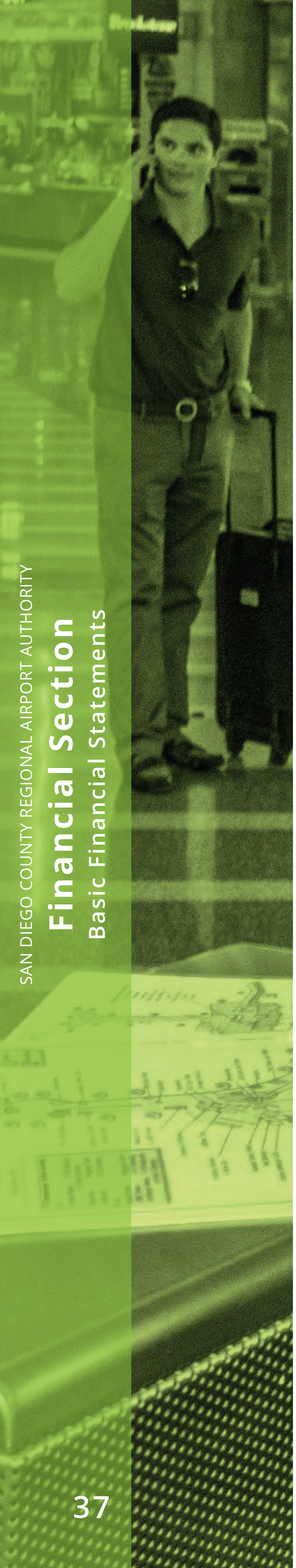
Note 2. Cash, Cash Equivalents and Investments (Continued)

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

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

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

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



Notes to Financial Statements

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

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

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

		2014			
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:					
CalTrust	$ 15,027,791	$ 15,027,791	$ -	$ -	$ -
LAIF	183,293,665	183,293,665	-	-	-
SDCIP	336,285,168	336,285,168	-	-	-
Commercial paper	15,494,684	15,494,684	-	-	-
Medium-term notes	22,018,642	-	21,219,370	799,272	-
Money market mutual funds	28,013,480	28,013,480	-	-	-
U.S. Treasury notes	64,082,562	-	36,552,992	27,529,570	-
U.S. agency securities	38,442,680	-	17,972,890	20,469,790	-
Total investments subject to interest rate risk:	$ 702,658,672	$ 578,114,788	$ 75,745,252	$ 48,798,632	$ -
Investments not subject to interest rate risk:					
Certificates of deposit	35,808,518				
	$ 738,467,190				

		2013			
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:					
CalTrust	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
LAIF	143,440,968	143,440,968	-	-	-
SDCIP	255,287,217	255,287,217	-	-	-
Commercial paper	35,485,205	35,485,205	-	-	-
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market mutual funds	25,157,336	25,157,336	-	-	-
U.S. Treasury notes	11,759,303	-	-	11,759,303	-
U.S. agency securities	74,052,785	-	4,992,950	69,059,835	-
Total investments subject to interest rate risk:	$ 558,309,134	$ 459,370,726	$ 9,992,950	$ 88,945,458	$ -
Investments not subject to interest rate risk:					
Certificates of deposit	30,578,627				
	$ 588,887,761				

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

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

Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or are collateralized in accordance with the California Government Code.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority. Presented below is the actual rating for each investment type held by the Airport Authority as of June 30, 2014 and 2013:

	2014					
Investment Type	Total	Unrated[(1)]	AAA/Aaa[(1)]	AA/ Aa[(1)]	A[(1)]	A-1+/P-1[(1)]
Investments subject to credit rate risk:						
CalTrust	$ 15,027,791	$ -	$ 15,027,791	$ -	$ -	$ -
LAIF	183,293,665	183,293,665	-	-	-	-
SDCIP	336,285,168	-	336,285,168	-	-	-
Commercial paper	15,494,684	-	-	-	-	15,494,684
Medium-term notes	22,018,642	-	-	17,011,542	5,007,100	-
Money market mutual funds	28,013,480	-	28,013,480	-	-	-
U.S. Treasury notes	64,082,562	-	64,082,562	-		-
U.S. agency securities	38,442,680	-	38,442,680	-		-
Total investments subject to credit risk:	$ 702,658,672	$ 183,293,665	$ 481,851,681	$ 17,011,542	$ 5,007,100	$ 15,494,684
Investments not subject to credit risk:						
Certificates of deposit	35,808,518					
	$ 738,467,190					

[(1)] *Source: Standard and Poor's, Moodys and Fitch*

Notes to Financial Statements

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

	2013				
Investment Type	Total	Unrated[1]	AAA/Aaa[1]	AA/ Aa[1]	A-1+/P-1[1]
Investments subject to credit rate risk:					
CalTrust	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
LAIF	143,440,968	143,440,968	-	-	-
SDCIP	255,287,217	-	255,287,217	-	-
Commercial paper	35,485,205	-	-	-	35,485,205
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market mutual funds	25,157,336	-	25,157,336	-	-
U.S. Treasury notes	11,759,303	-	11,759,303	-	-
U.S. agency securities	74,052,785	-	74,052,785	-	-
Total investments subject to credit risk:	$ 558,309,134	$ 143,440,968	$ 371,256,641	$ 8,126,320	$ 35,485,205
Investments not subject to credit risk:					
Certificates of deposit	30,578,627				
	$ 588,887,761				

[1] *Source: Standard and Poor's, Moodys and Fitch*

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of securities. The Airport Authority had no concentrations of credit risk at June 30, 2014.

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

Note 3. Note Receivable

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a $50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2014 and 2013, the balance of the note receivable was $39,886,768 and $41,333,664, respectively.

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

Years Ending June 30,	Amount
2015	$ 1,529,000
2016	1,609,000
2017	1,705,000
2018	1,802,000
2019	1,903,000
2020-2024	11,244,000
2025-2029	14,802,000
2030-2034	5,293,000
	$ 39,887,000

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013 are as follows:

	Balance at June 30, 2013	Increases	Decreases	**Balance at June 30, 2014**
Nondepreciable assets:				
Land	$ 22,415,851	$ -	$ -	**$ 22,415,851**
Construction in progress	401,825,140	214,293,229	(366,015,215)	**250,103,154**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	424,680,991	214,293,229	(366,015,215)	**272,959,005**
Depreciable assets:				
Land improvements	43,009,936	5,656,060	-	**48,665,996**
Buildings and structures (1)	715,421,387	317,174,867	(6,968,239)	**1,025,628,015**
Machinery and equipment (2)	50,717,389	1,573,410	(671,962)	**51,618,837**
Runw ays, roads and parking lots	526,061,707	43,041,675	(167,505)	**568,935,877**
Total capital assets being depreciated	1,335,210,419	367,446,012	(7,807,706)	**1,694,848,725**
Less accumulated depreciation for:				
Land improvements	(2,298,540)	(1,816,359)	-	**(4,114,899)**
Building and structures	(346,153,840)	(52,962,879)	5,218,601	**(393,898,118)**
Machinery and equipment	(38,920,696)	(3,792,848)	671,965	**(42,041,579)**
Runw ays, roads and parking lots	(194,374,525)	(22,573,579)	167,505	**(216,780,599)**
Total accumulated depreciation	(581,747,601)	(81,145,665)	6,058,071	**(656,835,195)**
Total capital assets being depreciated, net	753,462,818	286,300,347	(1,749,635)	**1,038,013,530**
Capital assets, net	$ 1,178,143,809	$ 500,593,576	$ (367,764,850)	**$1,310,972,535**

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

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

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

Notes to Financial Statements

Note 4. Capital Assets (Continued)

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

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

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

Note 5. Long-Term Liabilities

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2014 and 2013:

	Principal Balance at June 30, 2013	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2014**	Due Within One Year
Debt obligations:					
Commercial paper	$ 50,969,000	$ -	$ (6,085,000)	**$ 44,884,000**	$ -
Bonds payable:					
Series 2010 Bonds	570,870,000	-	(1,000,000)	**569,870,000**	5,785,000
Series 2013 Bonds	379,585,000	-	-	**379,585,000**	-
Series 2014 Bonds	-	305,285,000	-	**305,285,000**	-
Bond premiums	76,956,188	594,266	(4,392,863)	**73,157,591**	-
Total bonds payable	1,027,411,188	305,879,266	(5,392,863)	**1,327,897,591**	5,785,000
Total debt obligations	1,078,380,188	305,879,266	(11,477,863)	**1,372,781,591**	5,785,000
Capital Leases	8,152,588	-	(341,661)	**7,810,927**	180,559
Compensated absences	3,089,756	2,664,509	(2,659,580)	**3,094,685**	2,659,580
Total long-term liabilities	$ 1,089,622,532	$ 308,543,775	$ (14,479,104)	**$ 1,383,687,203**	$ 8,625,139

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

Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

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

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

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2014 and 2013, the amount held in escrow by the trustee was $35,775,109 and $36,489,675, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $30,920,000 and $34,530,000, respectively.

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

The CP Notes are secured by an irrevocable letter of credit provided by Lloyds TSB Bank that expires no later than September 10, 2014. There were no unreimbursed draws by the Airport Authority on this letter of credit during the year ended June 30, 2014, nor were there any amounts outstanding under this letter of credit agreement at June 30, 2014.

On October 6 and 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, 2014, the aggregate principal amount outstanding of the CP Notes was $44,884,000, carrying a weighted-average interest rate of 0.17 percent. At June 30, 2013, the principal amount of CP Notes outstanding was $50,969,000, carrying a weighted-average interest rate of 0.19 percent. Commercial paper interest expense for the years ended June 30, 2014 and 2013 amounted to $85,142 and $87,683 respectively, including accrued interest of $6,513 and $6,867, respectively.

Note 5. Long-Term Liabilities (Continued)

As subordinate obligations, the CP Notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the 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, 2014 and 2013, the amount held by the trustee was $12,906 for both years and the amount reserved by the Airport Authority was $4,352 and $18,408, respectively.

Revolving Line of Credit program in Fiscal Year 2015: Subsequent to June 30, 2014, the Airport Authority replaced its commercial paper program with a $125,000,000 revolving line of credit issued by US Bank. The revolving line of credit will be used to refund the outstanding Series B and Series C CP Note balances. The revolving line of credit is a three-year agreement and will take effect on September 5, 2014.

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

The existing balance of the Series B CP Notes of $18,929,000 will be reconstituted as the Series B Revolving Line of Credit and will bear interest at the tax-exempt LIBOR rate. The existing balance of the Series C CP Notes of $25,955,000 will be reconstituted as the Series C revolving line of credit and will bear interest at the taxable LIBOR rate.

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

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds, which benefit from periodic cash subsidy payments from the U.S. Treasury equal to 35 percent of interest payable. However, in fiscal year ended June 30, 2013, due to the impact of the federal government's sequestration measures, subsidy payments were reduced by 4.3 percent. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2014 and 2013 was $4,636,215 and $4,778,599, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of $26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2014 and 2013 amounted to $31,705,498 and $31,735,498, respectively, including accrued interest of $15,852,749 and $15,867,749, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2014 and 2013 was $569,870,000 and $570,870,000, respectively.

Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

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 PFCs it has received and expects to receive through 2016. The irrevocably committed PFC amount of $19,208,838 was fully utilized in fiscal year 2014. The irrevocably committed PFC amounts for fiscal years ended June 30, 2015 and 2016 are $19,206,113 and $19,209,388 respectively.

As subordinate lien bonds, the Series 2010 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2014 and 2013, the amount held by the trustee was $72,631,467 and $70,706,509, respectively, which included the July 1 payment, unspent project fund proceeds and a debt service reserve fund.

The public ratings of the Series 2010 Bonds as of June 30, 2014 are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2015	$ 5,785,000	$ 31,594,948.00	$ 37,379,948
2016	8,665,000	31,318,098.00	39,983,098
2017	9,000,000	30,934,023.00	39,934,023
2018	9,430,000	30,487,998.00	39,917,998
2019	9,890,000	30,020,298.00	39,910,298
2020-2024	57,155,000	142,174,548.00	199,329,548
2025-2029	72,780,000	126,152,054.00	198,932,054
2030-2034	126,555,000	102,133,609.00	228,688,609
2035-2039	184,500,000	54,968,046.00	239,468,046
2040-2041	86,110,000	5,269,210.00	91,379,210
	$ 569,870,000	$ 585,052,832	$ 1,154,922,832

Note 5. Long-Term Liabilities (Continued)

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

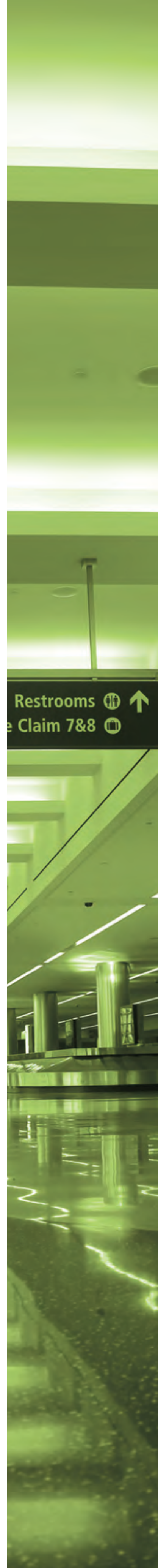
The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2014 and 2013 was $18,475,501 and $7,749,446, respectively, including accrued interest of $9,237,750 and $7,749,446. The principal balance on the Series 2013 Bonds as of June 30, 2014 and 2013 was $379,585,000.

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

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2014 and 2013, the amount held by the trustee was $143,184,120 and $293,709,919, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund, and capitalized interest funds. The total amount reserved by the Airport Authority for fiscal years 2014 and 2013 was $54,943,135 and $52,007,087, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2014 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Years Ending June 30,	Principal	Interest	Total
2015	$ -	$ 18,475,500	$ 18,475,500
2016	2,030,000	18,445,050	20,475,050
2017	2,090,000	18,382,275	20,472,275
2018	2,155,000	18,306,850	20,461,850
2019	2,240,000	18,218,950	20,458,950
2020-2024	36,455,000	87,143,275	123,598,275
2025-2029	53,155,000	75,547,025	128,702,025
2030-2034	38,740,000	63,204,425	101,944,425
2035-2039	36,645,000	55,408,875	92,053,875
2040-2044	206,075,000	32,900,375	238,975,375
	$ 379,585,000	$ 406,032,600	$ 785,617,600



Note 5. Long-Term Liabilities (Continued)

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

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014B Bond were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 3.73 percent.

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

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

Years Ending June 30,	Principal	Interest	Total
2015	$ -	$ 16,341,210	$ 16,341,210
2016	-	16,341,210	16,341,210
2017	-	16,341,210	16,341,210
2018	5,580,000	16,341,210	21,921,210
2019	5,720,000	16,199,646	21,919,646
2020-2024	32,015,000	77,578,877	109,593,877
2025-2029	41,600,000	67,999,047	109,599,047
2030-2034	54,610,000	54,986,842	109,596,842
2035-2039	71,690,000	37,905,564	109,595,564
2040-2044	94,070,000	15,531,476	109,601,476
	$ 305,285,000	$ 335,566,292	$ 640,851,292

Note 5. Long-Term Liabilities (Continued)

Line of credit: In fiscal year 2013, the Airport Authority established a $4,000,000 line of credit with Wells Fargo, which is collateralized with a certificate of deposit. This line of credit replaced a line maintained with Union Bank. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2014, nothing had been drawn on the line of credit and one issued letter of credit was outstanding, totaling $687,320 for projects in progress. The letter of credit is due to expire June 16, 2015.

