KPMG

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Financial Statements with
Schedule of Passenger Facility Charge Revenues and Expenditures

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

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Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the accompanying financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Airport'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Airport are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, the changes in its financial position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2012 and 2011, and changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 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, 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 31 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 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Passenger Facility Charge Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 25, 2012

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO) presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2012, with comparative data for the fiscal year ended June 30, 2011. All amounts are expressed in thousands of dollars unless otherwise indicated.

The Airport's financial statements are comprised of two components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

Statements of Net Assets present information on the Airport's assets, deferred outflows, and liabilities as of the year end, with the difference between the amounts as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Airport is improving or weakening.

While the Statements of Net Assets provide information about the nature and amount of resources and obligations at the year end, the *Statements of Revenues, Expenses, and Changes in Net Assets* present the results of the Airport's operations over the course of the fiscal year and information as to how the net assets changed during the fiscal year. These Statements can be used as an indicator of the extent to which the Airport has successfully recovered its costs through user fees and other charges. All changes in net assets are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operating, noncapital financing, capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or revenue and exclude noncash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is not displayed on the face of the financial statements but is essential to a full understanding of the financial statements.

Highlights of Airline Operations at the Airport

Fiscal year 2012 passenger traffic at SFO exceeded the previous peak of 20.2 million enplanements established in fiscal year 2000. Fiscal year 2012 enplanements reached 21.4 million, an increase of 8.0% from the prior fiscal year. The majority of passenger traffic growth was in the domestic sector, primarily reflecting United Airlines' strategic direction to reinforce its SFO hub and Virgin America's rapid growth in its first full year of operations in Terminal 2. The airlines, which are the top two carriers in passenger volume at SFO, experienced over 1.4 million in additional domestic enplanements as compared to the prior fiscal year, which contributed to the total domestic enplanements increase.

The 8.0% fiscal year-over-year enplanement increase at SFO compares to an increase of 2.9% at Oakland International Airport and a decline of 1.5% at Mineta San Jose International Airport, resulting in a Bay Area passenger market share increase of 1.4 percentage points for SFO to 70.5%. As compared to Department of

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Transportation data through June 2012, SFO's enplanement increase of 8.0% fared better than the national average increase of 1.1%.[1]

Passenger and Other Traffic Activity

Domestic enplanements increased by 9.4% during fiscal year 2012, totaling more than 16.8 million passengers, primarily due to service increases by United Airlines and Virgin America. International enplanements increased by 3.3%, reaching above 4.6 million passengers, with passenger volume growth among Europe, Latin America, and Asia/Mid East regions, which was partially offset by decreases in the Canada and Australia/Oceania regions. Both domestic and international sectors surpassed their prior peak enplanements of 16.4 million in fiscal year 2000, and slightly below 4.6 million in fiscal year 2008, respectively. Overall load factors increased fiscal year-over-year by 1.2 percentage points to 82.4%. Cargo and U.S. mail tonnage declined by 3.3% compared to fiscal year 2011, with domestic increases partially offsetting declines in international cargo. Total flight operations increased 6.3% compared to fiscal year 2011 levels. Aircraft revenue landed weight, which determines revenue generated by landing fees, was 4.9% above prior fiscal year levels.

The following table[2] presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2012, 2011, and 2010:

	FY 2012	FY 2011*	FY 2010	% Change FY 2012	% Change FY 2011
Flight operations	417,430	392,669	383,457	6.3%	2.4%
Landing weight (in 000 lbs.)	30,459,996	29,044,093	28,594,479	4.9	1.6
Total passengers	43,061,106	39,980,029	38,448,243	7.7	4.0
Total enplaned and deplaned passengers	42,863,656	39,726,471	38,203,961	7.9	4.0
Enplaned passengers	21,420,063	19,836,710	19,100,402	8.0	3.9
Deplaned passengers	21,443,593	19,889,761	19,103,559	7.8	4.1
Domestic enplaned and deplaned passengers	33,589,850	30,725,774	29,697,949	9.3	3.5
International enplaned and deplaned passengers	9,273,806	9,000,697	8,506,012	3.0	5.8
Cargo and U.S. mail tonnage (in metric tons)	385,113	398,383	431,990	(3.3)	(7.8)

* Numbers updated to include revised data received subsequent to the 2011 fiscal year end.

[1] Source: U.S. Department of Transportation, Bureau of Transportation Statistics.

[2] Sources: Analysis of Airline Traffic, fiscal years 2011 and 2012.

Fiscal Year 2012

Passenger Traffic

Compared to fiscal year 2011, passenger enplanements in fiscal year 2012 increased by 8.0% from 19.8 million to 21.4 million passengers. Domestic passenger enplanements increased 9.4%, while international enplanements increased 3.3% compared to the prior fiscal year. The enplanement increase totaled 1,583,353 passengers, 1,437,986 of which were domestic and 145,367 were international.

The domestic enplanement growth was on a 7.2% increase in seat capacity, primarily due to service increases by United Airlines and Virgin America, which added net totals of 23 and 10 daily flights to domestic schedules, respectively. International enplanement growth was on a 3.6% increase in seat capacity. New and increased services by a number of foreign flag carriers to Europe and Asia and by United Airlines and Virgin America to Mexico, fully offset service reductions to Canada and Australia. The international region with the highest enplanement growth in fiscal year 2012 was Latin America. Europe had the second highest growth, weathering uncertain economies in the region. Asia/Mid East enplanements experienced increases in the second half of the year, offsetting declines during the first half. Compared to the prior fiscal year, load factor increased in the domestic sector by 1.6 percentage points to 82.2%. Load factor in the international sector declined slightly by 0.2 percentage point to 83.3%.

Flight Operations

During fiscal year 2012, the number of aircraft operations (takeoffs and landings) increased by 24,761 flights, or 6.3%, from prior fiscal year levels. Commercial traffic increased by 6.7%, or 25,192 flights. Civil and military traffic declined by 2.7%, or 431 flights.

Total scheduled airline passenger and cargo landings increased by 6.8% with an increase in landed weight for these landings of 4.9% compared to the prior fiscal year. Domestic passenger landings increased by 7.8% while landed weight increased by 6.5%. The balance between mainline aircraft (wide body and narrow body) and commuters (regional jets and turboprops) in the domestic sector was relatively stable, with approximately 68% of landings comprising mainline aircraft in both fiscal years 2012 and 2011, while the remainder were commuters. Narrow body domestic landings increased by 8,428, or 8.7%. Wide body landings declined by 325, or 4.1%. Regional jet and turboprop landings increased by 3,893, or 8.0%. Average domestic seats per flight declined slightly, from approximately 122 to 121.

In the international passenger market, fiscal year-over-year landings increased by 1.5%, while landed weight increased by 2.0%, indicating a trend towards larger aircraft size. Wide body landings increased slightly by 39, or 0.3%, primarily on long haul routes, narrow body landings increased by 620, or 9.0%, primarily on flights to Mexico, while regional jets that served the Canada market decreased in landings by 317, or 7.7%. Average international seats per flight increased slightly from approximately 226 to 228.

In relation to the overall decline in cargo shipments at SFO, Cargo only aircraft landings decreased by 3.3%, while landed weight decreased by 2.2%.

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Cargo Tonnage

Fiscal year 2012 cargo and U.S. mail tonnage decreased by 13,270 metric tons, or 3.3%, compared to fiscal year 2011. Mail increased by 2,894 metric tons, or 7.2%, and cargo volume excluding mail decreased by 16,164 metric tons, or 4.5%. Excluding mail, domestic cargo volume increased by 13,101 metric tons, or 11.4%, which partially offset the decline in international cargo of 29,265 metric tons, or 12.0%. Shipments to all international regions declined. Cargo only airlines, which carried 17.4% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 9.3%. A decrease in Federal Express and Nippon Cargo Airlines' cargo tonnage of over 6,000 metric tons was the primary reason for the decline. Airlines with passenger only or mixed passenger and freight operations showed a tonnage decline of 2.0%.

Fiscal Year 2011

Passenger Traffic

Compared to fiscal year 2010, passenger enplanements in fiscal year 2011 increased by 3.9% from 19.1 million to 19.8 million passengers. International passenger enplanements increased by 5.3% in a recovering global economy, compared to fiscal year 2010 that increased only 0.5%. Domestic enplanements increased 3.4% in fiscal year 2011, a strong result given the significant 6.1% increase in fiscal year 2010. The enplanement increase totaled 735,611 passengers, 511,900 of which were domestic and 223,711 were international.

The domestic enplanement growth was on a 2.5% increase in seat capacity, primarily due to service increases from LCCs AirTran, Frontier, JetBlue and Virgin America, and legacy carriers Continental, Delta, United, and US Airways. International enplanement growth was on a 6.1% increase in seat capacity. New and increased services from Air Berlin, Air France, LAN Peru, Lufthansa, Swiss International, and Virgin America fully offset service discontinuances by Mexicana and Qantas. Compared to the prior fiscal year, load factor increased in the domestic sector by 0.7 percentage point to 81.4%. Load factor declined in the international sector by 0.7 percentage point to 83.9% primarily due to demand that did not keep up with capacity in the second half of the year. Global events that affected international travel demand included political unrest in the Middle East and the earthquake and tsunami in Japan.

Flight Operations

During fiscal year 2011, the number of aircraft operations (takeoffs and landings) increased by 9,212 flights, or 2.4%, from prior fiscal year levels. Commercial traffic increased by 2.3%, or 8,301 flights; civil and military traffic increased by 6.1%, or 911 flights.

Total scheduled airline passenger and cargo landings increased by 2.4% with an increase in landed weight for these landings of 1.6% compared to the prior fiscal year. Domestic passenger landings increased by 2.1% while landed weight increased slightly by 0.6%. The disproportion of landings to landed weight was due to a fleet mix shift with decreased wide body landings of 1,591, or 16.6%, from legacy carriers, and increased combined regional jet and turboprop landings of 2,257, or 4.8%, primarily from SkyWest/United Express and SkyWest/Delta Connection. Narrow body landings increased by 2,469, or 2.6%, which helped stabilize the average aircraft seat capacity per landing relative to the prior fiscal year, at approximately 121 seats.

In the international passenger market, fiscal year-over-year landed weight increased by 6.2%, while landings increased by 5.2%, indicating a trend toward larger aircraft size. Wide body landings increased by 744, or 6.3%, primarily on long haul routes, narrow body landings increased by 625, or 9.9%, primarily on flights within North and Central America, while regional jet landings mainly to Canada decreased by 217, or 5.0%. This change in aircraft gauge resulted in an average aircraft seat capacity per landing increase of approximately four seats compared to the prior fiscal year, from 221 to 225 seats.

Cargo only landings decreased by 2.8% fiscal year-over-year, while landed weight decreased by 10.5%. A combined increase of 162 turboprop landings from Ameriflight and Air Cargo Carriers and a decrease of over 240 wide body landings by ABX Air, Federal Express, and Nippon Cargo Airlines shifted the freighter fleet mix towards smaller aircraft resulting in the substantial landed weight decline.

Cargo Tonnage

Fiscal year 2011 cargo and U.S. mail tonnage decreased by 33,607 metric tons, or 7.8%, compared to fiscal year 2010. Mail decreased by 9,547 metric tons, or 19.3%, and cargo volume, excluding mail, decreased by 24,060 metric tons, or 6.3%. Mail volumes continue to decline likely due to the migration to electronic alternatives. Excluding mail, domestic cargo volume decreased by 16.8%, while international volume was relatively flat, decreasing by 0.3%. Shipments to the Asia/Mid East region, which had robust growth through December 2010, began to decline in January 2011. The impact of the earthquake and tsunami in Japan worsened the trend since March 2011, ending the fiscal year with a cargo decline of 7,056 metric tons, or 3.7%, excluding mail. A combined Europe and Latin America cargo increase of 6,213 metric tons, or 13.7%, excluding mail, nearly offset the Asia/Mid East decline. Cargo only airlines, which carried 18.5% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 19.9%. A decrease in Federal Express cargo tonnage of over 21,000 metric tons was a primary reason for the decline. Airlines with passenger only or mixed passenger and freight operations showed a decline of 4.5%.

Financial Highlights, Fiscal Year 2012

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by $290.6 million.
- Total revenue bonds payable by the Airport decreased by $126.9 million.
- No new short-term notes or bonds scheduled to become due in a single "balloon" payment (via a mandatory tender by bondholders for purchase by the Airport) were issued in fiscal year 2012.
- Operating revenues were $668.7 million.
- Operating expenses were $543.1 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $81.4 million from passenger facility charges), were $106.5 million.
- Capital contributions from Federal Aviation Administration's (FAA) Airport Improvement Program, Transportation Security Administration's (TSA) Closed Circuit TV Enhancement Program, FAA Airport Traffic Control Tower, and TSA Airport Checked Baggage Screening System were $14.5 million.

- Transfers to the City and County of San Francisco included an annual service payment of $34.0 million.
- Net assets decreased by $0.4 million.

Financial Highlights, Fiscal Year 2011

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by $291 million.
- Total revenue bonds payable by the Airport increased by $39.1 million.
- No new short-term notes or bonds scheduled to become due in a single "balloon" payment (via a mandatory tender by bondholders for purchase by the Airport) were issued in fiscal year 2011.
- Operating revenues were $607.3 million.
- Operating expenses were $494.9 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of $77.0 million from passenger facility charges) were $103.4 million.
- Capital contributions from Airport Improvement Program (AIP), Federal-Aid Highway Program, and Transportation Security Administration (TSA) Airport Checked Baggage Inspection System were $24.0 million.
- Transfers to the City and County of San Francisco included an annual service payment of $30.2 million and surety bond program revenue transfer of $0.4 million.
- Net assets increased by $2.4 million.

Overview of the Airport's Financial Statements

Net Asset Summary

A condensed summary of the Airport's net assets for the fiscal years 2012, 2011, and 2010 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET ASSETS

		FY 2012	FY 2011	FY 2010	FY 2012 Increase (Decrease)	FY 2011 Increase (Decrease)
Assets:						
Unrestricted current assets	$	387,781	374,666	361,370	13,115	13,296
Restricted assets available for current outlay		114,727	106,323	125,689	8,404	(19,366)
Restricted assets		390,371	438,705	679,654	(48,334)	(240,949)
Capital assets, net		3,734,426	3,814,264	3,711,791	(79,838)	102,473
Unamortized bond issuance costs		28,753	38,070	36,827	(9,317)	1,243
Total assets		4,656,058	4,772,028	4,915,331	(115,970)	(143,303)
Deferred outflows on derivative instruments		98,979	63,382	89,505	35,597	(26,123)
Total assets and deferred outflows		4,755,037	4,835,410	5,004,836	(80,373)	(169,426)
Liabilities:						
Current liabilities payable from unrestricted assets		424,916	218,923	262,551	205,993	(43,628)
Current liabilities payable from restricted assets		91,139	78,803	242,554	12,336	(163,751)
Noncurrent liabilities		3,831,511	4,178,410	4,116,361	(346,899)	62,049
Derivative instruments		116,859	68,304	94,838	48,555	(26,534)
Total liabilities		4,464,425	4,544,440	4,716,304	(80,015)	(171,864)
Net assets:						
Invested in capital assets, net of related debt		4,190	18,280	(34,377)	(14,090)	52,657
Restricted for debt service		25,711	27,226	54,170	(1,515)	(26,944)
Restricted for capital projects		71,109	56,981	81,471	14,128	(24,490)
Unrestricted		189,602	188,483	187,268	1,119	1,215
Total net assets	$	290,612	290,970	288,532	(358)	2,438

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Fiscal Year 2012

Total net assets serve as an indicator of the Airport’s financial position. The Airport’s assets and deferred outflows exceeded liabilities by $290.6 million and $291.0 million as of June 30, 2012, and June 30, 2011, respectively, representing a 0.1% decrease, or $0.4 million. Unrestricted net assets represented 65.2% and 64.8% of total net assets as of June 30, 2012, and June 30, 2011, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport’s current obligations. Unrestricted current assets increased by 3.5% from $374.7 million on June 30, 2011, to $387.8 million on June 30, 2012, due principally to the increase in the Airport’s cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay consist of cash and investments held in City Treasury, debt service funds held by the fiscal agent, and passenger facility charges. Restricted assets available for current outlay increased by 7.9% from $106.3 million on June 30, 2011, to $114.7 million on June 30, 2012, principally due to the increase in cash and investments held in the City Treasury generated from strong growth of passenger traffic.

Restricted assets decreased from $438.7 million in fiscal year 2011 to $390.4 million in fiscal year 2012, primarily due to a decrease of $64.7 million in cash and investments held in City Treasury representing depletion of unspent proceeds from the sale of revenue bonds. The decrease of $64.7 million was offset by the recognition of $13.3 million of investment derivative instruments in fiscal year 2012 in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (see note 3c).

Capital assets consist of land, easements, buildings, structures, improvements, and equipment. Capital assets, net of depreciation, decreased 2.1% to $3.7 billion in fiscal year 2012 due to higher depreciation expense with the opening of Terminal 2.

Unamortized bond issuance costs decreased from $38.1 million in fiscal year 2011 to $28.8 million in fiscal year 2012 due to amortization of the bond issuance costs in addition to current refunding activities in fiscal year 2012.

Deferred outflows on derivative instruments of $99.0 million as of June 30, 2012, represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in fiscal year 2012.

Current liabilities payable from unrestricted assets increased by 94.1% from $218.9 million as of June 30, 2011, to $424.9 million as of June 30, 2012, primarily due to the mandatory tender requirement of the $88.2 million Series 2009D Revenue Refunding Bonds on December 4, 2012, and the $100 million Issue 36A Revenue Refunding Bonds as the associated letter of credit will expire on May 7, 2013.

Current liabilities payable from restricted assets increased by 15.6% from $78.8 million as of June 30, 2011, to $91.1 million as of June 30, 2012, primarily due to the issuance of commercial paper notes during fiscal year 2012 for the capital improvements.

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing the accrual of compensated absences (vacation and vested sick leave) and workers’ compensation and general liabilities and other postemployment benefits obligation. Noncurrent liabilities before derivative instruments decreased by 8.3% to $3.8 billion in fiscal year 2012, primarily due to defeasance and redemption of the revenue bonds and notes.

