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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

A DEPARTMENT OF THE COUNTY OF SACRAMENTO

SACRAMENTO, CALIFORNIA

FISCAL YEAR ENDED JUNE 30, 2011

# Comprehensive Annual Financial Report

For the  
Sacramento County Airport System

An Enterprise Fund of the County of Sacramento, California

For the Fiscal Years Ended  
June 30, 2011 and 2010

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# Sacramento County Airport System

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## Introductory Section

This section contains the following subsections:

Airport Locations and Service Area

Certificate of Achievement

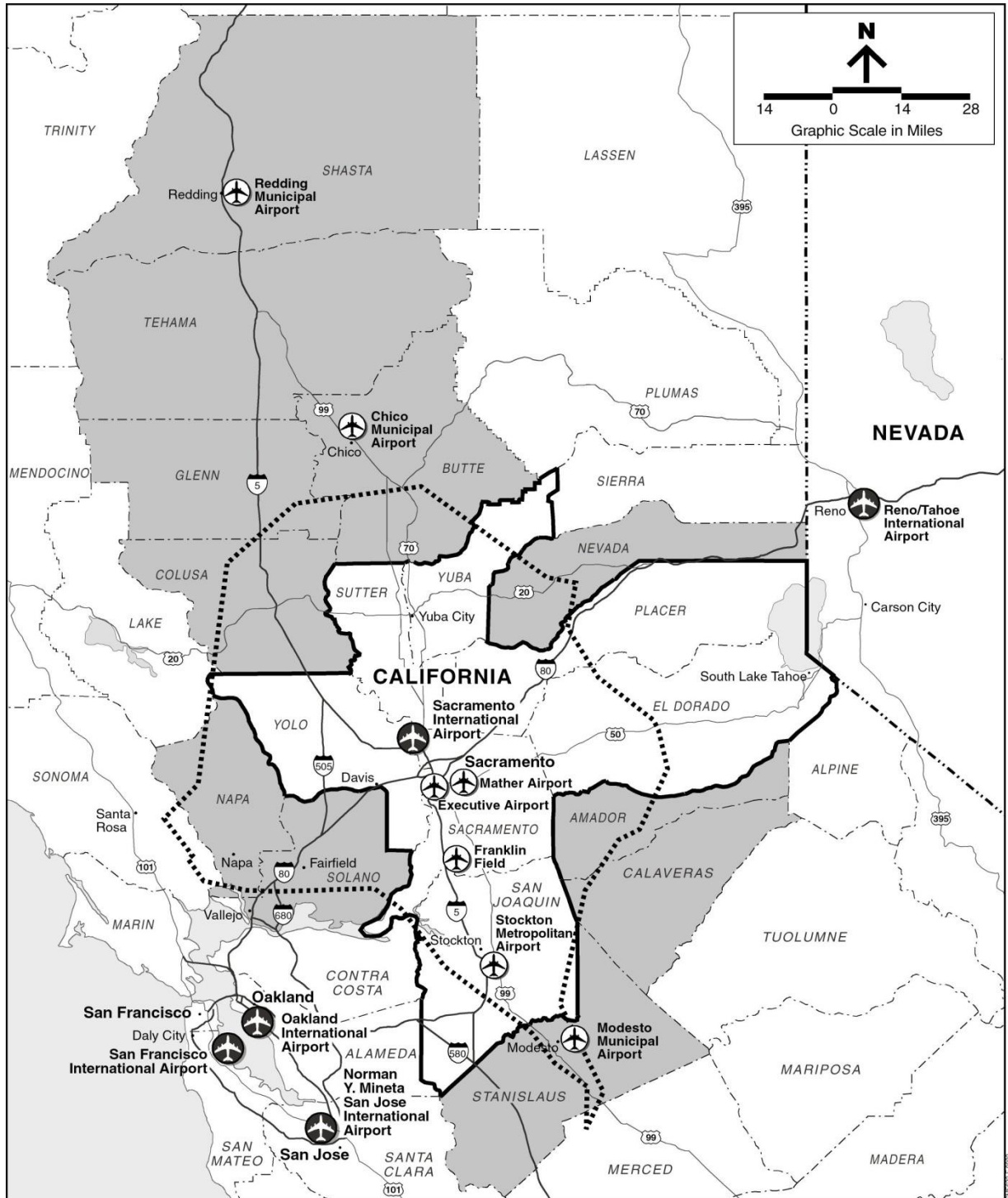
Transmittal Letter

Organizational Chart

List of Principal Officials

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# Airport Locations and Service Area



- LEGEND**
- Primary air service area
  - Secondary air service area
  - Line of indifference\*
  - State boundary
  - ✈ Other airport
  - ✈ Major air carrier airport
  - County boundary
  - Interstate highway
  - Other major roads

\* Line of indifference denotes the Census tracts within which potential customers (residents and visitors) are indifferent about using Sacramento International Airport or one of the three Bay Area airports (Oakland, San Francisco, or Norman Y. Mineta San Jose International Airports), *Defining the Sacramento Catchment Area*, GRA Inc., April 2007.



# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Sacramento County Airport System  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



## County of Sacramento

December 12, 2011

To The Public:

The Comprehensive Annual Financial Report for the Sacramento County Airport System (Airport System), for the fiscal years ended June 30, 2011 and 2010, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Airport System. All disclosures necessary to enable the reader to gain an understanding of the Airport System's financial activities have been included.

The Government Finance Officers Association (GFOA), under its certificate program, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Airport System's MD&A can be found prior to the report of the independent auditor.

The County of Sacramento is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The Airport System, as a department of the County, is included in the scope of the County's audit. Information related to this single audit, including the schedule of expenditures of federal awards, findings and questioned costs, and independent auditor's report on internal controls and tests of compliance with applicable laws, regulations, and contracts and grants is included in the County's Comprehensive Annual Financial Report.

### **PROFILE OF THE GOVERNMENT**

The Airport System was created by Sacramento County Code in 1963 as a department within the County of Sacramento. The purpose of the Airport System is to provide for the efficient planning, development and operation of public air transportation facilities in Sacramento County and adjoining areas. In addition to promoting the efficient use and development of air transportation, the Airport System is responsible for assuring residents of Sacramento and the immediate surrounding areas of minimal environmental impact from air navigation and transportation.

The Airport System consists of Sacramento International Airport (International), Executive Airport, Mather Airport, and Franklin Field. International is the principal air carrier airport serving the County of Sacramento and a wide region surrounding the County. International's primary service area is a seven-county region consisting of Sacramento, El Dorado, Placer, San Joaquin, Sutter, Yolo and Yuba counties (the Sacramento Area). Executive Airport is a general aviation reliever airport with no scheduled airline service. Mather Airport serves as an air cargo and general aviation facility. Franklin Field is a general aviation reliever airstrip used primarily for training.

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**ECONOMIC CONDITIONS**

The nationwide demand for aviation is a function of domestic and foreign population and economic growth, airline industry developments, and airport and airspace capacity. Airline traffic at airports that principally service origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination medium-hub airport, International is dependent upon the regional economy and population for the travelers who produce its revenue base.

In 2008, 2009 and much of 2010, the local, national, and world economies experienced a significant recession followed by a weak recovery in 2011. The California economy followed national economic trends, with falling home prices, worsening credit availability, shrinking equity values, and growing job losses. The Bureau of Labor Statistics data show the State's unemployment rate was 11.8% in June 2011, compared to the U.S. national average unemployment rate of 9.2% during the same time period. The State is currently facing significant intrinsic problems, including severe budget shortfall, which is expected to cause the post-recession recovery in the State to lag that of the nation.

After a sustained period of economic growth, as measured by Gross Regional Product (GRP), that began in the late 1990's and continued into 2007, the Sacramento Area has experienced generally weak economic conditions in recent years. Significant factors in the downturn have been (1) the turmoil in the housing market and (2) job losses.

The economic situation in Sacramento has been affected by the recession to a greater extent than the United States and California overall and while California has emerged from the recession, the pace has not been uniform, leaving Sacramento lagging well behind the statewide and national economies. During fiscal year 2011, the unemployment rate in the Sacramento Area exceeded the State and national rates. The high rate of population growth in the Sacramento Area in the first half of the past decade has slowed. The California Association of Realtors (C.A.R.) reports that the median sale price of existing homes in the Sacramento Area was \$165,850 in June 2011, which is a decrease of 15.5% from the previous year, and a 56% reduction from the 2005 peak of \$375,900, resulting in extensive foreclosures. Home sales and median price are predicted to improve only slightly in 2012 according to the C.A.R. market forecast, as the result of tepid economic recovery, uncertainty about the future, and funding challenges for residential mortgages. Sacramento's economic outlook for the next year is weaker than the rest of Northern California and recovery is predicted to be particularly slow in the Central Valley because it is hard hit by a weak construction market and State budget cuts. With almost 14 percent of the Sacramento region's employees working for the State, the region will continue to suffer if the budget plans continue to cut state employees.

### Population

According to the U.S. Department of Commerce, Bureau of the Census, the population of the Sacramento Area was over 3.0 million in 2010, concentrated primarily in Sacramento and San Joaquin counties. The 13-county secondary service area was home to an additional 1.1 million people. (see Table 1).

The Sacramento Area accounted for 8.1% of the State's population and 7.3% of its non-agricultural employment in 2010. The Sacramento Area's per capita personal income in 2010 (\$38,231) was lower than both the State average (\$42,578) and the national average (\$39,945). The pattern of per capita income growth in the Sacramento Area has generally mirrored the pattern of nationwide growth, albeit at a slightly lower level, over the past two decades. Between 1990 and 2010, the Sacramento Area's population increased at a higher rate than the population of either California and the nation, largely because of a population surge in the Sacramento Area between 2000 and 2005. Between 2005 and 2010, however, population growth in the Sacramento Area slowed and was closer to State and national rates of growth.

**Table 1**  
**POPULATION BY COUNTY**  
Sacramento Area and Secondary Service Area

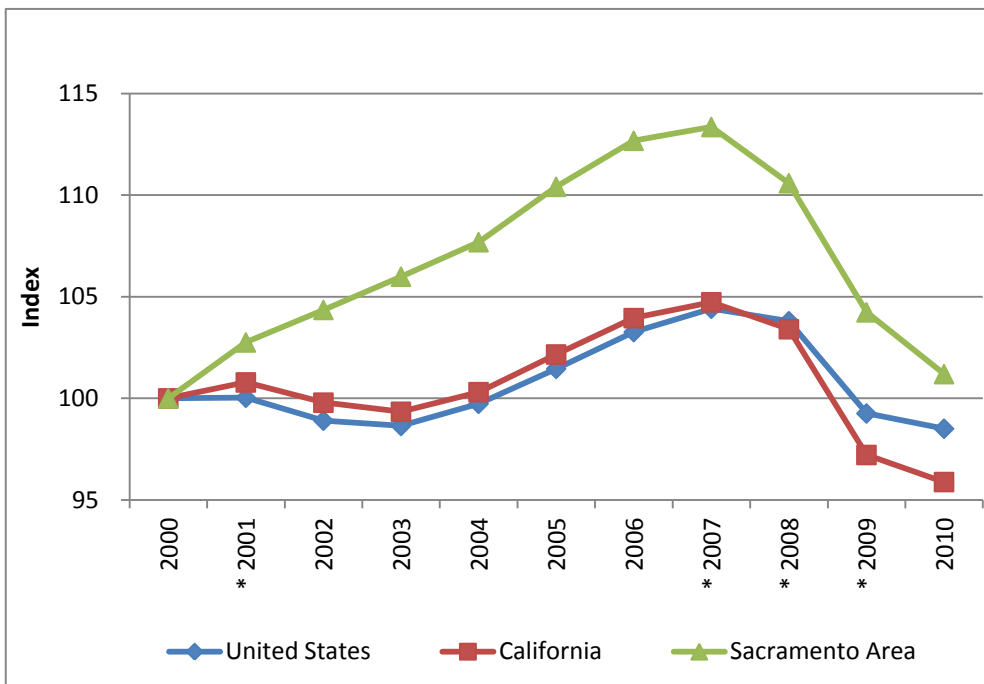
County	2010 Population	Percent of Sacramento Area	Percent of total
<b>Sacramento Area:</b>			
Sacramento	1,428,355	47.2%	34.2%
San Joaquin	690,899	22.8	16.6
Placer	352,380	11.7	8.4
Yolo	201,759	6.7	4.8
El Dorado	182,498	6.0	4.4
Sutter	95,800	3.2	2.3
Yuba	72,749	2.4	1.7
Subtotal	3,024,440	100.0%	72.5%
<b>Secondary Service Area</b>			
Solano	414,509		9.9%
Butte	221,388		5.3
Napa	137,639		3.3
Nevada	99,111		2.4
Tehama	63,950		1.5
Tuolumne	55,256		1.3
Calaveras	45,693		1.1
Amador	37,911		0.9
Glenn	28,273		0.7
Colusa	21,593		0.5
Plumas	20,025		0.5
Sierra	3,248		0.1
Alpine	1,176		0.0
Subtotal	1,149,772		27.5%
<b>Total</b>	<b>4,174,212</b>		<b>100.0%</b>

Note: Percentages may not add to total shown because of rounding.  
Source: U.S. Department of Commerce, Bureau of the Census website.

Employment

Figure 1 presents a comparison of growth in nonagricultural employment in the Sacramento Area from 2000 to 2010 with that of California and the nation. From 2000 to 2007, employment levels in the Sacramento Area increased at a higher rate than in the United States and California. However, during the 2007-2009 economic recession and continuing in 2010, the nonagricultural employment decline rate was significantly higher in the Sacramento Area than the rate experienced in either California or the nation.

*Figure 1*  
**COMPARATIVE INDEX OF TOTAL NONAGRICULTURAL EMPLOYMENT**  
 (calendar years; 2000=100)



Compound annual growth rate	2000-2007	2007-2010
<b>United States</b>	0.6%	(1.9%)
<b>California</b>	0.7	(2.9)
<b>Sacramento Area</b>	1.8	(3.7)

\*Indicates national recession during all or part of year, according to the National Bureau of Economic Recession.

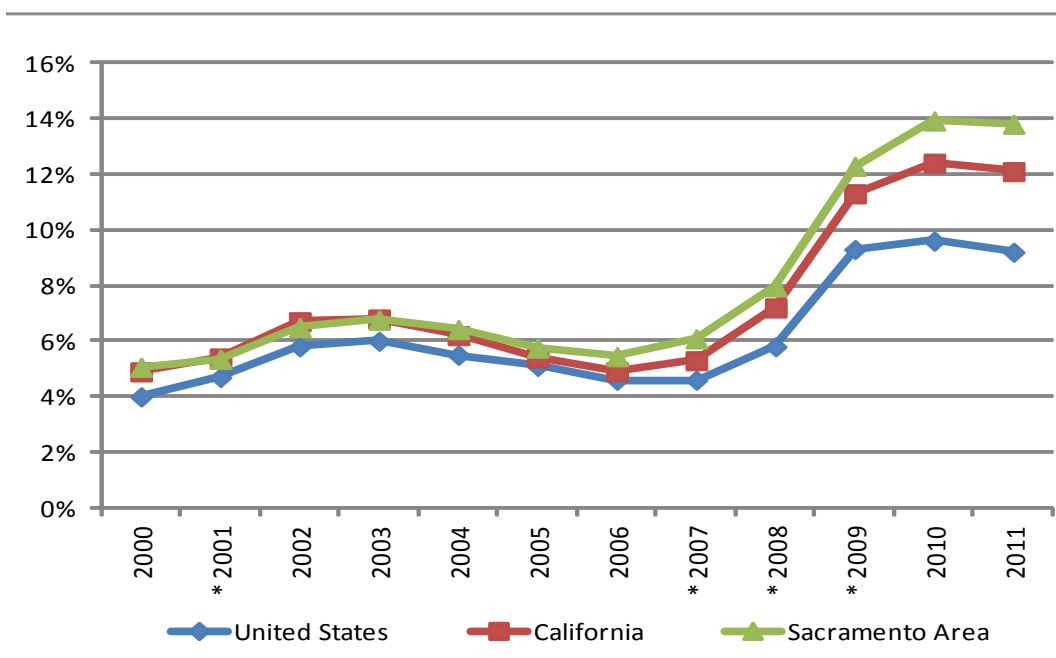
Source: U.S. Department of Labor, Bureau of Labor Statistics website.

Unemployment Rate

The unemployment rate in the Sacramento Area generally tracks the statewide pattern, as Figure 2 illustrates, but is typically higher than the national rate. In the first 6 months of 2011, unemployment in the Sacramento Area averaged 13.8%, compared with the most recent low of 5.4% in 2006. In comparison, the unemployment rates for California and the nation were 12.1% and 9.2%, respectively.

On a positive note, the average rate of job loss has shown steady improvement from a rate of 5,000 jobs lost per month in late-2009 to about 300 jobs lost per month in June 2011. According to a business review report published recently by the California State University Sacramento, the Sacramento Area gained over 23,000 nonfarm jobs between March and June 2011, the first time that has happened in over a decade.

*Figure 2*  
**CIVILIAN UNEMPLOYMENT RATE**  
(calendar years: 2000-2011)



Note: 2011 data are the average for January-June 2011.

\*Indicates national recession during all or part of year, according to the National Bureau of Economic Recession.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Employment by Industry Sector

With regard to employment distribution, the major nonagricultural employment sectors are shown in Table 2. The Sacramento Area has a higher percentage of public sector (government) employment relative to California and the nation because of its status as the capital of the most populous state in the United States. In terms of private sector employment, the Sacramento Area roughly approximates the California and national economies, aside from a lower concentration in manufacturing employment.

Between 2000 and 2010, private sector employment growth in the Sacramento Area was greater (or declined less) than in California or the nation in every industry except four sectors: construction, financial activities, professional and business services, and mining and logging. Over this period, Sacramento Area employment growth was driven primarily by education and health services, leisure and hospitality and other services.

**Table 2**  
**AVERAGE ANNUAL NONAGRICULTURAL EMPLOYMENT GROWTH**  
**AND EMPLOYMENT SHARE BY INDUSTRY SECTOR**  
Sacramento Area, California, and United States

Industry	Average Annual Growth Rate			2010 Percent of Total		
	2000-2010			2010 Percent of Total		
	Sacramento Area	California	United States	Sacramento Area	California	United States
Government	0.9%	0.5%	0.8%	28.4%	17.5%	17.3%
Trade, Transportation, Utilities	(0.4)	(0.4)	(0.6)	16.4	18.8	19.0
Professional & Business Services	(0.5)	(0.7)	0.1	12.6	14.9	12.8
Education & Health Services	3.4	2.4	2.6	12.3	12.9	15.1
Leisure & Hospitality	1.3	1.1	0.9	9.9	10.7	10.0
Financial Activities	(0.6)	(0.4)	(0.1)	6.0	5.5	5.9
Construction	(2.6)	(2.2)	(1.8)	4.7	4.0	4.3
Manufacturing	(3.5)	(3.9)	(3.9)	4.1	8.9	8.9
Other Services	0.5	0.0	0.4	3.5	3.5	4.1
Information	(0.5)	(2.9)	(2.8)	2.1	3.1	2.1
Mining & Logging	(6.6)	0.3	1.8	0.0	0.2	0.5
TOTAL	0.2%	(0.4%)	(0.1%)	100.0%	100.0%	100.0%

Source: U.S. department of Labor, Bureau of Labor Statistics

Government

State, local, and federal government employment accounted for 28.2% of total nonagricultural employment in the Sacramento Area as of June 30, 2011, compared with 26.8% in 2000 (see Table 3). A large number of government employees in the Sacramento Area work in local government, which represented approximately 12.8% of total employment. As would be expected of California’s capital, State government is also a large employer in the Sacramento Area, with 13.7% of total nonagricultural employment at June 30, 2011.

*Table 3*  
**GOVERNMENT EMPLOYMENT SHARE OF TOTAL  
NONAGRICULTURAL EMPLOYMENT**

Sacramento Area  
(As of June 30<sup>th</sup>)

	2000	2005	2011
<b>Federal Government</b>	2.2%	1.4%	1.7%
<b>State Government</b>	12.6	11.7	13.7
<i>Education</i>	3.0	3.1	3.4
<i>Other</i>	9.6	8.6	10.3
<b>Local Government</b>	<u>12.0</u>	<u>12.5</u>	<u>12.8</u>
<b>Total Government Share of Nonagricultural Employment</b>	26.8%	25.6%	28.2%

Source: California Employment Development Department.

The federal government accounted for 1.7% of total nonagricultural employment in the Sacramento Area in 2011, compared with 2.2% in 2000. The decrease in federal government employment was largely the result of a reduction in U.S. Department of Defense activities, as McClellan Air Force Base was closed in 2001.

#### Major Employers

Table 4 lists major private sector employers in the Sacramento—Arden-Arcade—Roseville MSA, which accounts for 72.5% of the population of the Sacramento Area. The MSA's top three private employers are in the health care field — Kaiser Permanente, Sutter Health, and Mercy/Catholic Healthcare West.

Many of the companies listed are involved in national and international operations which rely on airline travel.



**Table 4**  
**MAJOR PRIVATE SECTOR EMPLOYERS**  
Sacramento-Arden-Arcade-Roseville MSA

<u>Company</u>	<u>Employment</u>	<u>Type of business</u>
Kaiser Permanente	9,903	Health care
Sutter Health	7,262	Health care
Mercy/Catholic Healthcare West	6,976	Health care
Intel Corp.	5,900	Semiconductor manufacturer
Wells Fargo & Co.	3,905	Financial services
Hewlett-Packard Co.	3,500	Computer hardware manufacturer
Union Pacific Railroad	2,620	Transportation
Health Net Inc.	2,400	Health plan
Cache Creek Casino Resort	2,376	Casino resort
Pacific Gas and Electric Co.	2,034	Natural gas and electric utility
Pride Industries	1,796	Manufacturing and logistics services
Blue Shield of California	1,670	Health plan
Aerojet-General Corp.	1,637	Aerospace and defense manufacturing
DST Output	1,250	Statement and billing output services
Eskaton	1,123	Senior residences and services
Franklin Templeton Investments	1,000	Global investment management
Marshall Medical Center	974	Hospital and health care services
SureWest Communications	703	Integrated communications provider
Siemens Mobility	700	Engineering and manufacturing
Nugget Market Inc.	680	Retail grocery

Note: Includes companies with operations in El Dorado, Placer, Sacramento, and Yolo counties.

Source: *Sacramento Business Journal*, "2010 Book of Lists."

Tourism and Local Activities

Visitors are attracted to the Sacramento Area by the State Capitol and other historical attractions, as well as the natural amenities, recreational activities, sporting events, and cultural attractions in the area. According to California Travel & Tourism Commission preliminary statistics, direct travel spending in the Sacramento Area totaled \$3.6 billion in 2010. Sacramento also serves as a gateway to cultural and recreational attractions that are within a day-trip driving distance, such as the Napa Valley and Amador County vineyards and the Sierra/Yosemite/Lake Tahoe regions.

Business Growth

The Sacramento Area is one of the most attractive locations in which to do business in the western United States. Few inland metropolitan areas can boast a major airport, an airport specializing primarily in air cargo, a deep-water port, a transcontinental rail line and several interstate freeways. Comparatively inexpensive business costs, plentiful skilled labor, abundant water supply, quality of life and proximity to the San Francisco Bay Area create an outstanding business climate.

Air Service

An integral component in a region’s economic growth is the availability of accessible, affordable, and convenient air transportation service. International Airport, as the chief point of entry for many of Sacramento Area’s business, government, and leisure travelers, as well as some air cargo shipments, is well suited to meet these demands for economic activity.

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**PASSENGER TRAFFIC**

Passenger traffic at International is affected by the Sacramento Area's economic profile; for example, the amount and type of commerce in the Sacramento Area may affect the level of business travel to and from Sacramento, or the amount of per capita personal income in the Sacramento Area may affect the level of discretionary travel from International. Approximately 8.7 million total passengers (enplaning and deplaning) chose International during fiscal year 2011, reflecting a 1.6 percent decline over the prior year.

As of June 2011, International was served by 11 scheduled passenger airlines which provided an average of 148 daily scheduled aircraft departures. International is also served by one all-cargo airline.