Capital Leases

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

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

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2014:

Years Ending June 30,	Amount
2015	$ 829,321
2016	877,298
2017	877,298
2018	877,298
2019	877,298
2020-2024	4,386,489
2025-2029	4,386,489
2030-2032	2,997,434
Total Lease Payments	16,108,925
Less amount representing interest	(8,297,998)
Present value of future lease payments	$ 7,810,927

Notes to Financial Statements

Note 6. Defined Benefit Plan

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

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate, as determined through actuarial valuation, was 11.9 percent for 2014, 10.9 percent for 2013, and 14.5 percent for 2012, and is expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2014, 2013 and 2012, the annual pension cost included in salaries and benefits was $4,882,000, $4,582,000 and $4,356,000, respectively, for the CERS pension. Comparing the June 30, 2013 actuarial valuation to the June 30, 2012 actuarial valuation, total membership increased by 3.0 percent. The increase was attributable to both the growth in active membership, terminated vested, disabled, retirees and beneficiaries. Active member payroll increased by 1.8 percent. Additionally, active member total payroll increased by 6.2 percent, and the average pay per active member increased by 4.4 percent. The actuarial liability increased by 18.5 percent but the actuarial value of assets increased by 12.3 percent. The funding ratio decreased from 98.5 percent as of June 30, 2012 to 93.4 percent as of June 30, 2013. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not decrease as much as the market value (94.6 percent).

Valuation basis: Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) are subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. PEPRA also requires New Members to pay at least 50 percent of the normal cost, with more than 50 percent allowed subject to collective bargaining. There are less significant changes for current employees and retirees.

There are a few New Members in the current valuation. In calculating the fiscal year 2015 annual required contribution (ARC), the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2014 and subsequent valuations, the actual cost implications will vary and further study may be required.

Note 6. Defined Benefit Plan (Continued)

As of the latest actuarial valuation dated June 30, 2013, significant actuarial assumptions are as follows:

- The rates of retirement were based on age and service as opposed to just the service of a member.
- The percent married assumption was 55 percent for females and 80 percent for males, and the assumed age difference between husbands and wives was three years.
- The reciprocity assumption was 10 percent.
- Rates of termination were based on service as opposed to the age of a member.
- Disability rates were modified to reflect actual experience through June 30, 2010 and include a projection to 2013.
- Mortality rates for active Airport Authority members were modified to reflect actual experience through June 30, 2010 and include a projection to 2013.
- Mortality rates for retired Airport Authority members were modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements.
- The investment return assumption was 7.25 percent.
- The inflation assumption was 3.0 percent
- Cost of living adjustment was assumed 2 percent.
- Actuarial funding method is entry age normal
- Amortization method is level percent closed
- Asset valuation method is expected value method
- Equivalent single amortization period is 13.539 years. This consists of 9 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.
- The rate of employer contributions to CERS is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

Notes to Financial Statements

Note 6. Defined Benefit Plan (Continued)

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. In April 2014, the Airport Authority again made a contribution of $827,945 to increase the funded ratio to 94 percent. At June 30, 2014, the total contribution of $10,841,572 less amortization of $3,921,797 is recorded as a net pension asset of $6,919,775. At June 30, 2013 and 2012, the total contribution of $10,013,627 less amortization of $3,365,485 and $2,809,172, respectively, is recorded as a net pension asset of $6,648,142, and $7,204,455, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2015 measured as a percentage of membership payroll increased from 11.9 percent to 14.29 percent. The required beginning of year contribution, paid July 1 2014, increased by $918,149. The following is a schedule of the annual pension cost and net pension asset for CERS (dollars in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Airport Cost Funded	% of APC Contributed	ARC	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.50%/7.25%
6/30/12	$ 4,356	$ 3,800	87%	$ 3,800	$ 7,204	$ (556)	$ (256)	$ 751
6/30/13	4,582	2,600	57%	2,600	6,648	(556)	556	751
6/30/14	4,882	2,904	59%	2,904	6,920	272	556	786

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL/Asset UAAL/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/13	$ 107,616	$ 115,200	$ 7,584	93.4%	$ 26,380	28.7%

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.

Note 7. Employees' Deferred Compensation Plan (Continued)

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

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

Note 8. Other Postemployment Benefits

The Airport Authority provides a single-employer postemployment benefit plan (OPEB). The plan provides postretirement medical, dental, vision and life insurance benefits for nonunion employees hired prior to May 1, 2006 and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

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

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. Retirees contribute 5 percent of plan costs for single coverage and the entire cost of vision benefits.

Annual OPEB cost and actuarial methods and assumptions: The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2013. According to the July 1, 2013 actuarial valuation, the ARC was $2,328,000 for both fiscal year 2014 and 2013. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.36 percent investment rate of return, (7.61 percent was used in the prior valuations), net of administrative expenses, and (b) projected salary increases of 3.00 percent. The annual health care cost trend rate ranged from 5.0 to 9.5 percent for medical and assumes a 5.0 percent rate for dental and 3.0 percent rate for vision. In establishing the discount rate, an inflation rate of 2.75% was used.

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

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

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

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO/(Asset) End of Year	Interest on NOO/(Asset)	Adjustment to the ARC	Annual OPEB Cost
7/1/11	11/12	$ 2,165	$ 2,164	$ (60)	$ (5)	$ 4	$ 2,164
7/1/12	12/13	2,238	2,236	(59)	-	4	2,238
7/1/13	13/14	2,328	2,328	(59)	(4)	4	2,328

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/12	$ 2,164	$ 2,164	100.0%	$ (60)
6/30/13	2,238	2,236	99.9%	(59)
6/30/14	2,328	2,328	100.0%	(59)

Note 8. Other Postemployment Benefits (Continued)

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

The funded status of the plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2013, was as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/13	$ 12,667	$ 31,553	$ 18,886	40.1%	$ 17,567	107.5%	7.4%	3.0%

Note 9. Risk Management

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

Commercially issued insurance:

- The Airport Authority maintains $500 million in limits for owners' and operators' general liability insurance with a war, hijacking and other perils endorsement in the amount of $150 million.

- The Airport Authority maintains a property insurance policy with limits of $500 million providing all risk and flood coverage on physical assets.

- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability and public official liability.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2014 and 2013, the Airport Authority has designated $7,377,978 and $6,659,982, respectively, from its net position, as an insurance contingency.

Notes to Financial Statements

Note 9. Risk Management (Continued)

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

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

During fiscal year 2014, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 10. Lease Revenues

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

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

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

Years Ending June 30,	Amount
2015	$ 7,547,637
2016	5,342,072
2017	5,422,203
2018	5,503,536
2019	5,595,376
2020	5,735,261
	$ 35,146,085

Note 10. Lease Revenues (Continued)

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of $440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of $440,000. The license, an intangible asset with no expiration date, is included in non-depreciable assets in Note 4. As of June 30, 2014 and 2013, the Airport Authority recognized lease revenue of $86,996 for each year, under the World Trade Center lease.

Note 11. Lease Commitments

Operating Leases

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

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

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

Other District leases: The Airport Authority leases from the District two additional properties adjacent to SDIA. These properties required monthly rentals of $86,083 and $12,521. As of January 1, 2013, the lease for $86,083 was terminated with the District. In December 2013, the lease for $12,521 expired and was not renewed.

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 required monthly rental of $1,366 through the expiration date of August 2013. This lease was not renewed.

Notes to Financial Statements

Note 11. Lease Commitments (Continued)

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

Years Ending June 30	Amount
2015	$ 10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019	10,159,920
2020-2024	50,799,600
2025-2029	50,799,600
2030-2034	50,799,600
2035-2039	50,799,600
2040-2044	50,799,600
2045-2049	50,799,600
2050-2054	50,799,600
2055-2059	50,799,600
2060-2064	50,799,600
2065-2069	50,799,600
	$ 558,817,200

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

	2014	2013
Rental payments made	**$ 10,478,262**	$ 10,897,338

Note 12. Commitments and Contingencies

Commitments: As of June 30, 2014 and 2013, 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, 2014 and 2013, these funds totaled approximately $7.8 million and $906 thousand, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

Note 12. Commitments and Contingencies (Continued)

ii. Support services— As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2014 and 2013, the Airport Authority expensed $16,577,044 and $17,289,681, respectively, for these services.

iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of $29.7 million and the second for the airport shuttle services in the amount of $28.8 million. The total amount spent as of June 30, 2014, were $6.9 million for parking management services and $9.1 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2014, the Airport Authority's remaining commitment is approximately $17.4 million for the parking management contract and $12.6 million for the shuttle service contract.

iv. In fiscal year 2014, the Board approved a contract with Austin-Sundt JV for the design and construction of the proposed Rental Car Center in the amount of $14 million and additional approval of $10 million. As of June 30, 2014, $55.3 million had been spent and the contract is due to be completed in fiscal year 2016.

v. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of $10 million and an additional approval of $12 million. As of June 30, 2014, $16.6 million had been spent and the contract is due to be completed in fiscal year 2016.

Contingencies: As of June 30, 2014, 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. When these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.

San Diego County Regional Airport Authority

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2014

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/ (Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/08	$ 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	3,046	96.0%	25,709	11.8%
6/30/11	86,309	84,042	(2,267)	102.7%	25,148	(9.0%)
6/30/12	95,793	97,225	1,432	98.5%	24,726	5.8%
6/30/13	107,616	115,200	7,584	93.4%	26,380	28.7%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability AAL	Unfunded Actuarial Accrued Liability UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/08	$ -	$ 10,327	$ 10,327	0.0%	$ 19,417	53.2%	7.75%	3.25%
7/1/09	2,674	12,206	9,532	21.9%	19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11*	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/12*	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%

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

Ground crews for the airport's airline partners work diligently to service and load aircraft for maximum efficiency.

Projects on the north side of the airfield are being designed to achieve LEED Certification from the United States Green Building Council.

STATISTICAL SECTION (Unaudited)

The Statistical Section is divided into five areas: financial trend data; revenue capacity data; operating information; demographic and economic information, and debt capacity data.

Financial Trends Data which shows changes in the Authority's financial position since inception:

- Authority operating revenues and expenses
- Authority net position by component
- Authority change in net position
- Authority largest sources of revenue

Revenue Capacity Data which shows the Authority's major revenue sources and changes in key rates and charges:

- Authority landing rate fee
- Terminal rates billed to airlines
- Airline cost per enplaned passenger

Operating Information shows how the airport is performing on an annual basis and within the airport market sector:

- Authority employee headcount
- Aircraft operations
- Aircraft landed weights
- Aircraft landed weights by airline
- Passenger enplanements
- Enplanement market share by airline by fiscal year
- Growth in enplaned passengers, SDIA vs. US
- Capital assets

Economic Information shows the major drivers of usage and how the airport service area is performing compared to the region and the nation:

- Population and per capita personal income - San Diego County
- Principal employers in San Diego County
- San Diego County employment by industry sector
- Labor force, employment, and unemployment rates

Debt Information shows how the Authority is performing meeting its debt obligations and the relative level of debt:

- Debt service coverage
- Debt service coverage - Series 2014 CFC Bonds
- Debt per enplaned passenger

Exhibit S-1

Authority Revenues and O&M Expenses ($000)

Fiscal Years Ended June 30,

Operating Revenues

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Airline revenue										
Landing fees	$ 22,607	$ 22,243	$ 24,006	$ 24,763	$ 18,689	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107
Aircraft parking fees	-	-	-	-	3,221	3,406	2,921	3,134	3,191	2,503
Building rentals	18,041	21,137	22,495	24,265	23,057	23,835	26,980	30,633	41,840	46,001
Security surcharge	7,800	7,759	8,441	8,619	10,204	11,900	14,886	18,649	23,360	25,777
Other aviation revenue	1,757	1,868	1,757	1,808	1,565	1,585	1,597	1,595	1,591	4,488
Concession revenue	26,552	29,362	34,201	38,785	36,280	36,249	37,103	40,427	42,041	47,770
Parking and ground transportation	23,723	26,904	28,392	31,038	31,492	30,296	31,645	31,470	35,750	38,959
Ground rentals	5,294	5,505	4,994	5,207	5,776	5,923	8,656	8,044	9,162	9,603
Other operating revenue	2,349	4,717	1,081	1,197	693	1,829	1,640	1,179	905	1,529
Total Operating Revenues	$ 108,123	$ 119,495	$ 125,367	$135,682	$ 130,977	$ 133,695	$ 144,007	$ 153,550	$ 177,498	$ 195,737

Operating Expenses Before Depreciation

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Salaries and benefits	$ 23,623	$ 26,847	$ 28,333	$ 32,912	$ 34,741	$ 35,386	$ 38,267	$ 37,237	$ 38,092	$ 39,135
Contractual services	25,210	31,967	26,391	27,378	27,464	27,999	26,113	26,906	29,284	31,559
Safety and security	16,191	14,777	15,946	19,110	19,930	20,131	21,344	22,625	23,994	24,151
Space rental	10,174	11,353	10,842	10,901	10,888	10,906	10,906	11,415	10,897	10,478
Utilities	5,121	5,416	6,421	6,430	6,912	6,871	6,413	6,674	6,659	8680
Maintenance	4,050	5,390	8,393	8,735	8,002	9,231	8,174	8,497	11,204	13,982
Equipment and systems	710	736	980	1,333	678	891	570	403	469	643
Materials and supplies	461	591	762	795	641	413	345	304	406	440
Insurance	2,425	1,162	1,999	1,227	1,096	1,166	1,066	764	795	988
Employee development and support	1,050	906	909	1,035	1,030	990	1,041	916	1,235	1,171
Business development	1,646	1,329	2,096	2,733	2,509	2,033	2,275	2,093	2,444	2,661
Equipment rentals and repairs	708	882	1,479	1,396	1,387	1,271	1,327	1,335	1,317	2,932
Total Operating Expenses Before Depreciation	$ 91,369	$ 101,356	$ 104,551	$113,985	$ 115,278	$ 117,288	$ 117,841	$ 119,169	$ 126,796	$ 136,820

Source: San Diego County Regional Airport Authority

Exhibit S-2

Authority Net Position by Component ($000)

Fiscal years Ended June 30,

	2005	2006	2007	2008	2009	2010*	2011	2012	2013	2014
Net investment in capital assets	$ 209,714	$ 219,218	$ 236,762	$ 238,144	$ 249,498	$ 274,769	$ 352,276	$ 339,467	$ 359,640	$ 312,781
Other restricted net position	83,854	96,633	103,787	136,548	167,827	139,672	147,513	172,076	167,384	204,642
Unrestricted net position	102,652	117,940	124,984	120,429	95,858	145,224	102,466	149,346	200,040	209,594
Total net position	$ 396,220	$ 433,791	$ 465,533	$ 495,121	$ 513,183	$ 559,664	$ 602,255	$ 660,889	$ 727,064	$ 727,017

* Amounts for 2010 and after were restated as per GASB 65

Source: San Diego County Regional Airport Authority

Exhibit S-3

Authority Change in Net Position ($000)