Noncurrent derivative instruments increased by $48.6 million to $116.9 million as of June 30, 2012, due to the change in fair values of interest rate swap contracts per GASB 53.

As of June 30, 2012, the Airport's net assets invested in capital assets, net of related debt was $4.2 million compared to $18.3 million in fiscal year 2011, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

Fiscal Year 2011

The Airport's assets and deferred outflows exceeded liabilities by $291 million and $288.5 million as of June 30, 2011, and June 30, 2010, respectively, representing a 0.9% increase, or $2.5 million. Unrestricted net assets represented 64.8% and 64.9% of total net assets as of June 30, 2011, and June 30, 2010, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 3.7% from $361.4 million on June 30, 2010 to $374.7 million on June 30, 2011, due principally to the increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay consist of cash and investments held in City Treasury, debt service funds held by the fiscal agent, and passenger facility charges. The decrease is principally due to the decrease in cash and investments held in the City Treasury as well as the depletion of a capitalized interest account held by the Trustee.

Restricted assets decreased from $679.7 million in fiscal year 2010 to $438.7 million in fiscal year 2011 primarily due to a decrease of $224.9 million in cash and investments held in City Treasury representing depletion of unspent proceeds from the sale of revenue bonds and a decrease in grants receivable of $15.4 million.

Capital assets consist of land, easements, buildings, structures, improvements, and equipment. Capital assets, net of depreciation, increased by 2.8% to $3.8 billion in fiscal year 2011 due to higher capital expenditures.

Unamortized bond issuance costs increased from $36.8 million in fiscal year 2010 to $38.1 million in fiscal year 2011 due to the net effect of the capitalization of bond issuance cost for new refunding bonds and the amortization of the deferred costs.

Deferred outflows on derivative instruments of $63.4 million as of June 30, 2011, represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB 53 in fiscal year 2011.

Current liabilities payable from unrestricted assets decreased by 16.6% from $262.6 million as of June 30, 2010, to $218.9 million as of June 30, 2011, primarily due to $34.8 million decrease in current maturities of the Airport's long-term debt and decrease in provision for estimated claims payable of $4.6 million.

Current liabilities payable from restricted assets decreased by 67.5% from $242.6 million as of June 30, 2010 to $78.8 million as of June 30, 2011, primarily because of the payout of commercial paper notes during fiscal year 2011 relating to increased construction activity for Terminal 2 and other capital projects.

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing the accrual of compensated absences (vacation and vested sick leave) and workers' compensation liabilities and other postemployment benefits obligation. Noncurrent liabilities before derivative instruments increased by 1.5% to $4.2 billion in fiscal year 2011, primarily due to revenue bonds issued during the fiscal year.

Noncurrent derivative instruments of $68.3 million as of June 30, 2011, represent the recording of the fair values of interest rate swap contracts per GASB 53.

As of June 30, 2011, the Airport's net assets invested in capital assets, net of related debt was $18.3 million, compared to a negative $34.4 million in fiscal year 2010, primarily due to the increase in net capital assets driven by the Terminal 2 opening in fiscal year 2011.

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Highlights of Changes in Net Assets

The following table shows a condensed summary of changes in net assets for fiscal years 2012, 2011, and 2010 (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET ASSETS

		FY 2012	FY 2011	FY 2010	FY 2012 Increase (Decrease)	FY 2011 Increase (Decrease)
Operating revenues	$	668,672	607,323	578,041	61,349	29,282
Operating expenses		543,063	494,940	475,509	48,123	19,431
Operating income		125,609	112,383	102,532	13,226	9,851
Other nonoperating expenses, net		(106,512)	(103,370)	(99,490)	(3,142)	(3,880)
Income before capital contributions and transfers		19,097	9,013	3,042	10,084	5,971
Capital contributions		14,538	24,033	44,204	(9,495)	(20,171)
Transfers to the City and County of San Francisco		(33,993)	(30,608)	(28,100)	(3,385)	(2,508)
Changes in net assets		(358)	2,438	19,146	(2,796)	(16,708)
Total net assets at beginning of year		290,970	288,532	269,386	2,438	19,146
Total net assets at end of year	$	290,612	290,970	288,532	(358)	2,438

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; operation of the public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed to air carriers are set periodically based on formulas and procedures described in the 1981 Lease and Use Agreement[3] and the new 2011 Lease and Use Agreement (Agreement).

A brief summary of the underlying rate-setting methodology under this Agreement is presented below:

[3] In 1981, the City entered into long-term Lease and Use Agreements with a number of airlines covering, among other things, the procedures and formulas for the periodic setting of terminal rentals and landing fees for the use of the Airport. In January 2000, the City approved amendments to the original Lease and Use Agreements to address, among other issues, the relocation of certain tenants from the old International Terminal to the new International Terminal Complex (ITC). The City also executed new Lease and Operating Agreements with nonsignatory airlines operating in the new ITC. The Lease and Use Agreements each expired on June 30, 2011. In fiscal year 2011, the Airport and airlines reached agreement on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. The Lease and Use Agreements and Lease and Operating Agreements are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as the "Signatory Airlines."

The Agreement establishes the methodology for the calculation of the landing fee rates and terminal rental rates using certain cost centers. In accordance with the procedures set forth in the Agreement, landing fee rates and terminal rental rates are calculated for the ensuing fiscal year using budgetary and estimated information. The Agreement provides for matching revenues each fiscal year to the Airport’s expenditures by adjusting payments from the airlines. Differences between actual revenues and expenditures and amounts estimated in the calculation of airline fees and charges for that fiscal year result in adjustments of terminal rentals and landing fees in subsequent years. Such differences are recorded on the balance sheet in the financial statements of the Airport in the fiscal year to which such differences pertain. Net overcharges are recorded as liabilities and net undercharges are recorded as assets.

The net overcharge for fiscal year 2012 is $3.1 million. This net overcharge amount increased the balance of overcharge shown in the financial statements for fiscal year 2011 from $54.5 million to $57.6 million in fiscal year 2012.

The following table shows the air carriers that served the Airport in fiscal year 2012:

AIR CARRIERS SERVING THE AIRPORT

Fiscal Year 2012

Domestic passenger air carriers	Foreign flag carriers	Cargo only carriers
AirTran Airways	Aeromexico	ABX Air Inc.
Alaska Airlines	Air Berlin	Air Cargo Carriers
American Airlines	Air Canada	Air Transport International
Delta Air Lines	Air China (CAAC)	Ameriflight
Frontier Airlines	Air France	Astar USA (DHL)
Hawaiian Airlines	Air New Zealand	Atlas Air (DHL)
JetBlue Airways	All Nippon Airways	Federal Express
Southwest Airlines	Asiana Airlines	Kalitta Air
Sun Country (MN Airlines)	British Airways	Nippon Cargo Airlines
United Airlines	Cathay Pacific Airways	Southern Air
US Airways	China Airlines	World Airways (Asiana Airlines)
Virgin America	Emirates Airlines	
	EVA Airways	**Charter air carriers**
	Japan Airlines	Allegiant Air
	KLM Royal Dutch Airlines	Iberia Airlines
	Korean Air	Miami Air International
	LAN Peru	
	Lufthansa German Airlines	
Commuter air carriers	Philippine Airlines	
Horizon Air (Alaska Airlines)	Singapore Airlines	
Mesa Airlines (US Airways Express)	Swiss International Air Lines	
Mesaba Airlines (Delta Connection)	TACA International	
SkyWest Airlines (Delta Connection and United Express)	Virgin Atlantic Airlines	
	WestJet Airlines	
	XL Airways France	

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2012, 2011, and 2010:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

	FY 2012	FY 2011	FY 2010
Effective average terminal rental rate (per sq. ft.)	$ 122.93	113.54	100.61
Scheduled aircraft with permit – landing fee rate (per 1,000 lbs.)	3.79	3.59	3.15
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	4.17	3.95	3.47

During fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, revenues realized from the following source equal or exceed 5% of the Airport's total operating revenues:

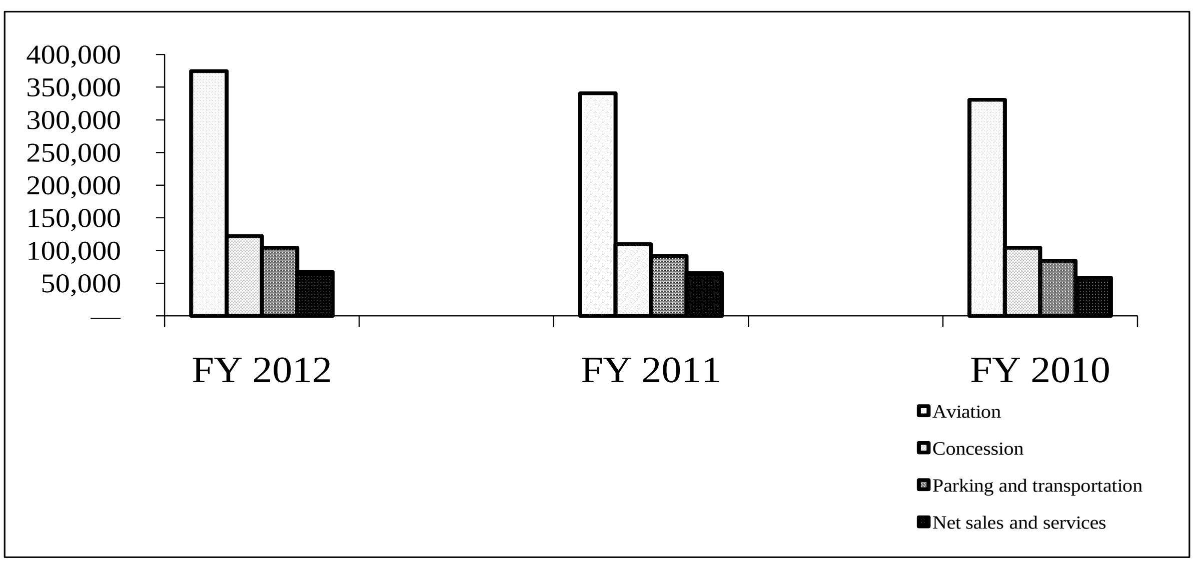
	FY 2012	FY 2011	FY 2010
United Airlines	21.0%	21.6%	22.0%

The following shows a comparative summary of operating revenues for fiscal years 2012, 2011, and 2010:

Comparative Summary of Airport's Operating Revenues

		FY 2012	FY 2011	FY 2010		Percentage Increase FY 2012	Percentage Increase FY 2011
Aviation	$	374,767	340,812	330,846		10.0%	3.0%
Concession		122,366	109,574	104,457		11.7	4.9
Parking and transportation		104,254	91,633	84,179	*	13.8	8.9
Net sales and services		67,285	65,304	58,559		3.0	11.5
Total operating revenues	$	668,672	607,323	578,041		10.1%	5.1%

* Effective fiscal year 2011, the parking operator remitted the parking tax through the Airport to the City of South San Francisco. For comparison purpose, the fiscal year 2010 amount was grossed up by $1.3 million.



Fiscal Year 2012

Operating revenues increased by 10.1% from $607.3 million in fiscal year 2011 to $668.7 million in fiscal year 2012. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 10.0% from $340.8 million in fiscal year 2011 to $374.8 million in fiscal year 2012 due to an increase in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 5.6% from $3.59 in fiscal year 2011 to $3.79 in fiscal year 2012. The airline average annual terminal rent per square foot increased 8.3% from $113.54 in fiscal year 2011 to $122.93 in fiscal year 2012, partially due to a 9.2% increase in airline terminal rental revenue requirement. Airline leased space increased 0.9% to 1.54 million square feet**.**

Before the deferred aviation revenue adjustment, revenues from landing fees increased by $12.2 million, or 11.6%, which reflects the rate increase and a 4.9% increase in airline landed weight. Terminal rentals increased by $16.0 million, or 9.2%, based on the rate increase and additional leased space. The overcharge increased $3.1 million from $54.5 million in fiscal year 2011 to $57.6 million in fiscal year 2012. In aggregate, all other aviation revenues increased by $3.3 million, or 4.9%, from $66.0 million in fiscal year 2011 to $69.3 million in fiscal year 2012 with net aviation rental revenue, activity-based fees, including aircraft parking, jet bridge fees, and employee parking, all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news), and rental car concessions increased by 11.7% from $109.6 million in fiscal year 2011 to $122.4 million in fiscal year 2012. The higher revenues were primarily driven by the 7.9% increase in passenger enplanements and deplanements and the continuation of an improving economy. Revenues from rental car concessions increased by $6.3 million, or 16.3%. Rental car transactions increased 11.4% and the average sale per rental contract was higher by 1.9%. Food and beverage revenues increased $2.2 million, or 17.5%, based on the aforementioned passenger increases and the full-year revenue effect of the reopening of Terminal 2. Retail merchandise revenues (excludes Duty Free Shop activities) increased $0.6 million, or 5.3%, due to a higher percentage of retail concessionaires exceeding their minimum annual guarantee (MAG). Duty Free Shops (DFS), however, did not exceed its MAG despite a 12.6% increase in sales activity, and its rent increased only marginally through a Consumer Price Index (CPI) MAG adjustment. Advertising revenues experienced a year-over-year increase of $3.1 million, or 45.4%, as advertising sales activity increased 50.2% compared to the prior year. Telephone revenues increased by $0.2 million, or 9.6%, based on fixed rent increases for the four wireless service providers. Net miscellaneous changes for other concession services and nonairline terminal space rental revenues resulted in a $0.4 million, or 3.7%, increase compared to the prior year.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 13.8% from $91.6 million in fiscal year 2011 to $104.3 million in fiscal year 2012. Total parking transactions increased by 158,000 exits, or 4.8%, and the average ticket price was higher by 9.4% due to longer parking durations, and daily rate increases in the international parking garages and long term parking. As a result, parking revenues in fiscal year 2012 increased by $11.9 million, or 14.7%. Ground transportation trip fee revenues increased by $0.7 million, or 6.9%, primarily driven by a 7.3% increase in taxi activity and a 20.8% increase in limousine service likely as a result of continued business travel recovery.

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, passenger security fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 3.0% from $65.3 million in fiscal year 2011 to $67.3 million in fiscal year 2012. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $3.6 million, or 12.3%, due to the aforementioned 11.4% increase in rental car contracts. The per rental car contract rate of $20 was unchanged in fiscal year 2012. Security services were terminated in fiscal year 2012. The security services revenue for fiscal year 2011 totaled $3.0 million. Revenues from electricity usage increased by $0.3 million, or 10.3%. Revenues from water and sewage disposal decreased by $0.7 million, or 14.4%, due to lower consumption by tenants during the fiscal year. Telecommunication access fees increased by $0.4 million, or 18.1%, from fiscal year 2011 to fiscal year 2012 from additional telecommunication and technology service offerings associated with the reopening of Terminal 2. Rental car facility structure rent increased by $1.0 million, or 8.5%, due to an administrative adjustment made in fiscal year 2011 for fiscal year 2010 to properly reflect the separation of the structure and land value for the rental car center. Revenues from miscellaneous terminal fees increased $1.4 million, or 56.0%, representing reimbursement for the baggage claim maintenance contract from airlines occupying the newly renovated Terminal 2. Reimbursement from San Francisco Terminal Equipment Corporation for custodial services in the International Terminal was largely incorporated into overall airline rates starting in fiscal year 2012, resulting in a revenue decline of $1.2 million, or 94.5%. The net revenue increase over the prior year from all other sales and services sources including fees from government agencies, settlements, refuse disposal, and license (badge) and permit was $0.2 million, or 2.2%.

Fiscal Year 2011

Operating revenues increased by 5.1% from $578.0 million in fiscal year 2010 to $607.3 million in fiscal year 2011. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 3% from $330.8 million in fiscal year 2010 to $340.8 million in fiscal year 2011 primarily due to an increase in airline landing fees. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 14% from $3.15 in fiscal year 2010 to $3.59 in fiscal year 2011. The airline average annual terminal rent per square foot increased 12.9% from $100.61 in fiscal year 2010 to $113.54 in fiscal year 2011, partially due to a 10.5% reduction in airline lease space, from 1.71 million square feet to 1.53 million square feet, as early airline signatories of the new 2011 Lease and Use Agreement were allowed to right-size their leased terminal space. Before the deferred aviation revenue adjustment, revenues from landing fees increased by $14.2 million, or 15.5%, reflecting the rate increase and a 1.6% increase in airline landed weight. Terminal rentals increased by $2.5 million, or 1.5%, based on the rate increase and reduction in leased space. The overcharge increased $5.5 million from $49.0 million in fiscal year 2010 to $54.5 million in fiscal year 2011. In aggregate, all other aviation revenues increased by $0.9 million, or 1.3%, from $65.1 million in fiscal year 2010 to $66.0 million in fiscal year 2011 with net aviation rental revenue, activity-based fees including aircraft parking, jet bridge fees, itinerant landings and fixed-base operator (general aviation) activity, and employee parking all showing increases.

Concession revenues increased by 4.9% from $104.5 million in fiscal year 2010 to $109.6 million in fiscal year 2011. The higher revenues were primarily driven by the 4.0% increase in passenger enplanements and deplanements and an improving economy that included a return of business travelers. Revenues from rental car concessions increased by $5.1 million or 15.4%. Rental car transactions increased 10.6% and the average sale per rental contract was higher by 2.6%. Food and beverage revenues increased $0.7 million, or 5.7%, based on the aforementioned passenger increases and the reopening of the newly renovated Terminal 2 in April 2011. Retail merchandise revenues increased $0.5 million, or 4.6%, due to a higher percentage of retail concessionaires exceeding their MAG. DFS, however, did not exceed its MAG despite a 23.1% increase in sales activity, and its rent remained unchanged from fiscal year 2010 to 2011. Advertising revenues experienced a year-over-year increase of $0.3 million, or 5.1%, as advertising sales activity increased 21.0% compared to the prior year. Telephone revenues declined by $2.0 million, or 52.0%, as Wi-Fi service changed from fee-based access in fiscal year 2010 to free access in fiscal year 2011. Net miscellaneous changes for other concession services and nonairline terminal space rental revenues resulted in a $0.1 million, or 20.8%, increase compared to the prior year.