The busiest carrier at International is Southwest Airlines (70 daily nonstop flights), followed by United Airlines/United Express (24 daily nonstop flights), Alaska/Horizon Airlines (14 daily nonstop flights) and Delta Air Lines (14 daily nonstop flights). Over 117,600 operations (takeoffs and landings) occurred at International during fiscal year 2011 on parallel runways that can accommodate up to 400,000 operations per year, a decrease of 11.6 percent as compared with fiscal year 2010.

As of June 30, 2011, over two-thirds of the passenger traffic at International was concentrated in the 13-gate Terminal A. Southwest Airlines, serving close to five million total passengers, comprised the majority of passenger traffic in Terminal A. Southwest has accounted for approximately half the number of passengers enplaned at International each year since FY 1998; in recent years, Southwest's growth in enplanements has lagged that of the other airlines serving Sacramento. Other airline tenants in Terminal A include Delta Air Lines, the second largest carrier at International (568,589 passengers), US Airways, and Hawaiian Airlines.

In fiscal year 2011, the 12-gate Terminal B housed Alaska Airlines, American Airlines, Continental Airlines, Horizon Air, JetBlue Airways, Frontier Airlines, and United Airlines/United Express, the third largest carrier at International (more than 550,000 passengers). The Interim International Arrivals Building (IIAB) provides 1 contact gate and served Mexicana Airlines arrivals and departures until August 2010, when Mexicana filed for Chapter 15 bankruptcy protection. Mexicana de Aviación was the first airline to initiate international service at SMF, beginning in July 2002. As of June 2011, international service at SMF consisted of less-than-daily flights to Guadalajara, Mexico, provided by Alaska Airlines. Terminal B, which opened in 1967, is over 40 years old and cannot reasonably or economically be modernized to meet future needs. The new Central Terminal B opened in October 2011 replacing the old Terminal B and the IIAB.

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. The recession that began in December 2007 combined with reduced discretionary income and increased airfares has contributed to reduced air travel demand. Nearly all airlines serving Sacramento were providing fewer seats in FY 2011 than in FY 2010. Reductions in overall seat capacity at International are indicated by flight schedules filed by the airlines with the Official Airline Guide.

An updated forecast through 2016, prepared by Leigh Fisher in September 2011, depicts a slight increase of the number of enplaned passengers in FY 2012 (0.2%) and a gradual recovery thereafter to 4.8 million enplaned passengers in FY 2016. The pace of the national economic recovery; the degree to which airlines are able to adjust their business models to re-balance demand, capacity, cost, and airfares; and the extent to which consumers alter their travel behavior in response to these factors will determine the actual pace and magnitude of the resumption of traffic growth at International.

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**MAJOR INITIATIVES**International Master Plan

The County Board of Supervisors approved the Sacramento International Airport Master Plan on August 7, 2007 and certified that the Final Environmental Impact Report required by the California Environmental Quality Act is adequate and complete. The Airport System received a Finding of No Significant Impact-Record of Decision for the National Environmental Protection Act Environmental Assessment for the Terminal Modernization Program (TMP) in April of 2008. The plan prepares International for the future with a three-phased Capital Improvement Program (CIP) that has an anticipated completion date of 2020. Near-term and immediate-term plans include airfield improvements and the construction of a new terminal complex which opened in October 2011.

Terminal Modernization Program

The original Terminal Modernization Program (before it was revised in 2009) had been under consideration by the Airport System since it was recommended in the 2007 International Airport Master Plan, which determined that Terminal A would remain a viable facility, but that Terminal B could not reasonably or cost effectively be modified to meet future demand. In 2009, the Airport System, in response to economic and industry conditions, deleted the proposed in-terminal hotel project and deferred the parking garage project until after FY 2016, to create the TMP, which is depicted in Figure 3. As shown in the figure, a new landside Terminal B replaced the landside facilities in the existing Terminal B, which was originally constructed in the mid-1960s. Central Terminal B is connected to the new 19-gate airside Concourse B via an Automated People Mover (APM). Central Terminal B is served by a dual level roadway system. The TMP also includes construction of a centralized receiving warehouse, landscaping, and demolition of existing facilities. The figure depicts the location of the deferred parking garage using dashed lines.

The TMP includes the following key elements:

- Crossfield taxiway for east-west aircraft movement.
- Apron paving with dual taxilane access to Concourse B.
- Landside portion of Central Terminal B with approximately 413,000 square feet of space developed on three above-ground levels with a basement, including the facility's central utility plant.
- Airside Concourse B on two levels with 19 narrowbody aircraft gates and approximately 327,000 enclosed square feet of space.
- APM shuttle linking the Central Terminal and airside Concourse B.
- Airline baggage makeup space located in the terminal basement with an inline explosives detection system (EDS) baggage screening and tug/tunnel operation to the aircraft.
- Two-level roadway system providing access to the east and west sides of Central Terminal B.
- Remote surface parking lot with 1,600 parking spaces.
- Remote central receiving warehouse.
- Modifications to Terminal A to accommodate additional airline tenants.

*Figure 3*  
**TERMINAL MODERNIZATION PROGRAM**  
 Sacramento International Airport



Upon completion of the TMP, facilities at International will support a design capacity of 12 million annual passengers (enplaning and deplaning) and a stress capacity of 14 million to 16 million annual passengers.

In June 2008, the County awarded design-build contracts for landside Central Terminal B and for the airside Concourse B. Both design-build contracts are subject to a Guaranteed Maximum Price (GMP) provision.

As of June 2011, Central Terminal B was approximately 88.3% complete and the Airside Concourse was approximately 85.3% complete, with substantially all contract amounts authorized by the Airport System. The Airport System determined that fully funding the contingency for the TMP is no longer necessary. Therefore, the contingency allowance was reduced from \$22.4 million to \$10 million and the cost estimate for the TMP was revised from \$1,049.9 million to \$1,037.2 million.

#### Mather Airport Master Plan

The Mather Airport Master Plan began June 2001 and is currently in the environmental review phase. The draft plan includes extension of the north runway and installation of a Category IIIa Instrument Landing System on the south runway to improve aircraft access during very poor visibility conditions that are

common during winter months. Other projects are also proposed to accommodate anticipated growth in air cargo and corporate aviation activities. Technical environmental reports have been prepared under the auspices of the National Environmental Protection Act (NEPA) and the California Environmental Quality Act (CEQA). The NEPA documents are under review with the Federal Aviation Administration (FAA). The CEQA documents are in preparation and will be available for public review in the winter of 2011/2012. Upon completion of these environmental review processes, the Board of Supervisors will be asked to take formal action to approve the Mather Airport Master Plan.

#### Executive Airport and Franklin Field Master Plans

The master plans for Executive Airport and Franklin Field have been completed in draft form, having integrated all appropriate committee and public comments received during the planning process. The draft plans are under review by the FAA, to be followed by integration of comments, as appropriate. Following this will be Board of Supervisors' approval to proceed to the environmental review phase of the plans which is anticipated to occur in the fourth quarter of 2011. A major recommendation of the Executive Airport plan is the relocation of general aviation facilities from the west side of the airport to the east, making available the west side for corporate and compatible non-aviation development and new revenue opportunities. Closure of little-used Runway 16-34 is also proposed, which will reduce the airport's pavement maintenance burden and open for development airport areas previously occupied by that runway. For Franklin Field, a five-year period of status quo is proposed, during which time no major projects are planned. A design for accommodating future growth is prepared for implementation but is dependent upon future decisions about south County general aviation market needs.

#### Capital Improvement Program

Table 5 presents the project costs and funding sources for the major components of the Capital Improvement Program (CIP), which is summarized by TMP and Non-TMP projects. The CIP represents all of the significant Airport System capital improvements expected to be undertaken through FY 2016.

Table 5 also shows expected sources of funding for the CIP. The Airport System intends to fund the costs of the CIP through a combination of internally generated cash, Passenger Facility Charge (PFC) revenues, Airport Improvement Program (AIP) grants, State grants, Transportation Security Administration (TSA) funding, other funding sources, and proceeds from the sale of the Series 2008, the Series 2009 Bonds, and the Series 2010 Bonds.

The County reassesses its capital needs at least annually and will modify the CIP as necessary to accommodate traffic activity, security needs, and other needs, which could result in additions to or subtractions from the CIP or changes in the timing of certain projects.

**Table 5**  
**PROJECT COST AND SOURCES OF FUNDING**  
**FY 2012-2016 CAPITAL IMPROVEMENT PROGRAM (a)**  
**Sacramento County Airport System**  
**(in thousands)**

	AIP		Bonds			PFC PAYGO	SCAS	Other (c)	Total
	LOI (b)	Other AIP Grants	ASRB	Prior Bonds	PFC				
<b>SMF</b>									
Terminal Modernization Program									
Airside concourse	\$ 52,021	\$ -	\$ 229,180	\$ -	\$ 7,879	\$ 42,641	\$ 36,287	\$ 7,064	\$ 375,073
Landside terminal	-	-	158,717	7,884	203,868	77,359	46,200	-	494,027
Special systems	-	-	104,357	-	-	-	-	-	104,357
Early projects	-	-	15,130	-	-	-	-	-	15,130
Ancillary projects	-	-	48,635	-	-	-	-	-	48,635
Terminal Modernization Program	\$ 52,021	\$ -	\$ 556,019	\$ 7,884	\$ 211,747	\$ 120,000	\$ 82,487	\$ 7,064	\$ 1,037,222
Non-TMP projects	-	76,137	-	-	-	-	38,137	14,000	128,274
<b>SMF total</b>	<b>\$ 52,021</b>	<b>\$ 76,137</b>	<b>\$ 556,019</b>	<b>\$ 7,884</b>	<b>\$ 211,747</b>	<b>\$ 120,000</b>	<b>\$ 120,624</b>	<b>\$ 21,064</b>	<b>\$ 1,165,496</b>
<b>Other airports</b>									
Executive Airport	-	12,704	-	-	-	-	760	48	13,513
Franklin Field	-	-	-	-	-	-	-	-	-
Mather Airport	-	53,175	-	-	-	-	4,818	-	57,993
<b>SCAS total</b>	<b>\$ 52,021</b>	<b>\$ 142,016</b>	<b>\$ 556,019</b>	<b>\$ 7,884</b>	<b>\$ 211,747</b>	<b>\$ 120,000</b>	<b>\$ 126,202</b>	<b>\$ 21,112</b>	<b>\$ 1,237,002</b>
Terminal Modernization Program	52,021	-	556,019	7,884	211,747	120,000	82,487	7,064	1,037,222
Non-TMP projects	-	142,016	-	-	-	-	43,715	14,048	199,780

a) Includes costs for Terminal Modernization Program incurred prior to Fiscal Year 2012.

b) A portion of the \$59.9 million LOI reimbursement is to be used for interest payments.

c) Includes grants from Transportation Security Administration for the TMP, and 3<sup>rd</sup>-party financing for a future fuel system.

AIP = Airport Improvement Program; LOI = Letter of Intent; ASRB = Airport System Revenue Bonds; PFC = Passenger Facility Charge; PAYGO = pay-as-you-go.

## LONG-TERM FUNDING PLAN

### Federal and State Grants

The County is eligible to receive AIP grants for up to 80.59% of the costs of eligible projects at International and 90%-95% at Mather and Executive airports. Certain of these grants are to be received as entitlement grants, the annual amount of which is calculated on the basis of the number of enplaned passengers and the amount of landed weight of all-cargo aircraft at International Airport and Mather Airport. Large and medium-hub airports at which a PFC of \$4.00 or \$4.50 is collected (such as International) forego 75% of their AIP entitlement funds. Other discretionary grants are awarded on the basis of the FAA's determination of the priorities for projects at Airport System airports and at other airports nationwide. The FAA issues Letters of Intent (LOIs) for grants based on the FAA's assessment of national priorities. An LOI represents the FAA's intention to obligate funds from future federal budget appropriations.

On March 6, 2009, the FAA approved the Airport System's LOI application to fund \$59.9 million of the eligible costs of the TMP, as presented in Table 6. As of June 30, 2011, the Airport System received a total of \$18.4 million in LOI grants. Additional AIP discretionary grants for certain Non-TMP Projects in the CIP were also assumed in the financing plan, primarily for projects at Mather Airport. The FAA-grant-eligible costs of the Non-TMP Projects are estimated at \$142.0 million. Many of the projects eligible for federal grants will only be undertaken if such grant funds are received.

The County has received an Other Transaction Agreement from the Transportation Security Administration (TSA) to help fund certain security-related costs in the TMP. No State grant is expected for the CIP.

**Table 6**  
**SCHEDULE OF FEDERAL LETTER OF INTENT GRANTS**

Federal Fiscal Year	Entitlement	Discretionary	Total
2009	\$ 2,103,116	\$ 6,000,000	\$ 8,103,116
2010	2,182,000	7,500,000	9,682,000
2011	2,124,000	7,000,000	9,124,000
2012	2,171,000	6,000,000	8,171,000
2013	2,220,000	6,000,000	8,220,000
2014	2,271,000	6,000,000	8,271,000
2015	<u>2,328,884</u>	<u>6,000,000</u>	<u>8,328,884</u>
<b>Total</b>	<b>\$15,400,000</b>	<b>\$44,500,000</b>	<b>\$59,900,000</b>

Note: The Federal Fiscal Year (FFY) ends September 30.

### PFC Revenues

Beginning April 1, 1993, the Airport System was authorized by the FAA to add a \$3.00 Passenger Facility Charge to the price of all tickets purchased for travel out of International. PFCs are imposed on enplaned passengers by airport operators—collected by airlines—for the purpose of generating revenue for airport projects that increase capacity, increase safety, enhance airline competition, or mitigate noise impact. On October 31, 2001, as a result of the Airport System’s request to increase the fee, the FAA authorized the Airport System to increase the \$3.00 fee to \$4.50 per enplaned passenger, but only for certain eligible projects. This increase was approved through February 1, 2003, at which time the rate returned to \$3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System’s request to increase the level to \$4.50 on the remaining eligible projects, effective September 1, 2003.

As shown in Table 7, under approvals received from the FAA, the County is authorized to impose a PFC fee and to use up to \$964.3 million of PFC revenues. These approvals include the County’s PFC Application #8, which authorized the County to impose a PFC fee and use \$676.6 million of PFC revenues on a pay-as-you-go and leveraged basis in connection with the TMP. The PFC collection dates for approved PFC applications are estimated to expire in 2028.

**Table 7**  
**PFC APPROVALS**  
(in millions)

	Pay-as-you- go amount	PFC and Subordinate Bonds		Total
		Bond proceeds	Financing costs (a)	
Application #1	\$27.6	\$ --	\$ --	\$ 27.6
Application #2	6.0	--	--	6.0
Application #3	--	--	--	--
Application #4	--	37.7	41.3	79.0
Application #5	--	22.8	25.5	48.3
Application #6	--	43.6	72.1	115.7
Application #7	11.1	--	--	11.1
Application #8	<u>120.0</u>	<u>211.8</u>	<u>344.8</u>	<u>676.6</u>
<b>Total</b>	<b>\$164.7</b>	<b>\$315.9</b>	<b>\$483.7</b>	<b>\$964.3</b>

(a) Includes bond interest, capitalized interest, debt service reserve fund deposits, and other costs of issuance.

During fiscal year 2011, the Airport System received \$18.9 million in PFC receipts, bringing the total PFC receipts and interest received under the approved applications to \$302.3 million. In fiscal year 2011, PFC revenues provided partial funding for the TMP projects and bond debt service payments.

### Capital Improvement Fund

Amounts accumulated in the Capital Improvement Fund may be used for any lawful purpose including payments for capital improvements of the Airport System. In the current CIP presented earlier in Table 5, it was assumed that amounts in the Capital Improvement Fund would be used to pay \$82.5 million of project costs in the TMP and \$43.7 million of project costs in the non-TMP portion of the CIP. The application of these funds is shown in the column labeled SCAS in Table 5.

### Airport Bonds

In May 2008, the County issued \$496.1 million of Airport System senior revenue bonds and \$89.4 million of Airport System subordinate and PFC revenue refunding bonds. The proceeds refunded prior bond series and partially funded the Terminal Modernization Program.

In July 2009, the County issued Series 2009 Bonds as additional Airport System senior and subordinate bonds in the aggregate principal amount of \$480 million to continue the financing of the TMP.

In August 2010, the County issued additional Airport System senior revenue bonds in the amount of \$128.3 million to complete the financing of the TMP.

The 2008 Series A, B and C Bonds were issued as Senior Obligations under the Bond Master Indenture of Trust dated May 1, 2008 (Bond Indenture) and the First Supplemental Indenture. The 2009 Series A and B Bonds were issued as Senior Obligations under the Bond Indenture and the Third Supplemental Indenture. The Series 2010 Senior Bonds were issued pursuant to the Bond Indenture and the Fifth Supplemental Indenture, dated August 1, 2010. The Series 2010 Senior Bonds are to be secured by the Trust Estate and payable from Net Revenues on parity with the Series 2009 and 2008 Senior Bonds.

Table 8 presents the final maturity dates and outstanding principal amounts of the Senior Obligations after July 1, 2011 payments.

Outstanding Senior Obligations	Original principal amount		Outstanding principal	Final maturity date
	Refunding	TMP project costs		
Series 2008A	\$111,360,000	\$ 58,215,000	\$157,430,000	July 1, 2041
Series 2008B	35,800,000	278,540,000	307,580,000	July 1, 2039
Series 2008C	12,280,000	--	3,305,000	July 1, 2012
Series 2009A	--	31,115,000	31,115,000	July 1, 2041
Series 2009B	--	170,685,000	170,685,000	July 1, 2039
Series 2010	--	<u>128,300,000</u>	<u>128,300,000</u>	July 1, 2040
Total	<u>\$159,440,000</u>	<u>\$666,855,000</u>	<u>\$798,415,000</u>	



INTRODUCTORY

Table 9 presents the final maturity dates and outstanding principal amounts of the Subordinate Obligations after July 1, 2011. The Series 2008D and E Bonds (the 2008 Subordinate Bonds) were issued as Subordinate Obligations under the Bond Indenture and the Second Supplemental Indenture in non-AMT and AMT series, respectively. The 2008 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on a subordinate basis to the Senior Obligations.

The Airport System issued Series 2009C and D Bonds (the 2009 Subordinate Bonds) as Subordinate Obligations under the Bond Indenture and the Fourth Supplemental Indenture. The 2009 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the 2008 Subordinate Bonds.

In addition, the 2008 Subordinate Bonds and the 2009 Subordinate Bonds are payable from and secured by Available PFC Revenues through FY 2016 under the Fourth Supplemental Indenture. The 2009 Subordinate Bonds are also payable from and secured by Available Grant Revenues under the Fourth Supplemental Indenture. Principal and interest to be paid from Available PFC Revenues and Available Grant Revenues are excluded from the calculations of Accrued Debt Service and Aggregate Adjusted Annual Debt Service.

*Table 9*

**OUTSTANDING SUBORDINATE OBLIGATIONS**

Outstanding Subordinate Obligations	Original principal amount		Outstanding principal	Final maturity date
	Refunding	TMP project cost		
Series 2008D	\$46,390,000	\$ --	\$ 41,665,000	July 1, 2026
Series 2008E	43,040,000	--	34,965,000	July 1, 2024
Series 2009C	--	112,860,000	112,860,000	July 1, 2041
Series 2009D	--	<u>165,390,000</u>	<u>150,390,000</u>	July 1, 2035
Total	\$89,430,000	\$278,250,000	\$339,880,000	

**OTHER INITIATIVES**

Air Quality Improvements

During fiscal year 2011, the Airport System continued its efforts to reduce emissions through the use of vehicles powered by clean fuels at International. In 2001, the FAA announced that it would fund up to \$2 million for the Inherently Low-Emission Airport Vehicle (ILEAV) program, designed to substantially reduce ozone and carbon monoxide levels at International. This program has been replaced by the Voluntary Airport Low Emission Program (VALE). In addition, a compressed natural gas (CNG) refueling station is on-line at International and over 30 CNG buses have been purchased in the last six years.

The ongoing operation of International’s consolidated rental car facility reduces roadway congestion and vehicle emissions (before the new rental car facility opened each company provided individual shuttle bus service for its customers to and from the terminal facilities). All of International’s jet bridges now feature electric power, eliminating the need for aircraft to utilize polluting auxiliary-powered units.

Executive Airport

The ongoing focus at Executive Airport will continue to be infrastructure improvements in order to ensure the operational and financial viability of the airport.

### Mather Airport

The primary focus at Mather Airport is air cargo, while also serving general aviation users. Cargo carriers, including UPS and contracted air cargo feeder companies, shipped over 79.9 million pounds of freight through Mather in fiscal year 2011. Other tenants at Mather include government agencies, a Fixed Base Operator (FBO), a full-service aviation flight school, a rental car agency, a recycling company, a construction company and a boat repair facility. Compared to International, Mather offers cargo carriers more spacious facilities, including longer runways and more cargo, warehouse and office space. At International, the ramp space utilized by former cargo carriers that have relocated to Mather is providing extra capacity to meet the future demand for passenger air carrier transportation in the Sacramento Area.

### Future

The current economic conditions have adversely impacted the Airport System, resulting in reductions of daily flights being offered by the airlines serving International Airport and significant reductions in enplaned passengers as compared with prior years. During fiscal year 2012 and future years, the Airport System will work to continue development and expansion of airline service to existing and new locations. A key goal will also be to maintain the Airport System's commitment to providing excellent service to customers while continuing to be a good neighbor to the surrounding community. The state-of-the-art new Central Terminal B will solidify International's position as the "Gateway to Northern California and the World".

## **FINANCIAL INFORMATION**

Management of the Airport System is responsible for establishing internal controls designed to ensure that the assets of the Airport System are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

For financial accounting purposes and in compliance with Governmental Accounting Standards Board Pronouncements, the Airport System is accounted for as a self-sufficient enterprise fund within the County of Sacramento. The Airport System's accounting records are maintained using the accrual basis of accounting.

Single Audit—as a recipient of federal funds and State financial assistance, the Airport System also is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the internal audit staff of the County.

The Airport System was authorized to impose a PFC at International effective April 1, 1993. Legislation authorizing the collection of PFCs restricts use of PFC revenue to acquisition of specified assets and prescribes reporting and control requirements. At least annually during the period in which the PFC is collected, held, or used, the Airport System must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport System's internal accounting controls to account for the collection and use of PFCs. The auditor must also issue an opinion on whether the quarterly reports fairly represent the transactions within the PFC accounts.

Budgetary Controls—The Airport System prepares an annual budget to serve as an approved plan for operational control and performance evaluation. State law does not require the formal adoption of an

appropriated budget for government enterprise activities. Each year the Airport System prepares an operations budget and a capital budget, which is presented to the County Board of Supervisors (Board) for review and approval. The budget, as approved by the Board, serves as the Airport System's basis for operations. The Airport System and County impose controls that require the use of requisitions, purchase orders, contracts and specific approval for purchases of goods and services. Procedures have been established which verify expenses and ensure budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses may identify significant variances that would require the Airport System to take corrective action.

Rate Ordinance—the County Board of Supervisors adopted an Airline Rate Ordinance which became effective July 1, 2008. Under the Rate Ordinance, landing fee rates are calculated annually according to a cost center residual methodology; terminal rental rates are annually calculated according to a commercial compensatory methodology; Revenues, after deposits required by the Bond Master Indenture, are retained by the County; and the County has no obligation to share remaining Revenues with the airlines. Likewise, airlines are under no obligation to pay landing fees in amounts required to ensure that Net Revenues are sufficient to meet the Rate Covenant set forth in the Master Trust Indenture.

Cash Management— Airport System cash and investments are maintained in the County Treasurer's pool, fiscal agent pool and financial institution trust. The County Treasurer is responsible for managing the investment of pooled cash fund resources.

Cash temporarily idle during the year was invested in certificates of deposit, time certificates, money market funds, commercial paper, repurchase agreements, bankers' acceptances, medium corporate notes and U.S. Treasury investments. The average yield on investments during fiscal year 2011 was 0.5128%. The yield for a 1-year U.S. Treasury Note for the same time frame was 0.25%.

