

COMPREHENSIVE ANNUAL FINANCIAL REPORT



A Department of the County of Sacramento
Sacramento, California

Fiscal Year Ended June 30, 2012



The Gateway to Northern California and the World.

Comprehensive Annual Financial Report

Sacramento County Airport System

An Enterprise Fund of the County of Sacramento, California

For the Fiscal Years Ended
June 30, 2012 and 2011

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Sacramento County Airport System

Table of Contents

For the Fiscal Years Ended June 30, 2012 and 2011

	Page
INTRODUCTORY SECTION	
AIRPORT LOCATIONS AND SERVICE AREA	3
CERTIFICATE OF ACHIEVEMENT	4
TRANSMITTAL LETTER	5
ORGANIZATIONAL CHART	16
LIST OF PRINCIPAL OFFICIALS	17
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	20
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTAL INFORMATION)	22
BASIC FINANCIAL STATEMENTS:	
<i>Statements of Net Assets</i>	29
<i>Statements of Revenues, Expenses and Changes in Net Assets</i>	30
<i>Statements of Cash Flows</i>	31
<i>Notes to the Basic Financial Statements</i>	33
STATISTICAL SECTION	
NET ASSETS	59
CHANGES IN NET ASSETS	60
TOTAL ANNUAL REVENUES	62
TOTAL ANNUAL EXPENSES	63
AIRLINE RATES AND CHARGES	64
AIRLINE AND NONAIRLINE REVENUES	65
DEBT SERVICE COVERAGE	66
RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES	68
DEBT PER ENPLANED PASSENGER	68
OUTSTANDING DEBT	69
SERVICE AREA POPULATION	70
POPULATION/PERSONAL INCOME	71
PRINCIPAL EMPLOYERS FOR THE COUNTY OF SACRAMENTO	71
ACTIVITY STATISTICS	72
SCHEDULED AIRLINE SERVICE	73
PRINCIPAL CUSTOMERS	74
AIRPORT SYSTEM EMPLOYEES	74
CAPITAL ASSETS	74
BOND DISCLOSURE SECTION	
ANNUAL REPORT	78
HISTORICAL ENPLANED PASSENGERS	79
HISTORICAL AIRCRAFT LANDED WEIGHTS	80
AIRLINES' MARKET SHARES OF ENPLANED PASSENGERS	81
AIRLINE AND NONAIRLINE REVENUES	82

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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



* 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, 2011

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.



Christopher P. Moirrell

President

Jeffrey R. Enen

Executive Director



County of Sacramento

November 16, 2012

To The Public:

The Comprehensive Annual Financial Report for the Sacramento County Airport System (Airport System), for the fiscal years ended June 30, 2012 and 2011, 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 and should be read in conjunction with the MD&A. The Airport System's MD&A can be found prior to the report of the independent auditor.

The County of Sacramento (County) 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 and Franklin Field airports are owned by the County. Executive Airport is owned by the City of Sacramento and leased to the County on an annually renewing 25-year lease. Mather Airport is owned by the United States Air Force and leased to the County as part of the 1988 Base Realignment and Closure Commission decisions to close certain military facilities throughout the country. Mather Airport is leased to the County in furtherance of conveyance. The process of conveying title to the County is nearing completion and is anticipated to be complete sometime during calendar year 2012. 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). Scheduled commercial passenger flights are accommodated at International, which is classified by the Federal Aviation Administration (FAA) as a medium air traffic hub. International occupies approximately 6,000 acres of land and has two 8,600 foot-long parallel runways, 16R-34L and 16L-34R. Runway 16R is equipped with a Category III Instrument Landing System ("CAT III ILS"). CAT III ILS is a ground-based precision instrument approach system which provides properly-equipped aircraft with visual and electronic navigational aids to help a pilot safely land with minimal outside visibility.

Airlines operating at International do so from one of its two terminal buildings. Terminal A provides 13 aircraft gates and Terminal B provide 19 gates, for a total of 32 gates. Arriving international passengers are processed through customs and immigration in the Federal Inspection Facility located in Terminal B. The airport offers a variety of automobile parking options at various price points. Covered parking is available for hourly or daily customers in a six-floor parking garage containing 5,300 parking spaces which is conveniently attached via an enclosed, conditioned pedestrian bridge to both terminals. Surface parking is available for hourly customers using Terminal B. Economy parking is also available with complimentary shuttle bus service to each terminal.

Rental cars are available from each of the national rental car companies in the consolidated rental car terminal which is served from both terminals via complimentary shuttle bus. General aviation customers are provided aircraft tie-down, hangar storage and associated services by the Sacramento Jet Center, a full-service fixed base operator located at both International and Executive airports.

Executive Airport is a general aviation reliever airport with no scheduled airline service. Executive Airport occupies approximately 520 acres of land and has three intersecting runways and one heliport. The primary runway, Runway 02-20 is 5,503 feet long and 150 feet wide. Runway 02-20 is equipped with a Category I instrument landing system (ILS).

Mather Airport serves as an air cargo and general aviation facility. Mather Airport occupies approximately 2,875 acres of land and has two runways. Runway 04R-22L is 11,301 feet long and 150 feet wide and equipped with a Category I ILS. Runway 04L-22R is 6,040 feet long and also 150 feet wide. Both runways are lighted.

Franklin Field is a general aviation reliever airstrip used primarily for training. Franklin Field occupies 496 acres and has two intersecting runways. The primary runway, Runaway 18-36 is 3,122 feet long and 60 feet wide. Runway 09-27, the cross-wind runway, is 3,030 feet long and 60 feet wide. Both runways have standard basic visual approach runway markings.

ECONOMIC CONDITIONS

Economic activity in the Sacramento region is directly linked to the production of goods and services in the rest of the United States. Airline travel and the movement of air cargo through the Airport System's airports depend on the economic linkages between the U.S., California and the Sacramento Area economies. The U.S. economy, after a period of expansion stretching from November 2001 through December 2007, entered in to a recession. The impacts of the national recession were also felt within California and the Sacramento Area. On a positive note, according to the California Employment Development Department (EDD) labor market briefings, California's employment situation has brightened considerably over the last year. From the low point in the recession in September 2009 through June 2012, California total nonfarm payrolls grew by more than half-a-million jobs. Private sector job gains were even stronger. California enjoyed its strongest pace of job growth in 11 years over the year ending in June 2012, and experienced a stronger job growth than the nation as a whole and all but a small handful of other states. Unemployment in California, although still elevated, has fallen steadily. However, as encouraging and impressive as these trends are, the State still has a long way to go in order to recover fully from the devastating 2007-09 national recession.

The Sacramento Area's economy was affected more significantly by the recession than the United States and California overall. Unemployment rates have exceeded those of the State and the nation. The Bureau of Labor Statistics data show the State's unemployment rate was 10.7% in June 2012, compared to the national average unemployment rate of 8.4% during the same time period. The California Association of Realtors (C.A.R.) reports that the median sale price of existing homes in the Sacramento Area was \$170,210 in June 2012, which represents a slight increase of 2.6% from the previous year, and a 54.7% reduction from the 2005 peak of \$375,900.

The recession has also had a direct, negative impact on the demand for air travel. Less discretionary income is available for leisure travel and business travel slows as companies tightened their proverbial belts. In addition to the direct impacts the recession has had on the demand for air travel services, the combined impact of the weakened U.S. dollar and rising oil prices played havoc on the airline industry's ability to generate profits. The industry responded by reducing capacity to drive an increase in fares and higher load factors in an attempt to increase yields. The generally poor financial health of the U.S. airline industry represents continuous risk to the U.S. airport industry in terms of potential disruption to air service and associated revenue.

The result for the Airport System has included certain airlines implementing reductions in frequencies to certain cities which negatively impacts landed weight generated revenue from aircraft landing fees; fewer passengers flying which negatively impacts revenues from automobile parking, rental cars, food and beverage, and retail concessions; and a much more challenging environment for efforts aimed at increasing air service. Airline decisions to add additional frequencies or new service involve many factors including the projected demand for service in the market, competitive factors with other airlines, desire for market share and the cost of operating at the airport. As such, it is important for the Airport System to manage its costs to be competitive in attracting new air service.

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 2012, concentrated primarily in Sacramento and San Joaquin counties. The high rate of population growth in the Sacramento Area in the first half of the past decade has slowed to a 0.6% increase from January 2011 to June 2012.

The Sacramento Area accounted for 8.1% of the State's population and 7.3% of its non-agricultural employment in 2011. The Sacramento Area's per capita personal income in 2011 (\$39,987) was lower than both the State average (\$44,481) and the national average (\$42,910). 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.

Unemployment Rate

The unemployment rate in the Sacramento Area generally tracks the Statewide pattern, but is typically higher than the national rate. In the first six months of 2012, unemployment in the Sacramento Area averaged 11.0%, compared with the most recent low of 4.8% in 2006. In comparison, the unemployment rates for California and the nation were 10.9% and 8.2%, respectively.

On a positive note, according to the most recent business review report published by the California State University, both the Sacramento regional labor and the local housing markets are showing signs of improvement, although at a very modest pace.

Major Employers

Table 1 lists major private sector employers in the Sacramento—Arden-Arcade—Roseville MSA, which accounts for 72.5% of the Sacramento Area population. 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 1
MAJOR PRIVATE SECTOR EMPLOYERS
Sacramento-Arden-Arcade-Roseville MSA

<u>Company</u>	<u>Employment</u>	<u>Type of business</u>
Kaiser Permanente	9,932	Health care
Sutter Health	9,609	Health care
Mercy/Catholic Healthcare West	7,017	Health care
Intel Corp.	6,147	Semiconductor manufacturer
Hewlett-Packard Co.	3,500	Computer hardware manufacturer
Wells Fargo & Co.	2,986	Financial services
Health Net Inc.	2,440	Health plan
Cache Creek Casino Resort	2,376	Casino resort
Pacific Gas and Electric Co.	2,060	Natural gas and electric utility
Thunder Valley Casino Resort	2,025	Casino resort
Union Pacific Railroad	2,000	Transportation and goods movement
Bank of America	1,958	Banking services
VSP Global	1,899	Managed vision care
Blue Shield of California	1,717	Health plan
Aerojet-General Corp.	1,665	Aerospace and defense manufacturing
Pride Industries	1,634	Manufacturing and logistics services
Eskaton	1,172	Senior residences and services
Marshall Medical Center	1,145	Hospital and health care services
Franklin Templeton Investments	1,000	Global investment management
DST Output	950	Statement and billing output services
Siemens Mobility	810	Engineering and manufacturing
The Sacramento Bee	796	Newspaper
Sierra-at-Tahoe Inc.	742	Ski resort
Nugget Market Inc.	680	Retail grocery
SureWest Communications	616	Integrated communications provider

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

Source: *Sacramento Business Journal*, "2011 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 the California Travel & Tourism Commission statistics, direct travel spending in the Sacramento Area totaled \$5.2 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 of 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.

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. Sacramento Area is among many metro areas across the nation still feeling the bite of the economic downturn. Approximately 8.7 million total passengers (enplaning and deplaning) chose International during fiscal year 2012, reflecting a 0.2 percent decline from the prior year.

As of June 2012, International was served by 11 scheduled passenger airlines which provided an average of 147 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), Delta Air Lines (14 daily nonstop flights) and Alaska/Horizon Airlines (13 daily nonstop flights). Over 119,054 operations (takeoffs and landings) occurred at International during fiscal year 2012 on parallel runways that can accommodate up to 400,000 operations per year, an increase of 1.2 percent as compared with fiscal year 2011.

As of June 30, 2012, over 70 percent of the passenger traffic at International was concentrated in the 19-gate Terminal B which opened in October 2011. Southwest Airlines, serving 4.4 million total passengers in fiscal year 2012, comprised the majority of passenger traffic in Terminal B. Southwest has accounted for approximately half the number of passengers enplaned at International each year since fiscal year 1998. Other airline tenants in Terminal B include Alaska Airlines, American Airlines, Horizon Air, JetBlue Airways, Frontier Airlines, Hawaiian Airlines and Aeroméxico.

In fiscal year 2012, the 13-gate Terminal A housed United Airlines/United Express, the second largest carrier at International (826,714 passengers), US Airways and Delta Air Lines, the third largest carrier at International (545,559 passengers). As of June 2012, international service at SMF consisted of less-than-daily flights to Guadalajara, Mexico, provided by Alaska Airlines and Aeroméxico.

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 fiscal year 2012 than in fiscal year 2011. 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 2017, prepared by Leigh Fisher in June 2012, depicts a slight increase in the number of enplaned passengers in fiscal year 2013 (1.3%) and a gradual recovery thereafter to 4.9 million enplaned passengers in fiscal year 2017. 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.

MAJOR INITIATIVES

International Master Plan

The original master plan for International was approved by the County Board of Supervisors (Board) in 1964, followed by Board approved updates in 1974, 1980 and 2007. The primary near-term focus of the 2007 update was the Terminal Modernization Program (TMP), which culminated in the opening of the landside Terminal B and airside Concourse B in October 2011. Given recent economic conditions and their impact on the aviation industry, a master plan update study is needed to re-evaluate activity levels at International to ensure that airside infrastructure is appropriately matched with landside capabilities. The associated consulting agreement was approved by the Board in September 2012 and a notice to proceed issued to the contractor shortly thereafter. The project is estimated to take about 18-24 months and will reassess and revalidate assumptions and conclusions from the 2007 master plan for alignment with emerging industry trends and aviation forecasts. Possible developments from the master plan update include an extension of Runway 16L/34R, a future third runway, a new parking garage and commercial development of airport property. The update will outline plans through 2035.

Terminal Modernization Program

The new Terminal B at International opened on October 6, 2011. The construction program, dubbed the Big Build, was the largest capital improvement program in Sacramento County history. The project replaced the former Terminal B, which opened in 1967. The aging Terminal B structure was designed and constructed in a different era of air travel and had become outdated. The modern, efficient new Terminal B welcomes passengers with an innovative mix of sustainable design, eye-catching public art, and locally-based retailers and restaurants.

The 740,000 square foot Terminal B complex (the landside terminal and airside concourse) – more than three times the size of the 44-year-old Terminal B – was designed by Corgan & Associates, Inc., in association with Fentress Architects. The program was financed with a combination of passenger facility charges, revenue-backed bonds and federal grant proceeds.

The Big Build was divided into two construction projects for contracting purposes. Turner Construction Co. served as prime contractor for the airside project and Austin-Walsh Joint Venture served as prime contractor for the landside project. By using a value-engineering plan, the contractors were held to a maximum price for the project, enabling them to offer suggestions that resulted in cost savings. In addition to cost savings, the project team used sustainable building practices to achieve silver level Leadership in Energy and Environmental Design (LEED) certification for both the Terminal B airside and landside projects. Sustainability highlights include: use of natural daylight, installation of drought-resistant landscaping; use of low-emitting materials; protection and restoration of habitat; low-flow fixtures; storm water management and more.