Fiscal Years Ended June 30,

	2005	2006	2007	2008	2009	2010*	2011	2012	2013	2014
Operating revenues:										
Airline revenue:										
Landing fees	$ 22,607	$ 22,243	$ 24,006	$ 24,763	$ 18,689	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107
Aircraft parking fees	-		-	-	3,221	3,406	2,921	3,134	3,191	2,503
Building rentals	18,041	21,137	22,495	24,265	23,057	23,835	26,980	30,633	41,840	46,001
Security surcharge	7,800	7,759	8,441	8,619	10,204	11,900	14,886	18,649	23,360	25,777
Other aviation revenue	1,757	1,868	1,757	1,808	1,565	1,584	1,597	1,595	1,591	4,488
Concession revenue	26,552	29,362	34,201	38,785	36,280	36,249	37,103	40,427	42,041	47,770
Parking and ground transportation revenue	23,723	26,904	28,392	31,038	31,492	30,296	31,645	31,470	35,750	38,959
Ground rentals	5,294	5,505	4,994	5,207	5,776	5,923	8,656	8,044	9,162	9,603
Other operating revenue	2,349	4,717	1,081	1,197	693	1,829	1,640	1,179	905	1,529
Total operating revenues	108,123	119,495	125,367	135,682	130,977	133,695	144,007	153,550	177,498	195,737
Operating expenses:										
Salaries and benefits	23,623	26,847	28,333	32,912	34,741	$ 35,386	$ 38,267	$ 37,237	$ 38,092	$ 39,135
Contractual services	25,210	31,967	26,391	27,378	27,464	27,999	26,113	26,906	29,284	31,559
Safety and security	16,191	14,777	15,946	19,110	19,930	20,131	21,344	22,625	23,994	24,151
Space rental	10,174	11,353	10,842	10,901	10,888	10,906	10,906	11,415	10,897	10,478
Utilities	5,121	5,416	6,421	6,430	6,912	6,871	6,413	6,674	6,659	8,680
Maintenance	4,050	5,390	8,393	8,735	8,002	9,231	8,174	8,497	11,204	13,982
Equipment and systems	710	736	980	1,333	678	891	570	403	469	643
Materials and supplies	461	591	762	795	641	413	345	304	406	440
Insurance	2,425	1,162	1,999	1,227	1,096	1,166	1,066	764	795	988
Employee development and support	1,050	906	909	1,035	1,030	990	1,041	916	1,235	1,171
Business development	1,646	1,329	2,096	2,733	2,509	2,033	2,275	2,093	2,444	2,661
Equipment rentals and repairs	708	882	1,479	1,396	1,387	1,271	1,327	1,335	1,317	2,932
Total operating expenses before depreciation and amortization	91,369	101,356	104,551	113,985	115,278	117,288	117,841	119,169	126,796	136,820
Income from operations before depreciation and amortization	16,754	18,139	20,816	21,697	15,699	16,407	26,166	34,381	50,702	58,917
Depreciation and amortization	29,699	31,559	33,468	36,764	38,196	42,424	49,138	44,532	41,624	77,205
Operating income (loss)	(12,945)	(13,420)	(12,652)	(15,067)	(22,497)	(26,018)	(22,972)	(10,151)	9,078	(18,288)
Nonoperating revenues (expenses):										
Passenger facility charges	33,710	34,981	36,452	37,401	33,219	34,049	33,998	34,639	35,437	35,770
Customer facility charges	-	-	-	-	1,695	10,783	10,986	11,487	19,117	27,545
Quieter Home Program, net	(1,582)	(908)	(3,092)	(3,990)	(5,573)	(1,629)	(3,359)	(3,531)	(1,589)	(2,751)
Joint Studies Program	-	(688)	(120)	(963)	(180)	(244)	(129)	(73)	(55)	(152)
Interest income	6,413	9,306	11,969	13,431	9,434	6,667	6,408	5,492	4,140	5,211
Interest expense	(4,387)	(4,809)	(4,683)	(4,086)	(2,998)	(3,472)	(12,295)	(2,027)	(16,530)	(56,376)
"Build America Bonds" Rebate	-	-	-	-	-	-	3,691	4,996	4,779	4,636
Other revenues (expenses), net	(195)	964	(3,282)	12	316	(1,004)	(92)	(3,032)	(4,279)	434
Nonoperating revenue, net	33,959	38,846	37,244	41,805	35,913	45,149	39,208	47,951	41,020	14,317
Income before capital grant contributions	21,014	25,426	24,592	26,738	13,416	19,131	16,236	37,800	50,098	(3,971)
Capital grant contributions	7,522	12,145	7,150	2,850	4,646	27,350	26,355	20,834	16,077	3,924
Change in net position	28,536	37,571	31,742	29,588	18,062	46,482	42,591	58,634	66,175	(47)
Net position, beginning of year	367,684	396,220	433,791	465,533	495,121	513,183	559,664	602,255	660,889	727,063
Net position, end of year	$ 396,220	$ 433,791	$ 465,533	$ 495,121	$ 513,183	$ 559,664	$ 602,255	$ 660,889	$ 727,063	$ 727,016

* Amounts for 2010 and after were restated as per GASB 65

Source: San Diego County Regional Airport Authority

Exhibit S-4

Authority Largest Sources of Revenues ($)

Fiscal Years Ended June 30,

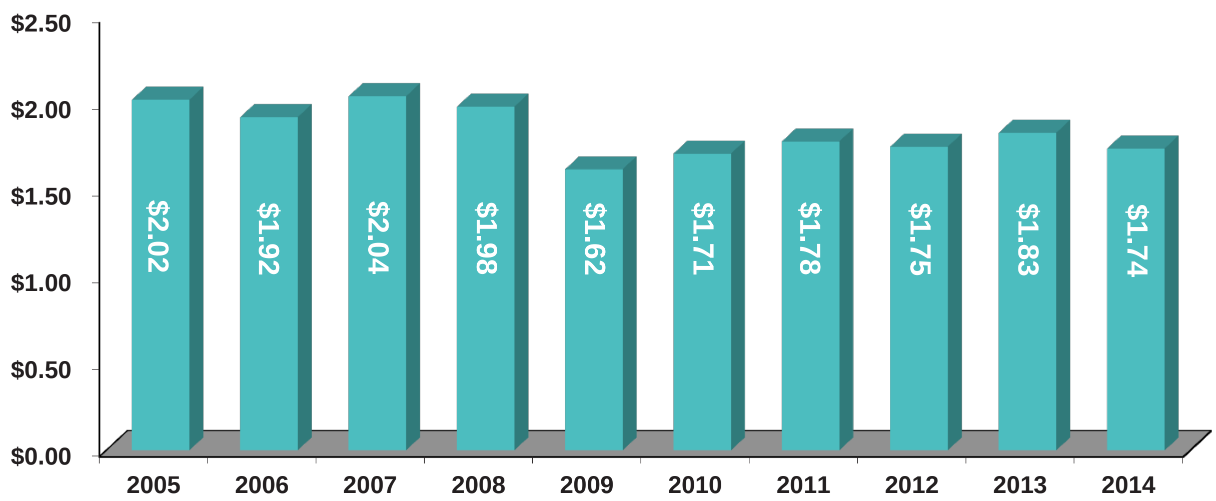
Tenant	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014 % of Total Operating Revenue
Southwest Airlines	$ 12,767,378	$ 13,464,404	$ 15,624,767	$ 16,920,722	$ 17,658,629	$ 19,428,103	$ 21,306,108	$ 23,357,007	$ 27,598,908	$ 29,548,565	15.1%
United Airlines	5,877,927	5,717,234	6,623,373	6,522,426	6,344,127	7,905,284	9,280,812	10,931,601	15,817,886	15,364,094	7.8%
Delta Airlines	1,442,700	4,876,095	5,347,415	5,168,634	4,647,333	6,663,671	8,003,895	8,911,886	10,898,540	12,005,146	6.1%
American Airlines	8,472,274	10,191,557	8,303,616	7,750,147	5,543,732	7,693,564	7,611,443	8,197,015	9,765,412	10,030,675	5.1%
Alaska Airlines	1,471,600	2,464,162	2,843,993	2,800,385	2,754,173	2,951,554	3,482,098	4,265,739	6,167,257	8,008,057	4.1%
Enterprise Rent-A-Car	858,956	2,888,849	2,007,684	2,530,192	2,501,720	2,517,682	4,431,129	7,290,392	6,934,784	7,162,116	3.7%
Hertz Rent-A-Car	4,901,573	5,979,512	6,728,751	6,860,949	5,816,230	5,861,737	5,635,151	5,795,690	5,961,730	6,149,759	3.1%
US Airways	699,542	571,874	1,714,362	4,048,246	3,478,789	3,756,383	3,899,253	4,388,522	5,408,046	5,754,465	2.9%
Avis Budget Rent-A-Car Group	3,103,562	6,002,357	4,465,182	6,193,565	5,505,770	3,378,607	3,842,594	4,507,266	4,697,455	4,822,212	2.5%
Host International	7,106,523	9,147,356	9,808,385	10,875,857	9,883,713	9,907,860	10,360,436	10,793,503	6,960,141	3,262,531	1.7%

Source: San Diego County Regional Airport Authority

Exhibit S-5

Authority Landing Fee Rate ($ per 1,000 lbs.)

Fiscal years Ended June 30,



Source: San Diego County Regional Airport Authority

Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

Exhibit S-6

Terminal Rates Billed to Airlines

Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates Per Square Foot*	% Change
2005	$48.62	(12.8)%
2006	$56.62	16.5 %
2007	$58.39	3.1 %
2008	$66.67	14.2 %
2009	$57.38	(13.9)%
2010	$59.53	3.7 %
2011	$73.09	22.8 %
2012	$83.31	14.0 %
2013	$117.33	40.8 %
2014	$111.13	(5.3)%

*Net of janitorial credit

Terminal Rate Per Square Foot

Source: San Diego County Regional Airport Authority

Information presented reflects those years that the Airport Authority was in operation.

Terminal Rates are rates billed to airlines for the rent of terminal space per square foot.

Beginning with FY 2005, the Security Surcharge was excluded from Terminal Rates and charged separately.

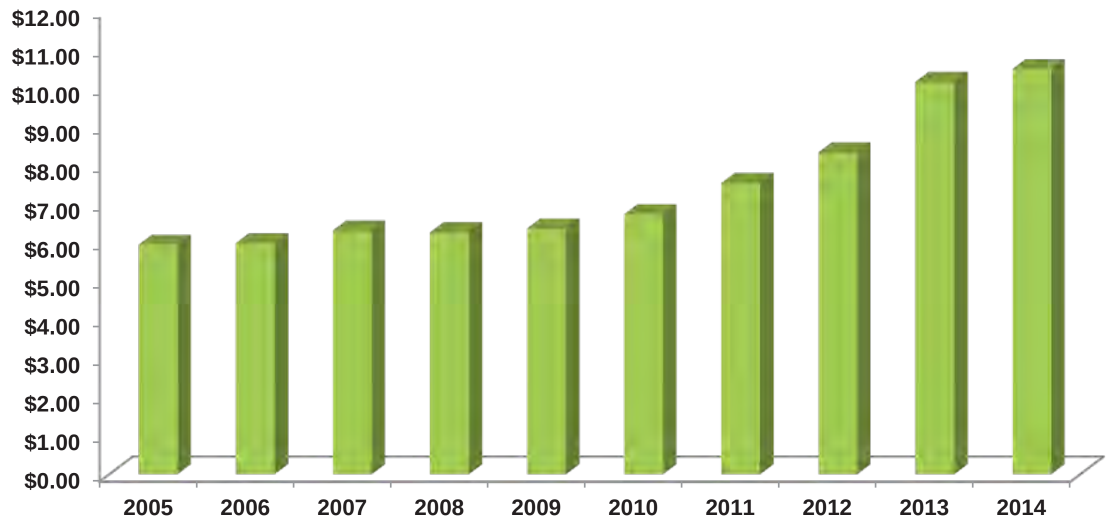
Exhibit S-7

Airline Cost Per Enplaned Passenger

Fiscal Years Ended June 30,

Fiscal Year	Enplaned Passengers	Cost per Enplaned Passenger
2005	8,449,107	$5.94
2006	8,749,734	$5.98
2007	8,892,069	$6.31
2008	9,389,327	$6.26
2009	8,535,774	$6.36
2010	8,453,886	$6.73
2011	8,441,120	$7.54
2012	8,575,475	$8.33
2013	8,737,617	$10.16
2014	9,082,244	$10.49

Cost per Enplaned Passenger



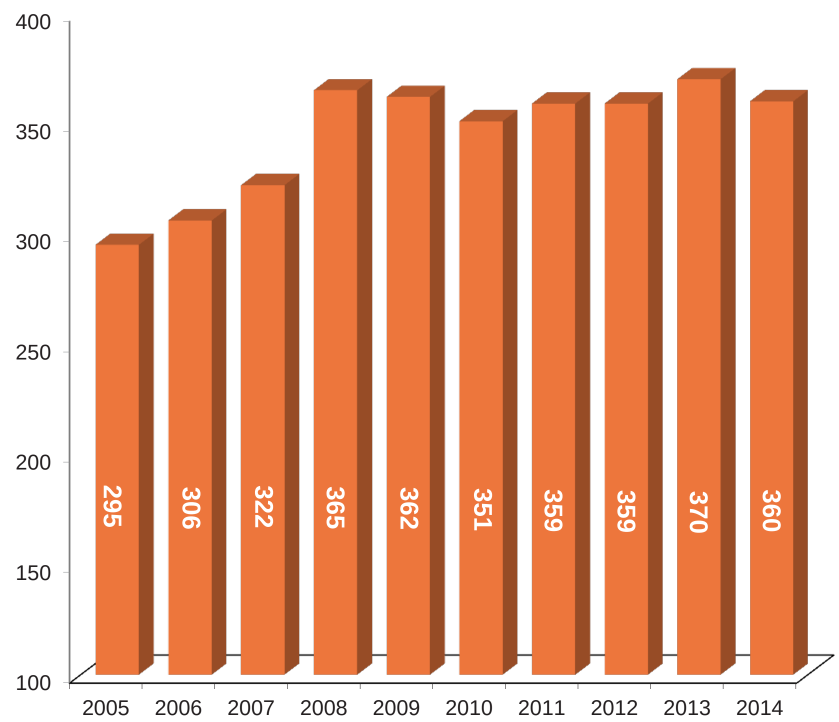
Source: San Diego County Regional Airport Authority

Airline Cost per Enplaned Passenger is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.

Exhibit S-8

Authority Employee Headcount

Fiscal Years Ended June 30,



Source: San Diego County Regional Airport Authority

The Airport Authority does not have part-time employees. This chart reflects the average number of employees for the fiscal years shown above.