The County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, bank balances were either insured by the Federal Deposit Insurance Corporation, for accounts less than \$100,000, or collateralized. During the fiscal year, all collateral on deposits was held either by the County, its agent or a financial institution's trust department in the County's name.

Risk Management—The County maintains all-risk blanket property insurance coverage, including earthquake and sabotage and terrorism, which provides limits of liability of \$2,257 million per occurrence annually, and \$2,234 million limits for flood. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of \$100 million per occurrence annually. The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy, which provides limits of liability coverage for up to \$500 million per occurrence. Current premium charges are expensed in the year incurred.

The Airport System participates in the County's self-insurance program for crime, pollution, workers' compensation and unemployment claims. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense in the year incurred.

The new terminal and related construction at International is covered separately by an Owner Controlled Insurance Program with coverage ranging between \$25 million per occurrence for pollution liability and \$205 million general liability, with separate limits for airside and landside.

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**AWARDS AND ACKNOWLEDGEMENTS**

Independent Audit—the financial statements of the Airport System are audited each year by an independent certified public accountant. The accounting firm of Vavrinek, Trine, Day & Co., LLP was selected to perform the fiscal year 2011 audit. The independent auditor’s report on the financial statements is included in the financial section of this report.

Awards—The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Sacramento County Airport System for its comprehensive annual financial report for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

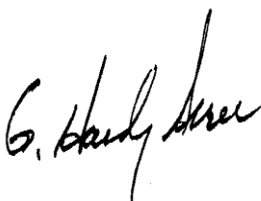
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Airport System has received a Certificate of Achievement for each of the last 22 years (fiscal years ended 1989-2010). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

Acknowledgments—the preparation of the Comprehensive Annual Financial Report on a timely and efficient basis was made possible by the dedicated service of staff in the Accounting Section. Each member of the section has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. In closing, without the leadership and support of the County Executive and the Board of Supervisors, preparation of this report would not have been possible.

Respectfully submitted,



G. Hardy Acree  
Director of Airports

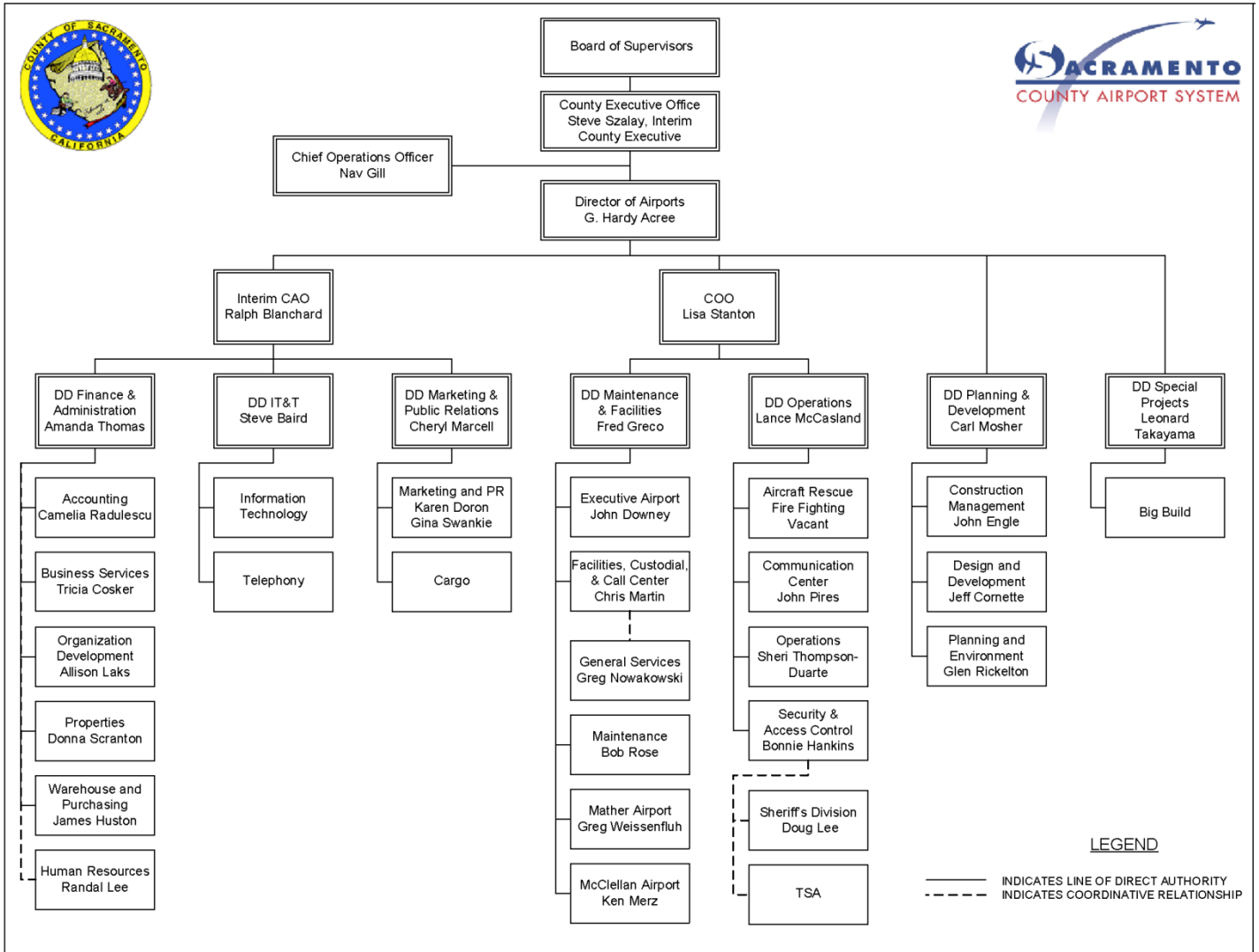


Ralph Blanchard  
Interim Chief Administrative Officer



Amanda Thomas  
Deputy Director, Finance & Administration

# Sacramento County Airport System Organizational Chart At June 30, 2011



# Sacramento County Airport System

## List of Principal Officials At June 30, 2011

ELECTED:

COUNTY BOARD OF SUPERVISORS

Phil Serna.....	District 1
Jimmie Yee.....	District 2
Susan Peters .....	District 3
Roberta MacGlashan, Chair .....	District 4
Don Nottoli .....	District 5

APPOINTED:

Steven C. Szalay.....	Interim County Executive
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SACRAMENTO COUNTY AIRPORT SYSTEM

G. Hardy Acree.....	Director of Airports
Lisa J. Stanton .....	Airport Chief Operating Officer
Ralph Blanchard .....	Interim Airport Chief Administrative Officer
Amanda Thomas .....	Deputy Director, Finance and Administration
Cheryl Marcell .....	Deputy Director, Marketing and Public Relations
Steven L. Baird.....	Deputy Director, Information Technology and Telecommunications
Frederick Greco .....	Deputy Director, Maintenance
Leonard H. Takayama .....	Deputy Director, Special Projects
Lance McCasland .....	Deputy Director, Operations
Carl Mosher.....	Deputy Director, Planning and Development
Camelia Radulescu, CPA.....	Senior Accounting Manager

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## Financial Section

This section contains the following subsections:

Independent Auditors Report

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements





Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants

VALUE THE DIFFERENCE

## INDEPENDENT AUDITOR'S REPORT

Board of Supervisors  
County of Sacramento, California

We have audited the accompanying financial statements of Sacramento County Airport System (the Airport), an enterprise fund of the County of Sacramento, California, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sacramento County Airport System, an enterprise fund of the County of Sacramento, California and do not purport to, and do not, present fairly the financial position of the County of Sacramento, California as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of the Airport'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 30 through 36 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Vavrinek, Train, Dwyer & Co., LLP*  
Sacramento, California  
December 9, 2011

## Management's Discussion and Analysis (Unaudited)

The following Management's Discussion and Analysis (MD&A) of the Airport System's financial performance provides an introduction to the financial statements for the fiscal years ended June 30, 2011 and 2010. The information contained in this MD&A should be considered in conjunction with the information contained in the Airport System's basic financial statements.

### Financial Highlights

The assets of the Airport System exceeded liabilities for the fiscal year ended June 30, 2011 by \$557,672,551 (net assets). Of this amount, \$85,403,913 (unrestricted net assets) may be used to meet the ongoing obligations of the Airport System, \$141,872,711 was restricted for specific purposes (restricted net assets), and \$330,395,927 was invested in capital assets, net of related debt.

The Airport System's total net assets increased by \$24,004,986 during the fiscal year ended June 30, 2011. This increase was primarily due to operating income of \$4,983,411; passenger facility charges of \$18,348,304; interest income of \$411,537; capital contributions and intergovernmental revenues of \$15,178,627 and was offset by interest expense of \$15,473,662.

### Overview of the Basic Financial Statements

The Airport System's financial statements are prepared using the full accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Airport System is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and, with the exception of land and construction in progress, are depreciated over their useful lives. See the notes to the basic financial statements for a summary of the Airport System's significant accounting policies.

Following this MD&A are the basic financial statements of the Airport System together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Airport System's basic financial statements are designed to provide readers with a broad overview of the Airport System's finances.

The Statement of Net Assets presents information on all the Airport System's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport System's financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Airport System's net assets changed during the most recent years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows relate to the flow of cash and cash equivalents. Consequently, only transactions that affect the Airport System's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

## Management's Discussion and Analysis (Unaudited) (continued)

### Financial Analysis

An indicator of the Airport System's financial position is net assets. As shown below and on the next page, at June 30, 2011 assets exceeded liabilities by \$557.7 million, an increase over the prior year of 4.5%. Restricted net assets were \$141.9 million or 25.4% of total net assets. Restricted net assets represent resources that are subject to restrictions on how they can be used. Net assets invested in capital assets net of related debt at June 30, 2011 were \$330.4 million or 59.3% of total net assets and represented investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Airport System uses these capital assets to provide services to its passengers and visitors to the Airport System; consequently these assets are not available for future spending. Although the Airport System's investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining portion of net assets is unrestricted, which was \$85.4 million or 15.3% at June 30, 2011 and may be used to meet the Airport System's ongoing obligations. Unrestricted net assets increased during fiscal year 2011, by \$37.0 million or 76.5%.

### Condensed Statements of Net Assets

	2011	2010	FY11 vs. FY10 % change	2009	FY10 vs. FY09 % change
Assets:					
Current, restricted and other assets	\$ 494,480,169	\$ 673,383,113	(26.6%)	\$ 474,369,800	42.0%
Capital assets, net	1,310,315,531	997,115,161	31.4	672,619,220	48.2
Total assets	<u>1,804,795,700</u>	<u>1,670,498,274</u>	<u>8.0</u>	<u>1,146,989,020</u>	<u>45.6</u>
Liabilities:					
Current and other liabilities	123,338,113	126,326,594	(2.4)	92,476,371	36.6
Long-term liabilities outstanding	1,123,785,036	1,010,504,115	11.2	552,435,394	82.9
Total liabilities	<u>1,247,123,149</u>	<u>1,136,830,709</u>	<u>9.7</u>	<u>644,911,765</u>	<u>76.3</u>
Net assets:					
Invested in capital assets, net of related debt	330,395,927	308,869,302	7.0	175,059,316	76.4
Restricted net assets	141,872,711	176,419,052	(19.6)	207,122,260	(14.8)
Unrestricted net assets	85,403,913	48,379,211	76.5	119,895,679	(59.6)
Total net assets	<u>\$ 557,672,551</u>	<u>\$ 533,667,565</u>	<u>4.5%</u>	<u>\$ 502,077,255</u>	<u>6.3%</u>

## Management's Discussion and Analysis (Unaudited) (continued)

The Airport System's net assets increased during fiscal years ended 2011 and 2010 by \$24.0 million (4.5%) and \$31.6 million (6.3%), respectively. The following is a summary of changes in net assets for fiscal years ended 2011, 2010 and 2009:

### Summary of Changes in Net Assets

	Fiscal Years Ended June 30				
	2011	2010	FY11 vs. FY10 % change	2009	FY10 vs. FY09 % change
Operating revenues:					
Concessions	\$ 63,341,578	\$ 63,442,108	(0.2%)	\$ 68,600,549	(7.5%)
Building rents	30,697,623	35,885,350	(14.5)	35,384,002	1.4
Airfield charges	20,931,781	26,044,373	(19.6)	10,710,482	143.2
Ground leases	1,987,622	2,749,183	(27.7)	2,314,441	18.8
Airport services	920,930	898,153	2.5	1,100,127	(18.4)
Sale of fuel	653,673	532,032	22.9	580,904	(8.4)
Other	85,366	165,604	(48.5)	299,511	(44.7)
<b>Total operating revenues</b>	<b>118,618,573</b>	<b>129,716,803</b>	<b>(8.6)</b>	<b>118,990,016</b>	<b>9.0</b>
Non-operating revenue:					
Interest income	411,537	1,886,860	(78.2)	6,155,861	(69.3)
Passenger facility charges revenue	18,348,304	19,618,136	(6.5)	21,489,873	(8.7)
Intergovernmental revenue	622,320	954,695	(34.8)	978,992	(2.5)
Gain on disposal of assets	10,183	13,721	(25.8)	64,262	(78.6)
Other nonoperating revenue	1,291,437	237,958	442.7	157,388	51.2
<b>Total revenue</b>	<b>139,302,354</b>	<b>152,428,173</b>	<b>(8.6)</b>	<b>147,836,392</b>	<b>3.1</b>
Operating expenses:					
Salaries and benefits	35,989,114	33,084,803	8.8	33,640,076	(1.7)
Services and supplies	46,369,353	48,995,957	(5.4)	49,870,807	(1.8)
Cost of goods sold	542,657	431,389	25.8	497,815	(13.3)
Depreciation	29,750,690	26,928,736	10.5	25,750,395	4.6
Other	983,348	872,816	12.7	881,876	(1.0)
<b>Total operating expenses</b>	<b>113,635,162</b>	<b>110,313,701</b>	<b>3.0</b>	<b>110,640,969</b>	<b>(0.3)</b>
Non-operating expenses:					
Loss on disposal of assets	163	79,173	(99.8)	-	-
Amortization of bond issuance cost	744,688	700,471	6.3	563,240	24.4
Interest expense	15,473,662	17,105,647	(9.5)	18,203,544	(6.0)
<b>Total expense</b>	<b>129,853,675</b>	<b>128,198,992</b>	<b>1.3</b>	<b>129,407,753</b>	<b>(0.9)</b>
<b>Net income before capital contributions</b>	<b>9,448,679</b>	<b>24,229,181</b>	<b>(61.0)</b>	<b>18,428,639</b>	<b>31.5</b>
Capital contributions	14,556,307	7,361,129	97.7	6,935,457	6.1
<b>Changes in net assets</b>	<b>24,004,986</b>	<b>31,590,310</b>	<b>(24.0)</b>	<b>25,364,096</b>	<b>24.5</b>
Total net assets, beginning of year	533,667,565	502,077,255	6.3	476,713,159	5.3
<b>Total net assets, end of year</b>	<b>\$ 557,672,551</b>	<b>\$ 533,667,565</b>	<b>4.5%</b>	<b>\$ 502,077,255</b>	<b>6.3%</b>

#### For fiscal year 2011:

##### Operating revenues

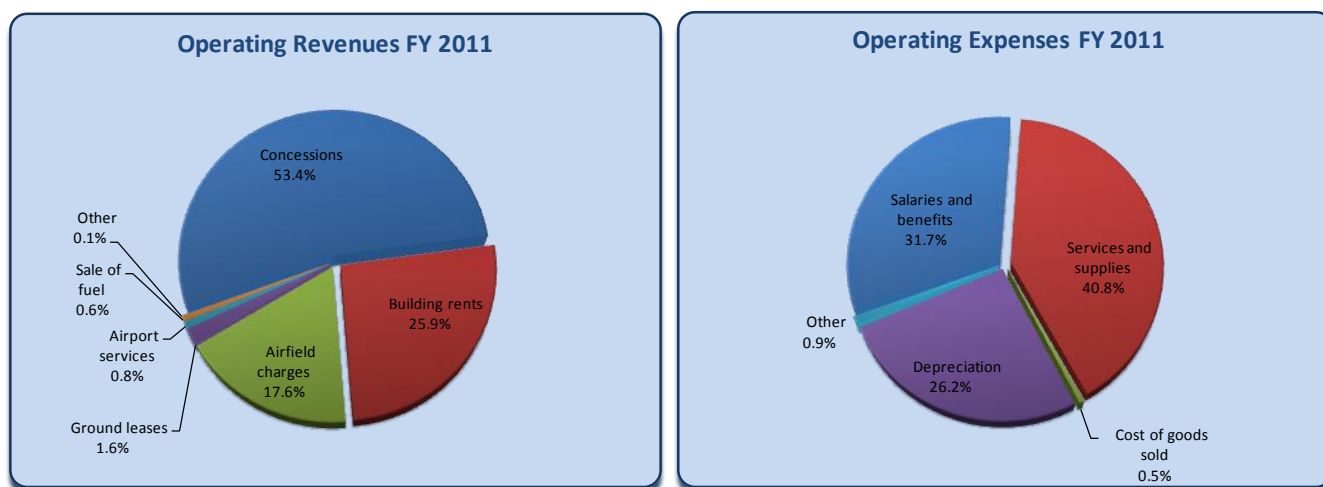
Operating revenues decreased \$11.1 million (8.6%), due to a decrease in building rents of \$5.2 million (14.5%) and a decrease of airfield charges of \$5.1 million (19.6%), resulting from a net amount of \$7.5 million refund to the airlines as a result of the rates and charges settlement for fiscal year 2010 compared to a \$2.3 million net amount received from the airlines as a result of the 2009 fiscal year settlement; in addition, ground lease revenues declined \$0.8 million (27.7%).

## Management's Discussion and Analysis (Unaudited) (continued)

### Operating expenses

Operating expenses increased \$3.3 million (3.0%) primarily due to an increase of \$2.9 million (8.8%) in salaries and benefits resulting from the cessation of furloughs for management and unrepresented employees, increases in benefits cost and from the addition of personnel to staff the new central warehouse which commenced operations in FY 2011; an increase of depreciation expenses of \$2.8 million (10.5%) as a result of shortening the previously estimated useful lives for certain assets related to the existing Terminal B due to be demolished in 2012; offset by a decrease of \$2.6 million (5.4%) in services and supplies due to decreases in insurance annual premiums, building services, temporary services and other professional services.

The following charts show the sources of operating revenues and the operating expense categories for FY 2011:



### Non-operating revenues

Passenger facility charges decreased \$1.3 million (6.5%) primarily due to a 1.5% decrease in enplaned passengers and a change in the timing of ticket purchases compared to the previous year. Passenger Facility Charges are collected at the time the airplane tickets are purchased and not at the time of travel. The proceeds are then remitted to the Airport System in the month following the ticket purchase. Capital contributions increased \$7.2 million (97.7%) from the previous year due to an increase in expenses funded by grants.

### For fiscal year 2010:

#### Operating revenues

Operating revenues increased \$10.7 million (9.0%), due to an increase in airfield charges of \$15.3 million (143.2%), resulting from a net amount due from the airlines of \$2.3 million as a result of the rates and charges settlement compared to a \$10.4 million net credit to the airlines in the prior year, as well as increases in building rent of \$0.5 million (1.4%) as a result of an increase in the terminal rental rate, and an increase in ground leases of \$0.4 million (18.8%) offset by decreases in concession revenues of \$5.2 million (7.5%), a decrease in airport services of \$0.2 million (18.4%), and a decrease in other operating revenues of \$0.1 million (44.7%).

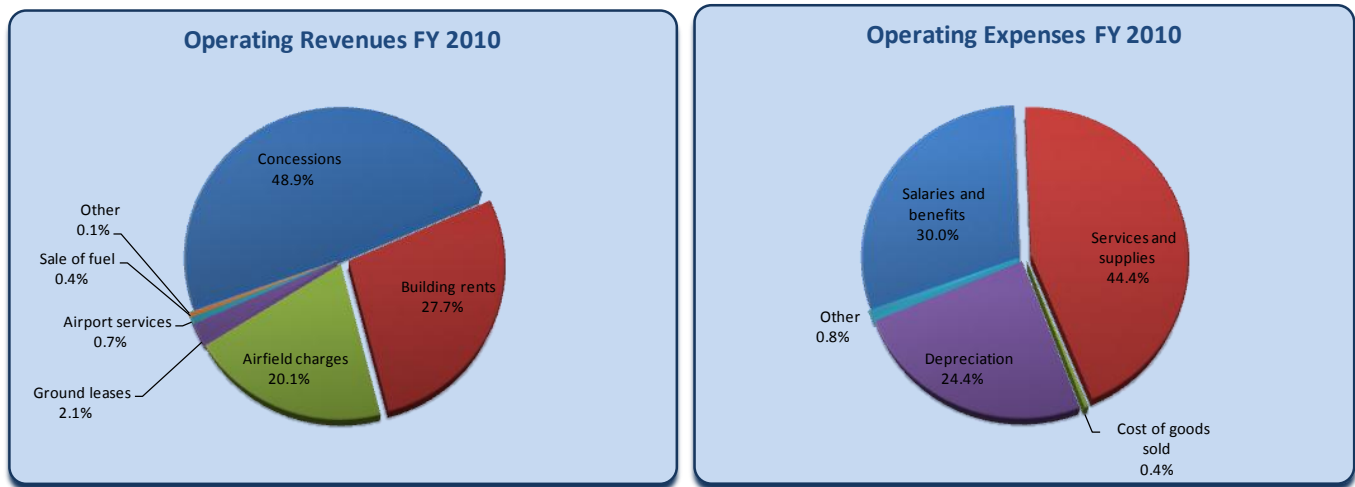
#### Operating expenses

Operating expenses decreased \$0.3 million (0.3%) primarily due to decreases in services and supplies of \$0.8 million (1.8%), resulting from decreases in insurance annual premiums, building services, temporary services and

## Management’s Discussion and Analysis (Unaudited) (continued)

other professional services. Salaries and benefits decreased \$0.6 million (1.7%) due primarily to certain vacancies not being filled and furloughs for management and unrepresented employees. Depreciation expense increased \$1.2 million (4.6%) as a result of shortening the previously estimated useful lives for certain assets related to the existing Terminal B due to be demolished in 2012.

The following charts show the sources of operating revenues and the operating expense categories for FY 2010:



### Non-operating revenues

Passenger facility charges decreased \$1.9 million (8.7%) primarily due to a 3.4% decrease in enplaned passengers. Capital contributions increased \$0.4 million (6.1%) from the previous year due to an increase in expenses funded by grants.

### Capital Assets

The Airport System’s investment in capital assets as of June 30, 2011 amounted to \$1.6 billion before depreciation. This investment in capital assets includes buildings and structures, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Airport System’s investment in capital assets before depreciation for fiscal year 2011 was 26.8% or \$342.8 million, due primarily to the Terminal Modernization Program progressing on schedule and approaching completion.

Major capital asset events during fiscal year 2011 included the following:

Major projects completed at International Airport were the Airside North Vault, \$4.1 million; the Infill Apron at Admin Building Lot and Oil/Water Separator, \$17.7 million; the Central Warehouse, \$8.2 million; the Project Management Office, \$4.7 million; and the Materials Lab Building, \$1.2 million. At the end of fiscal year 2011, the Central Terminal B was approximately 88.3% complete and the airside Concourse B was approximately 85.3% complete, with substantially all contract amounts authorized by the Airport System. Construction in progress at June 30, 2011 was \$905.9 million, which included the Terminal Modernization Program, \$895.3 million; the West Cargo Apron Rehabilitation at Mather Airport, \$1.9 million; and the Environmental Impact Report/Environmental Impact Statement Master Plan at Mather Airport, \$1.8 million.

## Management's Discussion and Analysis (Unaudited) (continued)

The Airport System's investment in capital assets as of June 30, 2010 amounted to \$1,280.9 million before depreciation. The total increase in the Airport System's investment in capital assets before depreciation for fiscal year 2010 was 37.5% or \$349.6 million, due primarily to the Terminal Modernization Program progressing on schedule with 97% of construction contracts awarded.