Designed to serve travelers for generations, Terminal B maintains the ease and convenience International's passengers expect while well-positioning the airport for future development. The terminal's design minimizes congestion at the curbs with two separated roadways and curbside access on both sides of the terminal building. An automated people mover (APM) quickly transports passengers in quiet, air-conditioned electric cars to the security checkpoint.

Thoughtful details ensure that passengers will enjoy the airport experience. Terminal B features a public art program that includes an endowment for conservation of existing art and the possible purchase of additional art. Beyond the checkpoint, the mix of restaurants offers a glimpse of the Sacramento restaurant scene. A combination of traditional and pod-style seating at the gates allows passengers to socialize or sit alone. The

airport continues to offer free wireless Internet throughout both terminals. Free electrical outlets are located throughout both terminals, and at many seats in the gate areas in Terminal B. Now that Terminal B is open, Sacramento International Airport will continue to evolve with a focus on identifying and developing new sources of aviation and non-aviation revenue.

Mather Airport Master Plan

The Mather Airport master plan began June 2001 and is currently in the final days of public review and comment of its environmental impact report. The concept is for an air cargo airport with general aviation and on-airport commercial/industrial development. The draft plan includes extension of the north runway and installation of a Category III ILS 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 review has been completed and was approved by the Federal Aviation Administration (FAA) in January 2012. The CEQA Draft Environmental Impact Report (EIR) documents are in preparation status and will be available for public review in the Fall of 2012. Upon completion of these environmental review processes, the Board will be asked to take formal action to approve the Mather Airport master plan in early 2013.

Executive Airport and Franklin Field Master Plans

The draft master plans for Executive Airport and Franklin Field are in final preparation status for FAA and public review and comment, to be followed by integration of comments, as appropriate. The next step will be the Board's approval to proceed to the environmental review phase of the plans, which is anticipated to occur in late 2012 or early 2013. The environmental review process is anticipated to take about a year, after which formal adoption of the master plans by the Board could occur.

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

Each year, the Airport System prepares a 5-year Capital Improvement Plan (CIP). The CIP is re-evaluated and modified 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 individual projects.

Significant Airport System capital improvements planned to be undertaken during fiscal year 2013 are: Mather Runway 22L/4R-CAT III ILS, Terminal A Concession Space Modifications, Terminal B Underground Hydrant Fueling System, Perimeter Fencing Phase II and Runway 16L Extension Phase I at International and Runway 2/20 South Safety Area Ditch Cover Construction at Executive Airport.

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 awarded 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 and Mather airports. 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 of June 30, 2012, the Airport System received a total of \$27.9 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 and Executive airports. The FAA-grant-eligible costs of the non-TMP projects through 2017 are estimated at \$47.4 million. Many of the projects eligible for federal grants will only be undertaken if such grant funds are received.

PFC Revenues

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. The Airport System is authorized by the FAA to impose a PFC fee and to use up to \$964.3 million of PFC revenues. The PFC collection dates for approved PFC applications are estimated to expire in 2028.

During fiscal year 2012, the Airport System received \$17.9 million in PFC receipts, bringing the total PFC receipts and interest received since April 1993 under the approved applications to \$320.1 million. In fiscal year 2012, PFC revenues provided partial funding for the TMP projects and bond debt service payments.

OTHER INITIATIVES

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 104.1 million pounds of freight in fiscal year 2012. Other tenants at Mather Airport include government agencies, a Fixed Base Operator (FBO), a rental car agency, a recycling company and a boat repair facility. Compared to International, Mather Airport offers cargo carriers more spacious facilities, including longer runways and more cargo, warehouse, and office space.

Future

The current economic conditions have adversely impacted the Airport System, resulting in reductions of daily flights being offered by the airlines serving International and significant reductions in enplaned passengers as compared with prior years. However, the regional outlook shows that 2012 is the first year of economic recovery in the hard hit Central Valley. During fiscal year 2013 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 superior service to customers while continuing to be a good neighbor to the surrounding community. The state-of-the-art new Terminal B provides an opportunity to bring more travelers and money to the region and contributes to positioning International as the "Northern California's Gateway to 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 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 initially 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 and a capital budget, which is presented to the 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 to 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 Board 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 Bond Master Indenture.

AWARDS AND ACKNOWLEDGEMENTS

During fiscal year 2012, the new Terminal B at International received five regional/national awards for construction and engineering excellence, including the California Transportation Foundation's Aviation Project of the Year award, the 2012 American Council of Engineering Companies Golden State Award, the Partnered Project of the Year from the International Partnering Institute, the 2012 Northern California Chapter – Construction Management Association of America Project Achievement Award and the 2012 American Society of Civil Engineers – Sacramento Section Project of the Year Award.

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Airport System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. 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 23 years (fiscal years ended 1989-2011). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

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 performed the audit for fiscal year 2012. The independent auditor's report on the financial statements is included in the financial section of this report.

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

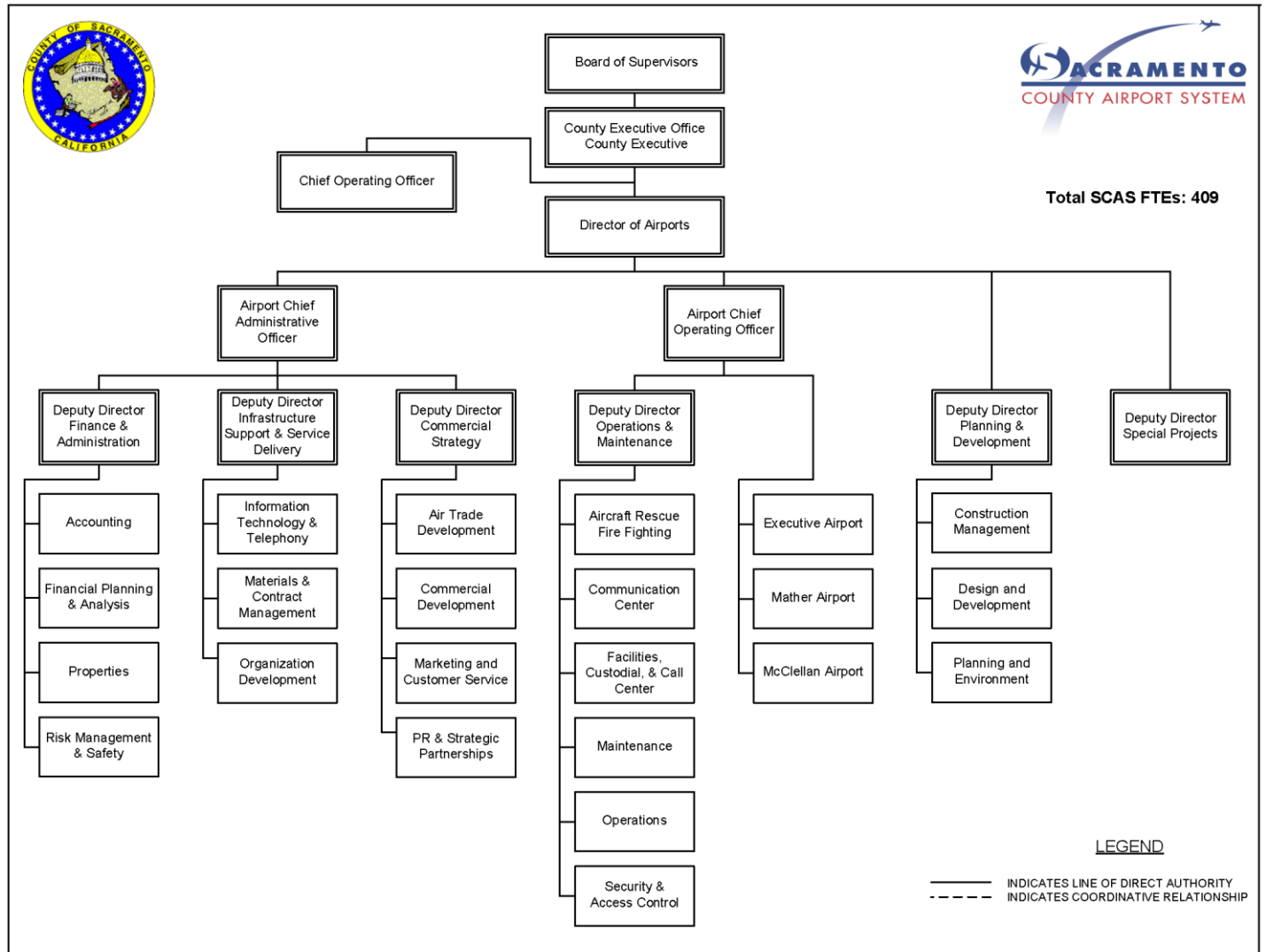


Amanda Thomas
Deputy Director, Finance & Administration

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Sacramento County Airport System Organizational Chart

At June 30, 2012



Sacramento County Airport System

List of Principal Officials At June 30, 2012

ELECTED:

COUNTY BOARD OF SUPERVISORS

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

APPOINTED:

Bradley J. Hudson	County Executive
-------------------------	------------------

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
Linda Cutler	Deputy Director, Commercial Strategy
Steven L. Baird.....	Deputy Director, Infrastructure Support and Service Delivery
Leonard H. Takayama	Deputy Director, Special Projects
Lance McCasland	Deputy Director, Operations and Maintenance
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 AUDITORS' REPORT

Board of Supervisors
County of Sacramento
Sacramento, California

We have audited the accompanying financial statements of the Sacramento County Airport System (the Airport), an enterprise fund of the County of Sacramento, California (the County) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Airport's basic financial statements 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 General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

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, 2012 and 2011, 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 previously present fairly, in all material respects, the respective financial position of the Airport as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 November 16, 2012, 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.

2151 River Plaza Drive, Suite 308 Sacramento, CA 95833 Tel: 916.570.1880 Fax: 916.570.1875 www.vtdcpa.com

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 22 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airport's basic financial statements. The introductory section, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Sacramento, California
November 16, 2012

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, 2012 and 2011. 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, 2012 by \$569,120,479 (net assets). Of this amount, \$83,040,741 (unrestricted net assets) may be used to meet the ongoing obligations of the Airport System, \$100,313,568 was restricted for specific purposes (restricted net assets), and \$385,766,170 was invested in capital assets, net of related debt.

The Airport System's total net assets increased by \$11,447,928 during the fiscal year ended June 30, 2012. This increase was primarily due to operating income of \$4,171,574; passenger facility charges of \$18,022,076; interest income of \$915,635; capital contributions and intergovernmental revenues of \$16,030,553 and was offset by interest expense of \$26,906,214.

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, 2012 assets exceeded liabilities by \$569.1 million, an increase over the prior year of 2.1%. Restricted net assets were \$100.3 million or 17.6% 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, 2012 were \$385.8 million or 67.8% 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; 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 \$83.0 million or 14.6% at June 30, 2012 and may be used to meet the Airport System's ongoing obligations. Unrestricted net assets decreased during fiscal year 2012, by \$2.4 million or 2.8%.

Condensed Statements of Net Assets

	2012	2011	FY12 vs. FY11 % change	2010	FY11 vs. FY10 % change
Assets:					
Current, restricted and other assets	\$ 355,522,389	\$ 494,480,169	(28.1%)	\$ 673,383,113	(26.6%)
Capital assets, net	1,401,135,901	1,310,315,531	6.9	997,115,161	31.4
Total assets	1,756,658,290	1,804,795,700	(2.7)	1,670,498,274	8.0
Liabilities:					
Current and other liabilities	85,047,173	123,338,113	(31.0)	126,326,594	(2.4)
Long-term liabilities outstanding	1,102,490,638	1,123,785,036	(1.9)	1,010,504,115	11.2
Total liabilities	1,187,537,811	1,247,123,149	(4.8)	1,136,830,709	9.7
Net assets:					
Invested in capital assets, net of related debt	385,766,170	330,395,927	16.8	308,869,302	7.0
Restricted net assets	100,313,568	141,872,711	(29.3)	176,419,052	(19.6)
Unrestricted net assets	83,040,741	85,403,913	(2.8)	48,379,211	76.5
Total net assets	\$ 569,120,479	\$ 557,672,551	2.1%	\$ 533,667,565	4.5%

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

The Airport System's net assets increased during fiscal years ended 2012 and 2011 by \$11.4 million (2.1%) and \$24.0 million (4.5%), respectively. The following is a summary of changes in net assets for fiscal years ended 2012, 2011 and 2010:

Summary of Changes in Net Assets

	Fiscal Years Ended June 30				
	2012	2011	FY12 vs. FY11 % change	2010	FY11 vs. FY10 % change
Operating revenues:					
Concessions	\$ 66,002,772	\$ 63,341,578	4.2%	\$ 63,442,108	(0.2%)
Building rents	47,204,495	30,697,623	53.8	35,885,350	(14.5)
Airfield charges	23,395,617	20,931,781	11.8	26,044,373	(19.6)
Ground leases	1,874,055	1,987,622	(5.7)	2,749,183	(27.7)
Airport services	4,136,078	920,930	349.1	898,153	2.5
Sale of fuel	755,877	653,673	15.6	532,032	22.9
Other	379,768	85,366	344.9	165,604	(48.5)
Total operating revenues	143,748,662	118,618,573	21.2	129,716,803	(8.6)
Non-operating revenue:					
Interest income	915,635	411,537	122.5	1,886,860	(78.2)
Passenger facility charges revenue	18,022,076	18,348,304	(1.8)	19,618,136	(6.5)
Intergovernmental revenue	1,637,600	622,320	163.1	954,695	(34.8)
Gain on disposal of assets	55,945	10,183	449.4	13,721	(25.8)
Other nonoperating revenue	42,425	1,291,437	(96.7)	237,958	442.7
Total revenue	164,422,343	139,302,354	18.0	152,428,173	(8.6)
Operating expenses:					
Salaries and benefits	37,081,912	35,989,114	3.0	33,084,803	8.8
Services and supplies	58,008,301	46,369,353	25.1	48,995,957	(5.4)
Cost of goods sold	628,838	542,657	15.9	431,389	25.8
Depreciation	43,847,407	29,750,690	47.4	26,928,736	10.5
Other	10,630	983,348	(98.9)	872,816	12.7
Total operating expenses	139,577,088	113,635,162	22.8	110,313,701	3.0
Non-operating expenses:					
Loss on disposal of assets	133,085	163	81,547.2	79,173	(99.8)
Amortization of bond issuance cost	750,981	744,688	0.8	700,471	6.3
Interest expense	26,906,214	15,473,662	73.9	17,105,647	(9.5)
Total expense	167,367,368	129,853,675	28.9	128,198,992	1.3
Net income (loss) before capital contributions	(2,945,025)	9,448,679	(131.2)	24,229,181	(61.0)
Capital contributions	14,392,953	14,556,307	(1.1)	7,361,129	97.7
Changes in net assets	11,447,928	24,004,986	(52.3)	31,590,310	(24.0)
Total net assets, beginning of year	557,672,551	533,667,565	4.5	502,077,255	6.3
Total net assets, end of year	\$ 569,120,479	\$ 557,672,551	2.1%	\$ 533,667,565	4.5%