Public parking and transportation revenues increased by 8.9% from $84.2 million in fiscal year 2010 to $91.6 million in fiscal year 2011. Total parking transactions increased by 105,000 exits, or 3.3%, and the average ticket price was higher by 5.5% due to longer parking durations, despite no rate change from the prior year. As a result, parking revenues in fiscal year 2011 increased by $6.6 million, or 9%. Ground transportation trip fee revenues increased by $0.6 million, or 5.9%, primarily driven by a 14.9% increase in taxi activity, which is probably a result of recovery of business travel. Parking fines increased $0.2 million due to a prior year catch-up remittance made to San Mateo County in fiscal year 2010.

Revenues from net sales and services increased by 11.5% from $58.6 million in fiscal year 2010 to $65.3 million in fiscal year 2011. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $4.7 million, or 19.6%, due to a 10.6% increase in rental car contracts and a $1.50 per contract fee increase. Revenues from electricity usage increased by $1.4 million, or 107.1%. In fiscal year 2010, a refund was issued to Airport tenants totaling $1.4 million as authorized by the California Public Utilities Commission for prior period over collection. Revenues from water and sewage disposal increased $0.4 million, or 8.1%, due to a 7.6% rate increase starting in July 2010 and a modest increase in tenant water usage during the fiscal year. Rent from governmental agencies increased $0.3 million, or 13.3%, due to the additional space leased by the U.S Department of Justice and the mid-year commencement of a lease with the Federal Bureau of Investigation. Telecommunication access fees increased by $0.3 million, or 15.5%, from fiscal year 2010 to fiscal year 2011 as a result of additional telecommunication and technology service offerings associated with the reopening of Terminal 2. Employee license (badge) and permit fees increased $0.2 million, or 21%, primarily due to additional staff required at Terminal 2. Rental car facility structure rent declined by $0.8 million, or 7.1%, due to an administrative adjustment made during the fiscal year to properly reflect the separation of the structure and land value for the rental car center. The net revenue increase over the prior year from all other sales and services sources, including settlements, refuse disposal and miscellaneous terminal rental fees, was $0.3 million, or 2.3%.

(Continued)

Operating Expenses

The following shows a comparative summary of operating expenses for fiscal years 2012, 2011, and 2010 (in thousands):

		FY 2012	FY 2011	FY 2010		Percentage Increase (Decrease) FY 2012	Percentage Increase (Decrease) FY 2011
Personnel	$	238,382	210,243	191,279		13.4%	9.9%
Depreciation		167,309	160,050	163,541		4.5	(2.1)
Contractual services		56,155	51,856	46,609		8.3	11.3
Light, heat, and power		20,096	19,522	17,162		2.9	13.8
Services provided by other City departments		12,555	11,818	10,567		6.2	11.8
Repairs and maintenance		26,401	20,712	19,818		27.5	4.5
Materials and supplies		14,130	12,416	11,077		13.8	12.1
General and administrative		1,657	4,522	9,806	*	(63.4)	(53.9)
Amortization of bond issuance costs		6,378	3,490	4,671		82.8	(25.3)
Environmental cleanup expenses		—	311	979		(100.0)	(68.2)
Total operating expenses	$	543,063	494,940	475,509		9.7%	4.1%

* Effective in fiscal year 2011, the parking operator started remitting the City of South San Francisco (SSF) parking tax to the Airport. The Airport then made the parking tax payment directly to SSF. For comparison, the fiscal year 2010 amount of general and administrative expenses, which included the parking tax, was grossed up by $1.3 million.

Fiscal Year 2012

Operating expenses increased 9.7%, or $48.1 million, from $494.9 million in fiscal year 2011 to $543.1 million in fiscal year 2012, primarily due to an increase in personnel costs related to scheduled wage increases for employees hired for the opening of Terminal 2, retirement contribution increases, and a decrease in indirect costs capitalized during the current fiscal year. In fiscal year 2012, the Airport capitalized $4.6 million for indirect costs related to construction of capital projects as compared to $12.8 million in fiscal year 2011. The variances in the different operating expense categories are discussed below.

Personnel costs increased 13.4%, or $28.2 million, from $210.2 million in fiscal year 2011 to $238.4 million in fiscal year 2012 partially due to a decrease in personnel costs capitalized as overhead from fiscal year 2011 to 2012. This is attributable to a decrease in capital projects during the current year. The indirect cost rates were 6.6% and 5.9% in fiscal years 2012 and 2011, respectively. Personnel costs also increased due to scheduled wage increases for recently hired employees, the higher cost of health benefits, and the City's higher pension contribution rates. For fiscal year 2012, the City's contribution rate was 18.09% of pensionable salary, compared to 13.56% of pensionable salary for fiscal year 2011.

Depreciation increased 4.5%, or $7.2 million, from $160.1 million to $167.3 million for fiscal years 2011 and 2012, respectively. This increase was mainly due to a reclassification in the categorization of Terminal 2 which resulted in a corresponding increase to depreciation expense.

Contractual services increased 8.3%, or $4.3 million, from $51.9 million in fiscal year 2011 to $56.2 million in fiscal year 2012 primarily due to an increase in expenses for shuttle bus services, parking garage and lot management services, and a decrease in costs allocated to overhead.

Light, heat, and power increased 2.9%, or $0.6 million, from $19.5 million in fiscal year 2011 to $20.1 million in fiscal year 2012 due to a decrease in overhead allocated costs in fiscal year 2012.

Services provided by other City departments increased 6.2%, or $0.7 million, from $11.8 million in fiscal year 2011 to $12.6 million in fiscal year 2012 due to an increase in the cost of legal services, insurance premiums, financial and human capital management systems, and workforce development programs and a decrease in costs allocated to overhead.

Repairs and maintenance increased 27.5%, or $5.7 million, from $20.7 million in fiscal year 2011 to $26.4 million in fiscal year 2012 due to a decrease in costs allocated to overhead and an increase in expenses for the maintenance of the Terminal 2 baggage handling system and equipment maintenance costs in Information Technology Telecommunication.

Materials and supplies increased 13.8%, or $1.7 million, from $12.4 million in fiscal year 2011 to $14.1 million in fiscal year 2012 due to an increase in expenses by maintenance and operations and a decrease in cost allocated to overhead.

General and administrative expenses decreased 63.4%, or $2.9 million, from $4.5 million in fiscal year 2011 to $1.7 million in fiscal year 2012 mainly due to a decrease in the Airport's estimated claims adjustment as determined by actuarial valuation.

Amortization of bond issuance costs increased 82.8%, or $2.9 million, from $3.5 million in fiscal year 2011 to $6.4 million in fiscal year 2012 mainly due to an increase in bond refunding transactions in fiscal year 2012.

Environmental remediation costs decreased 100%, or $0.3 million, in fiscal year 2012 principally due to the result of the new evaluation performed by SFO environmental engineers.

Fiscal Year 2011

Operating expenses increased 4.1%, or $19.4 million, from $475.5 million in fiscal year 2010 to $494.9 million in fiscal year 2011 mainly due to a decrease in indirect costs capitalized during the current fiscal year. In fiscal year 2011, the Airport capitalized $12.8 million in indirect costs related primarily to Terminal 2 construction compared to $27.4 million in fiscal year 2010. The variances in the different operating expense categories are discussed below.

Personnel costs increased 9.9%, or $18.9 million, from $191.3 million in fiscal year 2010 to $210.2 million in fiscal year 2011 partially due to a decrease in personnel costs capitalized as overhead from fiscal year 2010 to 2011. The overhead rates were 5.9% and 11.5% in fiscal years 2012 and 2011, respectively. Personnel costs also increased due to the City's higher pension contribution rates. For fiscal year 2011, the City's contribution rate was 13.56% of pensionable salary, compared to 9.49% of pensionable salary for fiscal year 2010.

Depreciation decreased 2.1%, or $3.4 million, from $163.5 million to $160.1 million for fiscal year 2010 and 2011, respectively. This decrease was mainly due to the half-year impact of the depreciation provision of the International Terminal Security and Special Systems that was fully depreciated on December 31, 2010.

Contractual services increased 11.3%, or $5.3 million, from $46.6 million in fiscal year 2010 to $51.9 million in fiscal year 2011 due to a decrease in costs allocated to overhead, an increase in expenses for new complimentary Wi-Fi service, and an increase in expenses for parking garage and lot management services.

Light, heat, and power increased 13.8%, or $2.3 million, from $17.2 million in fiscal year 2010 to $19.5 million in 2010 due to a decrease in overhead allocated costs in fiscal year 2011, higher energy consumption due to the activation of Terminal 2, and the end of a one-time credit from the Airport's utility provider representing refund of an over collection of the utility's "Energy Resource Recovery Account" in fiscal year 2010.

Services provided by other City departments increased 11.8%, or $1.2 million, from $10.6 million in fiscal year 2010 to $11.8 million in fiscal year 2011 principally due to the decrease in cost allocated to overhead.

Repairs and maintenance increased 4.5%, or $0.9 million, from $19.8 million in fiscal year 2010 to $20.7 million in fiscal year 2011 due to a decrease in costs allocated to overhead and an increase in expenses for the maintenance of the Terminal 2 baggage handling system, partially offset by a decrease in equipment maintenance costs in Information Technology Telecommunication.

Materials and supplies increased 12.1%, or $1.3 million, from $11.1 million in fiscal year 2010 to $12.4 million in fiscal year 2011 principally due to a decrease in cost allocated to overhead.

General and administrative expenses decreased 53.9%, or $5.3 million, from $9.8 million in fiscal year 2010 to $4.5 million in fiscal year 2011 mainly due to a decrease in the Airport's estimated claims adjustment as determined by actuarial valuation.

Amortization of bond issuance costs decreased 25.3%, or $1.2 million, from $4.7 million in fiscal year 2010 to $3.5 million in fiscal year 2011 mainly due to a decrease of bond refunding transactions in fiscal year 2011.

Environmental remediation costs decreased 68.2%, or $0.7 million, from $1.0 million in fiscal year 2010 to $0.3 million in fiscal year 2011 principally due to a decrease in costs relating to the removal and disposal of hazardous waste.

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2012, 2011, and 2010 (in thousands):

		FY 2012	FY 2011	FY 2010	Percentage Increase (Decrease) FY 2012	Percentage Increase (Decrease) FY 2011
Nonoperating revenues:						
Passenger facility charges	$	81,437	77,004	73,759	5.8%	4.4%
Investment income		32,353	15,386	20,691	110.3	(25.6)
Other		2,478	2,102	2,022	17.9	4.0
Total nonoperating revenues		116,268	94,492	96,472	23.0%	(2.1)%
Nonoperating expenses:						
Interest expense		203,547	195,935	186,838	3.9%	4.9%
Write-offs, loss on disposal, and demolition costs		19,233	1,927	9,124	898.1	(78.9)
Total nonoperating expenses		222,780	197,862	195,962	12.6%	1.0%
Capital contributions		14,538	24,033	44,204	(39.5)%	(45.6)%
Transfers to the City and County of San Francisco		(33,993)	(30,608)	(28,100)	11.1%	8.9%
Total	$	(125,967)	(109,945)	(83,386)	14.6%	31.9%

Fiscal Year 2012

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense and loss on the disposal of capital assets. PFCs, which became effective in October 2001, generated $81.4 million during fiscal year 2012, an increase of 5.8% compared to the $77.0 million received in fiscal year 2011. The increase in PFC revenues was mainly due to an increase in passenger traffic.

The increase in investment income was primarily due to the recognition of $13.3 million of investment derivative instruments in fiscal year 2012 in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, (see note 3c) and the $3.7 million of investment fair value adjustment in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

Other nonoperating revenue in fiscal years 2012 and 2011 were principally operating grants received during the fiscal years.

Interest expense increased 3.9%, or $7.6 million, from $195.9 million in fiscal year 2011 to $203.5 million in fiscal year 2012 mainly due to the completion of Terminal 2 in April 2011, which resulted in less interest expense being capitalized as part of the capital improvement project costs.

Write-offs and loss of disposal increased $17.3 million from $1.9 million in fiscal year 2011 to $19.2 million in fiscal year 2012, primarily due to write-off of construction projects that were either abandoned or should be expensed.

Capital contributions received from federal grants during fiscal year 2012 were $14.5 million.

The annual service payments transferred to the City and County of San Francisco (City) increased 11.1%, or $3.4 million, from $30.6 million in fiscal year 2011 to $34.0 million in fiscal year 2012. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2012.

Fiscal Year 2011

PFCs generated $77 million during fiscal year 2011, an increase of 4.4% compared to the $73.8 million received in fiscal year 2010. The increase in PFC revenue was mainly due to an increase in passenger traffic since there was no change in the PFC fee.

The decrease in investment income was due to a lower investment yield; the average interest rate earned on the Airport's pooled cash declined from 1.38% in fiscal year 2010 to 1.24% in fiscal year 2011. Another factor contributing to the decrease in investment income was the Airport's share of the City-wide unrealized loss on investment.

Other nonoperating revenue in fiscal year 2012 and 2011 were principally operating grants received during the fiscal years.

Interest expense increased 4.9%, or $9.1 million, from $186.8 million in fiscal year 2010 to $195.9 million in fiscal year 2011 mainly due to a one-time swap contract termination fee paid in December 2010 and a higher number of 2010A swap payments compared to fiscal year 2010.

Capital contributions received from federal grants during fiscal year 2011 were $24 million.

Transfer to the City increased 8.9%, or $2.5 million, from $28.1 million in fiscal year 2010 to $30.6 million in fiscal year 2011. The transfer in fiscal year 2011 was composed of $0.4 million of surety bond program revenue transfer and $30.2 million of annual service payments. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2011.

Fiscal Year 2012

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the City is obligated to use its best efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds. The Lease and Use Agreement also provides for airline review of capital projects meeting the dollar thresholds established in the Agreement.

The fiscal year's major capital additions included:

		Amount
Runway Safety Area Program	$	13,357,912
Terminal 2 Boarding Area D Renovations		9,612,544
Terminal 3 Boarding Area E Refurbishment		8,243,982
Emergency Response Boathouse		6,204,596
Terminal 1 Complex Master Architect		4,436,824
Taxiway "S" Reconstruction		4,071,763
Air Traffic Control Tower and Terminal 1 Integrated Facility		4,064,415
Boarding Area "A" and "E" Apron Reconstruction		3,640,776
San Jose Shuttle Bus Purchase		3,599,760
International Terminal Boarding Area "G" and Terminal 3 Boarding Area "F" Checked Baggage Inspection System Modernization		3,371,408
New Data Center Facility		2,251,926
Terminal 3 Improvement		1,908,436
Storm Drainage System Expansion		1,636,018
Central Plant Improvement		1,503,994
Boarding Area "F" Apron Reconstruction		1,455,264
Airport Geographic Information System		1,312,325
Access Control System Upgrade		1,295,713
McDonnel Road Resurface and Reconstruction		1,078,568
Total	$	73,046,224

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Fiscal Year 2011

The fiscal year's major capital additions included:

		Amount
Terminal 2 Boarding Area D Renovation	$	146,793,603
Central Plant High Temperature Water System Improvement		6,006,794
Runway 28R-10L Overlay and Reconstruction		5,519,645
Taxiways "A" and "B" Reconstruction		4,957,332
Terminal 3 Boarding Area E Refurbishment		4,378,363
Building 575 Improvement		4,116,282
Boarding Area "F" and "G" Taxilane Reconstruction		3,973,716
Terminal Upper Level Viaduct Improvement		3,887,270
Runway 1R-19L Overlay and Reconstruction		3,791,888
International Terminal Building Technology Refresh Phase II		3,738,607
700 MHZ Digital Trunked Radio System		3,678,497
Garage Lobby Tunnel Renovation		3,137,865
Domestic Garage Concrete Deck Resurfacing		2,821,594
Power Distribution System Upgrade		2,576,855
Runway Safety Area Program		2,246,305
Access Control System Upgrade		2,114,425
Super Bay Hangar Fire Protection Improvement		1,716,434
Mel Leong Treatment Plant Shop		1,453,628
Terminal 1 Complex Master Architect		1,436,648
4000 Gallon Aircraft Rescue Fire Fighting Vehicle		1,315,804
Terminal 1 Carpet Replacement		1,296,682
Terminal 3 Energy Efficiency Lighting Improvement		1,241,635
Field Lighting Building Improvement		1,005,597
Total	$	213,205,469

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Fiscal Year 2012

Debt Administration

Capital Plan Bonds: The Airport did not issue additional bonds to fund new capital projects during fiscal year 2012.

Refunding Bonds: The Airport completed the following refunding bond transactions during fiscal year 2012:

- On July 21, 2011, the Airport issued its Second Series Revenue Refunding Bonds, Series 2011C Alternative Minimum Tax (AMT), 2011D (Non-AMT/Governmental Purpose), and 2011E (Taxable) in the principal amount of $350.4 million to refund the Airport's $25.5 million of Second Series Revenue Notes, Series

2008A-4, as well as $332.4 million of long-term fixed rate bonds, which were refunded for debt service savings.

- On September 20, 2011 the Airport issued its Second Series Revenue Refunding Bonds, Series 2011F (AMT), 2011G (Non-AMT/Governmental Purpose), and 2011H (Taxable) in the principal amount of $354.6 million to refund $302.0 million of long-term fixed rate bonds for debt service savings, refund the Airport's $52.4 million Issue 36D/37D outstanding variable rate bonds, and finance the amount due upon termination of the interest rate swap associated with the Issue 36D Bonds.

- On March 22, 2012, the Airport issued its Second Series Revenue Refunding Bonds, Series 2012A (AMT), and 2012B (Non-AMT/Governmental Purpose) in the principal amount of $316.5 million to refund $351.9 million of long-term fixed rate bonds for debt service savings.

<u>Remarketed Bonds</u>: During fiscal year 2012, the Airport remarketed two series of outstanding bonds:

- On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated.

- On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated.

<u>Subordinate Commercial Paper Notes</u>: During fiscal year 2012, the Airport issued $10.5 million in commercial paper notes.

<u>Interest Rate Swaps</u>: The Airport ended fiscal year 2012 with six interest rate swaps outstanding with a total notional amount of $483.4 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, and the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2012, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

On September 20, 2011, the Airport terminated a $30.0 million interest rate swap with JP Morgan Chase Bank NA. The swap was related to the Issue 36D Bonds that were refunded by the Series 2011G Bonds (Non-AMT).