Major capital asset events during fiscal year 2010 included the following:

Major projects completed at International Airport were the Cross-field Taxiway, \$6.8 million; the Passenger Remote Parking Lot, \$7.4 million; and the Interim International Arrivals Building Modifications, \$2.2 million. Other major TMP projects in close-out status at the end of fiscal year 2010 were the Project Management Office, \$4.5 million; and the Central Warehouse, \$7.6 million. At the end of fiscal year 2010, the Central Terminal B was approximately 51% complete, with substantially all contract amounts authorized by the Airport System. The airside Concourse B was approximately 57% complete, with more than 90% of contract amount authorized. Construction in progress at June 30, 2010 was \$607.1 million, which included the Terminal Modernization Program, \$598.4 million; the Economy Lot parking reconstruction, \$1.4 million; the apron, tie-down and hangar pavement at Executive airport, \$1.4 million; and the Environmental Impact Report/Environmental Impact Statement Master Plan at Mather Airport, \$1.5 million.

### Capital Assets

	Fiscal Years Ended June 30		
	2011	2010	2009
Land	\$ 40,245,470	\$ 40,245,470	\$ 40,245,470
Structures and improvements	593,018,809	552,943,786	534,809,391
Leasehold improvements	57,024,144	53,529,501	53,359,904
Equipment	27,457,259	27,063,282	28,754,168
Construction in progress	905,927,487	607,089,505	274,061,939
	<u>\$ 1,623,673,169</u>	<u>\$ 1,280,871,544</u>	<u>\$ 931,230,872</u>

Additional information on the Airport System's capital assets can be found in Note 5 located on page 50 of this report.

### Long-term Debt Administration

As of June 30, 2011, the Airport System had outstanding revenue bonds of \$1,158,555,000, an increase of \$108.6 million as compared to the prior year, due primarily to the 2010 Airport System revenue bonds issued by the County on August 25, 2010 to complete the financing of the Terminal Modernization Program at International Airport.

As of June 30, 2010, the Airport System had outstanding revenue bonds of \$1,049,995,000, an increase of \$469.3 million as compared to prior year, due primarily to the 2009 Airport System revenue bonds issued by the County on July 28, 2009 to continue the financing of Terminal Modernization Program at International Airport.

For more detail on the Airport System's long-term debt, see Note 6 on pages 51 through 54 of this report.



## Management's Discussion and Analysis (Unaudited) (continued)

### Airline Rates and Charges

The level of annual rates and charges billed to the airlines was as follows:

	2011	2010	FY11 vs. FY10 % change	2009	FY10 vs. FY09 % change
Landing Fee (Per 1,000 lbs.)	\$ 4.19	\$ 3.92	6.9%	\$ 3.30	18.8%
Terminal Rental Rates (Per Sq. Foot)					
Enclosed	147.68	155.07	(4.8)	140.48	10.4
Unenclosed	12.00	12.00	-	12.00	-
Loading Bridge Fees (per loading bridge)	61,337.00	63,214.00	(3.0)	81,502.00	(22.4)
Preferential Aircraft Parking					
Position Fees (per position)	\$ 89,713.00	\$ 71,238.00	25.9%	\$ 107,340.00	(33.6%)

Effective July 1, 2008, the County adopted an airline Rate Ordinance pursuant to which airline rates and charges were calculated for fiscal years 2009, 2010 and 2011. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rentals are calculated according to a commercial compensatory methodology. The Airport System retains all non-airline revenues, net of expenses and debt service associated with non-airline cost centers.

### Requests for Information

This financial report is designed to provide a general overview of the Airport System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Administration Division, Sacramento County Airport System, 6900 Airport Boulevard, Sacramento, California 95837.

**Sacramento County Airport System  
Statements of Net Assets  
June 30, 2011 and 2010**

ASSETS	2011	2010
Current assets:		
Cash and investments	\$ 131,959,784	\$ 97,100,546
Restricted cash and investments	88,024,590	91,482,958
Deposits with others	18,530,943	16,312,111
Receivables, less allowance for doubtful accounts of \$498,168 in 2011 and \$193,818 in 2010	8,356,847	8,302,309
Due from other governments	1,705,958	1,302,532
Prepaid expenses	9,608,737	12,918,322
Inventories	218,490	218,006
Total current assets	<u>258,405,349</u>	<u>227,636,784</u>
Noncurrent assets:		
Restricted assets (cash and cash equivalents \$74,511,277 in 2011 and \$92,498,664 in 2010)	217,728,858	427,777,622
Deferred charges	18,345,962	17,968,707
Capital assets:		
Land	40,245,470	40,245,470
Structures and improvements	593,018,809	552,943,786
Leasehold improvements	57,024,144	53,529,501
Equipment	27,457,259	27,063,282
Construction in progress	905,927,487	607,089,505
Total capital assets	1,623,673,169	1,280,871,544
Less accumulated depreciation	(313,357,638)	(283,756,383)
Net capital assets	1,310,315,531	997,115,161
Total noncurrent assets	<u>1,546,390,351</u>	<u>1,442,861,490</u>
Total assets	<u>1,804,795,700</u>	<u>1,670,498,274</u>
LIABILITIES		
Current liabilities:		
Warrants payable	14,080,678	23,553,716
Accounts payable and accrued expenses	18,890,846	10,600,512
Deferred revenue	2,341,999	689,408
Current liabilities payable from restricted assets	88,024,590	91,482,958
Total current liabilities	<u>123,338,113</u>	<u>126,326,594</u>
Noncurrent liabilities:		
Revenue bonds payable	1,119,679,316	1,006,795,309
Compensated absences	3,601,967	3,463,923
OPEB liability	465,680	169,585
Other long-term liabilities	38,073	75,298
Total noncurrent liabilities	<u>1,123,785,036</u>	<u>1,010,504,115</u>
Total liabilities	<u>1,247,123,149</u>	<u>1,136,830,709</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>330,395,927</u>	<u>308,869,302</u>
Restricted:		
Expendable:		
Revenue bond operating reserve	24,644,732	24,028,109
Revenue bond reserve and contingency	2,000,000	2,000,000
Restricted for debt service	87,076,141	102,952,183
Passenger facility charges	26,065,608	45,353,413
Trust account earnings	59,679	58,796
Nonexpendable:		
Trust account funds	2,026,551	2,026,551
Total restricted	<u>141,872,711</u>	<u>176,419,052</u>
Unrestricted	<u>85,403,913</u>	<u>48,379,211</u>
Total net assets	<u>\$ 557,672,551</u>	<u>\$ 533,667,565</u>

See accompanying notes to the basic financial statements.

Sacramento County Airport System  
 Statements of Revenues, Expenses and Changes in Net Assets  
 For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Concessions	\$ 63,341,578	\$ 63,442,108
Building rents	30,697,623	35,885,350
Airfield charges	20,931,781	26,044,373
Ground leases	1,987,622	2,749,183
Airport services	920,930	898,153
Sale of fuel	653,673	532,032
Other	85,366	165,604
Total operating revenues	118,618,573	129,716,803
Operating expenses:		
Salaries and benefits	35,989,114	33,084,803
Services and supplies	46,369,353	48,995,957
Cost of goods sold	542,657	431,389
Depreciation	29,750,690	26,928,736
Other	983,348	872,816
Total operating expenses	113,635,162	110,313,701
Operating income	4,983,411	19,403,102
Nonoperating revenues (expenses):		
Interest income	411,537	1,886,860
Passenger Facility Charges revenue	18,348,304	19,618,136
Intergovernmental revenue	622,320	954,695
Gain (loss) on disposal of assets	10,020	(65,452)
Other nonoperating revenue	1,291,437	237,958
Amortization of bond issuance cost	(744,688)	(700,471)
Interest expense	(15,473,662)	(17,105,647)
Net nonoperating revenues	4,465,268	4,826,079
Income before capital contributions	9,448,679	24,229,181
Capital contributions	14,556,307	7,361,129
Change in net assets	24,004,986	31,590,310
Total net assets, beginning of year	533,667,565	502,077,255
Total net assets, end of year	\$ 557,672,551	\$ 533,667,565

See accompanying notes to the basic financial statements.

Sacramento County Airport System  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 120,542,467	\$ 132,276,931
Payments to suppliers	(45,270,805)	(63,088,146)
Payments to employees	(34,369,805)	(32,966,117)
Other receipts	159,687	237,958
Net cash provided by operating activities	41,061,544	36,460,626
Cash Flows from Noncapital Financing Activities:		
Intergovernmental revenue	204,398	713,386
Net cash provided by noncapital financing activities	204,398	713,386
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital debt	131,325,087	475,242,042
Capital contributions	14,704,437	10,601,243
Passenger facility charges	19,154,213	19,719,496
Acquisition and construction of capital assets	(312,007,423)	(304,597,704)
Principal paid on long term debt	(19,740,000)	(10,710,000)
Interest paid on long term debt	(56,680,022)	(40,040,414)
Bond issuance costs paid	(1,121,943)	(4,535,472)
Proceeds from sale of surplus property	16,154	25,241
Net cash provided by (used for) capital and related financing activities	(224,349,497)	145,704,432
Cash Flows from Investing Activities:		
Interest received	4,558,580	9,258,310
Purchase of Investments	(81,106,839)	(557,423,112)
Sale of Investments	273,045,297	333,024,142
Net cash provided by (used for) investing activities	196,497,038	(215,140,660)
Net increase (decrease) in cash and cash equivalents	13,413,483	(32,262,216)
Cash and cash equivalents, beginning of year	281,082,168	313,344,384
Cash and cash equivalents, end of year	\$ 294,495,651	\$ 281,082,168
Reconciliation of Cash and Cash Equivalents to Statements of Net Assets:		
Cash and investments	\$ 131,959,784	\$ 97,100,546
Restricted cash and investments	88,024,590	91,482,958
Restricted assets	217,728,858	427,777,622
Less: non-cash investing, capital and financing activities	(143,217,581)	(335,278,958)
	\$ 294,495,651	\$ 281,082,168

(Continued on page 40)

See accompanying notes to the basic financial statements.

**Sacramento County Airport System**  
**Statements of Cash Flows (continued)**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,983,411	\$ 19,403,102
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	29,750,690	26,928,736
Provision for uncollectable accounts	304,350	26,719
Other nonoperating revenue	159,687	237,958
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(33,046)	2,896,560
(Increase) decrease in deposits with others	-	349,081
(Increase) decrease in prepaid expense	68,380	(70,913)
(Increase) decrease in inventories	(485)	12,748
Increase (decrease) in accounts payable	1,985,963	(13,481,027)
Increase (decrease) in warrants payable	1,793,091	326,828
Increase (decrease) in deferred revenue	1,652,590	(363,150)
Increase (decrease) in other liabilities	(37,226)	75,298
Increase in compensated absences & OPEB liability	434,139	118,686
Total adjustments	<u>36,078,133</u>	<u>17,057,524</u>
Net cash provided by operating activities	<u>\$ 41,061,544</u>	<u>\$ 36,460,626</u>

Noncash capital and related financing activities:

During the fiscal years ended June 30, 2011 and 2010, the Airport System retired assets with a net book value of \$6,134 and \$90,693, respectively.

Capital asset purchases included in accounts payable and warrants payable at June 30, 2011 and 2010 were \$60,627,836 and \$72,296,097, respectively.

The noncash portion of the capital contributions at June 30, 2011 and 2010 were \$761,811 and \$909,941, respectively.

See accompanying notes to the basic financial statements.

## Notes to the Basic Financial Statements

### For the Fiscal Years ended June 30, 2011 and 2010

#### **Note 1 – Summary of Significant Accounting Policies**

##### **Reporting Entity**

The Airport System is an enterprise fund of the County of Sacramento. The Airport System is responsible for the operations, maintenance and development of all four of its airports which include Sacramento International Airport, Sacramento Executive Airport, Mather Airport and Franklin Field. The Airport System is accounted for as a single enterprise fund with no financial accountability for any component units.

The five members of the County's Board of Supervisors serve as the governing body that oversees the operation of the Airport System. The Airport System is operated as a self-sufficient enterprise, and is administered by the Director of Airports who reports to the County Executive and the County Board of Supervisors.

##### **Basis of Accounting**

The Airport System uses the accounting principles applicable to a similar private business enterprise, where the cost of providing services to the public on a continuing basis is recovered through user fees. The Airport System uses the flow of economic resources measurement focus applied on a full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Operating revenues and expenses generally result from providing services and delivering goods in connection with airport operations. The principal operating revenues of the Airport System include charges to tenants and customers for landing fees, terminal rents, parking and concession fees. Primary operating expenses include cost of sales and services including employee wages and benefits, purchases of materials and supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Under Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airport System has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2009 FASB and AICPA Pronouncements* which supersedes GASB Statement No. 20 upon its implementation. The objective of this proposed Statement is to incorporate into the GASB's authoritative literature certain accounting and reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

##### **Budgetary Process**

The Airport System prepares an annual operating and capital budget, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California law does not require formal adoption of appropriated budgets for enterprise funds.

##### **Cash and Investments**

For purposes of the statements of cash flows, the Airport System considers all short-term highly liquid investments, including restricted assets and amounts held in the County's investment pools, to be cash and cash equivalents. Amounts held in the County's investment pools are available on demand; thus, they are considered highly liquid

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

and cash equivalents for purposes of the statements of cash flows.

Restricted Assets as of June 30, 2011 included \$32,333,314 invested in Federal Home Loan Banks and FNMA discount notes with the County pool, \$108,360,190 invested in guaranteed investment contracts held outside the County's investment pool that are not considered cash and cash equivalents, and \$2,524,077 held under various trust accounts.

Restricted Assets as of June 30, 2010 included \$79,993,932 invested in FNMA and FHLMC discount notes with the County pool, \$252,638,031 invested in guaranteed investment contracts held outside the County's investment pool that are not considered cash and cash equivalents, and \$2,646,996 held under various trust accounts.

Additional information on the Airport System's restricted assets, including the purpose of restriction, can be found in Note 4 located on page 49 of this report.

### **Due From Other Governments**

Federal grant funding for capital projects is accounted for on a reimbursement basis whereby costs are incurred prior to actual cash receipt of the grant. The amounts due from other governments represent claims to federal and state agencies for operating and capital project costs incurred but not reimbursed at year-end.

### **Inventories**

Inventories consist of ground fuel purchased for resale and automotive parts. Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories are recorded as expenses when consumed rather than when purchased.

### **Deferred Charges**

Deferred charges consist of costs incurred for the issuance of the Series 2008, 2009 and 2010 Airport System Revenue Bonds. On May 1, 2008, the County issued Series 2008 Airport System Senior Revenue Bonds and Series 2008 Airport System Subordinate and PFC Revenue Refunding Bonds. These Bonds fully refunded all prior outstanding bond series and the deferred charges related to the refunded bonds were written off as part of the refunding transaction. On July 28, 2009, the County issued Series 2009 Airport System Senior Revenue Bonds and Series 2009 Airport System Subordinate and PFC/Grant Revenue Bonds to continue the financing of Terminal Modernization Program at International Airport. On August 25, 2010, the County of Sacramento issued additional Airport System Senior Revenue Bonds in the amount of \$128,300,000 to complete the financing of the Terminal Modernization Program. Amortization of the bond issuance costs is computed using the straight-line method over the life of the debt. Amortization expense was \$744,688 in fiscal year 2011, and \$700,471 in fiscal year 2010.

### **Capital Assets**

Capital assets are carried at cost except for capital assets contributed to the Airport System, which are stated at their fair market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues (expenses) for the period. Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. On July 13, 2010, the County Board of Supervisors approved a revised Asset Capitalization Policy consistent with GASB Statement No. 51 provisions, *Accounting and Financial Reporting for Intangible Assets*. The policy has been updated to redefine asset minimum capitalization threshold values and to include recognition of intangible assets according to the GASB Statement No. 51 requirements. The revised policy was implemented retroactively, on July 1, 2009.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

The Airport System's revised policy is to capitalize equipment with a cost greater than \$5,000 and a useful life of more than one year, building and structure improvements with a cost greater than \$25,000, computer and website software with a cost greater than \$100,000, other intangible assets with a cost greater than \$25,000, and all land and permanent easements, regardless of cost.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Buildings	10 – 55 years
Structures and improvements	10 – 40 years
Leasehold improvements	5 – 15 years
Equipment	3 – 15 years

Costs incurred for major improvements are carried in construction in progress until the project is complete, at which time costs related to the project are reclassified in the appropriate capital asset account. Construction in progress includes new construction or improvements to land, buildings, structures or intangible assets that have not been completed or have not had all project costs processed by the fiscal year-end. Construction in progress at June 30, 2011 and 2010 was \$905.9 million and \$607.1 million, respectively.

#### Capitalization of Interest

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of capital assets. In situations where capital assets are financed with the proceeds of tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Total capitalized interest relating to projects completed or in progress during the fiscal years ended June 30, 2011 and 2010 was \$41,595,658 and \$30,519,989, respectively.

#### Long-Term Debt Refunding

The Airport System periodically refunds its debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the old or new debt, whichever is shorter. The amount deferred is reported as a deduction from the new debt liability.

#### Compensated Absences

Airport System employees accrue vacation in varying amounts based on job classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

It is the policy of the County not to pay accumulated sick leave to employees who terminate their employment prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued



## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

in the accompanying financial statements. Compensated absences liability activity for the fiscal years ended June 30, 2011 and June 30, 2010 can be found in Note 6, included in long term liabilities.

### **Passenger Facility Charge Revenue**

Passenger Facility Charges (PFCs) are fees charged to enplaned passengers by airport operators for the purpose of generating revenue for airport projects that increase capacity, increase safety, enhance airline competition or mitigate noise impact. On April 1, 1993, the Airport System received approval from the Federal Aviation Administration (FAA) to impose a \$3.00 PFC at Sacramento International Airport, which along with subsequent approvals, authorized the Airport System to finance projects totaling approximately \$964.3 million.

On October 31, 2001, as a result of the Airport System's request to increase the fee, the FAA authorized the Airport System to increase the \$3.00 fee to \$4.50 per enplaned passenger but only for certain eligible projects. This increase was approved through February 1, 2003 at which time the rate returned to \$3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System's request to increase the level to \$4.50 on the remaining eligible projects, effective September 1, 2003. As of June 30, 2011 the Airport System has cumulatively collected \$302.3 million in PFC revenue. PFCs, along with related interest income, are recognized and recorded as non-operating revenue in the year collected from the air carriers.

### **Grant Revenue**

The federal and State government reimburse the Airport System for costs incurred on certain capital asset construction projects under capital grant agreements. Amounts claimed under such grants are recorded as capital contributions revenue. Additionally, the Airport System receives reimbursement from the federal and State governments for non-capital construction projects and these reimbursements are recorded as intergovernmental revenues with the related program costs recorded as expenses.

### **Risk Management**

The County maintains all-risk blanket property insurance coverage, including earthquake and sabotage and terrorism which provides limits of \$2,257 million per occurrence annually, and \$2,234 million limits for flood. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of \$100 million per accident; \$100 million course of construction, new or existing sites; and \$20 million asbestos removal, limited coverage.

The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy which provides limits of liability coverage for up to \$500 million per occurrence. Current premium charges are expensed in the year incurred.

In addition to the above property and airport liability insurance policies, the Airport System participates in the County's self-insurance program for crime, pollution, and workers' compensation. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense when paid.

The new terminal and related construction at Sacramento International is covered separately by an Owner Controlled Insurance Program with coverage ranging between \$25 million per occurrence for pollution liability and \$205 million for general liability, with separate limits for airside and landside.

During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

#### Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### Note 2 - Cash and Investments

Cash and Investments as of June 30 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	2011	2010
Cash and Investments	\$ 131,959,784	\$ 97,100,546
Restricted Cash and Investments - Current	88,024,590	91,482,958
Restricted Cash and Investments - Noncurrent	217,728,858	427,777,622
Total Cash and Investments	\$ 437,713,232	\$ 616,361,126
Cash and investments as of June 30, consist of the following:		
Deposits with the County's Treasury Pool	\$ 191,097,457	\$ 240,817,536
Specific directed investments with County Treasury	72,664,608	79,993,932
Investments held by trustee	173,951,167	295,549,658
Total Cash and Investments	\$ 437,713,232	\$ 616,361,126

#### Investments and GASB 40 Presentation

The Airport System maintains specific cash deposits and investments with the County and involuntarily participates in the County Treasurer's pool which is not rated. The Airport System's risk disclosures for the cash held by the County Treasurer's pool required by GASB 40, *Deposit and Investment Risk Disclosures*, can be found in detail in the County's Comprehensive Annual Financial Report.

Investments are restricted per Government Code Sections 53601 et. seq.; 53635 et seq.; and 16429.1, and the Bond Master Indenture of Trust dated May 1, 2008 and subsequent supplemental indentures (collectively, the Bond Indenture). The County Treasurer also manages the Fiscal Agent Pool to segregate and invest monies in accordance with the Bond Indenture, as well as California Government Code and the County's own investment policy. Details about the investments allowed per the Government Code and the County's investment policy are included in the County's Comprehensive Annual Financial Report. The Bond Indenture follows the County's investment policy with respect to permitted investments. The Airport System was in compliance with the above cited Government Code sections and the Bond Indenture.

**Interest Rate Risk** – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity to changes in interest rates is. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments. The County's policy regarding interest rate risk is as follows: the ultimate maximum maturity of any investment shall be five (5) years and the dollar-weighted average maturity of all securities shall be equal to or less than three (3) years. The table on the following page shows the distribution of the Airport System's investments by maturity.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

		June 30, 2011					
		Maturity					
	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value
Cash in the Treasury Pool	NR					\$	191,097,457
Federal Home Loan Banks	Aaa/AAA			7,408,106			7,408,106
FNMA Discount Notes	P-1/A-1+		24,925,208				24,925,208
FHLB Discount Notes	P-1/A-1+	40,331,294					40,331,294
Mutual Funds	AAAm	65,590,977					65,590,977
Guaranteed investment contracts	NR			77,871,061	30,489,129		108,360,190
		\$ 105,922,271	\$ 24,925,208	\$ 85,279,167	\$ 30,489,129	\$ -	\$ 437,713,232

		June 30, 2010					
		Maturity					
	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value
Cash in the Treasury Pool	NR					\$	240,817,536
FNMA Discount Notes	P-1/A-1+			14,998,554			14,998,554
FHLMC Discount Notes	P-1/A-1+		64,995,378				64,995,378
Mutual Funds	AAAm	42,911,627					42,911,627
Guaranteed investment contracts	NR				252,638,031		252,638,031
		\$ 42,911,627	\$ 64,995,378	\$ 14,998,554	\$ 252,638,031	\$ -	\$ 616,361,126

Credit Risk – This is the risk that the Airport System will lose money because of the default of the security of the issuer or investment counterparty. The Airport System is permitted to hold investments of issuers with a short term rating of superior capacity and a minimum long term rating of upper medium grade by the top three nationally recognized statistical rating organizations (rating agencies). The issuer's short-term credit ratings, shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch. The issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. In addition, the Airport System is permitted to invest in the State's Local Agency Investment Fund collateralized certificates of deposits and notes issued by the County of Sacramento that are not rated. The list of permitted investments with the minimum legal rating is presented on the next page.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

Investment Type	Minimum Legal Rating
Treasury Strips	Aaa/AAA
Federal Farm Credit Bonds	Aaa/AAA
Federal Home Loan Banks	Aaa/AAA
Federal National Mortgage Association	Aaa/AAA
Government Agency Notes	Aaa/AAA
State and Local Governments (SLG's)	Aaa/AAA
FNMA Discount Notes	P-1/A-1+
FFCB Discount Notes	P-1/A-1+
FHLB Discount Notes	P-1/A-1+
FHLMC Discount Notes	P-1/A-1+
Commercial paper	P-1/A-1+
Municipal Bond	Aa2/AA+
Negotiable certificates of deposits	P-1/A-1+
Other assets held by Treasurer (primarily Teeter Plan notes)	NR
Local Agency Investment Fund	NR
Mutual funds	AAAm
Guaranteed investment contracts	NR

**Custodial Credit Risk** – This is the risk that in the event a financial institution or counterparty fails, the Airport System would not be able to recover the value of its deposits and investments. As of June 30, 2011 and 2010, 100% of the Airport System's investments are held in the Airport System's or County of Sacramento's name. There are no general policies relating to custodial credit risk.

**Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County Investment Policy requires that no more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. In addition, no more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

As of June 30, 2011, approximately 15% of the Airport System's portfolio is invested in money market funds, 15% in short-term discount notes, 2% in Federal Home Loan Banks and 25% in guaranteed investment contracts. The guaranteed investment contracts, totaling \$108.4 million are invested with FSA, \$7.6 million, and Trinity, \$100.8 million.

As of June 30, 2010, approximately 7% of the Airport System's portfolio was invested in money market funds, 13% in short-term discount notes and 41% in guaranteed investment contracts. The guaranteed investment contracts, totaling \$252.6 million were invested with FSA, \$22.3 million, and Trinity, \$230.3 million.

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

### Note 3 - Receivables and Payables

#### Receivables

The following amounts represent receivables due to the Airport System at June 30, 2011 and 2010:

	2011	2010
Receivables:		
Account receivables - trade	\$ 6,772,747	\$ 5,576,116
Account receivables - passenger facility charges	2,039,745	2,845,654
Amounts due from other County funds	42,523	74,357
Gross receivables	8,855,015	8,496,127
Less allowance for doubtful accounts	(498,168)	(193,818)
Net receivables	\$ 8,356,847	\$ 8,302,309

#### Payables

The following represents payables owed by the Airport System at June 30, 2011 and 2010:

	2011	2010
Accounts payable and accrued expenses:		
Due to Airlines	\$ -	\$ 218,154
Vendors	13,810,427	6,194,904
Due to other County funds	2,870,085	2,326,998
Deposits from others	723,083	592,628
Payroll taxes and payroll related	1,322,210	1,183,486
Accrued contingencies	16,122	81,189
Due to other governments	146,019	-
Taxes payable other	2,900	3,153
Total payables - unrestricted	18,890,846	10,600,512
Payables from restricted assets:		
Bonds interest payable	30,110,965	27,465,286
Bonds payable - current	20,260,000	19,740,000
Vendors	37,572,138	43,799,223
Payroll taxes and payroll related	-	4,200
Due to other County funds	23,052	416,425
Due to other governments	58,435	57,824
Total payables from restricted assets	88,024,590	91,482,958
Total accounts payable and accrued expenses	\$ 106,915,436	\$ 102,083,470

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

### Note 4 - Restricted Assets

Restricted assets consist of the following:

	June 30	
	2011	2010
Revenue Bond Operating Reserve Account reflects revenues equal to three months' budgeted operating expenses restricted for contingencies related to operations. This is cash held by the County Treasurer's pool.	\$ 24,644,732	\$ 24,028,109
Revenue Bond Reserve and Contingency Account reflects Airport System revenues which are restricted for unanticipated or emergency repairs and emergency replacements to the Airport System. This is cash held by the County Treasurer's pool.	2,000,000	2,000,000
Revenue Bond Construction Account reflects monies restricted for acquisition and construction of projects under the Series 2008, 2009 A & B and 2010 Senior Revenue Bonds and Series 2009 C and D Airport System Subordinate and PFC/Grant Revenue Bonds. This is cash held by the County as part of the County's Treasurer's Pool and the trustee outside the County of Sacramento.	132,414,596	324,116,757
Revenue Bond Capitalized Interest Account reflects monies restricted for payment of bond interest expense on the Series 2008, 2009 A & B and 2010 Senior Revenue Bonds. This is cash held by a trustee outside the County of Sacramento.	24,437,118	43,534,484
Revenue Bond Debt Service Reserve Account reflects monies restricted for the purpose of making up any deficiency in the Revenue Bond Debt Service Account to the extent money on deposit in such funds is insufficient to pay interest and principal on the bonds as they become due and payable. This is cash held by a trustee outside the County of Sacramento.	40,076,036	31,362,378
Revenue Bond Debt Service Account reflects monies restricted for the purpose of payment of principal and interest of the Series 2008, 2009 and 2010 Senior Revenue Bonds and 2008 and 2009 Subordinate and PFC/LOI Revenue Bonds. This is cash held by the County as part of the County's Treasurer's Pool and by the trustee outside the County of Sacramento.	41,044,103	42,335,583
Available Grant Revenue Account reflects money restricted for the purpose of payment of principal and interest of the Series 2009 Subordinate and PFC/LOI Revenue Bonds. This is cash held by a trustee outside the County of Sacramento.	9,124,000	-
Passenger Facility Charges reflect PFC revenues received which are restricted for specified asset acquisitions. This is cash held by the County Treasurer's pool.	29,926,633	49,797,922
Trust Accounts - Nonexpendable. This is cash held by the County Treasurer's pool in perpetuity to fund the Art in Public Places Program at International Airport and other legal requirements.	2,026,551	2,026,551
Trust Account earnings held in County Treasurer's pool.	59,679	58,796
Total restricted assets	305,753,448	519,260,580
Less: Restricted current assets reserved to repay current liabilities	(88,024,590)	(91,482,958)
Non-current restricted assets	<u>\$217,728,858</u>	<u>\$427,777,622</u>

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

#### Note 5 - Capital Assets

Capital asset activity for the fiscal years ended June 30, 2011 and June 30, 2010 was as follows:

	Balance July 1, 2010	Increase	Decrease	Balance June 30, 2011
<b>Capital assets not being depreciated</b>				
Land	\$ 40,245,470	\$ -	\$ -	\$ 40,245,470
Construction in progress	607,089,505	340,760,096	(41,922,114)	905,927,487
Total capital assets not being depreciated	<u>647,334,975</u>	<u>340,760,096</u>	<u>(41,922,114)</u>	<u>946,172,957</u>
<b>Capital assets being depreciated</b>				
Structures and improvements	552,943,786	40,075,023	-	593,018,809
Leasehold improvements	53,529,501	3,494,643	-	57,024,144
Equipment	27,063,282	549,546	(155,569)	27,457,259
Total capital assets being depreciated	<u>633,536,569</u>	<u>44,119,212</u>	<u>(155,569)</u>	<u>677,500,212</u>
<b>Less accumulated depreciation for:</b>				
Structures and Improvements	(241,383,582)	(25,090,340)	-	(266,473,922)
Leasehold improvements	(24,321,284)	(2,863,492)	-	(27,184,776)
Equipment	(18,051,517)	(1,796,858)	149,435	(19,698,940)
Total accumulated depreciation	<u>(283,756,383)</u>	<u>(29,750,690)</u>	<u>149,435</u>	<u>(313,357,638)</u>
Total capital assets being depreciated, net	<u>349,780,186</u>	<u>14,368,522</u>	<u>(6,134)</u>	<u>364,142,574</u>
Net capital assets	<u>\$ 997,115,161</u>	<u>\$ 355,128,618</u>	<u>\$ (41,928,248)</u>	<u>\$ 1,310,315,531</u>

	Balance July 1, 2009	Increase	Decrease	Balance June 30, 2010
<b>Capital assets not being depreciated</b>				
Land	\$ 40,245,470	\$ -	\$ -	\$ 40,245,470
Construction in progress	274,061,939	350,974,978	(17,947,412)	607,089,505
Total capital assets not being depreciated	<u>314,307,409</u>	<u>350,974,978</u>	<u>(17,947,412)</u>	<u>647,334,975</u>
<b>Capital assets being depreciated</b>				
Structures and improvements	534,809,391	18,349,901	(215,506)	552,943,786
Leasehold improvements	53,359,904	173,882	(4,285)	53,529,501
Equipment	28,754,168	179,175	(1,870,061)	27,063,282
Total capital assets being depreciated	<u>616,923,463</u>	<u>18,702,958</u>	<u>(2,089,852)</u>	<u>633,536,569</u>
<b>Less accumulated depreciation for:</b>				
Structures and Improvements	(218,720,811)	(22,667,091)	4,320	(241,383,582)
Leasehold improvements	(21,946,655)	(2,374,947)	318	(24,321,284)
Equipment	(17,944,186)	(1,886,698)	1,779,367	(18,051,517)
Total accumulated depreciation	<u>(258,611,652)</u>	<u>(26,928,736)</u>	<u>1,784,005</u>	<u>(283,756,383)</u>
Total capital assets being depreciated, net	<u>358,311,811</u>	<u>(8,225,778)</u>	<u>(305,847)</u>	<u>349,780,186</u>
Net capital assets	<u>\$ 672,619,220</u>	<u>\$ 342,749,200</u>	<u>\$ (18,253,259)</u>	<u>\$ 997,115,161</u>

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

#### Note 6 – Long Term Liabilities

	June 30	
	2011	2010
<b>Revenue Bonds:</b>		
2008 series A, 4.85% to 5.0% due 2028-2041	\$ 160,600,000	\$ 163,695,000
Less unamortized premium and deferred amount on refunding	(7,630,042)	(8,372,168)
	<u>152,969,958</u>	<u>155,322,832</u>
2008 series B, 4.25% to 5.75%, due 2013-2039	\$ 309,660,000	\$ 311,730,000
Less unamortized discount and deferred amount on refunding	(5,200,070)	(5,494,804)
	<u>304,459,930</u>	<u>306,235,196</u>
2008 series C, 5.20% due 2012	\$ 6,450,000	\$ 9,440,000
Less deferred amount on refunding	(438,955)	(877,910)
	<u>6,011,045</u>	<u>8,562,090</u>
2009 series A, 5.50% due 2041	\$ 31,115,000	\$ 31,115,000
Less unamortized discount	(899,037)	(929,005)
	<u>30,215,963</u>	<u>30,185,995</u>
2009 series B, 5.50% to 5.75%, due 2034-2039	\$ 170,685,000	\$ 170,685,000
Less unamortized discount	(159,754)	(165,460)
	<u>170,525,246</u>	<u>170,519,540</u>
2010 series, 5.00%, due 2030-2040	\$ 128,300,000	\$ -
Add unamortized premium	2,940,587	-
	<u>131,240,587</u>	<u>-</u>
<b>PFC and Subordinate Revenue Bonds:</b>		
2008 series D, 5.00% due 2026	\$ 43,740,000	\$ 45,155,000
Less unamortized premium and deferred amount on refunding	(1,851,880)	(1,975,338)
	<u>41,888,121</u>	<u>43,179,662</u>
2008 series E, 4.25% to 5.75 % due 2013-2024	\$ 37,460,000	\$ 39,925,000
Less unamortized premium and deferred amount on refunding	(1,922,239)	(2,072,539)
	<u>35,537,761</u>	<u>37,852,461</u>
2009 series C, 5.75% to 6.00% due 2039-2041	\$ 112,860,000	\$ 112,860,000
Less unamortized discount	(3,090,627)	(3,193,648)
	<u>109,769,373</u>	<u>109,666,352</u>
2009 series D, 6.00% due 2035	\$ 157,685,000	\$ 165,390,000
Less unamortized discount	(363,667)	(378,820)
	<u>157,321,333</u>	<u>165,011,180</u>
Total revenue bonds payable	<u>\$ 1,139,939,316</u>	<u>\$ 1,026,535,309</u>

On May 1, 2008, the County issued \$496,195,000 of Airport System Senior Revenue Bonds, Series 2008 A, B and C, and \$89,430,000 of Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008 D and E.

Series 2008A fully refunded Series 1992B Bonds, Series 1998A Bonds and advance refunded Series 2002A Bonds. Series 2008A also provided \$56.5 million to finance a portion of the costs of Terminal Modernization Program at Sacramento International Airport. Series 2008B refunded 45.4% of the Series 2006A Bonds and provided \$266.5 million to finance a portion of the costs of Terminal Modernization Program at Sacramento International Airport. Series 2008C advance refunded Series 2002B Bonds. Series 2008D fully refunded Series 1998B Bonds. Series 2008E refunded 54.6% of the Series 2006A Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$15,225,318. This amount was being netted against the new debt and amortized over the remaining life of the refunded debt, which was shorter than the life of the new debt issued. This current and advance refunding was undertaken in part to adopt a new Bond Indenture that was approved by the County of Sacramento Board of



## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

Supervisors. The Series A, B and C Bonds are payable from, and secured by, future Net Revenues of the Airport System. Series 2008 D and E Bonds are payable from, and secured by, a pledge of the net proceeds of the PFC imposed by the Airport System. The bonds are additionally payable from, and secured by, the Net Revenues of the Airport System subordinate and junior to the lien of the Series 2008 A, B and C bonds, and any additional parity revenue bonds.

On July 28, 2009, the Airport System issued additional bonds in the amount of \$480,050,000 to continue the financing of the Terminal Modernization Program as follows:

Airport System Senior Revenue Bonds	Airport System Subordinate and PFC/Grant Revenue Bonds
Series 2009 A   \$ 31,115,000	Series 2009C   \$112,860,000
Series 2009 B   \$ 170,685,000	Series 2009D   \$165,390,000

The Airport System issued the Series 2009 Senior Bonds as Senior Obligations pursuant to the Bond Indenture approved on May 1, 2008 and the Third Supplemental Indenture, approved on July 1, 2009. The Series 2009 Senior Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the Series 2008 Senior Bonds.

The Airport System issued the Series 2009 Subordinate Bonds as Subordinate Obligations under the Bond Indenture and the Fourth Supplemental Indenture approved on July 1, 2009. The Series 2009 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the 2008 Subordinate Bonds. Principal of and interest on the 2009C Bonds and 2009D Bonds are additionally payable from and secured by Available PFC Revenues which consist of a portion of the Passenger Facility Charges approved by the FAA and imposed and collected with respect to International Airport, and by Available Grant Revenues which consist of a portion of the Letter of Intent grant awards approved by the FAA on March 6, 2009.

On August 25, 2010, the County of Sacramento issued additional Airport System Senior Revenue Bonds in the amount of \$128,300,000 to complete the financing of the Terminal Modernization Program. The Series 2010 Senior Bonds were issued pursuant to the Bond Indenture as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated August 1, 2010. The Series 2010 Senior Bonds are to be secured by the Trust Estate and payable from Net Revenues on parity with the Series 2009 and 2008 Senior Bonds.

The bonds are issued under the terms of supplemental indentures adopted by the Board and are subject to call and redemption at the option of the Airport System prior to their respective maturity dates. The bonds are redeemable based on the following terms and the redemption may occur from any source.

<u>Series</u>	<u>Maturing After:</u>	<u>Prices Decreasing From:</u>
2008A	July 1, 2019	100% in FY2019 at 100% and thereafter
2008B	July 1, 2019	100% in FY2019 at 100% and thereafter
2008C	July 1, 2012	not subject to optional redemption
2008D	July 1, 2019	100% in FY2019 at 100% and thereafter
2008E	July 1, 2019	100% in FY2019 at 100% and thereafter
2009A	July 1, 2019	100% in FY2019 at 100% and thereafter
2009B	July 1, 2019	100% in FY2019 at 100% and thereafter
2009C	July 1, 2012	100% in FY2019 at 100% and thereafter
2009D	July 1, 2019	100% in FY2019 at 100% and thereafter
2010	July 1, 2021	100% in FY2021 at 100% and thereafter

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

Certain revenue bond obligations have been defeased “in-substance” by placement of assets in an irrevocable trust. Their outstanding principal balances at June 30, 2011 are as follows:

Bond Issue:	
Series 2002A Revenue Bonds	\$63,685,000
Series 2002B Revenue Bonds	<u>10,600,000</u>
TOTAL	<u>\$74,285,000</u>

Future debt service requirements at June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 20,260,000	\$ 59,788,447	\$ 80,048,447
2013	22,770,000	58,885,916	81,655,916
2014	23,870,000	57,908,378	81,778,378
2015	22,240,000	56,918,205	79,158,205
2016	27,400,000	55,816,960	83,216,960
2017-2021	111,135,000	263,800,767	374,935,767
2022-2026	141,145,000	232,802,961	373,947,961
2027-2031	181,645,000	191,028,049	372,673,049
2032-2036	236,325,000	134,773,629	371,098,629
2037-2041	308,330,000	60,817,547	369,147,547
2042-2046	63,435,000	1,721,675	65,156,675
Total	<u>\$ 1,158,555,000</u>	<u>\$ 1,174,262,533</u>	<u>\$ 2,332,817,533</u>

The Bond Indenture constitutes a contract between the County and the bondholders, under which the County has irrevocably pledged the Net Revenues of the Airport System for payment of the revenue bonds. Net Revenues, as defined by the Bond Indenture, are Revenues less Operating Expenses. Certain expenses are specifically excluded from the calculation. The County has covenanted that it will establish rates and charges for the use of Airport System services and facilities so that for each fiscal year the Net Revenues for such fiscal year plus any Transfer will equal at least 125% of the accrued debt service on all the outstanding senior obligations for such fiscal year.

The subordinate lien bonds are additionally secured by PFC revenues that have been irrevocably pledged through 2016 as well as FAA letter of intent (LOI) grant funds through 2015. Pursuant to the Second and the Fourth Supplemental Indentures the Airport System has pledged PFCs and grant funds in the amounts identified in Note 7, Pledged Revenues on pages 54 and 55 as Available Revenues for the payment of debt service on Series 2008D, 2008E, 2009C and 2009D bonds.

The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such debt in higher-yielding taxable securities. The federal tax code refers to this practice as arbitrage. In general, with a few exceptions, any excess earnings resulting from arbitrage must be rebated to the federal government. As of June 30 of fiscal year 2011, the arbitrage liability of the Airport System was zero.

The Bond Indenture also requires that certain funds be established and certain accounting procedures be followed. For fiscal years 2011 and 2010, the Airport System was in compliance with these covenants.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

Long-term liability activity for the fiscal years ended June 30, 2011 and June 30, 2010, was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Bonds payable:					
Senior revenue bonds	\$ 686,665,000	\$ 128,300,000	\$ 8,155,000	\$ 806,810,000	\$ 8,395,000
PFC and Subordinated revenue bonds	363,330,000	-	11,585,000	351,745,000	11,865,000
Deferred amounts:					
For issuance premiums	3,736,634	3,025,087	260,313	6,501,408	-
For issuance discounts	(7,363,653)		(246,837)	(7,116,816)	-
On refunding	(19,832,672)		(1,832,396)	(18,000,276)	-
Total bonds payable	1,026,535,309	131,325,087	17,921,080	1,139,939,316	20,260,000
Compensated absences	3,639,941	2,648,981	2,551,810	3,737,112	135,145
OPEB liability	169,585	296,095	-	465,680	-
Other long-term liabilities	156,487	-	102,292	54,195	16,122
Total long term liabilities	<u>\$ 1,030,501,322</u>	<u>\$ 134,270,163</u>	<u>\$ 20,575,182</u>	<u>\$ 1,144,196,303</u>	<u>\$ 20,411,267</u>

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Bonds payable:					
Senior revenue bonds	\$ 492,715,000	\$ 201,800,000	\$ 7,850,000	\$ 686,665,000	\$ 8,155,000
PFC and Subordinated revenue bonds	87,940,000	278,250,000	2,860,000	363,330,000	11,585,000
Deferred amounts:					
For issuance premiums	3,912,447	-	175,813	3,736,634	-
For issuance discounts	(2,789,712)	(4,807,958)	(234,017)	(7,363,653)	-
On refunding	(22,147,163)	-	(2,314,491)	(19,832,672)	-
Total bonds payable	559,630,572	475,242,042	8,337,305	1,026,535,309	19,740,000
Compensated absences	3,441,237	2,654,168	2,455,464	3,639,941	176,018
OPEB liability	164,115	5,470	-	169,585	-
Other long-term liabilities	-	156,487	-	156,487	81,189
Total long term liabilities	<u>\$ 563,235,924</u>	<u>\$ 478,058,167</u>	<u>\$ 10,792,769</u>	<u>\$ 1,030,501,322</u>	<u>\$ 19,997,207</u>

#### Note 7 – Pledged Revenue

The County has pledged certain future revenues, net of specified operating expenses, to repay \$496,195,000 in Airport System Senior Revenue Bonds issued in May 2008, \$201,800,000 in Airport System Senior Revenue Bonds issued in July 2009 and \$128,300,000 in Airport System Senior Revenue Bonds issued in August 2010. Proceeds from the 2008 Senior Revenue Bonds refunded Series 1992B, Series 1998A, Series 2002A, 45.4% of Series 2006A as well as provided \$323.0 million in financing for the Terminal Modernization Program. Proceeds from the 2009 and 2010 Senior Revenue Bonds provided \$163.8 million and \$128.3 million, respectively, to continue the financing of the Terminal Modernization Program. The bonds are payable solely from Net Revenues of the Airport System and are payable through 2041. The total principal and interest remaining to be paid on senior bonds is \$1,620,041,682. Principal and interest paid for the current year was \$45,322,786, including \$28,548,290 from capitalized interest, and the total Net Revenues were \$44,579,511.

The County has pledged Passenger Facility Charges to repay \$89,430,000 in Airport System Subordinate and PFC Revenue Refunding Bonds issued in May 2008 and \$278,250,000 in Airport System Subordinate and PFC/Grant Revenue Bonds issued in July 2009. Proceeds from the 2008 Subordinate and PFC Bonds refunded Series 1996C,

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

Series 1998B and 54.6% of Series 2006A. Proceeds from 2009 Subordinate and PFC/Grant Revenue Bonds provided \$251 million to continue the financing of the Terminal Modernization Program. The 2008 Subordinate and PFC Bonds are payable through 2026 and the 2009 Subordinate and PFC/Grant Revenue Bonds are payable through 2041.

Total principal and interest remaining to be paid on the subordinate bonds is \$712,775,851. Principal and interest paid for the current year was \$31,082,459, the PFC revenue was \$18,348,304 and the Available Grant Revenues, \$9,124,000. The table below identifies the Available PFC and Available Grant Revenues pledged for the payment of debt service on the Series 2008D, 2008E, 2009C and 2009D bonds:

<u>Fiscal Year Ending June 30</u>	<u>Passenger Facility Charges</u>	<u>Grant Revenues</u>
2012	\$ 21,941,081	\$ 8,171,000
2013	21,939,794	8,220,000
2014	21,940,816	8,271,000
2015	21,942,737	8,328,884
2016	21,944,846	
	\$ 109,709,275	\$ 32,990,884

#### **Note 8 - Rentals and Operating Leases**

The Airport System derives a substantial portion of its revenues from charges to airlines and concessionaires. Substantially all of the assets classified under capital assets in the statements of net assets are held by the Airport System for the purpose of rental or related use.

The Airport System as lessor, leases land, buildings and terminal space to airlines, concessionaires, and other tenants, on a fixed fee as well as a contingent basis. All leases of the Airport System are treated as operating leases for accounting purposes. Most of the leases provide for an annual review and re-determination of the rental amounts.

In fiscal years 2011 and 2010, the Airport System received approximately \$2,868,809 and \$2,159,250, respectively, for contingent rental payments in excess of stated minimums. The following is a schedule of future minimum rentals receivable on non-cancelable operating leases as of June 30, 2011.

Fiscal years ending June 30	
2012	\$ 16,375,356
2013	14,940,154
2014	13,866,679
2015	3,689,786
2016	1,161,028
2017-2021	3,059,673
2022-2026	3,292,868
2027-2031	2,582,069
2032-2036	657,221
2037-2041	562,326
Total future minimum rentals receivable	\$ 60,187,160

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

### Note 9 – Restricted Net Assets

Restricted net assets are assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provision or enabling legislation.

On March 25, 2008, the Board of Supervisors approved a total TMP art budget of \$8 million which included a \$2 million endowment designated to support the airport public art in perpetuity. The interest earnings of the endowment fund will be used for: a comprehensive conservation/maintenance and repair program, the creation and maintenance of an ongoing exhibition program and the commissioning of new and permanent artworks. On September 9, 2008, the Board of Supervisors approved a Resolution which directed Airport System staff to deposit \$2 million into the Airport Art Endowment Fund, which is currently held in trust with the County Treasury.

Net assets restricted by enabling legislation totaling \$28,151,838 and \$47,438,760 are included in statements of net assets at June 30, 2011 and 2010, respectively.

### Note 10 - Related Party Transactions

The Airport System reimburses the County for the cost of providing the Airport System with security, engineering, administrative and certain maintenance services. Amounts charged by other County departments are reported as operating expenses during the period incurred or capitalized as capital assets. Accrued expenses for County services were \$2,893,537 and \$1,875,441 at June 30, 2011 and 2010, respectively.

