



**Annual Report
for the Fiscal Year Ended June 30, 2013**

Relating to:

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

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

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

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

\$107,285,000 Senior Airport Revenue Bonds, Series 2013A (Non-AMT)

\$272,300,000 Senior Airport Revenue Bonds, Series 2013B (AMT)

Dated as of:

December 20, 2013

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

- \$313,150,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010A (the “Series 2010A Bonds”);
- \$44,055,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010B (the “Series 2010B Bonds”);
- \$215,360,000 aggregate principal amount of Subordinate Airport Revenue Bonds, Series 2010C (the “Series 2010C Bonds” and, collectively with the Series 2010A Bonds and Series 2010B Bonds, the “Series 2010 Bonds”);
- \$107,285,000 aggregate principal amount of Senior Airport Revenue Bonds, Series 2013A (the “Series 2013A Bonds”); and
- \$272,300,000 aggregate principal amount of Senior Airport Revenue Bonds, Series 2013B (the “Series 2013B Bonds” and collectively with the Series 2013A Bonds, the “Series 2013 Bonds” and together with the Series 2010 Bonds, the “Bonds”).

This Report is provided pursuant to covenants made by the Authority in connection with the issuance of the (i) Series 2010 Bonds pursuant to that certain Continuing Disclosure Certificate of the Authority dated October 5, 2010 (the “Continuing Disclosure Certificate”) and (ii) the Series 2013 Bonds pursuant to that Continuing Disclosure Certificate of the Authority dated January 30, 2013 (the “Series 2013 Continuing Disclosure Certificate” and together with the Series 2010 Continuing Disclosure Certificate, the “Continuing Disclosure Certificates”).

Official Statements and Prior Reports

For further information and a more complete description of the Authority and the Bonds, reference is made to the Official Statements (defined below) for the Bonds and the Authority’s previous Continuing Disclosure Reports beginning with the report for the Fiscal Year ended June 30, 2011 (the “Prior Reports”), respectively, each of which are incorporated by reference in this Report and all of which speak only as of their respective dates. Capitalized terms used but not defined in this Report have the meanings given to them in the Official Statements or the Continuing Disclosure Certificates.

This Report contains financial and operating information updating certain information contained in the Official Statements issued in conjunction with the Bonds (the “Official Statements”). Reference is made to the Authority’s Financial Report and Independent Auditor’s Report for the Fiscal Year ended June 30, 2013 and 2012 (the “Audited Financial Statements”), a copy of which is filed with and hereby made part of this Report. Due to its date of publication, certain information contained in this Report, including information concerning prior years, has been updated and is more current than some of the information contained in the Audited Financial Statements, previous audited financial statements and Prior Reports of the Authority, including, but not limited to, the unaudited information therein.

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

The Series 2013 Bonds are special obligations of the Authority, payable solely from and secured by (a) a pledge of Net Revenues, which include certain income and revenue received by the Authority from the operation of the Airport System less all amounts that are required to pay Operation and Maintenance Expenses of the Airport System; and (b) certain funds and accounts held by the Senior Trustee under the Senior Indenture. The Series 2010 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of (a) Subordinate Net Revenues, which include certain income and revenues received by the Authority from the operation of the Airport System less all amounts which are required to be used to pay the Operation and Maintenance Expenses of the Airport System, the aggregate annual debt service on the Senior Bonds and the reserve and replenishment requirements on and relating to the Senior Bonds, and (b) certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Bonds and neither the full faith and credit nor the taxing power of the Authority (if any), the City of San Diego (the “City”), the County of San Diego, the State of California (the “State”) or any political subdivision or agency of the State is pledged to the payment of the principal of or interest on the Bonds.

By providing the information in this Report, the Authority does not imply or represent (a) that all information provided in this Report is material to investors’ decisions regarding investment in the Bonds, (b) the completeness or accuracy of any financial, operational or other information not included in this Report or in the Official Statement, (c) that no changes, circumstances or events have occurred since the end of the Fiscal Year ended June 30, 2013 (other than as contained in this Report), or (d) that no other information exists which may have a bearing on the Authority’s financial condition, the security for the Bonds or an investor’s decision to buy, sell or hold the Bonds.

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

* * *

Recent Developments

American Airlines Bankruptcy; American Airlines/US Airways Merger

American Airlines accounted for approximately 7.7% and its affiliate American Eagle Airlines (“American Eagle”) accounted for approximately 0.9% of enplaned passengers at SDIA in fiscal year 2013. American Airlines accounted for approximately 6.2% of total revenue landed weight at SDIA in fiscal year 2013. US Airways accounted for approximately 6.4% of enplaned passengers at SDIA in fiscal year 2013. Sky West also provided service for US Airways Express and American Eagle in fiscal year 2013. US Airways accounted for approximately 5.9% of total revenue landed weight at SDIA in fiscal year 2013.

The information in the following paragraph is derived principally from and is qualified by the information contained in Orders entered by the Bankruptcy Court in the bankruptcy cases described below, pleadings filed on behalf of the AMR Debtors (as defined below) in their bankruptcy cases, and AMR Corporation’s filings with the SEC. More complete information is contained in such filings.

As previously reported, on November 29, 2011, AMR Corporation (renamed American Airlines Group Inc.), its principal subsidiary, American Airlines, Inc., and certain of the AMR Corporation’s other direct and indirect domestic subsidiaries (collectively, the “AMR Debtors”), including American Airlines and American Eagle, both of whom operate at SDIA, filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. On February 13, 2013, US Airways Group and AMR Merger Sub, Inc. a Delaware corporation and wholly owned subsidiary of AMR Corporation (“AMR Merger Sub”), entered into a plan of merger (the “Merger Agreement”), providing for a business combination of AMR Corporation and US Airways Group. On December 9, 2013, the AMR Debtors consummated their reorganization pursuant to the Plan of Reorganization, principally through the transactions contemplated by the Merger Agreement, pursuant to which the AMR Merger Sub merged with and into US Airways Group, with US Airways Group surviving as a wholly-owned subsidiary of AMR Corporation following the merger. American Airlines and US Airways continue to operate under separate Federal Aviation Administration certificates.

Pension and Retirement Plans

Authority Pension Plan

All full-time employees of the Authority are eligible to participate in the Authority’s defined-benefit pension plan (the “Authority Pension Plan”), which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Authority Pension Plan is administered by the San Diego City Employees’ Retirement System (“SDCERS”), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City, the Port District and the Authority, and is administered by the Retirement Board of Administration (the “Retirement Board”). Each of the Authority, the City and the Port District has a separate plan and each employer’s contributions are held in trust although all contributions to SDCERS are pooled for investment purposes, managed and invested by the Retirement Board. Effective January 1, 2013, new Authority employees who are deemed to be “New Members” under the California Public Employees’ Pension Reform Act (“PEPRA”) are subject to plan provisions, including reduced benefit accrual factors, caps on pensionable salary, three-year average for final salary and certain exclusions from pensionable salary. There are no New Members in the current valuation, however, in calculating the fiscal year 2014 Annual Required Contribution the valuation reflects an estimate of PEPRA’s impact on the normal cost. See Note 6 of the Audited Financial Statements for more information on the Authority Pension Plan and other actuarial assumptions.

The City 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 Authority to pay a portion of the employees’ contributions. The Authority’s contribution rate as determined through actuarial valuation was 10.9% for Fiscal Year 2013 and was 14.5% for Fiscal Year 2012 and is expressed as a percentage of covered payroll. For Fiscal Year 2013, the Authority contributed approximately \$4.6 million to the Authority Pension Fund, and for Fiscal Year 2012, the Authority contributed approximately \$4.4 million to the Authority Pension Fund. For Fiscal Year 2014, the Authority has budgeted a contribution of approximately \$6.25 million to the Authority Pension Fund. The Authority has always made its full required contributions to the Authority Pension Plan. The Authority cannot predict the levels of funding that will be required in the future.

The following table sets forth certain information about the funding status of the Authority Pension Plan that has been extracted from the comprehensive annual financial reports of SDCERS for the fiscal years ended June 30, 2007 through, and including, 2013 (collectively, the “SDCERS CAFRs (2007-2013)”) and the actuarial valuation reports provided to SDCERS by Cheiron, Inc. for the fiscal years ended June 30, 2007 through, and including, 2012 (collectively, the “Actuarial Reports (2007-2012)”). Complete copies of the SDCERS CAFRs (2007-2013) and the Actuarial Reports (2007-2012) can be obtained from SDCERS by writing to the San Diego City Employees’ Retirement System, Suite 400, 401 West A Street, San Diego, California 92101 and from the SDCERS website at www.sdcers.org. No information contained on such website is incorporated into this Report.

**Funding Status of Authority Pension Plan
(Dollars in thousands)**

Fiscal Year Ended June 30	Actuarial Value of Assets [a]	Market Value of Assets [b]	Actuarial Accrued Liability [c]	Unfunded Actuarial Accrued Liability (Actuarial Value) [c]-[a]	Funded Ratio (Actuarial Value) [a]/[c]	Unfunded Actuarial Liability (Market Value) [c]-[b]	Funded Ratio (Market Value) [b]/[c]	Covered Payroll [d]	UAAL as a Percentage of Covered Payroll (Actuarial Value) [[c-a]/[d]]
2007 ⁽¹⁾	\$50,812,142	\$53,305,476	\$46,636,555	\$(4,175,587)	109.0%	\$(6,668,921)	114.3%	\$21,956,656	(19.0)%
2008	58,095,599	54,856,234	56,807,663	(1,287,936)	102.3	1,951,429	96.6	23,488,283	(5.5)
2009 ^{(2),(3)}	58,981,105	49,150,920	67,870,945	8,889,841	86.9	18,720,024	72.4	24,693,427	36.0
2010	73,400,892	64,795,807	76,447,473	3,046,581	96.0	11,651,666	84.8	25,595,623	11.9
2011 ⁽⁴⁾	86,309,270	86,911,148	84,042,425	(2,266,845)	102.7	(2,868,723)	103.4	25,148,489	(9.0)
2012 ⁽⁵⁾	95,792,613	91,997,000	97,224,854	1,432,241	98.5	5,227,854	94.6	24,726,028	5.8

⁽¹⁾ In Fiscal Year 2007, SDCERS changed the calculation methodology for the Actuarial Accrued Liability, from a Projected Unit Credit (“PUC”) methodology to an Entry Age Normal (“EAN”) methodology. The PUC methodology calculates the Actuarial Accrued Liability by computing the present value of the amount of benefits allocated to the participants during the year divided by the total payroll and subtracting the expected member contributions. The EAN methodology calculates the Actuarial Accrued Liability by computing the level annual percentage of pay required to fund the retirement benefits between each member’s date of hire and their assumed retirement date.

⁽²⁾ For the June 30, 2009 valuation, an actuarial smoothing method on the market value that dampens volatility was employed to determine the actuarial valuation of the Authority Pension Plan’s assets, and the Authority Pension Plan’s assets were assumed to earn 7.75% (net of expenses) per annum. Prior to Fiscal Year 2009, SDCERS assumed an 8% (net of expenses) rate of return per annum on its assets. The June 30, 2009 valuation also assumed that salaries will increase 4% per annum and the costs of living benefits will increase 2% per annum.

⁽³⁾ In December 2006, the Board approved a resolution directing the Authority to maintain the Authority Pension Plan funding level at a minimum of 95%. For Fiscal Year 2009, the funding level of the Authority Pension Plan was 86.9%. In June 2010, the Board amended its direction to the Authority by providing that the Authority Pension Plan funding level should be instead maintained at a minimum of 90%, with a corresponding strategy to incrementally improve the funding level to a 95% target/goal. In order to meet the 90% minimum funding level, in June 2010, the Authority made an additional \$4.6 million contribution to the Authority Pension Plan.

⁽⁴⁾ For the June 30, 2011 valuation, the Authority Pension Plan’s assets were assumed to earn 7.50% (net of expenses) per annum. Prior to Fiscal Year 2011, SDCERS assumed a 7.75% (net of expenses) rate of return per annum on its assets. The June 30, 2011 valuation also assumed that salaries will increase 3.75% per annum (lowered from 4.00%) and the costs of living benefits will increase 2% per annum.

⁽⁵⁾ Effective January 1, 2013, new Authority employees who are deemed to be “New Members” under PEPRA are subject to plan provisions, including reduced benefit accrual factors, caps on pensionable salary, three-year average for final salary and certain exclusions from pensionable salary. There are no New Members in the current valuation.

Source: SDCERS CAFRs (2007-2013) and Actuarial Reports (2007-2012); and San Diego County Regional Airport Authority.

Postemployment Health Benefits

In addition to the pension benefits provided under the Authority Pension Plan, the Authority provides medical, dental and \$10,000 life insurance postretirement benefits (“Postemployment Health Benefits”) for nonunion employees hired prior to May 1, 2006, and union employees hired prior to October 1, 2008. The employees hired prior to the above-described dates 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. Employees hired after the above-described dates are eligible to participate in a voluntary employee beneficiary association plan (“VEBA”). In May 2009, the Board approved an agreement with the California Employers’ Retiree Benefit Trust (“CERBT”) fund, which is managed by the California Public Employees Retirement System (“CalPERS”), to administer the Authority’s VEBA Postemployment Health Benefits. See Audited Financial Statements, Note 8, for more information on the Authority’s Postemployment Health Benefits.

For Fiscal Year 2013 and 2012, the Authority paid approximately \$2.2 million for Postemployment Health Benefits. For Fiscal Year 2014, the Authority as budgeted approximately \$2.3 million to be paid for Postemployment Health Benefits.