More detailed information about the Airport's long-term debt and interest rate swaps is presented in notes 7 and 8 to the financial statements.

During fiscal year 2012, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Resolution.

Fiscal Year 2011

Debt Administration

Capital Plan Bonds: During fiscal year 2011, the Airport issued additional bonds to fund new capital projects:

- On August 5, 2010, the Airport issued long-term fixed rate Second Series Revenue Bonds, Series 2010F (Non-AMT/Private Activity), and 2010G (Non-AMT/Governmental Purpose) in the aggregate principal amount of $128.5 million to retire commercial paper notes issued in fiscal years 2008 through 2010 relating to the engineering and construction costs associated with the renovation of Terminal 2 and Boarding Area D, as well as other projects within the Airport's five-year Capital Plan.

Refunding Bonds: In fiscal year 2011, the Airport conducted one refunding bond transaction to refund certain short-term bonds scheduled to become due in a single "balloon" payment and additional long-term bonds for debt service savings:

- On February 22, 2011, the Airport issued its Second Series Revenue Refunding Bonds, Series 2011A/B (AMT and Non-AMT/Private Activity), in the principal amount of $155.4 million to purchase and refund the Airport's $41.1 million of Second Series Revenue Notes, Series 2008A-3, which were scheduled to become due on May 1, 2011 (via a mandatory tender by bondholders for purchase by the Airport), as well as $11.5 million of outstanding commercial paper notes, and $114.1 million of long-term fixed rate bonds, which were refunded for debt service savings.

Remarketed Bonds: During fiscal year 2011, the Airport remarketed several series of outstanding bonds:

- On September 15, 2010, the Airport remarketed its outstanding Second Series Revenue Refunding Bonds, Series 2009A/B (Non-AMT/Private Activity) in the principal amount of $175.0 million as long-term fixed rate bonds with a final maturity date of May 1, 2029. The 2009A/B Bonds were originally issued on September 3, 2009 and were scheduled to become due in a single "balloon" payment on September 15, 2010 (via a mandatory tender by bondholders for purchase by the Airport).

- On May 4, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally issued with a letter of credit from Union Bank of California, N.A., which expired on May 6, 2011.

Subordinate Commercial Paper Notes: In anticipation of the expiration on May 9, 2011 of the $200 million letter of credit from State Street Bank and Trust Company securing the Airport's subordinate commercial paper notes, the Airport obtained two new $100 million direct-pay letters of credit from State Street Bank and from Barclays Bank PLC. Each of the new letters of credit supports separate subseries of commercial paper notes and expires on May 2, 2014.

Interest Rate Swaps: The Airport ended fiscal year 2011 with seven interest rate swaps outstanding with a total notional amount of $513.4 million. As of June 30, 2011, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C/D, Issue 37B/C, and Series 2010A Bonds, either directly or indirectly.

On December 16, 2010, the Airport terminated a $72.0 million interest rate swap with Depfa Bank plc, which was related to the Series 2010A-3 Bonds, due to the credit rating deterioration of the counterparty. Although this swap was terminated, the associated Bonds were not refunded and remain outstanding. Following the termination of the swap, the $79.7 million interest rate swap with Merrill Lynch Capital Services, Inc. instead became associated for hedging purposes with the Series 2010A-3 Bonds and a $7.7 million portion of the Airport's previously unhedged Issue 37D Bonds. None of the Airport's other swaps became associated with different series of the Airport's outstanding bonds over the fiscal year.

More detailed information about the Airport's long-term debt and interest rate swaps is presented in note 8 to the financial statements.

During fiscal year 2011, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Bond Resolution.

Fiscal Year 2012

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2012, Moody's Investors Service (Moody's), Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings of the Airport of "A+", "A1", and "A+" with Stable Rating Outlooks, respectively.

On July 13, 2011, Moody's assigned ratings of "Aa1/VMIG 1," Standard & Poor's assigned ratings of "AAA/A-1+" and Fitch assigned ratings of "AA+/F1+" to the Issue 36C Bonds in connection with their remarketing, on a jointly supported (long-term rating) basis with the letter of credit from U.S. Bank National Association.

On July 13, 2011, Moody's assigned ratings of "Aa2/VMIG 1," Standard & Poor's assigned ratings of "AAA/A-1" and Fitch assigned ratings of "AA/F1" to the Issue 37C Bonds in connection with their remarketing, on a jointly supported rating basis with the letter of credit from Union Bank of California, N.A.

As of June 30, 2012, Moody's had assigned ratings of "Aa1/VMIG 1,"Standard & Poor's assigned ratings of "AAA/A-1" and Fitch assigned ratings of "AA/F1" to the Series 2010A Bonds, on a jointly supported (long-term rating) basis with the letter of credit from JP Morgan Chase Bank N. A. The ratings reflect downward revisions of JP Morgan Chase Bank N. A. by S&P and Fitch during the fiscal year.

Ratings on the Airport's commercial paper notes reflect the short-term credit ratings of the respective letter of credit banks. As of June 30, 2012, the Moody's, S&P and Fitch assigned ratings on the State Street Bank and Trust Company (State Street) supported subseries of commercial paper notes of "P-1", "A-1+" and "F1+", respectively. As of June 30, 2012, the Moody's, S&P and Fitch assigned ratings on the Barclays Bank PLC (Barclays Bank) supported commercial paper notes of "P-1", "A-1" and "F1", respectively. Each letter of credit supports separate subseries of commercial paper notes up to an aggregate principal amount of $100 million.

Bond Insurance: In prior years, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that enjoyed "AAA" ratings at the time. The insured credit ratings on these Airport bonds has declined in tandem with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008.

In fiscal year 2012, several of the bond insurance companies were put on review by the credit rating agencies. All bonds issued by the Airport during fiscal year 2012 were sold without municipal bond insurance.

Fiscal Year 2011

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2011, Standard and Poor's affirmed the Airport's underlying credit ratings, and subsequently upgraded the Airport from "A" to "A+" with a Stable Rating Outlook on June 30, 2011. Moody's and Fitch also affirmed their existing credit ratings of the Airport of "A1" and "A+" with Stable Rating Outlooks, respectively.

On May 2, 2011, the Airport's $200 million commercial paper program received short-term credit ratings based on the credit of the two new direct-pay letters of credit provided by Barclays Bank PLC and State Street Bank and Trust Company. Each letter of credit supports separate subseries of commercial paper notes up to an aggregate principal amount of $100 million. At that time, Standard & Poor's, Moody's, and Fitch have assigned ratings of "A-1+", "P-1", and "F1+", respectively, to each subseries of commercial paper notes.

On May 4, 2011, the Airport's Issue 36B variable rate bonds received short-term credit ratings of "A-1+", "VMIG-1", and "F1+" from Standard and Poor's, Moody's, and Fitch, respectively, based on the credit strength of the new $40.6 million letter of credit from U.S. Bank National Association.

Bond Insurance: In fiscal year 2011, one of the bond insurance companies was downgraded by the credit rating agencies. All bonds issued during fiscal year 2011 were sold without municipal bond insurance.

Fiscal Year 2013 Airline Rates and Charges

Rates and Charges, Fiscal Year 2013

Terminal rental rates and airline landing fees for fiscal year 2013 have been developed as part of the annual budget process that started in October 2011. The Lease and Use Agreement between the Airport and the Signatory Airlines provides for the rate-setting methodology for calculating the terminal rental rates and Airline landing fees as discussed earlier. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2013, which became effective on July 1, 2012, are as follows:

Effective average terminal rental rate (per sq. ft)	$131.55
Signatory Airline – landing fee rate (per 1,000 lbs.)	4.01
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	5.01
General aviation – landing fee rate (per 1,000 lbs.)	4.41

The effective average terminal rental rate increased by 7.0% from $122.93 per sq. ft. in fiscal year 2012 to $131.55 per sq. ft. in fiscal year 2013. The fiscal year 2013 landing fee rate for Signatory Airlines increased by 5.8% from $3.79 per 1,000 pounds in fiscal year 2012 to $4.01 per 1,000 pounds in fiscal year 2013, while the fiscal year 2013 landing fee rate for general aviation aircraft increased by 5.8% from $4.17 per 1,000 pounds in fiscal year 2012 to $4.41 per 1,000 pounds in fiscal year 2013. The Non-Signatory Airline landing fee rate increased by 5.7% from $4.74 per 1,000 pounds in fiscal year 2012 to $5.01 per 1,000 pounds in fiscal year 2013.

Requests for Information

This report is designed to provide a general overview of the San Francisco International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Airport Deputy Director, Business and Finance Division, P.O. Box 8097, San Francisco International Airport, San Francisco, California 94128.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Net Assets

June 30, 2012 and 2011

(In thousands)

		2012	**2011**
Assets:			
Current assets:			
Unrestricted current assets:			
Cash and investments held in City Treasury – Operating Fund	$	343,341	336,063
Cash – Revolving Fund		10	10
Accounts receivable (net of allowance for doubtful accounts: 2012, $1,196; 2011, $595)		40,754	35,542
Accrued interest:			
City Treasury		240	—
Other		1,097	903
Inventories		113	117
Other current assets		2,226	2,031
Total unrestricted current assets		387,781	374,666
Restricted assets available for current outlay:			
Cash and investments held in City Treasury		47,198	40,939
Revenue bond debt service:			
Investments with Trustee		54,613	53,081
Grants receivable		—	2,667
Passenger facility charges receivable		12,916	9,636
Total restricted assets available for current outlay		114,727	106,323
Total current assets		502,508	480,989
Restricted assets:			
For capital outlay:			
Cash and investments held in City Treasury		70,367	135,103
Accrued interest – City Treasury		155	—
For revenue bond debt service reserve:			
Investments with Trustee		295,704	297,582
Investment derivative instruments		13,305	—
Grants receivable		10,840	6,009
Other assets		—	11
Total restricted assets		390,371	438,705
Capital assets, net		3,734,426	3,814,264
Unamortized bond issuance costs		28,753	38,070
Total assets		4,656,058	4,772,028
Deferred outflows on derivative instruments		98,979	63,382
Total assets and deferred outflows		4,755,037	4,835,410

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Net Assets

June 30, 2012 and 2011

(In thousands)

		2012	2011
Liabilities:			
Current liabilities:			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued liabilities	$	29,162	22,725
Accrued payroll		13,535	10,743
Compensated absences		7,943	7,490
Accrued workers’ compensation		998	942
Estimated claims payable		503	4,379
Deferred aviation revenue		57,622	54,543
Rent collected in advance		—	6,689
Current maturities of long-term debt		315,153	111,412
Total current liabilities payable from unrestricted assets		424,916	218,923
Current liabilities payable from restricted assets:			
Accounts payable and accrued liabilities		25,993	21,760
Accrued payroll		467	438
Grants received in advance		—	2,066
Accrued bond interest payable		28,837	30,191
Commercial paper		10,450	—
Notes payable		—	2,335
Current maturities of long-term debt		25,392	22,013
Total current liabilities payable from restricted assets		91,139	78,803
Total current liabilities		516,055	297,726
Noncurrent liabilities:			
Compensated absences, net of current portion		7,686	7,148
Accrued workers’ compensation, net of current portion		4,077	4,024
Estimated claims payable, net of current portion		829	7,178
Notes payable, net of current portion		—	22,421
Long-term debt, net of current maturities		3,743,095	4,077,102
Other postemployment benefits obligation		75,824	60,537
Total noncurrent liabilities before derivative instruments		3,831,511	4,178,410
Derivative instruments		116,859	68,304
Total liabilities		4,464,425	4,544,440
Net assets:			
Invested in capital assets, net of related debt		4,190	18,280
Restricted for debt service		25,711	27,226
Restricted for capital projects		71,109	56,981
Unrestricted		189,602	188,483
Total net assets	$	290,612	290,970

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Operating revenues:			
Aviation	$	374,767	340,812
Concession		122,366	109,574
Parking and transportation		104,254	91,633
Net sales and services		67,285	65,304
Total operating revenues		668,672	607,323
Operating expenses:			
Personnel		238,382	210,243
Depreciation		167,309	160,050
Contractual services		56,155	51,856
Light, heat, and power		20,096	19,522
Services provided by other City departments		12,555	11,818
Repairs and maintenance		26,401	20,712
Materials and supplies		14,130	12,416
General and administrative		1,657	4,522
Amortization of bond issuance costs		6,378	3,490
Environmental cleanup expenses		—	311
Total operating expenses		543,063	494,940
Operating income		125,609	112,383
Nonoperating revenues (expenses):			
Investment income		32,353	15,386
Interest expense		(203,547)	(195,935)
Passenger facility charges		81,437	77,004
Write-offs, loss on disposal, and demolition costs		(19,233)	(1,927)
Other nonoperating revenues, net		2,478	2,102
Total nonoperating expenses, net		(106,512)	(103,370)
Income before capital contributions and transfers		19,097	9,013
Capital contributions:			
Federal grants		14,538	24,033
Transfers to the City and County of San Francisco (note 11)		(33,993)	(30,608)
Changes in net assets		(358)	2,438
Total net assets – beginning of year		290,970	288,532
Total net assets – end of year	$	290,612	290,970

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Cash received from airline carriers, concessionaires, and others	$	675,812	618,003
Cash paid for employees' services		(219,203)	(194,424)
Cash paid to suppliers of goods and services		(156,296)	(137,885)
Net cash provided by operating activities		300,313	285,694
Cash flows from noncapital financing activities:			
Transfers to the City and County of San Francisco		(33,993)	(30,608)
Other noncapital financing receipts		2,478	2,102
Net cash used in noncapital financing activities		(31,515)	(28,506)
Cash flows from capital and related financing activities:			
Principal paid on revenue bonds, notes, and commercial paper borrowings		(135,760)	(134,800)
Interest paid on revenue bonds, notes, and commercial paper borrowings		(208,049)	(215,452)
Acquisition and construction of capital assets		(99,753)	(281,567)
Proceeds from passenger facility charges		78,156	76,543
Proceeds from sale of revenue bonds and notes		6,273	—
Proceeds from commercial paper		10,450	6,650
Capital contributed by federal agencies and others		10,308	38,838
Net cash used in capital and related financing activities		(338,375)	(509,788)
Cash flows from investing activities:			
Sale of investments with Trustee		2,146,893	2,693,188
Purchases of investments with Trustee		(2,146,754)	(2,682,281)
Interest received on investments		15,769	18,683
Net cash provided by investing activities		15,908	29,590
Net decrease in cash and cash equivalents		(53,669)	(223,010)
Cash and cash equivalents, beginning of year		510,909	733,919
Cash and cash equivalents, end of year	$	457,240	510,909
Reconciliation of cash and cash equivalents to the statements of net assets:			
Cash and investments held in City Treasury – Operating Fund	$	343,341	336,063
Cash – Revolving Fund		10	10
Restricted cash and investments in City Treasury		117,565	176,042
Cash, cash equivalents, and investments		460,916	512,115
Unrealized (gain) on investments		(3,676)	(1,206)
Cash and cash equivalents, June 30	$	457,240	510,909

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	125,609	112,383
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		167,309	160,050
Provision for doubtful accounts		600	155
Amortization of bond issuance costs		6,378	3,490
Changes in operating assets and liabilities:			
Accounts receivable		(5,485)	(5,588)
Inventories		4	(31)
Travel advance		(5)	(2)
Other current assets		(5,085)	(2,344)
Accounts payable and other liabilities		(4,580)	1,927
Accrued payroll		2,792	1,327
Compensated absences		991	310
Accrued workers' compensation		109	(73)
Other postemployment benefits obligation		15,287	14,256
Deferred aviation revenue		3,079	5,529
Rent collected in advance		(6,690)	(5,695)
Net cash provided by operating activities	$	300,313	285,694
Noncash transactions:			
Accrued capital asset costs	$	27,520	22,466
Bond refunding		1,204,069	470,740

See accompanying notes to financial statements.

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net assets and changes in net assets of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), a commercial service airport owned and operated as a department of the City and County of San Francisco (the City). The Airport opened in 1927 and is currently the seventh busiest airport in the United States in terms of passengers and sixteenth in terms of cargo. The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. A five-member Airport Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for terms of four years.

The Airport is an integral part of the City and is reported as a major enterprise fund in the City's Comprehensive Annual Financial Report. There are no component units considered for inclusion in the Airport's financial reporting entity. The accompanying financial statements present only the financial operations of the Airport and do not purport to, and do not, present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types.

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The Airport's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Airport applies all statements and interpretations of the Financial Accounting Standards Board (FASB), the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Airport does not apply FASB statements and interpretations issued after November 30, 1989.

The Airport distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations. The principal operating revenues of the Airport are charges to airlines and concessionaires, and parking and transportation charges. Operating expenses of the Airport include the cost of sales and services, administrative expenses, the write-off of certain costs associated with abandoned capital projects, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) No. 64

In June of 2011, the GASB issued Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which clarifies the circumstances in which hedge accounting should continue to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The new standard is effective for periods beginning after June 15, 2011. The Airport implemented the provisions of Statement No. 64 as of July 1, 2011. The implementation of GASB 64 did not have a significant impact on the Airport for the fiscal year ended June 30, 2012.

Governmental Accounting Standards Board (GASB) No. 63

In June of 2011, the GASB issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The new standard is effective for periods beginning after December 15, 2011. The Airport will implement the provisions of Statement No. 63 in fiscal year 2013.

Governmental Accounting Standards Board (GASB) No. 65

In April of 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The new standard is effective for periods beginning after December 15, 2012. The Airport will implement the provisions of Statement No. 65 in fiscal year 2014.

Governmental Accounting Standards Board (GASB) No. 68

In June of 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 revises and establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. The new standard is effective for periods beginning after June 15, 2014. The Airport will implement the provisions of Statement No. 68 in fiscal year 2015.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, and investments and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statement of net assets as "Cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

The City reports certain investments at fair value in the statements of net assets and recognizes the corresponding change in fair value of investments in the year in which the change occurred, and the Airport reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash for financial reporting. The City also may hold nonpooled cash and investments for the Airport. Non-pooled restricted cash and highly liquid investments with maturities of three months or less, when purchased, are also considered to be cash equivalents. Restricted cash and investments held by the bond trustees are not considered to be cash and cash equivalents.

