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, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 1400
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2015 and 2014, the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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 net position of the City as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(b) to the financial statements, in 2015, the Airport adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The July 1, 2014 beginning financial position has been restated for the retrospective application of this new accounting guidance.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures as specified in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Passenger Facility Charge Revenues and Expenditures is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
November 5, 2015

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise fund of City and County of San Francisco (the City), presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2015, with comparative data for the fiscal year ended June 30, 2014.

The Airport's financial statements comprise the following components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

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

While the statements of net position provide information about the nature and amount of resources and obligations at the year end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of the Airport's operations over the course of the fiscal year and information as to how the net position 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 position 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 2015 passenger traffic at SFO concluded with 24.0 million enplanements, an increase of 4.5% compared to the prior fiscal year, establishing a new peak for the Airport. In the domestic sector, Delta and Alaska airlines expanded their services on the west coast, while SFO's hub carrier United Airlines (United) increased capacity. New international service was commenced by Etihad Airways, China Southern, and Turkish Airlines, while Emirates, British Airways, and EVA Air served the Airport with larger aircraft or increased frequencies. Total cargo and U.S. mail tonnage increased by 19.2% with increases in both international and domestic shipments.

The 4.5% fiscal year-over-year enplanement increase at SFO compares to increases of 8.6%[1] at Oakland International Airport and 5.5%[2] at Mineta San Jose International Airport, resulting in relatively stable Bay Area passenger market share of 70.3% for SFO. As compared to data from the United States Department of

[1] Source: Oakland International Airport Traffic Report.
[2] Source: Mineta San Jose International Airport Traffic Report.

Transportation (DOT), Bureau of Transportation Statistics, through June 2015, SFO's enplanement increase of 4.5% fared better than a national average increase of 3.8%.

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) decreased 0.3% fiscal year-over-year, mainly due to a reduction in scheduled commuter aircraft operations (aircraft with less than 100 seats). Aircraft revenue landed weight, which impacts revenue generated by landing fees, increased 3.1% above prior fiscal year levels, indicating larger overall aircraft size. Total Airport passengers, which comprise enplaned, deplaned and in-transit passengers (defined as passengers who fly into and out of SFO on the same aircraft) were 48.2 million, establishing a new peak for the Airport. Overall enplaned passengers totaled 24.0 million, a 4.5% increase, with 18.7 million domestic and 5.3 million international enplaned passengers, increases of 4.2% and 5.3%, respectively. Cargo and U.S. mail tonnage increased by 19.2%, with a mail increase of 40.2% and a freight increase of 16.6%.

The following table[3] presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2015, 2014, and 2013:

	FY 2015	FY 2014	FY 2013*	% Change FY 2015	% Change FY 2014
Flight operations	428,171	429,377	420,262	(0.3)%	2.2%
Landed weight (in 000 lbs.)	32,610,921	31,628,572	30,672,570	3.1	3.1
Total Airport passengers	48,243,910	46,191,454	44,742,521	4.4	3.2
Enplaned passengers	24,023,599	22,995,674	22,273,422	4.5	3.2
Domestic enplaned passengers	18,749,797	17,987,093	17,515,978	4.2	2.7
International enplaned passengers	5,273,802	5,008,581	4,757,444	5.3	5.3
Cargo and U.S. mail tonnage (in metric tons)	441,797	370,525	370,195	19.2	0.1

* Numbers updated to include revised data received subsequent to the 2013 fiscal year end.

Fiscal Year 2015

Passenger Traffic

Compared to fiscal year 2014, passenger enplanements in fiscal year 2015 increased by 4.5% from 23.0 million to 24.0 million passengers. Domestic passenger enplanements increased 4.2%, while international enplanements increased 5.3%. The enplanement increase totaled 1,027,925 passengers, 762,704 of which were domestic and 265,221 were international. The domestic sector grew mostly from Delta, Alaska, and United service additions, while the international sector had a number of new and added services. Asia/Mid East had the highest international enplaned passenger growth with 152,423, followed by Europe with 83,791, and Canada with 58,074. The Asia/Mid East region increase was due to new and increased service from China Southern, Etihad Airways, United, and EVA Air. Europe's increase was due to new service by Turkish Airlines and service increases by Lufthansa, British Airways, Virgin Atlantic, and Scandinavian Airlines (SAS). Latin America

[3] Sources: Analysis of Airline Traffic, Fiscal Years 2014 and 2015.

decreased by 8,604 passengers mainly due to LAN Peru's discontinued service since March 2014, and schedule adjustments by Alaska Airlines, Virgin America, and TACA. Australia/Oceania declined by 20,463 resulting from United's operation of smaller aircraft compared to the previous year.