The following table sets forth certain information about the funding status of the Authority's Postemployment Health Benefits derived from the Authority's financial statements for the years ended June 30, 2010, 2011 and 2012, and from the Actuarial Valuation Study dated January 17, 2012 prepared by Aon Hewitt ("Aon Actuarial Valuation").

**Funding Status of Authority's Postemployment Health Benefits
(Dollars in thousands)**

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actuarial	7/1/2007	\$ 0	\$ 8,924	\$ 8,924	0.0%	\$ 18,806	47.5%	7.75%	3.25%
Actuarial	7/2/2008	0	10,327	10,327	0.0	19,417	53.2	7.75	3.25
Actuarial	7/1/2009	2,674	12,206	9,532	21.9	19,514	48.8	7.75	3.25
Actuarial	7/1/2010	4,474	14,149	9,675	31.6	20,148	48.0	7.75	3.25
Actuarial	7/1/2011	7,604	22,197	14,593	34.3	18,728	77.9	7.61	3.25

Source: Financial Statements of the Authority for the Fiscal years ended June 30, 2010, 2011 and 2012, and the Actuarial Valuation Study, dated January 17, 2012, by Aon Hewitt.

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.

Nonunion employees hired after May 1, 2006 and union employees hired after October 1, 2008 are not eligible to receive the Postemployment Health Benefits described above, but they are eligible to participate in VEBA.

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

Additional information regarding SDCERS' assumptions, plan details and investment of plan assets can be found in the SDCERS CAFR (2007-2013) and the Actuarial Reports (2007-2012). Additional information regarding CalPERS' assumptions, plan details and investment of plan assets can be found in the "California Public Employees' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012" (the "CalPERS Report"). The Authority is relying upon, and has not independently confirmed or verified, the accuracy or completeness of the SDCERS CAFR (2007-2013) CalPERS Report, the Actuarial Reports (2007-2012) and the Aon Actuarial Valuation or other information incorporated by reference therein, nor any events subsequent to the dates of these documents.

Draft Investigative Order – Downtown Anchorage Area in the San Diego Bay

On or about November 2, 2011, the Authority informally received information that the California Regional Water Quality 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 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 Authority, Teledyne Ryan Industries, Inc., General Dynamics and Solar Turbines. The 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 Authority; (3) the RWQCB must name all responsible parties, including the Port District and the City; and (4) the studies relied upon by the RWQCB predate the formation of the Authority. The RWQCB has not issued a final IO. However, the Authority expects to be named as a

responsible party in the final IO. The Authority's legal counsel cannot predict the net exposure of the Authority with respect to this matter, or the probability or remoteness of any outcome seeking damages.

Substitution of Subordinate Trustee

On August 23, 2013, Deutsche Bank National Trust Company, resigned as Subordinate Trustee under the Subordinate Indenture and the Authority appointed U. S. Bank National Association as successor Subordinate Trustee under the Subordinate Indenture.

Pending Claims or Litigation

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

Updated Tables

Following are updated tables provided pursuant to the Continuing Disclosure Certificates.

As of June 30, 2013, the Authority had outstanding the following principal amounts of the Series 2010 Bonds, Series 2013 Bonds and Subordinate Commercial Paper Notes.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
OUTSTANDING PRINCIPAL AMOUNTS
OF THE SERIES 2010 BONDS, SERIES 2013 BONDS
AND SUBORDINATE COMMERCIAL PAPER NOTES AS OF JUNE 30, 2013
(000's)**

	Outstanding Principal Amount
Series 2013 Bonds	\$ 379,585
Series 2010 Bonds	570,870
Commercial Paper Notes	<u>50,969</u>
Total	<u>\$ 1,001,424</u>

As of June 30, 2013, the Authority estimated future rental commitments under the Authority's lease agreements to be as follows.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FUTURE RENTAL COMMITMENTS
AS OF JUNE 30, 2013***

Fiscal Year Ending June 30	Rental Payment Amounts
2014	\$ 10,290,846
2015	10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019-2023	50,799,600
2024-2028	50,799,600
2029-2033	50,799,600
2034-2038	50,799,600
2039-2043	50,799,600
2044-2048	50,799,600
2049-2053	50,799,600
2054-2058	50,799,600
2059-2063	50,799,600
2064-2068	50,799,600
2069	<u>5,079,960</u>
Total	<u>\$ 564,028,086</u>

* Shown as Table 3 "Future Rental Commitments" in the Official Statement for the Series 2010 Bonds. Shown as Table 4 "Future Rental Commitments" in the Official Statement for the Series 2013 Bonds.
Source: San Diego County Regional Airport Authority

The following table sets forth the air carriers serving the Authority as of November 2013.

**SAN DIEGO INTERNATIONAL AIRPORT
AIR CARRIERS SERVING
SAN DIEGO INTERNATIONAL AIRPORT*
AS OF NOVEMBER 2013**

Scheduled U.S. Carriers	Foreign Flag Carriers	All-Cargo Carriers
Alaska Airlines	Air Canada	ABX Air, Inc.
Allegiant	British Airways	Ameriflight
American Airlines ⁽¹⁾	Japan Airlines	Federal Express
American Eagle Airlines ^(1,2)	Volaris	United Parcel Service
Delta Air Lines	Westjet	West Air, Inc.
Frontier Airlines		
Hawaiian Airlines		
Horizon Air ⁽³⁾		
JetBlue Airways		
Republic Airlines ⁽⁴⁾		
Seaport		
SkyWest Airlines ⁽⁵⁾		
Southwest Airlines		
Spirit		
Sun Country Airlines		
United Airlines		
US Airways		
Virgin America		

* Shown as Table 4 "Air Carriers Serving San Diego International Airport in the Series 2010 Official Statement. Shown as Table 5 "Air Carriers Serving San Diego International Airport in the Series 2013 Official Statement.

(1) See "Recent Developments – *American Airlines Bankruptcy; American Airlines/US Airways Merger*" regarding the American Airlines bankruptcy and the American Airlines/US Airways merger.

(2) An affiliate of and doing business as American Airlines.

(3) An affiliate of and doing business as Alaska Airlines.

(4) An affiliate of and doing business as Frontier Airlines.

(5) An affiliate of and doing business as United Express, Delta Connection and US Airways Express, Alaska and American Eagle.

Source: San Diego County Regional Airport Authority

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

**SAN DIEGO INTERNATIONAL AIRPORT
TOTAL ENPLANEMENTS*
FISCAL YEARS 2009-2013**

Fiscal Year	Domestic		International		Total Enplanements	
	Enplanements	Percent of Total	Enplanements	Percent of Total	Enplanements	Percent Change
2009	8,450,723	99.0%	85,051	1.0%	8,535,774	(9.1)%
2010	8,339,147	98.6	114,739	1.4	8,453,886	(1.0)
2011	8,316,322	98.5	124,798	1.5	8,441,120	(0.2)
2012	8,323,734	97.1	251,741	2.9	8,575,475	1.6
2013	8,460,959	96.8	276,658	3.2	8,737,617	1.9

* Shown as Table 5 "Total Enplanements" in the Series 2010 Official Statement. Shown as Table 6 "Total Enplanements" in the Series 2013 Official Statement.

Source: San Diego County Regional Airport Authority

The following table sets forth total revenue operations (landings and takeoffs) and total enplaned and deplaned passengers at SDIA for Fiscal Years 2009 through 2013.

**SAN DIEGO INTERNATIONAL AIRPORT
AIR TRAFFIC DATA*
FISCAL YEARS 2008-2013**

Fiscal Year	Total Operations⁽¹⁾	Operations Growth	Total Passengers⁽²⁾	Passenger Growth
2009	208,783	(13.1)%	17,073,818	(9.0)%
2010	194,509	(6.8)	16,929,295	(0.9)
2011	186,181	(4.3)	16,868,732	(0.4)
2012	186,196	0.1	17,138,413	1.6
2013	187,322	0.6	17,440,968	1.8

* Shown as Table 6 "Air Traffic Data" in the Series 2010 Official Statement. Shown as Table 7 "Air Traffic Data" in the Series 2013 Official Statement.

(1) For revenue related departures and arrivals.

(2) Enplaned and deplaned passengers.

Source: San Diego County Regional Airport Authority

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

**SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL ENPLANED AND DEPLANED
FREIGHT AND U.S. MAIL CARGO
(IN TONS)
FISCAL YEARS 2009-2013***

Fiscal Year	Freight	Annual Percentage Change	U.S. Mail	Annual Percentage Change	Total	Annual Percentage Change
2009	104,750	(18.5)%	16,032	(0.2)%	120,782	(16.4)%
2010	108,823	3.9	16,690	4.1	125,513	3.9
2011	122,204	12.3	16,802	0.7	139,005	10.7
2012	136,036	11.3	17,335	3.2	153,370	10.3
2013	138,760	2.0	18,265	5.4	157,025	2.4

* Shown as Table 7 "Historical Enplaned and Deplaned Freight and U.S. Mail Cargo" in the Series 2010 Official Statement. Shown as Table 8 "Historical Enplaned and Deplaned Freight and U.S. Mail Cargo" in the Series 2013 Official Statement.
Source: San Diego County Regional Airport Authority.

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

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**SAN DIEGO INTERNATIONAL AIRPORT
ENPLANEMENTS BY AIR CARRIERS
(RANKED ON 2013 RESULTS)^{*(†)}**

Air Carrier	Fiscal Year 2009 Enplanements	2009 Percent Share	Fiscal Year 2010 Enplanements	2010 Percent Share	Fiscal Year 2011 Enplanements	2011 Percent Share	Fiscal Year 2012 Enplanements	2012 Percent Share	Fiscal Year 2013 Enplanements	2013 Percent Share
Southwest	3,122,090	36.6%	3,183,084	37.7%	3,277,931	38.8%	3,252,290	37.9%	3,253,225	37.2%
United ⁽¹⁾	1,430,265	16.8	1,428,403	16.9	1,374,407	16.3	1,266,007	14.8	1,175,869	13.5
Delta ⁽²⁾	890,811	10.4	900,510	10.7	919,323	10.9	935,777	10.9	904,734	10.4
American ⁽³⁾	735,067	8.6	704,909	8.3	658,752	7.8	664,466	7.7	673,731	7.7
Alaska	428,515	5.0	435,722	5.2	514,498	6.1	579,457	6.8	650,826	7.4
US Airways ⁽³⁾	563,392	6.6	512,558	6.1	523,378	6.2	535,906	6.2	560,738	6.4
Frontier	212,069	2.5	196,628	2.3	219,008	2.6	198,708	2.3	184,020	2.1
Virgin America	155,649	1.8	151,110	1.8	133,377	1.6	166,326	1.9	168,297	1.9
British Airways	--	0.0	--	0.0	6,912	0.1	81,437	0.9	164,189	1.9
Spirit	--	0.0	--	0.0	--	0.0	77,873	0.9	152,571	1.8
Jet Blue	235,199	2.8	167,031	2.0	141,684	1.7	147,051	1.7	94,283	1.1
Hawaiian	100,626	1.2	90,874	1.1	98,887	1.2	86,211	1.0	81,534	0.9
Air Canada	27,255	0.3	46,959	0.6	58,539	0.7	56,470	0.7	45,058	0.5
Volaris	--	0.0	--	0.0	--	0.0	45,589	0.5	30,885	0.4
Japan Airlines	--	0.0	--	0.0	--	0.0	--	0.0	23,836	0.3
Sun Country Airlines	35,885	0.4	24,984	0.3	24,175	0.3	15,889	0.2	18,249	0.2
Others ⁽⁴⁾	155,738	1.8	113,406	1.3	55,754	0.6	43,634	0.5	43,212	0.5
Total Air Carrier	8,092,561	94.8%	7,956,178	94.1%	8,006,625	94.9%	8,153,091	95.1%	8,225,257	94.1%
Regional										
SkyWest ⁽⁵⁾	203,543	2.4%	271,766	3.2%	272,365	3.2%	263,144	3.1%	352,189	4.0%
American Eagle ⁽³⁾	232,289	2.7	207,272	2.5	155,421	1.8	140,574	1.6	82,377	0.9
Horizon ⁽⁶⁾	--	0.0	--	0.0	--	0.0	5,900	0.1	77,392	0.9
Mesa ⁽⁷⁾	7,381	0.1	18,670	0.2	6,709	0.1	12,766	0.1	206	0.0
Seaport	--	0.0	--	0.0	--	0.0	--	0.0	196	0.0
Total Regional	443,213	5.2%	497,708	5.9%	434,495	5.1%	422,384	4.9%	512,360	5.9%
Total Enplanements	8,535,774	100.0%	8,453,886	100.0%	8,441,120	100.0%	8,575,475	100.0%	8,737,617	100.0%

* Shown as Table 8 "Enplanements by Air Carriers" in the Series 2010 Official Statement. Shown as Table 9 "Enplanements by Air Carriers" in the Series 2013 Official Statement.

(†) Totals may not add due to rounding.

(1) United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table.

(2) In 2008, Delta acquired Northwest. As of January 31, 2010, the operations of Delta and Northwest were merged into a single entity that now operates under the Delta brand. Enplanements are for Delta and Northwest.

(3) See "Recent Developments – American Airlines Bankruptcy; American Airlines/US Airways Merger" regarding the American Airlines bankruptcy and the American Airlines/US Airways merger.

(4) "Others" includes airlines that ceased operating at SDIA during the period shown in the table, and airlines with a Fiscal Year 2013 market share of less than 0.5%.

(5) Alaska, American Eagle, Delta Connection, United Express and US Airways Express.

(6) Alaska.

(7) US Airways.