The debt service fund and the debt service reserve fund for the Airport's revenue bonds are held and invested at the Airport's direction by an independent bond trustee. A portion of these funds are also invested in accordance with three Forward Purchase and Sale Agreements that are intended to produce guaranteed earnings rates.

(d) Capital Assets

Capital assets are stated at cost. Interest costs of tax-exempt bond funds used for specified construction purposes, net of interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, are capitalized from the date of borrowings until the asset is ready for its intended use. Interest costs of other borrowings are capitalized based on average accumulated construction expenditures.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	Years
Buildings, structures, and improvements	5 – 50
Equipment	5 – 20
Easements	20
Intangible assets	5 – 10

Maintenance, repairs, and minor replacements are charged against operations in the year performed. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service. The Airport begins depreciation on capital assets the month following the date in which assets are placed in service. Additionally, the Airport commenced allocating indirect costs on self-constructed assets starting fiscal year 2007. The indirect cost rate applied is based on a cost allocation plan developed in accordance with Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments* (see note 5).

(e) Bond Issuance Costs, Discounts, and Premiums

Bond issuance costs, discounts, and premiums are amortized using the effective-interest method. Original bond issuance discounts and premiums are offset against the related debt.

(f) Compensated Absences

Vested vacation, sick leave, and related benefits are accrued when incurred for all Airport employees.

(g) Net Assets

A significant portion of the Airport's net assets is restricted by bond resolutions and indentures and the Lease and Use Agreement with the airlines for the purpose of capital improvements and contingencies.

(h) Aviation Revenue and Deferred Aviation Revenue

Aviation revenue is based on reimbursable expenditures as defined in the Lease and Use Agreement with the airlines. Under the Lease and Use Agreement, the airlines are required to pay terminal rents and landing fees in amounts that, when aggregated with certain other Airport revenues, will be equal to the Airport's expenditures for: operating expenses other than depreciation and amortization; principal and interest on outstanding debt; annual service payments to the City; and certain acquisitions of capital assets. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. Through the end of fiscal year 2011, the majority of airlines operated under either the Lease and Use Agreement that was executed in 1981 as part of a negotiated settlement with the airlines, or the 1999 Lease and Operating Agreement that was executed with airlines operating out of the Airport's International Terminal. Both contained the same general terms and conditions and expired on June 30, 2011. During fiscal year 2011, the Airport reached an agreement with the airlines on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. Airlines that are not signatories to one of these long-term agreements operated under month-to-month permits.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport owed the Airlines approximately $57.6 million and $54.5 million on June 30, 2012 and 2011, respectively, which represents aviation revenue collected in advance.

(i) Security Deposits

Airline leases and permits require airlines to deliver a security deposit to the Airport prior to the effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond payable to the City or (b) a letter of credit naming the City as a beneficiary. Under the 1981 Lease and Use Agreement that expired on June 30, 2011, the bonds or letters of credit are renewed and increased annually in order to equal either two or six months of fees, depending on the agreement, as estimated by the Airport Director. Under the 2011 Lease and Use Agreement, the security deposits are equal to two months of fees. Under most other leases and permits, a deposit equal to six months is required.

The bonds or letters of credit are required to be kept in full force and effect at all times to ensure the faithful performance by the respective lessee or permittee of all covenants, terms, and conditions of the leases or permits, including payment of the monthly fees.

(j) Net Sales and Service Revenues

Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City (see note 11).

(k) Environmental Cleanup Expenses and Recoveries

The Airport incurs costs associated with environmental cleanup activities, which arise during the normal course of business, in accordance with GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. These costs are recorded as a liability when the airport is required to perform the cleanup and if the costs can be reasonably estimated. The Airport records environmental cost recoveries as nonoperating expenses in the financial statements.

(l) Capital Contributions

The Airport receives federal grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditures of the funds.

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains its operating cash, cash equivalents, and investments and its restricted cash and investments as part of the City’s pool of cash and investments. The City’s investment pool is invested in an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

(Continued)

Cash and investments, at fair value, held by the City in the City's pool as of June 30, 2012 and 2011 are as follows (in thousands):

		2012	**2011**
Pooled cash and investments:			
Cash and investments held in City Treasury – operating	$	343,341	336,063
Cash and investments held in City Treasury – restricted for current outlay		47,198	40,939
Cash and investments held in City Treasury – restricted for capital outlay		70,367	135,103
Total cash and investments in City Treasury	$	460,906	512,105

The following table shows the percentage distribution of the City's pooled investments by maturity:

Investment maturities (in months)			
Under 1	**1 – less than 6**	**6 – less than 12**	**12 – 60**
1.9%	11.1%	8%	79%

(b) Cash and Investments with Fiscal Agent

The restricted assets for revenue bond reserves and debt service are held by an independent bond trustee for the Airport's senior lien bonds (the Senior Trustee) and a separate independent bond trustee for the Airport's subordinate lien bonds (the Subordinate Trustee, and collectively with the Senior Trustee, the Trustees). As of June 30, 2012, and June 30, 2011, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	**Credit Ratings (S&P/Moody's/ Fitch)**	**June 30, 2012 Maturities**		**June 30, 2012 Fair value**	**June 30, 2011 Maturities**		**June 30, 2011 Fair value**
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1+				July 6, 2011	$	46,496
U.S. Treasury Bills	Non-Rated	October 25, 2012	$	43,397			
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1+	July 5, 2012		47,242	—		—
Federal Home Loan Mortgage Corp. Discount Notes	A-1+/P-1/F1+	November 1, 2012		102,126	October 31, 2011		52,055
Federal Home Loan Mortgage Corp. Discount Notes	A-1+/P-1/F1+				November 1, 2011		145,547
Federal Home Loan Bank Discount Note	A-1+/P-1/F1+	October 31, 2012		157,485	November 1, 2011		106,450
Cash	Non-Rated			67			115
Total cash and investments with fiscal agent			$	350,317		$	350,663

The primary objectives of the Airport's policy on investments of debt service reserve funds and debt service funds (including principal and interest accounts) held by the Trustee are safety, liquidity, and yield.

Safety is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital in the overall portfolio, the objective of which is to mitigate credit and interest rate risk.

The term of any investment is based on the cash flow needs of the Airport's debt service requirements. Consequently, investment of any debt service reserve funds is limited to seven years or less, and investments of any principal and interest payment account are to mature no later than the dates on which the principal or interest payments are due.

The Airport will maximize the retainable earnings of all bond proceeds after meeting the requirements of safety and liquidity. After these objectives are met, the Airport's investment policy will attempt to achieve net investment yield as close to each bond fund's arbitrage yield.

Funds held by the Senior Trustee in funds and accounts established under the Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (the 1991 Master Resolution), are invested in "Permitted Investments" as defined in the 1991 Master Resolution.

Funds held by the Subordinate Trustee in funds and accounts established under the 1997 Subordinate Resolution are invested in "Permitted Investments" as defined in the 1997 Subordinate Resolution (excluding Banker's Acceptances that are permitted investments only for funds relating to the 1991 Master Resolution). The Airport's policy on Banker's Acceptances of a banking institution requires the highest short-term rating category by at least two Rating Agencies, and must not exceed 270 days maturity or forty percent (40%) of monies invested pursuant to the 1991 Master Resolution. In addition, no more than twenty percent (20%) of monies invested pursuant to the 1991 Master Resolution is to be invested in the Banker's Acceptances of any one commercial bank. The Airport has approximately \$350.3 million and \$350.7 million in investments held by, and in the name of, the Trustees as of June 30, 2012 and 2011, respectively.

All other funds of the Airport are invested in accordance with the (1) Treasurer's policy and (2) the 1991 Master Resolution or the 1997 Subordinate Resolution, as appropriate if such funds are also subject to the 1991 Master Resolution or the 1997 Subordinate Resolution, respectively. The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds according to the "Forward Purchase and Sale Agreements".

(c) Forward Purchase and Sale Agreements

Objective and Terms – The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds in investments delivered in accordance with three Forward Purchase and Sale Agreements (FPSAs) that are intended to produce guaranteed earnings at rates of 3.450% – 4.349%, depending on the agreement. The three FPSAs are 10-year agreements that expire between May 2013 and November 2014.

Provider	**Purpose**	**Amount**	**Fixed Rate**	**Start Date**	**End Date**
Merrill Lynch Capital Services	Reserve Funds	$ 100,000,000	4.329%	12/10/2004	11/1/2014
Citigroup Financial Products	Reserve Funds	42,700,000	3.450%	5/15/2003	5/1/2013
Morgan Stanley Capital Services	Debt Service Fund[1]	47,073,489	4.349%	1/29/2004	11/1/2013

[1] *The amount invested varies depending on principal and interest deposits on the outstanding bonds.*

Under each FPSA, the Senior Trustee purchases a predetermined amount and type of investment security from the provider (every month for the debt service fund and every six months for the reserve funds), at prices that will result in the guaranteed fixed rate of return. All investments under the FPSAs are made with the intention that securities will be held to maturity, and all are invested only in specified eligible securities pursuant to California Government Code and as defined by the Airport’s 1991 Master Resolution. These investments are scheduled to mature on or before each debt service payment date on the associated bonds.

If necessary, the Airport may direct the Senior Trustee to sell the securities at any time prior to their maturity in the open market and use the proceeds of such sale for the permitted purposes of the applicable fund. The securities are recorded at their fair market value as of June 30, 2012, and not at the guaranteed rate of return of the respective FPSA under which the investments were delivered. As of June 30, 2012, the accrued interest was recorded in the interest receivable account.

The Airport accounted for and disclosed the FPSAs as investment derivatives in accordance with GASB 53 as of and for the year ended June 30, 2012. The FPSAs were not accounted for and disclosed as investment derivatives as of and for the year ended June 30, 2011. The impact to the financial statements was not considered material taken as a whole for the years ended June 30, 2011 and 2012.

Fair Value – Fair value of each FPSA takes into consideration the prevailing interest rate environment and the specific terms and conditions of the FPSA. All fair values were estimated using the zero-coupon discounting method. This method calculates the future earnings under each FPSA, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve and compared to the future earnings at the guaranteed rate, also discounted using the spot rates implied by the current yield curve.

As of June 30, 2012, fair values of the FPSAs are as follows:

Provider		**June 30, 2012**
Merrill Lynch Capital Services	$	8,438,708
Citigroup Financial Products, Inc.		733,570
Morgan Stanley Capital Services		4,132,921
Total FPSAs	$	13,305,199

Credit Risk – The provider under each FPSA sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. Airport has received bankruptcy opinions of counsel to the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of the bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its funds in alternative investments available at that time, which would likely produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport as shown above.

The providers and guarantors of the FPSAs and their credit ratings are as follows:

Provider	**Guarantor**	**Guarantor credit ratings June 30, 2012 Moody's/S&P**
Merrill Lynch Capital Services	Merrill Lynch & Company	Baa2/A-
Citigroup Financial Products, Inc.	Citigroup Inc.	Baa2/A-
Morgan Stanley Capital Services	Morgan Stanley	Baa1/A-

Termination Risk – Under the terms of the FPSAs, if an investment provider is downgraded below "A-" by Standard & Poor's or "A3" by Moody's, a "Downgrade Event" occurs, and the provider must take corrective action by either assigning the FPSA to a more highly rated investment provider, obtaining a guaranty from a more highly rated guarantor, or collateralizing its obligations under the FPSA. If the provider fails to cure the Downgrade Event within 10 business days, the Airport has a 45-day option to terminate the FPSA and make or receive a cash payment, depending on the then market value of the FPSA.

Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011, to "Baa1" (and subsequently to "Baa2") resulting in a Downgrade Event. Consequently, Merrill Lynch Capital Services, Inc. (MLCS) entered into a collateral agreement in January 2012 with the Senior Trustee for the benefit of the Airport to post collateral equal to 105% of the fair value (or "termination amount") calculated on a weekly basis to secure MLCS' obligations under the FPSA. The collateral delivered by MLCS is held by U.S. Bank National Association, as custodian (the Custodian). If an event of default by MLCS occurs under the FPSA and the FPSA is terminated, the Senior Trustee is entitled to instruct the Custodian to transfer the collateral to the Senior Trustee or to liquidate the collateral and transfer the proceeds to the Senior Trustee.

Citigroup Inc. and Morgan Stanley were each downgraded by Moody's to "Baa2" and "Baa1," respectively, on June 21, 2012, resulting in Downgrade Events under their respective FPSAs. The Airport is discussing appropriate cures to the Downgrade Events with each of these providers. The downgrade of any FPSA increases the risk to the Airport that the provider will not perform under the FPSA. Under each FPSA, the provider sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. The Airport has received bankruptcy opinions of counsel to the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its fund in alternative investments available at the time, which would likely produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport.

(4) Grants Receivable

Grants receivable of $10,840,000 and $8,676,000 as of June 30, 2012, and June 30, 2011, respectively, are based on actual costs incurred, subject to federal reimbursement limits.

Project costs are subject to audit by the funding agencies to ensure that the costs are allowable under the grant agreements. If any project costs are disallowed, amounts recorded as grants receivable will be reduced or refunded to the respective funding agencies. During the years ended June 30, 2012 and 2011, the Airport did not experience reductions to its grants receivable nor refund any amounts to the funding agencies.

(5) Capital Assets

Capital assets consist of the following (in thousands):

	July 1, 2011	Additions	Deletions	Adjustment	Transfers	June 30, 2012
Capital assets not being depreciated:						
Land	$ 2,787	—	—	287	—	3,074
Construction in progress	83,830	101,421	(15,286)	(14,814)	(69,299)	85,852
Total capital assets not being						—
depreciated	86,617	101,421	(15,286)	(14,527)	(69,299)	88,926
Capital assets being depreciated/ amortized:						
Buildings, structures, and improvements	5,640,378	2,554	—	(64,608)	54,949	5,633,273
Equipment	97,573	2,736	(2,587)	74,991	14,293	187,006
Easements and intangible assets	141,086	12	—	193	57	141,348
Total capital assets being depreciated/ amortized	5,879,037	5,302	(2,587)	10,576	69,299	5,961,627
Less accumulated depreciation/ amortization for:						
Buildings, structures, and improvements	(1,997,652)	(143,582)	—	751	—	(2,140,483)
Equipment	(58,576)	(15,082)	2,572	(2,219)	—	(73,305)
Easements and intangible assets	(95,162)	(7,194)	—	17	—	(102,339)
Total accumulated depreciation/ amortization	(2,151,390)	(165,858)	2,572	(1,451)	—	(2,316,127)
Total capital assets being depreciated/ amortized, net	3,727,647	(160,556)	(15)	9,125	69,299	3,645,500
Total capital assets, net	$ 3,814,264	(59,135)	(15,301)	(5,402)	—	3,734,426

	July 1, 2010	Additions	Deletions	Transfers	June 30, 2011
Capital assets not being depreciated:					
Land	$ 2,787	—	—	—	2,787
Construction in progress	333,312	261,784	(1,878)	(509,388)	83,830
Total capital assets not being depreciated	336,099	261,784	(1,878)	(509,388)	86,617
Capital assets being depreciated/ amortized:					
Buildings, structures, and improvements	5,142,832	114	(1,034)	498,466	5,640,378
Equipment	85,970	2,564	(1,883)	10,922	97,573
Easements and intangible assets	141,086	—	—	—	141,086
Total capital assets being depreciated/ amortized	5,369,888	2,678	(2,917)	509,388	5,879,037
Less accumulated depreciation/ amortization for:					
Buildings, structures, and improvements	(1,850,880)	(147,757)	985	—	(1,997,652)
Equipment	(55,229)	(5,218)	1,871	—	(58,576)
Easements and intangible assets	(88,087)	(7,075)	—	—	(95,162)
Total accumulated depreciation/ amortization	(1,994,196)	(160,050)	2,856	—	(2,151,390)
Total capital assets being depreciated/ amortized, net	3,375,692	(157,372)	(61)	509,388	3,727,647
Total capital assets, net	$ 3,711,791	104,412	(1,939)	—	3,814,264

Total interest cost was approximately $205,444,000 for fiscal year 2012 and $216,571,000 for fiscal year 2011, of which approximately $1,897,000 and $20,636,000, respectively, was capitalized. Total investment income for fiscal year 2012 was $32,353,000 with no interest capitalization. Total investment income for fiscal year 2011 was $16,784,000, of which $1,398,000 was capitalized.

In fiscal year 2007, the Airport completed a cost allocation plan (CAP) developed in accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*. Capturing indirect costs as a component of a building or other fixed asset will enable the Airport to capture the full and true cost of a capital asset. The CAP established an indirect cost rate of 8% on a total input base applied on capital projects.

In fiscal year 2012, the Airport updated the CAP based on the fiscal year 2011 audited historical costs and established a new indirect cost rate of 6.6%. The indirect cost rate for fiscal year 2011 was 5.9% based on 2010 audited historical costs. The indirect costs capitalized for the years ended June 30, 2012 and 2011, were $4.6 million and $12.8 million, respectively.

(6) Subordinate Commercial Paper Notes

Fiscal Year 2012

On May 20, 1997, the Airport Commission authorized the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400 million or the stated amount of the letter(s) of credit securing the CP. The Airport has two $100 million direct-pay letters of credit from State Street Bank and from Barclays Bank both of which expire on May 2, 2014. Each of these letters of credit supports separate subseries of commercial paper notes, and permits the Airport to issue CP up to a combined maximum principal amount of $200 million.

During fiscal year 2012, the Airport issued $10.45 million of subordinate commercial paper notes to fund capital improvement projects.

For fiscal year 2012, the interest rate on private activity CP (AMT) was 0.18%, and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.16% to 0.20%.

The following table summarizes the issuance of CP during the fiscal year ended June 30, 2012 (in thousands):

	Interest rate	July 1, 2011	Increases	Decreases	June 30, 2012
Commercial paper (AMT)	0.18%	—	2,300	—	2,300
Commercial paper (non-AMT)	0.16% – 0.20%	—	8,150	—	8,150
Total		$ —	10,450	—	10,450

Fiscal Year 2011

During fiscal year 2011, the Airport issued additional CP notes to fund $4.7 million of additional capitalized interest on the Series 2009E Bonds issued for the Terminal 2 project, and to fund a $6.65 million Series 2010A-3 swap termination payment to Depfa Bank PLC and related fees.