The fiscal year quarterly growth outpaced the previous year with strong performance in both domestic and international sectors, with growth rates of 4.8%, 3.1%, 5.1%, and 4.9% in each of the four consecutive quarters. The increases were due to added frequencies and operations of larger average aircraft size, and three new international service additions. Airline seat capacity increased by 3.6%, with a domestic increase of 2.6% and an international increase of 7.2%. The overall load factor increased by 0.7 percentage point to 84.6%. Domestic load factor increased 1.3 percentage points to 84.7% and international decreased by 1.5 percentage point to 84.1%.

Flight Operations

During fiscal year 2015, the number of aircraft operations (takeoffs and landings) decreased by 1,206 flights (0.3%). Commercial traffic decreased by 1,913 flights (0.5%). Civil and military traffic increased by 707 flights (4.7%).

Total scheduled airline passenger and cargo landings decreased by 0.3% with an increase in landed weight of 3.1%. Domestic passenger landings decreased by 1.1%, while landed weight increased by 1.4%. International passenger landings increased by 4.6%, while landed weight increased by 7.3%. Average passenger aircraft size increased from approximately 137 to 142 seats per flight. Domestic scheduled seats per flight increased from 123 to 128 while international scheduled seats per flight increased from 226 to 232 in fiscal year 2015. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted slightly towards mainline, which increased in share by 2.0 percentage points to 74.0% for domestic and international operations combined. Mainline landings increased by 3,496, and commuter landings decreased by 4,176. Cargo only aircraft landings increased by 2.4%, while landed weight increased by 2.6%.

Cargo Tonnage

Fiscal year 2015 cargo and U.S. mail tonnage increased by 71,272 metric tons (19.2%). Mail increased by 16,750 metric tons (40.2%), and cargo volume excluding mail increased by 54,522 metric tons (16.6%). Growth in cargo shipments was particularly strong during the third quarter of the fiscal year as labor issues at west coast seaports led to activity backlogs. According to industry media, this may have resulted in some goods being sent by air instead of by sea. Cargo-only carriers' tonnage share increased by 2.9 percentage points to 20.2%. Tonnage on cargo-only carriers increased by 39.4%, while those on passenger carriers increased by 15.0%.

Fiscal Year 2014

Passenger Traffic

Compared to fiscal year 2013, passenger enplanements in fiscal year 2014 increased by 3.2% from 22.3 million to 23.0 million passengers. Domestic passenger enplanements increased 2.7%, while international enplanements increased 5.3%. The enplanement increase totaled 722,252 passengers, 471,115 of which were domestic and 251,137 were international. The domestic sector grew mostly from Delta and United service additions, while the international sector had a number of new and added services. Europe had the highest international passenger growth with 103,529, followed by Latin America with 52,721. Europe's increase was due to new and increased service from Scandinavian Airlines (SAS), United, and Aer Lingus, while Latin America benefitted from service additions by Aeromexico.

The fiscal year started with a 1.0% decline in traffic in the first quarter due to flight cancellations in July resulting from the crash of Asiana flight 214 and a high comparison base from the prior summer. With new and added services from a number of airlines beginning in the fall, growth ensued over the next three consecutive quarters by 3.8%, 5.3% and 5.5%. Airline seat capacity increased by 4.8%, with a domestic increase of 4.9% and an international increase of 4.1%. Because enplanement growth was outpaced by the seat capacity increase, overall load factor decreased 1.2 percentage points to 84.1%. Domestic load factor decreased 1.8 percentage points to 83.6% and international increased by 1.0 percentage point to 85.9%.

