



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

Item No.
2

Meeting Date: **NOVEMBER 19, 2012**

Subject:

External Auditor's Fiscal Year Ended June 30, 2012, Reports: A) Audited Financial Statements, B) Compliance (Single Audit) Report, C) Passenger Facility Charge Compliance Report, D) Customer Facility Charge Compliance Report, and E) Report to the Audit Committee

Recommendation:

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

Background/Justification:

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

The external auditor, McGladrey & Pullen, LLP, performed the annual audit of the Authority's financial statements for the fiscal year ended June 30, 2012 (See Attachments A through E) and found the Authority in a sound financial position.

Fiscal Impact:

None

Authority Strategies:

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

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

Environmental Review:

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

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

Financial Report
June 30, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012 on our consideration of the Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

U.S. GAAP requires that the Management Discussion and Analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 U.S. GAAS, 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 audits 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.

McGladrey LLP

San Diego, CA
October 16, 2012

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2012

INTRODUCTION

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

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

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

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

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

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

Legislative Background

AB 93 was signed into California State law in October 2001. 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 (the Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

Legislative Background (Continued)

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

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

Transfer of Assets and Liabilities/Joint Audit

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

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

Airport Activities Highlights

The Airport Authority experienced growth in all areas in fiscal year 2012 after two years of decline in fiscal years 2011 and 2010. This was common with almost all commercial airports across the country due to the downturn in the economy.

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

	FY 2010	FY 2011	FY 2012
Enplaned Passengers	8,453,886	8,441,120	8,582,069
% increase (decrease)	(1.0) %	(0.2) %	1.7 %
Total Passengers	16,917,595	16,868,732	17,149,969
% increase (decrease)	(0.9) %	(0.3) %	1.7 %
Aircraft Operations	194,508	186,181	186,196
% increase (decrease)	(5.9) %	(4.3) %	0.0 %
Freight and Mail (in tons)	125,513	129,961	132,493
% increase (decrease)	3.9 %	3.5 %	1.9 %
Landed Weight (in thousands)	10,893	10,606	10,820
% increase (decrease)	(3.4) %	(2.6) %	2.0 %

Airport Activities Highlights (Continued)

SDIA is a destination airport and is not a hub for any airlines. Further, there is a balanced mixture of SDIA travelers, comprising approximately 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements in comparison to most airports. In fiscal year 2010, enplanements declined slightly by 1 percent and by only 0.2 percent in 2011, and increased in fiscal year 2012 by 1.7 percent.

Overall, it appears that the declines in aircraft operations are reversing at SDIA. Freight and mail increased by 1.9 percent and landed weight increased by 2.0 percent in fiscal year 2012. Most of these gradual increases are attributed to a slow economic improvement.

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

The metric Change in Net Assets is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net assets consistently increased from a healthy 9.2 percent in 2010 to 8.3 percent in 2011 and to another healthy increase of 9.6 percent for the year ended June 30, 2012. Following is a summary of the statements of revenues, expenses and change in net assets (in thousands):

	FY2010	FY2011	FY2012
Operating revenues	\$ 133,695	\$ 144,007	\$ 153,550
Operating expenses	(159,712)	(166,979)	(163,701)
Nonoperating revenues, net	45,937	43,419	47,608
Capital grant contributions	27,350	26,355	20,834
Increase in net assets	47,270	46,802	58,290
Net assets, beginning of year	513,182	560,452	607,254
Net assets, end of year	\$ 560,452	\$ 607,254	\$ 665,544

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 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,578	\$ 18,419	\$ (159)	(0.9) %
Aircraft parking fees	2,921	3,135	214	7.2 %
Building rentals	26,980	30,633	3,653	13.5 %
Security surcharge	14,887	18,649	3,762	25.3 %
Other aviation revenue	1,597	1,595	(2)	(0.1) %
Total airline revenue	64,963	72,431	7,468	11.5 %
Non-airline terminal rent	869	907	38	4.4 %
Concession revenue	37,103	40,427	3,324	9.0 %
Parking and ground transportation revenue	31,645	31,470	(175)	(0.6) %
Ground rentals	7,787	7,136	(651)	(8.5) %
Other operating revenue	1,640	1,179	(461)	(28.1) %
Total operating revenue	\$ 144,007	\$ 153,550	\$ 9,543	6.6 %

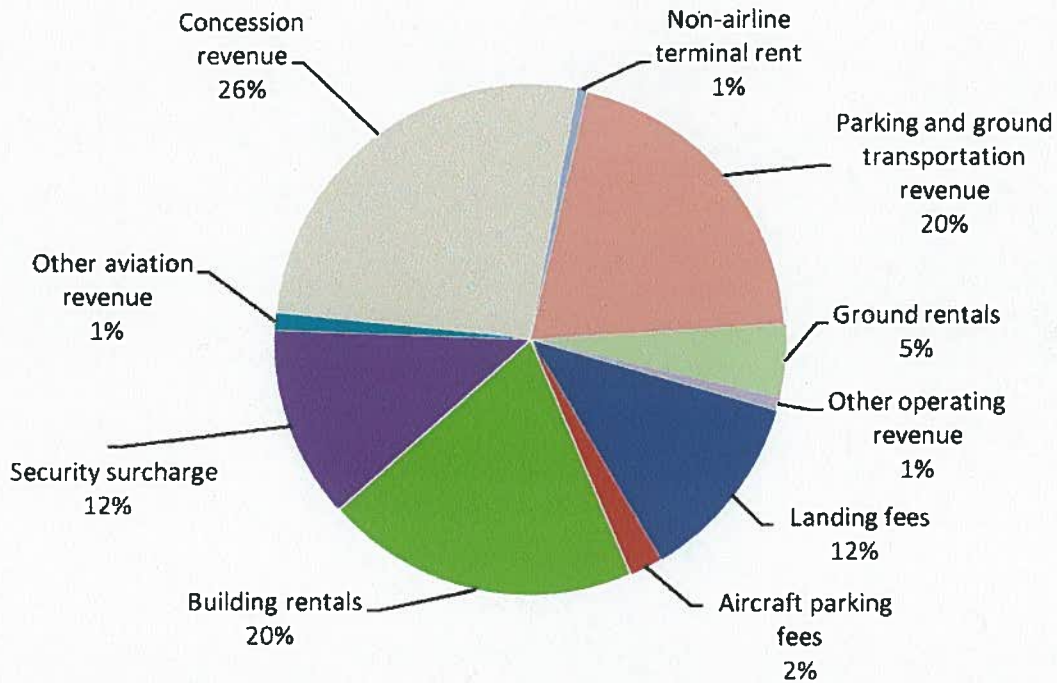
Operating Revenues (in thousands) (Continued)

	FY 2010	FY 2011	From 2010 to 2011	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,672	\$ 18,578	\$ (94)	(0.5) %
Aircraft parking fees	3,406	2,921	(485)	(14.2) %
Building rentals	22,971	26,980	4,009	17.5 %
Security surcharge	11,900	14,887	2,987	25.1 %
Other aviation revenue	1,585	1,597	12	0.8 %
Total airline revenue	58,534	64,963	6,429	11.0 %
Non-airline terminal rent	864	869	5	0.6 %
Concession revenue	36,249	37,103	854	2.4 %
Parking and ground transportation revenue	30,296	31,645	1,349	4.5 %
Ground rentals	5,923	7,787	1,864	31.5 %
Other operating revenue	1,829	1,640	(189)	(10.3) %
Total operating revenue	\$ 133,695	\$ 144,007	\$ 10,312	7.7 %

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

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

San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2012
Operating Revenues



Operating Expenses (in thousands)

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

Operating Expenses (in thousands) (Continued)

	FY 2010	FY 2011	From 2010 to 2011 Increase (Decrease)	% Change
Salaries and benefits	\$ 35,386	\$ 38,267	\$ 2,881	8.1 %
Contractual services	27,999	26,113	(1,886)	(6.7) %
Safety and security	20,131	21,344	1,213	6.0 %
Space rental	10,906	10,907	1	0.0 %
Utilities	6,871	6,413	(458)	(6.7) %
Maintenance	9,231	8,174	(1,057)	(11.5) %
Equipment and systems	891	570	(321)	(36.0) %
Materials and supplies	413	344	(69)	(16.7) %
Insurance	1,166	1,066	(100)	(8.6) %
Employee development and support	990	1,041	51	5.1 %
Business development	2,033	2,275	242	11.9 %
Equipment rentals and repairs	1,271	1,327	56	4.4 %
Total operating expenses before depreciation and amortization	117,288	117,841	553	0.5 %
Depreciation and amortization	42,424	49,138	6,714	15.8 %
Total operating expenses	\$ 159,712	\$ 166,979	\$ 7,267	4.5 %

Fiscal year 2012 compared to 2011: Fiscal year 2012 operating expenses before depreciation and amortization expense increased by \$1.3 million, or 1.1 percent, from \$117.8 million to \$119.2 million when compared to 2011. Contributing to this increase were the following: increased contractual services, \$793 thousand, primarily due to higher parking management expenses; safety and security, \$1.3 million, due to increased Harbor Police salaries and benefits expense and a proposed overhead allocation plan; space rental, \$508 thousand, due to the 2011 completed amortized deferred rent benefit; utilities, \$261 thousand, higher usage due to expansion and rate increases; and maintenance, \$323 thousand, due to increasing support of aging systems and equipment such as elevators, HVAC and escalators.

Offsetting this increase were the following decreases: salaries and benefits, \$1 million, primarily due to the pension plan rate reduction from 16.6 percent in fiscal year 2011 to 14.54 percent in 2012; equipment and systems, \$167 thousand, due to five-year replacement schedule; insurance, \$302 thousand, due to lower liability policy; employee development and support, \$125 thousand, due to reduced travel and seminars; and business development, \$182 thousand, due to lower advertising and marketing expenses compared to 2011, which included expenses associated with British Airways flight.

Total operating expenses decreased \$2.2 million from \$166.9 million to \$164.8 million, or 1.3 percent, primarily due to a reduction in depreciation and amortization expenses of \$3.5 million. In fiscal year 2012, the reduced depreciation expense was primarily due to fully depreciated assets of approximately \$54 million, which included aircraft fuel storage, fire life safety system and runway joint sealants.

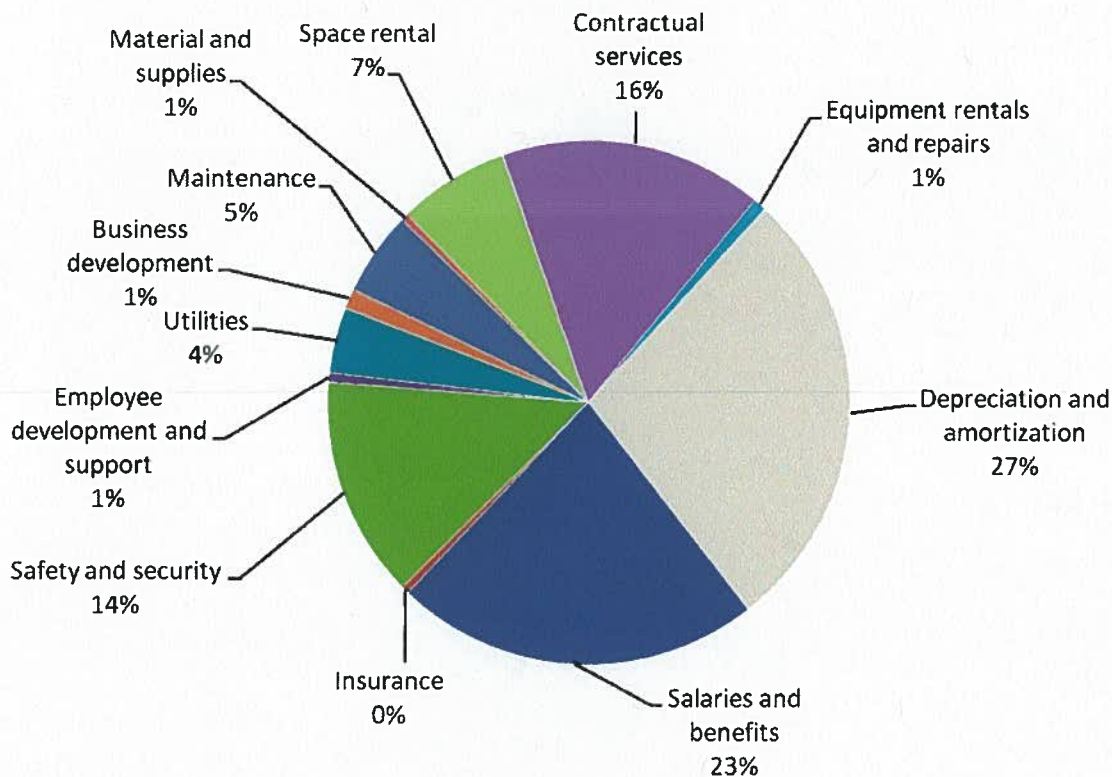
Fiscal year 2011 compared to 2010: Fiscal year 2011 operating expenses before depreciation and amortization expense are only slightly higher, growing \$553 thousand, 0.5 percent, from \$117.3 million to \$117.8 million when compared to 2010. Contributing to this increase were the following: increased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

Operating Expenses (in thousands) (Continued)

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

Total operating expenses increased \$7.3 million from \$159.7 million to \$167.0 million, or 4.5 percent, primarily due to depreciation and amortization expense of \$6.7 million. In fiscal year 2011, \$51.3 million of capital projects were completed and placed in service. They consisted of \$32 million in Taxiway C improvements, \$5 million in airfield signs, \$4 million in parking improvements, \$2 million in roadway access improvements, \$1 million in waterline fire suppression improvements and many smaller projects.