Fiscal year 2012 operating revenues

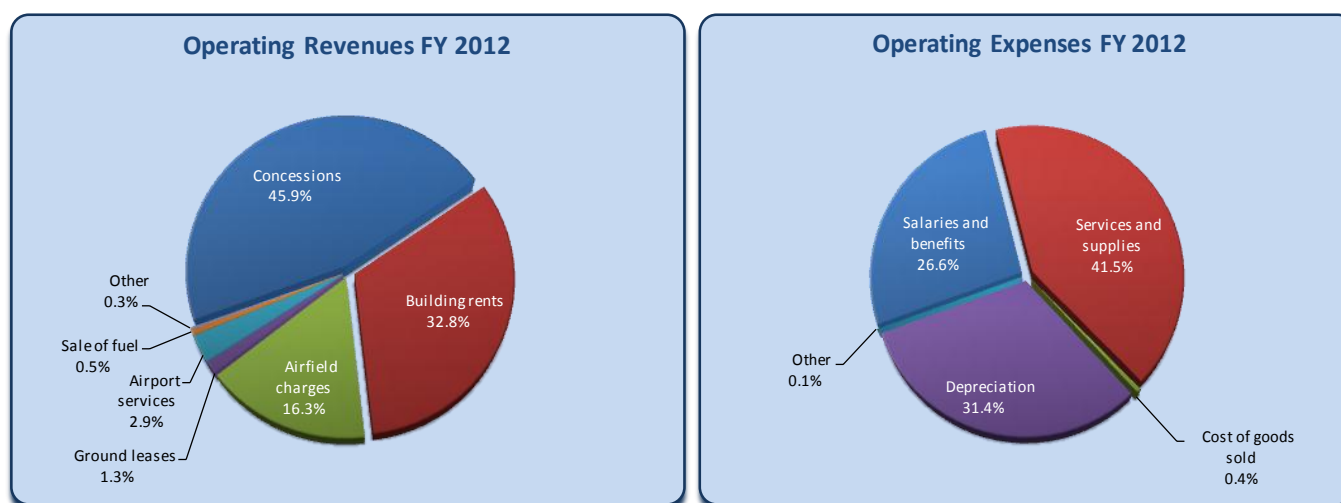
Operating revenues increased by \$25.1 million (21.2%), due to an increase in building rents of \$16.5 million (53.8%) resulting from an increase in rented space and an increase in preferential aircraft parking position and loading bridge rates; an increase of concession revenues of \$2.7 million (4.2%) due to an increase in parking lot rates and additional revenues from the concessions which started operating in the new Terminal B in the second quarter of fiscal year 2012; an increase in airfield charges of \$2.5 million (11.8%) resulting from an increase in landing fee rate of 1.9% and from a lower net refund to the airlines in fiscal year 2012 in the amount of \$2.8 million as a result of the rates and charges settlement for fiscal year 2011, compared to a \$7.5 million refund to the airlines in fiscal year 2011 as a result of the settlement for fiscal year 2010. In addition, airport services revenue increased by \$3.2 million (349.1%) resulting from a newly implemented rental fee for airline systems and equipment.

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

Fiscal year 2012 operating expenses

Operating expenses increased \$25.9 million (22.8%) primarily due to an increase of \$11.6 million (25.1%) in services and supplies resulting from additional maintenance and operation services for the new Terminal B, from additional operating expenses related to the demolition of numerous old buildings at Mather Airport and from a one-time sewer connection fee paid to the County Sanitation District; an increase in salaries and benefits of \$1.1 million (3.0%) resulting from increases in benefits cost and from the addition of personnel to staff the new central warehouse and the communications center; an increase of depreciation expenses of \$14.1 million (47.4%) as a result of shortening the previously estimated useful lives for certain improvements related to the old Terminal B demolished in 2012 and starting depreciation of completed assets related to the new Terminal B.

The following charts show the sources of operating revenues and the operating expense categories for FY 2012:



Fiscal year 2012 non-operating revenues

PFC proceeds decreased \$0.3 million (1.8%) primarily due to a decrease in interest earnings on a lower PFC fund balance as compared to the prior year; and as a result of PFC cash usage for PFC subordinate bond debt service payments and for direct funding of eligible Terminal B capital expenses. Operating grant revenues and capital contributions increased \$0.9 million (5.6%) from the previous year due to additional awards and an increase in reimbursable expenses funded by grants.

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 \$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%).

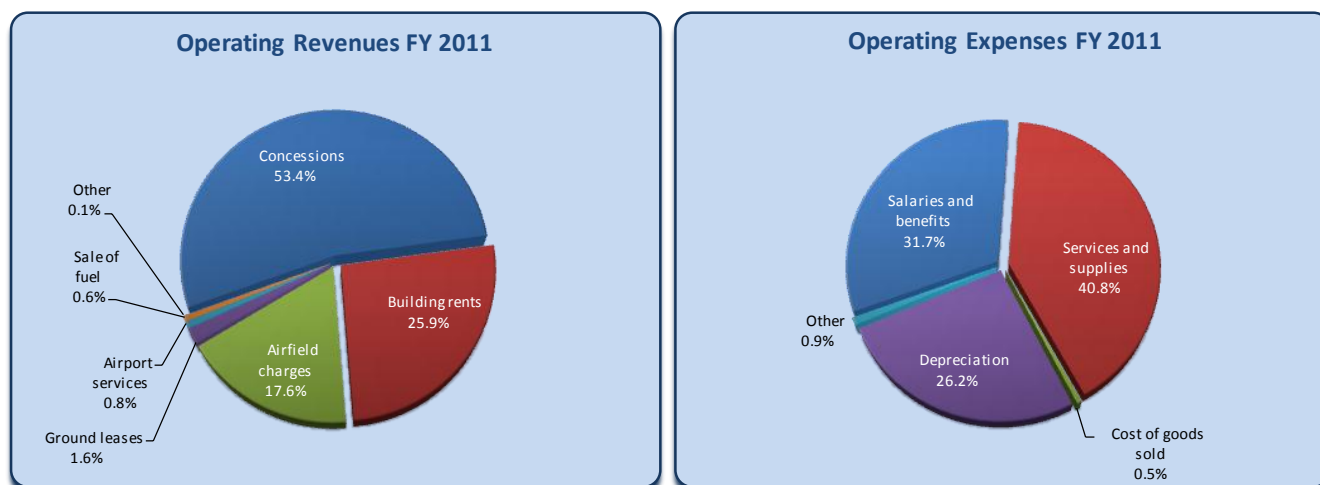
Fiscal year 2011 operating expenses

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 during fiscal year 2011; an increase of depreciation expenses of \$2.8 million (10.5%) as a result of shortening the

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

previously estimated useful lives for certain assets related to the old Terminal B demolished in 2012; offset by a decrease of \$2.6 million (5.4%) in services and supplies due to decreases in annual insurance 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:



Fiscal year 2011 non-operating revenues

PFC proceeds 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. PFCs 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. Operating grant revenues and capital contributions increased \$6.9 million (82.5%) 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, 2012 amounted to \$1.7 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 2012 was 5.0% or \$81.7 million, due primarily to additional capital expenses incurred in fiscal year 2012. The old Terminal B and the International Arrivals Building have been demolished resulting in a retirement of fully depreciated building and structures of \$52.4 million.

Major capital asset events during fiscal year 2012 included the following:

The major capital projects completed during fiscal year 2012 at International Airport were part of The Big Build program, which was a \$1.03 billion project that replaced the 44-year-old, 13-gate passenger Terminal B with a larger Terminal B and separate 19-gate concourse to meet an expected rise in demand for passenger service and to attract new carriers and routes. The new Terminal B complex which opened in October 2011, is three times the size of the original Terminal B with the two parts of the complex, airside and landside, connected by an automated people mover. Other projects in The Big Build program have been completed during fiscal year 2012 such as: a system of terminal facility and commercial roadways, \$88.8 million; an automated people mover, \$41.2 million; new and refurbished loading bridges, \$13.6 million; aprons, \$30.1 million; RON Pad, \$16.2 million; airside hydrant, \$6.9 million; and a baggage handling system, \$34.1 million. Major completed projects at the other Airport System airports were: the west cargo apron rehabilitation at Mather, \$3.4 million; and the apron, tie-down and hangar

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

pavement rehabilitation and electrical improvements project at Executive, \$1.4 million. Construction in progress at June 30, 2012 was \$83.4 million, which included improvements to Terminal A and demolition and resurfacing work at the old Terminal B and International Arrivals Building locations, \$14.2 million; the surface parking lot, \$3.5 million; and the Environmental Impact Report/Environmental Impact Statement Master Plan at Mather Airport, \$2.0 million.

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 included 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 TMP progressing on schedule and approaching completion.

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

Major projects completed at International 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 new 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. Construction in progress at June 30, 2011 was \$905.9 million, which included The Big Build 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.

Fiscal Years Ended June 30			
	2012	2011	2010
Land	\$ 40,245,470	\$ 40,245,470	\$ 40,245,470
Structures and improvements	1,491,709,767	593,018,809	552,943,786
Leasehold improvements	62,283,072	57,024,144	53,529,501
Equipment	27,804,694	27,457,259	27,063,282
Construction in progress	83,354,191	905,927,487	607,089,505
	<u>\$ 1,705,397,194</u>	<u>\$ 1,623,673,169</u>	<u>\$ 1,280,871,544</u>

Additional information on the Airport System's capital assets can be found in Note 5 located on page 42 of this report.

Long-term Debt Administration

As of June 30, 2012, the Airport System had outstanding revenue bonds of \$1,138,295,000, a decrease of \$20.3 million as compared to the prior year, due to the principal payment on July 1, 2011.

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 Big Build program at International Airport.

For more detail on the Airport System's long-term debt, see Note 6 on pages 43 through 46 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:

	Fiscal Years Ended June 30				
	2012	2011	FY12 vs. FY11 % change	2010	FY11 vs. FY10 % change
Landing Fee (per 1,000 lbs.)	\$ 4.27	\$ 4.19	1.9%	\$ 3.92	6.9%
Terminal Rental Rates (per Sq. Foot)					
Enclosed	\$ 144.60	\$ 147.68	(2.1)%	\$ 155.07	(4.8)%
Unenclosed	\$ 12.00	\$ 12.00	0.0%	\$ 12.00	0.0%
Loading Bridge Fees (per loading bridge)	\$ 87,128.00	\$ 61,337.00	42.0%	\$ 63,214.00	(3.0)%
Preferential Aircraft Parking					
Position Fees (per position)	\$ 102,017.00	\$ 89,713.00	13.7%	\$ 71,238.00	25.9%

Effective July 1, 2008, the County adopted an airline Rate Ordinance pursuant to which airline rates and charges were calculated for the last four fiscal years. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rental rates 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, 2012 and 2011**

ASSETS	2012	2011
Current assets:		
Cash and investments	\$ 111,830,389	\$ 131,959,784
Restricted cash and investments	64,231,362	88,024,590
Deposits with others	3,656,388	18,530,943
Receivables, less allowance for doubtful accounts of \$706,906 in 2012 and \$498,168 in 2011	8,483,365	8,356,847
Due from other governments	1,479,293	1,705,958
Prepaid expenses	6,624,797	9,608,737
Inventories	495,726	218,490
Total current assets	196,801,320	258,405,349
Noncurrent assets:		
Restricted assets (cash and cash equivalents \$107,858,282 in 2012 and \$74,511,277 in 2011)	141,126,088	217,728,858
Deferred charges	17,594,981	18,345,962
Capital assets:		
Land	40,245,470	40,245,470
Structures and improvements	1,491,709,767	593,018,809
Leasehold improvements	62,283,072	57,024,144
Equipment	27,804,694	27,457,259
Construction in progress	83,354,191	905,927,487
Total capital assets	1,705,397,194	1,623,673,169
Less accumulated depreciation	(304,261,293)	(313,357,638)
Net capital assets	1,401,135,901	1,310,315,531
Total noncurrent assets	1,559,856,970	1,546,390,351
Total assets	1,756,658,290	1,804,795,700
LIABILITIES		
Current liabilities:		
Warrants payable	1,126,331	14,080,678
Accounts payable and accrued expenses	16,718,743	18,890,846
Deferred revenue	2,970,737	2,341,999
Current liabilities payable from restricted assets	64,231,362	88,024,590
Total current liabilities	85,047,173	123,338,113
Noncurrent liabilities:		
Revenue bonds payable	1,098,711,336	1,119,679,316
Compensated absences	3,226,666	3,601,967
OPEB liability	552,636	465,680
Other long-term liabilities	-	38,073
Total noncurrent liabilities	1,102,490,638	1,123,785,036
Total liabilities	1,187,537,811	1,247,123,149
NET ASSETS		
Invested in capital assets, net of related debt	385,766,170	330,395,927
Restricted:		
Expendable:		
Revenue bond operating reserve	26,679,122	24,644,732
Revenue bond reserve and contingency	2,000,000	2,000,000
Restricted for debt service	52,548,331	87,076,141
Passenger facility charges	16,990,794	26,065,608
Trust account earnings	68,770	59,679
Nonexpendable:		
Trust account funds	2,026,551	2,026,551
Total restricted	100,313,568	141,872,711
Unrestricted	83,040,741	85,403,913
Total net assets	\$ 569,120,479	\$ 557,672,551

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, 2012 and 2011

	2012	2011
Operating revenues:		
Concessions	\$ 66,002,772	\$ 63,341,578
Building rents	47,204,495	30,697,623
Airfield charges	23,395,617	20,931,781
Ground leases	1,874,055	1,987,622
Airport services	4,136,078	920,930
Sale of fuel	755,877	653,673
Other	379,768	85,366
Total operating revenues	<u>143,748,662</u>	<u>118,618,573</u>
Operating expenses:		
Salaries and benefits	37,081,912	35,989,114
Services and supplies	58,008,301	46,369,353
Cost of goods sold	628,838	542,657
Depreciation	43,847,407	29,750,690
Other	10,630	983,348
Total operating expenses	<u>139,577,088</u>	<u>113,635,162</u>
Operating income	<u>4,171,574</u>	<u>4,983,411</u>
Nonoperating revenues (expenses):		
Interest income	915,635	411,537
Passenger Facility Charges revenue	18,022,076	18,348,304
Intergovernmental revenue	1,637,600	622,320
Gain (loss) on disposal of assets	(77,140)	10,020
Other nonoperating revenue	42,425	1,291,437
Amortization of bond issuance cost	(750,981)	(744,688)
Interest expense	(26,906,214)	(15,473,662)
Net nonoperating revenues (expenses)	<u>(7,116,599)</u>	<u>4,465,268</u>
Income (loss) before capital contributions	(2,945,025)	9,448,679
Capital contributions	14,392,953	14,556,307
Change in net assets	<u>11,447,928</u>	<u>24,004,986</u>
Total net assets, beginning of year	<u>557,672,551</u>	<u>533,667,565</u>
Total net assets, end of year	<u><u>\$ 569,120,479</u></u>	<u><u>\$ 557,672,551</u></u>

See accompanying notes to the basic financial statements.