The CP note issued for the Depfa swap termination was retired with Airport operating funds on March 28, 2011. All other CP issued or outstanding during the fiscal year was retired with proceeds of the Series 2010F/G Bonds on August 5, 2010, and the Series 2011A/B Bonds on February 22, 2011. As of June 30, 2011, the Airport had no CP outstanding.

For fiscal year 2011, the interest rates on the taxable CP ranged from 0.25% to 0.30%, the interest rates on private activity CP (AMT) ranged from 0.28% to 0.33%, and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.26% to 0.30%.

The following table summarizes the issuance of CP during the fiscal year ended June 30, 2011 (in thousands):

	Interest rate	July 1, 2010	Increases	Decreases	June 30, 2011
Commercial paper (taxable)	0.25% – 0.30%	$ —	6,650	(6,650)	—
Commercial paper (AMT)	0.28% – 0.33%	121,940	—	(121,940)	—
Commercial paper (non-AMT)	0.26% – 0.30%	6,720	4,685	(11,405)	—
Total		$ 128,660	11,335	(139,995)	—

(7) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2012 and 2011, was as follows (in thousands):

	July 1, 2011	Additions	Reductions	June 30, 2012	Due within one year
Revenue bonds payable	$ 4,215,230	1,021,440	(1,174,405)	4,062,265	340,545
Less unamortized discounts	(4,249)	—	3,948	(301)	—
Unamortized deferred amount on refundings	(104,418)	(50,038)	26,588	(127,868)	—
Add unamortized premiums	103,964	62,861	(17,281)	149,544	—
Total revenue bonds payable	4,210,527	1,034,263	(1,161,150)	4,083,640	340,545
Notes payable	25,460	—	(25,460)	—	—
Unamortized deferred amount on refundings	(730)	—	730	—	—
Add unamortized premiums	26	—	(26)	—	—
Total notes payable	24,756	—	(24,756)	—	—
Other postemployment benefits obligation	60,537	15,287	—	75,824	—
Compensated absences	14,638	11,110	(10,119)	15,629	7,943
Accrued workers' compensation	4,966	2,013	(1,904)	5,075	998
Estimated claims payable	11,557	(1,386)	(8,839)	1,332	503
Total	$ 4,326,981	1,061,287	(1,206,768)	4,181,500	349,989

(Continued)

		July 1, 2010	Additions	Reductions	June 30, 2011	Due within one year
Revenue bonds payable	$	4,180,365	283,810	(248,945)	4,215,230	133,425
Less unamortized discounts		(4,151)	(314)	216	(4,249)	—
Unamortized deferred amount on refundings		(114,091)	(4,047)	13,720	(104,418)	—
Add unamortized premiums		109,260	8,664	(13,960)	103,964	—
Total revenue bonds payable		4,171,383	288,113	(248,969)	4,210,527	133,425
Notes payable		66,525	—	(41,065)	25,460	2,335
Unamortized deferred amount on refundings		(2,338)	—	1,608	(730)	—
Add unamortized premiums		458	—	(432)	26	—
Total notes payable		64,645	—	(39,889)	24,756	2,335
Other postemployment benefits obligation		46,281	14,256	—	60,537	—
Compensated absences		14,328	9,943	(9,633)	14,638	7,490
Accrued workers' compensation		5,039	1,708	(1,781)	4,966	942
Estimated claims payable		10,013	2,030	(486)	11,557	4,379
Total	$	4,311,689	316,050	(300,758)	4,326,981	148,571

(8) Long-Term Debt

Bond Transactions and Balances

As of June 30, 2012, and June 30, 2011, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2012	2011
Second Series Revenue Bonds:				
Issue 15A/B	01/01/98	4.40% – 5.00%	$ -	$ 194,545
Issue 16A/B	04/01/98	4.75% – 5.50%	-	32,135
Issue 17	04/01/98	4.75% – 5.50%	-	10,755
Issue 18A	07/01/98	5.00% – 5.25%	-	39,130
Issue 20	10/01/98	4.50% – 4.75%	-	47,950
Issue 21	10/01/98	4.50% – 4.75%	-	23,575
Issue 22	12/01/98	4.70% – 5.25%	-	66,860
Issue 23A	05/01/99	5.00% – 5.50%	-	91,290
Issue 27A/B	07/11/01	4.13% – 5.50%	-	226,745
Issue 28A/B/C	03/14/02	4.00% – 5.50%	-	170,860
Issue 29A/B	02/05/03	4.00% – 5.25%	32,740	107,265
Issue 30	02/10/04	3.87% – 5.25%	-	34,820
Issue 31F	01/26/05	4.48% – 4.91%	76,165	88,665
Issue 32F/G/H	11/16/06	4.00% – 5.25%	418,310	423,510
Issue 34C/D/E/F	03/27/08	4.00% – 5.75%	375,240	394,190
Issue 36A	05/07/08	Variable rate	100,000	100,000
Issue 36B (REMARKET)	05/04/11	Variable rate	40,620	40,620
Issue 36C/D	05/20/08	Variable rate	36,145	68,830
Issue 37C/D	05/15/08	Variable rate	89,895	109,585
Issue 2009A/B (REMARKET)	09/15/10	4.90%	175,000	175,000
Issue 2009C	11/03/09	3.50% – 5.00%	122,955	126,565
Issue 2009D	11/04/09	3.00%	88,190	88,190
Issue 2009E	11/18/09	4.38% – 6.00%	485,800	485,800
Issue 2010A	02/10/10	Variable rate	215,970	215,970
Issue 2010C	04/07/10	3.00% – 5.00%	345,735	345,735
Issue 2010D	04/07/10	3.00% – 5.00%	89,860	89,860
Issue 2010E	04/07/10	1.87% – 2.97%	85,135	132,970
Issue 2010F	08/05/10	5.00%	121,360	121,360
Issue 2010G	08/05/10	5.00%	7,100	7,100
Issue 2011A	02/22/11	4.00% – 5.75%	81,170	88,815
Issue 2011B	02/22/11	4.00% – 5.50%	55,770	66,535
Issue 2011C	07/21/11	5.00%	163,720	-
Issue 2011D	07/21/11	5.00%	124,110	-
Issue 2011E	07/21/11	0.70% - 4.48%	60,250	-
Issue 2011F	09/20/11	5.00%	123,325	-
Issue 2011G	09/20/11	5.00% – 5.25%	106,195	-
Issue 2011H	09/20/11	0.95% – 4.15%	125,055	-
Issue 2012A	03/22/12	5.00%	208,025	-
Issue 2012B	03/22/12	2.50% – 5.00%	108,425	-
			4,062,265	4,215,230
Unamortized discount			(301)	(4,249)
Unamortized deferred amount on refunding			(127,868)	(104,418)
Unamortized premium			149,544	103,963
Total revenue bonds payable			4,083,640	4,210,526
Less current portion			(340,545)	(133,425)
Total long-term revenue bonds payable			$ 3,743,095	4,077,101

Fiscal Year 2012

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008 and 2012, the Airport Commission has authorized the issuance of up to $1.22 billion of San Francisco International Airport Second Series Revenue Bonds for the purposes of financing and refinancing the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance.

The Airport issued $614.3 million of capital plan bonds in fiscal years 2010 and 2011, and no new capital plan bonds during fiscal year 2012. As of June 30, 2012, $605.9 million of the authorized capital plan bonds remains unissued.

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. As of June 30, 2012, net of expired sale authorizations and refunding bonds issued over fiscal year 2011, $1.42 billion of such refunding bonds remained unissued.

During fiscal year 2012, the Airport issued the following new refunding bonds under the 1991 Master Resolution:

Second Series Revenue Refunding Bonds, Series 2011C/D/E

On July 21, 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011C/D/E, in the total amount of $350.4 million for debt service savings. The Series 2011C (AMT) and Series 2011D (Non-AMT/Governmental Purpose) bonds refunded long-term fixed rate bonds that were currently callable, while Series 2011E (Taxable) advance refunded fixed rate bonds and all of the Second Series Revenue Notes, Series 2008A-4. The Series 2011C Bonds mature on May 1, 2025, the Series 2011D Bonds on May 1, 2031, and the Series 2011E Bonds on May 1, 2020. The Series 2011C/D/E Bonds are long-term fixed rate bonds that bear interest at rates between 0.70% and 5.0%.

The total proceeds of $370.9 million (consisting of the $350.4 million par amount of the Series 2011C/D/E Bonds, plus original issue premium of $12.6 million, plus $5.2 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.7 million released from the Series 2008A-4 Reserve Account) were used to pay $1.7 million in underwriter's discount and $1.2 million in costs of issuance, make a $2.7 million deposit into the Issue 1 Reserve Account, and make a $365.3 million deposit into irrevocable escrow funds with the Airport to defease and refund $357.8 million in revenue bonds and notes described below.

		Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issue:				
15A (AMT)	$	51,225,000	5.00%	100%
16B		9,275,000	4.75%	100%
17 (NON-AMT)		3,960,000	4.75%	100%
18A (AMT)		23,055,000	5.00%	100%
20		18,455,000	4.50%	100%
21		4,255,000	4.50%	100%
22 (AMT)		10,785,000	4.75%	100%
23A (AMT)		22,460,000	5.00%	100%
27A (AMT)		60,715,000	5.13% – 5.25%	100%
27B		93,815,000	5.00% – 5.13%	100%
28A (AMT)		16,555,000	5.25% – 5.50%	100%
30 (NON-AMT)		17,810,000	5.25%	102%
Series 2008A Notes:				
2008A-4		25,460,000	6.50%	100%
Total	$	357,825,000		

The refunded bonds were defeased and redeemed on August 1, 2011 (Issues 15A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, and 27B), and May 1, 2012 (Issues 28A, 30, and Series 2008A-4). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $0.6 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $19.0 million over the next 20 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $12.7 million.

Second Series Revenue Refunding Bonds, Series 2011F/G/H

On September 20, 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011F/G/H, in the total amount of $354.6 million, which were sold to refund $52.4 million of the Airport's Issue 36D/37D outstanding variable rate bonds to fixed rate, finance a payment related to the termination of the Issue 36D interest rate swap, and refund a portion of the Airport's outstanding fixed rate bonds for debt service savings. The Series 2011F (AMT) and Series 2011G (Non-AMT/Governmental Purpose) bonds refunded currently callable long-term fixed rate bonds as well as the Issue 36D/37D variable rate bonds, while Series 2011H (Taxable) advance refunded fixed rate bonds. The Series 2011F and 2011G Bonds mature on May 1, 2030 and the 2011H Bonds mature on May 1, 2022. The Series 2011F/G/H Bonds mature between May 1, 2022, and May 1, 2030, and bear interest at rates between 0.95% and 5.3%.

The total proceeds of $376.3 million (consisting of the $354.6 million par amount of the Series 2011F/G/H Bonds, plus original issue premium of $12.3 million, plus $6.6 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.5 million released from the Issue 36D/37D Reserve Account, and $0.3 million released from the Issue 36D/37D cost of issuance account) were used to pay $1.5 million in underwriter's discount and $1.0 million in costs of issuance, make a $4.6 million swap termination payment, deposit $1.3 million into the Issue 1 Reserve Account, and deposit $367.9 million into irrevocable escrow funds with the Senior Trustee to defease and refund $354.4 million in revenue bonds described below.

		Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issue:				
15A (AMT)	$	30,240,000	5.00%	100%
15B		13,970,000	4.50%	100%
16A (AMT)		6,940,000	5.00%	100%
16B		5,025,000	4.75%	100%
17 (NON-AMT)		2,145,000	4.75%	100%
18A (AMT)		13,515,000	5.00%	100%
20		19,825,000	4.50%	100%
21		4,580,000	4.50%	100%
22 (AMT)		11,945,000	4.75%	100%
23A (AMT)		17,110,000	5.00%	100%
27A (AMT)		45,700,000	5.25%	100%
28A (AMT)		29,320,000	5.00% – 5.25%	100%
28B (NON-AMT)		13,895,000	5.00%	100%
28C (NON-AMT)		11,405,000	4.00%	100%
29A (AMT)		11,540,000	5.25%	100%
29B (NON-AMT)		53,175,000	5.13%	100%
30 (NON-AMT)		11,705,000	4.00% – 5.00%	102%
36D		32,685,000	3.45% – 3.52%	100%
37D		19,690,000	3.52%	100%
Total	$	354,410,000		

The refunded bonds were defeased and redeemed or scheduled for redemption on September 23, 2011 (Issues 15A, 15B, 16A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 36D, 37D), May 1, 2012 (Issues 28A, 28B, 28C, 30) and May 1, 2013 (Issues 29A, 29B). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $0.5 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments (over forecasted payments, as Issue 36D/37D debt service was in variable-rate mode) by approximately $10.0 million over the next 18 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $6.3 million.

Second Series Revenue Refunding Bonds, Series 2012A/B

On March 22, 2012, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2012A (AMT) and 2012B (Non-AMT/Governmental Purpose) in the total amount of $316.5 million to refund long-term fixed rate bonds that were currently callable. The Series 2012A/B Bonds bear interest at fixed rates between 2.5% and 5.0%, and mature on May 1, 2032, and May 1, 2030, respectively.

The net proceeds of $361.5 million (consisting of the $316.5 million par amount of the Series 2012A/B Bonds, plus original issue premium of $37.9 million, plus $7.1 million accumulated in the Debt Service Fund relating to the refunded bonds) were used to pay $1.3 million underwriter's discount and $1.0 million in costs of issuance and deposit $359.2 million into irrevocable escrow funds with the Senior Trustee to defease and refund $351.9 million in revenue bonds as described below.

		Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issue:				
15A (AMT)	$	52,200,000	5.00%	100%
15B		46,910,000	4.50%	100%
16B		10,895,000	4.75%	100%
17 (NON-AMT)		4,650,000	4.75%	100%
18A (AMT)		2,560,000	5.00%	100%
20		9,670,000	4.50%	100%
21		14,740,000	4.50%	100%
22 (AMT)		44,130,000	4.75%	100%
23A (AMT)		51,720,000	5.00%	100%
27A (AMT)		26,515,000	5.25%	100%
28A (AMT)		50,365,000	5.13%	100%
28B (NON-AMT)		32,210,000	5.00%	100%
30 (NON-AMT)		5,305,000	3.60% – 4.10%	102%
Total	$	351,870,000		

The refunded bonds were defeased and redeemed on March 23, 2012 (Issues 15A, 15B, 16B, 17, 18A, 20, 21, 22, 23A, 27A), and May 1, 2012 (Issues 28A, 28B, 30). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting loss of $0.3 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $56.5 million over the next 20 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $33.3 million.

(c) Second Series Revenue Refunding Bonds (Remarketing)

The Commission's variable rate bonds are subject to tender at par at the option of the holder thereof on seven days notice. These bonds are also subject to mandatory tender upon the occurrence of certain events such as the Airport's election to change the interest rate mode on such bonds or to replace the credit facility securing such bonds. Any tendered variable rate bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The following variable rate bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association expiring on July 11, 2014. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. As the Issue 36C Bonds are secured by a letter of credit, they are no longer secured by a reserve account. The costs of remarketing were paid from Airport funds.

Second Series Variable Rate Revenue Refunding Bonds, Series 37C

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. expiring on July 13, 2015. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated. The Issue 37C Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. The costs of remarketing were paid from Airport funds.

(d) Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2012, is an aggregate principal amount of $382,630,000 of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C, Issue 37C, and Series 2010A (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by four separate irrevocable direct-pay letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below.

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.60% and 1.05% per annum. As of June 30, 2012, there were no unreimbursed draws under these facilities.

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) in combination with bond insurance provided by Assured Guaranty Municipal Corp. (Assured). The Airport elected to replace Dexia due to concerns about the firm's financial condition and canceled the bond insurance policy.

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. The bonds were originally secured by a standby bond purchase agreement provided by Dexia in combination with bond insurance provided by Assured. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy.

The primary terms of the letters of credit are as follows:

	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	$40,620,000	$36,145,000	$89,895,000	$215,970,000
Expiration Date	May 2, 2014	July 11, 2014	July 13, 2015	January 31, 2014
Credit Provider	U.S. Bank(1)	U.S. Bank(1)	Union Bank(2)	JP Morgan(3)

(1) U.S. Bank National Association
(2) Union Bank, N.A.
(3) JP Morgan Chase Bank, N.A.

(e) Interest Rate Swaps

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the "2004 swaps") with an aggregate notational amount of $405 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30 and December 3, 2008, the Airport refunded Issues 37A and Issue 37B, respectively. Concurrently, with the refunding of Issue 37A, the three associated swaps, with an aggregate notional amount of $205.1 million, were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

On December 16, 2010, the Airport terminated the swap associated with the Series 2010A-3 Bonds, with a notional amount of $71.97 million. The Airport paid a termination amount of $6.65 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds on March 28, 2011.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B Bonds, however, is now associated with the Series 2010A-3 Bonds and a $7.68 million portion of the previously unhedged Issue 37D Bonds.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notational amount of $29.97 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of $4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2012, the Airport's derivative instruments comprised six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2012 and 2011.

#	Current Bonds		Initial Notional Amount	Effective Date
1	36AB	$	70,000,000	2/10/2005
2	36AB		69,930,000	2/10/2005
3	36C		30,000,000	2/10/2005
4	2010A*		79,684,000	5/15/2008
5	37C		89,856,000	5/15/2008
6	2010A		143,947,000	2/1/2010
	Total	$	483,417,000	

*The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C and 37C Bonds.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

As of June 30, 2012, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Commission are as follows:

#	Current Bonds	Counterparty/guarantor	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission		Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%	$	(12,984,208)
2	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.445%		(12,981,789)
3	36C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%		(5,564,401)
4	2010A	Merrill Lynch Capital Services, Inc./Merrill Lynch & Co.	A-/Baa2/A	3.898%		(21,520,422)
5	37C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.898%		(24,267,696)
6	2010A	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	A-/A3/A	3.925%		(41,120,788)
		Total			$	(118,439,304)

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statement of net assets. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis.