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2012
Operating Expenses**



Nonoperating Revenues and Expenses (in thousands)

	FY 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 33,998	\$ 34,639	\$ 641	1.9 %
Customer facility charges	10,986	11,487	500	4.7 %
Quieter Home Program, net	(3,359)	(3,531)	(173)	(5.1) %
Joint Studies Program	(129)	(73)	56	43.9 %
Interest income	10,100	10,487	387	3.7 %
Interest expense	(8,084)	(2,370)	5,715	51.5 %
Other nonoperating income (expenses)	(93)	(3,032)	(2,939)	(3,160.0) %
Nonoperating revenues, net	\$ 43,419	\$ 47,608	\$ 4,188	5.5 %

	FY 2010	FY 2011	From 2010 to 2011	
			Increase (Decrease)	% Change
Passenger facility charges	\$ 34,049	\$ 33,998	\$ (51)	(0.1) %
Customer facility charges	10,783	10,986	204	1.9 %
Quieter Home Program, net	(1,629)	(3,359)	(1,729)	(106.1) %
Joint Studies Program	(245)	(129)	117	47.7 %
Interest income	6,667	10,100	3,434	51.5 %
Interest expense	(2,684)	(8,084)	(5,401)	(201.3) %
Other nonoperating income (expenses)	(1,004)	(93)	911	96.9 %
Nonoperating revenues, net	\$ 45,937	\$ 43,419	\$ (2,515)	(5.5) %

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

Quieter Home Program: This program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2012, the Airport Authority has spent \$133.0 million and received reimbursement for \$107.1 million.

Nonoperating Revenues and Expenses (in thousands) (Continued)

Interest income: Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District. Also included in interest income are 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. The interest subsidy for the fiscal years ended June 30, 2012 and 2011 was \$4.9 million and \$3.7 million, respectively.

Interest expense: Interest expense includes interest paid and accrued on the 2005 and 2010 Series Bonds and Commercial Paper Series A, B and C. This is netted with the capitalization of bond interest to the construction in progress assets that the debt finances. The capitalized interest in the fiscal years ended June 30, 2012 and 2011 was \$31.6 million and \$7.6 million, respectively.

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

Capital Grant Contributions

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

Fiscal year 2012 compared to 2011: Nonoperating revenue (net) increased by \$4.2 million or 5.5 percent. This is primarily due to the net effect of debt interest expense and capitalization of interest expense, \$5.7 million. Additionally, the increased PFC, \$641 thousand, increased CFCs, \$500 thousand, due from increased enplanements. Interest income also has contributed to the increase by \$387 thousand due to a full year of Build America Bond interest subsidy in fiscal year 2012.

Offsetting the increase is primarily the other nonoperating income (expenses) net by \$2.9 million. In 2012 \$3.6 million in net book value of assets was written off due to the construction of the Green Build. These assets were parking lots, sidewalks and partial roadways that will be replaced upon completion in fiscal year 2013. The Quieter Home Program also contributed to the decrease by \$206 thousand, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

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

Assets, Liabilities and Net Assets

The balance sheets present the financial position of the Airport Authority at June 30, 2010, 2011 and 2012. The statements include all assets, liabilities and net assets of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net assets at June 30, 2010, 2011 and 2012 is as follows:

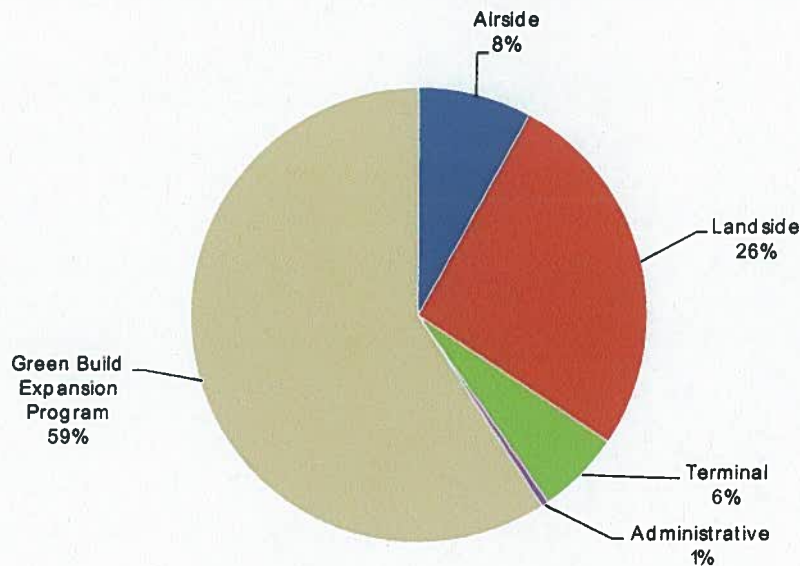
<i>(in thousands)</i>	FY2010	FY2011	FY2012
Assets			
Current assets	\$ 128,219	\$ 110,397	\$ 124,202
Capital assets, net	483,717	625,421	896,477
Noncurrent assets	212,207	610,823	411,392
Total assets	\$ 824,143	\$ 1,346,641	\$ 1,432,071
Liabilities			
Current liabilities	\$ 56,219	\$ 82,149	\$ 116,157
Long-term liabilities	207,472	657,238	650,369
Total liabilities	263,691	739,387	766,527
Net Assets			
Invested in capital assets, net of related debt	275,556	357,275	413,140
Bond reserves, unapplied PFCs and other	139,672	147,513	177,389
Unrestricted	145,224	102,466	75,015
Total net assets	560,452	607,254	665,544
Total liabilities and net assets	\$ 824,143	\$ 1,346,641	\$ 1,432,071

As of June 30, 2012, the Airport Authority's assets exceeded liabilities by \$665 million, a \$58 million increase over June 30, 2011 and, comparing 2011 to 2010, another \$47 million increase over June 30, 2010. The largest portion of the Airport Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net assets of \$75 million as of June 30, 2012, \$102 million as of 2011 and \$145 million as of 2010 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2012, 2011 and 2010, management has designated unrestricted funds in the amount of \$16 million, \$16 million and \$21 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 funds used for capital improvements or to expand SDIA's facilities are derived from several sources, including the FAA, Transportation Security Administration and AIP grants, PFCs, CFCs, debt and SDIA funds. In fiscal year 2012, SDIA's \$1.5 billion capital improvement program (CIP) was funded under two debt options. A pay-as-you-go approach utilizing commercial paper for short-term and long-term funding needs included 2010 Airport Revenue Bonds to be used for the \$864 million Terminal Development Program/ The Green Build. An additional airport revenue bond issuance is planned in fiscal year 2013 to complete the funding of The Green Build project. The Green Build is projected to be completed by 2013. The current CIP, which includes projects through 2017, consists of \$115.9 million for airside projects, \$385.8 million for landside projects, \$88.3 million for terminal projects, and \$6.2 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

Capital Improvement Program Projects by Type



Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements on pages 37-38 of this report.

Capital Financing and Debt Management

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

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

As of June 30, 2012, \$37.9 million in bonds were outstanding. The ratings of the Series 2005 Bonds as of June 30, 2012 and 2011 are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. As senior lien bonds, the Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce Pledged Revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2005 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books.

Capital Financing and Debt Management (Continued)

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

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

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are \$14.7 million for fiscal year 2013 and \$19 million annually for fiscal years 2014 through 2016. As of June 30, 2012, the principal balance on the subordinate Series 2010 Bonds was \$571.8 million.

As of June 30, 2012, \$20.7 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable), is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to \$250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014 or five days prior to the date. At that time, the total outstanding principal becomes due. The CP Notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues of at least 1.10 times the debt service on subordinate obligations, including the CP Notes, for that year.

Each series of notes 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 CP Notes.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements on pages 39-43 of this report.

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

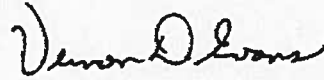
FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$14.0 million in grant awards for the federal fiscal year ended September 30, 2012 and \$19.4 million in 2011. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

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



Thella F. Bowens
Chief Executive Officer/President



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

San Diego County Regional Airport Authority

Balance Sheets June 30, 2012 and 2011

Assets	2012	2011
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 68,823,530	\$ 45,858,618
Investments (Note 2)	34,284,994	43,680,088
Tenant lease receivables, net of allowance of 2012 \$49,154 and 2011 \$14,918	6,550,948	5,593,539
Grants receivable	3,867,809	3,984,567
Notes receivable, current portion (Note 3)	1,580,698	1,696,413
Other current assets	4,559,934	5,272,763
Total unrestricted current assets	119,667,913	106,085,988
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	4,533,758	4,311,160
Total current assets	124,201,669	110,397,148
Noncurrent Assets		
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	24,927,049	24,901,120
Buildings and structures	463,735,113	466,463,764
Machinery and equipment	47,676,803	46,246,697
Runways, roads and parking lots	269,535,431	273,449,104
Construction in progress	632,390,868	322,289,133
	1,438,265,264	1,133,349,818
Less accumulated depreciation	(541,788,396)	(507,928,798)
Capital assets, net	896,476,868	625,421,020
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments, not with Trustee	155,065,655	124,954,885
Restricted investments with Trustee	171,596,700	392,604,561
Passenger facility charges receivable	4,412,287	5,121,210
Customer facility charges receivable	1,089,227	1,029,040
Other restricted assets	6,058,740	6,239,213
Total restricted assets	338,222,609	529,948,909
Investments, noncurrent (Note 2)	10,410,555	16,827,172
Notes receivable, long-term portion (Note 3)	41,333,664	42,914,061
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	9,062,504	8,148,558
Deferred costs, Bonds, net	4,655,862	4,998,888
Net pension asset and net OPEB asset (Notes 6 and 8)	7,204,455	7,760,767
Workers' Comp Security Deposits	503,145	225,000
	73,170,185	80,874,446
Total noncurrent assets	1,307,869,662	1,236,244,375
Total assets	\$ 1,432,071,331	\$ 1,346,641,523

See Notes to Financial Statements.

Liabilities and Net Assets	2012	2011
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 31,470,982	\$ 29,007,175
Accrued liabilities (Note 8)	59,280,383	28,695,759
Compensated absences, current portion (Note 5)	2,479,108	2,188,755
Deposits and other current liabilities	868,030	505,513
Total payable from unrestricted assets	94,098,503	60,397,202
Payable from restricted assets:		
Current portion of Series 2010 and 2005 Bonds and commercial paper (Note 5)	5,215,000	4,760,000
Accrued interest on bonds and commercial paper (Note 5)	16,843,983	16,992,426
Total payable from restricted assets	22,058,983	21,752,426
Total current liabilities	116,157,486	82,149,628
Noncurrent Liabilities		
Deferred rent liability (Note 11)	-	-
Compensated absences, net of current portion (Note 5)	453,877	484,683
Tenant security deposits and other noncurrent liabilities	948,558	1,170,513
Commercial paper notes payable (Note 5)	19,924,000	20,729,000
Series 2010 and 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	629,042,982	634,853,456
Total noncurrent liabilities	650,369,417	657,237,652
Total liabilities	766,526,903	739,387,280
Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
Net Assets		
Invested in capital assets, net of related debt (Note 1)	413,140,481	357,275,035
Restricted net assets:		
Bond reserves	53,364,006	50,493,766
Debt service, bond and commercial paper	5,231,350	4,835,970
Small business bond guarantee	2,000,000	4,000,000
Passenger facility charges	78,782,164	59,940,505
Customer facility charges	31,952,386	22,003,359
OCIP loss reserve	6,058,740	6,239,213
Total restricted net assets (Note 1)	177,388,646	147,512,813
Unrestricted net assets	75,015,301	102,466,395
Total net assets	665,544,428	607,254,243
Total liabilities and net assets	\$ 1,432,071,331	\$ 1,346,641,523

San Diego County Regional Airport Authority

**Statements of Revenues, Expenses and Change in Net Assets
Years Ended June 30, 2012 and 2011**

	2012	2011
Operating revenues:		
Airline revenue:		
Landing fees	\$ 18,419,244	\$ 18,578,574
Aircraft parking fees	3,134,539	2,920,891
Building rentals (Note 10)	30,632,762	26,980,351
Security surcharge	18,649,147	14,886,586
Other aviation revenue	1,594,529	1,596,665
Concession revenue	40,427,308	37,103,485
Parking and ground transportation revenue	31,469,960	31,644,673
Ground rentals (Note 10)	8,043,563	8,656,005
Other operating revenue	1,178,908	1,639,621
Total operating revenues	153,549,960	144,006,851
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	37,236,513	38,266,477
Contractual services (Note 12)	26,905,524	26,112,942
Safety and security	22,625,169	21,343,967
Space rental (Note 11)	11,414,838	10,906,405
Utilities	6,674,424	6,413,206
Maintenance	8,496,587	8,174,021
Equipment and systems	403,268	570,394
Materials and supplies	304,433	344,471
Insurance	764,239	1,066,326
Employee development and support	916,194	1,040,787
Business development	2,093,164	2,275,311
Equipment rentals and repairs	1,334,858	1,327,158
Total operating expenses before depreciation and amortization	119,169,211	117,841,465
Income from operations before depreciation and amortization	34,380,749	26,165,386
Depreciation and amortization	44,532,069	49,137,886
Operating (loss)	(10,151,320)	(22,972,500)

(Continued)

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Change in Net Assets (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 34,639,244	\$ 33,997,963
Customer facility charges	11,486,962	10,986,467
Quieter Home Program grant revenue	11,013,260	14,411,926
Quieter Home Program expenses	(14,544,829)	(17,770,495)
Joint Studies Program	(72,835)	(129,191)
Interest income	5,491,516	6,408,130
Interest expense (Note 5)	(2,369,718)	(8,084,334)
Build America Bonds rebate	4,995,921	3,691,431
Other (expenses), net	(3,031,807)	(92,924)
Nonoperating revenue, net	47,607,914	43,418,973
Income before capital grant contributions	37,456,594	20,446,473
Capital grant contributions	20,833,591	26,355,351
Change in net assets	58,290,185	46,801,824
Net assets, beginning of year	607,254,243	560,452,419
Net assets, end of year	\$ 665,544,428	\$ 607,254,243