Amounts charged by other County departments for fiscal years 2011 and 2010 were as follows:

	2011	2010
Charged to operations	\$19,868,044	\$ 19,061,259
Capitalized as capital assets	6,124,072	7,375,224
Total charged by other County departments	\$25,992,116	\$ 26,436,483

### Note 11 - Defined Benefit Pension Plan

All permanent full-time and part-time employees of the Airport System participate in the Sacramento County Employees' Retirement System (SCERS), a cost-sharing multiple-employer defined benefit public employee retirement system. A stand alone report is issued for SCERS and may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for Airport System employees covered by SCERS for the fiscal years ended June 30, 2011 and 2010 was \$21,208,200 and \$20,513,711, respectively. The Airport System's total payroll for the fiscal years ended June 30, 2011 and 2010 was \$22,091,677 and \$21,221,577, respectively. Retirement benefits are based on members' years of service and compensation. Additionally, SCERS provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members have earned the right to receive a retirement benefit. Members are eligible for retirement at age 50 or after 30 years of service for miscellaneous members and 20 years of service for safety members.

Under the actuarial funding method used by SCERS, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

fluctuations on investments during the five-year period after they occur rather than upon disposition of the investment.

Member contributions are required by law and are based on age of entry into SCERS. County contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937. The contribution requirement for Airport System employees for the year ended June 30, 2011 was \$5,519,890 which consisted of \$4,275,255 from the Airport System and \$1,244,635 from employees; these contributions represented 20.2 percent and 5.9 percent, respectively, of covered payroll. The contribution requirement for Airport System employees for the year ended June 30, 2010 was \$4,852,183 which consisted of \$3,611,612 from the Airport System and \$1,240,571 from employees; these contributions represented 17.6 percent and 6.0 percent, respectively, of covered payroll. For fiscal years 2011, 2010 and 2009, the Airport System's annual pension cost of \$4,275,255, \$3,611,612 and \$3,448,250, respectively, was equal to its required contributions.

### **Note 12 – Post-Employment Health Care Benefits (OPEB)**

#### **Plan Description**

The Airport System is a department of the County, which provides medical insurance and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The Board of Supervisors must approve the benefit annually or it is terminated.

All Annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year (continuous coverage).

The following categories of Annuitants are eligible to receive a County-paid medical or dental insurance offset payment during fiscal year 2011: Annuitants who retired for any reason on or before December 31, 2004; Annuitants who retired on or after January 1, 2005 but before May 31, 2007, 1) under any form of disability retirement, or 2) having worked for at least 10 years in SCERS-covered employment; and, Annuitants who retired after May 31, 2007, 1) under any form of disability retirement, or 2) having worked for at least 10 years in SCERS-covered employment from certain Recognized Employee Organizations.

The amount of subsidy/offset payments for the calendar year 2011 ranged from \$40.32 to \$80.64 per month depending upon the years of service credit. The amount of any medical subsidy/offset payments made available to Annuitants is calculated based upon the annuitant's SCERS service credit. The amount of any dental subsidy/offset payments made available to annuitants is set by the Board of Supervisors.

Neither SCERS nor the County guarantees that a subsidy or offset payment will be made available to Annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

#### **Funding Policy**

The County currently pays for post-employment health care benefits of Annuitants on a pay-as-you-go basis; these financial statements assume that the pay-as-you-go will continue. Additional details, actuarial assumptions, funded

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2011 and 2010

status of the plan and required supplementary information can be found in the County's Comprehensive Annual Financial Report.

#### Annual OPEB Cost and Net OPEB Obligation

The Airport System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2011, 2010 and 2009, are shown in the tables below.

	June 30		
	2011	2010	2009
Annual required contribution	\$ 491,522	\$ 421,389	\$ 535,807
Interest on net OPEB obligation	9,388	7,493	3,432
Adjustment to annual required contribution	(13,502)	(10,577)	(7,892)
Annual OPEB cost	487,408	418,305	531,347
Contributions made	(191,313)	(412,835)	(499,322)
Increase in net OPEB obligation	296,095	5,470	32,025
Net OPEB obligation - beginning of year	169,585	164,115	132,090
Net OPEB obligation - end of year	<u>\$ 465,680</u>	<u>\$ 169,585</u>	<u>\$ 164,115</u>

Fiscal year ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost	Net OPEB
			Contributed	Obligation
6/30/2009	\$ 531,347	\$ 499,322	94%	\$ 164,115
6/30/2010	\$ 418,305	\$ 412,835	99%	\$ 169,585
6/30/2011	\$ 487,408	\$ 191,313	39%	\$ 465,680

#### Note 13 - Commitments and Contingencies

##### Construction Projects:

The Airport System had approximately \$101,218,009 in outstanding construction contract commitments at June 30, 2011.

##### Federal Grant Awards:

As of June 30, 2011, the Airport System had outstanding federal grant awards totaling approximately \$19.4 million for various construction projects at all four airports. Such funds are not available to the Airport System until related approved expenses are incurred and, until such time, are not accrued as receivables.

On March 6, 2009, the FAA approved the County's Letter of Intent application to fund \$59.9 million of the eligible costs of the TMP. The AIP grant awards will span between fiscal years 2009 and 2015. In addition, the Airport System has received an award of \$11.3 million from the Transportation Security Administration under the American Recovery and Reinvestment Act to fund security-related projects.

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

Federal grant funds received or receivable are subject to audit and adjustment by the funding agency or their representative. If grant funds are received for expenses which are subsequently disallowed, the Airport System may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenses, if any, will not be material to the accompanying financial statements at June 30, 2011.

### Environmental Matters:

The Planning and Environment section of the Airport System (P&E) has identified several projects that involve hazardous material (hazmat) activities that may entail fiscal obligations as required by the Governmental Accounting Standard Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. A number of the events and incidents described herein involve practices and facilities associated with previous tenant agricultural activities on the approximately 3,000 acres of "buffer" property south of Interstate 5 (I-5), north of Elverta Road, and along Garden Highway at Sacramento International Airport (Airport). It should be noted that the Airport System allowed all agricultural leases on International land to lapse upon expiration on December 31, 2007, and the land is now in "idle" status. It is therefore not anticipated that new hazmat incidents involving tenant farmer activities will recur. It is possible, however, that additional abandoned irrigation wells, septic systems, underground storage tanks (USTs) and abandoned or illegally dumped waste may be discovered on Airport property, which would necessitate proper closure in accordance with the County's Well Ordinance and other environmental regulations.

#### 1. New Development – Voluntary Well Destruction Program

In October 2010, the County of Sacramento Environmental Management Department (EMD) notified property owners, including the County Airport System, about the availability of a voluntary program for identifying and properly closing abandoned water wells. Such wells can be a source of groundwater contamination, thereby posing a threat to drinking water supplies and other resources. The County Well Ordinance therefore sets requirements for proper destruction and/or deactivation of wells that are no longer needed. Due to the historical presence of agriculture on the approximately 6,000 acres comprising the Airport, P&E arranged for EMD to inspect airport parcels north of Elverta Road, south of Interstate 5 (I-5) and numerous small parcels abutting the Sacramento River on Garden Highway. Assisted by P&E staff, the inspection was conducted in November 2010. Five abandoned wells were identified, three of which were previously unknown. Two of the newly found wells were on properties located along Garden Highway, and one was on the site of a former farmhouse south of I-5.

In late January 2011, P&E submitted well destruction permit applications to EMD for three of the wells. Such work requires specialized construction contractors possessing a California C-57 license. Therefore, in January 2011, P&E issued a Request for Proposals (RFP) for well destruction services, and awarded the contract to the lowest qualified bidder in the amount of \$12,600. Heavy winter rainstorms prevented access to the three wells until mid-spring. The three wells were properly destroyed by the contractor under the supervision of the County Airport System's Design and Development section. In contrast, it was decided to apply for deactivation permits for two former agricultural supply wells south of I-5. Obtaining deactivation permits enabled the Airport System to defer a decision on whether the two wells may be needed in the future to irrigate a designated raptor foraging area bordering the Sacramento River on airport property near the intersection of Garden Highway and Power Line Road. Airport Maintenance staff locked the two well enclosures and welded locking devices to the discharge pipes in a manner approved by EMD in a letter issued June 21, 2011. The two deactivation permits were issued by EMD and will be valid until mid-2013. Participation in the voluntary well destruction program facilitated the identification and removal of three previously unknown wells and the proper deactivation of two wells, thereby



## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

avoiding potentially costly civil action if the wells had been inadvertently damaged or discovered by regulatory agencies.

Moreover, potential sources of water resource contamination were eliminated in an environmentally responsible manner.

### 2. Yuki Farms Hazmat Spill and Related Issues:

This 90+/- acre parcel was acquired a number of years ago as an operational compatibility “buffer” for the Airport. For several decades it was leased to a tenant farmer who most recently cultivated a pear orchard on the property. The property is located at 7800 Garden Highway (south of the intersection with Elverta Road), and comprises Sacramento County Assessor’s Parcel Number (APN) 201-0150-033. As described below, there are four interrelated hazmat issues at this property: (1) cleanup of a 1997 gasoline spill; (2) resolving the inadvertent destruction of one hazmat monitoring well ; (3) legally compliant closure of abandoned irrigation wells on the property; and (4) removal of pesticide contaminated soil.

#### *Gasoline Spill*

In October 1997, an approximate 2,000 gallon gasoline spill occurred at the property while a fuel supplier was filling an above ground storage tank (AST). Anecdotal information indicates the tenant removed the contaminated soil and dispersed it at an undisclosed location before an investigation was initiated. The County Environmental Management Department (EMD) began investigating the incident in 1998, and determined the remaining soil was contaminated up to ten feet below ground surface, and that the gasoline additive MTBE had probably reached groundwater. EMD ceased action on the spill in 2001 when the farmer and fuel company could not agree on clean-up responsibility, after which both retained legal counsel. The fuel supplier reportedly declared bankruptcy to avoid liability.

In late 2004, the tenant farmer notified the County that he wished to terminate his lease, which was done by Board action on April 5, 2005 (Resolution no. 2005-0411). In a “Letter of Correction” issued on November 17, 2005, the FAA asserted that the orchard was a hazardous wildlife attractant, and instructed the Airport System to implement a more compatible land use. The potential environmental impact associated with removing the orchard, surrounding oak trees, and the farm structures was addressed in a Final Environmental Impact Report (FEIR) issued in November 2006, pursuant to the California Environmental Quality Act (CEQA). The FEIR addressed issues such as endangered species habitat and abatement (asbestos and lead-based paint) requirements for removal of the former farm residence, barn, other structures and oak trees at the site. The FEIR mentioned that herbicides and pesticides may be present at the site due to its long use for agricultural activities, but did not indicate whether any monitoring wells or similar devices had been placed on the property.

On May 8, 2007, the County Board of Supervisors approved a project to remove the orchard and structures. The project was completed by contractors during 2007, after which the site was graded and leveled. As noted below, enforcement action by EMD did not resume until 2008 and 2009. The gasoline spill incident arose again in early 2008 because the Sacramento Area Flood Control Agency (SAFCA) began conducting studies of the area for the new Sacramento River setback levee, the main component of SAFCA’s Natomas Levee Improvement Program (NLIP).

#### *Hazmat Monitoring Well Damage*

During SAFCA’s work at the Yuki site, it was discovered that seven previously unknown hazardous waste monitoring wells were located on the property, and that one of the wells (MW-1) was damaged by SAFCA

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

contractors on November 3, 2009. The County's Architectural Services Division (ASD) assigned the contract to repair the damage with Nichols Engineering on November 25, 2009.

The Nichols contract proposal for environmental services included work to properly abandon and close two domestic water wells discovered on the property. The total cost of the Nichols agreement was \$88,445. This project was close to completion as of June 30, 2011.

### *Yuki Domestic Water Wells*

As previously noted, during the SAFCA work, two abandoned domestic water wells were found near the site of the former home on the Yuki property. The County Well Ordinance requires that a permit be obtained to close water wells in accordance with procedures intended to prevent hazardous substances from entering such wells and contaminating groundwater resources. The wells were properly destroyed in compliance with the County Well Ordinance during fiscal year 2011.

### *Pesticide Soil Contamination*

SAFCA's consultant has located the chemicals DDE and DDT in the soil of the Airport System's owned parcels south of Elverta Road on Garden Highway, within the levee footprint. These pesticides were widely used in agriculture for many decades, and are persistent in soil and groundwater. On May 11, 2009, soil impacted with DDE and DDT pesticide above screening levels was excavated and transported to a disposal facility.

In February 2009, the County Board of Supervisors and the SAFCA Board of Directors approved a "Master Agreement," defining roles and responsibilities regarding various components of the NLIP. Section 6.3 of the Master Agreement requires that any remediation and/or subsequent monitoring for environmental contamination on Yuki farm will be shared equally by the Airport System and SAFCA. The Master Agreement indicates that after completion of the NLIP on Airport property, a financial reconciliation will determine whether SAFCA owes funds to the County Airport System, or vice versa. The cost of the environmental remediation will be included in the reconciliation.

### 3. Abandoned Water Well on APN 201-150-055:

This is a triangular parcel comprising approximately 51.39 acres, located at the north side of the intersection of Elverta Road and Garden Highway. For many years it was occupied by a tenant farmer and included a residence removed by the County several years ago. The County executed a contract with Nichols engineering to assist in the evaluation and destruction of one domestic well at this property. The amount of the contract was \$27,900. The project was completed in fiscal year 2011.

### 4. Remediation of Airport Waste Water Treatment Ponds:

In April 2009, the County Board of Supervisors authorized an arrangement with Metro Air Park and the Sacramento Area Sewer District (SASD) whereby the Airport System will build a sewer connection to the new regional sewage interceptor. After the connection is operational, the Airport System will need to empty the existing waste water treatment ponds and conduct hazmat studies to determine the degree of contamination and remediation needed, if any. On January 25, 2011 the County Board of Supervisors approved the sewer connection project for bidding. County policy allows the County Engineer (CE) to award construction contracts without further consideration by the Board if the lowest qualified bid is less than the engineer's cost estimate. The lowest bid was under the CE's estimated cost of \$4,000,000, which expedited approval of the construction contract. The contract was awarded to Teichert Construction. Although the project is categorically exempt pursuant to Section

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

21080.21 of the California Environmental Quality Act (CEQA), P&E biological staff has conducted construction worker environmental awareness training and will continually monitor the project to avoid impacts on sensitive habitat and protected species. Construction commenced July 5, 2011, and is expected to be completed before October 1, 2011, the designated onset of the hibernation season of the giant garter snake (GGS), listed as threatened under the State and federal Endangered Species Acts. Earthmoving activity may not occur near GGS habitat between October 1 and May 1. Biological monitoring is required because Meister Ditch, located on the airport near the sewer connection site, is classified as potential GGS habitat during a portion of the spring and early summer months.

### 5. Executive Airport Rental Car Site:

The rental car site clean-up efforts at Executive Airport are close to completion. Information related to additional service and cost is unknown at this point due to the method the County Environmental Management Department may require in abandoning the monitoring wells and whether the concrete box over the wells needs to be removed and patched with asphalt concrete. If EMD allows the use of grout for well abandonment and the concrete boxes can remain in place, then the balance of the current consultant contract in the amount of \$38,073 is sufficient to complete the work. The Airport System is currently in contact with EMD to determine the method of well abandonment. The project is therefore not yet complete.

### 6. Host Hotel:

After terminating the lease and taking possession of the Host Hotel, a Hazardous Materials Survey and report dated November 30, 2007, was prepared by Entek Consulting Group, Inc. The survey found that there were several materials that contained asbestos, lead based paint, mercury and polychlorinated Biphenyls (PCB). A portion of the hotel was demolished and the hazardous material removed at a cost of approximately \$30,000. The remaining portion of the hotel was demolished and hazardous material was properly removed.

### 7. Terminal B:

A Hazardous Materials Survey was performed and a report dated March 7, 2008, (Revised September 16, 2008) was prepared by Entek Consulting Group, Inc. The survey found that there were several materials that contained asbestos, lead based paint, mercury and polychlorinated Biphenyls (PCB). The cost to demolish Terminal B and remove the hazardous material is unknown at this time. It is currently anticipated that demolition of Terminal B will commence in late 2011 and be completed in mid-2012.

### 8. Interim International Arrivals Building (IIAB):

A Hazardous Materials Survey was performed and a report dated March 7, 2008 (Revised September 16, 2008) was prepared by Entek Consulting Group, Inc. The survey found that there were several materials that contained asbestos, lead based paint, mercury and polychlorinated Biphenyls (PCB). The cost to demolish the IIAB and remove the hazardous material is unknown at this time.

### 9. Prichard Lake and Jacobs Slough Wetland Fill and Endangered Species Habitat Mitigation Program:

The Prichard Lake mitigation occurred on site, but proximity of Jacobs Slough to Runway 16L necessitated acquisition of the 217-acre Willey mitigation property approximately 4.7 miles north of the Airport in Sutter County. The Prichard Lake and Willey mitigation preserve construction work has been completed, and both preserves are now under the complete control of the preserve manager, the Center for Natural Lands Management (CNLM). The County Airport System maintains a productive, collaborative relationship with CNLM. P&E staff meets periodically with CNLM's preserve manager and Director of Conservation Science to review issues of mutual concern. A site survey in spring 2011 revealed several leaking water control structures. The construction contractor warranty expired one year after completion of construction, so CNLM and the Airport System

## Notes to the Basic Financial Statements (continued) For the Fiscal Years ended June 30, 2011 and 2010

recently initiated discussions regarding a possible division of the repair costs, with the County's portion not to exceed \$12,500.

### Special Facilities Revenue Bonds:

Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (Special Facility Bonds) totaling \$9,900,000 were issued on November 3, 1998 to finance the demolition of an existing facility and construction and installation of a replacement aircraft maintenance hangar and associated facilities at Sacramento International Airport for The Cessna Aircraft Company (Cessna). Although taking the legal form of a financing lease between the County and Cessna, the substance of these arrangements is that the Special Facility Bonds constitute a special obligation of the Airport System payable from and secured by certain revenues under its lease with Cessna and certain proceeds pledged therefore under the Indenture. The bonds do not constitute a debt, liability or general obligation of the Airport System or a pledge of the faith and credit of the Airport System. The Airport System will not be obligated to levy any taxes or expend any funds for the repayment of the bonds. As of June 30, 2011 and 2010, the outstanding balance of the debt was \$8,800,000. The Special Facility Bonds will mature on November 1, 2028.

### Annual Settlement of Rates and Charges:

On May 1, 2008, the County terminated the Scheduled Airline Operating Agreement and Terminal Building Lease (Prior Agreement) and effective July 1, 2008, the County adopted a new airline Rate Ordinance pursuant to which airline rates and charges were calculated for fiscal years 2009, 2010 and 2011. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rentals are calculated according to a commercial compensatory methodology. As a result of this calculation, the airlines owed an additional \$2.3 million to the Airport System in fiscal year 2010. A similar true-up calculation was performed in fiscal year 2011 and resulted in a refund of \$7.5 million to the airlines. Due to the complexity of this calculation, the amounts due to the Airport System or the amounts that the Airport System may owe to the airlines for any given fiscal year cannot be reasonably determined until the following fiscal year. A true-up analysis will be performed every fiscal year going forward and the amount of the true-up will be recorded in the period it becomes estimable.

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## Statistical Section

This section contains the following subsections:

### Financial Trends

- Net Assets
- Changes in Net Assets

### Revenue Capacity

- Total Annual Revenues
- Total Annual Expenses
- Airline Rates and Charges
- Airline and Nonairline Revenues

### Debt Capacity

- Debt Service Coverage
- Ratio of Annual Debt Service to Total Expenses
- Debt per Enplaned Passenger
- Outstanding Debt

### Demographic and Economic

- Service Area Population
- Population/Personal Income
- Principal Employers

### Operating Information

- Activity Statistics
- Scheduled Airline Service
- Principal Customers/Airport System Employees/Capital Assets

## Statistical Section

The information contained in this section is not covered by the Independent Auditors' Report, but is presented as supplemental data for the benefit of the Comprehensive Annual Financial Report. The objectives of the statistical section are to provide financial users with additional historical perspective, context, and detail to assist in using information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess a government's economic condition.

The following sub-sections are included in the Statistical Section:

- A. Financial Trends- These schedules contain trend information to help the reader understand how the Airport System's financial performance has changed over time. **Refer to pages 67-69.**
- B. Revenue Capacity- These schedules contain trend information to help the reader assess the Airport System's ability to generate its airline and non-airline revenues. Also included in this section are total annual expenses. **Refer to pages 70-73.**
- C. Debt Capacity- These schedules present information to help the reader assess the affordability of the Airport System's current levels of outstanding debt and the ability to issue additional debt in the future. **Refer to pages 74-77.**
- D. Demographic and Economic Information- These schedules offer demographic and economic indicators to help the reader understand the environment within which the Airport System's financial activities take place. **Refer to pages 78-79.**
- E. Operating Information- These schedules contain information about the Airport System's operations and resources to help the reader understand how its financial information relates to the services the Airport System provides and the activities it performs. **Refer to pages 80-82.**

## Financial Trends

### Net Assets

	2011	2010	2009	2008	2007
Invested in capital assets - net of related debt	\$ 330,395,927	\$ 308,869,302	\$ 175,059,316	\$ 156,199,147	\$ 211,869,303
Restricted:					
Operating Reserve account	24,644,732	24,028,109	27,260,013	21,730,250	21,460,250
Reserve and Contingency fund	2,000,000	2,000,000	2,000,000	1,333,333	1,000,000
Debt Service	87,076,141	102,952,183	72,066,304	56,161,338	4,449,505
Passenger facility charges	26,065,608	45,353,413	103,733,132	123,802,107	103,826,206
Trust Accounts	2,086,230	2,085,347	2,062,811	-	-
Total restricted	141,872,711	176,419,052	207,122,260	203,027,028	130,735,961
Unrestricted	85,403,913	48,379,211	119,895,679	117,486,984	97,616,600
Total net assets	\$ 557,672,551	\$ 533,667,565	\$ 502,077,255	\$ 476,713,159	\$ 440,221,864

	2006	2005	2004	2003	2002
Invested in capital assets - net of related debt	\$ 190,642,485	\$ 164,627,362	\$ 126,762,388	\$ 105,508,679	\$ 102,971,937
Restricted:					
Operating Reserve account	19,393,000	17,175,000	17,953,000	17,358,000	16,274,000
Reserve and Contingency fund	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Debt Service	4,982,064	4,356,237	4,399,696	4,416,225	1,859,419
Passenger facility charges	81,920,131	66,390,568	52,398,305	48,136,050	44,350,274
Total restricted	107,295,195	88,921,805	75,751,001	70,910,275	63,483,693
Unrestricted	101,482,119	104,777,188	104,009,224	110,420,060	99,911,642
Total net assets	\$ 399,419,799	\$ 358,326,355	\$ 306,522,613	\$ 286,839,014 <sup>1</sup>	\$ 266,367,272

<sup>1</sup> Fiscal year 2003 net assets were restated due to change in accounting principles.

Source: Airport System's audited financial statements.