Sacramento County Airport System
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers and users	\$ 144,299,084	\$ 120,542,467
Payments to suppliers	(54,397,227)	(45,270,805)
Payments to employees	(37,287,920)	(34,369,805)
Other receipts	64,732	159,687
Net cash provided by operating activities	<u>52,678,669</u>	<u>41,061,544</u>
Cash flows from noncapital financing activities:		
Intergovernmental revenue	1,799,382	204,398
Net cash provided by noncapital financing activities	<u>1,799,382</u>	<u>204,398</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	131,325,087
Capital contributions	14,324,203	14,704,437
Passenger facility charges	17,973,875	19,154,213
Acquisition and construction of capital assets	(129,783,108)	(312,007,423)
Principal paid on long term debt	(20,260,000)	(19,740,000)
Interest paid on long term debt	(59,788,448)	(56,680,022)
Bond issuance costs paid	-	(1,121,943)
Proceeds from sale of surplus property	58,688	16,154
Net cash provided by (used for) capital and related financing activities	<u>(177,474,790)</u>	<u>(224,349,497)</u>
Cash flows from investing activities:		
Interest received	2,216,746	4,558,580
Purchase of Investments	(1,037,618)	(81,106,839)
Sale of Investments	111,241,993	273,045,297
Net cash provided by (used for) investing activities	<u>112,421,121</u>	<u>196,497,038</u>
Net increase (decrease) in cash and cash equivalents	(10,575,618)	13,413,483
Cash and cash equivalents, beginning of year	294,495,651	281,082,168
Cash and cash equivalents, end of year	<u>\$ 283,920,033</u>	<u>\$ 294,495,651</u>
Reconciliation of cash and cash equivalents to Statements of Net Assets:		
Cash and investments	\$ 111,830,389	\$ 131,959,784
Restricted cash and investments	64,231,362	88,024,590
Restricted assets	141,126,088	217,728,858
Less: non-cash investing, capital and financing activities	<u>(33,267,806)</u>	<u>(143,217,581)</u>
	<u>\$ 283,920,033</u>	<u>\$ 294,495,651</u>

(Continued on page 32)

See accompanying notes to the basic financial statements.

Sacramento County Airport System
Statements of Cash Flows (continued)
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,171,574	\$ 4,983,411
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	43,847,407	29,750,690
Provision for uncollectible accounts	208,738	304,350
Other nonoperating revenue	64,732	159,687
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(287,055)	(33,046)
(Increase) decrease in deposits with others	8,000	-
(Increase) decrease in prepaid expense	(205,578)	68,380
(Increase) decrease in inventories	(277,235)	(485)
Increase (decrease) in accounts payable	6,061,886	1,985,963
Increase (decrease) in warrants payable	(1,216,119)	1,793,091
Increase (decrease) in deferred revenue	628,738	1,652,590
Increase (decrease) in other liabilities	(38,073)	(37,226)
Increase (decrease) in compensated absences & OPEB liability	(288,346)	434,139
Total adjustments	48,507,095	36,078,133
Net cash provided by operating activities	\$ 52,678,669	\$ 41,061,544

Noncash capital and related financing activities:

During the fiscal years ended June 30, 2012 and 2011, the Airport System retired assets with a net book value of \$153,133 and \$6,134, respectively.

Capital asset purchases included in accounts payable and warrants payable at June 30, 2012 and 2011 were \$14,807,161 and \$60,627,836, respectively.

The noncash portion of the capital contributions at June 30, 2012 and 2011 were \$830,561 and \$761,811, respectively.

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

For the Fiscal Years ended June 30, 2012 and 2011

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 International, 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 Board.

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 of 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 superseded GASB Statement No. 20. The objective of this 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, 2012 and 2011

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

Restricted Assets as of June 30, 2012 included \$30,489,129 invested in guaranteed investment contracts held outside the County's investment pool that are not considered cash and cash equivalents, and \$2,778,677 held under various trust accounts.

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 were not considered cash and cash equivalents, and \$2,524,077 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 41 of this report.

Due From Other Governments

Federal grant funding for non-capital and 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 non-capital and capital project costs incurred but not reimbursed at year-end.

Inventories

Inventories consist of ground fuel purchased for resale and supplies needed on a daily basis to operate the Airport System. 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 \$750,981 in fiscal year 2012, and \$744,688 in fiscal year 2011.

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, 2012 and 2011

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, 2012 and 2011 was \$83.4 million and \$905.9 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, 2012 and 2011 was \$32,673,772 and \$41,595,658, 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, 2012 and 2011

in the accompanying financial statements. Compensated absences liability activity for the fiscal years ended June 30, 2012 and June 30, 2011 can be found in Note 6, included in long term liabilities.

Passenger Facility Charge Revenue

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 FAA to impose a \$3.00 PFC at International, 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, 2012 the Airport System has cumulatively collected \$320.1 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 governments 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 \$2,322 million per occurrence annually, and \$1,400 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 B 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 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, 2012 and 2011

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:	2012	2011
Cash and investments	\$ 111,830,389	\$ 131,959,784
Restricted cash and investments - current	64,231,362	88,024,590
Restricted cash and investments - noncurrent	141,126,088	217,728,858
Total cash and investments	\$ 317,187,839	\$ 437,713,232
Cash and investments as of June 30, consist of the following:		
Deposits with the County's Treasury Pool	\$ 159,565,933	\$ 191,097,457
Specific directed investments with County Treasury	56,950,456	72,664,608
Investments held by trustee	100,671,450	173,951,167
Total cash and investments	\$ 317,187,839	\$ 437,713,232

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, 2012 and 2011

		June 30, 2012						
		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						\$ 159,565,933	
FHLB Discount Notes	P-1/A-1+	56,950,456					56,950,456	
Mutual Funds	Aaa/AAA	70,182,321					70,182,321	
Guaranteed investment contracts	NR				30,489,129		30,489,129	
		\$ 127,132,777	\$ -	\$ -	\$ 30,489,129	\$ -	\$ 317,187,839	

		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	

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 per Government Code and Bond Indenture is presented on the next page.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Investment Type	Minimum Legal Rating
Treasury Bills	Aaa/AA+
Treasury Strips	Aaa/AA+
Federal Farm Credit Bonds	Aaa/AA+
Federal Home Loan Banks (FHLB)	Aaa/AA+
Federal National Mortgage Association (FNMA)	Aaa/AA+
Government Agency Notes	Aaa/AA+
State and Local Governments (SLG's)	Aaa/AA+
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+
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	Aaa/AAA
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, 2012 and 2011, 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, 2012, approximately 22.1% of the Airport System's portfolio is invested in money market funds, 18.0% in short-term FHLB discount notes and 9.6% in guaranteed investment contracts. The guaranteed investment contracts, totaling \$30.5 million are invested with Trinity. As of June 30, 2012, more than 5% of the Airport System's portfolio in any one single issuer is invested in short-term FHLB discount notes (\$56,950,456).

As of June 30, 2011, approximately 15.0% of the Airport System's portfolio was invested in money market funds, 9.2% in short-term FHLB discount notes, 5.7% in short-term FNMA discount notes, 1.7% in Federal Home Loan Banks and 24.8% in guaranteed investment contracts. The guaranteed investment contracts were invested with FSA, \$7.6 million, and Trinity, \$100.8 million. As of June 30, 2011, more than 5% of the Airport System's portfolio in any one single issuer was invested in short-term FHLB discount notes (\$40,331,294) and in short-term FNMA discount notes (\$24,925,208).

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Note 3 - Receivables and Payables

Receivables

The following amounts represent receivables due to the Airport System at June 30, 2012 and 2011:

	2012	2011
Receivables:		
Account receivables - trade	\$ 7,079,436	\$ 6,772,747
Account receivables - passenger facility charges	2,087,946	2,039,745
Amounts due from other County funds	22,889	42,523
Gross receivables	9,190,271	8,855,015
Less allowance for doubtful accounts	(706,906)	(498,168)
Net receivables	<u>\$ 8,483,365</u>	<u>\$ 8,356,847</u>

Payables

The following represents payables owed by the Airport System at June 30, 2012 and 2011:

	2012	2011
Accounts payable and accrued expenses:		
Vendors	\$ 11,201,058	\$ 13,810,427
Due to other County funds	3,059,943	2,870,085
Deposits from others	789,340	723,083
Payroll taxes and payroll related	1,586,595	1,322,210
Accrued contingencies	75,449	16,122
Due to other governments	110	146,019
Taxes payable other	6,248	2,900
Total payables - unrestricted	<u>16,718,743</u>	<u>18,890,846</u>
Payables from restricted assets:		
Bonds interest payable	29,677,482	30,110,965
Bonds payable - current	22,770,000	20,260,000
Vendors	11,712,854	37,572,138
Due to other County funds	3,608	23,052
Due to other governments	67,418	58,435
Total payables from restricted assets	<u>64,231,362</u>	<u>88,024,590</u>
Total accounts payable and accrued expenses	<u>\$ 80,950,105</u>	<u>\$ 106,915,436</u>

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Note 4 - Restricted Assets

	June 30	
	2012	2011
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.	\$ 26,679,122	\$ 24,644,732
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.	57,123,469	132,414,596
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
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.	40,548,976	40,076,036
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.	47,024,543	41,044,103
Available Grant Revenue and Available PFC Revenue Accounts reflect 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.	13,962,948	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.	15,923,071	29,926,633
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.	68,770	59,679
Total restricted assets	205,357,450	305,753,448
Less: Restricted current assets reserved to repay current liabilities	(64,231,362)	(88,024,590)
Noncurrent restricted assets	<u>\$ 141,126,088</u>	<u>\$ 217,728,858</u>

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Note 5 - Capital Assets

Capital asset activity for the fiscal years ended June 30, 2012 and June 30, 2011 was as follows:

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 40,245,470	\$ -	\$ -	\$ 40,245,470
Construction in progress	905,927,487	102,011,251	(924,584,547)	83,354,191
Total capital assets not being depreciated	946,172,957	102,011,251	(924,584,547)	123,599,661
Capital assets being depreciated				
Structures and improvements	593,018,809	951,065,679	(52,374,721)	1,491,709,767
Leasehold improvements	57,024,144	5,258,928	-	62,283,072
Equipment	27,457,259	1,069,599	(722,164)	27,804,694
Total capital assets being depreciated	677,500,212	957,394,206	(53,096,885)	1,581,797,533
Less accumulated depreciation for:				
Structures and Improvements	(266,473,922)	(39,464,302)	52,221,588	(253,716,636)
Leasehold improvements	(27,184,776)	(2,710,589)	-	(29,895,365)
Equipment	(19,698,940)	(1,672,516)	722,164	(20,649,292)
Total accumulated depreciation	(313,357,638)	(43,847,407)	52,943,752	(304,261,293)
Total capital assets being depreciated, net	364,142,574	913,546,799	(153,133)	1,277,536,240
Net capital assets	\$ 1,310,315,531	\$ 1,015,558,050	\$ (924,737,680)	\$ 1,401,135,901

	Balance July 1, 2010	Increase	Decrease	Balance June 30, 2011
Capital assets not being depreciated				
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	647,334,975	340,760,096	(41,922,114)	946,172,957
Capital assets being depreciated				
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	633,536,569	44,119,212	(155,569)	677,500,212
Less accumulated depreciation for:				
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	(283,756,383)	(29,750,690)	149,435	(313,357,638)
Total capital assets being depreciated, net	349,780,186	14,368,522	(6,134)	364,142,574
Net capital assets	\$ 997,115,161	\$ 355,128,618	\$ (41,928,248)	\$ 1,310,315,531

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Note 6 – Long Term Liabilities

	June 30	
	2012	2011
Revenue Bonds:		
2008 series A, 4.85% to 5.0% due 2028-2041	\$ 157,430,000	\$ 160,600,000
Less unamortized premium and deferred amount on refunding	(6,887,916)	(7,630,042)
	150,542,084	152,969,958
2008 series B, 4.25% to 5.75%, due 2013-2039	\$ 307,580,000	\$ 309,660,000
Less unamortized discount and deferred amount on refunding	(4,905,336)	(5,200,070)
	302,674,664	304,459,930
2008 series C, 5.20% due 2012	\$ 3,305,000	\$ 6,450,000
Less deferred amount on refunding	-	(438,955)
	3,305,000	6,011,045
2009 series A, 5.50% due 2041	\$ 31,115,000	\$ 31,115,000
Less unamortized discount	(869,069)	(899,037)
	30,245,931	30,215,963
2009 series B, 5.50% to 5.75%, due 2034-2039	\$ 170,685,000	\$ 170,685,000
Less unamortized discount	(154,049)	(159,754)
	170,530,951	170,525,246
2010 series, 5.00%, due 2030-2040	\$ 128,300,000	\$ 128,300,000
Add unamortized premium	2,839,187	2,940,587
	131,139,187.00	131,240,587
PFC and Subordinate Revenue Bonds:		
2008 series D, 5.00% due 2026	\$ 41,665,000	\$ 43,740,000
Less unamortized premium and deferred amount on refunding	(1,728,421)	(1,851,880)
	39,936,579	41,888,121
2008 series E, 4.25% to 5.75 % due 2013-2024	\$ 34,965,000	\$ 37,460,000
Less unamortized premium and deferred amount on refunding	(1,771,940)	(1,922,239)
	33,193,060	35,537,761
2009 series C, 5.75% to 6.00% due 2039-2041	\$ 112,860,000	\$ 112,860,000
Less unamortized discount	(2,987,606)	(3,090,627)
	109,872,394	109,769,373
2009 series D, 6.00% due 2035	\$ 150,390,000	\$ 157,685,000
Less unamortized discount	(348,514)	(363,667)
	150,041,486	157,321,333
Total revenue bonds payable	<u>\$ 1,121,481,336</u>	<u>\$ 1,139,939,316</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 TMP at International. Series 2008B refunded 45.4% of the Series 2006A Bonds and provided \$266.5 million to finance a portion of the costs of TMP at International. 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

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

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 Board of 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 TMP 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 PFCs approved by the FAA and imposed and collected with respect to International, 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 TMP. 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.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

<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, 2019	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

Certain revenue bond obligations have been defeased “in-substance” by placement of assets in an irrevocable trust. Their outstanding principal balances at June 30, 2012 are as follows:

Bond Issue:

Series 2002A Revenue Bonds	\$61,995,000
Series 2002B Revenue Bonds	<u>9,680,000</u>
TOTAL	<u>\$71,675,000</u>

Future debt service requirements at June 30, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	20,310,000	54,758,120	75,068,120
2018-2022	116,335,000	258,393,069	374,728,069
2023-2027	148,305,000	225,452,218	373,757,218
2028-2032	191,375,000	180,985,294	372,360,294
2033-2037	249,205,000	121,526,380	370,731,380
2038-2042	316,485,000	43,829,547	360,314,547
Total	<u>\$ 1,138,295,000</u>	<u>\$ 1,114,474,085</u>	<u>\$ 2,252,769,085</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 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 page 47 as Available Revenues for the payment of debt service on Series 2008D, 2008E, 2009C and 2009D bonds.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

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 2012, 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 2012 and 2011, the Airport System was in compliance with these covenants.