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from customers	\$ 151,351,150	\$ 146,473,362
Payments to suppliers	(65,771,340)	(80,454,483)
Payments to employees	(36,498,212)	(36,728,904)
Pension contribution	-	-
Other receipts (payments)	(448,668)	(50,815)
Net cash provided by operating activities	48,632,930	29,239,160
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	(158,546)	101,477
Quieter Home Program grant receipts	11,303,456	14,781,355
Quieter Home Program payments	(14,577,575)	(18,102,591)
Joint Studies Program payments	(39,889)	(84,068)
Net cash (used in) noncapital financing activities	(3,472,554)	(3,303,827)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(301,336,594)	(166,861,753)
Proceeds on Build America Bonds	4,995,921	3,691,431
Proceeds on sale of capital assets	444,764	3,820
Federal grants received (excluding Quieter Home Program)	20,660,153	25,867,627
Proceeds from passenger facility charges	35,348,167	33,892,271
Proceeds from customer facility charges	11,426,775	11,193,087
Proceeds from issuance of commercial paper	-	-
Proceeds from issuance of bonds	-	598,719,344
Payment of principal on bonds and commercial paper	(4,760,000)	(146,026,000)
Payment to Trustee for debt service	(83,375)	(82,375)
Interest and debt fees paid	(2,518,161)	(8,154,709)
Cost of debt issuance	-	(4,424,462)
Net cash provided by (used in) capital and related financing activities	(235,822,350)	347,818,281
Cash Flows From Investing Activities		
Sales of investments	243,050,295	24,342,907
Purchases of investments	(36,127,941)	(402,840,092)
Interest received on investments	1,228,179	1,680,735
Principal payments received on notes receivable	1,696,112	1,612,791
Interest received from notes receivable, commercial paper and bonds	4,694,187	4,369,314
Net cash provided by (used in) investing activities	214,540,832	(370,834,345)
Net increase in cash and cash equivalents	23,878,858	2,919,269
Cash and Cash Equivalents, beginning of year	54,007,176	51,087,907
Cash and Cash Equivalents, end of year	\$ 77,886,034	\$ 54,007,176

(Continued)

San Diego County Regional Airport Authority

Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 68,823,530	\$ 45,858,618
Cash and investments designated for specific capital projects and other commitments	9,062,504	8,148,558
	<u>\$ 77,886,034</u>	<u>\$ 54,007,176</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	\$ (10,151,320)	\$ (22,972,500)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	44,532,069	49,137,886
Bad debt expense (recapture)	34,236	(44,423)
Changes in assets and liabilities:		
Tenant lease receivables	(991,645)	584,783
Net pension asset	556,313	556,313
Other current assets	567,080	2,475,298
Accounts payable (on noncapital items)	4,053,484	2,493,492
Accrued liabilities (on noncapital items)	9,959,129	(2,694,519)
Postretirement benefits obligation	29,867	31,736
Deposits	224,138	80,450
Deferred rent liability and other	(530,107)	(587,863)
Tenant deposits	90,139	36,671
Compensated absences	259,547	141,836
Net cash provided by operating activities	<u>\$ 48,632,930</u>	<u>\$ 29,239,160</u>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	\$ 35,015,680	\$ 14,405,539
Receivables, grants	\$ 3,867,809	\$ 3,984,567
Receivables, PFCs	\$ 4,412,287	\$ 5,121,210
Receivables, CFCs	\$ 1,079,837	\$ 1,027,410
Loss on investments	\$ (102,606)	\$ (292,730)

See Notes to Financial Statements.

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San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

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

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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

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

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

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

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

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

Designated assets: The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2012 and 2011, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$9,062,504 and \$8,148,558, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

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

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

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed. 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, 2012 and 2011, the Airport Authority capitalized interest of \$31,663,105 and \$17,946,856, respectively.

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

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

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

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2012 and 2011, accrued PFC receivables totaled \$4,412,287 and \$5,121,210, respectively, and there was \$74,369,877 and \$54,819,295, respectively, in PFC amounts collected but not yet applied for approved capital projects.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

The current FAA-approved PFC charge per enplaned passenger is \$4.50. Currently, 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 into a ninth application to impose and use of approximately \$32 million in PFC revenue. The latest application was approved by the FAA in July 2012.

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

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2012 and 2011, accrued CFC receivables totaled \$1,089,227 and \$1,029,040, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2012 and 2011 totaled \$30,863,159 and \$20,974,319, respectively.

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

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

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

Restricted net assets represent amounts that are restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

	2012	2011
Capital assets	\$ 1,438,265,264	\$ 1,133,349,818
Less accumulated depreciation	(541,788,395)	(507,928,798)
Less outstanding debt, net of unspent proceeds	(483,336,388)	(268,145,985)
Invested in capital assets, net	\$ 413,140,481	\$ 357,275,035

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Restricted net assets as of June 30 are as follows:

	2012	2011
Bond reserves:		
Operations and maintenance reserve	\$ 31,821,881	\$ 29,773,617
Operations and maintenance subaccount reserve	10,607,294	9,924,539
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	5,534,831	5,395,610
Debt service principal	5,215,000	4,760,000
Commercial paper reserve	3,444	63,115
Commercial paper held by Trustee	12,906	12,855
Small Business Development Bond Guarantee	2,000,000	4,000,000
Passenger facility charges unapplied	74,369,877	54,819,295
Passenger facility charges receivable	4,412,287	5,121,210
Customer facility charges unapplied	30,863,159	20,974,319
Customer facility charges receivable	1,089,227	1,029,040
Owner Controlled Insurance Program (OCIP) loss reserve	6,058,740	6,239,213
Total restricted net assets	<u>\$ 177,388,646</u>	<u>\$ 147,512,813</u>

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

	2012	2011
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	5,941,986	5,223,990
Net pension asset	7,204,455	7,760,767
Capital projects and other commitments (Note 12)	1,120,518	924,568
	<u>\$ 16,266,959</u>	<u>\$ 15,909,325</u>

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

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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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 major airlines are as follows:

	FY2012	FY2011
Southwest Airlines	37.9%	38.8%
Delta Airlines	10.9%	10.9%

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

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

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

Federal grants: The Airport Authority recognizes nonoperating revenue or capital grant contributions and any related grant receivable when all federal eligibility requirements are met.

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

Debt-related amortizations: Initial-issue bond premiums and bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest rate method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums and deferred amounts on refunding are included in interest expense.

Pronouncements issued, but not yet effective: The GASB issued 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. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the Airport Authority's fiscal year 2013.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the Airport Authority's fiscal year 2013.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the Airport Authority's fiscal year 2013.
- GASB Statement No. 66, *Technical Corrections—2012*, effective for the Airport Authority's fiscal year 2013.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Airport Authority's fiscal year 2015.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments

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

	2012	2011
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 68,823,530	\$ 45,858,618
Current investments	34,284,994	43,680,088
Noncurrent investments	10,410,555	16,827,172
Total unrestricted and undesignated	113,519,079	106,365,878
Designated for specific capital projects and other commitments, cash and cash equivalents	9,062,504	8,148,558
Restricted cash and investments		
Bond reserves		
Operation and maintenance reserve subaccount	31,821,881	29,773,617
Operation and maintenance subaccount	10,607,294	9,924,539
Renewal and replacement reserve	5,400,000	5,400,000
	47,829,175	45,098,156
Passenger facility charges unapplied	74,369,877	54,819,295
Customer facility charges unapplied	30,863,159	20,974,319
Small Business Development Bond Guarantee	2,000,000	4,000,000
Commercial paper reserve	3,444	63,115
Total restricted	155,065,655	124,954,885
Total cash and investments, not with Trustee	277,647,238	239,469,321
Investments held by Trustees:		
Commercial paper interest	12,906	12,855
2005 Series debt service account	4,533,755	4,311,159
2005 Series Debt Service Reserve Fund	5,394,063	5,394,063
2010 Series debt service account	6,847,385	16,603,287
2010 Series Capitalized Interest account	10,899,880	20,904,276
2010 Series Construction Fund	96,929,284	298,489,966
2010 Series Debt Service Reserve Fund	51,513,183	51,200,114
Total held by Trustee	176,130,456	396,915,721
Total cash and investments	\$ 453,777,694	\$ 636,385,042

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

	2012	2011
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,976
Cash in banks	26,107,812	14,259,815
Total unrestricted cash on deposit	26,159,788	14,311,791
Unrestricted cash equivalents:		
Money market accounts	50,916,044	39,362,792
Money market funds	810,202	332,593
Total unrestricted cash equivalents	51,726,246	39,695,385
Unrestricted and restricted investments:		
Certificates of deposit	16,999,083	15,888,440
Local Agency Investment Fund	47,305,946	47,131,845
San Diego County Investment Pool	48,315,026	48,991,312
Commercial Paper	25,899,199	3,490,340
U.S. Treasury notes	3,002,220	11,037,820
U.S. agency securities	58,239,730	58,922,388
Total unrestricted and restricted investments	199,761,204	185,462,145
Total cash equivalents and investments not with Trustee	251,487,450	225,157,530
Investments held by Trustees:		
Money market accounts	20,590,022	20,295,258
Money market funds	22,008,575	16,604,431
Guaranteed investment contract	5,394,063	5,394,063
Certificate of deposit	20,308,632	20,119,036
San Diego County Investment Pool	107,829,164	219,593,285
Local Agency Investment Fund	-	99,791,287
California Asset Management Program	-	23,363
U.S. agency securities	-	15,094,998
Total investments held by Trustee	176,130,456	396,915,721
Total cash equivalents and investments	427,617,906	622,073,251
Total cash, cash equivalents and investments	\$ 453,777,694	\$ 636,385,042

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	No limit	No limit
U.S. agency securities	5 years	N/A	No limit	No limit
Bankers' acceptances	180 days	AAA/Aaa	40%	10%
Commercial paper	270 days	A-1; P-1; F-1	25%	10%
Negotiable certificates of deposit	< 25 months	A	30%	10%
	25-36 months	AA	30%	10%
Medium-term notes	< 25 months	A	15%	10%
	25-36 months	AA	15%	10%
Repurchase agreements	1 year	A	No limit	No limit
Local Agency Investment Fund	N/A	N/A	No limit	\$50 million
San Diego County Investment Pool	N/A	N/A	No limit	\$50 million
Local Government Investment Pool	N/A	N/A	No limit	\$50 million
Money market mutual funds	N/A	AAA/Aaa	20%	10%
U.S. State and California agency indebtedness	5 years	A	20%	5%
Placement service certificates of deposits	3 years	N/A	30%	10%
Bank deposits (DOA/CDs)	N/A	*	20%	10%

* 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 California Government Code Section 53630 et seq.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	No limit	N/A	No limit	No limit
U.S. agency securities	No limit	N/A	No limit	No limit
Bankers' acceptances	360 days	AAA/Aaa	No limit	No limit
Commercial paper	270 days	A-1; P-1; F-1	No limit	No limit
Repurchase agreements	No limit	N/A	No limit	No limit
Money market portfolio	No limit	Two highest ratings	No limit	No limit
Cash	No limit	N/A	No limit	No limit
Deposit accounts	No limit	N/A	No limit	No limit
Municipal bonds	No limit	Two highest ratings	No limit	No limit
Local Agency Investment Fund	No limit	N/A	No limit	No limit
San Diego County Investment Pool	No limit	N/A	No limit	No limit
Certificates of deposit	No limit	Two highest ratings	No limit	No limit
Investment agreements	No limit	N/A	No limit	No limit

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

Investments held by Trustee: The Airport Authority has monies held by Trustees pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds require the Airport Authority to maintain reserve accounts with a bond Trustee for security and the payment of the bonds. At June 30, 2012 and 2011, the investments held by the Trustee were \$9,927,818 and \$9,705,222, respectively, which included the July 1 payment. The subordinate Series 2010 Bonds require the Airport Authority maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2012 and 2011, the amount held by the Trustee was \$166,189,732 and \$387,197,644, respectively, which included the July 1 payment. The commercial paper notes (CP Notes) require the Airport Authority to maintain an interest reserve account with the note Trustee. The commercial paper interest held by the Trustee at June 30, 2012 and 2011 was \$12,906 and \$12,855, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash 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 table, which shows the distribution of the entity's investments by maturity as of June 30, 2012:

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -	\$ -
SDCIP	156,144,190	156,144,190	-	-	-
Money market funds	22,818,777	22,818,777	-	-	-
Commercial paper	25,899,199	25,899,199	-	-	-
U.S. Treasury notes	3,002,220	3,002,220	-	-	-
U.S. agency securities	58,239,730	-	6,010,920	52,228,810	-
Guaranteed investment contract	5,394,063	-	-	-	5,394,063
Total investments subject to interest rate risk	318,804,125	255,170,332	6,010,920	52,228,810	5,394,063
Investments not subject to interest rate risk:					
Money market accounts	71,506,066				
Certificates of deposit	37,307,715				
Total deposits not subject to interest rate risk	108,813,781				
	\$ 427,617,906				

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012 for each investment type:

Investment Type	Total	Unrated	AAA/Aaa	A-1+/P-1
Investments subject to credit rate risk:				
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -
SDCIP	156,144,190	-	156,144,190	-
Money market funds	22,818,777	-	22,818,777	-
Commercial paper	25,899,199	-	-	25,899,199
U.S. Treasury notes	3,002,220	-	3,002,220	-
U.S. agency securities	58,239,730	-	58,239,730	-
Guaranteed investment contract	5,394,063	-	5,394,063	-
Total investments subject to credit risk	318,804,125	47,305,946	245,598,980	25,899,199
Investments not subject to credit risk:				
Money market accounts	71,506,066			
Certificates of deposit	37,307,715			
Total deposits not subject to credit risk	108,813,781			
	<u>\$ 427,617,906</u>			

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Concentration of credit risk does not apply to the Airport Authority's external investment pools, including the Local Agency Investment Fund (LAIF) and the San Diego County Investment Pool (SDCIP), and does not include investments in money market funds. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2012 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
Federal National Mortgage Assoc.	U.S. agency securities	<u>\$ 38,124,890</u>	8.40%

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

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

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

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

Investment in certificates of deposit: The Airport Authority has established a \$2,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program. Both the Airport Authority and the sureties participate in the risk under this program. The objective of this program is to ensure that local small, disadvantaged, disabled veteran and other business enterprises have every opportunity to do business with the Airport Authority.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years and will mature on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5 percent per annum. At June 30, 2012 and 2011, the balance of the note receivable was \$42,703,301 and \$43,993,521, respectively. The current portion recorded on the note for the years ended June 30, 2012 and 2011 was \$1,369,637 and \$1,290,520, respectively.