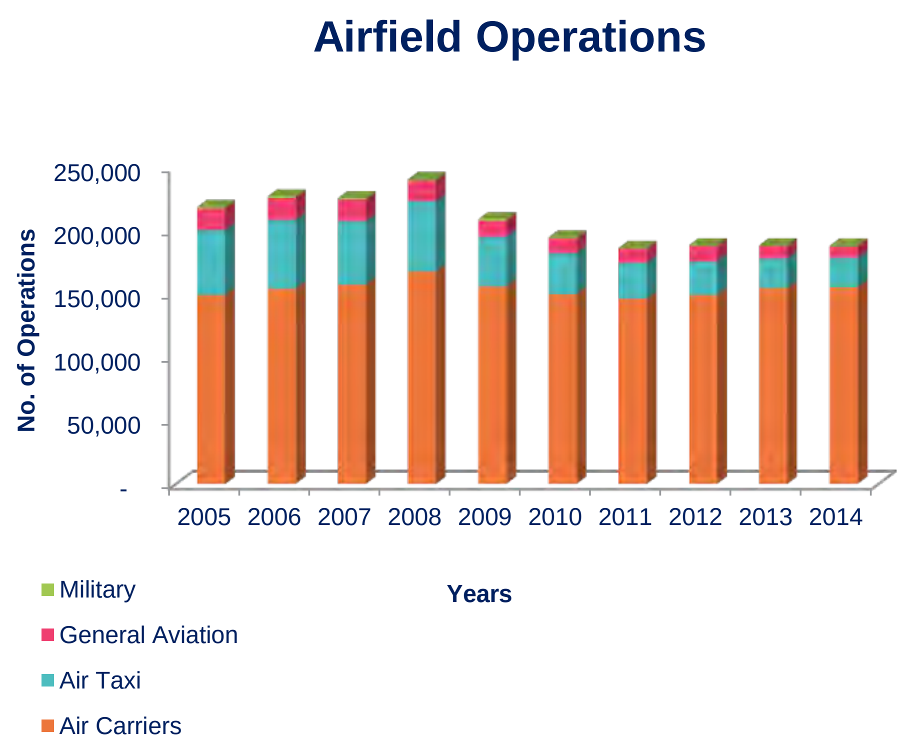
Exhibit S-9

Aircraft Operations (Takeoffs and Landings)

Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
2005	148,975	51,377	17,069	1,094	218,525
2006	154,092	54,156	17,383	1,121	226,752
2007	157,198	50,068	17,195	983	225,444
2008	167,753	55,373	16,123	1,040	240,289
2009	155,766	39,122	12,721	1,174	208,783
2010	149,718	32,100	11,674	1,017	194,509
2011	146,215	28,273	10,938	755	186,181
2012	149,104	26,398	12,120	658	188,280
2013	154,781	23,370	9,586	567	188,304
2014	155,310	22,953	8,930	597	187,790

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)

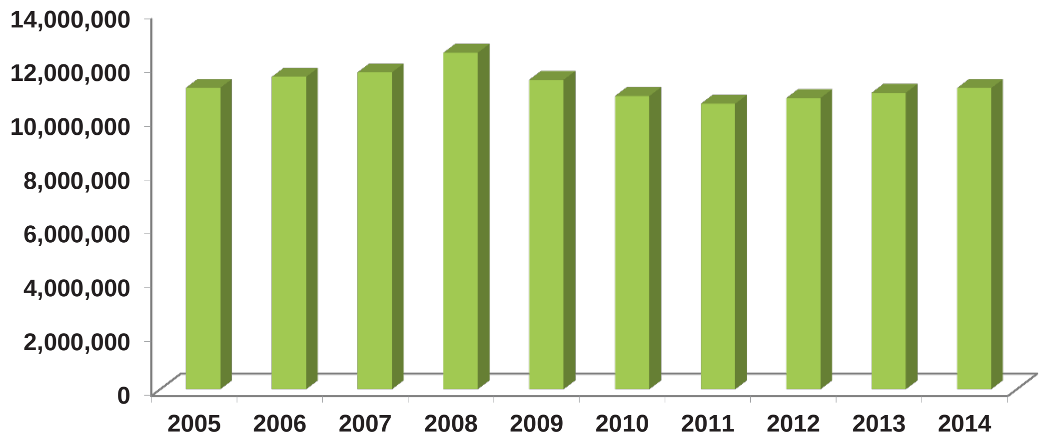


Aircraft operations are the takeoffs and landings at SDIA.
They represent the level of demand for air service by the airlines operating at SDIA.

Exhibit S-10
Aircraft Landed Weight
Fiscal Years Ended June 30,

Fiscal Year	Aircraft Landed Weight in 1000 lbs	% Change
2005	11,200,204	4.2 %
2006	11,604,873	3.6 %
2007	11,773,957	1.5 %
2008	12,501,191	6.2 %
2009	11,496,758	(8.0)%
2010	10,892,867	(5.3)%
2011	10,606,160	(2.6)%
2012	10,819,902	2.0 %
2013	11,015,716	1.8 %
2014	11,186,768	1.6 %

Aircraft Landed Weights (000 lbs)



Source: San Diego Regional Airport Authority

Landed Weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.

Exhibit S-11

Aircraft Landed Weights by Airline (thousand pounds)

Fiscal Years Ended June 30,

Top 15 Ranked on Fiscal Year 2014 Results

Airline	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total
Southwest Airlines	3,570,052	31.9%	3,768,374	32.5%	3,956,170	33.6%	4,416,996	35.3%	4,415,780	38.4%	4,068,974	37.4%	4,001,530	37.7%	3,953,536	36.5%	3,907,554	35.5%	3,925,362	35.1%
United Airlines *	1,732,536	15.5%	1,767,394	15.2%	1,803,693	15.3%	1,761,692	14.1%	1,670,479	14.5%	1,662,541	15.3%	1,583,372	14.9%	1,502,203	13.9%	1,387,854	12.6%	1,340,736	12.0%
Delta Airlines	927,763	8.3%	850,348	7.3%	798,104	6.8%	839,172	6.7%	713,622	6.2%	893,467	8.2%	1,062,254	10.0%	1,047,068	9.7%	1,023,608	9.3%	1,016,878	9.1%
Alaska Airlines	605,435	5.4%	616,552	5.3%	668,390	5.7%	612,282	4.9%	536,281	4.7%	511,813	4.7%	595,238	5.6%	648,359	6.0%	750,000	6.8%	884,727	7.9%
American Airlines	1,009,498	9.0%	1,089,872	9.4%	961,143	8.2%	890,796	7.1%	848,513	7.4%	766,151	7.0%	672,059	6.3%	701,126	6.5%	685,836	6.2%	718,069	6.4%
US Airways	298,983	2.7%	250,303	2.2%	391,358	3.3%	713,030	5.7%	684,354	6.0%	626,510	5.8%	603,439	5.7%	643,014	5.9%	653,915	5.9%	631,485	5.6%
Federal Express	384,702	3.4%	445,744	3.8%	456,152	3.9%	447,636	3.6%	402,665	3.5%	400,303	3.7%	421,239	4.0%	452,453	4.2%	451,797	4.1%	419,127	3.7%
Skywest Airlines	247,215	2.2%	251,902	2.2%	246,559	2.1%	195,777	1.6%	219,416	1.9%	332,408	3.1%	338,812	3.2%	306,789	2.8%	428,595	3.9%	396,054	3.5%
Spirit Airlines	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	98,931	0.9%	208,200	1.9%	245,669	2.2%
Virgin America	-	0.0%	-	0.0%	-	0.0%	3,122	0.02%	221,333	1.9%	205,348	1.9%	173,686	1.6%	208,253	1.9%	235,934	2.1%	232,136	2.1%
Frontier Airlines	194,758	1.7%	246,749	2.1%	283,898	2.4%	287,387	2.3%	237,269	2.1%	227,847	2.1%	249,492	2.4%	208,936	1.9%	196,614	1.8%	192,493	1.7%
JetBlue Airlines	123,145	1.1%	174,337	1.5%	175,333	1.5%	288,239	2.3%	297,340	2.6%	201,071	1.8%	167,369	1.6%	166,232	1.5%	168,080	1.5%	189,979	1.7%
British Airways	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	13,800	0.1%	167,440	1.5%	163,760	1.5%	166,980	1.5%
Hawaiian Airlines	145,920	1.3%	145,920	1.3%	211,840	1.8%	235,200	1.9%	137,145	1.2%	121,600	1.1%	134,080	1.3%	118,088	1.1%	140,637	1.3%	147,325	1.3%
Japan Airlines	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	47,125	0.4%	138,700	1.2%
Subtotal	**9,240,007**	**82.5%**	**9,607,495**	**82.8%**	**9,952,639**	**84.5%**	**10,691,329**	**85.5%**	**10,384,196**	**90.3%**	**10,018,032**	**92.0%**	**10,016,370**	**94.4%**	**10,222,427**	**94.5%**	**10,449,511**	**94.9%**	**10,645,720**	**95.2%**
All Others	1,960,197	17.5%	1,997,378	17.2%	1,821,318	15.5%	1,810,162	14.5%	1,112,561	9.7%	874,835	8.0%	589,790	5.6%	597,474	5.5%	566,205	5.1%	541,048	4.8%
TOTAL	**11,200,204**	**100.0%**	**11,604,873**	**100.0%**	**11,773,957**	**100.0%**	**12,501,491**	**100.0%**	**11,496,758**	**100.0%**	**10,892,867**	**100.0%**	**10,606,160**	**100.0%**	**10,819,902**	**100.0%**	**11,015,716**	**100.0%**	**11,186,768**	**100.0%**
Annual % Change	4.2%		3.6%		1.5%		6.2%		-8.0%		-5.3%		-2.6%		2.0%		1.8%		1.6%	

Source: San Diego County Regional Airport Authority

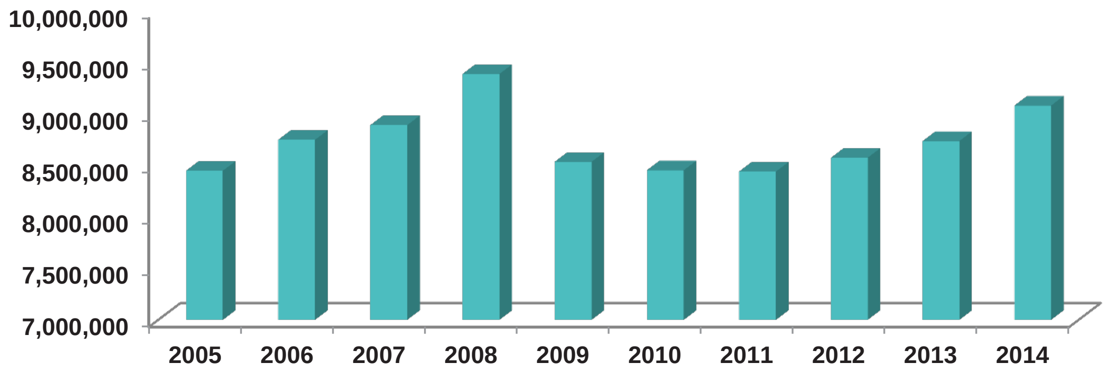
***** United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table.

Exhibit S-12

Passenger Enplanements

Fiscal years Ended June 30,

Fiscal Year	Passenger Enplanements	% Change
2005	8,449,107	5.9%
2006	8,749,734	3.6%
2007	8,892,069	1.6%
2008	9,389,327	5.6%
2009	8,535,774	(9.1%)
2010	8,453,886	(1.0%)
2011	8,441,120	(0.2%)
2012	8,575,475	1.6%
2013	8,737,617	1.9%
2014	9,082,244	3.9%



Source: San Diego County Regional Airport Authority

Enplaned passenger is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e. connecting passenger).

Exhibit S-13

Enplanement Market Share by Airline by Fiscal Year

Fiscal Years Ended June 30,

Air Carrier	2005 Enplane-ments	Share	2006 Enplane-ments	Share	2007 Enplane-ments	Share	2008 Enplane-ments	Share	2009 Enplane-ments	Share	2010 Enplane-ments	Share	2011 Enplane-ments	Share	2012 Enplane-ments	Share	2013 Enplane-ments	Share	2014 Enplane-ments	Share
Aeromexico	49,488	0.6%	58,969	0.7%	39,518	0.4%	32,223	0.3%	27,772	0.3%	24,335	0.3%	—	—	—	—	—	—	—	—
Air Canada	—	—	—	—	55,398	0.6%	55,031	0.6%	27,255	0.3%	46,959	0.6%	58,539	0.7%	56,470	0.7%	45,058	0.5%	36,636	0.4%
AirTran Airways	—	—	—	—	7,983	0.1%	97,937	1.0%	66,475	0.8%	37,530	0.4%	17,978	0.2%	—	0.0%	—	—	—	—
Alaska Airlines	476,395	5.6%	492,891	5.6%	536,784	6.0%	498,169	5.3%	428,515	5.0%	435,722	5.2%	514,498	6.1%	579,457	6.8%	673,731	7.7%	830,349	9.1%
Aloha Airlines	29,051	0.3%	41,882	0.5%	38,418	0.4%	33,620	0.4%	—	—	—	—	—	—	—	—	—	—	—	—
America West	466,615	5.5%	451,904	5.2%	374,072	4.2%	78,298	0.8%	—	—	—	—	—	—	—	—	—	—	—	—
American Airlines	879,144	10.4%	968,832	11.1%	873,624	9.8%	808,790	8.6%	735,067	8.6%	704,909	8.3%	658,752	7.8%	664,466	7.7%	650,826	7.4%	693,995	7.6%
British Airways	—	—	—	—	—	0.0%	—	—	—	—	—	—	6,912	0.1%	81,437	0.9%	81,534	0.9%	84,600	0.9%
Continental Airlines	401,803	4.8%	454,699	5.2%	503,189	5.7%	520,856	5.5%	503,242	5.9%	507,443	6.0%	496,100	5.9%	—	0.0%	—	—	—	—
Delta Airlines	713,872	8.4%	666,101	7.6%	633,772	7.1%	687,104	7.3%	618,127	7.2%	900,510	10.7%	919,323	10.9%	935,777	10.9%	904,734	10.4%	915,907	10.1%
Frontier Airlines	152,917	1.8%	171,544	2.0%	196,598	2.2%	231,926	2.5%	203,689	2.4%	196,628	2.3%	219,008	2.6%	198,708	2.3%	184,020	2.1%	185,270	2.0%
Hawaiian Airlines	108,798	1.3%	112,410	1.3%	154,932	1.7%	160,939	1.7%	100,626	1.2%	90,874	1.1%	98,887	1.2%	86,211	1.0%	94,283	1.1%	98,667	1.1%
Japan Airlines	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18,249	0.2%	54,213	0.6%
JetBlue Airways	118,762	1.4%	161,594	1.8%	151,984	1.7%	224,205	2.4%	235,199	2.8%	167,031	2.0%	141,684	1.7%	147,051	1.7%	152,571	1.7%	173,282	1.9%
Midwest Airlines	—	—	18,688	0.2%	34,551	0.4%	42,763	0.5%	8,380	0.1%	—	—	—	—	—	—	—	—	—	—
Northwest Airlines	319,790	3.8%	292,393	3.3%	286,952	3.2%	295,724	3.1%	272,684	3.2%	—	—	—	—	—	—	—	—	—	—
Southwest Airlines	2,866,405	33.9%	2,979,763	34.1%	3,106,431	34.9%	3,306,386	35.2%	3,122,090	36.6%	3,183,084	37.7%	3,277,931	38.8%	3,252,290	37.9%	3,253,225	37.2%	3,352,870	36.9%
Sun Country Airlines	27,339	0.3%	41,091	0.5%	45,931	0.5%	44,454	0.5%	35,885	0.4%	24,984	0.3%	24,175	0.3%	15,889	0.2%	23,836	0.3%	27,276	0.3%
Spirit	—	0.0%	—	—	—	—	—	—	—	—	—	—	—	—	77,873	0.9%	164,189	1.9%	201,414	2.2%
United Airlines	982,535	11.6%	989,744	11.3%	990,725	11.1%	978,816	10.4%	927,023	10.9%	920,960	10.9%	878,307	10.4%	1,266,007	14.8%	1,175,869	13.5%	1,167,661	12.9%
US Airways	251,629	3.0%	212,622	2.4%	300,568	3.4%	552,751	5.9%	563,392	6.6%	512,558	6.1%	523,378	6.2%	535,906	6.2%	560,738	6.4%	554,244	6.1%
Virgin America	—	—	—	—	—	—	57,292	0.6%	155,649	1.8%	151,110	1.8%	133,377	1.6%	166,326	1.9%	168,297	1.9%	156,729	1.7%
Volaris	—	—	—	—	—	—	—	—	—	—	—	—	—	—	45,589	0.5%	30,885	0.4%	23,285	0.3%
Other	8,439	0.1%	27,329	0.3%	8,128	0.1%	47,257	0.5%	25,457	0.3%	51,541	0.6%	37,776	0.4%	43,634	0.5%	43,212	0.5%	39,664	0.4%
Total Air Carrier	7,852,982	92.9%	8,142,456	93.1%	8,339,558	93.8%	8,754,541	93.2%	8,056,527	94.4%	7,956,178	94.1%	8,006,625	94.9%	8,153,091	95.1%	8,225,453	94.1%	8,596,062	94.6%
Commuter																				
American Eagle (Envoy Airlines)	288,843	3.4%	287,136	3.3%	275,087	3.1%	238,147	2.5%	232,289	2.7%	207,272	2.5%	155,421	1.8%	140,574	1.6%	82,377	0.9%	51,126	0.6%
Compass (Delta Connection)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,563	0.1%
Express Jet Airlines	—	—	—	—	17,603	0.2%	202,429	2.2%	36,034	0.4%	—	—	—	—	—	—	—	—	—	—
Horizon	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,900	0.1%	77,392	0.9%	84,000	0.9%
Mesa Airlines	114,010	1.3%	117,330	1.3%	42,219	0.5%	17,098	0.2%	7,381	0.1%	18,670	0.2%	6,709	0.1%	12,766	0.1%	206	—	—	—
Seaport Airlines	—	—	—	—	—	—	—		—	—	—	—	—	—	—	—	196	—	1,128	—
SkyWest Airlines	193,272	2.3%	202,812	2.3%	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
SkyWest Airlines - Alaska Airlines	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,075	0.1%
SkyWest - (American Eagle / Envoy - LAX)	—	—	—	—	—	—	—		—	—	—	—	—	—	—	—	62,061	0.7%	84,880	0.9%
Skywest- Delta Connection	—	—	—	—	55,646	0.6%	36,610	0.4%	66,783	0.8%	93,380	1.1%	92,818	1.1%	94,644	1.1%	101,456	1.2%	98,808	1.1%
Skywest- United Express	—	—	—	—	161,956	1.8%	140,502	1.5%	136,760	1.6%	178,386	2.1%	179,547	2.1%	162,620	1.9%	177,889	2.0%	149,524	1.6%
Skywest- US Airways	—	—	—	—	—	—	—	—	—	—	—	—	—	0.0%	5,880	0.1%	10,783	0.1%	78	—
Total Commuter	596,125	7.1%	607,278	6.9%	552,511	6.2%	634,786	6.8%	479,247	5.6%	497,708	5.9%	434,495	5.1%	422,384	4.9%	512,164	5.9%	486,182	5.4%
Total Enplanements	8,449,107	100.0%	8,749,734	100%	8,892,069	100%	9,389,327	100%	8,535,774	100%	8,453,886	100%	8,441,120	100%	8,575,475	100%	8,737,617	100%	9,082,244	100%