## Financial Trends (cont.)

### Changes in Net Assets

	2011	2010	2009	2008 <sup>1</sup>
Operating revenues:				
Concessions	\$ 63,341,578	\$ 63,442,108	\$ 68,600,549	\$ 66,416,283
Building rents	30,697,623	35,885,350	35,384,002	17,152,979
Airfield charges	20,931,781	26,044,373	10,710,482	22,352,752
Ground leases	1,987,622	2,749,183	2,314,441	3,641,980
Sale of fuel	653,673	532,032	580,904	808,229
Airport services	920,930	898,153	1,100,127	911,360
Other	85,366	165,604	299,511	101,491
Total operating revenues	<u>\$ 118,618,573</u>	<u>\$ 129,716,803</u>	<u>\$ 118,990,016</u>	<u>\$ 111,385,074</u>
Operating expenses:				
Salaries and benefits	\$ 35,989,114	\$ 33,084,803	\$ 33,640,076	\$ 32,174,897 <sup>1</sup>
Services and supplies	46,369,353	48,995,957	49,870,807	54,266,378
Cost of goods sold	542,657	431,389	497,815	665,627
Depreciation	29,750,690	26,928,736	25,750,395	23,707,907
Other	983,348	872,816	881,876	837,710
Total operating expenses	<u>\$ 113,635,162</u>	<u>\$ 110,313,701</u>	<u>\$ 110,640,969</u>	<u>\$ 111,652,519</u>
Operating income (loss)	<u>4,983,411</u>	<u>19,403,102</u>	<u>8,349,047</u>	<u>(267,445)</u>
Nonoperating revenues (expenses):				
Interest income	\$ 411,537	\$ 1,886,860	\$ 6,155,861	\$ 7,519,233
Passenger Facility Charges revenue	18,348,304	19,618,136	21,489,873	26,653,518
Intergovernmental revenue	622,320	954,695	978,992	1,620,376
Gain (loss) on disposal of assets	10,020	(65,452)	64,262	(17,151)
Other nonoperating revenue (expense)	1,291,437	237,958	157,388	(40,754)
Amortization of bond issuance cost	(744,688)	(700,471)	(563,240)	(257,068)
Interest expense	(15,473,662)	(17,105,647)	(18,203,544)	(12,651,944)
Net nonoperating revenues	<u>\$ 4,465,268</u>	<u>\$ 4,826,079</u>	<u>\$ 10,079,592</u>	<u>\$ 22,826,210</u>
Income before capital contribution and transfers	9,448,679	24,229,181	18,428,639	22,558,765
Capital contributions - grants	14,556,307	7,361,129	6,935,457	13,932,530
Changes in net assets	24,004,986	31,590,310	25,364,096	36,491,295
Total net assets, beginning of year	<u>533,667,565</u>	<u>502,077,255</u>	<u>476,713,159</u>	<u>440,221,864</u>
Total net assets, end of year	<u>\$ 557,672,551</u>	<u>\$ 533,667,565</u>	<u>\$ 502,077,255</u>	<u>\$ 476,713,159</u>

<sup>1</sup> Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

<sup>2</sup> Fiscal year 2003 net assets were restated due to change in accounting principle.

Source: Airport System's audited financial statements.

2007	2006	2005	2004	2003 <sup>2</sup>	2002
\$ 64,892,106	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267	\$ 46,383,456	\$ 40,548,385
16,644,929	16,087,912	14,170,114	13,803,071	14,397,965	14,699,640
15,680,196	17,779,295	17,107,966	12,353,198	8,341,447	10,138,281
4,723,344	4,403,407	3,607,645	3,110,659	2,768,994	2,722,470
652,942	1,339,214	1,332,966	2,662,833	3,615,979	3,304,813
1,015,551	900,536	636,999	137,513	184,562	161,499
39,528	102,681	1,386,070	39,986	52,570	103,327
<u>\$ 103,648,596</u>	<u>\$ 100,980,196</u>	<u>\$ 92,549,178</u>	<u>\$ 79,730,527</u>	<u>\$ 75,744,973</u>	<u>\$ 71,678,415</u>
\$ 30,274,323	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428	\$ 22,883,432	\$ 20,819,372
46,452,761	41,462,233	37,688,533	38,792,551	36,247,504	33,026,722
573,187	1,081,550	914,185	712,784	626,644	638,850
21,062,790	20,162,706	16,103,705	15,597,039	15,145,180	14,689,534
769,160	670,162	909,682	1,218,467	1,046,455	641,388
<u>\$ 99,132,221</u>	<u>\$ 91,814,508</u>	<u>\$ 82,930,073</u>	<u>\$ 81,601,269</u>	<u>\$ 75,949,215</u>	<u>\$ 69,815,866</u>
<u>4,516,375</u>	<u>9,165,688</u>	<u>9,619,105</u>	<u>(1,870,742)</u>	<u>(204,242)</u>	<u>1,862,549</u>
\$ 7,915,789	\$ 6,623,389	\$ 4,303,953	\$ 2,888,108	\$ 4,164,015	\$ 6,263,408
27,182,405	24,511,950	24,454,819	18,498,324	17,621,861	15,259,334
686,586	849,340	880,166	702,098	2,831,833	1,313,322
84,711	993	503,692	3,988	(1,878)	28,233
82,107	223,468	247,124	140,157	93,133	56,375
(271,965)	(175,358)	(171,740)	(171,740)	(171,740)	(128,151)
(12,057,704)	(10,536,254)	(12,631,716)	(10,315,087)	(11,023,165)	(11,614,976)
<u>\$ 23,621,929</u>	<u>\$ 21,497,528</u>	<u>\$ 17,586,298</u>	<u>\$ 11,745,848</u>	<u>\$ 13,514,059</u>	<u>\$ 11,177,545</u>
28,138,304	30,663,216	27,205,403	9,875,106	13,309,817	13,040,094
12,663,761	10,889,564	24,598,339	9,808,493	4,520,415	815,691
40,802,065	41,093,444	51,803,742	19,683,599	17,830,232	13,855,785
399,419,799	358,326,355	306,522,613	286,839,014	269,008,782 <sup>2</sup>	252,511,487
<u>\$ 440,221,864</u>	<u>\$ 399,419,799</u>	<u>\$ 358,326,355</u>	<u>\$ 306,522,613</u>	<u>\$ 286,839,014</u>	<u>\$ 266,367,272</u>

## Revenue Capacity

### Total Annual Revenues

#### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
<b>OPERATING REVENUES</b>					
Concessions	\$ 63,341,578	\$ 63,442,108	\$ 68,600,549	\$ 66,416,283	\$ 64,892,106
Building rents	30,697,623	35,885,350	35,384,002	17,152,979	16,644,929
Airfield charges	20,931,781	26,044,373	10,710,482	22,352,752	15,680,196
Ground leases	1,987,622	2,749,183	2,314,441	3,641,980	4,723,344
Sale of fuel	653,673	532,032	580,904	808,229	652,942
Airport services	920,930	898,153	1,100,127	911,360	1,015,551
Other	85,366	165,604	299,511	101,491	39,528
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 118,618,573</b>	<b>\$ 129,716,803</b>	<b>\$ 118,990,016</b>	<b>\$ 111,385,074</b>	<b>\$ 103,648,596</b>
<b>NONOPERATING REVENUES</b>					
Interest income	411,537	1,886,860	6,155,861	7,519,233	7,915,789
PFC revenue	18,348,304	19,618,136	21,489,873	26,653,518	27,182,405
Capital contributions	14,556,307	7,361,129	6,935,457	13,932,530	12,663,761
Intergovernmental revenue	622,320	954,695	978,992	1,620,376	686,586
Other nonoperating revenue (exp)	1,301,620	251,679	157,388	(40,754)	82,107
<b>TOTAL REVENUES</b>	<b>\$ 153,858,661</b>	<b>\$ 159,789,302</b>	<b>\$ 154,707,587</b>	<b>\$ 161,069,977</b>	<b>\$ 152,179,244</b>
<b>OPERATING REVENUES</b>					
Concessions	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267	\$ 46,383,456	\$ 40,548,385
Building rents	16,087,912	14,170,114	13,803,071	14,397,965	14,699,640
Airfield charges	17,779,295	17,107,966	12,353,198	8,341,447	10,138,281
Ground leases	4,403,407	3,607,645	3,110,659	2,768,994	2,722,470
Sale of fuel	1,339,214	1,332,966	2,662,833	3,615,979	3,304,813
Airport services	900,536	636,999	137,513	184,562	161,499
Other	102,681	1,386,070	39,986	52,570	103,327
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 100,980,196</b>	<b>\$ 92,549,178</b>	<b>\$ 79,730,527</b>	<b>\$ 75,744,973</b>	<b>\$ 71,678,415</b>
<b>NONOPERATING REVENUES</b>					
Interest income	6,623,389	4,303,953	2,888,108	4,164,015	6,263,408
PFC revenue	24,511,950	24,454,819	18,498,324	17,621,861	15,259,334
Capital contributions	10,889,564	24,598,339	9,808,493	4,520,415	815,691
Intergovernmental revenue	849,340	880,166	702,098	2,831,833	1,313,322
Other nonoperating revenue (exp)	223,468	205,563	140,157	93,133	56,375
<b>TOTAL REVENUES</b>	<b>\$ 144,077,908</b>	<b>\$ 146,992,018</b>	<b>\$ 111,767,707</b>	<b>\$ 104,976,230</b>	<b>\$ 95,386,545</b>

Source: Airport System's audited financial statements.

## Revenue Capacity (cont.)

### Total Annual Expenses

#### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
<b>OPERATING EXPENSES</b>					
Salaries and benefits	\$ 35,989,114	\$ 33,084,803	\$ 33,640,076	\$ 32,174,897 <sup>1</sup>	\$ 30,274,323
Services and supplies	46,369,353	48,995,957	49,870,807	54,266,378	46,452,761
Cost of goods sold	542,657	431,389	497,815	665,627	573,187
Depreciation and amortization	29,750,690	26,928,736	25,750,395	23,707,907	21,062,790
Other	983,348	872,816	881,876	837,710	769,160
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 113,635,162</b>	<b>\$ 110,313,701</b>	<b>\$ 110,640,969</b>	<b>\$ 111,652,519</b>	<b>\$ 99,132,221</b>
<b>NONOPERATING EXPENSES</b>					
Interest expense	15,473,662	17,105,647	18,203,544	12,651,944	12,057,704
Loss (gain) on disposal of assets	163	79,173	(64,262)	17,151	(84,711)
Amortization of bond issuance costs	744,688	700,471	563,240	257,068	271,965
<b>TOTAL EXPENSES</b>	<b>\$ 129,853,675</b>	<b>\$ 128,198,992</b>	<b>\$ 129,343,491</b>	<b>\$ 124,578,682</b>	<b>\$ 111,377,179</b>
	2006	2005	2004	2003	2002
<b>OPERATING EXPENSES</b>					
Salaries and benefits	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428	\$ 22,883,432	\$ 21,194,906
Services and supplies	41,462,233	37,688,533	38,792,551	36,247,504	32,887,678
Cost of goods sold	1,081,550	914,185	712,784	626,644	638,850
Depreciation and amortization	20,162,706	16,103,705	15,597,039	15,145,180	14,689,534
Other	670,162	868,211	1,218,467	1,046,455	641,388
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 92,273,844</b>	<b>\$ 82,888,602</b>	<b>\$ 81,601,269</b>	<b>\$ 75,949,215</b>	<b>\$ 70,052,356</b>
<b>NONOPERATING EXPENSES</b>					
Interest expense	10,536,254	12,631,716	10,315,087	11,023,165	11,614,976
Loss (gain) on disposal of assets	(993)	(503,692)	(3,988)	1,878	(28,233)
Amortization of bond issuance costs	175,358	171,740	171,740	171,740	128,151
<b>TOTAL EXPENSES</b>	<b>\$ 102,984,463</b>	<b>\$ 95,188,366</b>	<b>\$ 92,084,108</b>	<b>\$ 87,145,998</b>	<b>\$ 81,767,250</b>

<sup>1</sup>Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

Source: Airport System's audited financial statements.

Revenue Capacity (cont.)  
Airline Rates and Charges

LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
Landing fee rate (Per 1,000 lbs.) <sup>1</sup>	\$ 4.19	\$ 3.92	\$ 3.30	\$ 2.77	\$ 1.99
Terminal rental rates (Per Sq. Foot)					
Enclosed	\$ 147.68	\$ 155.07	\$ 140.48	\$ 65.48	\$ 65.52
Unenclosed <sup>2</sup>	12.00	12.00	12.00	12.00	12.00

	2006	2005	2004	2003 <sup>3</sup>	2002
Landing fee (Per 1,000 lbs.)	\$ 2.44	\$ 2.37	\$ 1.79	\$ 1.21	\$ 1.57
Terminal rental rates (Per Sq. Foot)					
Enclosed	\$ 73.11	\$ 64.56	\$ 48.00	\$ 58.20	\$ 54.60
Unenclosed <sup>2</sup>	12.00	N/A	N/A	N/A	N/A

Source: Airport System records.

Note:

In October, 2000 an airline agreement was executed and rates and fees were calculated in accordance with the Agreement until the agreement was terminated effective May 1, 2008, at which time rates and fees were calculated in accordance with the County Rate Ordinance. Effective July 1, 2008, the County adopted a Rate Ordinance which governs the current calculation of rates and fees.

<sup>1</sup>Signatory rate shown for years in which an airline agreement was effective.

<sup>2</sup>Effective July 2005, unenclosed space at \$1.00 per square foot per month implemented as an additional category of terminal rental rates.

<sup>3</sup>Average used for presentation purposes. Due to the imposition of a mid-year adjustment, the landing fee was decreased from \$1.39 (July – December 2002) to \$1.03 (January – July 2003).



## Debt Capacity Debt Service Coverage

### FISCAL YEARS 2009-2011

	2011	2010	2009
<b>Rate Covenant - per Section 6.04 (b)(i)</b>			
Revenues <sup>1</sup>	\$ 128,179,835	\$ 132,007,161	\$ 134,667,273
Operating Expenses <sup>2</sup>	<u>(83,884,472)</u>	<u>(83,384,965)</u>	<u>(84,890,322)</u>
Net Revenues	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 25%)	<u>4,321,838</u>	<u>4,301,661</u>	<u>3,992,960</u>
Net Revenues + Transfer	\$ 48,617,201	\$ 52,923,857	\$ 53,769,911
Accrued Debt Service of Senior Obligations <sup>3</sup>	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
<b>Debt Service Coverage (&gt;1.25)</b>	<u>2.81</u>	<u>3.08</u>	<u>3.37</u>
<b>Rate Covenant - per Section 6.04 (b)(ii)</b>			
Net Revenues	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 10%)	<u>1,728,735</u>	<u>1,720,665</u>	<u>1,597,184</u>
Net Revenues + Transfer	\$ 46,024,098	\$ 50,342,861	\$ 51,374,135
Accrued Debt Service of Senior Obligations	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
Debt Service on Subordinate Obligations <sup>4</sup>	31,129,931	30,130,833	6,939,856
LESS: Available PFC Revenues	(22,005,931)	(20,448,833)	(6,939,856)
LESS: Available Grant Revenues	<u>(9,124,000)</u>	<u>(9,682,000)</u>	<u>-</u>
Accrued Debt Service of Sr. & Sub. Obligations	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
<b>Debt Service Coverage (&gt;1.10)</b>	<u>2.66</u>	<u>2.93</u>	<u>3.22</u>

Note: The information presented in the above table reflects the definitions, conventions and debt service coverage calculation methodology set forth in the Master Indenture of Trust, approved by the Board of Supervisors and dated May 1, 2008, and under the terms of supplemental indentures. The debt service coverage table presented in the following page includes the debt service coverage calculation for fiscal years 2002 through 2008, for Senior Bonds outstanding prior to 2008, and according to the documents pursuant to which these bonds were issued.

<sup>1</sup>Per Bond Indenture, Revenues include all Airport System revenues excluding certain interest earnings and restricted revenues.

<sup>2</sup>Per Bond Indenture, Operating Expenses include all Airport System operating costs and other non operating expenses. Operating Expenses exclude depreciation, amortization and debt service.

<sup>3</sup>The Accrued Debt Service includes the principal payment due on July 1, 2011, 2010 and 2009, respectively.

<sup>4</sup>Per the Fourth Supplemental Indenture, PFC and LOI Subordinated Revenue Bonds are payable from and secured by pledged Available PFC Revenues, Available Grant Revenues and Net Revenues subordinate and junior to the lien on Senior Revenue bonds.

## Debt Capacity (cont.)

### Debt Service Coverage (cont.)

#### FISCAL YEARS 2002 THROUGH 2008

##### PRIOR BONDS <sup>1</sup>

	2008	2007	2006	2005
Total Operating Revenues	\$ 111,385,074	\$ 103,648,596	\$ 100,980,196	\$ 92,549,178
Certain Non-Operating Revenues <sup>2</sup>	<u>7,555,183</u>	<u>12,961,598</u>	<u>10,486,622</u>	<u>12,220,192</u>
Revenues	\$ 118,940,257	\$ 116,610,194	\$ 111,466,818	\$ 104,769,370
Operating Expenses <sup>3</sup>	<u>(87,769,525)</u>	<u>(78,636,521)</u>	<u>(72,668,987)</u>	<u>(67,524,525)</u>
Net Revenues	\$ 31,170,732	\$ 37,973,673	\$ 38,797,831	\$ 37,244,845
Debt Service Requirement <sup>4</sup>	\$ 15,507,142	\$ 12,458,165	\$ 14,721,391	\$ 16,835,805
<b>Debt Service Coverage</b>	<u>2.0</u>	<u>3.0</u>	<u>2.6</u>	<u>2.2</u>

	2004	2003	2002
Total Operating Revenues	\$ 79,730,527	\$ 75,744,973	\$ 71,678,415
Certain Non-Operating Revenues <sup>2</sup>	<u>10,593,301</u>	<u>13,510,195</u>	<u>12,186,966</u>
Revenues	\$ 90,323,828	\$ 89,255,168	\$ 83,865,381
Operating Expenses <sup>3</sup>	<u>(66,842,925)</u>	<u>(63,338,095)</u>	<u>(56,134,649)</u>
Net Revenues	\$ 23,480,903	\$ 25,917,073	\$ 27,730,732
Debt Service Requirement <sup>4</sup>	\$ 16,840,105	\$ 15,062,285	\$ 12,106,987
<b>Debt Service Coverage</b>	<u>1.4</u>	<u>1.7</u>	<u>2.3</u>

<sup>1</sup>Prior Bonds represent bonds which were previously issued to finance Airport System improvements but are no longer outstanding.

<sup>2</sup>Includes certain interest income, PFC revenues used to pay debt service with respect to Prior Bonds which constituted Senior Bonds under the documents pursuant to which the Prior Bonds were issued, and prepaid revenues.

<sup>3</sup>Operating Expenses include all Airport System operating costs and certain capital.

<sup>4</sup>Represents debt service requirement only with respect to Prior Bonds. The Prior Bonds outstanding as of May 2008 were refunded with a portion of the proceeds of the Series 2008 Bonds.



## Debt Capacity (cont.)

### Ratio of Annual Debt Service to Total Expenses

#### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
Principal	\$ 19,740,000	\$ 10,710,000	\$ 4,970,000	\$ 4,705,000	\$ 7,660,000
Interest <sup>1</sup>	15,473,662	17,105,647	18,203,544	11,516,327	11,800,681
Total debt service	<u>\$ 35,213,662</u>	<u>\$ 27,815,647</u>	<u>\$ 23,173,544</u>	<u>\$ 16,221,327</u>	<u>\$ 19,460,681</u>
Total expenses	<u>\$ 129,853,675</u>	<u>\$ 128,198,992</u>	<u>\$ 129,364,269</u>	<u>\$ 124,769,226</u>	<u>\$ 111,488,714</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	<u>27.1%</u>	<u>21.7%</u>	<u>17.9%</u>	<u>13.0%</u>	<u>17.5%</u>

	2006	2005	2004	2003	2002
Principal	\$ 6,705,000	\$ 6,425,000	\$ 4,845,000	\$ 4,470,000	\$ 4,250,000
Interest <sup>1</sup>	11,881,872	14,082,421	14,366,581	14,164,206	11,585,558
Total debt service	<u>\$ 18,586,872</u>	<u>\$ 20,507,421</u>	<u>\$ 19,211,581</u>	<u>\$ 18,634,206</u>	<u>\$ 15,835,558</u>
Total expenses	<u>\$ 102,984,463</u>	<u>\$ 95,188,366</u>	<u>\$ 92,084,108</u>	<u>\$ 87,145,998</u>	<u>\$ 81,767,250</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	<u>18.1%</u>	<u>21.8%</u>	<u>22.6%</u>	<u>21.8%</u>	<u>19.6%</u>

<sup>1</sup>Does not include capitalized interest.

## Debt per Enplaned Passenger

#### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
Bonds payable	<u>\$ 1,139,939,316</u>	<u>\$ 1,026,535,309</u>	<u>\$ 559,630,572</u>	<u>\$ 562,376,271</u>	<u>\$ 244,133,482</u>
Enplaned passengers	<u>4,377,315</u>	<u>4,445,991</u>	<u>4,603,182</u>	<u>5,294,737</u>	<u>5,307,289</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 260.42</u>	<u>\$ 230.89</u>	<u>\$ 121.57</u>	<u>\$ 106.21</u>	<u>\$ 46.00</u>

	2006	2005	2004	2003	2002
Bonds payable	<u>\$ 248,835,292</u>	<u>\$ 261,578,571</u>	<u>\$ 267,519,013</u>	<u>\$ 271,879,455</u>	<u>\$ 195,617,887</u>
Enplaned passengers	<u>5,150,229</u>	<u>4,986,171</u>	<u>4,563,607</u>	<u>4,314,273</u>	<u>4,042,585</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 48.32</u>	<u>\$ 52.46</u>	<u>\$ 58.62</u>	<u>\$ 63.02</u>	<u>\$ 48.39</u>

## Debt Capacity (cont.) Outstanding Debt

### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Senior Revenue Bonds</b>										
1989 series (6.97% to 7.0%, due 2003-2020)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,960,000
1992 series (5.8% to 6.0% , due 2006-2024)	-	-	-	-	6,290,000	6,290,000	6,290,000	6,290,000	6,290,000	16,510,000
1996 series A (5.3% to 6%, due 2006-2024)	-	-	-	-	-	-	84,085,000	86,310,000	88,430,000	88,430,000
1998 refunding series A (4.1% to 5.0%, due 2006-2026)	-	-	-	-	38,780,000	39,730,000	40,640,000	40,985,000	41,315,000	41,315,000
2002 series A (3.0% to 5.25%, due 2006-2032)	-	-	-	-	69,865,000	71,290,000	72,675,000	74,015,000	74,015,000	-
2002 refunding series B (3.0% to 5.25%, due 2006-2020)	-	-	-	-	13,900,000	14,650,000	15,380,000	16,620,000	17,805,000	-
2006 series A (variable interest rate per auction, due 2007 - 2024)	-	-	-	-	76,325,000	79,450,000	-	-	-	-
2008 series A (4.85% to 5.0%, due 2028-2041)	160,600,000	163,695,000	166,675,000	169,575,000	-	-	-	-	-	-
2008 series B (4.25% to 5.75%, due 2013-2039)	309,660,000	311,730,000	313,760,000	314,340,000	-	-	-	-	-	-
2008 refunding series C (5.20%, due 2012)	6,450,000	9,440,000	12,280,000	12,280,000	-	-	-	-	-	-
2009 series A (5.5%, due 2041)	31,115,000	31,115,000	-	-	-	-	-	-	-	-
2009 series B (5.50% to 5.75%, due 2034-2039)	170,685,000	170,685,000	-	-	-	-	-	-	-	-
2010 series (5.00%, due 2030-2040)	128,300,000	-	-	-	-	-	-	-	-	-
<b>Total senior revenue bonds</b>	<b>\$ 806,810,000</b>	<b>\$ 686,665,000</b>	<b>\$ 492,715,000</b>	<b>\$ 496,195,000</b>	<b>\$ 205,160,000</b>	<b>\$ 211,410,000</b>	<b>\$ 219,070,000</b>	<b>\$ 224,220,000</b>	<b>\$ 227,855,000</b>	<b>\$ 153,215,000</b>
<b>Subordinate and PFC/Grant Revenue Bonds</b>										
1996 series C (5.3% to 5.9%, due 2006-2010)	\$ -	\$ -	\$ -	\$ -	4,870,000	6,150,000	7,365,000	8,520,000	9,615,000	9,615,000
1998 refunding series B (4.1% to 5.0%, due 2006-2026)	-	-	-	-	44,365,000	44,495,000	44,620,000	44,740,000	44,855,000	44,855,000
2008 refunding series D (5.0%, due 2026)	43,740,000	45,155,000	45,595,000	46,390,000	-	-	-	-	-	-
2008 refunding series E (4.25% to 5.75%, due 2013-2024)	37,460,000	39,925,000	42,345,000	43,040,000	-	-	-	-	-	-
2009 series C (5.75% to 6.0%, due 2039-2041)	112,860,000	112,860,000	-	-	-	-	-	-	-	-
2009 series D (6.0%, due 2035)	157,685,000	165,390,000	-	-	-	-	-	-	-	-
<b>Total subordinate and PFC/Grant revenue bonds</b>	<b>\$ 351,745,000</b>	<b>\$ 363,330,000</b>	<b>\$ 87,940,000</b>	<b>\$ 89,430,000</b>	<b>\$ 49,235,000</b>	<b>\$ 50,645,000</b>	<b>\$ 51,985,000</b>	<b>\$ 53,260,000</b>	<b>\$ 54,470,000</b>	<b>\$ 54,470,000</b>
<b>Total bonds payable</b>	<b>\$ 1,158,555,000</b>	<b>\$ 1,049,995,000</b>	<b>\$ 580,655,000</b>	<b>\$ 585,625,000</b>	<b>\$ 254,395,000</b>	<b>\$ 262,055,000</b>	<b>\$ 271,055,000</b>	<b>\$ 277,480,000</b>	<b>\$ 282,325,000</b>	<b>\$ 207,685,000</b>

## Demographic and Economic Service Area Population

### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
<b>PRIMARY AREA</b>					
Sacramento County <sup>1</sup>	1,428,355	1,401,000	1,386,000	1,374,000	1,362,000
Placer County	352,380	347,102	339,577	333,401	324,495
Yolo County	201,759	202,953	200,709	199,066	193,983
San Joaquin County	690,899	694,293	689,480	685,660	675,463
El Dorado County	182,498	182,019	180,185	179,722	178,674
Sutter County	95,800	99,154	96,554	95,878	93,919
Yuba County	72,749	73,380	72,900	71,929	70,745
<b>TOTAL PRIMARY AREA</b>	<b>3,024,440</b>	<b>2,999,901</b>	<b>2,965,405</b>	<b>2,939,656</b>	<b>2,899,279</b>
<b>SECONDARY AREA</b>	<b>1,149,772</b>	<b>945,140</b>	<b>942,379</b>	<b>942,002</b>	<b>938,650</b>
<b>TOTAL POPULATION</b>	<b>4,174,212</b>	<b>3,945,041</b>	<b>3,907,784</b>	<b>3,881,658</b>	<b>3,837,929</b>

	2006	2005	2004	2003	2002
<b>PRIMARY AREA</b>					
Sacramento County <sup>1</sup>	1,355,000	1,344,000	1,325,000	1,299,000	1,265,000
Placer County	316,508	305,675	292,100	275,600	264,900
Yolo County	190,344	187,743	184,500	181,300	176,300
El Dorado County	670,159	659,885	644,513	166,000	163,600
San Joaquin County	176,204	173,407	168,100	625,600	607,487
Sutter County	91,450	88,945	85,500	83,200	81,900
Yuba County	69,827	66,734	64,800	62,800	61,000
<b>TOTAL PRIMARY AREA</b>	<b>2,869,492</b>	<b>2,826,389</b>	<b>2,764,513</b>	<b>2,693,500</b>	<b>2,620,187</b>
<b>SECONDARY AREA</b>	<b>935,164</b>	<b>926,661</b>	<b>912,425</b>	<b>901,878</b>	<b>889,834</b>
<b>TOTAL POPULATION</b>	<b>3,804,656</b>	<b>3,753,050</b>	<b>3,676,938</b>	<b>3,595,378</b>	<b>3,510,021</b>

<sup>1</sup>Bureau of Economic Analysis revised population to reflect Census Bureau midyear population estimates available as of April 2010.