As part of the transfer of airport operations, pursuant to the Act, the District reimbursed the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at a 5.25 percent interest rate. A receivable for the Pond 20 property was recorded by the Airport Authority at January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value was \$3,329,000. Repayment terms remain unchanged. At June 30, 2012 and 2011, the note receivable was recorded at a value of \$211,060 and \$616,954, respectively. The current portion for the years ended June 30, 2012 and 2011 was \$211,060 and \$405,893, respectively.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 1,581,000
2014	1,447,000
2015	1,529,000
2016	1,609,000
2017	1,705,000
2018-2022	10,079,000
2023-2027	13,262,000
2028-2031	11,702,000
	<u>\$ 42,914,000</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	\$ 22,432,855	\$ -	\$ (16,804)	\$ 22,415,851
Construction in progress	322,289,133	319,839,003	(9,737,268)	632,390,868
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	345,161,788	319,839,003	(9,754,072)	655,246,719
Depreciable assets:				
Land improvements	2,028,465	42,733	-	2,071,198
Buildings and structures	466,463,764	1,623,967	(4,352,618)	463,735,113
Machinery and equipment	46,246,697	1,846,081	(415,975)	47,676,803
Runways, roads and parking lots	273,449,104	6,757,894	(10,671,567)	269,535,431
Total capital assets being depreciated	788,188,030	10,270,675	(15,440,160)	783,018,545
Less accumulated depreciation for:				
Land improvements	(1,048,848)	(141,541)	-	(1,190,389)
Building and structures	(298,025,116)	(26,627,255)	4,352,618	(320,299,753)
Machinery and equipment	(31,187,302)	(4,564,238)	407,279	(35,344,261)
Runaways, roads and parking lots	(177,667,532)	(14,256,482)	6,970,021	(184,953,993)
Total accumulated depreciation	(507,928,798)	(45,589,516)	11,729,918	(541,788,396)
Total capital assets being depreciated, net	280,259,232	(35,318,841)	(3,710,242)	241,230,149
Capital assets, net	\$ 625,421,020	\$ 284,520,162	\$ (13,464,314)	\$ 896,476,868

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ -	\$ 22,432,655
Construction in progress	183,013,695	190,737,326	(51,461,888)	322,289,133
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	205,886,350	190,737,326	(51,461,888)	345,161,788
Depreciable assets:				
Land improvements	1,001,553	1,026,912	-	2,028,465
Buildings and structures	462,867,893	4,399,285	(803,414)	466,463,764
Machinery and equipment	45,211,831	1,421,090	(386,224)	46,246,697
Runways, roads and parking lots	227,870,261	45,700,477	(121,634)	273,449,104
Total capital assets being depreciated	736,951,538	52,547,764	(1,311,272)	788,188,030
Less accumulated depreciation for:				
Land improvements	(1,001,553)	(47,295)	-	(1,048,848)
Building and structures	(270,556,272)	(28,272,258)	803,414	(298,025,116)
Machinery and equipment	(25,754,980)	(5,715,483)	286,161	(31,187,302)
Runways, roads and parking lots	(161,807,660)	(15,981,506)	121,634	(177,667,532)
Total accumulated depreciation	(459,120,465)	(50,016,542)	1,211,209	(507,928,798)
Total capital assets being depreciated, net	277,831,073	2,531,222	(100,063)	280,259,232
Capital assets, net	\$ 483,717,423	\$ 193,268,548	\$ (51,561,951)	\$ 625,421,020

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt

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

	Principal Balance at June 30, 2011	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2012	Due Within One Year
Debt obligations:					
Commercial paper	\$ 21,509,000	\$ -	\$ (780,000)	\$ 20,729,000	\$ 805,000
Bonds payable:					
Series 2005 Bonds	41,225,000	-	(3,265,000)	37,960,000	3,430,000
Series 2010 Bonds	572,565,000	-	(715,000)	571,850,000	980,000
Bond premiums	27,130,314	-	(1,632,346)	25,497,968	-
Deferred amounts on refunding	(2,086,858)	-	231,873	(1,854,985)	-
Total bonds payable	638,833,456	-	(5,380,473)	633,452,983	4,410,000
Total debt obligations	660,342,456	-	(6,160,473)	654,181,983	5,215,000
Compensated absences	2,673,438	2,457,252	(2,197,705)	2,932,985	2,197,705
Total long-term liabilities	\$ 663,015,894	\$ 2,457,252	\$ (8,358,178)	\$ 657,114,968	\$ 7,412,705
	Principal Balance at June 30, 2010	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2011	Due Within One Year
Debt obligations:					
Commercial paper	\$ 164,430,000	\$ -	\$ (142,921,000)	\$ 21,509,000	\$ 780,000
Bonds payable:					
Series 2005 Bonds	44,330,000	-	(3,105,000)	41,225,000	3,265,000
Series 2010 Bonds	-	572,565,000	-	572,565,000	715,000
Bond premiums	2,272,704	26,154,344	(1,296,734)	27,130,314	-
Deferred amounts on refunding	(2,318,731)	-	231,873	(2,086,858)	-
Total bonds payable	44,283,973	598,719,344	(4,169,861)	638,833,456	3,980,000
Total debt obligations	208,713,973	598,719,344	(147,090,861)	660,342,456	4,760,000
Compensated absences	2,531,802	2,330,591	(2,188,755)	2,673,438	2,188,755
Total long-term liabilities	\$ 211,245,575	\$ 601,049,935	\$ (149,279,616)	\$ 663,015,894	\$ 6,948,755

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

Commercial paper Series A, B and C: 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. Subordinate obligations issued or incurred under the program are secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the senior lien Series 2005 Bonds with parity to the subordinate Series 2010 Bonds revenue. Each CP Note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The CP Notes are also secured by an irrevocable letter of credit provided by Lloyds TSB Bank that expires no later than September 10, 2014. Accordingly, the CP Notes are classified as long-term liabilities in the Airport Authority's financial statements.

On October 6, 2010 and October 13, 2010, the Airport Authority refinanced \$115,776,000 and \$26,400,000, respectively, of Series A, B and C commercial paper with proceeds from the sale of subordinated Series 2010 Bonds.

At June 30, 2012, the principal amount outstanding of the CP Notes was \$20,729,000, carrying an interest rate of 0.26 percent.

At June 30, 2011, the principal amount of CP Notes outstanding was \$21,509,000, carrying an interest rate of 0.25 percent.

Commercial paper interest expense for the years ended June 30, 2012 and 2011 amounted to \$56,199 and \$108,732, respectively, including accrued interest of \$3,447 and \$63,115, respectively.

As subordinate obligations, the CP Notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the CP Notes require the Airport Authority to maintain an interest reserve account with the note Trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2012 and 2011, the amount held by the Trustee was \$12,906 and \$12,855, respectively, and the amount reserved by the Airport Authority was \$3,447 and \$63,115, respectively.

The required debt service payments for the CP Notes, assuming an interest rate of 0.26 percent, for the fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 805,000	\$ 51,802	\$ 856,802
2014	960,000	49,306	1,009,306
2015	18,964,000	9,726	18,973,726
	<u>\$ 20,729,000</u>	<u>\$ 110,834</u>	<u>\$ 20,839,834</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

Senior Lien Series 2005 Airport Revenue Bonds: On November 9, 2005, the Airport Authority issued \$56,270,000 of senior lien Series 2005 Bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the years ended June 30, 2012 and 2011 amounted to \$1,925,975 and \$2,089,225, respectively, including accrued interest of \$962,988 and \$1,044,613, respectively. The principal balance on the Series 2005 Bonds as of June 30, 2012 and 2011 was \$37,960,000 and \$41,225,000, respectively.

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

As senior lien bonds, the Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2005 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2. At the fiscal years ended June 30, 2012 and 2011, the amount held by the trustee was \$5,394,063 and \$5,394,063, respectively. An additional amount of \$4,392,988 and \$4,309,613 was held at June 30, 2012 and 2011, respectively, for the July 1 payments. As disclosed in Note 2, the amounts reserved for (1) operations and maintenance, (2) the operations and maintenance subaccount and (3) revenue and replacement totaled \$47,829,175 and \$45,098,156 for fiscal years 2012 and 2011, respectively. The public ratings of the Series 2005 Bonds as of June 30, 2012 and 2011 were A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,430,000	\$ 1,840,225	\$ 5,270,225
2014	3,610,000	1,664,225	5,274,225
2015	3,790,000	1,479,225	5,269,225
2016	3,985,000	1,299,794	5,284,794
2017	4,160,000	1,105,913	5,265,913
2018-2021	18,985,000	2,058,656	21,043,656
	<u>\$ 37,960,000</u>	<u>\$ 9,448,038</u>	<u>\$ 47,408,038</u>

A cumulative rebate liability relating to arbitrage of the Series 2005 Bonds was recorded for \$94,796 and \$46,417 as of the fiscal years ended June 30, 2012 and 2011, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2015. Additionally, should the bonds be retired prior to July 1, 2012, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

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

The Series A and Series B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as taxable Build America Bonds, which benefit from periodic cash subsidy payments from the U.S. Treasury equal to 35 percent of interest payable. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2012 and 2011 was \$4,995,921 and \$3,691,431, respectively. The interest rate on the Series C bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2012 and 2011 amounted to \$31,755,098 and \$23,474,055, respectively, including accrued interest of \$15,877,549 and \$15,884,699, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2012 and 2011 was \$571,850,000 and \$572,565,000, respectively.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate Trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate CP Notes. In addition, the Airport Authority has irrevocably committed a portion of the PFCs it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are \$14,703,838, \$19,208,838, \$19,206,113 and \$19,209,388 for fiscal years 2013, 2014, 2015 and 2016, 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. For the years ended June 30, 2012 and 2011, the amount held by the Trustee was \$166,189,732 and \$387,197,643, respectively, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and a capitalized interest fund.

The public ratings of the Series 2010 Bonds as of June 30, 2012 and 2011 are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

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

Years Ending June 30,	Principal	Interest	Total
2013	\$ 980,000	\$ 31,745,298	\$ 32,725,298
2014	1,000,000	31,720,498	32,720,498
2015	5,785,000	31,594,948	37,379,948
2016	8,665,000	31,318,098	39,983,098
2017	9,000,000	30,934,023	39,934,023
2018-2022	51,965,000	147,508,779	199,473,779
2023-2027	66,060,000	133,041,898	199,101,898
2028-2032	94,955,000	114,089,164	209,044,164
2033-2037	168,560,000	76,049,488	244,609,488
2038-2041	164,880,000	20,516,435	185,396,435
	<u>\$ 571,850,000</u>	<u>\$ 648,518,630</u>	<u>\$ 1,220,368,630</u>

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

Line of credit: In 2009 the Airport Authority established a \$4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line 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. On February 27, 2012, the Union Bank line of credit was reduced to \$2,000,000 at the Airport Authority's request. As of June 30, 2012, nothing had been drawn on the line of credit and five issued letters of credit were outstanding, totaling \$1,144,301 for projects in progress. One of the letters of credit expired on July 30, 2012, another is due to expire on December 26, 2012, and the remaining three will expire on February 27, 2013.

Note 6. Defined-Benefit Plan

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Funding policy: The City of San Diego Municipal Code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate, as determined through actuarial valuation, was 14.54 percent for 2012, 16.60 percent for 2011 and 12.08 percent for 2010, and is expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2012, 2011 and 2010, the annual pension cost included in salaries and benefits was \$4,356,000, \$5,036,000 and \$3,736,000, respectively, for the CERS pension. Comparing 2011 to 2010, total membership increased by 2.7 percent. The increase was attributable to both the growth in inactive membership, terminated vested, disabled, retirees and beneficiaries. The active membership declined by 0.9 percent. Active member payroll decreased by 1.7 percent, which is well below the assumed payroll inflation of 4 percent. The actuarial liability increased by 9.9 percent, but the actuarial value of assets increased by 17.6 percent. The funding ratio increased from 96 percent as of June 30, 2010 to 102.7 percent as of June 30, 2011. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not increase as much as the market value (34.1 percent).

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

- The rates of retirement were decreased and changed to be based on age and service as opposed to just the service of a member.
- The percent married assumption was increased to 55 percent for females, and the assumed age difference between husbands and wives was reduced to three years.
- The reciprocity assumption was reduced from 20 percent to 10 percent.
- Rates of termination were increased and changed to be based on service as opposed to the age of a member.
- Disability rates were decreased.
- Mortality rates for active Airport Authority members were decreased.
- Mortality rates for retired Airport Authority members were increased.
- The investment return assumption was lowered from 7.75 percent to 7.5 percent.
- The inflation assumption was lowered from 4.00 percent to 3.75 percent (following a two-year freeze assumption).
- Cost of living adjustment is assumed to be 2 percent.
- Actuarial funding method is entry age normal.
- Amortization method is level percent closed.
- Asset valuation method is expected value method.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

- Remaining amortization period is 8.196 years. This includes 10 years for the outstanding balance of the 2007 unfunded actuarial liability (UAL), 15 years for experience gains and losses, 30 years for changes in methods and assumptions, and 20 years for benefit changes.
- The rate of employer contributions to CERS is composed of the normal cost and an amortization of the UAL. 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 UAL.

On September 16, 2004, the Airport Authority made a contribution payment in the amount of \$3,900,000, in addition to the ARC, to reflect a desired funded ratio of 90 percent. On June 21, 2005, the Airport Authority made an additional contribution of \$1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of \$513,627. On June 30, 2010, the Airport Authority made a contribution of \$4,600,000 to increase the funded rate reported in the January 2010 CERS 2009 actuarial calculation from 86.9 percent to the desired funded ratio of 90 percent. At June 30, 2012, 2011 and 2010, the total contribution of \$10,013,627, less amortization of \$2,809,172, \$2,252,860 and \$1,696,547, respectively, is recorded as a net pension asset of \$7,204,455, \$7,760,767 and \$8,317,080, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2013 measured as a percentage of membership payroll decreased from 14.54 percent to 10.91 percent. The required beginning-of-year contribution paid July 1, 2012 decreased by \$1,200,000.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented below provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for the benefits.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Schedule of 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/Asset UAAL/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/09	\$58,981	\$ 67,871	\$ 8,890	86.9%	\$24,693	36.0%
6/30/10	73,401	76,447	3,047	96.0%	25,596	11.9%
6/30/11	86,309	84,042	(2,267)	102.7%	25,148	(11.1%)

Three-year trend information is as follows (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 7.75%
6/30/10	\$ 3,736	\$ 3,000	80%	\$ 3,000	\$ 8,317	\$ (556)	\$ 556	\$ 736
6/30/11	5,036	4,300	85%	4,300	7,761	(556)	556	736
6/30/12	4,356	3,800	87%	3,800	7,204	(556)	556	736

Note 7. Employees' Deferred Compensation Plan

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

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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits

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

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

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

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

Annual OPEB cost and actuarial methods and assumptions: The July 1, 2011 actuarial valuation for the ARC, net of the employer contribution, was \$2,165,000 for fiscal year 2012 and \$1,791,000 for fiscal year 2011. The ARC was determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, with unfunded liabilities amortized over 30 years, which is the method utilized by CERBT. The actuarial assumptions used by CERBT include (a) a 7.61 percent investment rate of return (7.75 percent was used in the prior valuations), net of administrative expenses, and (b) projected salary increases of 3.25 percent. The inflation component ranged from 11 percent to 5 percent from one to seven years for medical and 7 percent to 5 percent for dental.