Long-term liability activity for the fiscal years ended June 30, 2012 and June 30, 2011, was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Bonds payable:					
Senior revenue bonds	\$ 806,810,000	\$ -	\$ 8,395,000	\$ 798,415,000	\$ 11,395,000
PFC and Subordinated revenue bonds	351,745,000	-	11,865,000	339,880,000	11,375,000
Deferred amounts:					
For issuance premiums	6,501,408	-	277,214	6,224,194	-
For issuance discounts	(7,116,816)	-	(246,838)	(6,869,978)	-
On refunding	(18,000,276)	-	(1,832,396)	(16,167,880)	-
Total bonds payable	1,139,939,316	-	18,457,980	1,121,481,336	22,770,000
Compensated absences	3,737,112	2,410,499	2,603,754	3,543,857	317,191
OPEB liability	465,680	86,956	-	552,636	-
Other long-term liabilities	54,195	-	54,195	-	-
Total long term liabilities	<u>\$ 1,144,196,303</u>	<u>\$ 2,497,455</u>	<u>\$ 21,115,929</u>	<u>\$1,125,577,829</u>	<u>\$ 23,087,191</u>

	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>

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

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, and 45.4% of Series 2006A bonds; and provided \$323.0 million in financing for the TMP. Proceeds from the 2009 and 2010 Senior Revenue Bonds provided \$163.8 million and \$128.3 million, respectively, to continue the financing of the TMP. 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 \$1,570,859,240. Principal and interest paid for the current year was \$49,182,441, including \$16,032,324 from capitalized interest, and the total Net Revenues were \$50,414,430.

The County has pledged PFC proceeds 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, Series 1998B and 54.6% of Series 2006A bonds. Proceeds from 2009 Subordinate and PFC/Grant Revenue Bonds provided \$251 million to continue the financing of the TMP. 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 \$681,909,845. Principal and interest paid for the current year was \$30,866,006, the PFC revenue was \$18,022,076 and the Available Grant Revenues, \$8,171,000. 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>
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	-
	<u>\$ 87,768,193</u>	<u>\$ 24,819,884</u>

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.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

In fiscal years 2012 and 2011, the Airport System received approximately \$5,895,238 and \$2,868,809, 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, 2012.

Fiscal years ending June 30	
2013	\$ 16,086,292
2014	14,737,089
2015	6,862,511
2016	4,506,495
2017	4,094,538
2018-2022	14,010,649
2023-2027	3,606,777
2028-2032	2,628,137
2033-2037	900,499
2038-2042	736,034
	<hr/>
Total future minimum rentals receivable	<u>\$ 68,169,021</u>

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. In addition, pursuant to the Biological Opinion issued by the U.S. Fish and Wildlife Service on February 27, 2008, the Airport System has deposited \$26,551 in a trust account held by the County for the "Upland Mitigation and Management Plan for 59-acre Giant Garter Snake Habitat".

Net assets restricted by enabling legislation totaling \$19,086,115 and \$28,151,838 are included in statements of net assets at June 30, 2012 and 2011, respectively.

Note 10 - Related Party Transactions

The Airport System reimburses the County for the cost of providing the Airport System with law enforcement, 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 \$3,063,551 and \$2,893,137 at June 30, 2012 and 2011, respectively.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Amounts charged by other County departments for fiscal years 2012 and 2011 were as follows:

	2012	2011
Charged to operations	\$19,320,158	\$19,868,044
Capitalized as capital assets	5,915,627	6,124,072
Total charged by other County departments	<u>\$25,235,785</u>	<u>\$25,992,116</u>

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, 2012 and 2011 was \$21,766,794 and \$21,208,200, respectively. The Airport System's total payroll for the fiscal years ended June 30, 2012 and 2011 was \$22,794,484 and \$22,091,677, 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 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, 2012 was \$5,926,457 which consisted of \$4,358,095 from the Airport System and \$1,568,362 from employees; these contributions represented 20.0 percent and 7.2 percent, respectively, of covered payroll. 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. For fiscal years 2012, 2011 and 2010, the Airport System's annual pension cost of \$4,358,095, \$4,275,255 and \$3,611,613, 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 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).

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

During calendar year 2012, the Board approved (a) access to medical insurance for retirees; and (b) retiree medical offset payments for eligible County retirees who retired prior to June 1, 2007 and subsidies approved via the recent Public Employees Relations Board (PERB) settlement. Eligible retirees included (a) non-PERB participants who retired prior to June 1, 2007 and received a SCERS benefit of less than \$2,000 per month, and (b) participants included in the PERB settlement. The amount of any medical subsidy/offset payments made available to annuitants is calculated based upon the annuitant's SCERS service credit and is approved by the Board on an annual basis. The amount of subsidy/offset payments for the calendar year 2012 for all retirees who retired before June 1, 2007 ranged from \$40.32 to \$80.64 per month depending upon the years of service credit. The monthly County subsidy for retirees who retired on or after June 1, 2007 and were covered by the PERB agreement ranged from \$122 to \$244 for the same period. The non-PERB participants received \$40 per month toward their medical coverage. Under the Retired Medical and Dental Insurance Policy approved for calendar year 2012, retirees not receiving a subsidy continued to have access to the County's group insurance program on a retiree-pay-all basis.

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 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, 2012, 2011 and 2010, are shown in the tables below.

	June 30		
	2012	2011	2010
Annual required contribution	\$ 348,396	\$ 491,522	\$ 421,389
Interest on net OPEB obligation	20,172	9,388	7,493
Adjustment to annual required contribution	(22,057)	(13,502)	(10,577)
Annual OPEB cost	346,511	487,408	418,305
Contributions made	(259,555)	(191,313)	(412,835)
Increase in net OPEB obligation	86,956	296,095	5,470
Net OPEB obligation - beginning of year	465,680	169,585	164,115
Net OPEB obligation - end of year	<u>\$ 552,636</u>	<u>\$ 465,680</u>	<u>\$ 169,585</u>

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 418,305	\$ 412,835	99%	\$ 169,585
6/30/2011	\$ 487,408	\$ 191,313	39%	\$ 465,680
6/30/2012	\$ 346,511	\$ 259,555	75%	\$ 552,636

Note 13 - Commitments and Contingencies

Construction Projects

The Airport System had approximately \$25,409,169 in outstanding construction contract commitments at June 30, 2012.

Federal Grant Awards

As of June 30, 2012, the Airport System had outstanding federal grant awards totaling approximately \$0.6 million for various construction projects. 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 LOI 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 (TSA) under the American Recovery and Reinvestment Act to fund security-related projects from which only \$6.7 million have been claimed to date. The TSA will re-direct the unused award balance to other eligible projects.

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, 2012.

Environmental Matters

In recent years the Planning and Environment section of the Airport System (P&E) identified several projects that involve hazardous material (hazmat) activities that may entail fiscal obligations as required by the Governmental Accounting Standards 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 International.

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

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

be discovered on airport property, which would necessitate proper closure and remediation in accordance with the County's Well Ordinance and other environmental regulations.

1. Yuki Farms Hazmat Spill and Related Issues:

This 90+/- acre parcel was acquired a number of years ago as an operational compatibility "buffer" for International. For several decades it was leased to a tenant farmer who most recently cultivated a pear orchard. 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 two remaining interrelated hazmat issues at this property: (1) cleanup of a 1997 gasoline spill and (2) 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 Board 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 for the 1997 gasoline spill 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 environmental baseline studies of the area for the new Sacramento River setback levee, the main component of SAFCA's Natomas Levee Improvement Program (NLIP). As part of its due diligence for the NLIP, SAFCA contracted with a qualified environmental engineering firm, Kleinfelder, to collect and analyze groundwater samples at the Yuki site. Phase 2 site investigations conducted by Kleinfelder determined that "...groundwater impacted with petroleum (and associated constituents) remains at concentrations greater than water quality goals used by the Central Valley Regional Water Quality Control Board..." but also stated that at "...the current apparent rate of natural attenuation observed...it appears that concentrations in groundwater should reach water quality goals within a few years".

The Airport System discussed this information with the County EMD, and it was agreed that an Agreement (contract) would be executed between the County and Kleinfelder to conduct additional groundwater

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

sampling and analysis to determine if the hypothesized natural attenuation was in fact occurring, and to undertake efforts to attain a “No Further Action” determination by EMD. An agreement to conduct this work was executed on November 16, 2011 in the amount of \$40,000 by the County’s Municipal Services Agency on behalf of the Airport System.

On May 14, 2012, Kleinfelder submitted a formal “No Further Action” application to EMD. In response, EMD requested that Kleinfelder also prepare a human health risk exposure assessment, which has been completed. EMD has scheduled a public hearing before its Site Closure Review Committee on August 17, 2012 to consider a “No Further Action” determination. If such a determination is made, as expected, Kleinfelder’s scope of work provides for destruction (removal) of the remaining monitoring wells at the site. The site will then be left in idle status exclusively for the protection of aircraft approach, departure and circling airspace.

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 Airport System, or vice versa. The cost of the environmental remediation will be included in the reconciliation.

2. Remediation of Airport Waste Water Treatment Ponds:

In April 2009, the Board authorized an arrangement with Metro Air Park and the Sacramento Area Sewer District (SASD) whereby the Airport System would build a sewer connection to the new regional sewage interceptor. It was acknowledged that after the connection became operational, the Airport System would 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 Board approved the sewer connection project for bidding and the contract was awarded to Teichert Construction.

Although the project was categorically exempt pursuant to Section 21080.21 of the CEQA, P&E biological staff conducted construction worker environmental awareness training and continually monitored the project to avoid impacts on sensitive habitat and protected species. Construction commenced July 5, 2011, and was completed in mid-September 2011. On September 27, 2011 the Sacramento County Regional Sanitation District (SRCSD) issued a letter of authorization for the Airport System to begin discharging liquid waste to the SRCSD system. On September 23, 2011 the Airport System submitted a Waste Water Treatment Decommissioning Report to the Central Valley Regional Water Quality Control Board for approval. The report outlined the proposed method for testing and disposing of the remaining sludge in the bottom of the five treatment ponds. Samples of the sludge have been analyzed and no hazardous materials were detected. The next steps include removing and disposing of the sludge in an appropriate sanitary landfill, breaching the dikes that surround the ponds for drainage, followed by filling and grading of the former ponds for redevelopment in accordance with the airport master plan and the Airport Layout Plan. It is anticipated that this work will be completed during calendar year 2013.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

3. Executive Airport Rental Car Site:

The rental car site clean-up efforts at Executive Airport are the result of petroleum products that evidently leaked from two USTs and a waste oil UST prior to removal of the tanks in 1990. Regulatory oversight was initially vested with the Central Valley Regional Water Quality Control Board, but was later transferred to the County EMD department. Site characterization work began in 1994, followed by a remediation program. By late 2010 it was expected that the remediation project was close to completion, but on January 25, 2011 the EMD notified the County that the site could not be closed pending further information because the calculated hazard index in the human health risk assessment (HHRA) was 1.53. To exhibit an acceptable risk, the hazard index must be below 1.0.

The EMD therefore directed that either an HHRA must be conducted by a risk assessor, or alternatively soil vapor samples must be collected and the results compared to screening levels. In February 2011 the consultant engaged since the early 1990s on this project submitted a scope of work and budget proposal to perform a soil vapor sampling report and human health screening evaluation. The scope of work includes drilling, temporary soil vapor probe installation, soil vapor sampling, laboratory analysis and reporting. The consultant's \$11,000 budget for the work exceeded the funds remaining in the project budget. Therefore, the County began working on a new, separate contract for the consultant to perform the additional work directed by EMD. It is anticipated that this work will be completed before the end of calendar year 2012 and that EMD will reach a site closure decision in early 2013.

4. Removal of USTs at Beneto Hangar and Cessna Aircraft Company Hangar:

Beneto, a former tenant at International, obtained a permit from EMD and had a contractor remove one 12,000 gallon jet fuel UST and associated piping from its hangar lease space. Laboratory results of the soil confirmed no contamination from the UST. EMD issued a "No Further Action" letter on July 20, 2012.

Cessna Aircraft Company (Cessna), a tenant at International, obtained a permit from EMD and had a contractor remove five USTs and associated piping. The USTs consisted of one 2,500 gallon used oil UST, and two 1,100 gallon (both internally partitioned to 550 gallons) used oil USTs from Cessna's hangar lease space. The USTs were never used to store any used oil or any other substance. Laboratory test results of the soil confirmed no contamination from the USTs. A "No Further Action" letter from EMD is pending.

Based on the status of these environmental issues presented in the Environmental Matters section of this note disclosure, as of June 30, 2012, the Airport System has accrued an amount of \$75,449 for pollution remediation contingencies which is included in current accounts payable.

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 International for 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, 2012 and 2011, the outstanding balance of the debt was \$8,800,000. The Special Facility Bonds will mature on November 1, 2028.