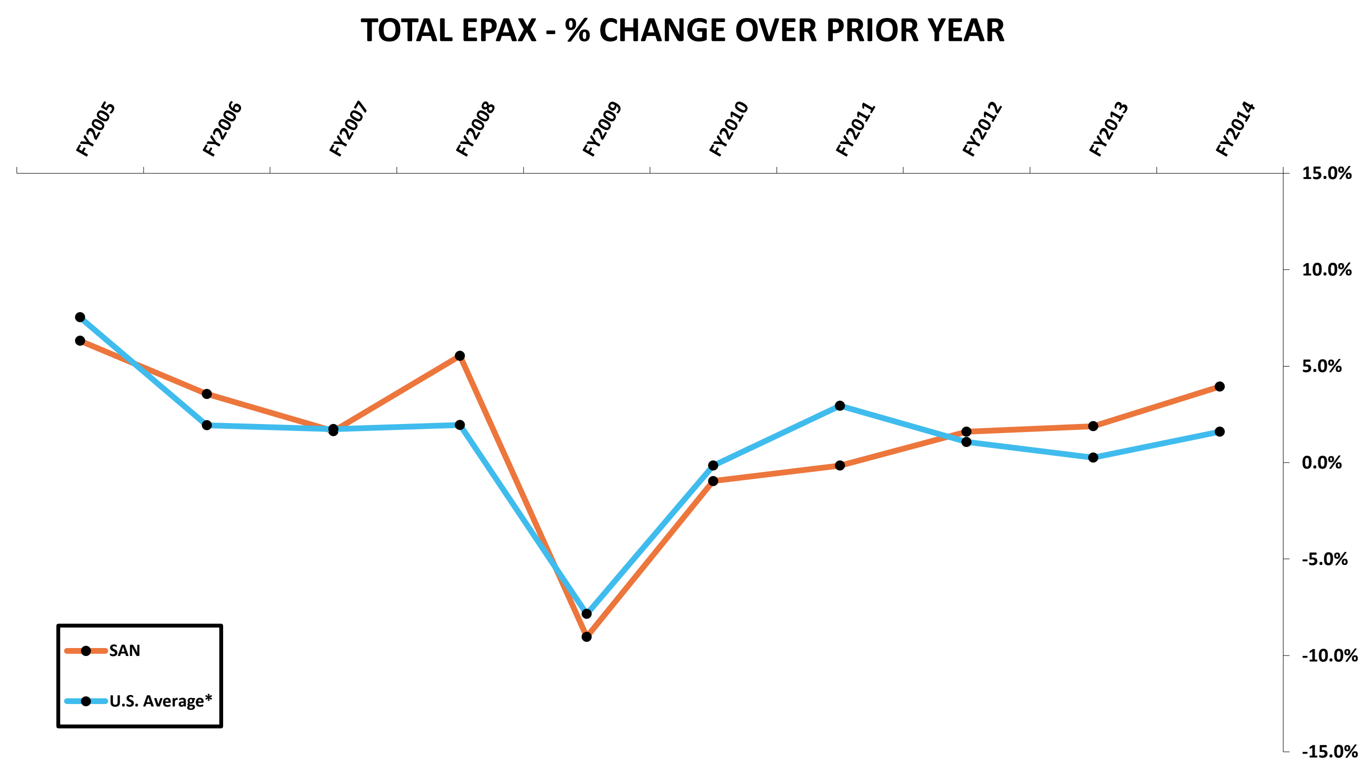
***** United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table starting FY 2012.

* Airtran was acquired by Southwest in May 2011 and began operating as Southwest Airlines on March 1, 2012.

Source: San Diego County Regional Airport Authority

Exhibit S-14

Year-Over-Year Percentage Growth in Passenger Enplanements, SDIA vs. US



* U.S. Average is based on T-100 Market Reporting Data from the DOT Bureau of Transportation Statistics.

This chart compares SDIA's year over year enplanement change compared to the US scheduled mainline service.

Source: San Diego County Regional Airport Authority and US Dept of Transportation's T-100 enplanement data.

Exhibit S-15
Capital Assets

San Diego International Airport	
Number of runways	1
Length of runway (feet)	9,401 feet
Number of gates	51
Commuter plane parking positions	10
Terminal Rentable Square footage	585,452
Airport Land Area	661 acres
On airport parking spaces (public)	2,053
Off airport parking spaces (public)	3,599

Source: San Diego County Regional Airport Authority
The parking spaces shown above are controlled and operated by the Airport Authority and reported on a weighted average basis.

The terminal rentable square footage is a weighted average figure that reflects the additional square footage constructed by the Green Build program.

Exhibit S-16

Population & Per Capita Personal Income San Diego County
(2000-2010)

Calendar Year	Estimated Population[1]	% Change	Per Capita Personal Income[2]	% Change	Total Personal Income[2]	% Change
2005	3,038,074	0.9 %	40,383	5.0 %	122,686,542,342	5.9 %
2006	3,065,077	0.9 %	42,801	6.0 %	131,188,360,677	6.9 %
2007	3,100,132	1.1 %	45,911	7.3 %	142,330,160,252	8.5 %
2008	3,131,552	1.0 %	46,649	1.6 %	146,083,769,248	2.6 %
2009	3,173,407	1.3 %	42,325	(9.3)%	134,314,451,275	(8.1)%
2010	3,091,579	(2.6)%	43,104	1.8 %	133,259,421,216	(0.8)%
2011	3,118,876	0.9 %	48,066	11.5 %	149,911,893,816	12.5 %
2012	3,128,734	0.3 %	49,719	3.4 %	155,557,525,746	3.8 %
2013	3,150,178	0.7 %	49,778	0.1 %	156,809,560,484	0.8 %
2014	3,194,362	1.4 %	51,331	3.1 %	163,969,795,822	4.6 %

Sources:

[1] California Department of Finance,E-1 Population Estimates for Cities, Counties and the State,at January 1st of the calendar years shown.

[2] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income. 2013 and 2014 per capita personal income are estimates by the California Department of Transportation. Prior year's 2011 and 2012 per capita personal income has been updated.

Exhibit S-17
Principal Employers in San Diego County

	2014		
Employer	Local Employees	Rank	Percentage of Total Industry Employment
U.S. Federal Government	45,700	1	3.36%
State of California	45,500	2	3.34%
University of California, San Diego	42,900	3	3.15%
Sharp Health Care	27,391	4	2.01%
County of San Diego	15,231	5	1.12%
Scripps Health	15,050	6	1.11%
Qualcomm Inc.	14,603	7	1.07%
City of San Diego	14,097	8	1.04%
Kaiser Foundation	11,400	9	0.84%
General Atomics	10,057	10	0.74%

	2005		
Employer	Local Employees	Rank	Percentage of Total Industry Employment
U.S. Federal Government	40,700	1	3.10%
State of California	38,800	2	2.96%
San Diego Unified School District	26,700	3	2.04%
University of California, San Diego	23,225	4	1.77%
County of San Diego	16,810	5	1.28%
Sharp Healthcare	12,945	6	0.99%
City of San Diego	12,398	7	0.95%
US Postal Service	11,611	8	0.89%
Scripps Health	10,517	9	0.80%
San Diego State University	6,512	10	0.50%

Total Industry Employment in San Diego County (June 2005): 1,311,300
Total Industry Employment in San Diego County (June 2014): 1,360,900

Source: Employers - San Diego Daily Transcript: 2005 & 2015 Book of Lists
Total Industry Employment - California Employment Development Dept.,
Labor Market Info June 2014 - March 2013 Benchmark

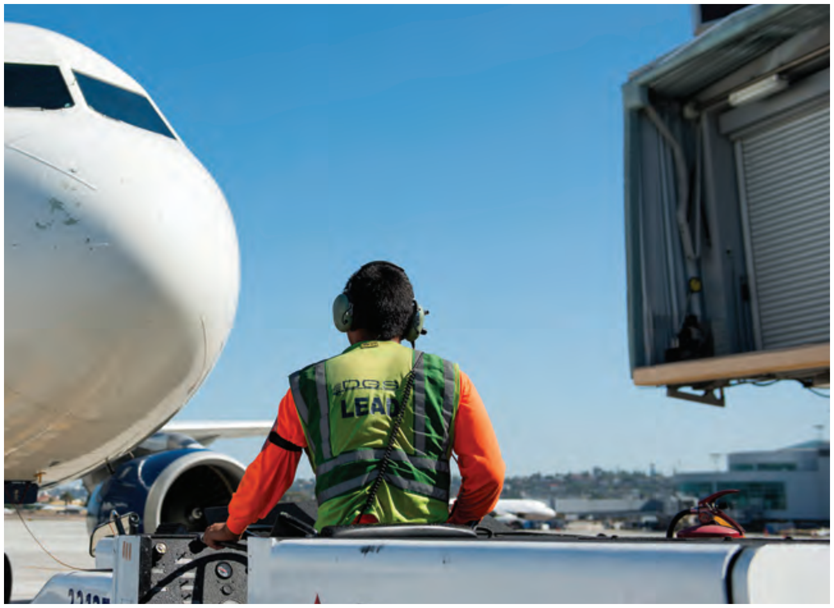


Exhibit S-18
San Diego County Employment by Industry Sector

Industry Sectors	June 2014 Industry Employment	% of Total
Trade, Transportation and Utilities	215,100	15.8%
Government	235,800	17.3%
Professional and Business Services	227,900	16.7%
Leisure and Hospitality	177,400	13.0%
Education and Health Services	183,100	13.5%
Manufacturing	96,600	7.1%
Construction and Mining	67,700	5.0%
Financial Activities	71,200	5.2%
Other Services	51,400	3.8%
Information	24,200	1.8%
Agriculture	10,500	0.8%
Total	**1,360,900**	

Source: California Employment Development Dept., Labor Market Info: Industry Employment & Labor Force, March 2013 Benchmark

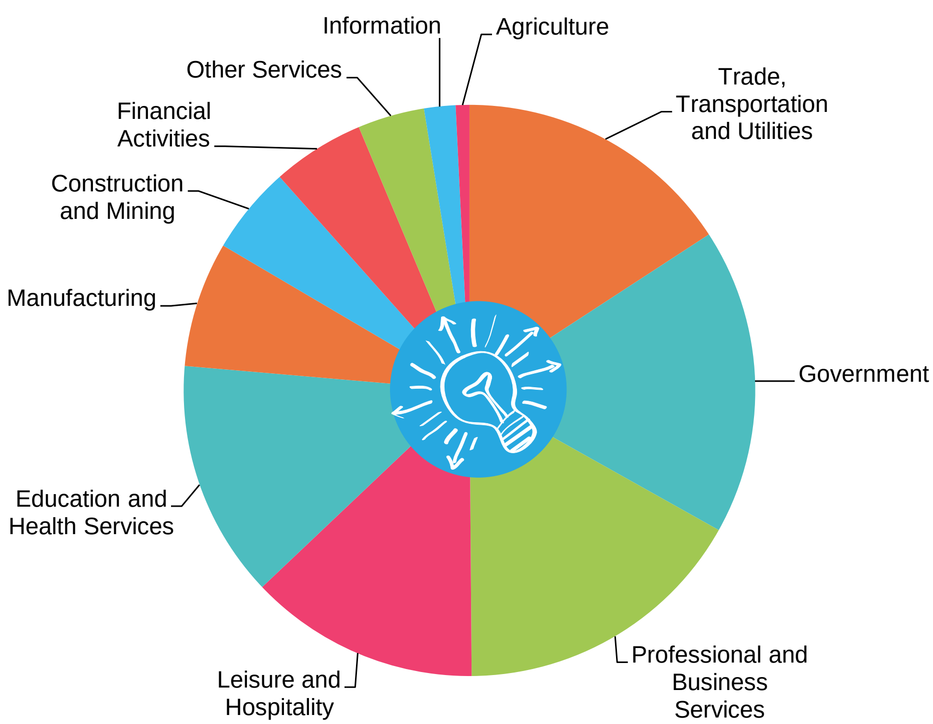


Exhibit S-19
San Diego County Labor Force, Employment, and Unemployment Rates

				Unemployment Rate	
Year	Labor Force	Employment	Unemployment	SD County	State
2005	1,505,892	1,442,700	65,100	4.3%	5.4%
2006	1,520,474	1,457,500	60,500	4.0%	4.9%
2007	1,542,445	1,471,600	70,900	4.6%	5.4%
2008	1,548,700	1,462,300	92,900	6.0%	7.2%
2009	1,554,100	1,406,100	151,300	9.7%	11.4%
2010	1,558,200	1,393,900	164,300	10.5%	12.4%
2011	1,583,700	1,419,400	164,300	10.4%	10.7%
2012	1,598,800	1,450,600	148,200	9.3%	10.7%
2013	1,596,000	1,470,900	125,100	7.8%	9.2%
2014	1,588,500	1,491,600	96,900	6.1%	7.3%