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

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

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO (Asset) End of Year	Interest on NOO (Asset)	Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
7/1/2009	09/10	\$ 1,733	\$ 1,825	\$ (150)	\$ (4)	\$ (4)	\$ 1,733	7.75%	3.25%	16.0
7/1/2010	10/11	1,791	1,699	(80)	(12)	(10)	1,789	7.61%	3.25%	15.7
7/1/2011	11/12	2,165	2,165	(61)	(5)	4	2,164	7.61%	3.25%	15.7

Schedule of funding progress (dollars in thousands):

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

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

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	NOO (Asset)
6/30/10	\$ 1,733	\$ 1,825	105.3%	\$ (150)
6/30/11	1,789	1,699	95.0%	(60)
6/30/12	2,164	1,964	90.8%	-

Note 9. Risk Management

The Airport Authority has developed a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control and claims administration. The Airport Authority's insurance coverage includes property casualty, various liability policies, workers' compensation, and course of construction. 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 war endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Airport Authority's coverage includes a variety of retentions or deductibles.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 9. Risk Management (Continued)

The cost of earthquake coverage remains exorbitant and is not available in significant amounts. The Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay a minimum of 25 percent of the balance for nationally declared disasters. In addition, the California legislature has paid any remaining loss costs for all declared disasters since 1989. In the past, the Airport Authority relied on these laws to pay loss costs beneath the attachment point for insurance coverage and above the coverage limit purchased. Effective July 1, 2007, based on the status of these laws and the condition of the insurance marketplace, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities. As of June 30, 2012 and 2011, the Airport Authority designated \$5,941,986 and \$5,223,990 of unrestricted net assets, respectively, for insurance contingency. This designation of unrestricted net assets is intended to increase as deemed by management.

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

The Airport Authority maintains a property insurance policy with limits of \$500 million, providing all risk and flood coverage on physical assets. During fiscal year 2012, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

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

Note 10. Lease Revenues

The Airport Authority leases approximately 54 percent of its building and structures capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc. A majority of the Airport Authority's lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 10. Lease Revenues (Continued)

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 7,396,982
2014	5,552,412
2015	4,485,090
2016	2,640,169
2017	2,000,000
2018-2020	2,000,000
	<u>\$ 24,074,653</u>

The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of \$440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of \$440,000. The license, an intangible asset with no expiration date, is included in nondepreciable assets in Note 4. As of June 30, 2012 and 2011, the Airport Authority recognized lease revenue of \$86,996 for each year under the World Trade Center lease.

Note 11. Lease Commitments

Capital Leases:

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

The following is a schedule of future lease payments applicable to \$760,332 net book value of assets capitalized under lease agreements, and the net present value of the future lease payments as of June 30, 2012:

<u>Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 177,671
2014	177,671
2015	25,131
Total lease payments	<u>380,473</u>
Less amount representing interest	<u>(18,833)</u>
Present value of future lease payments	<u>\$ 361,640</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments (Continued)

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 in the amount of \$186,360 annually through December 31, 2068 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 require monthly rentals of \$86,083 and \$12,521, respectively, and both leases expire in December 2013.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments (Continued)

Deferred rent (benefit) liability: The Airport Authority accrues rent expense for its leases with predetermined escalating payments by the straight-line method over the respective lease terms. The accumulated benefit of the reduced scheduled payments of those leases is recorded as a deferred rent liability of \$0 and \$450,073 as of June 30, 2012 and 2011, respectively. The accumulated benefit (accrued liability) is expected to decrease gradually over the remaining 59 years. The future rental commitments under the above operating lease agreements as of June 30 are due as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 11,382,353
2014	10,741,176
2015	10,100,000
2016	10,100,000
2017	10,100,000
2018-2022	50,500,000
2023-2027	50,500,000
2028-2032	50,500,000
2033-2037	50,500,000
2038-2042	50,500,000
2043-2047	50,500,000
2048-2052	50,500,000
2053-2057	50,500,000
2058-2062	50,500,000
2063-2067	50,500,000
2068-2069	15,150,002
	<u>\$ 572,573,531</u>

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

	<u>2012</u>	<u>2011</u>
Rental payments made	\$ 11,414,838	\$ 11,356,478
(Decrease) in accumulated benefit of reduced rents	-	(450,073)
	<u>\$ 11,414,838</u>	<u>\$ 10,906,405</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event

Commitments: At June 30, 2012 and 2011, the Airport Authority had significant commitments for capital expenditures and other matters, as described below:

- i. The Airport Authority has funds that have been classified as noncurrent 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, 2012 and 2011, these funds totaled \$1,120,518 and \$924,568, respectively, and are classified on the accompanying balance sheets as cash and investments designated for specific capital projects and other commitments.
- ii. Support services—As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provided monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2012 and 2011, the Airport Authority expensed \$15,351,370 and \$14,102,510, respectively, for these services.
- iii. In addition, the Airport Authority has a profit sharing plan as defined under Section 401(a) of the IRC. Under the plan, eligible employees receive annual discretionary employer contributions. Airport Authority contributions are immediately vested by the participants. For fiscal years 2012 and 2011, \$165,000 and \$150,000 were deposited, respectively.
- iv. Major contracts—During 2006 the Airport Authority Board approved a contract with AECOM Aviation for \$37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. The Board approved additional increases totaling \$43.9 million in fiscal years 2009 and 2010. In 2011 the Board approved \$45 million additional funds and approximately \$102.2 million has been spent to date. The remaining contract is due to be completed during fiscal year 2014. As of June 30, 2012, the Airport Authority's remaining commitment is approximately \$22.9 million.
- v. In 2009 the Board approved two design-build contracts for the Terminal Expansion Program, or "The Green Build." The program is estimated to cost \$864 million. The Green Build began in fiscal year 2010 and the projected completion date is 2013. The Green Build provides for 10 additional passenger gates, a new dual-level roadway at Terminal 2 and additional aircraft remain-overnight parking areas. The first Green Build contract was approved for the Terminal 2 West Building and Airside Expansion to Turner/PCL/FCI Joint Venture for \$14 million. Additional amounts were approved in fiscal years 2009, 2010 and 2011 for \$110.4 million, \$228 million and \$79 million, respectively. As of June 30, 2012, \$276.8 million had been spent and the contract is due to be completed during fiscal year 2013. As of June 30, 2012, the Airport Authority's remaining commitment is approximately \$168.1 million.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

- vi. The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$43.8 million approved in 2009 and additional approvals for \$76.2 million and \$135 million in 2010 and 2011, respectively. As of June 30, 2012, \$129.5 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is scheduled for completion in fiscal year 2013. As of June 30, 2012, the Airport Authority's remaining commitment is approximately \$82.1 million.
- vii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., one for the parking management services in the amount of \$29.7 million and the second for the airport shuttle services in the amount of \$28.8 million. The total amounts spent as of June 30, 2012 were \$2.04 million for parking management services and \$1.9 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2012, the Airport Authority's remaining commitment is approximately \$26.9 million for the shuttle service contract and \$28.7 million for the parking management contract.

Contingencies: As of June 30, 2012, the Airport Authority is subject to contingencies arising from legal matters, as described below:

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

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

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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

In April 2008, the Airport Authority entered into a public works contract with West-Tech Contracting, Inc. (West-Tech) for Project No. 103044-NTC Landfill Remediation-Phase 2 (Contract) for the remediation of burn ash and other material at the old Naval Training Center. On June 25, 2010, West-Tech filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately \$1,500,000, resulting from an alleged breach of contract by the Airport Authority. West-Tech alleges that the Airport Authority breached the contract because: (1) it refused to allow West-Tech to use a landfill that West-Tech believed met the specifications set forth in the Contract; (2) the estimated amount of burn ash identified in the Contract as requiring removal was grossly underestimated; (3) West-Tech was owed interest on late payments; and (4) West-Tech was owed attorney's fees on retention. On December 22, 2010, West-Tech filed a lawsuit for breach of contract and declaratory relief. The claims in the lawsuit mirror the claims set forth in the claim filed pursuant to the Government Code. The Airport Authority disputes all allegations. The Airport Authority answered the complaint and filed a cross-complaint against West-Tech for violations of the False Claims Act. On July 26, 2012, a jury verdict was rendered wherein the jury awarded West-Tech \$634,431 for breach of contract and \$13,347 for interest on late payments. The jury found in the Airport Authority's favor on the retention claim, which allows the Airport Authority to be awarded its own attorney's fees. On October 19, 2012, the court will hear cross-motions for attorney fees and costs, wherein the Airport Authority is seeking in excess of \$1.3 million and West-Tech is seeking approximately \$650,000. The Airport Authority plans to vigorously oppose the plaintiff's motions. Based on our present understanding of the motions, we are unable to determine the likelihood of an unfavorable outcome to the Airport Authority.

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

On June 9, 2011, the Airport Authority received a claim pursuant to Government Code §910 alleging damages arising from the death of Wayne Hopkins. Wayne Hopkins was employed by the Airport Authority from April 1, 2005 until December 10, 2010. While employed by the Airport Authority, Mr. Hopkins' office was located on the TDY site from April 2008 until December 2010. Before being employed by the Airport Authority, Mr. Hopkins worked for the Port District and Teledyne Ryan where his office was located on the TDY site. Mr. Hopkins worked for TDY for approximately 30 years. The claim alleges that Wayne Hopkins was wrongfully exposed to toxic material while he worked at the Teledyne Ryan Aeronautical Facility located at 2701 North Harbor Drive. As a result of the exposure, he developed non-Hodgkins Lymphoma, which allegedly caused his death on December 12, 2010. The claim seeks damages exceeding \$3 million. The Airport Authority Board denied the claim on July 7, 2011. On August 22, 2012, the District filed a claim pursuant to the California Tort Claims Act (Gov. Code §810, et seq.) seeking a defense and indemnity from the Airport Authority for expenses or damages the District incurs as a result of the wrongful death lawsuit filed by the surviving heirs of Wayne Hopkins against the District. The District bases its claim for defense and indemnity on the provisions contained in the Lease for the TDY property between the District and the Airport Authority. The Airport Authority disputes the claim that the lease requires provision of such a defense and indemnity. The Airport Authority Board will consider the District's claim at the Board meeting on October 4, 2012. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Accurate Engineering Integrated Construction Services, Inc.

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

Jacob Mojadam v. San Diego County Regional Airport Authority (San Diego Superior Court Case No. 37-2012-00098040-CU-MC-CTL)

On May 25, 2012, Jacob Mojadam, on behalf of himself and those similarly situated (Plaintiffs), filed a Complaint against the Airport Authority alleging that the Airport Authority improperly collected a taxicab trip fee from taxicab drivers using SDIA and seeking: (1) a declaratory judgment that the Airport Authority wrongfully collected trip fees from Plaintiffs without a right to do so; (2) injunctive relief preventing further collection of trip fees; (3) an accounting of the total amount of funds collected from the Plaintiffs; (4) return of any money that was improperly collected from Plaintiffs plus interest; (5) award of prejudgment interest; and (6) attorney's fees. The Airport Authority filed a demurrer to the First Amended Complaint, which the court sustained with leave to amend. Plaintiffs have filed a Second Amended Complaint to which the Airport Authority will respond. The Airport Authority's legal counsel cannot predict the exposure of the Airport Authority with respect to this matter, or the probability or remoteness of any outcome seeking damages.

Kelly Lancaster et al v. San Diego City Employees Retirement System (San Diego Superior Court Case No. 37-2011-00096238-CU-PO-CTL)

On August 12, 2011, Kelly Lancaster, on behalf of himself and those similarly situated (Plaintiffs), filed a Complaint against the San Diego CERS alleging causes of action for breach of common law, constitutional and fiduciary duties. The Complaint alleges that the Plaintiffs are beneficiaries of the pension fund of the Airport Authority, which is administered by CERS. The Complaint further alleges that Plaintiffs were allowed to purchase under the pension plan, and in fact did purchase, years of service credits at rates determined by CERS for up to five (5) years for time they did not work. The purchases were made during a window period of time (between August 15, 2003 and October 31, 2003) where the purchase price was below the cost as determined by CERS' actuary. The purchases occurred after the CERS Board delayed increasing the purchase price as recommended by the actuary and before the Board acted to increase the price as recommended by the actuary. The Airport Authority is not named as a defendant in the Complaint. The Airport Authority's legal counsel cannot predict the net exposure, if any, of the Airport Authority with respect to this matter, the likelihood that the lawsuit will have any financial effect on the Airport Authority, or the probability or remoteness of any outcome seeking damages.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Draft Investigative Order No. R9-2012-0009—Downtown Anchorage Area in San Diego Bay

On or about November 2, 2011 the Airport Authority informally received information that the California Regional Water Quality Control Board (RWQCB) intended to issue for comment a Draft Investigative Order (IO) based on technical reports pertaining to two studies of bay sediments at the Downtown Anchorage Area in San Diego Bay. A copy of the IO was obtained. The IO describes the Downtown Anchorage Area as "a portion of the bay located south of Harbor Drive, immediately south of Solar Turbines, the San Diego County Regional Airport Authority and east of the U.S. Coast Guard Station." The IO alleges an unauthorized discharge of wastes has occurred as evidenced by the presence of PCBs, TPH, VOCs, PAHs, metals and pesticides in the bay sediments in the Downtown Anchorage Area. The IO names as parties responsible for the alleged unauthorized discharge the Airport Authority, Teledyne Ryan Industries, General Dynamics and Solar Turbines. The Airport Authority, along with the other named parties, provided comments to the RWQCB, *inter alia*, raising the following concerns about the IO: (1) the geographic extent of the Downtown Anchorage Area is not adequately defined; (2) the IO contains no sediment data demonstrating impacts to the bay were caused by the Airport Authority; (3) the RWQCB must name all responsible parties, including the District and the City of San Diego; and (4) the studies relied upon by the RWQCB predate the formation of the Airport Authority. The RWQCB has not issued a final IO. The Airport Authority's legal counsel cannot predict the net exposure of the Airport Authority with respect to this matter, or the probability or remoteness of any outcome seeking damages.