Source: San Diego County Regional Airport Authority

The following table sets forth the total revenue landed weight for the 14 largest air and cargo carriers serving SDIA for the last five Fiscal Years, ranked on Fiscal Year 2013 results.

**SAN DIEGO INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT^(*)
FISCAL YEARS 2009-2013
(TOP 15 RANKED ON FISCAL YEAR 2013 RESULTS)
(IN THOUSANDS OF LBS.)**

Airline	2009	2010	2011	2012	2013	2013% of Total
Southwest	4,415,780	4,068,974	4,001,530	3,953,536	3,907,554	35.5%
United ⁽¹⁾	1,670,479	1,662,541	1,583,372	1,502,203	1,387,854	12.6
Delta ⁽²⁾	1,007,769	1,047,296	1,062,254	1,047,068	1,023,608	9.3
Alaska	536,281	511,813	595,238	648,359	750,000	6.8
American ⁽³⁾	848,513	766,151	672,059	701,126	685,836	6.2
US Airways	684,354	626,510	603,439	643,014	653,915	5.9
Federal Express	402,665	400,303	421,239	452,453	451,797	4.1
SkyWest ⁽⁴⁾	219,416	332,408	338,812	306,789	428,595	3.9
Virgin America	221,333	205,348	173,686	208,253	235,934	2.1
Spirit	--	--	--	98,931	208,200	1.9
Frontier	237,269	227,847	249,492	208,936	196,614	1.8
JetBlue	297,340	201,071	167,369	166,232	168,080	1.5
British Airways	--	--	13,800	167,440	163,760	1.5
Hawaiian	137,145	121,600	134,080	118,088	140,637	1.3
United Parcel Service	127,900	118,874	120,158	120,454	118,180	1.1
Others ⁽⁵⁾	690,515	602,132	469,632	477,021	495,151	4.5
Total	11,496,758	10,892,867	10,606,160	10,819,902	11,015,716	100.0%
Annual % Change	-8.0%	-5.3%	-2.6%	2.0%	1.8%	

* Shown as Table 9 "Total Revenue Landed Weight" in the Series 2010 Official Statement. Shown as Table 10 "Total Revenue Landed Weight" in the Series 2013 Official Statement.

(*) Totals may not add due to rounding. Charter airlines are included in the landed weights of the carriers that service them. Landed weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at SDIA.

(1) United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. Data for United and Continental have been combined in this table.

(2) In 2008, Delta acquired Northwest. As of January 31, 2010, the operations of Delta and Northwest were merged into a single entity that now operates under the Delta brand. Revenue Landed Weight is for both Delta and Northwest.

(3) See "Recent Developments - American Airlines Bankruptcy; American Airlines/US Airways Merger" regarding the American Airlines bankruptcy and the American Airlines/US Airways merger.

(4) Delta Connection, United Express and US Airways Express.

(5) "Others" includes passenger airlines and/or cargo carriers that ceased operating at SDIA during the period shown in the table, and passenger airlines and/or cargo carriers with a Fiscal Year 2013 market share of less than 0.9%.

Source: San Diego County Regional Airport Authority

The following table sets forth a summary of the Authority's investments as of June 30, 2013.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
INVESTMENTS*
(AS OF JUNE 30, 2013)⁽¹⁾**

Security Type	Market Value as of June 30, 2013	Percentage of Portfolio
U.S. Agency Securities	\$ 74,053,000	23.9%
Collateralized Bank Demand Deposits	69,062,000	22.3%
San Diego County Investment Pool	48,345,000	15.6%
Local Area Investment Fund (LAIF)	47,456,000	15.3%
Commercial Paper	35,485,000	11.4%
U.S. Treasuries	11,760,000	3.8%
Certificates of Deposit	10,117,000	3.3%
Medium Term Notes	8,126,000	2.6%
Cal Trust	5,000,000	1.6%
Money Market Fund	537,000	0.2%
Total	\$ 309,941,000	100.0%

* Shown as Table 11 "Investments" in the Series 2010 Official Statement. Shown as Table 12 "Investments" in the Series 2013 Official Statement.

⁽¹⁾ Totals may not add due to rounding.

Source: San Diego County Regional Airport Authority June 30, 2013 Investment Report

The following table summarizes the financial results from operations for the Authority for Fiscal Years 2009 through 2013 (derived from audited financial statements).

SAN DIEGO INTERNATIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
(DOLLARS IN THOUSANDS)⁽¹⁾
FISCAL YEARS 2008-2013

	2009	2010 ⁽²⁾	2011 ⁽²⁾	2012 ⁽²⁾	2013
Operating revenue:					
Aviation revenue					
Landing fees	\$ 18,689	\$ 18,672	\$ 18,579	\$ 18,419	\$ 19,658
Aircraft parking fees	3,221	3,406	2,921	3,134	3,191
Building rentals	23,057	23,835	26,980	30,633	41,840
Security surcharge	10,204	11,900	14,886	18,649	23,360
Other aviation revenue	1,565	1,584	1,597	1,595	1,591
Concession revenue	36,280	36,249	37,103	40,427	42,041
Parking and ground transportation revenue	31,492	30,296	31,645	31,470	35,750
Ground rentals	5,776	5,923	8,656	8,044	9,162
Other operating revenue	693	1,829	1,640	1,179	905
Total operating revenue	130,977	133,695	144,007	153,550	177,498
Operating expenses:					
Salaries and benefits	34,741	35,386	38,267	37,237	38,092
Contractual services	27,464	27,999	26,113	26,906	29,284
Safety & security	19,930	20,131	21,344	22,625	23,994
Space rental	10,888	10,906	10,906	11,415	10,897
Utilities	6,912	6,871	6,413	6,674	6,659
Maintenance	8,002	9,231	8,174	8,497	11,204
Equipment and systems	678	891	570	403	469
Material and supplies	641	413	345	304	406
Insurance	1,096	1,166	1,066	764	795
Employee development & support	1,030	990	1,041	916	1,235
Business development	2,509	2,033	2,275	2,093	2,444
Equipment rental and repair	1,387	1,271	1,327	1,335	1,317
Total operating expenses before depreciation and amortization	115,278	117,288	117,841	119,169	126,796
Income from operations before depreciation and amortization	15,699	16,407	26,165	34,381	50,702
Depreciation and amortization	38,196	42,424	49,138	44,532	41,624
Operating income (loss)	(22,498)	(26,018)	(22,973)	(10,151)	9,078
Non-operating revenues (expenses):					
Passenger facility charges	33,219	34,049	33,998	34,639	35,437
Customer facility charges	1,695	10,783	10,986	11,487	19,117
Quieter Home Program, net	(5,573)	(1,629)	(3,359)	(3,531)	(1,589)
Joint Studies Program	(180)	(244)	(129)	(73)	(55)
Interest income	9,434	6,667	6,408	5,492	4,140
Interest expense	(2,998)	(3,472)	(12,295)	(2,027)	(16,530)
“Build America Bond” rebate	--	--	3,691	4,996	4,779
Other non-operating revenue (expenses), net	316	(1,004)	(92)	(3,032)	(4,279)
Net non-operating revenue	35,913	45,149	39,208	47,951	41,020
Income before capital grant contributions	13,416	19,131	16,236	37,800	50,098
Capital grant contributions	4,646	27,350	26,355	20,834	16,077
Change in net assets	18,062	46,482	42,591	58,634	66,175
Net Position, beginning of year	495,121	513,183	559,664	602,255	660,889
Net Position, end of year	\$ 513,183	\$ 559,664	\$ 602,255	\$ 660,889	\$ 727,063

* Shown as Table 12 “Historical Operating Statements” in the Series 2010 Official Statement. Shown as Table 13 “Historical Operating Statements” in the Series 2013 Official Statement.

(1) Totals may not add due to rounding.

(2) Restated as per GASB 65.

Source: Derived from the audited financial statements of the Authority

The following table sets forth the top ten operating revenue providers at SDIA for Fiscal Year 2013.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
TOP TEN OPERATING REVENUE PROVIDERS*
FISCAL YEAR 2013**

	Revenue Provider	Revenues	Percent of Total Operating Revenue
1.	Southwest Airlines	\$27,598,908	15.5%
2.	United Airlines	15,817,886	8.9
3.	Delta Airlines	10,898,540	6.1
4.	American Airlines ⁽¹⁾	9,765,412	5.5
5.	Host International	6,960,141	3.9
6.	Enterprise Rent-A-Car	6,934,784	3.9
7.	Alaska Airlines	6,167,257	3.5
8.	Hertz Rent-A-Car	5,961,730	3.4
9.	US Airways	5,408,046	3.0
10.	Avis Budget Rent-A-Car Group	4,697,455	2.6

* Shown as Table 13 "Top Ten Operating Revenue Providers" in the Series 2010 Official Statement. Shown as Table 14 "Top Ten Operating Revenue Providers" in the Series 2013 Official Statement.

⁽¹⁾ See "Recent Developments – *American Airlines Bankruptcy; American Airlines/US Airways Merger*" regarding the American Airlines bankruptcy and the American Airlines/US Airways merger.

Source: San Diego County Regional Airport Authority

The following table sets forth the top ten top ten revenue sources at SDIA for Fiscal Year 2013.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
TOP TEN OPERATING REVENUE SOURCES*
FISCAL YEAR 2013**

	Source	Revenue	Percent of Operating Revenue
1.	Terminal Rent-Airlines	\$ 41,839,619	23.6%
2.	Parking	33,883,703	19.1
3.	Car Rental License Fees ⁽¹⁾	24,401,371	13.7
4.	Security Surcharge	23,359,938	13.2
5.	Landing Fees	19,658,173	11.1
6.	Ground Rent	8,189,723	4.6
7.	Food and Beverages	6,574,875	3.7
8.	News/Retail	3,257,773	1.8
9.	Aircraft Parking Fees	3,190,928	1.8
10.	Advertising, ATM, Smarte Carte	2,879,212	1.6

* Shown as Table 14 "Top Ten Operating Revenue Sources" in the Series 2010 Official Statement. Shown as Table 15 "Top Ten Operating Revenue Sources" in the Series 2013 Official Statement.

⁽¹⁾ Excludes CFC revenues of which the Authority recorded the receipt of \$19,117,217 in Fiscal Year 2013.

Source: San Diego County Regional Airport Authority

The following table shows historical debt service coverage for Fiscal Years 2009 through 2013.

**SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL SENIOR AND SUBORDINATE DEBT SERVICE COVERAGE*
FISCAL YEARS 2009-2013**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Revenues					
Revenues ⁽¹⁾	\$ 138,334,601	\$ 138,113,792	\$ 148,963,671	\$ 158,311,779	\$ 181,051,929
Operating and Maintenance Expenses	<u>115,221,068</u>	<u>116,275,132</u>	<u>117,100,946</u>	<u>118,941,148</u>	<u>126,662,546</u>
Net Revenues Available for Debt Service	\$ 23,113,533	\$ 21,838,660	\$ 31,862,725	\$ 39,370,631	\$ 54,389,383
Senior Debt Service⁽²⁾⁽³⁾					
Principal	\$ 2,950,000	\$ 3,105,000	\$ 3,265,000	\$ 3,430,000	--
Interest	<u>2,391,975</u>	<u>2,244,475</u>	<u>2,089,225</u>	<u>1,925,975</u>	<u>2,478,489</u>
PFC Funds Applied to Senior Debt	--	--	--	--	(714,077)
Total Senior Debt Service	\$ <u>5,341,975</u>	\$ <u>5,349,475</u>	\$ <u>5,354,225</u>	\$ <u>5,355,975</u>	\$ <u>1,764,412</u>
Senior Debt Service Coverage	4.33x	4.08x	5.95x	7.35x	30.83x
Subordinate Debt Service⁽⁴⁾					
Subordinate Net Revenues Available for Debt Service	\$ 17,771,558	\$ 16,489,185	\$ 26,508,500	\$ 34,014,656	\$ 52,624,971
Subordinate Bonds					
Principal	--	--	\$ 715,000	\$ 980,000	\$ 1,000,000
Interest ⁵	--	--	2,971,984	6,599,760	26,194,616
Subordinate Commercial Paper Notes ⁽⁶⁾	1,128,080	723,857	1,220,226	1,077,867	5,519,872
PFC Funds Applied to Debt Service	--	--	--	--	(20,061,962)
Total Subordinate Debt Service	\$ 1,128,080	\$ 723,857	\$ 4,907,210	\$ 8,657,627	\$ 12,652,526
Subordinate Debt Service Coverage	15.75x	22.78x	5.40x	3.93x	4.16x
Aggregate Senior and Subordinate Debt Service					
Net Revenues Available for Debt Service	\$ 23,113,533	\$ 21,838,660	\$ 31,862,725	\$ 39,370,631	\$ 54,389,383
Aggregate Debt Service					
Principal ⁽⁷⁾	\$ 2,950,000	\$ 3,105,000	\$ 3,980,000	\$ 4,410,000	\$ 1,000,000
Interest ⁽⁵⁾⁽⁷⁾	2,391,975	2,244,475	5,061,209	8,525,735	28,673,105
Subordinate Commercial Paper Notes ⁽⁶⁾	1,128,080	723,857	1,220,226	1,077,867	5,519,872
PFC Funds Applied to Debt Service	--	--	--	--	(20,776,039)
Total Aggregate Debt Service	\$ 6,470,055	\$ 5,840,953	\$ 10,261,435	\$ 14,013,602	\$ 14,416,938
Aggregate Debt Service Coverage	3.57x	3.60x	3.11x	2.81x	3.77x

* Shown as Table 15 "Historical Senior Coverage" in the Series 2010 Official Statement. Shown as Table 16 "Historical Senior and Subordinate Debt Service Coverage" in the Series 2013 Official Statement.