Source: California Department of Finance.

Secondary area population is estimated at 81% of total population for counties included in this category. The secondary area includes Alpine, Amador, Butte, Calaveras, Colusa, Glenn, Napa, Nevada, Plumas, Sierra, Solano, Tehama and Tuolumne Counties.

## Demographic and Economic (cont.) Population/Personal Income of Sacramento County

### LAST TEN FISCAL YEARS

	2011	2010	2009	2008	2007
Population <sup>1</sup>	1,428,355	1,401,000	1,386,000	1,374,000	1,362,000
Personal Income <sup>1</sup>	N/A <sup>2</sup>	\$ 53,560,115	\$ 54,332,238	\$ 52,572,684	\$ 50,165,916
Per capita personal income	N/A <sup>2</sup>	\$ 38,231	\$ 39,187	\$ 38,274	\$ 36,824
Unemployment rate	12.8%	11.3%	7.1%	5.4%	4.8%

	2006	2005	2004	2003	2002
Population	1,355,000	1,344,000	1,325,000	1,299,000	1,265,000
Personal income	\$ 47,563,421	\$ 45,282,367	\$ 42,564,972	\$ 40,305,530	\$ 38,609,307
Per capita personal income	\$ 35,110	\$ 33,685	\$ 32,125	\$ 31,026	\$ 30,511
Unemployment rate	5.0%	5.6%	5.9%	5.7%	4.5%

<sup>1</sup> Bureau of Economic Analysis revised population and per capita income to reflect Census Bureau midyear population estimates available as of April 2010.

<sup>2</sup> Figures not available until April 2012.

Source: California State Department of Finance, Bureau of Economic Analysis and California State Employment Development Department.

## Principal Employers in the County of Sacramento

Employer	June 30, 2011			June 30, 2002		
	Employees (b)	Rank	Percentage of Total County Employment	Employees (c)	Rank	Percentage of Total County Employment
Kaiser Permanente	9,903	1	1.68%	5,589	2	0.94%
Sutter / California Health Services	7,262	2	1.23	2,985	5	0.50
CHW / Mercy Health Care	6,976	3	1.19	2,500	7	0.42
Intel Corporation	5,900	4	1.00	2,816	6	0.47
Wells Fargo & Co.	3,905	5	0.66			
Hewlett-Packard	3,500	6	0.59	6,132	1	1.03
Union Pacific Railroad	2,620	7	0.45			
Health Net of California	2,400	8	0.41			
Cache Creek Casino	2,376	9	0.40			
Pacific Gas and Electric Co.	2,034	10	0.35			
Raley's Inc. / Bel Air				3,700	3	0.62
Pacific Bell & Subsidiaries (a)				3,323	4	0.56
Wal Mart				2,160	8	0.36
PRIDE Industries				2,100	9	0.35
Albertsons				2,036	10	0.34
Total	46,876		7.96%	33,341		5.59%

(a) Pacific Bell merged with AT&T in November 2005: AT&T of California is not listed for Fiscal year 2011.

(b) Source: Sacramento Business Journal Annual Book of Lists

(c) Source: Sacramento Area Commerce and Trade Organization

# Operating Information

## Activity Statistics

LAST TEN FISCAL YEARS

	2011	2010	2009 <sup>2</sup>	2008	2007
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	4,377,315	4,445,991	4,603,182	5,294,737	5,307,289
Deplanements	4,368,678	4,442,520	4,605,605	5,303,596	5,307,799
Total passengers	8,745,993	8,888,511	9,208,787	10,598,333	10,615,088
Air mail (lbs.)					
Inbound	1,466,193	2,159,140	2,135,099	420,402	2,356,604
Outbound	177,481	66,376	1,416,269	2,828,593	1,320,976
Total airmail	1,643,674	2,225,516	3,551,368	3,248,995	3,677,580
Air freight (lbs.)					
Inbound	65,850,612	66,909,099	68,613,761	89,168,308	79,697,218
Outbound	66,125,508	77,056,626	74,711,461	82,452,491	74,955,862
Total air freight	131,976,120	143,965,725	143,325,222	171,620,799	154,653,080
Aircraft operations	117,614	133,040	140,179	167,725	173,903
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Aircraft operations	90,038	89,384	94,035	98,130	122,271
<u>SACRAMENTO MATHER AIRPORT</u>					
Air freight (lbs.)					
Inbound	35,568,663	40,932,110	56,285,576	81,703,461	72,609,458
Outbound	44,371,356	45,129,897	58,413,055	87,841,564	82,530,228
Total air freight	79,940,019	86,062,007	114,698,631	169,545,025	155,139,686
Aircraft operations	67,098	83,051	91,014	88,245	94,886

	2006	2005	2004	2003	2002
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	5,150,229	4,986,171	4,563,607	4,314,273	4,042,585
Deplanements	5,144,838	4,974,239	4,551,895	4,332,641	4,025,712
Total passengers	10,295,067	9,960,410	9,115,502	8,646,914	8,068,297
Air mail (lbs.)					
Inbound	8,488,572	10,955,369	8,230,789	7,092,275	7,599,352
Outbound	7,018,259	10,373,197	14,043,719	14,300,327	17,018,953
Total airmail	15,506,831	21,328,566	22,274,508	21,392,602	24,618,305
Air freight (lbs.)					
Inbound	75,706,041	76,002,268	71,737,037	74,534,298	66,279,952
Outbound	61,030,139	55,446,447	58,015,622	60,348,955	56,605,573
Total air freight	136,736,180	131,448,715	129,752,659	134,883,253	122,885,525
Aircraft operations	172,902	162,397	162,416	159,795	153,846
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Aircraft operations	118,405	109,765	140,935	120,200	112,153
<u>SACRAMENTO MATHER AIRPORT</u>					
Air mail (lbs.) <sup>1</sup>					
Inbound	-	-	-	-	13,269,189
Outbound	-	-	-	-	13,527,397
Total air mail	-	-	-	-	26,796,586
Air freight (lbs.)					
Inbound	68,851,888	67,014,010	67,511,356	59,180,276	61,048,773
Outbound	60,115,274	58,295,663	60,536,105	56,800,781	67,379,721
Total air freight	128,967,162	125,309,673	128,047,461	115,981,057	128,428,494
Aircraft operations	98,099	80,532	75,110	75,356	82,578

Source: Sacramento County Airport System activity reports.

<sup>1</sup>Air mail operations began at Mather Airport in August 1999 and ceased in August 2001.

<sup>2</sup>2009 air mail and air freight figures revised.

## Operating Information (cont.)

### Scheduled Airline Service

As of June 30, 2011

#### MAJOR AIRLINE SERVICE

Airline	Nonstop Service	One-Stop, Same-Plane Service
Alaska	Guadalajara, Mexico (GDL) Maui (Kahalului), HI (OGG) Seattle, WA (SEA)	
American	Dallas/Ft. Worth, TX (DFW) Los Angeles, CA (LAX)	Albuquerque, NM (ABQ) Austin, TX (AUS) New York, NY (LaGuardia) Orlando, FL (MCO) Raleigh/Durham, NC (RDU) Tucson, AZ (TUS) Wichita, KS (ICT)
Continental	Houston, TX (IAH)	
Delta	Atlanta, GA (ATL) Los Angeles, CA (LAX) Minneapolis/St. Paul, MN (MSP) Salt Lake City, UT (SLC)	Billings, MT (BIL) Columbus, OH (CMH) Washington, D.C. (DCA)
Frontier	Denver, CO (DEN)	Milwaukee, WI (MKE) Nashville, TN (BNA)
Hawaiian	Honolulu, HI (HNL)	
JetBlue	Long Beach, CA (LGB) New York, NY (JFK)	
Southwest	Burbank, CA (BUR) Chicago, IL (MDW) Denver, CO (DEN) Las Vegas, NV (LAS) Los Angeles, CA (LAX) Ontario, CA (ONT) Orange County, CA (SNA) Phoenix, AZ (PHX) Portland, OR (PDX) San Diego, CA (SAN) Seattle, WA (SEA)	Albuquerque, NM (ABQ) Buffalo, NY (BUF) Houston, TX (HOU) Indianapolis, IN (IND) Kansas City, MO (MCI) Little Rock, AR (LIT) Orlando, FL (MCO) Raleigh/Durham, NC (RDU) San Antonio, TX (SAT)
United	Chicago, IL (ORD) Denver, CO (DEN) Washington, D.C. (IAD)	Columbus, OH (CMH) New York, NY (Newark)
US Airways	Charlotte, NC (CLT) Philadelphia, PA (PHL)	Detroit, MI (DTW) Kansas City, MO (MCI)

#### REGIONAL AIRLINE SERVICE

Airline	Nonstop Service	
Horizon	Boise, ID (BOI) Portland, OR (PDX) San Jose, CA (SJC)	
United Express	Eureka/Arcata, CA (ACV) Los Angeles, CA (LAX) San Francisco, CA (SFO)	Crescent City, CA (CEC) Klamath Falls, OR (LMT)

## Operating Information (cont.)

### Principal Customers/Airport System Employees/Capital Assets

FOR FISCAL YEARS 2011 AND 2002

#### Principal Customers

	2011		2002	
	Customer Revenue	% Total Customer Revenue	Customer Revenue	% Total Customer Revenue
AMPCO/APCOA Parking <sup>1</sup>	\$ 44,754,551	37.73%	\$ 28,211,764	39.36%
Southwest Airlines	25,659,135	21.63	8,003,942	11.17
United Airlines	5,386,058	4.54	3,142,182	4.38
	<u>\$ 75,799,744</u>	<u>63.90%</u>	<u>\$ 39,357,888</u>	<u>54.91%</u>

<sup>1</sup> AMPCO took over operations January 1, 2006. APCOA Parking ceased operations on December 31, 2005.

#### Airport System Employees

	2011	2002
Full Time Employees	411	410

#### Capital Assets

	2011	2010	2009	2008	2007
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	147	148	149	148	120
Buses	33	33	47	41	35
	2006	2005	2004	2003	2002
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	112	108	120	116	126
Buses	44	47	55	47	45

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## Bond Disclosure Section

This section contains the following subsections:

Annual Report

Historical Enplaned Passengers

Historical Aircraft Landed Weights

Airline Market Shares of Enplaned Passengers

Airline and Nonairline Operating Revenues

## Annual Report

In accordance with the requirements of the Continuing Disclosure Certificates for the County Airport System Senior Revenue Bonds, Series 2008, 2009 and 2010 and the County Airport System Subordinate and PFC/Grant Revenue Bonds, Series 2008 and 2009 (collectively, the "Certificate") the Airport System is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5)(the Rule).

Beginning with the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2007-2008, and each CAFR thereafter, the Bond Disclosure Section provides the required information consistent with Section 4 of the Certificate. The CAFR is filed with each National and State Repository specified in the Rule, and with any other repository that shall be identified in the future.

### ANNUAL REPORT

The following items are required by the Certificate to be included in the Annual Report:

- A. The audited financial statements of the Airport System for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. **Refer to the Financial Section, pages 37-40 of this report.**
- B. An annual updating, to reflect results of the most recently completed fiscal year, of the following tables:
  1. Historical Enplaned Passengers. Refer to EXHIBIT 1, page 87 of this report.
  2. Historical Aircraft Landed Weights. Refer to EXHIBIT 2, page 88 of this report.
  3. Airlines' Market Shares of Enplaned Passengers. Refer to EXHIBIT 3, page 89 of this report.
  4. Statement of Revenues, Expenses and Changes in Net Assets. Refer to the Statistical Section, Financial Trends, pages 67-68 of this report.
  5. Nonairline Revenues. Refer to EXHIBIT 4, page 90 of this report.
  6. Summary of Historical Revenues, Expenses and Debt Service Coverage. Refer to the Statistical Section, Debt Capacity, pages 74-75 of this report.

### REPORTING OF SIGNIFICANT EVENTS

On July 22, 2010, Standard & Poor's Ratings Services (S&P) downgraded the outstanding Sacramento County Airport System Revenue Bonds, from "A+" to "A" for senior lien bonds and from "A" to "A-" for subordinate lien bonds, affecting the bond issues listed below.

On October 25, 2010, Assured Guaranty Corp. and Assured Guaranty Municipal Corp. bond insurer credit ratings were downgraded from "AAA" to "AA+" by Standard and Poor's Ratings Services.

The insurer provider ratings are also listed, with the higher rating taking precedence for each issue noted below.

Senior Lien Bonds:

County of Sacramento Airport System Senior Revenue Bonds, Series 2008A, 2008B, 2008C, 2009A and 2009B

Bond insurer Assured Guaranty S&P rating is "AA+"

Subordinate Lien Bonds:

County of Sacramento Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008D, 2008E, 2009C and 2009D

Bond insurer Assured Guaranty S&P rating is "AA+"

The above events were disclosed as material events when announced. No additional significant events, as identified in Section 5 of the Certificate, have occurred for any of the outstanding bonds issued by the Sacramento County Airport System, and there is no knowledge on the part of the County of any impending significant events that would require disclosure under the provisions of the Certificate.

## Historical Enplaned Passengers

### EXHIBIT 1

#### FISCAL YEARS ENDED JUNE 30

ENPLANEMENTS	2011	2010	2009	2008	2007
Major and Other Airlines (a)	4,123,287	4,219,229	4,245,972	4,741,650	5,075,849
Regional Airlines	254,028	226,762	357,210	553,087	231,440
TOTAL	4,377,315	4,445,991	4,603,182	5,294,737	5,307,289
Percent Change From Prior Year	(1.5%)	(3.4%)	(13.1%)	(0.2%)	3.1%

ENPLANEMENTS	2006	2005	2004	2003	2002
Major and Other Airlines (a)	4,897,981	4,763,946	4,336,932	4,096,459	3,853,587
Regional Airlines	252,248	222,225	226,675	217,814	188,998
TOTAL	5,150,229	4,986,171	4,563,607	4,314,273	4,042,585
Percent Change From Prior Year	3.3%	9.3%	5.8%	6.70%	(1.5%)

Source: Airport System statistics reports.

(a) Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.

## Historical Aircraft Landed Weight (in 1,000 lb. units)

### EXHIBIT 2

#### FISCAL YEARS ENDED JUNE 30

	2011	2010	2009 <sup>1</sup>	2008	2007
Passenger airlines					
Major and Other Airlines (a)	5,221,901	5,523,535	5,741,947	6,293,924	6,489,593
Regionals	184,248	211,532	233,100	456,937	304,247
SUBTOTAL	5,406,149	5,735,067	5,997,057	6,750,861	6,793,840
All cargo airlines	580,744	611,410	786,031	982,234	949,579
TOTAL	5,986,893	6,346,477	6,783,088	7,733,095	7,743,419
Percent change from prior year	(5.7%)	(6.4%)	(12.0%)	(0.1%)	7.5%
	2006	2005	2004	2003	2002
Passenger airlines					
Major and Other Airlines (a)	6,185,453	6,037,113	5,661,830	5,419,459	5,077,398
Regionals	288,094	255,984	273,734	264,845	228,166
SUBTOTAL	6,473,547	6,293,097	5,935,564	5,684,304	5,305,564
All cargo airlines	728,999	771,423	764,687	856,342	972,391
TOTAL	7,202,546	7,064,520	6,700,251	6,540,646	6,277,955
Percent change from prior year	2.0%	5.4%	2.4%	4.2%	(2.3%)

Source: Airport System Records

<sup>1</sup> 2009 figures revised.

(a) Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.

## Airlines' Market Shares of Enplaned Passengers

### EXHIBIT 3

#### FISCAL YEARS ENDED JUNE 30

	2011	2010	2009	2008
PERCENTAGE OF TOTAL EMPLANEMENTS				
Major Airlines (a)				
Southwest Airlines	52.1%	52.7%	52.6%	50.1%
Delta Air Lines (b)	6.6	5.5	4.4	4.5
United Airlines	6.5	6.8	7.5	7.6
Alaska Airlines	5.2	4.2	4.0	4.3
US Airways (America West Airlines)	5.1	5.3	6.5	5.5
American Airlines	4.6	4.0	3.2	3.8
Continental Airlines	3.7	3.6	3.5	2.9
Frontier Airlines	3.0	3.2	2.9	2.6
Jet Blue Airlines	2.5	2.4	2.1	2.2
Hawaiian Airlines	1.9	1.9	1.8	1.7
Mexicana Airlines	0.1	1.3	1.3	1.1
Northwest Airlines (b)	-	1.2	2.4	2.0
Aloha Airlines	-	-	-	0.9
Regional Airlines				
Skywest	5.7	5.1	4.2	3.5
Horizon Airlines	2.9	2.9	2.7	2.9
Mesa Airlines	0.1	-	-	0.2
Express Jet	-	-	0.8	2.8
ASA/Delta Connection	-	-	-	1.0
Air Canada Jazz	-	-	0.1	0.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
RANKING				
Major Airlines (a)				
Southwest Airlines	1	1	1	1
Delta Air Lines (b)	2	3	4	4
United Airlines	3	2	2	2
Alaska Airlines	5	6	6	5
US Airways (America West Airlines)	6	4	3	3
American Airlines	7	7	8	6
Continental Airlines	8	8	7	9
Frontier Airlines	9	9	9	11
Jet Blue Airlines	11	11	12	12
Hawaiian Airlines	12	12	13	14
Mexicana Airlines	14	13	14	15
Northwest Airlines (b)		14	11	13
Aloha Airlines				17
Regional Airlines				
Skywest	4	5	5	7
Horizon Airlines	10	10	10	8
Express Jet			15	10
ASA/Delta Connection				16
Air Canada Jazz			16	18
Mesa Airlines	13			19

Source: Airport System statistics reports.

(a) Defined for this analysis as scheduled airlines operating with 60 or more seats.

(b) Delta number includes Northwest starting 2011.

## Airline and Nonairline Revenues

### EXHIBIT 4

#### FISCAL YEARS ENDED JUNE 30

	2011	2010	2009
<b>Airline Revenue</b>			
Terminal building rents and fees	\$ 21,903,848	\$ 28,182,839	\$ 24,391,882
Aircraft parking fees	1,425,065	532,477	3,403,731
Loading bridge fees	2,722,022	2,954,288	2,830,286
Landing fees	20,811,439	25,823,533	10,471,032
TOTAL AIRLINE REVENUE	<u>\$ 46,862,374</u>	<u>\$ 57,493,137</u>	<u>\$ 41,096,931</u>
<b>NonAirline Revenue</b>			
Airfield area			
Commerical fees	\$ 14,191	\$ -	\$ 5,503
Other landing fees	16,047	119,058	94,934
Fuel sales	860,226	739,085	845,638
SUBTOTAL	<u>\$ 890,464</u>	<u>\$ 858,143</u>	<u>\$ 946,075</u>
Terminal building			
Food/beverage	\$ 2,945,087	\$ 2,722,052	\$ 3,181,139
Merchandise	1,855,985	1,896,989	2,094,087
Advertising	649,874	659,788	456,643
Telephones	140,684	116,781	(34,920)
Vending	219,704	201,910	208,026
Other terminal rents	6,415	-	-
SUBTOTAL	<u>\$ 5,817,750</u>	<u>\$ 5,597,520</u>	<u>\$ 5,904,975</u>
Parking	\$ 44,966,016	\$ 45,694,908	\$ 49,811,395
Other areas			
Auto rentals	\$ 8,932,954	\$ 8,980,908	\$ 9,842,490
Auto rental shuttle bus fees	3,069,151	2,651,844	2,616,398
Taxi/shuttle bus fees	555,707	516,929	425,291
Tiedown and hangars	692,817	710,553	730,797
FBO rentals	112,310	158,336	166,622
Aviation ground leases	1,781,069	2,542,130	2,049,707
Other rentals/miscellaneous	3,921,362	3,447,453	4,003,275
SUBTOTAL	<u>\$ 19,065,369</u>	<u>\$ 19,008,152</u>	<u>\$ 19,834,579</u>
Other revenue			
Service fees	\$ 920,930	\$ 898,153	\$ 1,100,127
Miscellaneous revenue <sup>1</sup>	9,529,216	1,359,443	1,453,090
SUBTOTAL	<u>\$ 10,450,146</u>	<u>\$ 2,257,596</u>	<u>\$ 2,553,218</u>
TOTAL NONAIRLINE REVENUES	81,189,745	73,416,319	79,050,242
Interest income <sup>2</sup>	127,715	1,097,705	3,460,986
TOTAL NONAIRLINE REVENUE	<u>\$ 81,317,461</u>	<u>\$ 74,514,024</u>	<u>\$ 82,511,228</u>

Source: Airport System audited financial statements.

<sup>1</sup>As permitted under the Bond Indenture, FY2011 amount includes transfer from the Capital Improvement Fund to offset settlement of FY2010 airline rates and charges.

<sup>2</sup>As defined in the Bond Indenture.

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