Notes to the Basic Financial Statements (continued)

For the Fiscal Years ended June 30, 2012 and 2011

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 through 2012. 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 Airport System refunded \$7.5 million to the airlines operating at International and Mather Airport in fiscal year 2011. A similar true-up calculation was performed in fiscal year 2012 and resulted in a refund of \$2.8 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 59-61.**
- 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 62-65.**
- 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 66-69.**
- 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 70-71.**
- 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 72-74.**

Financial Trends

Net Assets

	2012	2011	2010	2009	2008
Invested in capital assets -					
net of related debt	\$ 385,766,170	\$ 330,395,927	\$ 308,869,302	\$ 175,059,316	\$ 156,199,147
Restricted:					
Operating Reserve account	26,679,122	24,644,732	24,028,109	27,260,013	21,730,250
Reserve and Contingency fund	2,000,000	2,000,000	2,000,000	2,000,000	1,333,333
Debt Service	52,548,331	87,076,141	102,952,183	72,066,304	56,161,338
Passenger Facility Charges	16,990,794	26,065,608	45,353,413	103,733,132	123,802,107
Trust Accounts	2,095,321	2,086,230	2,085,347	2,062,811	-
Total restricted	100,313,568	141,872,711	176,419,052	207,122,260	203,027,028
Unrestricted	83,040,741	85,403,913	48,379,211	119,895,679	117,486,984
Total net assets	\$ 569,120,479	\$ 557,672,551	\$ 533,667,565	\$ 502,077,255	\$ 476,713,159

	2007	2006	2005	2004	2003 ¹
Invested in capital assets -					
net of related debt	\$ 211,869,303	\$ 190,642,485	\$ 164,627,362	\$ 126,762,388	\$ 105,508,679
Restricted:					
Operating Reserve account	21,460,250	19,393,000	17,175,000	17,953,000	17,358,000
Reserve and Contingency fund	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Debt Service	4,449,505	4,982,064	4,356,237	4,399,696	4,416,225
Passenger Facility Charges	103,826,206	81,920,131	66,390,568	52,398,305	48,136,050
Total restricted	130,735,961	107,295,195	88,921,805	75,751,001	70,910,275
Unrestricted	97,616,600	101,482,119	104,777,188	104,009,224	110,420,060
Total net assets	\$ 440,221,864	\$ 399,419,799	\$ 358,326,355	\$ 306,522,613	\$ 286,839,014

¹ Fiscal year 2003 net assets were restated due to a change in accounting principles.

Source: Airport System's audited financial statements.

Financial Trends (cont.)

Changes in Net Assets

	2012	2011	2010	2009
Operating revenues:				
Concessions	\$ 66,002,772	\$ 63,341,578	\$ 63,442,108	\$ 68,600,549
Building rents	47,204,495	30,697,623	35,885,350	35,384,002
Airfield charges	23,395,617	20,931,781	26,044,373	10,710,482
Ground leases	1,874,055	1,987,622	2,749,183	2,314,441
Sale of fuel	755,877	653,673	532,032	580,904
Airport services	4,136,078	920,930	898,153	1,100,127
Other	379,768	85,366	165,604	299,511
Total operating revenues	<u>\$ 143,748,662</u>	<u>\$ 118,618,573</u>	<u>\$ 129,716,803</u>	<u>\$ 118,990,016</u>
Operating expenses:				
Salaries and benefits	\$ 37,081,912	\$ 35,989,114	\$ 33,084,803	\$ 33,640,076
Services and supplies	58,008,301	46,369,353	48,995,957	49,870,807
Cost of goods sold	628,838	542,657	431,389	497,815
Depreciation	43,847,407	29,750,690	26,928,736	25,750,395
Other	10,630	983,348	872,816	881,876
Total operating expenses	<u>\$ 139,577,088</u>	<u>\$ 113,635,162</u>	<u>\$ 110,313,701</u>	<u>\$ 110,640,969</u>
Operating income (loss)	<u>4,171,574</u>	<u>4,983,411</u>	<u>19,403,102</u>	<u>8,349,047</u>
Nonoperating revenues (expenses):				
Interest income	\$ 915,635	\$ 411,537	\$ 1,886,860	\$ 6,155,861
PFC revenue	18,022,076	18,348,304	19,618,136	21,489,873
Intergovernmental revenue	1,637,600	622,320	954,695	978,992
Gain (loss) on disposal of assets	(77,140)	10,020	(65,452)	64,262
Other nonoperating revenue (expense)	42,425	1,291,437	237,958	157,388
Amortization of bond issuance cost	(750,981)	(744,688)	(700,471)	(563,240)
Interest expense	(26,906,214)	(15,473,662)	(17,105,647)	(18,203,544)
Net nonoperating revenues (expenses)	<u>\$ (7,116,599)</u>	<u>\$ 4,465,268</u>	<u>\$ 4,826,079</u>	<u>\$ 10,079,592</u>
Income (loss) before capital contribution and transfers	<u>(2,945,025)</u>	<u>9,448,679</u>	<u>24,229,181</u>	<u>18,428,639</u>
Capital contributions - grants	<u>14,392,953</u>	<u>14,556,307</u>	<u>7,361,129</u>	<u>6,935,457</u>
Changes in net assets	<u>11,447,928</u>	<u>24,004,986</u>	<u>31,590,310</u>	<u>25,364,096</u>
Total net assets, beginning of year	<u>557,672,551</u>	<u>533,667,565</u>	<u>502,077,255</u>	<u>476,713,159</u>
Total net assets, end of year	<u>\$ 569,120,479</u>	<u>\$ 557,672,551</u>	<u>\$ 533,667,565</u>	<u>\$ 502,077,255</u>

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

² Fiscal year 2003 net assets were restated due to change in accounting principle.

Source: Airport System's audited financial statements.

2008 ¹	2007	2006	2005	2004	2003 ²
\$ 66,416,283	\$ 64,892,106	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267	\$ 46,383,456
17,152,979	16,644,929	16,087,912	14,170,114	13,803,071	14,397,965
22,352,752	15,680,196	17,779,295	17,107,966	12,353,198	8,341,447
3,641,980	4,723,344	4,403,407	3,607,645	3,110,659	2,768,994
808,229	652,942	1,339,214	1,332,966	2,662,833	3,615,979
911,360	1,015,551	900,536	636,999	137,513	184,562
101,491	39,528	102,681	1,386,070	39,986	52,570
<u>\$ 111,385,074</u>	<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>
\$ 32,174,897	\$ 30,274,323	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428	\$ 22,883,432
54,266,378	46,452,761	41,462,233	37,688,533	38,792,551	36,247,504
665,627	573,187	1,081,550	914,185	712,784	626,644
23,707,907	21,062,790	20,162,706	16,103,705	15,597,039	15,145,180
837,710	769,160	670,162	909,682	1,218,467	1,046,455
<u>\$ 111,652,519</u>	<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>
(267,445)	4,516,375	9,165,688	9,619,105	(1,870,742)	(204,242)
\$ 7,519,233	\$ 7,915,789	\$ 6,623,389	\$ 4,303,953	\$ 2,888,108	\$ 4,164,015
26,653,518	27,182,405	24,511,950	24,454,819	18,498,324	17,621,861
1,620,376	686,586	849,340	880,166	702,098	2,831,833
(17,151)	84,711	993	503,692	3,988	(1,878)
(40,754)	82,107	223,468	247,124	140,157	93,133
(257,068)	(271,965)	(175,358)	(171,740)	(171,740)	(171,740)
(12,651,944)	(12,057,704)	(10,536,254)	(12,631,716)	(10,315,087)	(11,023,165)
<u>\$ 22,826,210</u>	<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>
22,558,765	28,138,304	30,663,216	27,205,403	9,875,106	13,309,817
13,932,530	12,663,761	10,889,564	24,598,339	9,808,493	4,520,415
36,491,295	40,802,065	41,093,444	51,803,742	19,683,599	17,830,232
440,221,864	399,419,799	358,326,355	306,522,613	286,839,014	269,008,782
<u>\$ 476,713,159</u>	<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>

Revenue Capacity

Total Annual Revenues

LAST TEN FISCAL YEARS

	2012	2011	2010	2009	2008
OPERATING REVENUES					
Concessions	\$ 66,002,772	\$ 63,341,578	\$ 63,442,108	\$ 68,600,549	\$ 66,416,283
Building rents	47,204,495	30,697,623	35,885,350	35,384,002	17,152,979
Airfield charges	23,395,617	20,931,781	26,044,373	10,710,482	22,352,752
Ground leases	1,874,055	1,987,622	2,749,183	2,314,441	3,641,980
Sale of fuel	755,877	653,673	532,032	580,904	808,229
Airport services	4,136,078	920,930	898,153	1,100,127	911,360
Other	379,768	85,366	165,604	299,511	101,491
TOTAL OPERATING REVENUES	\$ 143,748,662	\$ 118,618,573	\$ 129,716,803	\$ 118,990,016	\$ 111,385,074
NONOPERATING REVENUES					
Interest income	915,635	411,537	1,886,860	6,155,861	7,519,233
PFC revenue	18,022,076	18,348,304	19,618,136	21,489,873	26,653,518
Capital contributions	14,392,953	14,556,307	7,361,129	6,935,457	13,932,530
Intergovernmental revenue	1,637,600	622,320	954,695	978,992	1,620,376
Other nonoperating revenue (exp.)	98,370	1,301,620	251,679	157,388	(40,754)
TOTAL REVENUES	\$ 178,815,296	\$ 153,858,661	\$ 159,789,302	\$ 154,707,587	\$ 161,069,977

	2007	2006	2005	2004	2003
OPERATING REVENUES					
Concessions	\$ 64,892,106	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267	\$ 46,383,456
Building rents	16,644,929	16,087,912	14,170,114	13,803,071	14,397,965
Airfield charges	15,680,196	17,779,295	17,107,966	12,353,198	8,341,447
Ground leases	4,723,344	4,403,407	3,607,645	3,110,659	2,768,994
Sale of fuel	652,942	1,339,214	1,332,966	2,662,833	3,615,979
Airport services	1,015,551	900,536	636,999	137,513	184,562
Other	39,528	102,681	1,386,070	39,986	52,570
TOTAL OPERATING REVENUES	\$ 103,648,596	\$ 100,980,196	\$ 92,549,178	\$ 79,730,527	\$ 75,744,973
NONOPERATING REVENUES					
Interest income	7,915,789	6,623,389	4,303,953	2,888,108	4,164,015
PFC revenue	27,182,405	24,511,950	24,454,819	18,498,324	17,621,861
Capital contributions	12,663,761	10,889,564	24,598,339	9,808,493	4,520,415
Intergovernmental revenue	686,586	849,340	880,166	702,098	2,831,833
Other nonoperating revenue	82,107	223,468	205,563	140,157	93,133
TOTAL REVENUES	\$ 152,179,244	\$ 144,077,908	\$ 146,992,018	\$ 111,767,707	\$ 104,976,230

Source: Airport System's audited financial statements.

Revenue Capacity (cont.)

Total Annual Expenses

LAST TEN FISCAL YEARS

	2012	2011	2010	2009	2008 ¹
OPERATING EXPENSES					
Salaries and benefits	\$ 37,081,912	\$ 35,989,114	\$ 33,084,803	\$ 33,640,076	\$ 32,174,897
Services and supplies	58,008,301	46,369,353	48,995,957	49,870,807	54,266,378
Cost of goods sold	628,838	542,657	431,389	497,815	665,627
Depreciation and amortization	43,847,407	29,750,690	26,928,736	25,750,395	23,707,907
Other	10,630	983,348	872,816	881,876	837,710
TOTAL OPERATING EXPENSES	\$ 139,577,088	\$ 113,635,162	\$ 110,313,701	\$ 110,640,969	\$ 111,652,519
NONOPERATING EXPENSES					
Interest expense	26,906,214	15,473,662	17,105,647	18,203,544	12,651,944
Loss (gain) on disposal of assets	133,085	163	79,173	(64,262)	17,151
Amortization of bond issuance costs	750,981	744,688	700,471	563,240	257,068
TOTAL EXPENSES	\$ 167,367,368	\$ 129,853,675	\$ 128,198,992	\$ 129,343,491	\$ 124,578,682
	2007	2006	2005	2004	2003
OPERATING EXPENSES					
Salaries and benefits	\$ 30,274,323	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428	\$ 22,883,432
Services and supplies	46,452,761	41,462,233	37,688,533	38,792,551	36,247,504
Cost of goods sold	573,187	1,081,550	914,185	712,784	626,644
Depreciation and amortization	21,062,790	20,162,706	16,103,705	15,597,039	15,145,180
Other	769,160	670,162	868,211	1,218,467	1,046,455
TOTAL OPERATING EXPENSES	\$ 99,132,221	\$ 92,273,844	\$ 82,888,602	\$ 81,601,269	\$ 75,949,215
NONOPERATING EXPENSES					
Interest expense	12,057,704	10,536,254	12,631,716	10,315,087	11,023,165
Loss (gain) on disposal of assets	(84,711)	(993)	(503,692)	(3,988)	1,878
Amortization of bond issuance costs	271,965	175,358	171,740	171,740	171,740
TOTAL EXPENSES	\$ 111,377,179	\$ 102,984,463	\$ 95,188,366	\$ 92,084,108	\$ 87,145,998

¹Certain 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

	2012	2011	2010	2009	2008
Landing fee rate (per 1,000 lbs.) ¹	\$ 4.27	\$ 4.19	\$ 3.92	\$ 3.30	\$ 2.77
Terminal building rental rates (per Sq. Ft.)					
Enclosed	\$ 144.60	\$ 147.68	\$ 155.07	\$ 140.48	\$ 65.48
Unenclosed ²	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00

	2007	2006	2005	2004	2003 ³
Landing fee rate (per 1,000 lbs.) ¹	\$ 1.99	\$ 2.44	\$ 2.37	\$ 1.79	\$ 1.21
Terminal building rental rates (per Sq. Ft.)					
Enclosed	\$ 65.52	\$ 73.11	\$ 64.56	\$ 48.00	\$ 58.20
Unenclosed ²	\$ 12.00	\$ 12.00	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 it was terminated on May 1, 2008. Effective July 1, 2008, the County adopted a Rate Ordinance which governs the current calculation of rates and fees.

¹Signatory rate shown for years in which an airline agreement was effective.

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

³Average 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).

Revenue Capacity (cont.)