(1) Does not include grants which are otherwise included in the definition of Revenues. Grants which are not otherwise restricted by their terms to the payment of debt service on Senior Bonds and/or Subordinate Obligations are included in the definition of Revenues.

(2) Senior Debt Service is calculated pursuant to the provisions of the Master Senior Indenture.

(3) Includes principal of and interest paid on the Authority's Airport Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"), which were fully defeased on December 21, 2012.

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

(5) Net of interest paid with proceeds of the Subordinate Series 2010 Bonds and Federal Direct Payments received by the Authority with respect to the Subordinate Series 2010C Bonds.

(6) Includes principal of and interest on the Subordinate Commercial Paper Notes and the fees paid to the CP Bank.

(7) Includes principal of and interest on the Series 2005 Bonds (which were fully defeased on December 21, 2012) and the Subordinate Series 2010 Bonds.

Source: San Diego County Regional Airport Authority

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

**SAN DIEGO INTERNATIONAL AIRPORT
AIRLINE DERIVED REVENUE PER PASSENGER^{*(1)}
FISCAL YEARS 2009-2013**

Airline Revenues	2009	2010	2011	2012	2013
Landing Fees	\$ 18,677,650	\$ 18,656,620	\$ 18,840,062	\$ 18,947,013	\$ 20,186,247
Aircraft Parking Fees ⁽²⁾	3,189,492	3,382,020	2,920,891	3,134,539	3,190,928
Terminal Rentals	22,046,636	22,868,249	26,849,412	30,346,360	41,582,243
FIS Use Charges	148,035	102,843	136,087	354,601	424,433
Security Surcharge	10,203,808	11,900,070	14,886,586	18,649,147	23,359,938
Total Airline Revenue	\$ 54,265,621	\$ 57,909,812	\$ 63,633,038	\$ 71,611,660	\$ 88,743,789
Enplaned Passengers	8,535,774	8,453,886	8,441,120	8,575,475	8,737,617
Airline Derived Revenue Per Passenger	\$ 6.36	\$ 6.73	\$ 7.54	\$ 8.33	\$ 10.16

* Shown as Table 16 "Airline Derived Revenue Per Passenger" in the Series 2010 Official Statement. Shown as Table 17 "Airline Derived Revenue Per Passenger" in the Series 2013 Official Statement.

(1) Totals may not add due to rounding.

(2) Amount excludes general aviation remote overnight parking.

Source: San Diego County Regional Airport Authority

The following table sets forth a summary of the Authority's approved PFC applications through June 30, 2013.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
APPROVED PFC APPLICATIONS*
AS OF JUNE 30, 2013**

PFC Application	Approval Date	Amended Approval Amount⁽¹⁾⁽²⁾
1	1995	\$ 103,804,864
2	1998	45,496,665
3	2003	65,058,035
4	2005	44,822,518
5	2008	19,031,690
7 ⁽³⁾	2009	85,181,950
8	2010	1,118,567,229
10 ⁽⁴⁾	2012	31,299,883
Total		\$1,513,262,834

* Shown as Table 19 "Approved PFC Applications" in the Series 2010 Official Statement. Shown as Table 21 "Approved PFC Applications" in the Series 2013 Official Statement.

(1) Includes the amount of PFCs the FAA has authorized the Authority to collect at SDIA. The Authority is authorized to use approximately \$1.510 billion of PFCs at SDIA.

(2) Authorization to collect PFCs under all of the applications and amendments expires on November 1, 2037, however, such authorization to collect PFCs could expire earlier if the total authorized amount is collected prior to November 1, 2037.

(3) The Authority withdrew PFC Application #6.

(4) PFC Application #9 was skipped due to internal FAA system processing.

Source: San Diego County Regional Airport Authority

The following table sets forth the amount of PFCs received by the Authority in Fiscal Years 2009 through 2013.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
ANNUAL RECEIPT OF PFCs^{*(1)}
FISCAL YEARS 2009-2013**

<u>Fiscal Year</u>	<u>PFCs Collected</u>
2009	\$33,219,261
2010	34,048,981
2011	33,997,963
2012	34,639,244
2013	35,437,453

* Shown as Table 20 "Annual Receipt of PFCs" in the Series 2010 Official Statement. Shown as Table 22 "Annual Receipt of PFCs" in the Series 2013 Official Statement.

⁽¹⁾ The information in this table is presented on an accrual basis.

Source: San Diego County Regional Airport Authority

Further Information

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

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

San Diego County Regional Airport Authority

Financial Report
June 30, 2013 and 2012

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the Airport Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal control over financial reporting and compliance.



San Diego, CA
October 18, 2013

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2012 TO JUNE 30, 2013

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

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

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

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

Legislative Background

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

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

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

Airport Activities Highlights

The Airport Authority experienced continued growth in all areas during fiscal years 2013 and 2012 compared to the fiscal year 2011 declines. This followed the trend seen at many commercial airports, reflecting the gradual improvements in the economy.

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

	FY 2011	FY 2012	FY 2013
Enplaned Passengers	8,441,120	8,576,100	8,737,617
% increase (decrease)	(0.2)%	1.6 %	1.9 %
Total Passengers	16,868,732	17,138,911	17,440,968
% increase (decrease)	(0.3)%	1.6 %	1.8 %
Aircraft Operations	186,181	186,196	187,322
% increase (decrease)	(4.3)%	0.0 %	0.6 %
Freight and Mail (in tons)	129,961	132,493	157,025
% increase (decrease)	3.5 %	1.9 %	18.5 %
Landed Weight (in thousands)	10,606	10,820	11,014
% increase (decrease)	(2.6)%	2.0 %	1.8 %

SDIA is a destination airport and is not a hub for any airline. 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. Enplanements declined slightly by 0.2 percent in fiscal year 2011 and grew by 1.6 percent and 1.9 percent in fiscal years 2012 and 2013, respectively.

Overall, it appears the improving economy is having a positive effect on aircraft operations at SDIA, which increased by 0.6 percent, and landed weight, which increased by 1.8 percent, in fiscal year 2013. Freight and mail dramatically increased by 18.5 percent, due to fleet size increases by FedEx, DHL and UPS.

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

The metric "Change in Net Position" is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position has increased consistently over the past three fiscal years by 7.5 percent in 2011, 10.0 percent in 2012 and 8.8 percent in 2013. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Operating revenues	\$ 144,007	\$ 153,550	\$ 177,498
Operating expenses	(166,979)	(163,701)	(168,420)
Nonoperating revenues, net	39,208	47,951	41,020
Capital grant contributions	26,355	20,834	16,077
Increase in net position	42,591	58,633	66,175
Net position, beginning of year	559,664	602,255	660,889
Net position, end of year	\$ 602,255	\$ 660,889	\$ 727,064

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 2012	FY 2013	From 2012 to 2013	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,419	\$ 19,658	\$ 1,239	6.7 %
Aircraft parking fees	3,135	3,191	56	1.7 %
Building rentals	30,633	41,840	11,207	36.6 %
Security surcharge	18,649	23,360	4,711	25.3 %
Other aviation revenue	1,595	1,591	(4)	(0.2)%
Total airline revenue	72,430	89,640	17,210	23.8 %
Non-airline terminal rent	907	972	65	7.1 %
Concession revenue	40,427	42,041	1,613	4.0 %
Parking and ground transportation revenue	31,470	35,750	4,281	13.6 %
Ground rentals	7,136	8,190	1,054	14.7 %
Other operating revenue	1,179	905	(274)	(23.2)%
Total operating revenue	\$ 153,550	\$ 177,498	\$ 23,948	15.6 %

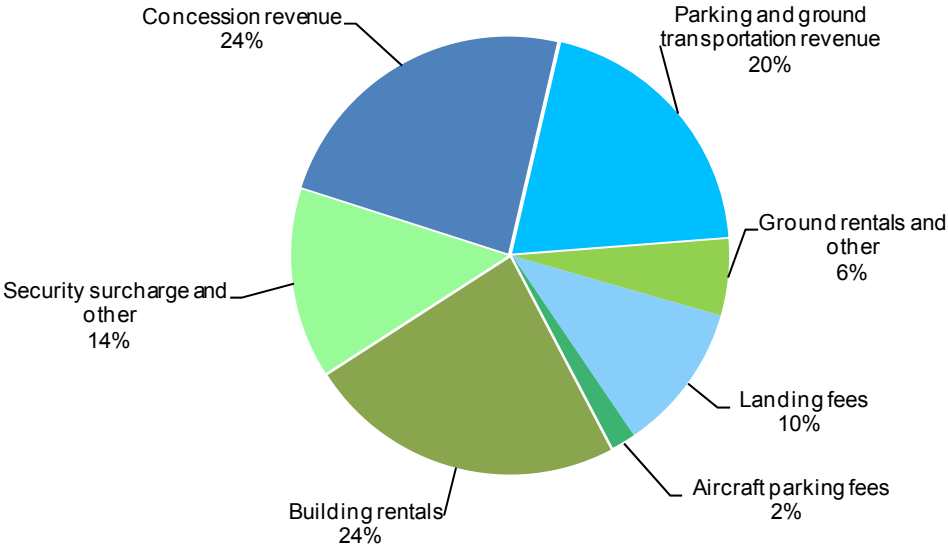
	FY 2011	FY 2012	From 2011 to 2012	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,578	\$ 18,419	\$ (159)	(0.9)%
Aircraft parking fees	2,921	3,135	214	7.3 %
Building rentals	26,980	30,633	3,653	13.5 %
Security surcharge	14,887	18,649	3,762	25.3 %
Other aviation revenue	1,597	1,595	(2)	(0.2)%
Total airline revenue	64,963	72,430	7,467	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)	(8.4)%
Other operating revenue	1,640	1,179	(461)	(28.1)%
Total operating revenue	\$ 144,007	\$ 153,550	\$ 9,543	6.6 %

Operating Revenues (Continued)

Fiscal year 2013 compared to 2012: Total airline revenues increased by \$17.2 million or 23.8 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was higher in fiscal year 2013 compared to 2012. Building rentals saw a graduated rate increase from 60 percent to 100 percent and the security surcharge increased from 85 percent to 100 percent, reflecting the cost recovery formula. Landing fees increased by \$1.2 million or 6.7 percent, due to increased airfield maintenance expenses and increased landed weight. Concession revenue increased by \$1.6 million or 4.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues increased by \$4.3 million or 13.6 percent, due in part to the reopening of Terminal 2 parking that was temporarily closed in fiscal year 2012 to facilitate the construction of the Green Build. Ground rentals revenue increased in 2013 by \$1.1 million or 14.7 percent, due to increased rental space by FedEx and a consumer price index rent increase to FedEx, Southwest and UPS. The \$274 thousand or 23.2 percent decrease in other operating revenue reflects a change in utility billing practices of the new concession program beginning in January 2013, which are now included as part of the base rent.

Fiscal year 2012 compared to 2011: Total airline revenues increased by \$7.5 million or 11.5 percent, primarily reflecting continued implementation of a progressive cost recovery system for the airlines which was slightly higher in fiscal year 2012 compared to 2011. Building rentals saw a graduated rate increase from 55 percent to 60 percent and the security surcharge increased from 70 percent to 85 percent. The decrease in landing fees of \$159 thousand or 0.9 percent was due to rebates given to airlines for new routes, primarily Volaris. Aircraft parking fees increased by \$124 thousand or 7.3 percent, primarily due to the increased airfield costs. Concession revenue increased by \$3.3 million or 9.0 percent, reflecting slightly higher enplanements and higher per-enplanement sales. Parking revenues decreased slightly by \$175 thousand or 0.6 percent, due to the temporary closing of Terminal 2 parking to facilitate the construction of the Green Build. Ground rentals revenue declined in 2012 by \$651 thousand or 8.4 percent, due to the finalization of new lease agreements with FedEx, Southwest and UPS, which provided for over one year of retroactive billing in fiscal year 2011. Other operating revenue also declined by \$461 thousand due to the completion of the planning grant revenue for the Regional Aviation Strategic Plan in 2011.

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013
Operating Revenues**



Operating Expenses (in thousands) (Continued)

	FY 2012	FY 2013	From 2012 to 2013	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 37,237	\$ 38,092	\$ 856	2.3 %
Contractual services	26,906	29,284	2,378	8.8 %
Safety and security	22,625	23,994	1,369	6.1 %
Space rental	11,415	10,897	(518)	-
Utilities	6,674	6,659	(15)	(0.2)%
Maintenance	8,497	11,204	2,708	31.9 %
Equipment and systems	403	469	65	16.2 %
Materials and supplies	304	406	101	33.3 %
Insurance	764	795	31	4.0 %
Employee development and support	916	1,235	319	34.8 %
Business development	2,093	2,444	351	16.8 %
Equipment rentals and repairs before depreciation and amortization	1,335	1,317	(18)	(1.4)%
	119,169	126,796	7,627	6.4 %
Depreciation and amortization	44,532	41,624	(2,908)	(6.5)%
Total operating expenses	\$ 163,701	\$ 168,420	\$ 4,719	2.9 %

	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	4.7 %
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 before depreciation and amortization	1,327	1,335	8	0.6 %
	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 (Continued)

Fiscal year 2013 compared to 2012: Total fiscal year 2013 operating expenses increased by \$4.7 million or 2.9 percent. Contributing to this increase included: increased salaries and benefits of \$856 thousand, primarily due to salary increases and higher costs for medical benefits; and increased contractual services of \$2.4 million, primarily due to Green Build associated consulting services such as ramp control professional services and selecting software to manage the new systems and building. Additionally, safety and security increased by \$1.4 million, due to increased Harbor Police salaries and benefits expense under a new proposed agreement; maintenance increased by \$2.7 million, reflecting costs of sink hole repair, elevator and escalator repairs and runway restriping; employee development and support increased by \$319 thousand, due to new Green Build systems training; and business development increased by \$351 thousand, reflecting advertising and marketing for Japan Airlines and Green Build related promotions.