Flight Operations

During fiscal year 2014, the number of aircraft operations (takeoffs and landings) increased by 9,115 flights (2.2%). Commercial traffic increased by 9,132 flights (2.3%). Civil and military traffic declined by 17 flights (0.1%).

Total scheduled airline passenger and cargo landings increased by 2.1% with an increase in landed weight for these landings of 3.1%. Domestic passenger landings increased by 1.8%, while landed weight increased by 2.6%. International passenger landings increased by 4.6%, while landed weight increased by 4.1%. Average passenger aircraft size increased from approximately 136 to 139 seats per flight. Domestic scheduled seats per flight increased from 122 to 126 while international scheduled seats per flight decreased from 228 to 227 in fiscal year 2014. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted slightly towards mainline, which increased in share by 0.9% to 72.0% for domestic and international operations combined. Mainline landings increased by 4,817, and commuter landings decreased by 677. Cargo only aircraft landings increased by 1.9%, while landed weight increased by 5.5%.

Cargo Tonnage

Fiscal year 2014 cargo and U.S. mail tonnage increased by 330 metric tons (0.1%). Mail increased by 1,073 metric tons (2.6%), and cargo volume excluding mail decreased by 743 metric tons (0.2%). The decline in shipments was primarily in the domestic sector, which had a decrease in cargo volume excluding mail of 10,832 metric tons. This was partially offset by an increase in the international sector of 10,088 metric tons. Cargo-only carriers' tonnage share decreased by 0.6 percentage point to 17.3%. Tonnage on cargo-only carriers decreased by 3.1%, while those on passenger carriers increased by 0.8%.

Financial Highlights, Fiscal Year 2015

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by $117.1 million.
- Total revenue bonds payable by the Airport increased by $320.3 million.
- Operating revenues were $815.4 million.
- Operating expenses were $609.0 million.

- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $92.0 million from passenger facility charges) were $141.8 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP), Airport Traffic Control Tower, and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were $32.1 million.
- Transfers to City and County of San Francisco as annual service payment were $40.5 million.
- Net position decreased by $149.6 million due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions*.

Financial Highlights, Fiscal Year 2014

- Assets and deferred outflows of resources exceeded liabilities at the close of the fiscal year by $266.8 million.
- Total revenue bonds payable by the Airport increased by $299.2 million.
- Operating revenues were $770.7 million.
- Operating expenses were $625.7 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $87.0 million from passenger facility charges), were $203.6 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP), Airport Traffic Control Tower, and Runway Status Lights System; and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System and Closed Circuit TV Enhancement Program were $91.0 million.
- Transfers to City and County of San Francisco as annual service payment were $38.0 million.
- Net position decreased by $5.5 million.

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2015, 2014, and 2013 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION

	FY 2015	FY 2014	FY 2013 (As Restated)	Percentage Increase (Decrease) FY 2015	Percentage Increase (Decrease) FY 2014
Assets:					
Unrestricted current assets	$ 450,598	425,951	399,014	5.8%	6.8%
Restricted current assets	245,719	278,346	197,112	(11.7)	41.2
Restricted non-current assets	643,686	579,933	389,162	11.0	49.0
Capital assets, net	3,936,426	3,869,718	3,720,791	1.7	4.0
Total assets	5,276,429	5,153,948	4,706,079	2.4	9.5
Deferred outflows of resources:					
Unamortized loss on refunding of debt	78,388	92,147	108,581	(14.9)	(15.1)
Deferred outflows on derivative instruments	66,809	64,964	64,743	2.8	0.3
Deferred outflows on employer pensions contributions	37,517	—	—	—	—
Total deferred outflows of resources	182,714	157,111	173,324	16.3	(9.4)
Liabilities:					
Current liabilities	285,929	268,723	500,511	6.4	(46.3)
Current liabilities payable from restricted assets	154,611	410,087	295,698	(62.3)	38.7
Noncurrent liabilities	4,608,523	4,285,257	3,729,562	7.5	14.9
Net pension liability	111,932	—	—	—	—
Derivative instruments	80,722	80,235	81,338	0.6	(1.4)
Total liabilities	5,241,717	5,044,302	4,607,109	3.9	9.5
Deferred inflows of resources:					
Deferred inflows related to pensions	100,290	—	—	—	—
Total deferred inflows of resources	100,290	—	—	—	—
Net position:					
Net investment in capital assets	(103,109)	(149,894)	(52,581)	31.2	(185.1)
Restricted for debt service	37,427	25,390	19,757	47.4	28.5
Restricted for capital projects	165,224	200,219	139,981	(17.5)	43.0
Unrestricted	17,594	191,042	165,137	(90.8)	15.7
Total net position	$ 117,136	266,757	272,294	(56.1)%	(2.0)%