Airline and Nonairline Revenues

LAST TEN FISCAL YEARS

	2012	2011	2010	2009	2008
AIRLINE REVENUE:					
Terminal building rents	\$ 36,137,745	\$ 21,903,848	\$ 28,182,839	\$ 24,391,882	\$ 10,991,364
Airline Services ¹	3,194,457	-	-	-	-
Gate use fees	6,222,491	4,147,087	3,486,765	6,234,017	1,847,839
Landing fees ²	23,248,445	20,811,439	25,823,533	10,471,032	22,108,669
Total	\$ 68,803,138	\$ 46,862,374	\$ 57,493,137	\$ 41,096,931	\$ 34,947,872
Percent of total revenues	38.5%	30.5%	36.0%	26.6%	21.7%
NONAIRLINE REVENUES	74,945,524	71,756,199	72,223,666	77,893,085	76,437,202
Percent of total revenues	41.9%	46.6%	45.2%	50.3%	47.5%
NONOPERATING REVENUES	35,066,634	35,240,088	30,072,499	35,717,571	49,684,903
Percent of total revenues	19.6%	22.9%	18.8%	23.1%	30.8%
TOTAL REVENUES	\$ 178,815,296	\$ 153,858,661	\$ 159,789,302	\$ 154,707,587	\$ 161,069,977
Enplaned passengers	4,372,226	4,377,315	4,445,991	4,603,182	5,294,737
REVENUE PER ENPLANED PASSENGER	\$ 40.90	\$ 35.15	\$ 35.94	\$ 33.61	\$ 30.42
AIRLINE REVENUE PER ENPLANED PASSENGER	\$ 15.74	\$ 10.71	\$ 12.93	\$ 8.93	\$ 6.60
	2007	2006	2005	2004	2003
AIRLINE REVENUE:					
Terminal building rents	\$ 12,124,102	\$ 11,498,311	\$ 10,006,224	\$ 9,438,916	\$ 10,070,679
Gate use fees	1,478,640	1,465,139	628,401	924,016	1,124,946
Landing fees ²	15,477,727	17,250,215	16,861,922	12,016,265	7,972,534
Total	\$ 29,080,469	\$ 30,213,665	\$ 27,496,547	\$ 22,379,197	\$ 19,168,159
Percent of total revenues	19.1%	21.0%	18.7%	20.0%	18.3%
NONAIRLINE REVENUES	74,568,127	70,766,531	65,052,631	57,351,330	56,576,814
Percent of total revenues	49.0%	49.1%	44.3%	51.3%	53.9%
NONOPERATING REVENUES	48,530,648	43,097,712	54,442,840	32,037,180	29,231,257
Percent of total revenues	31.9%	29.9%	37.0%	28.7%	27.8%
TOTAL REVENUES	\$ 152,179,244	\$ 144,077,908	\$ 146,992,018	\$ 111,767,707	\$ 104,976,230
Enplaned passengers	5,307,289	5,150,229	4,986,171	4,563,607	4,314,273
REVENUE PER ENPLANED PASSENGER	\$ 28.67	\$ 27.98	\$ 29.48	\$ 24.49	\$ 24.33
AIRLINE REVENUE PER ENPLANED PASSENGER	\$ 5.48	\$ 5.87	\$ 5.51	\$ 4.90	\$ 4.44

¹ New fee FY 2012

² Includes air cargo landing fees.

Source: Audited financial statements and Airport System statistical reports.

Debt Capacity

Debt Service Coverage

FISCAL YEARS 2009-2012

	2012	2011	2010	2009
Rate Covenant - per Section 6.04 (b)(i)				
Revenues ¹	\$ 146,057,155	\$ 128,179,835	\$ 132,007,161	\$ 134,667,273
Operating Expenses ²	<u>(95,729,680)</u>	<u>(83,884,472)</u>	<u>(83,384,965)</u>	<u>(84,890,322)</u>
Net Revenues	\$ 50,327,475	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 25%)	<u>8,995,140</u>	<u>4,321,838</u>	<u>4,301,661</u>	<u>3,992,960</u>
Net Revenues + Transfer	\$ 59,322,615	\$ 48,617,201	\$ 52,923,857	\$ 53,769,911
Accrued Debt Service on Senior Obligations ³	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
Debt Service Coverage (>1.25)	<u>1.65</u>	<u>2.81</u>	<u>3.08</u>	<u>3.37</u>
Rate Covenant - per Section 6.04 (b)(ii)				
Net Revenues	\$ 50,327,475	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 10%)	<u>3,598,056</u>	<u>1,728,735</u>	<u>1,720,665</u>	<u>1,597,184</u>
Net Revenues + Transfer	\$ 53,925,531	\$ 46,024,098	\$ 50,342,861	\$ 51,374,135
Accrued Debt Service on Senior Obligations	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
Debt Service on Subordinate Obligations ⁴	30,112,081	31,129,931	30,130,833	6,939,856
LESS: Available PFC Revenues	(21,941,081)	(22,005,931)	(20,448,833)	(6,939,856)
LESS: Available Grant Revenues	<u>(8,171,000)</u>	<u>(9,124,000)</u>	<u>(9,682,000)</u>	<u>-</u>
Accrued Debt Service on Sr. & Sub. Obligations	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
Debt Service Coverage (>1.10)	<u>1.50</u>	<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 on the following page includes the debt service coverage calculation for fiscal years 2003 through 2008, for Senior Bonds outstanding prior to 2008, and according to the documents pursuant to which these bonds were issued.

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

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

³The Accrued Debt Service includes the principal payment due on July 1, 2012, 2011, 2010 and 2009, respectively.

⁴Per 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 2003 THROUGH 2008

PRIOR BONDS ¹

	2008	2007	2006
Total Operating Revenues	\$ 113,986,425	\$ 103,648,596	\$ 100,980,196
Certain Non-Operating Revenues ²	<u>4,953,832</u>	<u>12,961,598</u>	<u>10,486,622</u>
Revenues	\$ 118,940,257	\$ 116,610,194	\$ 111,466,818
Operating Expenses ³	<u>(87,769,525)</u>	<u>(78,636,521)</u>	<u>(72,668,987)</u>
Net Revenues	\$ 31,170,732	\$ 37,973,673	\$ 38,797,831
Debt Service Requirement ⁴	\$ 15,507,142	\$ 12,458,165	\$ 14,721,391
Debt Service Coverage (>1.25)	<u>2.0</u>	<u>3.0</u>	<u>2.6</u>

	2005	2004	2003
Total Operating Revenues	\$ 92,549,178	\$ 79,730,527	\$ 75,744,973
Certain Non-Operating Revenues ²	<u>12,220,192</u>	<u>10,593,301</u>	<u>13,510,195</u>
Revenues	\$ 104,769,370	\$ 90,323,828	\$ 89,255,168
Operating Expenses ³	<u>(67,524,525)</u>	<u>(66,842,925)</u>	<u>(63,338,095)</u>
Net Revenues	\$ 37,244,845	\$ 23,480,903	\$ 25,917,073
Debt Service Requirement ⁴	\$ 16,835,805	\$ 16,840,105	\$ 15,062,285
Debt Service Coverage (>1.25)	<u>2.2</u>	<u>1.4</u>	<u>1.7</u>

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

²Includes 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.

³Operating Expenses include all Airport System operating costs and certain capital.

⁴Represents 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

	2012	2011	2010	2009	2008
Principal	\$ 20,260,000	\$ 19,740,000	\$ 10,710,000	\$ 4,970,000	\$ 4,705,000
Interest ¹	26,906,214	15,473,662	17,105,647	18,203,544	11,516,327
Total debt service	<u>\$ 47,166,214</u>	<u>\$ 35,213,662</u>	<u>\$ 27,815,647</u>	<u>\$ 23,173,544</u>	<u>\$ 16,221,327</u>
Total expenses	<u>\$ 167,367,368</u>	<u>\$ 129,853,675</u>	<u>\$ 128,198,992</u>	<u>\$ 129,364,269</u>	<u>\$ 124,769,226</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	<u>28.2%</u>	<u>27.1%</u>	<u>21.7%</u>	<u>17.9%</u>	<u>13.0%</u>

	2007	2006	2005	2004	2003
Principal	\$ 7,660,000	\$ 6,705,000	\$ 6,425,000	\$ 4,845,000	\$ 4,470,000
Interest ¹	11,800,681	11,881,872	14,082,421	14,366,581	14,164,206
Total debt service	<u>\$ 19,460,681</u>	<u>\$ 18,586,872</u>	<u>\$ 20,507,421</u>	<u>\$ 19,211,581</u>	<u>\$ 18,634,206</u>
Total expenses	<u>\$ 111,488,714</u>	<u>\$ 102,984,463</u>	<u>\$ 95,188,366</u>	<u>\$ 92,084,108</u>	<u>\$ 87,145,998</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	<u>17.5%</u>	<u>18.1%</u>	<u>21.8%</u>	<u>22.6%</u>	<u>21.8%</u>

¹Does not include capitalized interest.

Debt per Enplaned Passenger

LAST TEN FISCAL YEARS

	2012	2011	2010	2009	2008
Bonds payable	<u>\$1,121,481,336</u>	<u>\$1,139,939,316</u>	<u>\$1,026,535,309</u>	<u>\$559,630,572</u>	<u>\$562,376,271</u>
Enplaned passengers	<u>4,372,226</u>	<u>4,377,315</u>	<u>4,445,991</u>	<u>4,603,182</u>	<u>5,294,737</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 256.50</u>	<u>\$ 260.42</u>	<u>\$ 230.89</u>	<u>\$ 121.57</u>	<u>\$ 106.21</u>

	2007	2006	2005	2004	2003
Bonds payable	<u>\$ 244,133,482</u>	<u>\$ 248,835,292</u>	<u>\$ 261,578,571</u>	<u>\$267,519,013</u>	<u>\$271,879,455</u>
Enplaned passengers	<u>5,307,289</u>	<u>5,150,229</u>	<u>4,986,171</u>	<u>4,563,607</u>	<u>4,314,273</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 46.00</u>	<u>\$ 48.32</u>	<u>\$ 52.46</u>	<u>\$ 58.62</u>	<u>\$ 63.02</u>

Debt Capacity (cont.)

Outstanding Debt

LAST TEN FISCAL YEARS

Senior Revenue Bonds	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
1989 series (6.97% to 7.0%, due 2003-2020)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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
1996 series A (5.3% to 6%, due 2006-2024)	-	-	-	-	-	-	-	84,085,000	86,310,000	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
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)	157,430,000	160,600,000	163,695,000	166,675,000	169,575,000	-	-	-	-	-
2008 series B (4.25% to 5.75%, due 2013-2039)	307,580,000	309,660,000	311,730,000	313,760,000	314,340,000	-	-	-	-	-
2008 refunding series C (5.20%, due 2012)	3,305,000	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	31,115,000	-	-	-	-	-	-	-
2009 series B (5.50% to 5.75%, due 2034-2039)	170,685,000	170,685,000	170,685,000	-	-	-	-	-	-	-
2010 series (5.00%, due 2030-2040)	128,300,000	128,300,000	-	-	-	-	-	-	-	-
Total senior revenue bonds	\$ 798,415,000	\$ 806,810,000	\$ 686,665,000	\$ 492,715,000	\$ 496,195,000	\$ 205,160,000	\$ 211,410,000	\$ 219,070,000	\$ 224,220,000	\$ 227,855,000
Subordinate and PFC/Grant Revenue Bonds										
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
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
2008 refunding series D (5.0%, due 2026)	41,665,000	43,740,000	45,155,000	45,595,000	46,390,000	-	-	-	-	-
2008 refunding series E (4.25% to 5.75%, due 2013-2024)	34,965,000	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	112,860,000	-	-	-	-	-	-	-
2009 series D (6.0%, due 2035)	150,390,000	157,685,000	165,390,000	-	-	-	-	-	-	-
Total subordinate and PFC/Grant revenue bonds	\$ 339,880,000	\$ 351,745,000	\$ 363,330,000	\$ 87,940,000	\$ 89,430,000	\$ 49,235,000	\$ 50,645,000	\$ 51,985,000	\$ 53,260,000	\$ 54,470,000
Total bonds payable	\$ 1,138,295,000	\$ 1,158,555,000	\$ 1,049,995,000	\$ 580,655,000	\$ 585,625,000	\$ 254,395,000	\$ 262,055,000	\$ 271,055,000	\$ 277,480,000	\$ 282,325,000

Demographic and Economic Service Area Population

LAST TEN FISCAL YEARS

	2012	2011	2010	2009	2008
PRIMARY AREA					
Sacramento County ¹	1,435,153	1,427,961	1,409,000	1,394,000	1,381,000
Placer County	355,328	351,463	347,102	339,577	333,401
Yolo County	202,133	201,071	202,953	200,709	199,066
San Joaquin County	695,750	689,160	694,293	689,480	685,660
El Dorado County	180,712	180,483	182,019	180,185	179,722
Sutter County	95,065	94,620	99,154	96,554	95,878
Yuba County	72,615	72,316	73,380	72,900	71,929
TOTAL PRIMARY AREA	3,036,756	3,024,440	2,999,901	2,965,405	2,939,656
SECONDARY AREA	1,143,246	1,149,772	945,140	942,379	942,002
TOTAL POPULATION	4,180,002	4,174,212	3,945,041	3,907,784	3,881,658
	2007	2006	2005	2004	2003
PRIMARY AREA					
Sacramento County ¹	1,370,000	1,361,000	1,349,000	1,329,000	1,301,000
Placer County	324,495	316,508	305,675	292,100	275,600
Yolo County	193,983	190,344	187,743	184,500	181,300
El Dorado County	675,463	670,159	659,885	644,513	166,000
San Joaquin County	178,674	176,204	173,407	168,100	625,600
Sutter County	93,919	91,450	88,945	85,500	83,200
Yuba County	70,745	69,827	66,734	64,800	62,800
TOTAL PRIMARY AREA	2,907,279	2,875,492	2,831,389	2,768,513	2,695,500
SECONDARY AREA	938,650	935,164	926,661	912,425	901,878
TOTAL POPULATION	3,845,929	3,810,656	3,758,050	3,680,938	3,597,378

¹ Bureau of Economic Analysis revised population to reflect Census Bureau midyear population estimates available as of April 2012.

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

	2012	2011	2010	2009	2008
Population ¹	1,435,153	1,427,961	1,409,000	1,394,000	1,381,000
Personal Income ¹	N/A ²	\$53,612,730	\$52,377,247	\$54,078,812	\$52,572,684
Per capita personal income	N/A ²	\$ 37,700	\$ 37,184	\$ 38,782	\$ 38,064
Unemployment rate	12.1%	12.7%	11.3%	7.2%	5.4%

	2007	2006	2005	2004	2003
Population	1,370,000	1,361,000	1,349,000	1,329,000	1,301,000
Personal income	\$50,165,916	\$47,563,421	\$45,282,367	\$42,564,972	\$40,305,530
Per capita personal income	\$ 36,629	\$ 34,952	\$ 33,569	\$ 32,039	\$ 30,979
Unemployment rate	4.8%	5.0%	5.6%	5.9%	5.7%

¹ Bureau of Economic Analysis revised population and per capita income to reflect Census Bureau midyear population estimates available as of April 2012.

² Figures not available until April 2013.

Source: US Department of Commerce - Bureau of Economic Analysis; California State Employment Development Department.