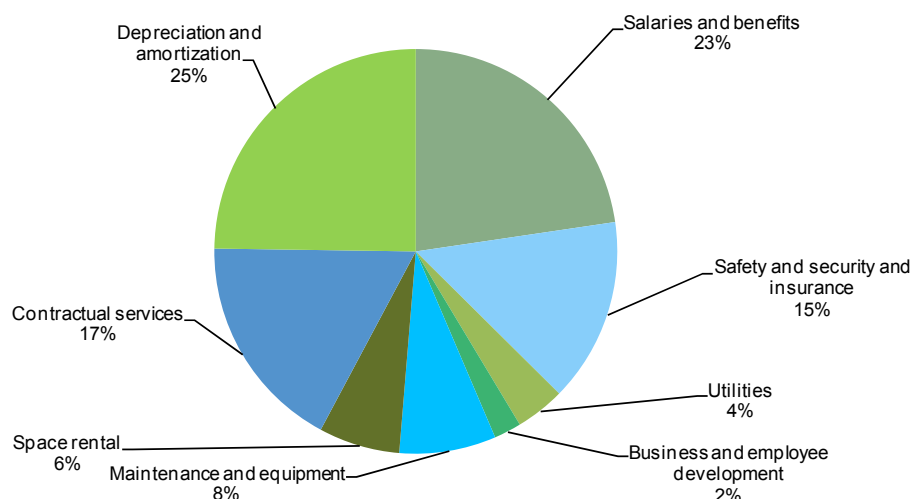
Offsetting this increase were the following decreases: space rental of \$518 thousand, reflecting the cancellation of an employee parking lease; and other minor reductions in utilities and equipment rentals and repairs. Depreciation expense decreased by \$2.9 million, due to fully depreciated assets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

Fiscal year 2012 compared to 2011: Fiscal year 2012 total operating expenses decreased by \$3.3 million, or 2.0 percent, compared to 2011. Contributing to this decrease were the following: salaries and benefits decreased by \$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 decreased by \$167 thousand, reflecting the five-year replacement schedule; insurance declined by \$302 thousand due primarily to lower liability policy premiums; employee development and support decreased by \$125 thousand due to reduced travel and seminars; and business development declined by \$182 thousand due to lower advertising and marketing expenses compared to 2011, which included expenses associated with the British Airways London flight. In fiscal year 2012, depreciation was a major contributor to the decreased total operating expenses. 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.

Offsetting this decrease included the following increases: contractual services increased by \$793 thousand primarily due to higher parking management expenses; safety and security increased by \$1.3 million, reflecting higher Harbor Police salaries and benefits expenses and a proposed overhead allocation plan; space rental costs increased by \$508 thousand due to the 2011 completed amortized deferred rent benefit; utilities increased by \$261 thousand, reflecting higher usage due to facility expansion and rate increases; and maintenance costs increased by \$323 thousand due to increased support of aging systems and equipment such as elevators, HVAC and escalators.

Operating Expenses (Continued)

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2013
Operating Expenses**



Nonoperating Revenues and Expenses (in thousands)

	FY 2012 (As restated)	From 2012 to 2013		
		FY 2013	Change	% Change
Passenger Facility Charges	\$ 34,639	\$ 35,437	\$ 798	2.3 %
Customer Facility Charges	11,487	19,117	7,630	66.5 %
Quieter Home Program, net	(3,531)	(1,589)	1,942	55.0 %
Joint Studies Program	(73)	(55)	18	25.2 %
Interest income	10,487	8,919	(1,569)	(15.1)%
Interest expense	(2,027)	(16,530)	(14,503)	(715.7)%
Other nonoperating income (expenses)	(3,032)	(4,279)	(1,247)	(41.1)%
Nonoperating revenues, net	\$ 47,951	\$ 41,020	\$ (6,932)	(14.5)%

	FY 2011 (As restated)	FY 2012 (As restated)	From 2011 to 2012	
			Change	% Change
Passenger Facility Charges	\$ 33,998	\$ 34,639	\$ 641	1.9 %
Customer Facility Charges	10,986	11,487	501	4.6 %
Quieter Home Program, net	(3,359)	(3,531)	(172)	(5.1)%
Joint Studies Program	(129)	(73)	57	44.1 %
Interest income	10,100	10,487	388	3.8 %
Interest expense	(12,295)	(2,027)	10,268	83.5 %
Other nonoperating income (expenses)	(93)	(3,032)	(2,942)	(3,157.0)%
Nonoperating revenues, net	\$ 39,208	\$ 47,951	\$ 8,742	22.3 %

Nonoperating Revenues and Expenses (Continued)

Passenger Facility Charges (PFC) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Airport Authority collects a \$4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible SDIA 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) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The Airport Authority began collecting a \$10 per contract CFC on rental cars in May 2009. The revenues collected will be used to plan and construct a consolidated rental car facility and improved ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2013, the Airport Authority has spent \$147.8 million and received reimbursement for \$120.3 million.

Interest income is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District. Also included in interest income are the Series C Bonds that were issued as Build America Bonds and a cash subsidy from the U.S. Treasury equal to 35 percent of the interest payable. During the middle of fiscal year 2013, the 35 percent subsidy ended due to the federal government's sequestration measures and was replaced with a reduced rate of 31.96 percent. The interest subsidy for the fiscal years ended June 30, 2013 and 2012 was \$4.8 million and \$4.9 million, respectively.

Interest expense includes interest paid and accrued on the 2005, 2010 and 2013 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, 2013 and 2012 was \$29.4 million and \$31.6 million, respectively.

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

Capital Grant Contributions

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

Fiscal year 2013 compared to 2012: Nonoperating revenues (net) decreased by \$6.9 million or 14.5 percent. This is primarily due to the decreased net effect of debt interest expense and capitalization of interest expense, \$14.5 million. Additionally, decreased interest income of \$1.6 million and other nonoperating income (expense), net of \$1.2 million, was primarily due to unrealized loss on investments.

Offsetting the decrease is the \$798 thousand increased PFCs collections, reflecting increased enplanements, and \$7.6 million increased CFCs due, in part, to a rate increase effective November 1, 2012 from \$10 per contract to \$6 per day up to five days. Additionally, the Quieter Home Program also contributed to the decrease by \$1.9 million, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Nonoperating Revenues and Expenses (Continued)

Fiscal year 2012 compared to 2011: Nonoperating revenues (net) increased by \$8.7 million or 22.3 percent, primarily due to the net effect of reduced debt interest expense and capitalization of interest expense totaling \$10.3 million. Additionally, PFCs increased by \$641 thousand and CFCs increased by \$501 thousand, both reflecting increased enplanements. Interest income also has contributed to the increase by \$388 thousand due to a full year of Build America Bond interest subsidy in fiscal year 2012.

Offsetting the increase is approximately \$3.6 million in net book value of assets, which were 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 \$205 thousand, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement.

Assets, Liabilities and Net Position (in thousands)

The statements of net position present the financial position of the Airport Authority at June 30, 2011, 2012 and 2013. The statements include all assets, liabilities and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2011, 2012 and 2013 is as follows:

	FY 2011 (As restated)	FY 2012 (As restated)	FY 2013
Assets			
Current assets	\$ 110,397	\$ 197,586	\$ 205,262
Capital assets, net	625,421	896,477	1,178,144
Noncurrent assets	605,824	333,352	547,376
Total assets	1,341,642	1,427,415	1,930,782
Deferred outflows of resources	2,087	1,855	4,397
Total assets and deferred outflows of resources	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179
Liabilities			
Current liabilities	\$ 121,384	\$ 115,071	\$ 121,384
Long-term liabilities	620,090	653,310	1,086,732
Total liabilities	741,474	768,381	1,208,116
Net Position			
Net investment in capital assets	352,276	408,123	460,424
Bond reserves, unapplied PFCs and other restricted Unrestricted	147,513	172,174	164,131
	102,466	80,592	102,508
Total net position	602,255	660,889	727,063
Total liabilities and net position	\$ 1,343,729	\$ 1,429,270	\$ 1,935,179

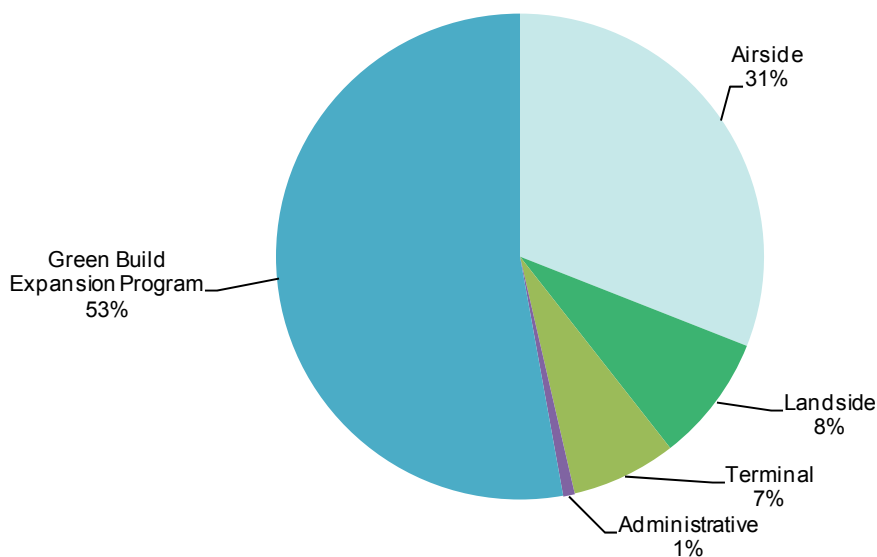
Assets, Liabilities and Net Position (Continued)

As of June 30, 2013, the Airport Authority's assets exceeded liabilities by \$727.1 million, a \$66.2 million increase over June 30, 2012. The June 30, 2012 total net position was \$58.6 million greater than June 30, 2011. The largest portion of the Airport Authority's net position 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 position of \$102.5 million as of June 30, 2013, \$80.6 million as of 2012 and \$102.4 million as of 2011 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2013, 2012 and 2011, management has designated unrestricted funds in the amount of approximately \$9.6 million for each year, for capital contract commitments funded by Airport Authority cash, earthquake insurance 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 debt, PFC, CFC, and grants received from AIP, FAA and Transportation Security Administration and SDIA funds. In fiscal year 2013, SDIA's \$1.6 billion capital improvement program (CIP) was funded under three debt options. A pay-as-you-go approach utilizing commercial paper for short-term funding needs and long-term funding needs included 2010 Airport Revenue Bonds to be used for the \$820 million Terminal Development Program/"The Green Build." An additional airport revenue bond issuance completed in fiscal year 2013 finalized the funding of The Green Build project. The Green Build is projected to be complete by early fiscal year 2014. The current CIP, which includes projects through 2018, consists of \$480.5 million for airside projects, \$131 million for landside projects, \$108.3 million for terminal projects and \$12 million for administrative projects. The current SDIA CIP does not include noise reduction and related projects.

Capital Improvement Program (CIP) Projects by Type



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

Capital Financing and Debt Management

The California Maritime Infrastructure Authority issued \$76.7 million of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued \$56.3 million 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.

On December 21, 2012, the Authority defeased all of its outstanding Series 2005 Bonds by depositing proceeds of Subordinate Commercial Paper Notes (CP Notes) and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Senior Series 2005 Bonds until their final maturity date of July 1, 2020.

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 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 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 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, 2013, the principal balance on the subordinate Series 2010 Bonds was \$570.9 million.

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

Capital Financing and Debt Management (Continued)

The Series 2013 bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of \$55.9 million, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal years ended June 30, 2013 amounted to \$7.7 million, including accrued interest of \$7.7 million. The principal balance on the Series 2013 Bonds as of June 30, 2013 was \$379.6 million.

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

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2 to the financial statements. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293.7 million, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds.

As of June 30, 2013, \$51 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable), is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to \$250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the letter of credit expiration date. The letter of credit is currently securing the CP Notes. At the expiration date, 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 is 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 of this report.

SDIA's PFC program was established in 1994 and currently authorizes the imposition of a \$4.50 fee on enplaning passengers. There are currently 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 \$22.3 million in grant awards for the federal fiscal year ended September 30, 2013 and \$14.0 million in 2012. 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

Statements of Net Position June 30, 2013 and 2012

Assets	2013	2012 (As restated)
Current Assets		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 63,626,765	\$ 68,823,530
Investments (Note 2)	42,223,353	34,284,994
Tenant lease receivables, net	8,037,665	6,550,948
Grants receivable	3,828,572	3,867,809
Notes receivable, current portion (Note 3)	1,446,896	1,580,698
Other current assets	6,279,146	4,559,934
Total unrestricted current assets	125,442,397	119,667,913
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	79,819,607	77,918,561
Total current assets	205,262,004	197,586,474
Noncurrent Assets		
Restricted assets:		
Restricted cash, cash equivalents and investments, not with Trustee (Note 2)	150,891,087	155,065,655
Restricted investments with Trustee (Note 2)	284,609,727	98,211,895
Passenger facility charges receivable (Note 1)	5,545,716	4,412,287
Customer facility charges receivable (Note 1)	2,301,027	1,089,227
Other restricted assets	5,380,813	6,058,740
Total restricted assets	448,728,370	264,837,804
Other noncurrent assets:		
Investments, noncurrent (Note 2)	41,931,321	10,410,555
Notes receivable, long-term portion (Note 3)	39,886,768	41,333,664
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	9,565,751	9,062,504
Net pension asset and net OPEB asset (Notes 6 and 8)	6,648,142	7,204,455
Workers' compensation security deposits	616,495	503,145
Total other noncurrent assets	98,648,477	68,514,323
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	65,865,787	24,927,049
Buildings and structures	715,421,387	463,735,113
Machinery and equipment	50,717,389	47,676,803
Runways, roads and parking lots	526,061,707	269,535,431
Construction in progress	401,825,140	632,390,868
	1,759,891,410	1,438,265,264
Less accumulated depreciation	(581,747,601)	(541,788,396)
Capital assets, net	1,178,143,809	896,476,868
Total noncurrent assets	1,725,520,656	1,229,828,995
Total assets	1,930,782,660	1,427,415,469
Deferred Outflows of Resources		
Deferred loss on debt refunding	4,396,671	1,854,985
Total assets and deferred inflows of resources	\$ 1,935,179,331	\$ 1,429,270,454

See Notes to Financial Statements.