Source: California Employment Development Dept., Labor Market Information Division

Unemployment Rate and Labor Force, not seasonally adjusted

Exhibit S-20
Debt Service Coverage

Senior Bonds	**2005**	***2006**	**2007**	**2008**	**2009**	**2010**	****2011 (6)**	**2012**	**2013**	**2014**
Revenues (1)	$ 112,104,190	$ 123,308,672	$ 133,924,976	$ 144,379,133	$ 138,334,601	$ 138,113,792	$ 148,963,673	$ 158,311,779	$ 181,051,929	$ 199,566,223
Operating and Maintenance Expenses	(89,337,926)	(97,675,011)	(103,942,210)	(114,375,096)	(115,221,068)	(116,275,132)	(117,100,946)	(118,941,148)	(126,662,546)	(136,604,105)
Net Revenues (2)	22,766,264	25,633,661	29,982,766	30,004,037	23,113,533	21,838,660	31,862,727	39,370,631	54,389,383	62,962,118
Senior Bond Debt Service (3)										
Principal	$ 2,355,000	$ 5,995,000	$ 2,670,000	$ 2,805,000	$ 2,950,000	$ 3,105,000	$ 3,265,000	$ 3,430,000	$ -	$ -
Interest	3,197,029	2,949,705	2,665,725	2,532,225	2,391,975	2,244,475	2,089,225	1,925,975	2,478,489	16,645,435
PFCs used to pay debt service	-	-	-	-	-	-	-	-	(714,077)	(7,140,301)
Total Debt Service for the Senior Bond	$ 5,552,029	$ 8,944,705	$ 5,335,725	$ 5,337,225	$ 5,341,975	$ 5,349,475	$ 5,354,225	$ 5,355,975	$ 1,764,412	$ 9,505,134
Senior Bonds Debt Service Coverage (x)	**4.10**	**2.87**	**5.62**	**5.62**	**4.33**	**4.08**	**5.95**	**7.35**	**30.83**	**6.62**
Subordinate Debt										
Subordinate Net Revenues (2)							$ 26,508,500	$ 34,014,656	$ 52,624,971	$ 53,456,985
Subordinate Annual Debt Service (4)										
Principal							$ 715,000	$ 980,000	$ 1,000,000	$ 5,785,000
Interest							2,971,984	6,599,760	26,194,616	27,069,283
Commercial Paper							1,220,226	1,077,867	5,519,872	6,446,951
PFCs used to pay debt service							-	-	(20,061,962)	(20,718,863)
Total Subordinate Annual Debt Service							$ 4,907,210	$ 8,657,627	$ 12,652,526	$ 18,582,371
Subordinate Obligations Debt Service Coverage (x)							**5.40**	**3.93**	**4.16**	**2.88**

Source: San Diego County Regional Airport Authority

* The increase in debt service requirements in 2006 was due to principal and interest payments required on both the Airport Revenue Bonds, Series 1995 and the Airport Revenue Refunding Bonds, Series 2005.

** The increase in the 2011 debt service requirements is due to the a new bond issued October 2010.

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

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

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

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

(5) Includes principal and interest.

(6) Information regarding Subordinate Obligations Debt Service Coverage provided in connection with the first fiscal year for which Subordinate Annual Debt Service was due with respect to the 2010 Bonds. Subordinate Annual Debt Service for prior years consisted of debt service on the Authority's Subordinate Commercial Paper Notes and is not presented for Fiscal Years 2005-2008.

Exhibit S-21
Debt Service Coverage - Series 2014 CFC Bonds

	2014
CFC Collections	$ 27,545,001
Bond Funding Supplemental Consideration	-
Transfers from CFC Stabilization Fund	-
Interest Earnings[1]	204,194
Total Amounts Available	27,749,195
Rolling Coverage Fund Balance[2]	-
Total Amounts Available, plus Rolling Coverage Fund Balance	$ 27,749,195
Series 2014 Debt Service Requirements	-
Coverage excluding Rolling Coverage Fund	N/A
Coverage including Rolling Coverage Fund	N/A

1 Includes earnings on investments in the Senior Reserve Fund, the Rolling Coverage Fund and the CFC Surplus Fund.

2 Includes amount on deposit in the Rolling Coverage Fund at the beginning of each Fiscal Year, up to an amount not to exceed 30% of the Series 2014 Debt Service Requirements for such Fiscal Year.

Exhibit S-22
Debt Per Enplaned Passenger

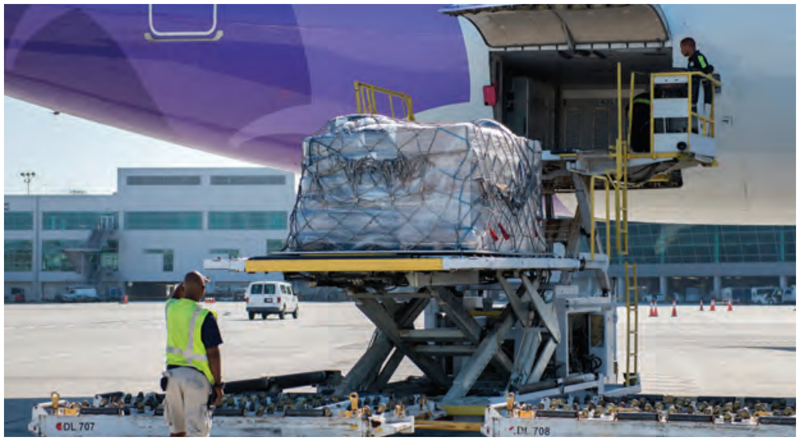
Fiscal Year		Outstanding Bond Debt (1)	Outstanding Commercial Paper Debt	Capital Leases	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
2005		60,605,000	51,694,000	-	112,299,000	8,449,107	13.29
2006		59,451,787	51,694,000	-	111,145,787	8,749,734	12.70
2007		55,709,517	51,694,000	-	107,403,517	8,892,069	12.08
2008		52,812,246	49,430,000	-	102,242,246	9,389,327	10.89
2009		49,779,975	84,430,000	-	134,209,975	8,535,774	15.72
2010		46,602,704	164,430,000	377,172	211,409,876	8,453,886	25.01
2011		640,920,314	21,509,000	519,866	662,949,180	8,441,120	78.54
2012		635,307,968	20,729,000	361,641	656,398,609	8,575,475	76.54
2013		1,027,411,188	50,969,000	8,152,588	1,086,532,776	8,737,617	124.35
2014	(2)	1,327,897,591	44,884,000	7,810,927	1,380,592,518	9,082,244	152.01

Source: San Diego County Regional Airport Authority

(1) Outstanding Bond Debt includes unamortized bond premium

(2) Starting in 2014, Outstanding Bond Debt includes CFC Bond issuance

Generally Accepted Accounting Standards state that debt service, as shown in the Authority's Financial Statement schedules, include net bond premium and capital lease liability



SAN DIEGO
INTERNATIONAL AIRPORT

LET'S **GO.**

P.O. Box 82776, San Diego, CA 92138-2776

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE

Item No.
4

Meeting Date: **NOVEMBER 17, 2014**

Subject:

Quarterly Audit Activities Report – Fiscal Year 2015 First Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

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

Background/Justification:

The Charter for the Office of the Chief Auditor (OCA), as approved by the San Diego County Regional Airport Authority Board, establishes the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and with Authority management. To reflect current operational practices, the Charter was revised on September 4, 2014, Resolution No. 2014-0089.

The Charter directs the Office of the Chief Auditor to periodically communicate to the Audit Committee with respect to management's systems of control, audit findings, management's responses, and including any steps adopted to resolve a noted issue.

The attached Fiscal Year 2015 First Quarter Activity Report (Attachment A) summarizes the undertakings and accomplishments of the Chief Auditor's office from July 1, 2014, through September 30, 2014.

During the first quarter, the Office of the Chief Auditor completed nine (9) audits of the Fiscal Year 2015 Audit Plan and issued four (4) recommendations. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix C of the activity report.

A presentation on the first quarter will be provided to the Audit Committee by the Chief Auditor at its next regular meeting on November 17, 2014.

Fiscal Impact:

None

Authority Strategies:

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

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

Environmental Review:

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

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

MARK BURCHYETT
CHIEF AUDITOR

ATTACHMENT A

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FY15 FIRST QUARTER REPORT

November 6, 2014

November 6, 2014 FY15 First Quarter Report

Tom Smisek, Chair
Audit Committee
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, California 92138-2776

Dear Mr. Smisek:

The Office of the Chief Auditor (OCA) presents our Fiscal Year 2015 First Quarter Report. The report details both the audit and the administrative activities of the OCA during the first quarter of Fiscal Year 2015; and it includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The First Quarter Report will be presented at the next Audit Committee meeting scheduled for November 17, 2014.

Respectfully submitted,

Mark A. Burchyett
Chief Auditor

Audit Results

During the first quarter, the OCA began work on audits contained within the FY15 audit plan as authorized by the Audit Committee and wrapped up audits from the FY14 audit plan. In total, during the first quarter, the OCA completed nine (9) audits. For the month of September, we issued three (3) audit reports, for which audit snapshots are located in Appendix A. The audit reports didn't include any recommendations, leaving the total recommendations issued during the first quarter at four (4). The completed audits are listed in Figure 1 below and the status of recommendations is presented on Page 3.

Figure 1: Audits Completed During the First Quarter of Fiscal Year 2015

Audit	Report No.	Date	Type of Audit
Timekeeping Payroll Processing	14005	7/18/2014	Internal Process
Emergency Medical Technician-Paramedic Services	14032	7/22/2014	Expense Contract
CDW-Government	15012	8/7/2014	Expense Contract
GGTW, LLC, aka South Bay Salt Works	15041	8/11/2014	Revenue Contract
Cartwright Termite & Pest Control, Inc.	15007	8/18/2014	Expense Contract
Paradies - San Diego LLC	15028	8/20/2014	Revenue Contract
Agreements with Expenditure Limits Not to Exceed $100,000	15038	9/5/2014	Internal Process
Ninyo & Moore Geotechnical and Environmental Service Consultants, Inc.	15009	9/24/2014	Expense Contract
Airlines and Others	15023	9/26/2014	Revenue Contract

In addition to the completed audits, the Office of the Chief Auditor had eleven (11) audits in progress as of September 30, 2014, as shown in Figure 2 below:

Figure 2: Audits In-Progress as of September 30, 2014

Audit	Type of Audit
Airport Noise Management	Internal Process
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings - FY13	Expense Contract
Avis Rent A Car Systems LLC	Revenue Contract
Concessionaire Management and Performance	Internal Process
Demattei Wong Architecture, Inc.	Expense Contract
EZ Rent A Car	Revenue Contract
Fox Rent A Car	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Mission Yogurt Inc.	Revenue Contract
Pacific Gateway Concessions and Procurement Concepts Inc. (PGC-PCI)	Revenue Contract
The Hertz Corporation	Revenue Contract

Of the eleven (11) in-progress audits above, three (3) draft audit reports had been forwarded to the affected Departments for review and comment. Additionally, one (1) of the above audits, Mission Yogurt, Inc., was issued.

Recommendation Follow-Up

To ensure that audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. For the last month in the quarter, the OCA tracked the implementation status of 25 recommendations that were issued during FY15, or were outstanding as of June 30, 2014. As shown by Figure 3 below, twelve (12) of the recommendations have been completed or implemented while twelve (12) remain outstanding. One recommendation was not accepted by Management. A Board Communication memo dated June 19, 2014, from the Authority President/CEO to SDCRAA Board Members provided the rationale for rejecting the finding.

See Appendix C for a complete listing of all outstanding recommendations and their status.

Figure 3: Status of Recommendations as of September 30, 2014

Recommendations:				
Tracked	**Completed**	**In Progress**	**Open**	**Not Accepted**
25	**12**	**12**	**0**	**1**

In tracking recommendations the OCA uses the following designations:

- **Completed:** This designation is used for recommendations that the OCA has determined to be adequately implemented or for recommendations where alternate action was taken that adequatley addresses the risk identified.
- **In Progress:** These recommendations have been partially addresed or partial corrective action has been taken. If adequate progress is not being made, it will be noted as such.
- **Open:** This category of recommendations have not yet been addressed. Usually, this desigantion is used when there has not been adequate time between report issuance and recommendation follow-up.
- **Not Accepted:** This designation is used for recommendations that an auditee does not accept and, therefore, will not implement. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

It appears that adequate progress is being made with the majority of recommendations, and the OCA will continue its monthly tracking of their status. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse effect on the Authority.

Non-Audit Activities

Along with the audit activities detailed above, the OCA continues its involvement in several non-audit projects and activities. Specifically, during the first quarter of Fiscal Year 2015 the OCA was involved in the following:

Audit Committee:

The Audit Committee met on August 18, 2014. During that meeting, the Committee received an update on the Construction Audit activity, the OCAs FY14 Annual Activity Report, and the Audit Committee FY14 Annual Report. The next meeting is scheduled for November 17, 2014.

Construction Audit Activity:

For the first quarter of Fiscal Year 2015, the OCA continued its Construction Audit activity separate from its Annual Audit Plan. During the quarter, Finance completed the review of the Passenger Facility Charge (PFC) eligibility of Green Build landside expenses. The Construction Auditor is reviewing the process used, and starting to review the final results. The review of the reimbursable costs incurred for the Checked Baggage Inspection System that have been reimbursed is nearing completion.

The Construction Auditor is currently completing a review of the Green Build attic stock and the Terminal Flight Information Display System project. Through attendance at the Capital Improvement Committee meetings and the Northside Development Stakeholder meetings, the OCA Construction Auditor continues to provide assistance in ensuring that the Authority is meeting compliance requirements for ongoing and planned projects.

Additionally, the OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team and Authority Management, giving assistance and attending meetings specific to the aspects of the Authority's construction activity. A formal update is presented to the Audit Committee during regularly scheduled meetings and will be presented to the Capital Improvement Program Oversight Committee as determined necessary.

Ethics Compliance Program:

The OCA continues to run the Authority Ethics Program and confidential hotline system, including e-mail and voicemail. See Appendix B, Ethics Hotline Call Summary, for a listing of calls received during the quarter.