The impact of the interest rate swaps on the financial statements for the years ended June 30, 2012 and 2011, is as follows:

		Deferred outflows on derivative instruments	Derivative instruments
Balance June 30, 2011	$	63,382	68,304
Change in fair value to year end		35,597	48,555
Balance June 30, 2012	$	98,979	116,859

Deferred outflows on derivative instruments of $99.0 million and $63.4 million as of June 30, 2012 and 2011, respectively, represented deferred outflows of resources offsetting interest rate swap liabilities. Derivative instruments of $116.9 million and $68.3 million as of June 30, 2012 and 2011, respectively, represented the fair values of interest rate swap contracts. The difference between the deferred outflows and derivative instruments above is due to the amortization of the off-market portions of the swaps.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ending June 30, 2012, the Airport received $1.1 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2012, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2012, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer or substitute such swaps.

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

#	Swap	Swap Insurer	Insurer credit ratings June 30, 2012 (S&P/Moody's)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
3	Issue 36C	Assured Guaranty Municipal Corp.	AA-/Aa3
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA-/Aa3
6	Series 2010A	None	N/A

*S&P downgraded FGIC's credit ratings to "CC" from "CCC" and subsequently withdrew their ratings on FGIC on April 22, 2009. Moody's downgraded FGIC to "Caa3" from "Caa1" and subsequently withdrew their ratings on FGIC on March 24, 2009.

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Terminating Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Each of the Airport's three bank counterparties, Goldman Sachs Group, Inc., JPMorgan Chase Bank N.A., and Merrill Lynch & Co. was downgraded by one or more of the rating agencies during the year ending June 30, 2012. Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to “Baa1” (and subsequently to “Baa2”). This downgrade constitutes an Additional Terminating Event under the interest rate swap agreement.

The Airport is discussing appropriate cures to the Additional Terminating Event with Merrill Lynch. The downgrades to Goldman Sachs and JPMorgan did not constitute an Additional Termination Events under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2012, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(f) Second Series Revenue Notes

Second Series Revenue Refunding Notes, Series 2008A

In October 2008, the Airport issued its Second Series Revenue Refunding Notes, Series 2008A, in the aggregate principal amount of $226.7 million to refund the Second Series Variable Rate Revenue Refunding Bonds, Issue 37A. The various subseries of the Series 2008A Notes were subject to mandatory tender by bondholders for purchase by the Airport on May 1, 2010 (2008A-1 and 2008A-2), May 1, 2011 (2008A-3), and May 1, 2012 (2008A-4).

On July 21, 2011, the last subseries of outstanding Series 2008A-4 Notes, totaling $25.5 million, was refunded by the Series 2011E Bonds in advance of its May 1, 2012 mandatory tender date. As of June 30, 2012, there are no remaining Series 2008A Second Series Revenue Notes outstanding.

(g) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, there were $91,120,000 and $95,060,000 of the Commission’s San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A/B and 2000A outstanding as of June 30, 2012 and June 30, 2011, respectively. SFO Fuel Company LLC (SFO Fuel) is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposit on the bonds. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the obligations, and as such, they are not reported in the accompanying financial statements.

(h) Debt Service Requirement

The Commission issues its senior lien San Francisco International Airport Second Series Revenue Bonds under the 1991 Master Resolution, which provides, among other things, the general terms and conditions of the bonds, the funds and accounts relating to the bonds, and certain covenants made by the Commission for the benefit of bondholders. Such covenants include not creating liens on its property essential to operations or disposing of any property essential to maintaining revenues or operating the Airport, and maintaining specified levels of insurance or self-insurance. The Commission may also establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Commission has established three reserve accounts in the Reserve Fund: the Issue 1 Reserve Account, the 2009 Reserve Account and the Series 2009D Reserve Account, all of which are held by the Senior Trustee.

Issue 1 Reserve Account

The Issue 1 Reserve Account is the Airport's original parity reserve account established in connection with the first issuance of bonds under the 1991 Master Resolution and which now secures most of the Commission's outstanding bonds. The Commission may designate any series of bonds as a "participating series" secured by the Issue 1 Reserve Account. The reserve requirement is equal to the maximum annual debt service accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account. As of June 30, 2012, the reserve requirement was $307.6 million, which was satisfied by $267.5 million of cash and investment securities, and reserve policies in the principal amount of $146.5 million. Of such reserve policies, $10.5 million have likely experienced a reduction in value in accordance with their terms, and the providers of the remaining $136 million in reserve policies are no longer rated or are now rated below the Airport's credit rating.

2009 Reserve Account

The Commission has established an additional pooled reserve account identified as the "2009 Reserve Account" in the Reserve Fund, as security for each series of bonds (a "2009 Reserve Series") that is designated as being secured by the 2009 Reserve Account. Currently, only the Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account. The reserve requirement for each 2009 Reserve Series is the lesser of: (i) maximum annual debt service for such 2009 Reserve Series Bonds, (ii) 125% of average annual debt service for such 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such series (or allocable issue price of such series if such Series is sold with more than a de minimis (2%) amount of original issue discount), in each case as determined from time to time. With respect to all 2009 Reserve Series, the reserve requirement is the aggregate of such amounts for each individual series. As of June 30, 2012, the reserve requirement for the 2009 Reserve Account was $22.3 million, which was satisfied by $18.9 million in cash and investment securities, and a reserve policy in the principal amount of $3.4 million issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.).

Series Secured by Other or No Reserve Accounts

As permitted under the 1991 Master Resolution, the Commission may establish separate reserve accounts for individual series of bonds, or may issue bonds without a reserve account. The Commission has established a separate reserve account for its Second Series Revenue Refunding Bonds, Series 2009D, which are subject to mandatory tender for purchase on December 4, 2012. The reserve requirement for the Series 2009D Reserve Account is equal to 10% of the aggregate outstanding principal amount of the Series 2009D Bonds from time to time. At fiscal year end, the reserve requirement was $8.8 million, which was satisfied by cash and investment securities.

The Commission did not establish reserve accounts for its Second Series Variable Rate Revenue Refunding Bonds, Issue 36A/B/C, or Series 2010A, all of which are secured by letters of credit.

Reserve Policies

Under the 1991 Master Resolution, the Commission may satisfy a portion of a reserve requirement by depositing with the Senior Trustee one or more reserve policies issued by a credit provider rated in the highest category by at least two rating agencies. However, the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit. Each of the providers of the reserve policies in the reserve accounts was rated "AAA" at the time the policies were deposited. However, as a result of the financial crisis that began in 2007, all of the major municipal bond insurance companies have been downgraded, and several are no longer providing current financial and operating information. In addition, under the terms of several of the reserve policies, the value of the policies may be adjusted downward from time to time as related bonds are refunded and such policies may have experienced a reduction in value. The Airport has periodically deposited additional cash in the Issue 1 Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies.

Rate Covenant

Under the terms of the 1991 Master Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net revenues (as defined in the 1991 Master Resolution) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City, and

(b) Net revenues, together with any transfer from the Contingency Account to the Revenue Account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Resolution for calculating debt service coverage differ from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

Revenue bond debt service requirements to maturity are as follows (in thousands):

		Principal	Interest	Total
Fiscal year:				
2013	$	152,355	193,161	345,516
2014		163,110	188,722	351,832
2015		181,685	182,537	364,222
2016		187,245	174,890	362,135
2017		181,205	166,442	347,647
2018 – 2022		1,155,550	683,349	1,838,899
2023 – 2027		1,140,445	386,419	1,526,864
2028 – 2032		588,685	154,406	743,091
2033 – 2037		200,230	67,003	267,233
2038 – 2040		111,755	10,609	122,364
Total	$	4,062,265	2,207,538	6,269,803

The table below presents the revenue bond debt service requirements in the event (i) the letters of credit securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit and (ii) the Airport's outstanding fixed rate bonds scheduled to become due (via a mandatory tender by bondholders for purchase by the Airport) are not remarketed as or refunded with long-term fixed rate bonds (in thousands):

		Principal	Interest	Total
Fiscal year:				
2013	$	340,545	192,152	532,697
2014		418,155	180,545	598,700
2015		216,225	165,280	381,505
2016		275,465	152,290	427,755
2017		162,405	142,911	305,316
2018 – 2022		997,090	581,836	1,578,926
2023 – 2027		897,800	326,000	1,223,800
2028 – 2032		442,595	144,053	586,648
2033 – 2037		200,230	67,003	267,233
2038 – 2040		111,755	10,609	122,364
Total	$	4,062,265	1,962,679	6,024,944

Fiscal Year 2011

(a) Second Series Revenue Bonds (Capital Plan Bonds)

The Airport Commission has authorized the issuance of up to $718 million of San Francisco International Airport Second Series Revenue Bonds for the purposes of financing and refinancing the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2011, $103.7 million of such capital plan bonds remained unissued. The following capital plan bonds were issued during fiscal year 2011:

Second Series Revenue Refunding Bonds, Series 2010F/G

On August 5, 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010F (Non-AMT/Private Activity) and 2010G (Non-AMT/Governmental Purpose) in the aggregate principal amount of $128.46 million to retire commercial paper notes that had been issued to finance Airport capital projects. The Series 2010F/G Bonds are long-term fixed rate term bonds (subject to prior mandatory sinking fund redemptions) with maturity dates of May 1, 2035, and May 1, 2040, with a 5.00% interest rate.

The net proceeds of $128.18 million (consisting of the principal amount of the Series 2010F/G Bonds, less $0.314 million in net original issue discount and plus $0.03 million of other Airport funds) were used to make a $4.7 million deposit to the Issue 1 Reserve Account (the Airport's parity reserve account), pay $0.8 million in costs of issuance, pay $0.7 million in underwriters' discount, and retire the $121.89 million of outstanding commercial paper notes on August 5, 2010.

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission had authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. As of June 30, 2011, net of expired sale authorizations and refunding bonds issued over fiscal year 2011, $2.4 billion of such refunding bonds remained unissued.

During fiscal year 2011, the Commission issued the following refunding bonds:

Second Series Revenue Refunding Bonds, Series 2011A/B

On February 22, 2011, the Airport issued its long-term fixed rate Second Series Revenue Refunding Bonds, Series 2011A (AMT/Private Activity) and 2011B (Non-AMT/Governmental Purpose), in the principal amount of $155.4 million to defease and refund $114.1 million of outstanding fixed rate bonds (from Issues 26A, 27A and 27B), retire $11.5 million in outstanding commercial paper notes, and defease and refund $41.1 million of Series 2008A-3 Notes in advance of their May 1, 2011 mandatory tender date. The Series 2011A Bonds mature between May 1, 2012 and May 1, 2019 and bear interest at rates between 4.00% and 5.75%. The Series 2011B Bonds mature between May 1, 2012 and May 1, 2021 and bear interest at rates between 4.00% and 5.50%.

The net proceeds of $178.6 million (consisting of the par amount of the Series 2011A/B Bonds, plus original issue premium of $8.7 million, plus $4.6 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $10.0 million released from the Series 2008A-3 Reserve Account) were used to pay $0.7 million in underwriters' discount and $1.2 million in costs of issuance, make a $5.7 million deposit to the Issue 1 Reserve Account, retire $11.5 million of commercial paper notes, and make a $159.6 million deposit to irrevocable escrow funds with the Senior Trustee to defease and refund $155.2 million in revenue bonds and notes described below.

		Amount refunded	Interest rates	Redemption price
Second Series Revenue Bond Issue:				
26A	$	3,050,000	5.00%	101%
27A		41,470,000	5.50%	100%
27B		69,625,000	5.00% – 5.25%	100%
Total		114,145,000		
Series 2008A Notes:				
2008A-3		41,065,000	6.75%	100%
Total refunded	$	155,210,000		

The refunded bonds were redeemed on March 24, 2011 (Issue 26A), and May 1, 2011 (Issue 27A, Issue 27B, Series 2008A-3). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $475,285 for fiscal year ended June 30, 2011. The Airport reduced its aggregate debt service payments by approximately $13.0 million over the next 10 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $10.9 million.

(c) Second Series Revenue Refunding Bonds (Remarketing)

During fiscal year 2011, the Commission remarketed the following refunding bonds:

Second Series Revenue Refunding Bonds, Series 2009A/B

On September 15, 2010, the Airport remarketed its $175.0 million Second Series Revenue Refunding Bonds, Series 2009A/B (Non-AMT/Private Activity) as long-term bonds with fixed interest rates to their respective maturity dates. The Series 2009A/B Bonds were originally issued on September 3, 2009 with a May 1, 2029 nominal final maturity date but were scheduled to become due in a single "balloon" payment on September 15, 2010 (via a mandatory tender by bondholders for purpose by the Airport).

The Series 2009A/B Bonds were remarketed at par plus accrued interest, with the $175.0 million proceeds of the remarketing and the $0.49 million accumulated in the related interest accounts being used to pay the purchase price of the bonds on the September 15, 2010, mandatory tender date. When originally issued, each series of the Series 2009A/B Bonds was secured by a separate reserve account. Following the remarketing, the Series 2009A/B Bonds were secured by the Airport's parity reserve (the Issue 1 Reserve Account). Of the $13.9 million released from the separate reserve accounts, $12.5 million was deposited into the Issue 1 Reserve Account, $0.5 million was used to pay costs of issuance, and $0.9 million was used for underwriter compensation.

Second Series Variable Rate Revenue Refunding Bonds, Series 36B

On May 4, 2011, the Airport remarketed its $40.62 million Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) in connection with a new letter of credit from U.S. Bank National Association. The Issue 36B Bonds were originally secured by a letter of credit from Union Bank of California, N.A., which expired on May 6, 2011. The Issue 36B Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization.

Payments of the principal and purchase price of and interest on the Issue 36B Bonds following the remarketing will be secured by an irrevocable direct-pay letter of credit issued by U.S. Bank National Association. The letter of credit will be in effect from the date of remarketing through May 2, 2014. Because the Issue 36B Bonds are secured by a letter of credit, they are not secured by a reserve account. The costs of remarketing were paid from Airport funds.

(d) Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2011, is $535,005,000 of Second Series Variable Rate Revenue Refunding Bonds, Issues 36A/B/C/D, Issues 37C/D and Series 2010A (collectively, the "Variable Rate Bonds") that have a final maturity dates of May 1, 2026 (Issues 36A/B/C/D), May 1, 2029 (Issues 37C), and May 1, 2030 (Issue 37D and Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Issues 36A/B and Series 2010A bonds is secured by three separate irrevocable direct-pay letters of credit issued to the bond trustee for the benefit of the applicable bondholders by the banks identified in the table below. As of June 30, 2011, the scheduled payment of principal of and interest on the Issues 36C/D and 37C/D bonds when due was guaranteed under several bond insurance policies issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), while the payment of the purchase price of the Issues 36C/D and 37C/D bonds upon tender for purchase is payable, subject to the satisfaction of certain conditions precedent, from amounts made available pursuant to four standby bond purchase agreements with Dexia Crédit Local, acting through its New York Branch. For additional information regarding the Issue 36C/D and 37C/D bonds, please see the "Subsequent Events" section of this document.

Amounts drawn under a standby bond purchase agreement or a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit and standby bond purchase agreements range between 0.55% and 1.35% per annum. As of June 30, 2011, there were no unreimbursed draws under these facilities.

On May 4, 2011, the Airport remarketed its Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally issued with a letter of credit from Union Bank of California, N.A., which expired on May 6, 2011.

The primary terms of the standby bond purchase agreements and letters of credit are as follows:

	Issue 36A	**Issue 36B**	**Issue 36C/D**	**Issue 37C/D**	**Series 2010A**
Principal Amount	$100,000,000	$40,620,000	$68,830,000	$109,585,000	$215,970,000
Type	LOC(1)	LOC(1)	SBPA(2)	SBPA(2)	LOC(1)
Expiration Date	May 7, 2013	May 2, 2014	May 15, 2013	May 15, 2013	January 31, 2014
Insurer	N/A	N/A	AGM(3)	AGM(3)	N/A
Credit/Liquidity Provider	Wells Fargo(4)	U.S. Bank(5)	Dexia(6)	Dexia(6)	JPMorgan(7)

[1] Letter of Credit.
[2] Standby Bond Purchase Agreement.
[3] Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)
[4] Wells Fargo Bank, National Association.
[5] U.S. Bank National Association
[6] Dexia Crédit Local acting through its New York Branch.
[7] JPMorgan Chase Bank, N.A.

(e) Interest Rate Swaps

As of June 30, 2011, the fair value of the Airport's seven outstanding swaps, which had a total notional amount of $513.39 million are as follows:

Bonds		Amount	Date	Bank Counterparty
36AB	$	70,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36A		69,930,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36C		30,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36D		29,970,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
37B*		79,684,000	5/15/2008	Merrill Lynch Capital Services, Inc.
37C		89,856,000	5/15/2008	J.P. Morgan Chase Bank, N.A.
2010A		143,947,000	2/1/2010	Goldman Sachs Bank USA
(Aggregate notional amount)	$	513,387,000		

*The swap previously associated with Issue 37B is now associated with Series 2010A-3 and a portion of Issue 37D.

The 2004 swaps hedging the Issue 36A-D Bonds terminate on May 1, 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding the 2004 swaps and the counterparty as of June 30, 2011:

Counterparty/guarantor		Initial notional amount	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission		Market value to Commission
J.P. Morgan Chase Bank, N.A	$	70,000,000	AA-/Aa1/AA-	3.444%	$	(7,004,661)
J.P. Morgan Chase Bank, N.A		30,000,000	AA-/Aa1/AA-	3.444%		(3,001,998)
J.P. Morgan Chase Bank, N.A		69,930,000	AA-/Aa1/AA-	3.445%		(7,003,950)
J.P. Morgan Chase Bank, N.A		29,970,000	AA-/Aa1/AA-	3.445%		(3,001,693)
(Aggregate notional amount)	$	199,900,000			$	(20,012,302)

The 2007 swaps hedging the Issue 37B Bonds and the 37C Bonds terminate on May 1, 2029, which is the final maturity date of the Issue 37C Bonds. The following is additional information regarding the 2007 swaps and the counterparty as of June 30, 2011:

Counterparty/guarantor		Initial notional amount	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission		Market value to Commission
Merrill Lynch Capital Services	$	79,684,000	A/A2/A+	3.898%	$	(12,052,621)
JPMorgan Chase Bank, N.A.		89,856,000	AA-/Aa1/AA-	3.898%		(13,591,223)
(Aggregate notional amount)	$	169,540,000			$	(25,643,844)

The swap relating to the 2010A Bonds terminates on May 1, 2030, the final maturity date of the Series 2010A Bonds. The following is additional information regarding the 2010 swap and the counterparty as of June 30, 2011:

Counterparty/guarantor		Initial notional amount	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission		Market value to Commission
Goldman Sachs Bank USA	$	143,947,000	A/Aa3/A+	3.925%	$	(22,647,863)

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2011, the Airport received $613,047 in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2011, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value.

Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty’s credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport’s swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. The Airport’s swap policy limits counterparty credit risk by limiting exposure to any one counterparty at the time a swap is executed to not more than 20% of the total portfolio. While the Airport’s exposure to J.P. Morgan Chase Bank, N.A. and affiliates complied with the swap policy when the applicable swaps were executed, the Airport’s exposure as of June 30, 2011, exceeded this threshold due to JPMorgan’s acquisition of Bear Stearns Capital Markets, Inc. The swap policy does not require remedial action in this case.

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps except the swaps associated with the Series 2010A Bonds, from the following insurers:

Swap	Swap Insurer	Insurer credit ratings June 30, 2011 (S&P/Moody’s)
Issue 36C	Assured Guaranty Municipal Corp.	AA+/Aa3
Issue 36AB (two swaps)	FGIC/National Public Finance Guarantee Corporation	WD/WD*
Issue 36D	Assured Guaranty Municipal Corp.	AA+/Aa3
Issue 37C	Assured Guaranty Municipal Corp.	AA+/Aa3
Series 2009D	Assured Guaranty Municipal Corp.	AA+/Aa3
Series 2010A	None	N/A

*S&P downgraded FGIC’s credit ratings to “CC” from “CCC” and subsequently withdrew their ratings on FGIC on April 22, 2009. Moody’s downgraded FGIC from “Caa3” from “Caa1” and subsequently withdrew their ratings on FGIC on March 24, 2009.

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody’s/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody’s/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a

(Continued)

suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

The impact of the interest rate swaps on the financial statements for the years ended June 30, 2011 and 2010, is as follows:

		Deferred outflows on derivative instruments	Derivative instruments
Balance June 30, 2010	$	89,504,502	94,837,732
Change in fair value to year end		(26,122,821)	(26,533,723)
Balance June 30, 2011	$	63,381,681	68,304,009

Deferred outflows on derivative instruments of $63.4 million as of June 30, 2011, represented deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in fiscal year 2011.

Derivative instruments of $68.3 million as of June 30, 2011, represented the recording of the fair values of interest rate swap contracts per GASB 53.

(f) Second Series Revenue Notes

Second Series Revenue Refunding Notes, Series 2008A

In October 2008, the Airport issued its Second Series Revenue Refunding Notes Series 2008A in the amount of $226.74 million to refund the Second Series Variable Rate Revenue Refunding Bonds, Issue 37A. The various subseries of the Series 2008A Notes were subject to mandatory tender by bondholders for purchase by the Airport on May 1, 2010 (2008A-1 and 2008A-2), May 1, 2011 (2008A-3), and May 1, 2012 (2008A-4.). The fixed interest rates on the Notes vary by tender date, ranging between 5.50% and 6.75%. The nominal final maturity date of the Series 2008A Notes is May 1, 2019.

The net proceeds of the 2008A Notes in the amount of $212.37 million (after payment of $24.56 million in reserve fund contributions, underwriting fees, and other costs of issuance), plus $10.19 million (in prior debt service fund, premium and available debt service funds) were deposited in irrevocable escrows with the bond trustee to provide debt service payments on the refunded bonds described below until such bonds were redeemed. Swap termination payments totaled $6.89 million and have been included in interest expense in the statement of revenues, expenses, and changes in net assets.

		Amount refunded	Interest rates	Redemption price
Second Series Revenue Bond Issue:				
Issue 37A	$	205,100,000	Variable	100%

The Series 2008A Notes were initially issued to refund the Issue 37A Bonds, which were impacted by the market turmoil following the bankruptcy of Lehman Brothers in fall 2008, and were not issued to produce debt service savings.

As of June 30, 2011, outstanding notes consisted of the following (in thousands):

Description	Date of issue	Interest rate		2011
2008 A Notes	11/23/2008	6.50% – 6.75%	$	25,460
				25,460
Unamortized deferred amount on refunding				(730)
Unamortized premium				26
Total notes payable				24,756
Less: current portion				(2,335)
Total long-term notes payable			$	22,421

(g) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, there were $95,060,000 and $98,810,000 in Special Facilities Lease Revenue Bonds outstanding as of June 30, 2011, and June 30, 2010, respectively, for SFO Fuel. SFO Fuel is to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposit on the bonds. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the obligations, and as such, they are not reported in the accompanying financial statements.

(9) Concession Revenue and Minimum Future Rents

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees were approximately $22,200,700 and $17,963,000 as of June 30, 2012 and 2011, respectively.

A new car rental agreement became effective January 1, 2009 and will expire on December 31, 2013 with the option to extend for five years. Under this agreement, the rental car companies pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. Also in accordance with the terms of their concession agreement, the MAG for the rental car operators does not apply if the actual Enplanements achieved during a one-month period is less than 80% of the actual Enplanements of the same Reference Month in the Reference Year, and such shortfall continues for three consecutive months.

The MAG attributable to the rental car companies was approximately $36,344,000 and $32,985,000 as of June 30, 2012 and 2011, respectively.

Minimum future rents under noncancelable operating leases having terms in excess of one year are as follows (in thousands):

Fiscal year ending:		
2013	$	94,191
2014		92,132
2015		81,697
2016		76,804
2017 and thereafter		122,675
Total	$	467,499

(10) Employee Benefit Plans

(a) Retirement Plan – City and County of San Francisco

Plan Description

The City has a single-employer defined benefit retirement plan (the Plan), which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the Airport along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority that establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees'

Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020.

Funding Policy

Contributions are made to the basic plan by both the Airport and its employees. Employee contributions are mandatory. Employee contribution rates for 2012, 2011, and 2010 range from 7.5% to 8.0% as a percentage of covered payroll. The Airport is required to contribute at an actuarially determined rate. The actuarially determined contribution rate as a percentage of covered payroll was 18.09% in 2012, 13.56% in 2011, and 9.49% in 2010. The Airport contributed 100% of its annual contributions of $25,836,000 in 2012, $21,749,000 in 2011, and $16,443,000 in 2010.

(b) Health Care Benefits

Health care benefits of Airport employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately $43,690,000 and $30,359,000 in fiscal years 2012 and 2011, respectively, is determined by a Charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are $9,421,000 and $8,959,000 for fiscal years 2012 and 2011, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. The City did not allocate any additional amount to the Airport's contribution allocation for payments made from the Health Service System for postretirement health benefits in fiscal years 2012 and 2011, respectively.

The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other postemployment benefits other than pensions (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB-related costs to Airport for the years ended June 30, 2012 and 2011, based upon its percentage of City-wide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for Airport for the fiscal year, for the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

		2012	2011
Annual required contribution	$	24,488	22,752
Interest on net OPEB obligation		2,875	2,146
Adjustment to ARC		(2,383)	(1,683)
Annual OPEB cost (expense)		24,980	23,215
Contribution made		(9,693)	(8,959)
Increase in net OPEB obligation		15,287	14,256
Net OPEB obligation – beginning of year		60,537	46,281
Net OPEB obligation – end of year	$	75,824	60,537

As of June 30, 2012, the Airport has set aside $56,294,000 in a separate fund for purposes of the OPEB obligations and such amount is included in Unrestricted Cash and Investment in the accompanying Statement of Net Assets. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

The City issues a publicly available financial report for Citywide level that includes the complete note disclosures and required supplementary information (RSI) related to the City's postretirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(11) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net assets. These services include utilities provided to tenants (see note 2(j)) and the Airport. The cost of all services provided by the City work order system totaled approximately $115,388,000 and $111,932,000 in fiscal years 2012 and 2011, respectively. Included in personnel operating expenses are approximately $63,337,000 and $58,944,000 in fiscal years 2012 and 2011, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than $5,000,000 per fiscal year. Payments to the City were $33,993,000 and $30,608,000 in fiscal years 2012 and 2011, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net assets.

(12) Passenger Facility Charges

In July 2001, the FAA approved the Airport's first application (PFC #1) for the collection and use of a passenger facility charge totaling $112,739,000 to pay for the development activities and studies relating to the runway reconfiguration project. The collection period for this application was October 1, 2001, to June 1, 2003. In January 2004, the FAA approved the Airport's amendment to delete PFC #1 as a result of the suspension of the runway reconfiguration project.

In March 2002, the FAA approved the Airport's second application (PFC #2) for $224,035,000 to pay for debt service on a portion of the bonds issued to finance certain eligible costs relating to the new International Terminal complex. This application extended the PFC collection period to April 1, 2008. In January 2004, when the FAA approved the Airport's amendment to delete PFC #1, receipts from PFC #1 were applied to PFC #2 and the FAA revised PFC #2's collection period to expire on January 1, 2006. In October 2005, the FAA approved an amendment to PFC #2 to change the expiration date to October 6, 2005, due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the expiration date of PFC #2 was recorded as November 1, 2005.

In November 2003, the FAA approved the Airport's third application (PFC #3) for $539,108,000 to pay for debt service costs related to the construction of the new International Terminal Building and Boarding Areas A and G. The collection period for this application, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with an expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million for a revised application of $609,108,000. In September 2006, the FAA notified the Airport that the revised start date for the collections for PFC #3 was recorded as November 1, 2005 with a revised estimated expiration date of January 1, 2017.

PFC collections and related interest earned for the year ended June 30, 2012 and 2011, are as follows (in thousands):

	2012	2011
Amount collected	$ 81,437	77,004
Interest earned	876	935
Total	$ 82,313	77,939

Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

(13) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2012 are as follows (in thousands):

Construction	$	33,163
Operating		6,548
Total	$	39,711

The Airport's Noise Insulation Program was implemented to mitigate the aircraft noise impact in the surrounding communities. This involved execution of a Memorandum of Understanding in 1992 with neighboring communities to insulate eligible properties and acquire easements for noise, vibration, and other effects resulting from aircraft operations at SFO, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with SFO funds (using bond proceeds, operating and other internally generated funds), as well as federal grants.

In fiscal year 2008, these components of the program were finalized and a new phase was started, with the Airport managing all new noise insulation work directly. In fiscal year 2012, the Airport disbursed approximately $1,155,000 ($885,000 federal grants and $270,000 SFO funds). In fiscal year 2011, the Airport disbursed approximately $349,000 in this new phase of the program ($271,000 federal grants and $78,000 SFO funds). As of June 30, 2012, the cumulative disbursements of SFO funds under this program were approximately $121.5 million.

(b) Agreements with Airlines

In 1981, to settle disputes among the City, Airport, and airlines, the parties agreed to enter into a settlement agreement and simultaneously the Lease and Use Agreement. These agreements provide for terms and restrictions related to use of Airport revenues, payments to the City, calculation of landing fees, bond financing, capital projects, and certain other matters. These agreements expired on June 30, 2011. In fiscal year 2010, the Airport and airlines reached an agreement on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. The aforementioned financial terms are unchanged in the new agreement including the residual rate-making methodology whereby the required revenue from airlines for landing fees and terminal rentals is based on Airport costs less non-airline revenue sources.

(c) Litigation

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. Insurance policies cover certain actions, claims, and defense costs. Only those items not covered by insurance are included in the financial statements. The Airport's potential liabilities have been estimated and reported in the financial statements, in conformity with U.S. generally accepted accounting principles.

(d) Risk Management

Under the 1991 Master Resolution, the Airport is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Airport, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Airport is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control, and ongoing employee training programs. The Airport has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and objectives. The Airport carries general liability insurance coverage of $1 billion, subject to a deductible of $10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a deductible of $500,000 per single occurrence.

Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Airport pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public officials' liability and employment practices liability coverage of $5 million, subject to a deductible of $100,000 per single occurrence for each wrongful act other than employment practices' violations, and $250,000 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment, and watercraft liability for Airport fire and rescue vessels.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of $750 million per occurrence for war, terrorism, and hijacking. Immediately following the events of September 11, 2001, insurers canceled the coverage for war, terrorism, and hijacking for all airports, including the Airport, and for all airlines around the country. A number of insurers now provide this coverage through the Federal Government Terrorism Risk Insurance Act (TRIA). However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Airport, in consultation with the City's Risk Manager, has elected not to secure such coverage.

(Continued)

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2010, resulted from the following activity (in thousands):

Balance, June 30, 2010	$	10,013
Claim payments		(486)
Claims and changes in estimates		2,030
Balance, June 30, 2011		11,557
Claim payments		(8,839)
Claims and changes in estimates		(1,386)
Balance, June 30, 2012	$	1,332

The Airport is self-insured as part of the City's program for workers' compensation. All self-insurance claims are processed by the City. Liability and risk are retained by the Airport. Accrued workers' compensation includes provisions for claims reported and claims incurred but not reported. This accrued workers' compensation liability is actuarially determined as part of the City's program and is as follows (in thousands):

Balance, June 30, 2010	$	5,039
Claim payments		(1,781)
Claims and changes in estimates		1,708
Balance, June 30, 2011		4,966
Claim payments		(1,904)
Claims and changes in estimates		2,013
Balance, June 30, 2012	$	5,075

(e) Grants

Grants that the Airport receives are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(f) Loan Guarantees

The Airport no longer serves as the guarantor of certain loans on behalf of various food and beverage concession tenants within the International Terminal.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2(h)) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2012 and June 30, 2011, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	2012	2011
United Airlines	21.0%	21.6%

(h) Noncancelable Operating Leases

The Airport has noncancelable operating leases for certain buildings and equipment that require the following minimum annual payments, net of sublease income (in thousands):

Fiscal year ending:		
2013	$	195
2014		118
2015		75
2016		—
2017		—
Total	$	388

Net operating lease expense incurred for the fiscal year ended 2012 was the same as 2011 at approximately $0.2 million.

(14) Subsequent Events

The Airport issued $25.7 million of Subordinate CP Notes on July 10, 2012, comprised of a $9.51 million Subseries A-2 Note (AMT), a $10.2 million principal amount of Subseries B-2 Note (Non-AMT), and a $6.0 million Subseries C-2 Note (Taxable). On August 16, 2012, the Airport remarketed an outstanding $3.7 million Subseries B-2 Note (Non-AMT) upon maturity. On September 6, 2012, the Airport remarketed an outstanding $2.3 million Subseries A-2 (AMT) Note and an outstanding $4.45 million Subseries B-2 Note (Non-AMT) upon maturity. On September 10, 2012, the Airport remarketed an outstanding $6 million Subseries C-2 Note (Taxable) upon maturity.

The Commission authorized $502.2 million of capital plan bonds on March 20, 2012, subject to Board of Supervisor approval. On October 2, 2012, the Board of Supervisors authorized the issuance of $543.2 million capital plan bonds.

The Commission's Second Series Revenue Refunding Bonds, Series 2009D, are subject to mandatory tender for purchase on December 4, 2012. The Airport has selected bond counsel and underwriting teams to remarket or refund the Series 2009D Bonds on or before the mandatory tender date.

The letter of credit securing the Commission's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A, will expire in May 2013. The Airport expects to replace the letter of credit in advance of its expiration date, but has not yet begun the process to select a replacement credit facility.

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Facility Charge Revenues and Expenditures

Years ended June 30, 2012 and 2011

(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
Program to date as of June 30, 2010	$ 549,439	12,498	561,937	(502,179)	59,758
Fiscal year 2010 – 2011 transactions:					
Reversal of prior year passenger facility charges accrual	(9,175)	—	(9,175)	—	(9,175)
Quarter ended September 30, 2010	19,987	225	20,212	—	20,212
Quarter ended December 31, 2010	18,361	240	18,601	—	18,601
Quarter ended March 31, 2011	17,064	272	17,336	—	17,336
Quarter ended June 30, 2011	21,131	303	21,434	(87,200)	(65,766)
Unrealized loss on investments	—	(105)	(105)	—	(105)
Passenger facility charges accrual	9,636	—	9,636	—	9,636
Total fiscal year 2010 – 2011 transactions	77,004	935	77,939	(87,200)	(9,261)
Program to date as of June 30, 2011	626,443	13,433	639,876	(589,379)	50,497
Fiscal year 2011 – 2012 transactions:					
Reversal of prior year passenger facility charges accrual	(9,636)	—	(9,636)	—	(9,636)
Quarter ended September 30, 2011	20,078	159	20,237	—	20,237
Quarter ended December 31, 2011	19,315	225	19,540	—	19,540
Quarter ended March 31, 2012	18,674	249	18,923	—	18,923
Quarter ended June 30, 2012	20,090	347	20,437	(73,000)	(52,563)
Unrealized loss on investments	—	(104)	(104)	—	(104)
Passenger facility charges accrual	12,916	—	12,916	—	12,916
Total fiscal year 2011 – 2012 transactions	81,437	876	82,313	(73,000)	9,313
Program to date as of June 30, 2012	$ 707,880	14,309	722,189	(662,379)	59,810

See accompanying independent auditors' report and notes to schedule of passenger facility charge revenues and expenditures.

(1) General

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 02-02-C-00-SFO and 03-03-C-01-SFO of the passenger facility charge (PFC) program of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows (in thousands):

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection
02-02-C-00-SFO	$ 4.50	October 1, 2001	$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
Total			$ 833,143

(2) Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (the Schedule) has been prepared on the accrual basis of accounting which is described in note 2(a) of the Airport's basic financial statements.

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

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission, others within the entity, and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 25, 2012

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Passenger Facility Charge Program and on Internal Control over Compliance in Accordance with the Passenger Facility Charge Audit Guide for Public Agencies

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Compliance

We have audited the Airport Commission, City and Country of San Francisco, San Francisco International Airport's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, the City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission, others within the entity, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 25, 2012

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Findings and Responses

Year ended June 30, 2012

I. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinion**

2. Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None reported**

   Material weaknesses: **None**

3. Noncompliance which is material to the financial statements: **None**

4. Significant deficiencies in internal control over the passenger facility charge program: **None reported**. Material weaknesses: **None**

5. The type of report issued on compliance for the passenger facility charge program: **Unqualified opinion**

6. Any audit findings: **No**

II. Findings and Responses Related to the Passenger Facility Charge Program

None