Liabilities and Net Position	2013	2012 (As restated)
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	\$ 9,830,408	\$ 9,822,085
Accrued liabilities (Note 8)	27,589,095	24,264,702
Compensated absences, current portion (Note 5)	2,357,925	2,197,705
Deposits and other current liabilities	1,458,891	703,064
Leases payable, current portion (Note 5)	328,012	164,966
Total payable from unrestricted assets	41,564,331	37,152,522
Payable from restricted assets:		
Accounts payable	22,491,968	21,648,897
Accrued liabilities	32,703,578	35,015,681
Current portion of Bonds payable (Note 5)	1,000,000	4,410,000
Accrued interest on bonds and commercial paper (Note 5)	23,624,061	16,843,983
Total payable from restricted assets	79,819,607	77,918,561
Total current liabilities	121,383,938	115,071,083
Noncurrent Liabilities		
Compensated absences, net of current portion (Note 5)	731,831	735,281
Tenant security deposits and other noncurrent liabilities	795,430	948,556
Commercial paper notes payable (Note 5)	50,969,000	20,729,000
Bonds payable and bond premium, less current portion, net of deferred refunding costs, and capital leases (Note 5)	1,034,235,764	630,897,968
Total noncurrent liabilities	1,086,732,025	653,310,805
Total liabilities	1,208,115,963	768,381,888
Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)		
Net Position		
Net investment in capital assets (Note 1)	460,424,133	408,122,977
Restricted net position (Note 1):		
Bond reserves	52,007,087	53,364,006
Commercial paper reserves	31,314	16,350
Small business bond guarantee	4,000,000	2,000,000
Passenger facility charges	59,401,975	78,782,164
Customer facility charges	43,310,360	31,952,386
OCIP loss reserve	5,380,814	6,058,740
Total restricted net position	164,131,550	172,173,646
Unrestricted net position (Note 1)	102,507,685	80,591,943
Total net position	\$ 727,063,368	\$ 660,888,566

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Operating revenues:		
Airline revenue:		
Landing fees	\$ 19,658,173	\$ 18,419,244
Aircraft parking fees	3,190,928	3,134,539
Building rentals (Note 10)	41,839,619	30,632,762
Security surcharge	23,359,938	18,649,147
Other aviation revenue	1,591,266	1,594,529
Concession revenue	42,040,742	40,427,308
Parking and ground transportation revenue	35,750,484	31,469,960
Ground rentals (Note 10)	9,161,514	8,043,563
Other operating revenue	905,150	1,178,908
Total operating revenues	177,497,814	153,549,960
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	38,092,464	37,236,513
Contractual services (Note 12)	29,283,526	26,905,524
Safety and security	23,994,020	22,625,169
Space rental (Note 11)	10,897,338	11,414,838
Utilities	6,659,333	6,674,424
Maintenance	11,204,465	8,496,587
Equipment and systems	468,699	403,268
Materials and supplies	405,863	304,433
Insurance	794,984	764,239
Employee development and support	1,234,757	916,194
Business development	2,444,407	2,093,164
Equipment rentals and repairs	1,316,543	1,334,858
Total operating expenses before depreciation and amortization	126,796,399	119,169,211
Income from operations before depreciation and amortization	50,701,415	34,380,749
Depreciation and amortization	41,623,629	44,532,069
Operating income (loss)	9,077,786	(10,151,320)

(Continued)

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 35,437,453	\$ 34,639,244
Customer facility charges	19,117,217	11,486,962
Quieter Home Program grant revenue	13,241,658	11,013,260
Quieter Home Program expenses	(14,830,457)	(14,544,629)
Joint Studies Program	(55,254)	(72,835)
Interest income	4,140,068	5,491,516
Interest expense (Note 5)	(16,530,425)	(2,026,692)
Build America Bonds Rebate	4,778,599	4,995,921
Other revenues (expenses), net	(4,279,123)	(3,031,807)
Nonoperating revenues, net	41,019,736	47,950,940
Income before capital grant contributions	50,097,522	37,799,620
Capital grant contributions	16,077,280	20,833,591
Change in net position	66,174,802	58,633,211
Net position, beginning of year, as restated	660,888,566	602,255,355
Net position, end of year	\$ 727,063,368	\$ 660,888,566

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Cash Flows From Operating Activities		
Receipts from customers	\$ 174,459,266	\$ 151,351,150
Payments to suppliers	(81,174,308)	(65,771,340)
Payments to employees	(37,008,283)	(36,498,212)
Other receipts (payments)	(149,956)	(448,668)
Net cash provided by operating activities	56,126,719	48,632,930
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	4,756	(158,546)
Quieter Home Program grant receipts	13,264,899	11,303,456
Quieter Home Program payments	(14,832,460)	(14,577,575)
Joint Studies Program payments	(53,251)	(39,889)
Net cash (used in) noncapital financing activities	(1,616,056)	(3,472,554)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(333,940,143)	(301,336,594)
Intergovernmental revenue	4,778,599	4,995,921
Proceeds on sale of capital assets	694,150	444,764
Federal grants received (excluding Quieter Home Program)	16,093,276	20,660,153
Proceeds from passenger facility charges	34,304,024	35,348,167
Proceeds from customer facility charges	17,905,417	11,426,775
Proceeds from issuance of commercial paper	31,045,000	-
Payment of principal on bonds and commercial paper	(39,745,000)	(4,760,000)
Proceeds from issuance of Series 2013 Bond	435,519,101	-
Proceeds from capital lease	7,955,912	-
Payment to Trustee for 2005 debt service	-	(83,375)
Interest and debt fees paid, net of capitalized interest	(4,215,620)	(2,518,161)
Net cash provided by (used in) capital and related financing activities	170,394,716	(235,822,350)
Cash Flows From Investing Activities		
Sales of investments	(363,755,197)	243,050,295
Purchases of investments	127,453,246	(36,127,941)
Interest received on investments	1,810,503	1,228,179
Principal payments received on notes receivable	1,580,698	1,696,112
Interest received from notes receivable, commercial paper and bonds	3,311,853	4,694,187
Net cash provided by (used in) investing activities	(229,598,897)	214,540,832
Net increase (decrease) in cash and cash equivalents	(4,693,518)	23,878,858
Cash and Cash Equivalents, beginning of year	77,886,034	54,007,176
Cash and Cash Equivalents, end of year	\$ 73,192,516	\$ 77,886,034

(Continued)

San Diego County Regional Airport Authority

**Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012**

	2013	2012 (As restated)
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Cash and investments designated for specific capital projects and other commitments	9,565,751	9,062,504
	\$ 73,192,516	\$ 77,886,034
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 9,077,786	\$ (10,151,320)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	41,623,629	44,532,069
Bad debt expense (recapture)	4,565	34,236
Changes in assets and liabilities:		
Tenant lease receivables	(1,386,723)	(991,645)
Net pension asset	556,313	556,313
Other current assets	(892,748)	567,080
Accounts payable (on noncapital items)	(1,440,698)	4,053,484
Accrued liabilities (on noncapital items)	8,437,880	9,959,129
Postretirement benefits obligation	22,351	29,867
Deposits	(184,639)	224,138
Deferred rent liability and other	(200,346)	(530,107)
Tenant deposits	352,578	90,139
Compensated absences	156,771	259,547
Capital lease payable	-	-
Net cash provided by operating activities	\$ 56,126,719	\$ 48,632,930
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities:		
Additions to capital assets included in current payables	\$ 55,195,546	\$ 56,664,578
Receivables, grants	\$ 3,828,572	\$ 3,867,809
Receivables, PFCs	\$ 5,545,716	\$ 4,412,287
Receivables, CFCs	\$ 2,153,662	\$ 1,079,837

See Notes to Financial Statements

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. 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.

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

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

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

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

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

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

Restricted assets: Funds are set aside as restricted 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 position are available.

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 ancillary costs and interest cost that are directly 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:

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

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 cost of the assets constructed. For the fiscal years ended June 30, 2013 and 2012, the Airport Authority capitalized interest of \$29,438,080 and \$31,663,105, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

Airport Improvement Program: AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2013 and 2012, the Airport Authority recovered \$16,077,280 and \$20,833,591, respectively, for approved capital projects, and \$13,241,658 and \$11,013,260, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2013 and 2012 were \$20,096,600 and \$26,041,989, respectively, for the capital projects and \$14,830,457 and \$14,544,629, respectively, for the Quieter Home Program. 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 PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2013 and 2012, accrued PFC receivables totaled \$5,545,716 and \$4,412,287, respectively, and there were \$53,856,259 and \$74,369,877 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2013 and 2012, respectively.

On May 20, 2003, the FAA approved the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, impose and use authority of \$1.2 billion from three active applications allows collection through November 1, 2037. The 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. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

Customer facility charges: 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. In November 2012, the rate of \$10 per contract was changed to \$6 per day up to five days. As of June 30, 2013 and 2012, accrued CFC receivables totaled \$2,301,027 and \$1,089,227, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2013 and 2012 were \$41,660,993 and \$30,863,159, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

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

Airport Authority net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Net investment in capital assets as of June 30 is as follows:

	2013	2012
Capital assets	\$ 1,759,891,408	\$ 1,438,265,264
Less accumulated depreciation	(581,747,600)	(541,788,395)
Less outstanding debt	(717,719,675)	(488,353,892)
Net investment in capital assets	\$ 460,424,133	\$ 408,122,977

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Other restricted net assets as of June 30 are as follows:

	2013	2012
Bond reserves:		
Operations and maintenance reserve	\$ 34,955,315	\$ 31,821,881
Operations and maintenance subaccount reserve	11,651,772	10,607,294
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	-	5,534,831
Commercial paper reserve	31,314	16,350
Small Business Development Bond Guarantee	4,000,000	2,000,000
Passenger facility charges unapplied	53,856,259	74,369,877
Passenger facility charges receivable	5,545,716	4,412,287
Customer facility charges unapplied	41,009,333	30,863,159
Customer facility charges receivable	2,301,027	1,089,227
Owner Controlled Insurance Program (OCIP) loss reserve	5,380,814	6,058,740
Total restricted net position	\$ 164,131,550	\$ 172,173,646

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

	2013	2012
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	6,659,982	5,941,986
Capital projects and other commitments (Note 12)	905,769	1,120,518
Total designated net position	\$ 9,565,751	\$ 9,062,504

Unrestricted designated net position: 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, 2013 and 2012, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$9,565,751 and \$9,062,504, respectively.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

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

	FY 2013	FY 2012
Southwest Airlines	37.2%	37.9%
United Airlines	13.5%	14.8%
Delta Airlines	10.4%	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 receives federal grants from several federal departments. The Airport Authority records grants receivable and grant revenue or capital grant contributions for eligible reimbursable expenditures incurred.

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

Long-term debt: Long-term debt and other obligations are reported as liabilities on the statements of net position. The revenue bond original discount and the revenue bond original issue premium are deferred and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period the debt is issued.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

- GASB Statement No. 66, *Technical Corrections—2012*, effective for the Airport Authority's year ending June 30, 2014
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the Airport Authority's year ending June 30, 2015
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the Airport Authority's year ending June 30, 2014

The Airport Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2013:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the Airport Authority's fiscal year 2013
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*
- GASB Statement No. 63, *The Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

The implementation of GASB Statement Nos. 60, 61 and 62 did not impact net position or the change in net position of the Airport Authority as of or for the years ended June 30, 2013 and 2012. The implementation of GASB Statement No. 63 impacted certain terminology used but did not have an impact on the net position at June 30, 2013 or 2012, or the change in net position during the years then ended.

The implementation of GASB Statement No. 65 impacted the Airport Authority's net position as of June 30, 2011 and 2012 and the change in net position during the fiscal year ended June 30, 2012. Refer to Note 13 for further disclosures on the financial statement impact of the implementation of GASB Statement No. 65.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Deferred outflows of resources: In fiscal year 2013, the Airport Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on the Airport Authority's net position. In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or expenses, until then. The Airport Authority only has one item, deferred loss on debt refunding, which qualifies for reporting in this category in the statement of net position.

Reclassifications: Certain reclassifications have been made to the 2012 financial information in order to conform to the 2013 presentation. These reclassifications had no impact on the Airport Authority's net position or change in net position.