The Airport adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) as of July 1, 2014. As indicated in this statement, if restatement of all prior periods is not practical, then the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014. (See note 2, Summary of Significant Accounting Policies, (b) for the effects of GASB 68 on restatement of beginning net position.)

Fiscal Year 2015

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $117.1 million and $266.8 million as of June 30, 2015 and 2014, respectively, representing a decrease of $149.6 million (56.1%). Unrestricted net position represented 15.0% and 71.6% of total net position as of June 30, 2015 and 2014, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by $24.6 million (5.8%) as of June 30, 2015, primarily due to the increase in the Airport's cash and investments held in the City Treasury and accounts receivable generated from Airport operations.

Restricted current assets consist of cash and investments held in the City Treasury, primarily from passenger facility charges (PFC) collected, debt service funds held by the bond trustee, grants receivables and PFC receivable. Restricted current assets decreased $32.6 million (11.7%) as of June 30, 2015. The decrease was primarily due to the decrease in grant reimbursable capital improvement projects.

Restricted non-current assets increased by $63.8 million (11.0%) as of June 30, 2015. The increase was primarily due to an increase of $28.3 million in cash and investments held in the City Treasury and a $32.7 million increase in the debt service reserve fund held by trustee in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by $66.7 million (1.7%) as of June 30, 2015, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt decreased by $13.8 million (14.9%) as of June 30, 2015. The decrease was due to the amortization of deferred refunding loss.

Deferred outflows on derivative instruments increased by $1.8 million (2.8%) as of June 30, 2015, representing 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).

Deferred outflows on employer pension contributions – See note 10a.

Current liabilities payable from unrestricted assets increased by $17.2 million (6.4%) as of June 30, 2015, primarily due to increases in current maturities of the Airport's long-term debt and accounts payable.

Current liabilities payable from restricted assets decreased by $255.5 million (62.3%) as of June 30, 2015, primarily due to the retirement of commercial paper notes with the proceeds of the Airport's Second Series Revenue Bonds, Series 2014A/B during fiscal year 2015 and a decrease in accounts payable.

Noncurrent liabilities before net pension liability and derivative instruments increased by $323.3 million (7.5%) as of June 30, 2015, primarily due to the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B during fiscal year 2015.

Net pension liability (NPL) – See note 10a.

Derivative instruments increased by $0.5 million (0.6%) as of June 30, 2015, due to the change in fair values of interest rate swap contracts per GASB 53.

Deferred inflows related to pension – See note 10a.

The Airport's net investment in capital assets increased by $46.8 million (31.2 %) as of June 30, 2015, primarily due to the increase in capital assets and refinancing of commercial paper debt.

Restricted for debt service increased $12.0 million (47.4%) as of June 30, 2015, primarily due to the increase in capitalized interest in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B.

Restricted for capital projects decreased $35.0 million (17.5%) as of June 30, 2015, primarily due to the issuance of the Airport's Second Series Revenue Bonds, 2014A/B and the decrease in grants receivables.

Unrestricted net position decreased $173.5 million (90.8%) as of June 30, 2015, primarily due to the adoption of GASB 68.