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

San Diego County Regional Airport Authority

Compliance Report
June 30, 2012

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San Diego County Regional Airport Authority

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012**

	Catalog of Federal Domestic Assistance		
Federal Grantor/Grantor Program Title	Number	Grant Number	Federal Expenditures
U.S. Department of Transportation			
Direct Programs:			
Airport Improvement Program (AIP)	20.106*	3-06-0214-55	\$ 104,322
Airport Improvement Program (AIP)	20.106*	3-06-0214-59	7,719,243
Airport Improvement Program (AIP)	20.106*	3-06-0214-60	3,871,623
Airport Improvement Program (AIP)	20.106*	3-06-0214-61	3,460,773
Airport Improvement Program (AIP)	20.106*	3-06-0214-63	5,480,443
Airport Improvement Program (AIP)	20.106*	3-06-0214-64	207,319
Airport Improvement Program (AIP)	20.106*	3-06-0214-65	943,893
Airport Improvement Program (AIP)	20.106*	3-06-0214-66	2,072,045
Total funded under Airport Improvement Program grants			23,859,661
Total U.S. Department of Transportation			23,859,661
U.S. Department of Homeland Security			
Direct Programs:			
Law Enforcement Personnel Reimbursement Agreement	97.100	HSTS02-08-H-SLR254	196,534
Utility Agreement	97.090	HSTS03-04-A-AOP082	200,275
			396,809
ARRA - TSA Checked Baggage Inspection System Program	ARRA-97.117*	HSTS04-10-H-REC118	8,110,460
Total U.S. Department of Homeland Security			8,507,269
Total federal awards expended			\$ 32,366,930

* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards.

San Diego County Regional Airport Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the San Diego County Regional Airport Authority (the Airport Authority) for the year ended June 30, 2012. The Schedule includes federal awards received directly from federal agencies. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Airport Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Airport Authority. The Airport Authority's reporting entity is defined in Note 1 to the Airport Authority's basic financial statements.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Subrecipients

Of the federal expenditures presented in the Schedule, the Airport Authority did not provide any federal awards to subrecipients for the fiscal year ended June 30, 2012.



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

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

We have audited the financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

McGladrey LLP

San Diego, CA
October 16, 2012



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

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

Compliance

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Airport Authority's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

In our opinion, the Airport Authority complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Airport Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 16, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

McGladrey LLP

San Diego, CA
October 16, 2012

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$ 971,008

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

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II. Financial Statement Findings

A. Internal Control

None reported.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2012**

There were no audit findings reported for the year ended June 30, 2011.

San Diego County Regional Airport Authority

Passenger Facility Charge
Compliance Report
June 30, 2012

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

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

We have audited the basic financial statements of San Diego County Regional Airport Authority as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon, dated October 16, 2012, which contained an unqualified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

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

McGladrey LLP

San Diego, CA
October 16, 2012

San Diego County Regional Airport Authority

**Schedule of Passenger Facility Charge Collections and Expenditures
Year Ended June 30, 2012 and for Each Quarter During the Year Ended June 30, 2012**

Description	Beginning Balance, Unapplied PFC	PFC Revenues ¹	Interest Earned	Expenditures		Total Expenditures	Ending Balance, Unapplied PFC ²
				Application #7	Application #8		
Collections and expenditures, quarter ended September 30, 2011	\$ 54,819,299	\$ 9,016,732	\$ 94,958	\$ 800,428	\$ 9,962,545	\$ 10,762,973	\$ 53,168,016
Collections and expenditures, quarter ended December 31, 2011	53,168,016	8,682,842	79,288	240,724	2,129,357	2,370,081	59,560,065
Collections and expenditures, quarter ended March 31, 2012	59,560,065	7,685,070	74,518	119,950	661,898	781,848	66,537,805
Collections and expenditures, quarter ended June 30, 2012	66,537,805	9,963,522	84,992	27,172	2,189,271	2,216,443	74,369,876
Collections and expenditures, year ended June 30, 2012		<u>\$ 35,348,166</u>	<u>\$ 333,756</u>	<u>\$ 1,188,274</u>	<u>\$ 14,943,071</u>	<u>\$ 16,131,345</u>	

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

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

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

San Diego County Regional Airport Authority

Note to Schedule of Passenger Facility Charge Collections and Expenditures

Note 1. Basis of Presentation

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

PFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs, if requested in the application. Eligible expenditures not requested or approved in the application are not applied against PFCs collected. The accompanying schedule of passenger facility charge collections and expenditures includes the eligible expenditures that have been applied against PFCs collected as of June 30, 2012.



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

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

Compliance

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

In our opinion, the Airport Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the Passenger Facility Charge Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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 a Passenger Facility Charge Program will not be prevented, or detected and corrected, on a timely basis.

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

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

McGladrey LLP

San Diego, CA
October 16, 2012

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting:

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

Passenger Facility Charge Program

Internal control over Passenger Facility Charge Program:

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

Type of auditor's report issued on compliance for Passenger Facility Charge Program: Unqualified

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

San Diego County Regional Airport Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II. Financial Statement Findings

A. Internal Control

None reported.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs for Passenger Facility Charges

A. Internal Control

None reported.

B. Compliance Findings

None reported.

San Diego County Regional Airport Authority

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012**

There were no audit findings reported for the year ended June 30, 2011.

San Diego County Regional Airport Authority

Customer Facility Charge
Compliance Report
June 30, 2012

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

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

We have audited the basic financial statements of San Diego County Regional Airport Authority as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon, dated October 16, 2012, which contained an unqualified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

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

McGladrey LLP

San Diego, CA
October 16, 2012

San Diego County Regional Airport Authority

**Schedule of Customer Facility Charge Collections and Expenditures
Year Ended June 30, 2012 and for Each Quarter During the Year Then Ended**

Description	Beginning Balance, Unapplied CFC	CFC Revenues ¹	Interest Earned	Expenditures	Ending Balance, Unapplied CFC ²
Collections and expenditures, quarter ended September 30, 2011	\$ 20,974,401	\$ 2,979,260	\$ 32,819	\$ 160,752	\$ 23,825,728
Collections and expenditures, quarter ended December 31, 2011	23,825,728	2,756,094	21,742	487,760	26,115,804
Collections and expenditures, quarter ended March 31, 2012	26,115,804	2,659,610	23,183	268,311	28,530,286
Collections and expenditures, quarter ended June 30, 2012	28,530,286	3,031,809	17,244	716,100	30,863,239
Collections and expenditures, year ended June 30, 2012		<u>\$ 11,426,773</u>	<u>\$ 94,988</u>	<u>\$ 1,632,923</u>	

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

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

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

San Diego County Regional Airport Authority

Notes to Schedule of Customer Facility Charge Collections and Expenditures

Note 1. General

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

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

Note 2. Basis of Presentation

The accompanying schedule of customer facility charge collections and expenditures includes the CFC activity of the Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis, CFC revenues are recognized when received rather than when earned (collections), and expenditures are recognized when the obligation is incurred. The information in this schedule is presented for purposes of additional analysis, as specified in California Civil Code Section 1936. Therefore, some amounts presented in this schedule will differ from amounts presented in, or used in the preparation of, the basic financial statements.

CFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs. The accompanying schedule of customer facility charge collections and expenditures includes the eligible expenditures that have been applied against CFCs collected as of June 30, 2012.

Note 3. Subsequent Event

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



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

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

Compliance

We have audited the San Diego County Regional Airport Authority's (the Airport Authority) compliance with the compliance requirements described in the California Civil Code Section 1936, for its customer facility charge program (CFC) for the year ended June 30, 2012. Compliance with the requirements of laws, regulations and contracts applicable to its CFC program is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

In our opinion, the Airport Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations and contracts applicable to the CFC program. In planning and performing our audit, we considered the Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the CFC program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a

reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board, management of the Airport Authority, and the California State Controller's Office, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

San Diego, CA
October 16, 2012

San Diego County Regional Airport Authority

Report to the Audit Committee

October 30, 2012



Assurance • Tax • Consulting



October 30, 2012

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

Attention: Mr. Tom Smisek, Audit Committee Chair

We are pleased to present this report related to our audit of the financial statements and compliance of the San Diego County Regional Airport Authority (the Airport Authority) for the year ended June 30, 2012. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Airport Authority's financial and compliance reporting process.

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

McGladrey LLP

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Required Communications

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

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated June 13, 2012 and in our meeting with you on May 7, 2012.
Accounting Practices	Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Airport Authority. The Airport Authority did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period. Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Alternative Treatments Discussed With Management We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Accounting Estimates.

Area	Comments
Financial Statement Disclosures	In our meeting with you on November 19, 2012, we will discuss the following items as they relate to the neutrality, consistency and clarity of the disclosures in the financial statements: • Construction in process • Debt and related accounts • Cash and investments • Identified major programs for single audit testing: – Airport Improvement Program – TSA Checked Baggage Inspection System Program—(ARRA)
Audit Adjustments	Audit adjustments recorded by the Airport Authority are shown on the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached management representation letter included within Exhibit A.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiencies and Material Weaknesses	We did not identify any significant deficiencies or material weaknesses, or noncompliance identified during our audit of the financial statements and major awards that are required to be communicated in accordance with <i>Government Auditing Standards</i> and OMB Circular A-133.

Area	Comments
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our Firm and the management of the Airport Authority are attached as Exhibit A.

**San Diego County Regional Airport Authority
Summary of Accounting Estimates
Year Ended June 30, 2012**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Airport Authority's June 30, 2012, financial statements:

Area	Accounting Policy	Estimation Process	Comments
Tenant Lease Receivables	Record accounts receivable net of the allowance for estimated uncollectible accounts.	In estimating the Airport Authority's allowance for doubtful accounts, management specifically identifies receivables that it believes to be uncollectible based on relevant facts, such as bankruptcy filings and customers' financial outlooks.	We tested the propriety of information underlying management's estimate. Based on our procedures, we concluded that management's approach is reasonable. The change in allowance is supported by the accounts receivable records.

Area	Accounting Policy	Estimation Process	Comments
Useful Lives of Long-Lived Assets	The estimated useful lives of assets generally have the following ranges: land improvements, 30 to 40 years; runways, taxiways, roads and parking areas, five to 30 years; buildings, structures and improvements, five to 30 years; and machinery and equipment, three to 10 years. These assets are depreciated using the straight-line method. Land is not depreciated, and construction in progress is not depreciated until ready for service and capitalized.	Management reviews for changes in the useful lives of long-lived assets by evaluating prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired if both the decline-in-service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage.	We tested the reasonableness of information underlying management's estimate. Based on our procedures, we concluded that assigned useful lives of long-lived assets are reasonable.

Area	Accounting Policy	Estimation Process	Comments
Pension Obligations and Postemployment Benefits Other Than Pensions	Record pension and postemployment benefits cost based on an estimated annual contribution rate.	For postemployment benefits other than pensions, management utilizes an actuarial consulting firm to perform an evaluation using the entry-age-actuarial-cost method. Management reviewed and approved the actuarial assumptions and calculations used to determine the postemployment benefit costs. For pension obligations, management utilizes City of San Diego Employees' Retirement System (CERS) actuaries for its defined benefit plan. Management reviewed and approved the actuarial assumptions and calculations used to determine the pension costs.	We tested the reasonableness of the information underlying the actuarial evaluations. Based on our procedures, we concluded that the costs recorded are reasonable.
Construction in Progress and Related Accrued Liabilities	Record construction in progress, a component of capital assets, based on construction progress and estimated cost to complete. Record corresponding accrued liabilities at period-end for costs that have been incurred through the period-end but not yet paid as of the period-end.	Management estimates construction in progress and the related liabilities based on review of the construction progress, discussions with the contractors conducting the work and review of invoices received after year end.	We tested the reasonableness of the estimates through capital asset and accrued liability testing. Based on our procedures, we concluded that the costs recorded are reasonable.

San Diego County Regional Airport Authority
Summary of Recorded Audit Adjustments
Year Ended June 30, 2012

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Equity	Revenue	Expenses
• To properly accrue for workers' comp claim contingencies	\$ -	\$ (122,446)	\$ -	\$ -	\$ 122,446
• Correcting entry to properly reflect capital lease	(18,683)	158,227	-	-	(139,544)
• To properly reflect CIP accruals	571,725	(571,725)	-	-	-
• To properly reflect P-card accruals	19	(37,119)	-	-	37,100
• To properly reflect allowance for doubtful accounts	500	-	-	-	(500)
• To properly reflect landing fee rebates	218,750	(228,229)	-	9,479	-
• To properly reflect accrued expenses	-	17,944	-	-	(17,944)
• Correcting entry to properly reflect depreciation expense	(68,555)	-	-	-	68,555
• To properly reflect capitalized interest	(2,074,167)	-	-	-	2,074,167
• To properly reflect passenger facility charges	268,414	-	-	(268,414)	-
• Correcting entry to properly reflect landing fees and airside and security charges	-	(268,161)	-	268,161	-
Total effect	\$ (1,101,997)	\$ (1,051,509)	-	\$ 9,226	\$ 2,144,280
Current year effect of change in net assets			2,153,506		
Effect on ending net assets			\$ 2,153,506		

Exhibit A—Certain Written Communications Between Management and Our Firm

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

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

October 16, 2012

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

In connection with your audits of the basic financial statements of San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2012 and 2011, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of October 16, 2012 the following representations made to you during your audits.