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 statements of net position as follows at June 30:

	2013	2012
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 63,626,765	\$ 68,823,530
Current investments	42,223,353	34,284,994
Noncurrent investments	41,931,321	10,410,555
Total unrestricted and undesignated	147,781,439	113,519,079
Designated for specific capital projects and other commitments, cash and investments	9,565,751	9,062,504
Restricted cash and investments:		
Bond reserves		
Operation and maintenance reserve subaccount	34,955,315	31,821,881
Operation and maintenance subaccount	11,651,772	10,607,294
Renewal and replacement reserve	5,400,000	5,400,000
	52,007,087	47,829,175
Passenger facility charges unapplied	53,856,259	74,369,877
Customer facility charges unapplied	41,009,333	30,863,159
Small Business Development bond guarantee	4,000,000	2,000,000
Commercial paper reserve	18,408	3,444
Total restricted	150,891,087	155,065,655
Total cash and investments, not with Trustee	308,238,277	277,647,238
Investments held by Trustees:		
Commercial paper interest	12,906	12,906
2005 Series debt service account	-	4,533,755
2005 Series Debt Service Reserve Fund	-	5,394,063
2010 Series debt service account	16,869,731	6,847,385
2010 Series capitalized interest account	-	10,899,880
2010 Series construction fund	2,728,626	96,929,284
2010 Series Debt Service Reserve Fund	51,108,152	51,513,183
2013 Series debt service account	1,648,415	-
2013 Series capitalized interest account	8,357,832	-
2013 Series construction fund	250,974,607	-
2013 Series Debt Service Reserve Fund	32,729,065	-
Total held by Trustee	364,429,334	176,130,456
Total cash and investments	\$ 672,667,611	\$ 453,777,694

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:

	2013	2012
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,976
Cash in banks	5,043,576	26,107,812
Total unrestricted cash on deposit	5,095,552	26,159,788
Unrestricted cash equivalents:		
Money market accounts	62,559,806	50,916,044
Money market funds	5,537,158	810,202
Total unrestricted cash equivalents	68,096,964	51,726,246
Unrestricted and restricted investments:		
Certificates of deposit	10,117,110	16,999,083
Local Agency Investment Fund	47,416,828	47,305,946
San Diego County Investment Pool	48,088,210	48,315,026
Commercial paper	35,485,205	25,899,199
Medium-term notes	8,126,320	-
U.S. Treasury notes	11,759,303	3,002,220
U.S. agency securities	74,052,785	58,239,730
Total unrestricted and restricted investments	235,045,761	199,761,204
Total cash and investments, not with Trustee	308,238,277	277,647,238
Investments held by Trustees:		
Money market accounts	16,124,492	20,590,022
Money market funds	24,620,178	22,008,575
Certificate of deposit	20,461,517	20,308,632
San Diego County Investment Pool	207,199,007	107,829,164
Local Agency Investment Fund	96,024,140	-
Guaranteed investment contract	-	5,394,063
Total investments held by Trustee	364,429,334	176,130,456
Total investments	599,475,095	375,891,660
Total cash, cash equivalents and investments	\$ 672,667,611	\$ 453,777,694

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy: The table on the following page 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	10 percent
	25-36 months	AA	15 percent	10 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	No limit
San Diego County Investment Pool	N/A	N/A	None	No limit
Local Government Investment Pool	N/A	N/A	None	No limit
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	10 percent
Bank deposits (DOA/CDs)	N/A	*	20 percent	10 percent

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

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	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
Bankers' acceptances	360 days	AAA/Aaa	None	None
Commercial paper	270 days	A-1; P-1; F-1	None	None
Repurchase agreements	None	N/A	None	None
Money market portfolio	None	Two highest ratings	None	None
Cash	None	N/A	None	None
Deposit accounts	None	N/A	None	None
Municipal bonds	None	Two highest ratings	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Certificates of deposit	None	Two highest ratings	None	None
Investment agreements	None	N/A	None	None

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policy as depicted in the previous section entitled "Investments 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 a Trustee pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds were defeased on January 21, 2013, by depositing proceeds of subordinate commercial paper notes (CP Notes) and certain available monies in an irrevocable escrow fund. Before the defeasance, the June 30, 2012 investments held by the Trustee for security and the payment of the 2005 bonds was \$9,927,818, which included the July 1, 2013 payment. The Series 2010 Bonds require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, respectively, which included the July 1 payment. The Series 2013 Bonds, issued on January 30, 2013, require the Airport Authority to maintain a reserve account and deposit all unused bond proceeds with the bond Trustee. At June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

The 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, 2013 and 2012 was \$12,906.

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

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

Investment Type	Total	2013			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Investments subject to interest rate risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	255,287,214	-	-	-
Commercial paper	35,485,205	35,485,205	-	-	-
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	24,620,178	-	-	-
U.S. Treasury notes	11,759,303	-	-	11,759,303	-
U.S. agency securities	74,052,785	-	4,992,950	69,059,835	-
Total investments subject to interest rate risk	552,771,976	\$ 458,833,568	\$ 4,992,950	\$ 88,945,458	\$ -
Investments not subject to interest rate risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to interest rate risk	46,703,119				
	\$ 599,475,095				

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investment Type	Total	2012			
		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	22,008,575	22,008,575	-	-	-
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	<u>317,993,923</u>	<u>\$ 254,360,130</u>	<u>\$ 6,010,920</u>	<u>\$ 52,228,810</u>	<u>\$ 5,394,063</u>
Investments not subject to interest rate risk:					
Money market accounts	20,590,022				
Certificates of deposit	<u>37,307,715</u>				
Total investments not subject to interest rate risk	<u>57,897,737</u>				
	<u>\$ 375,891,660</u>				

Custodial credit risk (deposits): Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first \$250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement.

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

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

Investment Type	2013				
	Total	Unrated ⁽¹⁾	AAA/Aaa ⁽¹⁾	AA/Aa ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:					
LAIF	\$ 143,440,971	\$ 143,440,971	\$ -	\$ -	\$ -
SDCIP	255,287,214	-	255,287,214	-	-
Commercial paper	35,485,205	-	-	-	35,485,205
Medium-term notes	8,126,320	-	-	8,126,320	-
Money market funds	24,620,178	-	24,620,178	-	-
U.S. Treasury notes	11,759,303	-	11,759,303	-	-
U.S. agency securities	74,052,785	-	74,052,785	-	-
Total investments subject to credit risk	552,771,976	\$ 143,440,971	\$ 365,719,480	\$ 8,126,320	\$ 35,485,205
Investments not subject to credit risk:					
Money market accounts	16,124,492				
Certificates of deposit	30,578,627				
Total investments not subject to credit risk	46,703,119				
	\$ 599,475,095				

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

Investment Type	2012			
	Total	Unrated ⁽¹⁾	AAA ⁽¹⁾	A-1+/P-1 ⁽¹⁾
Investments subject to credit risk:				
LAIF	\$ 47,305,946	\$ 47,305,946	\$ -	\$ -
SDCIP	156,144,190	-	156,144,190	-
Money market funds	22,008,575	-	22,008,575	-
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	317,993,923	\$ 47,305,946	\$ 244,788,778	\$ 25,899,199
Investments not subject to credit risk:				
Money market account	20,590,022			
Certificates of deposit	37,307,715			
Total investments not subject to credit risk	57,897,737			
	\$ 375,891,660			

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2013 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
Federal National Mortgage Assoc.	U.S. agency securities	<u>\$ 33,763,865</u>	5.02%

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

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

Note 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, 2013 and 2012, the balance of the note receivable was \$41,333,664 and \$42,703,301, respectively. The current portion recorded on the note for the years ended June 30, 2013 and 2012 was \$1,446,896 and \$1,369,638, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 3. Notes Receivable (Continued)

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, 2013 and 2012, the note receivable was recorded at a value of \$0 and \$211,060, respectively. The current portion for the years ended June 30, 2013 and 2012 was \$0 and \$211,060, 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>
2014	\$ 1,447,000
2015	1,529,000
2016	1,609,000
2017	1,705,000
2018	1,802,000
2019-2023	10,647,000
2024-2028	14,009,000
2029-2031	8,586,000
	<u>\$ 41,334,000</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, 2012	Increases	Decreases	Balance at June 30, 2013
Nondepreciable assets:				
Land	\$ 22,415,851	\$ -	\$ -	\$ 22,415,851
Construction in progress	632,390,868	320,205,929	(550,771,657)	401,825,140
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	655,246,719	320,205,929	(550,771,657)	424,680,991
Depreciable assets:				
Land improvements	2,071,198	40,938,738	-	43,009,936
Buildings and structures ⁽¹⁾	463,735,113	252,587,679	(901,405)	715,421,387
Machinery and equipment ⁽²⁾	47,676,803	3,336,199	(295,613)	50,717,389
Runways, roads and parking lots	269,535,431	262,222,156	(5,695,880)	526,061,707
Total capital assets being depreciated	783,018,545	559,084,772	(6,892,898)	1,335,210,419
Less accumulated depreciation for:				
Land improvements	(1,190,389)	(1,108,151)		(2,298,540)
Building and structures	(320,299,753)	(26,459,140)	605,053	(346,153,840)
Machinery and equipment	(35,344,261)	(3,870,881)	294,446	(38,920,696)
Runways, roads and parking lots	(184,953,993)	(12,950,700)	3,530,168	(194,374,525)
Total accumulated depreciation	(541,788,396)	(44,388,872)	4,429,667	(581,747,601)
Total capital assets being depreciated, net	241,230,149	514,695,900	(2,463,231)	753,462,818
Capital assets, net	\$ 896,476,868	\$ 834,901,829	\$ (553,234,888)	\$ 1,178,143,809

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

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

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 of 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, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	\$ 22,432,655	\$ -	\$ (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 ⁽¹⁾	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)
Runways, 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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt

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

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

	Principal Balance at June 30, 2011 (as restated)	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2012 (as restated)	Due Within One Year
Debt obligations:					
Commercial paper	\$ 21,509,000	\$ -	\$ (780,000)	\$ 20,729,000	\$ -
Bonds payable:					
Senior Series 2005 Bonds	41,225,000	-	(3,265,000)	37,960,000	3,430,000
Subordinate Series 2010 Bonds	572,565,000	-	(715,000)	571,850,000	980,000
Bond premiums	27,130,314	-	(1,632,346)	25,497,968	-
Total bonds payable	640,920,314	-	(5,612,346)	635,307,968	4,410,000
Total debt obligations	662,429,314	-	(6,392,346)	656,036,968	4,410,000
Capital leases	519,866	-	158,225	361,641	164,966
Compensated absences	2,673,438	2,457,252	(2,197,705)	2,932,985	2,197,705
Total long-term liabilities	\$ 665,622,618	\$ 2,457,252	\$ (8,431,826)	\$ 659,331,594	\$ 6,772,671

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

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

The CP Notes are secured by an irrevocable letter of credit provided by Lloyds TSB Bank, which expires no later than September 10, 2014. Accordingly, the CP Notes are classified as long-term in the Airport Authority's financial statements. There were no unreimbursed draws by the Airport Authority on this letter of credit during the year ended June 30, 2013, nor were there any amounts outstanding under this letter-of-credit agreement at June 30, 2013.

On December 18, 2012, the Airport Authority issued \$35,412,000 of Series C CP Notes to provide for the defeasance of Series 2005 Bonds.

At June 30, 2013, the aggregate principal amount outstanding of the CP Notes was \$50,969,000, carrying a weighted-average interest rate of 0.19 percent. At June 30, 2012, the principal amount of CP Notes outstanding was \$20,729,000, carrying an interest rate of 0.26 percent.

Commercial paper interest expense for the years ended June 30, 2013 and 2012 amounted to \$87,682 and \$56,199, respectively, including accrued interest of \$6,866 and \$3,447, 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, 2013 and 2012, the amount held by the Trustee was \$12,906 and \$12,906, respectively, and the amount reserved by the Airport Authority was \$18,408 and \$3,444, respectively.

The required debt service payments for the CP Notes for the fiscal years ending June 30 are as follows, assuming an interest rate of 0.19 percent:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 96,841	\$ 96,841
2015	50,969,000	96,841	51,065,841
	<u>\$ 50,969,000</u>	<u>\$ 193,682</u>	<u>\$ 51,162,682</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

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

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

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

Although the advance refunding resulted in the recognition of a deferred outflow of resources of \$6,367,592 for the year ended June 30, 2013, the Airport Authority in effect reduced its aggregate debt service payments by \$1,214,000 over the next seven years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$1,003,000. As the CP Notes (refunding debt) are variable rate debt, they are subject to interest fluctuation risks. Interest rates on the CP Notes are based on U.S. Treasury yields. If the two-year U.S. Treasury yield increases by 0.40 percent (40 basis points), it would result in an economic gain of approximately \$780,000.