Training:

During the first quarter, OCA staff participated in several Internet-based training seminars. Of note were webinars held by The Institute of Internal Auditors (IIA) regarding performance auditing of procurement, and various webinars held by ISACA, a professional association focused on Information Technology (IT) governance, regarding IT auditing.

Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY15, along with their current status, are detailed below in Figure 4.

Figure 4: Status of Performance Measures as of September 30, 2014

Performance Measure	Goal	Progress as of September 30, 2014
Percentage of the audit plan completed annually	100%	20%
Additional revenue/cost savings identified through audits	n/a	$6,984
Percentage of staff time spent on audit activities	80%[1]	92%
Percentage of audits completed within budgeted time	80%	89%
Implementation of Recommendations	90%	48%

Percentage of the audit plan completed annually: This measure provides information on what has been accomplished regarding the planned audit projects for the year. To date the OCA has completed 20% of the plan and an additional 24% of the audit plan is currently in-progress. We also have established quarterly goals for the completion of our audit plan. For the first quarter, we had a completion goal of 27% of the audit plan. Regardless, we should be able to meet our annual goal of completing the entire plan by the end of the fiscal year.

Additional revenue/cost savings identified: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. During the first three quarters we identified a net total of $6,984 as shown in Figure 5 below. To date, we have not identified any soft cost savings through our auditing activities.

Figure 5: Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report	Title	Amount Identified
14032	Emergency Medical Technician-Paramedic Services	$6,984
Total		$6,984

Percentage of staff time spent on audit activities: This measure helps ensure that the OCA spends an adequate amount of time on audit activities rather than administrative activities. To date, the OCA is well over its current goal of 80%.

[1] This percentage is the percentage of time staff spends on audit projects, construction audit activities, training, and the Ethics Program, vs. total staff time worked.

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. For the fiscal year to date, the OCA is over its goal of completing 80% of its projects within the budgeted amount of time.

Implementation of Recommendations: This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, twelve (12) of 25 recommendations were implemented. While the percentage of implemented recommendations is under our goal, we are on track to achieve the goal, with an aim to have 90% of our recommendations implemented within the year.

Going Forward

For completion during the second quarter of FY15, the OCA has targeted all of the audits currently in progress, as well as three (3) additional audits on the FY15 Audit Plan. The completion of these audits will result in the accomplishment of 51% of the FY15 Audit Plan. Figure 7 identifies the audits scheduled for completion in the second quarter.

Figure 7: Audits Scheduled for Completion in the Second Quarter of Fiscal Year 2015

Audit	Type of Audit
Airport Noise Management	Internal Process
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings	Expense Contract
Avis Rent A Car Systems LLC	Revenue Contract
Cloud Management and Performance	Internal Process
Concessionaire Management and Performance	Internal Process
Demattei Wong Architecture, Inc.	Expense Contract
EZ Rent A Car	Revenue Contract
Fox Rent A Car	Revenue Contract
Hudson Group, Concourse Ventures Inc.	Revenue Contract
JCDecaux, Inc.	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Mission Yogurt Inc.	Revenue Contract
Pacific Gateway Concessions and Procurement Concepts Inc.	Revenue Contract
The Hertz Corporation	Revenue Contract

Agreements with Expenditure Limits Not to Exceed $100,000

Report Number 15038, September 2014

Background

The Fiscal Year 2015 Annual Audit Plan required that the Office of the Chief Auditor (OCA) review a sample of agreements with contractors that contain expenditure limits of less than $100,000. The purpose of this audit is to verify compliance with agreement terms and appropriateness of expenditures. A brief description of each of the agreements reviewed is provided below.

1. CR&A Custom, Inc.

CR&A Custom, Inc. was contracted to provided design, fabrication, and installation of an aluminum wall-mounted vinyl graphic media framing system on the east-facing exterior wall of the Commuter Terminal. The agreement was managed by the Airport Art Program of the Vision, Voice & Engagement Department.

2. Meridian Systems, Inc.

Meridian Systems, Inc. was contracted as a sole source provider for the construction project data system, Prolog. The agreement is managed by the Facilities Development Department.

3. California Center for Sustainable Energy.

The California Center for Sustainable Energy was contracted to provide services needed for implementing the Authority's Clean Vehicle Conversion Program for off-airport ground transportation providers. The contract was first managed by the Airport Planning & Noise Mitigation Department, and then transferred to the Ground Transportation Department.

4. Carahsoft Technology Corporation.

Carahsoft Technology Corporation is contracted to provide services needed to provide continuous maintenance, support services, and web based upgrades, for the SAP software currently utilized by the Authority. The contract is managed by the Information Technology Department.

5. American Appraisal Associates, Inc.

American Appraisal Associates, Inc. was contracted to provide professional appraisal services, including ascertaining replacement cost values for insuring Authority buildings and equipment. The agreement was managed by the Risk Management Department.

6. Reynolds Business Forms, Inc.

Reynolds Business Forms, Inc. is contracted to provide professional, on-call reprographic and related services. The agreement is managed by the Procurement and Small Business Development Department.

7. A-Advanced Locksmiths

A-Advanced Locksmiths is contracted to provide maintenance and repair services to the Authority's facilities locksets throughout San Diego International Airport. The agreement is managed by the Facilities Maintenance Department.

8. UniFirst Corporation

UniFirst Corporation is contracted to provide and maintain mats in doorways at San Diego International Airport. The agreement is managed by the Facilities Maintenance Department.

9. Buss-Shelger Associates

Buss-Shelger Associates is contracted to provide real estate appraisal services. The agreement is managed by the Business & Financial Management Department.

Audit Results: *No Reportable Findings*

Airlines and Others

Report Number 15023, September 2014

Background

Airlines and Others manages the fuel system operations at the San Diego International Airport under a 20 year Lease Agreement (Agreement) with a term of October 1, 1996, to October 31, 2016. The actual administration of the fuel system operation is sub-contracted by Allied Aviation Services, Inc. (Allied). Allied is responsible for ensuring the proper calculation of payments related to both “Exempt” and “Non-exempt” airline fueling distributions. Fuel dispensed to airlines that operate at SDIA and have not signed an Airline Operating Agreement (AOA) with the Authority is subject to a flowage fee of $0.05 per gallon. Additionally, per the Agreement, Airlines and Others is subject to the following monthly charges:

- Capital Recovery Charges of $118,951,
- Property Lease Charges of $63,124, and
- Rent Adjustment Recovery Charges of $8,301.

For the audit period July 1, 2012, to June 30, 2014, Allied, on behalf of Airlines and Others, paid a total of $4,943,348 to the Authority.

The objective of this audit was to ensure that the Authority received the proper amount of revenue from Allied for Capital Recovery and Property Lease Charges as well as Non-Exempt Fuel distribution fees during the audit period.

Audit Results: *No Reportable Findings*

Audit work determined that Allied properly calculated, reported, and paid the fuel flowage fees for airlines operating without an AOA, and remitted the amounts due for the fuel system operations Capital Recovery and Property Lease Charges. In addition, a review of the internal controls used by Allied Aviation found that they appear to be adequately tracking the fuel disbursements.

Ninyo & Moore
Geotechnical and Environmental Service Consultants, Inc.

Report Number 15009, September 2014

Background

Ninyo & Moore Geotechnical and Environmental Service Consultants, Inc. (Ninyo & Moore) has been an on-call contractor at the Authority since 2002. During the audit period of July 1, 2007, to June 30, 2014, there were two (2) Agreements open for Ninyo & Moore, Agreement 800130 OB was for on-call material testing, special inspection, and geothermal services for the Facilities Development Department (FDD) and the Environmental Affairs Department (Environmental). The Agreement covered the period of January 15, 2007, through December 31, 2012. The amount payable under the Agreement was not to exceed $3,500,000. In total, Ninyo & Moore was reimbursed $766,543 under this Agreement during the audit period.

Agreement 800305 OB is for on-call material testing, special inspection, and geothermal services for FDD. The Agreement covers the period of November 15, 2012, through October 15, 2015. The amount payable under the Agreement is not to exceed $3,500,000. Through July 31, 2014, Ninyo & Moore was reimbursed $1,452,054 under this Agreement.

All Agreements contain specified labor rates by labor type, rates for specific types of testing and prices for entire projects billed by percentage of completion. This also includes approved Ninyo & Moore sub-contractors and their rates. Ninyo & Moore invoices the Authority monthly based on the contract pricing.

Audit Results

The audit found that the procedures to award both of the on-call agreements to Ninyo & Moore were compliant with Authority Policy. For the Authority departments using Ninyo & Moore services, adequate internal controls are followed. Audit work verified that items billed on sample Ninyo & Moore invoices were delivered and verified as invoiced and that the invoices received adequate review and the required authorization prior to their submission for payment.

Ethics Summary
July – September 2014

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
Construction/Car Rental	17	12	0	n/a	5
Public Art	11	9	0	n/a	2
Advertising	9	6	0	n/a	3
Potential Misuse of Resources					
Employee Barbeque	8	6	0	n/a	2
Prohibited Use of Position	1	0	0	n/a	1
Non Ethics Related Concerns					
ATO Practices and Behavior	12	3	0	n/a	9
Aircraft Noise	7	6	0	n/a	1
TSA Practices and Behavior	5	5	0	n/a	0
Workplace Concerns					
Workplace Practices/Behavior	16	7	0	n/a	9
Performance Reviews	13	5	0	n/a	8
Volunteer Opportunity Emails	8	8	0	n/a	0
Workplace Equitability	8	7	0	n/a	1
United Way	1	1	0	n/a	0

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
11-10	GROUND TRANSPORTATION DEPARTMENT	Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program	**20**	**Impact: 10 Probability: 10**	To ensure the accurate recording of all ground transportation activities at SDIA, the Ground Transportation Department should upgrade or replace the Automated Vehicle Identification (AVI) system. Once the AVI system is updated or replaced, the trip fee payment process should be automated. The AVI system data would be uploaded daily to a website accessible to the taxicab operators to allow them to track and download the trip data per taxicab. Monthly, the Ground Transportation Department would lump sum bill the activity to the taxicab companies. This would eliminate an unnecessary risk of misappropriation of Authority assets and the reliance on LPI employees to properly record and account for the collections.	The AVI system is scheduled for completion in March 2016. Completion has been delayed due to delays in the construction of the new taxi hold lot.	In Progress	March 2016
14-24	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**20**	**Impact: 10 Probability: 10**	Business and Financial Management should inform Payless that they are required to remit all monies collected in the form of CFCs. Additionally, Payless should immediately recalculate the CFCs collected from January 1, 2014, thru present, and remit any monies previously excluded, in total, to the Authority.	Staff is reviewing attestation provided by CPA engaged by tenant to determine any adjustments to the proposed tenant billings by the internal audit report.	In Progress	2nd Quarter FY15
14-25	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**20**	**Impact: 10 Probability: 10**	Business and Financial Management should request Accounting generate an invoice to Payless in the amount of $297,814.	Staff is reviewing attestation provided by CPA engaged by tenant to determine any adjustments to the proposed tenant billings by the internal audit report.	In Progress	2nd Quarter FY15
14-20	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**19**	**Impact: 9 Probability: 10**	Due to the lack of cooperation, the inaccuracies of the financial data provided, and the inability to provide all requested supporting paperwork, we recommend that Management take appropriate measures to ensure that Payless immediately complies with all terms of the License Agreement.	Payless has engaged a CPA firm to review the internal audit report and implement all of the recommendations.	In Progress	Unknown

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-21	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**18**	**Impact: 9** **Probability: 9**	Business and Financial Management should inform Payless that they must immediately implement a financial reporting system to accurately segregate revenues collected and to properly calculate gross revenue and concession fees due.	Payless has engaged a CPA firm to review the internal audit report and implement all of the recommendations.	In Progress	Unknown
14-22	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**18**	**Impact: 9** **Probability: 9**	Business and Financial Management should inform Payless that they must immediately implement a system to ensure only rental agreements that fully meet the Non-Airport criteria of the Agreement are excluded from gross revenue.	Payless has engaged a CPA firm to review the internal audit report and implement all of the recommendations.	In Progress	Unknown
14-35	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	**17**	**Impact: 9** **Probability: 8**	The Ground Transportation Department should provide Ace written approvals for all special project requests and require the approvals to be attached as supporting documentation with reimbursement requests.	GT requires written approvals for all special project requests and maintains documentation.	Completed	N/A
12-38	GROUND TRANSPORTATION DEPARTMENT	Audit Report #12001, dated April 25, 2012, Public Parking	**15**	**Impact: 8** **Probability: 7**	Policies and procedures should be developed and instituted by Ground Transportation, the Planning and Operations division, and the Finance Division regarding all areas of public parking management.	GT reviewed all rules and features to determine appropriateness. If any deviations from those rules are required they require written approval from the Director of Ground Transportation.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-29	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**15**	**Impact: 8 Probability: 7**	We recommend that TCC reconcile billings for benefits monthly to the current benefits in effect for all employees prior to submission for payment. The incorrect billing amounts should be deducted from the billing prior to payment. This will ensure the Authority is paying only for benefits received by Authority employees.	TCC does reconcile billings for benefits on a monthly basis, however, for all itemized billing (list bills) it is not possible to ensure that adjustments will be in advance of bill payment, due to coordination of timing for terminations, new hire enrollments, and other qualifying event changes to enrollments. We have moved the majority of our benefits billing to a self-bill process that allows us to generate an invoice based on E-1 payroll deductions at the end of the service month. Payment is made based on this self-generated invoice. We are currently unable to move Anthem to a self bill as they require a larger membership for this type of billing.	Completed	N/A
14-30	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**15**	**Impact: 8 Probability: 7**	Since it is known that there have been issues with the billings since at least July 2013, we recommend that TCC perform a complete reconciliation of all benefit billings for fiscal year 2014 prior to the end of the fiscal year to ensure the Authority has not overpaid for any employee benefits.	A full reconciliation of all list bills for 2014 was completed and the appropriate adjustments were made.	Completed	N/A
14-34	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	**15**	**Impact: 8 Probability: 7**	The Ground Transportation Department should develop and document procedures to verify and review, on a regular basis, the requirements set forth in both the Parking Management Services and Shuttle Services Agreements to ensure Ace is compliant with Agreement terms.	The GT has begun verifying and reviewing the requirements and compliance on an on-going, as needed, basis.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-36	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	**15**	**Impact: 8 Probability: 7**	The Ground Transportation Department should develop a process to verify shuttle hours charged through a comparison of personnel time sheets and shuttle operational hours to in-service reports. In addition, Ground Transportation should improve procedures to conduct a more thorough analysis of the hours charged to identify potential deviations and shuttle usage by parking lot.	GT developed a process to verify the shuttle hours and identify potential deviations.	In Progress - The OCA needs to review the process in place prior to closing out this recommendation.	2nd Quarter FY15
14-32	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**14**	**Impact: 7 Probability: 7**	We recommend that all TCC employees be required to sign a confidentiality agreement.	All TCC employees have a signed Confidentiality Agreement on file.	Completed	N/A
14-11	FACILITIES DEVELOPMENT DEPARTMENT	Audit Report #14010, dated November 22, 2013, Abadjis Systems, Ltd.	**13**	**Impact: 7 Probability: 6**	We recommend that Management consider amending Authority Policy to limit the amount of continuous time an individual contractor may work at the Authority. The limit could be by time, contract, and/or project. The limit could provide an opportunity to evaluate whether the contractor's services are required on a temporary or permanent basis.	Based on information provide by FDD, the OCA is re-evaluating this recommendation.	In Progress	2nd Quarter FY15
14-23	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	**13**	**Impact: 7 Probability: 6**	Business and Financial Management should inform Payless that they must immediately update their rental agreement template to include the proper language regarding “non-Airport” customers.	Payless has engaged a CPA firm to review the internal audit report and implement all of the recommendations.	In Progress	Unknown
15-01	FACILITIES MAINTENANCE DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	**13**	**Impact: 7 Probability: 6**	We recommend that Facilities Maintenance Department (FMD) strengthen internal controls within their current Timekeeping system. As the Computer Maintenance Management System (CMMS) is implemented, FMD should seek to include increased automation where possible as well as capture actual time worked on specific work orders, which can then be used to build a knowledge base for assigning expected completion times to work orders and more accurate work scheduling.	FMD is on-track for implementing the Computer Maintenance Management System (CMMS) this coming year. They have identified a contractor to assist with the implementation.	In Progress	FY15