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



SAN DIEGO
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AIRPORT

- b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, former employees, analysts, regulators, or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Airport Authority's ability to record, process, summarize, and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
14. The following have been properly recorded and/or disclosed in the financial statements:
- a. Security agreements in effect under the Uniform Commercial Code.
 - b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - c. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - d. The fair value of investments.
 - e. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - f. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - g. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - h. Debt issue provisions.
 - i. All leases and material amounts of rental obligations under long-term leases.
 - j. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - k. Authorized but unissued Commercial Paper Series A, B and C, or any other bonds or notes.
 - l. Risk financing activities.
 - n. The effect which has not been determined on the financial statements of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB

Statement No. 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement No. 66, *Technical Corrections – 2012*; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which have been issued, but which we have not yet adopted.

- o. Deposits and investment securities categories of risks.
 - p. Arbitrage rebate liabilities.
 - q. Environmental clean-up obligations.
 - r. Pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2012.
 - s. Defined pension plan disclosures.
 - t. Board designated unrestricted net assets.
15. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
 - b. For post-retirement benefits other than pensions attributable to employee services rendered through June 30, 2012.
16. There are no:
- a. Communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with
 - (1) Statutory, regulatory, or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
 - b. Related party transactions as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
 - c. Guarantees, whether written or oral, under which the Airport Authority is contingently liable.
 - d. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.
 - f. Derivative financial instruments.
 - g. Special and extraordinary items.
 - h. Impairment of capital assets.
 - i. Obsolete, damaged, or excess inventories.
 - j. Investments, intangibles, or other assets which have permanently declined in value.
 - k. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - l. Material losses to be sustained as a result of purchase commitments.

- m. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- n. Uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2012 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2012.
- o. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
- p. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10, other than as disclosed in the footnotes to the basic financial statements as follows:

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

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

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

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

In April 2008, the Airport Authority entered into a public works contract with West-Tech for Project No. 103044-NTC Landfill Remediation-Phase 2 (Contract) for the remediation of burn ash and other material at the old Naval Training Center. On June 25, 2010, West-Tech Contracting, Inc. (West-Tech) filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately \$1,500,000 resulting from an alleged breach of contract by the Airport Authority. West-Tech alleges that the Airport Authority breached the contract because: (1) it refused to allow West-Tech to use a landfill that West-Tech believed met the specifications set forth in the Contract and (2) the estimated amount of burn ash identified in the Contract as requiring removal was grossly underestimated; (3) West Tech was owed interest on late payments; (4) West Tech was owed attorneys fees on retention. On December 22, 2010, West Tech filed a lawsuit for breach of contract and declaratory relief. The claims in the lawsuit mirror the claims set forth in the claim filed pursuant to

the Government Code. The Authority disputes all allegations. The Authority answered the complaint and filed a cross complaint against West Tech for violations of the False Claims Act. On July 26, 2012 a jury verdict was rendered wherein the jury awarded West Tech \$634,430.79 for breach of contract and \$13,346.97 for interest on late payments. The jury found in the Airport Authority's favor on the retention claim which allows the Airport Authority to be awarded its own attorney's fees. On October 19, 2012, the court will hear cross-motions for attorney fees and costs, wherein the Authority is seeking in excess of \$1.3 million and West Tech is seeking approximately \$650,000. The Airport Authority plans to vigorously oppose plaintiff's motions. Based on our present understanding of the motions, we are unable to determine the likelihood of an unfavorable outcome to the Authority.

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

On June 9, 2011, the Airport Authority received a claim pursuant to Government Code §910 alleging damages arising from the death of Wayne Hopkins. Wayne Hopkins was employed by the Airport Authority from April 1, 2005 until December 10, 2010. While employed by the Airport Authority, Mr. Hopkins' office was located on the TDY site from April 2008 until December 2010. Before being employed by the Airport Authority, Mr. Hopkins worked for the Port District and Teledyne Ryan where his office was located on the TDY site. Mr. Hopkins worked for TDY for approximately 30 years. The claim alleges that Wayne Hopkins was wrongfully exposed to toxic material while he worked at the Teledyne Ryan Aeronautical Facility located at 2701 North Harbor Drive. As a result of the exposure he developed non-Hodgkins Lymphoma which allegedly caused his death on December 12, 2010. The claim seeks damages exceeding \$3 million. The Airport Authority Board denied the claim on July 7, 2011. On August 22, 2012, the San Diego Unified Port District ("Port") filed a claim pursuant to the California Tort Claims Act (Gov. Code §810, et seq.) seeking a defense and indemnity from the Airport Authority for expenses or damages the Port incurs as a result of the wrongful death lawsuit filed by the surviving heirs of Wayne Hopkins against the Port. The Port bases its claim for defense and indemnity on the provisions contained in the Lease for the TDY property between the Port and the Airport Authority. The Airport Authority disputes the claim that the Lease requires provision of such a defense and indemnity. The Airport Authority Board will consider the Port's claim at the Board meeting on October 4, 2012. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

Accurate Engineering Integrated Construction Services, Inc.

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

Jacob Mojadam v. San Diego County Regional Airport Authority (San Diego Superior Court Case No. 37-2012-00098040-CU-MC-CTL),

On May 25, 2012, Jacob Mojadam, on behalf of himself and those similarly situated ("Plaintiffs"), filed a Complaint against the Airport Authority alleging that the Airport Authority improperly collected a taxicab trip fee from taxicab drivers using the Airport and seeking: (1) a declaratory judgment that the Airport Authority wrongfully collected trip fees from Plaintiffs without a right to do so; (2) injunctive relief preventing further collection of trip fees; (3) an accounting of the total amount of funds collected from the Plaintiffs; (4) return of any money that was improperly collected from Plaintiffs plus interest; (5) award of prejudgment interest; and (6) attorney's fees. The Airport Authority filed a demurrer to the First Amended Complaint which the court sustained with leave to amend. Plaintiff has filed a Second Amended Complaint to which the Airport Authority will respond. The Airport Authority's legal counsel cannot predict the exposure of the Airport Authority with respect to this matter, or the probability or remoteness of any outcome seeking damages.

Kelly Lancaster et al v. San Diego City Employees Retirement System (San Diego Superior Court Case No. 37-2011-00096238-CU-PO-CTL).

On August 12, 2011, Kelly Lancaster, on behalf of himself and those similarly situated ("Plaintiffs"), filed a Complaint against the San Diego City Employees Retirement System ("SDCERS") alleging causes of action for breach of common law, constitutional and fiduciary duties. The Complaint alleges that the Plaintiffs are beneficiaries of the pension fund of the Airport Authority which is administered by SDCERS. The Complaint further alleges that under the pension plan, Plaintiffs were allowed to purchase under the pension plan and in fact did purchase years of service credits at rates determined by SDCERS for up to five (5) years for time they did not work. The purchases were made during a window period of time (between August 15, 2003 and October 31, 2003) where the purchase price was below the cost as determined by SDCERS' actuary. The purchases occurred after the SDCERS Board delayed increasing the purchase price as recommended by the actuary and before the Board acted to increase the price as recommended by the actuary. The Airport Authority is not named as a defendant in the Complaint. The Airport Authority's legal counsel cannot predict the net exposure, if any, of the Airport Authority with respect to this matter, the likelihood that the lawsuit will have any financial effect on the Airport Authority, or the probability or remoteness of any outcome seeking damages.

Draft Investigative Order No. R9-2012-0009 - Downtown Anchorage Area in San Diego Bay -

On or about November 2, 2011, the Airport Authority informally received information that the California Regional Water Quality Control Board ("RWQCB") intended to issue for comment a [Draft] Investigative Order ("IO") based on technical reports pertaining to two studies of bay sediments at the Downtown Anchorage Area in San Diego Bay. A copy of the IO was obtained. The IO describes the Downtown Anchorage Area as "a portion of the bay located south of Harbor Drive, immediately south of Solar Turbines, the San Diego County Regional Airport Authority and east of the U.S. Coast Guard Station." The IO alleges an unauthorized discharge of wastes has occurred as evidenced by the presence of PCBs, TPH, VOCs, PAHs, metals and pesticides in the bay sediments in the Downtown Anchorage Area. The IO names as parties responsible for the alleged unauthorized discharge the Airport Authority, Teledyne Ryan Industries, General Dynamics and Solar Turbines. The Airport Authority, along with the other named parties, provided comments to the RWQCB, *inter alia*, raising the following concerns about the IO: (1) the geographic extent of the Downtown Anchorage Area is not adequately defined; (2) the IO contains no sediment data demonstrating impacts to the bay were caused by the Airport Authority; (3) the RWQCB must name all responsible parties, including the San Diego Unified Port District and the City of San Diego; and (4) the studies relied upon by the RWQCB predate the formation of the Airport Authority. The RWQCB has not issued a final Investigative Order. The Airport Authority's legal counsel cannot predict the net exposure of the Airport Authority with respect to this matter, or the probability or remoteness of any outcome seeking damages.

17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10.
18. We have satisfactory title to all owned assets.
19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and balances are properly classified and, when applicable, approved.
21. Capital assets are properly capitalized, reported, and depreciated.
22. Required supplementary information is properly measured and presented.
23. We are responsible for and have reviewed and approved the proposed adjustments to the trial balance identified during the audit. These adjustments were posted to the general ledger. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
24. The Airport Authority has developed a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control and claims administration. The Authority has purchased excess liability, airport, workers' compensation and automotive insurance, in addition to property, machinery and other miscellaneous insurance coverage. The Authority also administers an owner-controller insurance program covering all projects in the Airport Capital Improvement Program. The Authority's coverage includes a variety of retentions or deductibles. A \$5,941,986 contingency reserve has been established, within unrestricted equity, by the Airport Authority's management. There are no amounts accrued for liabilities or unpaid claims against the Airport Authority at June 30, 2012.
25. Additionally, the Airport Authority relies upon the Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) which are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay at a minimum 25 percent of the balance for nationally declared disasters. Based on the status of these laws and the condition of the insurance market place, the Airport Authority previously removed the purchase of commercial earthquake insurance from the Risk Management program and increased reliance on the laws designed to assist public entities. As of June 30, 2012, the Authority has \$5,941,986 for earthquake contingency reserve. This reserve is intended to increase as deemed by management.
26. The Airport Authority incurs certain costs that relate to the construction of capital assets. The Airport Authority capitalizes only those costs that are incremental to the construction of capital assets.
27. We have properly accounted for the pollution remediation costs incurred on the Teledyne Ryan property and the Naval Training Center property under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

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

28. We are responsible for:
 - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Airport Authority.

- b. Establishing and maintaining effective internal control over financial reporting.
- 29. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
- 30. We have a process to track the status of audit findings and recommendations.
- 31. There have been no:
 - a. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor repository or noncompliance.
 - b. Fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.
 - c. Previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
 - d. Reported findings, conclusions, or recommendations, as well as our planned corrective actions for the report.

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

- 32. We are responsible for complying, and have complied, with the requirements of Circular A-133.
- 33. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, direct appropriations, and other assistance.
- 34. We have prepared the schedule of Passenger Facility Charge (PFC) Collections and Expenditures in accordance with the PFC Audit Guide and have included expenditures made during the period being audited for all PFC revenues.
- 35. We have prepared the Schedule of Customer Facility Charge (CFC) Collections and Expenditures in accordance with our understanding of the requirements of the California Civil Code Section 1936.
- 36. The expenditures incurred through June 30, 2012, totaling \$1,632,923, are necessary expenditures for the purposes of designing, financing, constructing a potential consolidated rental car facility and common use transportation system.
- 37. The collections received through June 30, 2012 are not in excess of the reasonable amount of collections necessary to design, finance and construct a potential consolidated rental car facility and common use transportation system.
- 38. The Customer Facility Charge fee of \$10 per rental car contract has been consistently applied.
- 39. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the Airport Authority is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
- 40. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of the Airport Authority's federal programs and have complied, in all material respects, with those requirements.

41. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
42. We are not aware of any compliance requirements that have varying interpretations.
43. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies or pass-through entities related to federal programs.
44. We have charged costs to federal awards in accordance with applicable cost principles.
45. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
46. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
47. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
48. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
49. We have accurately completed the appropriate sections of the data collection form.
50. We have disclosed all contracts or other agreements with service organizations.
51. There have been no:
 - a. Amounts questioned or known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
 - b. Subrecipients which receive pass-through assistance as outlined in Circular A-133.
 - c. Prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - d. Communications from service organizations relating to noncompliance at those organizations.
 - e. Instances of known noncompliance occurring subsequent to the period for which compliance is audited.
 - f. Changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent of the date as of which compliance is audited.