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

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

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The Airport Authority's Master Senior Indenture and the Third Supplemental Senior Indenture (the Indenture) govern the Airport Authority's debt program. Per the Indenture, as senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Indenture requires 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. For the fiscal year ended June 30, 2013, the amount held by the Trustee was \$293,709,919, which included the July 1 payment, unspent project fund proceeds, the debt service reserve fund and capitalized interest funds. As required by the Indenture, the total amount reserved by the Airport Authority for fiscal years 2013 and 2012 was \$52,007,087 and \$53,364,006, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2013 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2013 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>
2014	\$ -	\$ 16,987,196	\$ 16,987,196
2015	-	18,475,500	18,475,500
2016	2,030,000	18,445,050	20,475,050
2017	2,090,000	18,382,275	20,472,275
2018	2,155,000	18,306,850	20,461,850
2019-2023	29,525,000	88,758,375	118,283,375
2024-2028	50,660,000	78,095,450	128,755,450
2029-2033	45,330,000	65,221,975	110,551,975
2034-2038	32,565,000	57,139,125	89,704,125
2039-2043	150,780,000	41,634,250	192,414,250
2044	64,450,000	1,573,750	66,023,750
	<u>\$ 379,585,000</u>	<u>\$ 423,019,796</u>	<u>\$ 802,604,796</u>

A cumulative rebate liability relating to arbitrage of the defeased Series 2005 Bonds was recorded for \$522,343 and \$94,796 as of the fiscal years ended June 30, 2013 and 2012, 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, 2015, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

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. However, in the fiscal year ended June 30, 2013, due to the impact of the federal government's sequestration measures, subsidy payments were reduced by 4.3 percent. The Build America Bonds interest subsidy for the fiscal years ended June 30, 2012 and 2011 was \$4,778,599 and \$4,995,921, 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, 2013 and 2012 amounted to \$31,735,498 and \$31,755,098, respectively, including accrued interest of \$15,867,749 and \$15,877,549, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2013 and 2012 was \$570,870,000 and \$571,850,000, 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 all 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 irrevocably committed PFC amount of \$14,703,838 was fully utilized in fiscal year 2013. The irrevocably committed PFC amounts for the fiscal years ended June 30, 2014, 2015 and 2016 are \$19,208,838, \$19,206,113 and \$19,209,388, respectively.

As subordinate lien bonds, the Series 2010 bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee. At June 30, 2013 and 2012, the amount held by the Trustee was \$70,706,508 and \$166,189,732, 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, 2013 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:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	9,430,000	30,487,998	39,917,998
2019-2023	54,495,000	144,913,548	199,408,548
2024-2028	69,330,000	129,681,617	199,011,617
2029-2033	110,385,000	108,629,628	219,014,628
2034-2038	176,410,000	65,792,997	242,202,997
2039-2041	126,370,000	11,699,976	138,069,976
	<u>\$ 570,870,000</u>	<u>\$ 616,773,332</u>	<u>\$ 1,187,643,332</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 fiscal year 2013, the Airport Authority established a \$4,000,000 line of credit with Wells Fargo, which is collateralized with a certificate of deposit. This line of credit replaced a line maintained with Union Bank. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2013, nothing had been drawn on the line of credit and four issued letters of credit were outstanding, totaling \$858,006 for projects in progress. One of the letters of credit is due to expire on January 17, 2014, and the remaining three will expire on February 27, 2014.

Capital Leases:

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

Receiving distribution center lease: The Airport Authority entered into an installment purchase agreement for a receiving and distribution center (RDC) in fiscal year 2013. This agreement has been determined to be a capital lease with an interest rate of 9.15 percent and requires monthly lease payments of \$73,108 for 240 months. The Airport Authority will become the owner of the RDC at the conclusion of the 20-year installment purchase agreement.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt (Continued)

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2013:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,054,969
2015	902,429
2016	877,298
2017	877,298
2018	877,298
2019-2023	4,386,489
2024-2028	4,386,489
2029-2031	3,874,732
Total lease payments	<u>17,237,002</u>
Less amount representing interest	(9,084,414)
Present value of future lease payments	<u>\$ 8,152,588</u>

Note 6. Defined-Benefit Plan

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

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's contribution rate, as determined through actuarial valuation, was 10.9 percent for 2013, 14.5 percent for 2012 and 16.6 percent for 2011, and is expressed as a percentage of covered payroll.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Annual pension cost: For the years ended June 30, 2013, 2012 and 2011, the annual pension cost included in salaries and benefits was \$4,582,000, \$4,356,000 and \$5,036,000, respectively, for the CERS pension. Comparing the June 30, 2012 actuarial valuation to the June 30, 2011 actuarial valuation, total membership increased by 1.3 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, for an average decrease of 0.8 percent. The actuarial liability increased by 15.7 percent, but the actuarial value of assets increased by 11 percent. The funding ratio decreased from 102.7 percent as of June 30, 2011 to 98.5 percent as of June 30, 2012. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not decrease as much as the market value (94.6 percent).

New valuation requirements: Effective January 1, 2013, new Airport Authority employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions, including reduced benefit accrual factors, a cap on pensionable salary, three-year averaging for final salary, and mandatory exclusion of certain items from pensionable salary. There are less significant changes for current employees and retirees.

There are no New Members in the current valuation. However, in calculating the fiscal year 2014 ARC, the valuation reflects an estimate of PEPRA's impact on the normal cost. There is no impact on the unfunded actuarial liability. As experience for New Members emerges in the June 30, 2013 and subsequent valuations, the actual cost implications will vary and further study may be required.

As of the latest actuarial valuation dated June 30, 2012, 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 7.5 percent.
- The inflation assumption was 0 percent for the next year and 3.75 percent thereafter.
- Cost of living adjustment is assumed to be 2 percent.
- Actuarial funding method is entry age normal.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

- Amortization method is level percent closed.
- Asset valuation method is expected value method.
- Equivalent single amortization period is 13.539 years. This consists of nine years for the outstanding balance of the 2007 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 unfunded actuarial liability. The normal cost is a level percent of payroll cost that, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

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, 2013, 2012 and 2011, the total contribution of \$10,013,627 less amortization of \$3,365,485, \$2,809,172 and \$2,252,860, respectively, is recorded as a net pension asset of \$6,648,142, \$7,204,455 and \$7,760,767, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2014 measured as a percentage of membership payroll increased from 10.9 percent to 11.9 percent. The required beginning-of-year contribution paid on July 1, 2013 increased by \$300,000.

Fiscal Year Ended	Annual Pension Cost (APC)	Airport Cost Funded	% of APC Contributed	ARC	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.50%
6/30/11	\$ 5,036	\$ 4,300	85%	\$ 4,300	\$ 7,761	\$ (556)	\$ 556	\$ 751
6/30/12	4,356	3,800	87%	3,800	7,204	(556)	556	751
6/30/13	4,582	2,600	57%	2,600	6,648	(556)	556	751

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined-Benefit Plan (Continued)

Schedule of pension funding progress for CERS based on most recent actuarial valuation is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/12	\$ 95,793	\$ 97,225	\$ 1,432	98.5%	\$ 24,726	5.8%

Note 7. Employees' Deferred Compensation Plan

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

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

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

Note 8. Other Postemployment Benefits

In addition to pension benefits as described in Notes 6 and 7, the Airport Authority provides other postemployment benefits (OPEB). The Airport Authority's OPEB benefits are administered as a single-employer plan.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

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

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

Annual OPEB cost and actuarial methods and assumptions: The July 1, 2011 actuarial valuation for the ARC, net of the employer contribution, was \$2,238,000 for fiscal year 2013 and \$2,165,000 for 2012. 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 annual healthcare cost trend rate ranged from 8.0 percent to 9.5 percent for medical, with a 5 percent rate for dental and 3.0 percent rate for vision.

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

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

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)			Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
				End of Year	Interest on NOO (Asset)						
7/1/2010	10/11	\$ 1,791	\$ 1,699	\$ (60)	\$ (12)	\$ (10)	\$ 1,789	7.61%	3.25%	15.7	
7/1/2011	11/12	2,165	2,165	(61)	(5)	-	2,164	7.61%	3.25%	15.7	
7/1/2012	12/13	2,238	2,236	(62)	(5)	-	2,237	7.61%	3.25%	15.7	

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB (Asset) Obligation
6/30/11	\$ 1,789	\$ 1,699	95.0%	\$ (60)
6/30/12	2,164	1,964	90.8%	(61)
6/30/13	2,237	2,236	100.0%	(62)

Schedule of OPEB funding progress based on most recent actuarial valuation is as follows (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
Actual	\$ 40,725	\$ 7,604	\$ 22,197	\$ 14,593	34.3%	\$ 18,728	77.9%	7.61%	3.25%

Note 9. Risk Management

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

Commercially issued insurance:

- The Airport Authority maintains \$500 million in limits for owners' and operators' general liability insurance with a War, Hijacking and Other Perils endorsement in the amount of \$150 million.
- The Airport Authority maintains a property insurance policy with limits of \$500 million providing all risk and flood coverage on physical assets.
- The Airport Authority also maintains policies for Workers' Compensation, Commercial Auto, Fiduciary Liability and Public Official Liability.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2013 and 2012, the Airport Authority has designated \$6,659,982 and \$5,941,986, respectively, from its net position, which is included in designated unrestricted net position.

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 9. Risk Management (Continued)

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

During fiscal year 2013, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 10. Lease Revenues

The Airport Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. These assets are included in the buildings and structures capital asset category and have a cost of approximately \$253.1 million and accumulated depreciation of approximately \$128.3 million, for a net carrying amount of \$124.8 million as of June 30, 2013. 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 signatory airlines lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

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

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 4,826,179
2015	7,547,637
2016	6,532,126
2017	5,422,203
2018	5,503,536
2019-2020	11,330,637
	<u>\$ 41,162,317</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, 2013 and 2012, the Airport Authority recognized lease revenue of \$86,996 for each year under the World Trade Center lease.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments

Operating Leases:

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

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

Teledyne Ryan lease: The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires on 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 and both expire in December 2013. As of January 1, 2013, the lease for \$86,083 was terminated with the District.

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 on September 1, 2006.

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

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments (Continued)

Building lease: The Airport Authority leased modular buildings from an unrelated third party that required monthly rental of \$1,366 through the expiration date of August 2013. This lease was not renewed. The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2014	\$ 10,290,846
2015	10,167,120
2016	10,167,120
2017	10,167,120
2018	10,159,920
2019-2023	50,799,600
2024-2028	50,799,600
2029-2033	50,799,600
2034-2038	50,799,600
2039-2043	50,799,600
2044-2048	50,799,600
2049-2053	50,799,600
2054-2058	50,799,600
2059-2063	50,799,600
2064-2068	50,799,600
2069	5,079,960
	<u>\$ 564,028,086</u>

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

	<u>2013</u>	<u>2012</u>
Rental payments made	<u>\$ 10,897,338</u>	<u>\$ 11,414,838</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments, Contingencies and Subsequent Event

Commitments: As of June 30, 2013, 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 current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2013, these funds totaled \$905,769 and are classified on the accompanying statement of net position as cash and investments designated for specific capital projects and other commitments.
- ii. Support services—As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at 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 provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the year ended June 30, 2013, the Airport Authority expensed \$17,289,681 for these services.
- iii. 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 \$112 million has been spent to date. The remaining contract is expected to be completed during fiscal year 2014.
- iv. 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 early fiscal year 2014. 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, 2013, \$404.41 million had been spent and the contract is expected to be completed during fiscal year 2014.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

- v. The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$43.8 million approved in 2009 and additional approvals in 2010 and 2011 for \$76.2 million and \$135 million, respectively. As of June 30, 2013, \$206.23 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is expected to be completed in fiscal year 2014.
- vi. 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, 2013 were \$6.9 million for parking management services and \$9.1 million for airport shuttle services. These contracts are scheduled for completion in 2017. As of June 30, 2013, the Airport Authority's remaining commitment is approximately \$22.8 million for the parking management contract and \$19.7 million for the shuttle service contract.
- vii. In fiscal year 2013, the Board approved a contract with Austin-Sundt JV for the design and construction of the proposed Rental Car Center in the amount of \$14 million and additional approval of \$10 million. As of June 30, 2013, \$1.9 million had been spent and the contract is due to be completed in fiscal year 2016.
- viii. In fiscal year 2013, the Board approved a contract with Demattei Wong Architecture in support of the Rental Car Center project in the amount of \$10 million and an additional approval of \$12 million. As of June 30, 2013, \$6.7 million had been spent and the contract is due to be completed in fiscal year 2016.

Contingencies: As of June 30, 2013, 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 13. Implementation of New GASB and Effect on Net Position

During the year ended June 30, 2013, the Airport Authority early implemented GASB Statement No. 65. As a result, the cumulative effect on beginning net position and the change in net position, as well as certain asset accounts and operating accounts, have been restated from previously issued financial statements to reflect the Airport Authority's write-off of unamortized debt issuance costs. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources to ensure consistency in financial reporting.

The effect on the Airport Authority's previously issued June 30, 2012 financial statements is summarized as follows:

Statement of Net Position	Previously Reported Balance as of June 30, 2012	(Decrease)	Balance as Restated as of June 30, 2012
Deferred charges	\$ 4,655,862	\$ (4,655,862)	\$ -
Total assets	1,432,071,331	(4,655,862)	1,427,415,469
Net position, end of year	665,544,428	(4,655,862)	660,888,566
Statement of Revenues, Expenses and Changes in Net Position	Previously Reported Balance for the Year Ended June 30, 2012	Increase (Decrease)	Balance as Restated for the Year Ended June 30, 2012
Interest expense	\$ 2,369,718	\$ (343,026)	\$ 2,026,692
Change in net position	58,290,185	343,026	58,633,211
Beginning net position as of June 30, 2011	607,254,243	(4,998,888)	602,255,355
Net position, end of year	665,544,428	(4,655,862)	660,888,566

Implementation of new accounting standards also resulted in \$1,854,985 being restated from a reduction of debt to being recorded as a deferred outflow of resources as of June 30, 2012.

San Diego County Regional Airport Authority

**Required Supplementary Information
Fiscal Year Ended June 30, 2013**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)/(Asset)	Funded Ratio	Annual Covered Payroll	UAAL/(Asset) as a Percentage of Covered Payroll
6/30/10	\$ 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%)
6/30/12	95,793	97,225	1,432	98.5%	24,726	5.8%

Schedule of OPEB funding progress is as follows (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
Actual	7/1/09	\$ 2,674	\$ 12,206	\$ 9,532	21.9%	\$ 19,514	48.8%	7.75%	3.25%
Actual	7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
Actual	7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%