Principal Employers in the County of Sacramento

Employer	June 30, 2012			June 30, 2003		
	Employees (b)	Rank	Percentage of Total County Employment	Employees (c)	Rank	Percentage of Total County Employment
Kaiser Permanente	9,932	1	1.67%	7,480	4	1.23%
Sutter / California Health Services	9,609	2	1.62	8,250	2	1.35
CHW / Mercy Health Care	7,107	3	1.20	6,709	6	1.10
Intel Corporation	6,147	4	1.03	7,000	5	1.15
Hewlett-Packard	3,500	5	0.59	4,000	8	0.66
Wells Fargo & Co.	2,986	6	0.50			
Health Net of California	2,440	7	0.41			
Cache Creek Casino	2,376	8	0.40			
Pacific Gas and Electric Co.	2,060	9	0.35			
Thunder Valley Casino Resort	2,025	10	0.34			
Bank of America				3,500	9	0.57
Raley's Inc. / Bel Air				7,746	3	1.27
SBC Communications (a)				5,753	7	0.94
UC Davis Medical Center				9,000	1	1.48
Wal-Mart				3,220	10	0.53
Total	48,182		8.11%	62,658		10.28%

(a) SBC Communications merged with AT&T in November 2005

(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

	2012	2011	2010	2009 ¹	2008
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	4,372,226	4,377,579	4,445,991	4,603,182	5,294,737
Deplanements	4,356,658	4,368,942	4,442,520	4,605,605	5,303,596
Total passengers	8,728,884	8,746,521	8,888,511	9,208,787	10,598,333
Air mail (lbs.)					
Inbound	2,408,845	1,466,193	2,159,140	2,135,099	420,402
Outbound	1,051,644	177,481	66,376	1,416,269	2,828,593
Total air mail	3,460,489	1,643,674	2,225,516	3,551,368	3,248,995
Air freight (lbs.)					
Inbound	68,064,134	65,849,461	66,909,099	68,613,761	89,168,308
Outbound	75,614,167	78,331,292	77,056,626	74,711,461	82,452,491
Total air freight	143,678,301	144,180,753	143,965,725	143,325,222	171,620,799
Aircraft operations	119,054	117,614	133,040	140,179	167,725
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Aircraft operations	53,096	78,112	89,384	94,035	98,130
<u>SACRAMENTO MATHER AIRPORT</u>					
Air freight (lbs.)					
Inbound	47,715,594	35,568,663	40,932,110	56,285,576	81,703,461
Outbound	56,339,563	44,371,356	45,129,897	58,413,055	87,841,564
Total air freight	104,055,157	79,940,019	86,062,007	114,698,631	169,545,025
Aircraft operations	128,373	144,326	83,051	91,014	88,245
	2007	2006	2005	2004	2003
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	5,307,289	5,150,229	4,986,171	4,563,607	4,314,273
Deplanements	5,307,799	5,144,838	4,974,239	4,551,895	4,332,641
Total passengers	10,615,088	10,295,067	9,960,410	9,115,502	8,646,914
Air mail (lbs.)					
Inbound	2,356,604	8,488,572	10,955,369	8,230,789	7,092,275
Outbound	1,320,976	7,018,259	10,373,197	14,043,719	14,300,327
Total air mail	3,677,580	15,506,831	21,328,566	22,274,508	21,392,602
Air freight (lbs.)					
Inbound	79,697,218	75,706,041	76,002,268	71,737,037	74,534,298
Outbound	74,955,862	61,030,139	55,446,447	58,015,622	60,348,955
Total air freight	154,653,080	136,736,180	131,448,715	129,752,659	134,883,253
Aircraft operations	173,903	172,902	162,397	162,416	159,795
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Aircraft operations	122,271	118,405	109,765	140,935	120,200
<u>SACRAMENTO MATHER AIRPORT</u>					
Air freight (lbs.)					
Inbound	72,609,458	68,851,888	67,014,010	67,511,356	59,180,276
Outbound	82,530,228	60,115,274	58,295,663	60,536,105	56,800,781
Total air freight	155,139,686	128,967,162	125,309,673	128,047,461	115,981,057
Aircraft operations	94,886	98,099	80,532	75,110	75,356

Source: Sacramento County Airport System activity reports.

¹ 2009 air mail and air freight figures revised.

Operating Information (cont.)

Scheduled Airline Service

As of June 30, 2012

MAJOR AIRLINE SERVICE

Airline	Nonstop Service	One-Stop, Same-Plane Service
Aeromexico	Guadalajara, Mexico (GDL)	
Alaska	Guadalajara, Mexico (GDL) Maui (Kahului), HI (OGG) Seattle, WA (SEA)	
American	Dallas/Ft. Worth, TX (DFW) Los Angeles, CA (LAX)	Detroit, MI (DTW) Nashville, TN (BNA) Orlando, FL (MCO) San Antonio, TX (SAT)
Delta	Atlanta, GA (ATL) Detroit, MI (DTW) Los Angeles, CA (LAX) Minneapolis/St. Paul, MN (MSP) Salt Lake City, UT (SLC)	
Frontier	Denver, CO (DEN)	Detroit, MI (DTW) St. Louis, MO (STL)
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) Detroit, MI (DTW) El Paso, TX (ELP) Houston, TX (HOU) Indianapolis, IN (IND) Kansas City, MO (MCI) Nashville, TN (BNA) Oklahoma, OK (OKC) Orlando, FL (MCO) San Antonio, TX (SAT) Tucson, AZ (TUS) Tulsa, OK (TUL)
United	Chicago, IL (ORD) Denver, CO (DEN) Houston, TX (IAH) Washington, D.C. (IAD)	Baltimore, MD (BWI) Columbus, OH (CMH) Fort Lauderdale, FL (FLL) Indianapolis, IN (IND) Miami, FL (MIA) New York, NY (Newark) San Jose, Costa Rica (SJO)
US Airways	Charlotte, NC (CLT) Philadelphia, PA (PHL) Phoenix, AZ (PHX)	Kansas City, MO (MCI)

REGIONAL AIRLINE SERVICE

Airline	Nonstop Service	
Horizon	Boise, ID (BOI) Portland, OR (PDX)	Missoula, MT (MSO)
United Express	Denver, CO (DEN) Eureka/Arcata, CA (ACV) Los Angeles, CA (LAX) San Francisco, CA (SFO)	Albuquerque, NM (ABQ) Crescent City, CA (CEC) Eugene, OR (EUG) Medford, OR (MFR) Palm Springs, CA (PSP)

Operating Information (cont.)

Principal Customers/Airport System Employees/Capital Assets

Principal Customers

	2012		2003	
	Customer Revenue	% Total Customer Revenue	Customer Revenue	% Total Customer Revenue
ABM/APCOA Parking ¹	\$ 46,455,396	32.3%	\$ 33,325,206	44.0%
Southwest Airlines	34,681,847	24.2%	7,293,699	9.6%
United Airlines	7,814,368	5.4%	1,730,947	2.3%
	<u>\$ 88,951,611</u>	<u>61.9%</u>	<u>\$ 42,349,852</u>	<u>55.9%</u>

¹ AMPCO commenced operations on January 1, 2006; APCOA Parking ceased operations on December 31, 2005; AMPCO name changed to ABM in February 2012

LAST TEN FISCAL YEARS

Airport System Employees

	2012	2011	2010	2009	2008
Full Time Employees	409	411	412	406	406
	2007	2006	2005	2004	2003
Full Time Employees	417	414	442	434	417

Capital Assets

	2012	2011	2010	2009	2008
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	151	147	148	149	148
Buses	32	33	33	47	41
	2007	2006	2005	2004	2003
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	120	112	108	120	116
Buses	35	44	47	55	47

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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 of Sacramento Airport System Senior Revenue Bonds, Series 2008, 2009 and 2010 and the County of Sacramento 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 29-32 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 79 of this report.
 2. Historical Aircraft Landed Weights. Refer to EXHIBIT 2, page 80 of this report.
 3. Airlines' Market Shares of Enplaned Passengers. Refer to EXHIBIT 3, page 81 of this report.
 4. Statement of Revenues, Expenses and Changes in Net Assets. Refer to the Statistical Section, Financial Trends, pages 60-61 of this report.
 5. Nonairline Revenues. Refer to EXHIBIT 4, page 82 of this report.
 6. Summary of Historical Revenues, Expenses and Debt Service Coverage. Refer to the Statistical Section, Debt Capacity, pages 66-67 of this report.

REPORTING OF SIGNIFICANT EVENTS

On November 30, 2011, Assured Guaranty Corp. and Assured Guaranty Municipal Corp. bond insurer credit ratings were downgraded from "AA+" to "AA-" by Standard and Poor's Ratings Services.

The insurer provider ratings are applicable to the insured issues and series 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 event was disclosed as a material event 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	2012	2011	2010	2009	2008
Major and Other Airlines (a)	4,105,026	4,123,287	4,219,229	4,245,972	4,741,650
Regional Airlines	<u>267,200</u>	<u>254,028</u>	<u>226,762</u>	<u>357,210</u>	<u>553,087</u>
TOTAL	<u><u>4,372,226</u></u>	<u><u>4,377,315</u></u>	<u><u>4,445,991</u></u>	<u><u>4,603,182</u></u>	<u><u>5,294,737</u></u>
Percent Change From Prior Year	<u><u>(0.1%)</u></u>	<u><u>(1.5%)</u></u>	<u><u>(3.4%)</u></u>	<u><u>(13.1%)</u></u>	<u><u>(0.2%)</u></u>

ENPLANEMENTS	2007	2006	2005	2004	2003
Major and Other Airlines (a)	5,075,849	4,897,981	4,763,946	4,336,932	4,096,459
Regional Airlines	<u>231,440</u>	<u>252,248</u>	<u>222,225</u>	<u>226,675</u>	<u>217,814</u>
TOTAL	<u><u>5,307,289</u></u>	<u><u>5,150,229</u></u>	<u><u>4,986,171</u></u>	<u><u>4,563,607</u></u>	<u><u>4,314,273</u></u>
Percent Change From Prior Year	<u><u>3.1%</u></u>	<u><u>3.3%</u></u>	<u><u>9.3%</u></u>	<u><u>5.8%</u></u>	<u><u>6.7%</u></u>

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

	2012	2011 ¹	2010 ¹	2009 ¹	2008
Passenger airlines					
Major and Other Airlines (a)	5,033,616	5,077,014	5,429,663	5,743,444	6,293,924
Regionals	246,033	286,222	476,621	329,445	456,937
SUBTOTAL	5,279,649	5,363,236	5,906,284	6,072,889	6,750,861
All cargo airlines	601,612	581,195	629,242	800,830	982,234
TOTAL	5,881,261	5,944,431	6,535,526	6,873,718	7,733,095
Percent change from prior year	(1.1%)	(5.7%)	(6.4%)	(12.0%)	(0.1%)

	2007	2006	2005	2004	2003
Passenger airlines					
Major and Other Airlines (a)	6,489,593	6,185,453	6,037,113	5,661,830	5,419,459
Regionals	304,247	288,094	255,984	273,734	264,845
SUBTOTAL	6,793,840	6,473,547	6,293,097	5,935,564	5,684,304
All cargo airlines	949,579	728,999	771,423	764,687	856,342
TOTAL	7,743,419	7,202,546	7,064,520	6,700,251	6,540,646
Percent change from prior year	7.5%	2.0%	5.4%	2.4%	4.2%

Source: Airport System Records

¹ 2009-2011 figures have been 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

PERCENTAGE OF TOTAL ENPLANEMENTS	2012	2011	2010	2009
Major Airlines (a)				
Southwest Airlines	50.3%	52.1%	52.7%	52.6%
United Airlines	6.8	6.5	6.8	7.5
Delta Air Lines (b)	6.4	6.6	5.5	4.4
Alaska Airlines	5.6	5.2	4.2	4.0
American Airlines	5.3	4.6	4.0	3.2
US Airways	5.1	5.1	5.3	6.5
Jet Blue Airlines	3.5	2.5	2.4	2.1
Frontier Airlines	2.8	3.0	3.2	2.9
Continental Airlines	2.7	3.7	3.6	3.5
Hawaiian Airlines	1.9	1.9	1.9	1.8
Aeromexico	0.6	-	-	-
Mexicana Airlines	-	0.1	1.3	1.3
Northwest Airlines (b)	-	-	1.2	2.4
Regional Airlines				
Skywest	6.1	5.7	5.1	4.2
Horizon Airlines	2.7	2.9	2.9	2.7
Mesa/Delta Connection	0.0	0.1	-	-
Express Jet	-	-	-	0.8
Air Canada Jazz	-	-	-	0.1
	<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
United Airlines	2	3	2	2
Delta Air Lines (b)	3	2	3	4
Alaska Airlines	5	5	6	6
American Airlines	6	7	7	8
US Airways	7	6	4	3
Jet Blue Airlines	8	11	11	12
Frontier Airlines	9	9	9	9
Continental Airlines	11	8	8	7
Hawaiian Airlines	12	12	12	13
Aeromexico	13			
Mexicana Airlines		14	13	14
Northwest Airlines (b)			14	11
Regional Airlines				
Skywest	4	4	5	5
Horizon Airlines	10	10	10	10
Mesa/Delta Connection	14	13		
Express Jet				15
Air Canada Jazz				16

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

	2012	2011	2010
Airline Revenue			
Terminal building rents and fees	\$ 36,137,745	\$ 21,903,848	\$ 28,182,839
Aircraft parking fees	2,257,476	1,425,065	532,477
Loading bridge fees	3,965,015	2,722,022	2,954,288
Landing fees	23,248,445	20,811,439	25,823,533
Airport Services	3,194,457	-	-
TOTAL AIRLINE REVENUE	\$ 68,803,138	\$ 46,862,374	\$ 57,493,137
Nonairline Revenue			
Airfield area			
Commerical fees	\$ 16,305	\$ 14,191	\$ -
Other landing fees	36,569	16,047	119,058
Fuel sales	960,938	860,226	739,085
SUBTOTAL	\$ 1,013,812	\$ 890,464	\$ 858,143
Terminal building			
Food/beverage	\$ 3,096,650	\$ 2,945,087	\$ 2,722,052
Merchandise	2,184,732	1,855,985	1,896,989
Advertising	674,849	649,874	659,788
Telephones	134,068	140,684	116,781
Vending	360,901	219,704	201,910
Other terminal rents	7,013	6,415	-
SUBTOTAL	\$ 6,458,213	\$ 5,817,750	\$ 5,597,520
Parking	\$ 46,739,420	\$ 44,966,016	\$ 45,694,908
Other areas			
Auto rentals	\$ 9,391,070	\$ 8,932,954	\$ 8,980,908
Auto rental shuttle bus fees	2,854,311	3,069,151	2,651,844
Taxi/shuttle bus fees	559,758	555,707	516,929
Tiedown and hangars	702,383	692,817	710,553
FBO rentals	94,616	112,310	158,336
Aviation ground leases	1,668,994	1,781,069	2,542,130
Other rentals/miscellaneous	4,124,089	3,921,362	3,447,453
SUBTOTAL	\$ 19,395,221	\$ 19,065,369	\$ 19,008,152
Other revenue			
Service fees	\$ 941,621	\$ 920,930	\$ 898,153
Miscellaneous revenue ¹	2,077,263	9,529,216	1,359,443
SUBTOTAL	\$ 3,018,884	\$ 10,450,146	\$ 2,257,596
TOTAL NONAIRLINE REVENUES	\$ 76,625,550	\$ 81,189,745	\$ 73,416,319
Interest income ²	628,467	127,715	1,097,705
TOTAL NONAIRLINE REVENUE	\$ 77,254,017	\$ 81,317,460	\$ 74,514,024

Source: Airport System audited financial statements.

¹As permitted under the Bond Indenture, FY2011 amount includes transfer from the Capital Improvement Fund to offset settlement of FY 2010 airline rates and charges.

²As defined in the Bond Indenture.

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