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

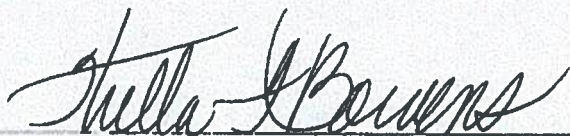
During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

As of and for the Year Ended June 30, 2012

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

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Equity	Revenue	Expenses
Effect of Prior Year Misstatement					
• TSA Grant Billings in the CY that relate to FY11	\$ -	\$ -	\$ (308,107)	\$ 308,107	\$ -
• To adjust for capitalized interest based on cumulative federal grants and PFC	762,352	-	-	-	(762,352)
Total effect	<u>\$ 762,352</u>	<u>\$ -</u>	<u>(308,107)</u>	<u>\$ 308,107</u>	<u>\$ (762,352)</u>
Current year effect of change in net assets			(454,245)		
Effect on ending net assets			<u>\$ (762,352)</u>		

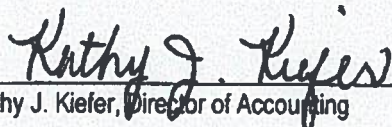
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY



Thella F. Bowens, Chief Executive Officer/President



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



Kathy J. Kiefer, Director of Accounting

ITEM 2

San Diego County Regional Airport Authority

Financial and Compliance Audit for the Year Ended June 30, 2012

Presented By:
Peter George, Director
McGladrey LLP
November 19, 2012



Assurance • Tax • Consulting

Agenda

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



Auditor Responsibilities

- Perform an audit of the Airport Authority's financial statements as of and for the year ended June 30, 2012
- The objective of an audit of financial statements is to express an opinion that the financial statements are presented fairly in conformity with generally accepted accounting principles (GAAP)
- The audit was performed in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*
- Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement

Auditor Responsibilities, Continued

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

Communications to the Audit Committee

- Auditor's responsibility under professional standards
- Accounting practices – adoption of or changes in accounting policies, alternative treatments
- There was 1 auditor proposed adjustment made to the financial statements
- There were two immaterial uncorrected misstatements
- There were no disagreements with management
- There were no consultations with other accountants
- There were no major issues or difficulties encountered during the audit
- We have provided copies of written communications with management

Types of Deficiencies in Internal Control

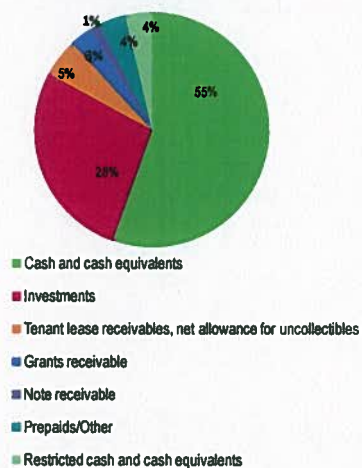
- **Control deficiencies** – design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis
- **Material weaknesses** – a deficiency or a combination of deficiencies,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

Specific Findings Applicable to the Airport Authority

- No material weaknesses noted for FY 2012
- No significant deficiencies noted for FY 2012
- No control deficiencies or management comments noted for FY 2012 that are required to be communicated to the audit committee

Current Assets as of June 30, 2012 and 2011 (in thousands)

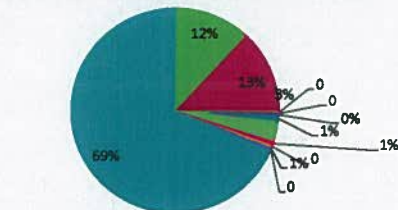
Current Assets as of 6/30/12



Description	6/30/2012	6/30/2011
Cash and cash equivalents	\$ 68,823	\$ 45,859
Investments	34,285	43,680
Tenant lease receivables, net of allowance for uncollectibles	6,551	5,593
Grants receivable	3,868	3,965
Notes receivable	1,581	1,696
Prepaids/Other	4,660	5,273
Restricted cash and cash equivalents	<u>4,534</u>	<u>4,311</u>
Total Current Assets	<u>\$ 124,302</u>	<u>\$ 110,397</u>

Noncurrent and Restricted Assets as of June 30, 2012 and 2011 (in thousands)

Noncurrent and Restricted Assets as of 6/30/2012



- Restricted cash and cash equivalents, not with trustee
- Restricted investments with trustee
- Passenger facility charges receivables
- Customer facility charge receivable
- Other restricted assets
- Investments, noncurrent
- Notes receivable
- Cash and equivalents designated for capital projects
- Deferred costs Series 2005 bonds, net
- Net pension & OPEB asset
- Workers comp security deposits
- Capital Assets, net

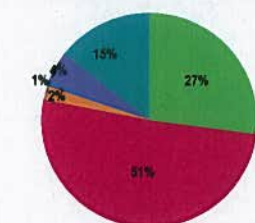


Description	6/30/2012	6/30/2011
Restricted cash and cash equivalents, not with trustee	\$ 155,066	\$ 124,955
Restricted investments with trustee	171,597	392,605
Passenger facility charges receivables	4,412	5,121
Customer facility charge receivable	1,089	1,029
Other restricted assets	6,059	6,239
Investments, noncurrent	10,411	16,827
Notes receivable	41,334	42,914
Cash and equivalents designated for capital projects	9,062	8,148
Deferred costs Series 2005 bonds, net	4,656	4,999
Net pension and OPEB asset	7,204	7,761
Workers comp security deposits	503	225
Capital assets, net	<u>896,477</u>	<u>625,421</u>
Total Noncurrent and Restricted Assets	\$ 1,307,870	\$ 1,236,244
TOTAL ASSETS	<u>\$1,432,072</u>	<u>\$1,346,641</u>

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Current Liabilities as of June 30, 2012 and 2011 (in thousands)

Current Liabilities as of 6/30/2012



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

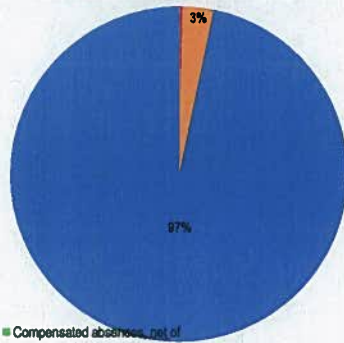


Description	6/30/2012	6/30/2011
Accounts payable	\$ 31,471	\$ 29,007
Accrued liabilities	59,280	28,696
Compensated absences, current	2,479	2,189
Deposits and other current liabilities	868	506
Current portion of debt	5,215	4,760
Accrued interest on debt	<u>16,844</u>	<u>16,992</u>
Total Current Liabilities	<u>\$ 116,157</u>	<u>\$ 82,150</u>

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Non Current Liabilities as of June 30, 2012 and 2011 (in thousands)

Non-Current Liabilities as of 6/30/2012



- Compensated absences, net of current portion
- Tenant security deposits and other
- Commercial paper notes payable
- Series 2010 and 2005 bonds and premium

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Description	6/30/2012	6/30/2011
Deferred rent liability	\$ 0	\$ 0
Compensated absences, net of current portion	454	485
Tenant security deposits and other	949	1,171
Commercial paper notes payable	19,924	20,729
Series 2010 and 2005 bonds end premium	<u>629,043</u>	<u>634,853</u>
Total Non Current Liabilities	<u>\$ 650,370</u>	<u>\$ 657,238</u>
TOTAL LIABILITIES	<u>\$766,527</u>	<u>\$739,387</u>

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2010-2012 Total Net Assets (in thousands)



Description	6/30/12	6/30/11	6/30/10
Invested Capital	\$ 413,140	\$ 357,275	\$ 275,557
Restricted	177,389	147,513	139,672
Unrestricted	<u>75,015</u>	<u>102,466</u>	<u>145,224</u>
Total Net Assets	<u>\$ 665,544</u>	<u>\$ 607,254</u>	<u>\$ 560,453</u>

- Restricted
- Unrestricted
- Invested Capital

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2012 and 2011 Operating Revenue

(in thousands)

Operating Revenue				
	2012	%	2011	%
Airline revenue				
Landing fees	\$18,419	12.0%	\$ 18,578	12.9%
Aircraft parking fees	3,135	2.0%	2,921	2.0%
Building rentals	30,633	19.9%	26,980	18.7%
Security surcharge	18,649	12.2%	14,867	10.4%
Other aviation revenue	1,594	1.1%	1,597	1.1%
Concession revenue	40,427	26.3%	37,103	25.8%
Parking and ground transportation revenue	31,470	20.5%	31,645	22.0%
Ground rentals	8,044	5.2%	8,656	6.0%
Other operating revenue	1,179	0.8%	1,640	1.1%
Total Operating Revenues	\$153,550	100.0%	\$144,007	100.0%



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2012 and 2011 Operating Expenses

(in thousands)

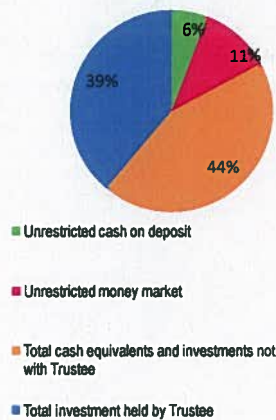
Operating Expenses				
	2012	%	2011	%
Salaries and benefits	\$ 37,237	31.2%	\$ 38,267	33.5%
Contractual services	26,905	22.6%	26,113	22.2%
Safety and security	22,625	19.0%	21,344	18.1%
Space rental	11,415	9.6%	10,907	9.3%
Utilities	6,674	5.6%	6,413	5.4%
Maintenance	8,497	7.1%	8,174	6.9%
Equipment and systems	403	0.3%	570	0.5%
Materials and supplies	305	0.2%	344	0.3%
Insurance	764	0.9%	1,086	0.9%
Employee development and support	916	0.6%	1,041	0.9%
Business development	2,093	1.8%	2,275	1.9%
Equipment rentals and repairs	1,335	1.1%	1,327	1.1%
Total Operating Expenses	\$119,169	100.0%	\$117,841	100.0%



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Investments as of June 30, 2012 and 2011 (in thousands)

Investments as of 6/30/2012



McGladrey

Description	6/30/2012	6/30/2011
Unrestricted cash on deposit	\$26,180	\$14,312
Unrestricted money market accounts/funds	\$51,726	\$39,696
Unrestricted and restricted investments		
Certificates of deposit	\$18,999	\$15,888
Local Agency Investment Fund	47,306	47,132
San Diego County Investment Pool	48,315	48,991
Commercial Paper	25,899	3,490
U.S. Treasury notes	3,002	11,036
U.S. agency securities	58,240	58,922
Total unrestricted and restricted investments	\$189,761	\$185,462
Investments held by trustee		
Money Market Accounts/Funds	42,600	36,900
Bond reserve, guaranteed investment contract	5,394	5,394
Certificates of deposit	20,308	20,119
California Asset Management Program	-	23
Local Agency Investment Fund	-	99,791
San Diego County Investment Pool	107,829	219,593
U.S. agency securities	-	15,095
Total investments held by Trustee	\$176,131	\$386,916
TOTAL CASH and INVESTMENTS	\$453,776	\$636,385

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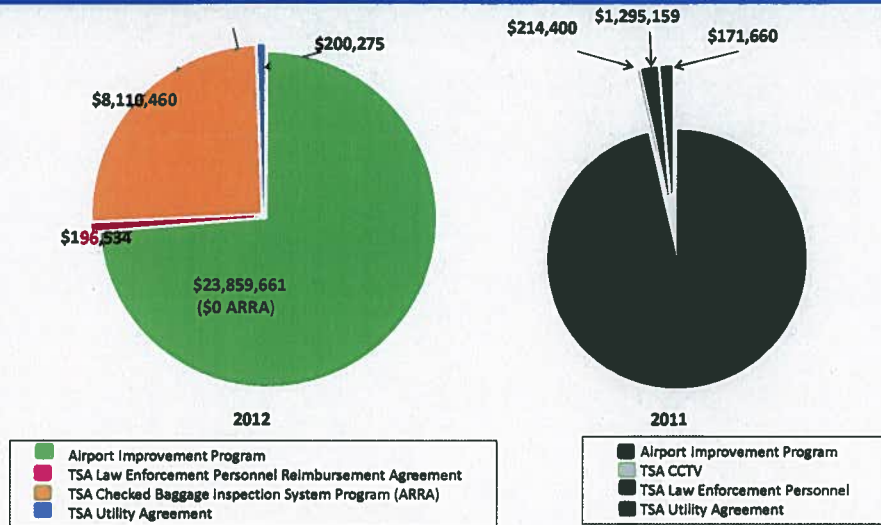
Debt activity for the FYE June 30, 2012

	Principal Balance at 06/30/2011	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2012	Due within One Year
Debt obligations:					
Commercial paper	\$ 21,509,000	\$ -	\$ (780,000)	\$ 20,729,000	\$ 805,000
Bonds payable:					
Series 2005 Bonds	41,225,000	-	(3,625,000)	37,960,000	3,430,000
Series 2010 Bonds	572,565,000	-	(715,000)	571,850,000	980,000
Bond premiums	27,130,313	-	(1,632,346)	25,497,968	-
Deferred amounts on refunding	(2,086,858)	-	231,873	(1,854,985)	-
Total bonds payable	638,833,456	-	(5,380,473)	633,452,983	4,410,000
Total debt obligations	660,342,456	-	(6,160,473)	654,181,983	5,215,000
Compensated absences	2,673,438	2,457,252	(2,197,705)	2,932,985	2,197,705
Long-term liabilities	\$ 663,015,894	\$ 2,457,255	\$ (8,358,178)	\$ 657,114,968	\$ 7,412,705

McGladrey

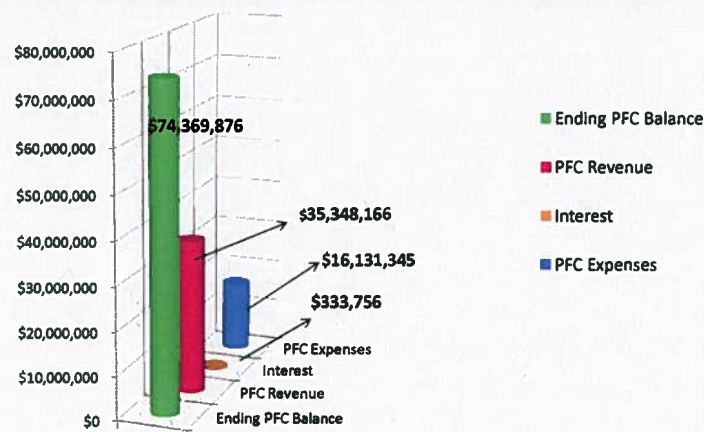
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2012 and 2011 Federal Expenditures



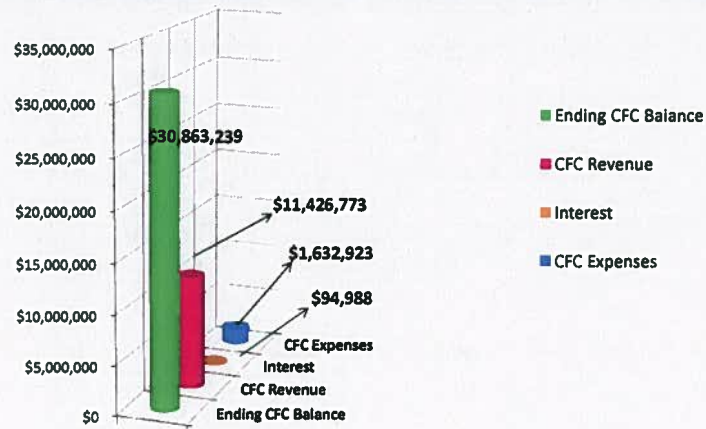
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2012 Passenger Facility Charge Activity



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2012 Customer Facility Charge Activity



Questions?

Thank You.