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-27	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**12**	**Impact: 7** **Probability: 5**	Employee records and personnel files should be protected in an environmentally safe storage area and a backup of the files should be created and kept off site.	With the implementation of the Electronic Content Management System, we are/ have begun working with Corporate Services to better assess and determine which files are vital records that may not be backed up and stored off site in one of our existing systems or another format. In addition, employee paper files have been moved from the front of the office near the window to an interior office away from the sun or potential exposure to any elements. Many employee records are already maintained in electronic format in various locations including the network drives, JD Edwards EnterpriseOne, Wingspan Performance, and Green Light Learning Management Systems. These electronic records are automatically backed up and stored off site. Inactive paper files are stored off site in an environmentally safe storage facility.	Completed	N/A
15-04	AIRSIDE OPERATIONS PUBLIC SAFETY & SECURITY DEPARTMENT	Audit Report #14032, dated July 22, 2014, Emergency Medical Technician-Paramedic Services	**12**	**Impact: 6** **Probability: 6**	The Airside Operations/Public Safety & Security Department should request the City to add as an Authority credit $6,984 ($2,328/3) to the City's EMT-P service invoices for the next three (3) months.	The Authority received a credit for the full amount on the July 2014 invoice.	Completed	
14-26	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**11**	**Impact: 6** **Probability: 5**	The required posters for Equal Employment Opportunity is the Law and Your Rights Under the Family and Medical Leave Act should be posted in an area where all applicants for employment can readily see them, such as the Talent, Culture and Capability lobby.	An Equal Employment Opportunity (EEO) Poster was placed in the West Wing reception lobby where all in-person candidates can readily view them while onsite.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-37	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	**11**	**Impact: 6 Probability: 5**	The Ground Transportation Department should annually calculate the cost of subsidizing parking costs to other government agencies and provide the results to Authority Management. Authority Management should review the data and determine if it wishes to continue reducing Authority revenue by the amounts identified.	GT plans on calculating the annual costs in December 2014 and will do so annually.	Completed	N/A
14-38	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	**11**	**Impact: 6 Probability: 5**	The Ground Transportation Department should review all rules and features within the Parking Card Program and determine if the rules are appropriate and required for card holders at SDIA. The "anti-passback" feature should be activated immediately for all card holders without exception to prevent possible fraudulent activity.	GT reviewed all rules and features to determine appropriateness. If any deviations from those rules are required they require written approval from the Director of Ground Transportation.	Completed	N/A
15-03	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	**11**	**Impact: 6 Probability: 5**	We recommend that Authority Management work to develop a consistent process for employees to obtain and document prior approval of overtime before such hours are incurred or paid.	The TCC Department recently became aware of this recommendation. The TCC Department will review department overtime authorization practices over the coming year to ascertain where additional approval procedures, if any, may be needed.	In Progress - The OCA will continue to check with TCC on the status of this recommendation.	End of FY15

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-31	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**10**	**Impact: 5** **Probability: 5**	We suggest that the Standard: Corrective Action, Section #J-4, be revised to include the steps the performance management process plays in corrective actions for employees. The procedures for initial conversations regarding performance improvement and disciplinary action should be formalized for managers, to ensure that actions taken are consistent for similar problems across the Authority. As the current performance management system does not provide adding performance improvement guidance or disciplinary action to the quarterly reviews, we suggest TCC develop a form for managers to complete with the initial corrective action steps that the employee would sign acknowledgement. A copy of this initial action would be sent to TCC and filed in the employee's personnel file. Any additional updates and/or warnings would also be documented on the form and initialed by the employee. If the matter is settled to the manager's satisfaction within the specified time period, the final settlement should be documented with copies to the employee and TCC for the employee's personnel file, or in the performance management system if the settlement coincides with the annual performance review. If the improvement is not satisfactory, the manager should develop a formal corrective action plan with a TCC representative who works with the manager and employee throughout the process.	Please refer to the *Board Communication* memo from Thella F. Bowens to the board, dated June 19, 2014, discussing our rationale for rejecting this finding.	Not Accepted	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2014	OCA's Assessment	Estimated Completion Date
14-33	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14003, dated June 10, 2014, Human Resources Services Performance	**10**	**Impact: 5** **Probability: 5**	The hiring process and procedures should be standardized and summarized in a checklist provided to all hiring managers so they can complete the required steps as efficiently as possible. The checklist should include a requirement that the hiring manager provide additional websites and publications for posting positions with specific technical needs to attract properly qualified candidates. Additionally, as hiring managers are ultimately responsible for the hiring choices, they should be allowed to complete any part of the resume review to expedite the process. If they complete the qualifications review, TCC staff would do a follow-up review for accuracy.	A standard checklist for recruitments has been in place for all recruitments conducted by the Business Partners. It includes a provision for obtaining recommendations from the hiring manager regarding websites and other sources for posting positions with specific technical needs. Hiring managers are asked to confirm their minimum qualifications and allowed the opportunity to review resumes as part of the recruitment process. In addition, at the outset of the process an email is sent to the hiring manager outlining the items needed and what will be discussed during the pre-recruitment meeting/discussion along with a copy of the hiring guide. During the pre-recruitment meeting, all of the steps of the recruitment process are reviewed with the hiring manager. We have recently developed an enhanced checklist that clearly outlines general responsibilities and timelines. A manager can request a variation of the standard process and this would be documented with an acknowledgement by the Hiring Manager.	Completed	N/A
15-02	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	**10**	**Impact: 5** **Probability: 5**	We recommend that all Authority departments with hourly staff develop written timekeeping procedures that have controls for the recording and reviewing of time to ensure accuracy. Those procedures should be reviewed with all current hourly staff and used as training resources for any new hourly staff.	The TCC Department recently became aware of this recommendation. Current timekeeping is managed in EnterpriseOne, which requires management review and approval of all recorded time for non-exempt employees. The TCC Department will review time keeping practices in each department over the coming year to ascertain where additional controls or procedures, if any, may be needed.	In Progress - The OCA will continue to check with TCC on the status of this recommendation.	End of FY15

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

ITEM 4

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Quarterly Audit Activities Report

Fiscal Year 2015 First Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor

July 1, 2014, through September 30, 2014

Audit Committee Meeting

November 17, 2014

Presentation Overview

1st Quarter Report

- Audit Activities
- Recommendation Follow-up
- Performance Measures
- Summary of Ethics Inquiries

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Audit Activities

- Completed 9 Audits
  - Expenditure Contract: 4
  - Revenue Contract: 3
  - Internal Process: 2
- Eleven (11) audits were in progress as of September 30, 2014
- Audit Results
  - Issued 4 Recommendations during the 1st Quarter

Audits in Progress as of September 30, 2014

Audit	Type of Audit	Status as of Nov. 17, 2014
Airport Noise Management	Internal	Fieldwork
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings	Expense	Fieldwork
Avis Rent A Car Systems, LLC	Revenue	Fieldwork
Concessionaire Management and Performance	Internal	Fieldwork
Demattei Wong Architecture, Inc.	Expense	Draft Report
EZ Rent A Car	Revenue	Draft Report
Fox Rent A Car	Revenue	Report Issued
Merriwether Williams Insurance Services	Internal	Draft Report
Mission Yogurt, Inc.	Revenue	Draft Report
Pacific Gateway Concessions and Procurement Concepts Inc.	Revenue	Fieldwork
The Hertz Corporation	Revenue	Draft Report

Recommendation Follow-Up

Status as of September 30th :

Tracked	Completed	In Progress	Open	Not Accepted
25	12	12	0	1

Fiscal Year 2015 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	20%
Percentage of the audit plan completed during 1st Quarter	25%	20%
Additional revenue/cost savings identified through audits	n/a	$6,984
Percentage of staff time spent on audit activities	80%	92%
Percentage of audits completed within budgeted time	80%	89%
Implementation of Recommendations	90%	48%

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Summary of Ethics Inquiries

July 1, 2014, through September 30, 2014

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
Construction/Car Rental	17	12	0	n/a	5
Public Art	11	9	0	n/a	2
Advertising	9	6	0	n/a	3
Potential Misuse of Resources					
Employee Barbeque	8	6	0	n/a	2
Prohibited Use of Position	1	0	0	n/a	1
Non Ethics Related Concerns					
ATO Practices and Behavior	12	3	0	n/a	9
Aircraft Noise	7	6	0	n/a	1
TSA Practices and Behavior	5	5	0	n/a	0
Workplace Concerns					
Workplace Practices/Behavior	16	7	0	n/a	9
Performance Reviews	13	5	0	n/a	8
Volunteer Opportunity Emails	8	8	0	n/a	0
Workplace Equitability	8	7	0	n/a	1
United Way	1	1	0	n/a	0

QUESTIONS?

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ITEM 5

Annual Internal Quality Assessment for the Office of the Chief Auditor Fiscal Year 2014

Audit Committee Meeting

November 17, 2014

Background of Internal Assessment

One of the recommendations from the Quality Assessment Review report issued April 4, 2014, was that the OCA conduct an internal assessment annually and report the results to senior management and the Board.

Observation 3: The results of the internal quality assurance and improvement program were not reported annually to senior management and the board.

Standard 1300 requires, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." Standard 1311 further specifies, "Internal assessments must include: …Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices." Practice Advisory 1311-1 recommends, "At least annually, the chief audit executive reports the results of internal assessments, necessary action plans, and the successful implementation to senior management and the board."

Suggestion 3: The results of the internal quality assurance and improvement program should be reported to senior management and the board annually.

Internal Assessment Components

- Reviewed a sample of work papers to ensure compliance with the Standards.
- Reviewed compliance with proficiency and due professional care standards.
- Reviewed compliance with audit report content and format standards.
- Evaluated results of post audit/management surveys.
- Validated conformance with Institute of Internal Auditors Code of Ethics.
- Confirmed the OCA's conformance with the definition of internal auditing.

Internal assessment found the OCA to be in conformance with IIA Codes , Definitions, and Standards.

QUESTIONS?

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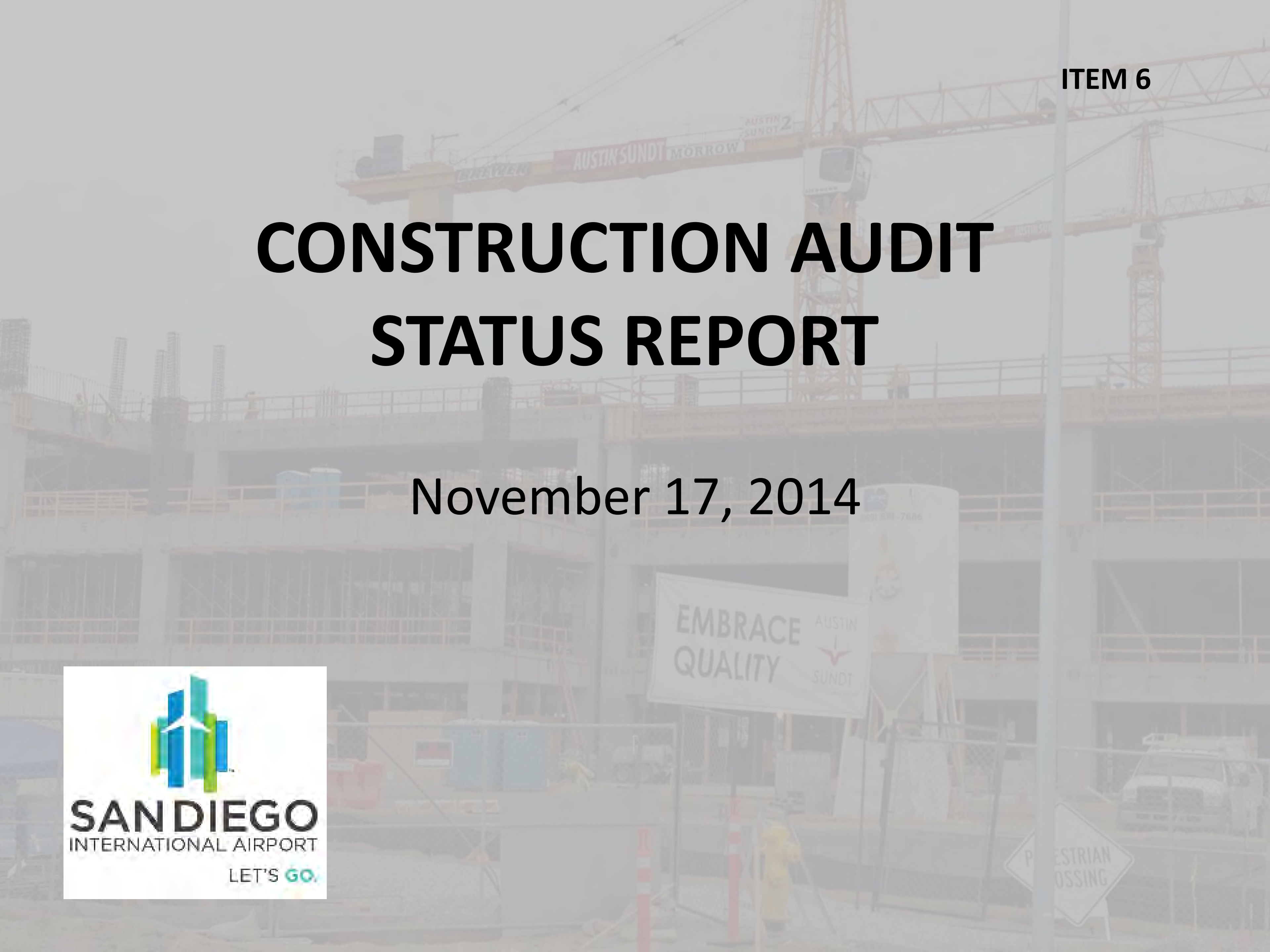
ITEM 6

CONSTRUCTION AUDIT STATUS REPORT

November 17, 2014



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On-Going Green Build Audit Activities

- Baggage Handling Cost and Funding Eligibility Review
- Attic Stock Review
- RWBC recommendation follow-up
- Federal Grants and PFC reimbursement expense review

On-Going RCC Audit Activities

- Audit of Demattei Wong Architecture, Inc. Agreement
  - Included in the FY 15 Audit Plan
- RCC Bus Parking Facility Review
- CFC Funding Eligibility Review

On-Going General Construction Audit Activities

- Terminal Flight Information Display System Upgrade Review
- Art Program Funding Review

Questions