Fiscal Year 2014

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities by $266.8 million and $272.3 million as of June 30, 2014 and 2013, respectively, representing a decrease of $5.5 million (2.0%). Unrestricted net position represented 71.6% and 60.6% of total net position as of June 30, 2014 and 2013, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by $26.9 million (6.8%) as of June 30, 2014, primarily due to the increase in the Airport's cash and investments held in the City Treasury and accounts receivable generated from Airport operations.

Restricted current assets consist of cash and investments held in the City Treasury, primarily from passenger facility charges (PFC) collected, debt service funds held by the bond trustee, grants receivable, and PFC receivable. Restricted current assets increased by $81.3 million (41.2%) as of June 30, 2014. The increase was primarily due to the increase in cash and investments held in the City Treasury generated from strong growth of passenger traffic and the increase in grant reimbursable capital improvement projects.

Restricted non-current assets increased by $190.8 million (49.0%) as of June 30, 2014. The increase was primarily due to an increase of $146.3 million in cash and investments held in the City Treasury and a $47.8 million increase in the debt service reserve fund held by trustee in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2013A/B/C.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by $148.9 million (4.0%) as of June 30, 2014, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt decreased by $16.4 million (15.1%) as of June 30, 2014. The decrease was primarily due to the amortization of deferred refunding loss.

Deferred outflows on derivative instruments increased by $0.2 million (0.3%) as of June 30, 2014, representing 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).

Current liabilities payable from unrestricted assets decreased by $231.8 million (46.3%) as of June 30, 2014, primarily due to the reclassification of two Variable Rate Bonds from current liabilities in fiscal year 2013 to noncurrent liabilities in fiscal year 2014 as the associated letters of credit were renewed.

Current liabilities payable from restricted assets increased by $114.4 million (38.7%) as of June 30, 2014, primarily due to the issuance of commercial paper notes and increase in accounts payable during fiscal year 2014 for capital improvement projects.

Noncurrent liabilities before derivative instruments increased by $555.7 million (14.9%) as of June 30, 2014, primarily due to the reclassification of two Variable Rate Bonds from current liabilities in fiscal year 2013 to noncurrent liabilities in fiscal year 2014 as the associated letters of credit were renewed.

Derivative instruments decreased by $1.1 million (1.4%) as of June 30, 2014, due to the change in fair values of interest rate swap contracts per GASB 53.

The Airport's net investment in capital assets decreased by $97.3 million (185.1%) as of June 30, 2014, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt and the disposition of capital assets.

Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2015, 2014, and 2013 (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET POSITION

	FY 2015	FY 2014	FY 2013 (As Restated)	FY 2015 Percentage Increase (Decrease)	FY 2014 Percentage Increase (Decrease)
Operating revenues	$ 815,364	770,691	726,358	5.8%	6.1%
Operating expenses	(609,029)	(625,660)	(559,050)	(2.7)	11.9
Operating income	206,335	145,031	167,308	42.3	(13.3)
Nonoperating expenses, net	(141,826)	(203,598)	(190,587)	(30.3)	6.8
Income (loss) before capital contributions and transfers	64,509	(58,567)	(23,279)	210.1	(151.6)
Capital contributions	32,119	91,024	65,958	(64.7)	38.0
Transfers to City and County of San Francisco	(40,480)	(37,994)	(36,464)	6.5	4.2
Changes in net position	56,148	(5,537)	6,215	1,114.1	(189.1)
Total net position at beginning of year (as restated for FY 2015 and FY 2013)	60,988	272,294	266,079	(77.6)	2.3
Total net position at end of year	$ 117,136	266,757	272,294	(56.1)%	(2.0)%

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; the 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 Lease and Use Agreement (Agreement).[4]

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

The Agreement establishes a residual rate-setting methodology for the calculation of the landing fees and terminal rental rates using certain cost centers. Under this methodology, landing fees and terminal rentals are established each year to produce projected revenues from the airlines equal to the difference between the

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[4] In fiscal year 2010, the Airport and airlines reached agreement on a new ten-year Lease and Use Agreement that became effective on July 1, 2011. The Lease and Use 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."

Airport's estimated non-airline revenues and the Airport's budgeted total costs, including operating expenses and debt service costs for that year. 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 statements of net position 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 overcharge balance of $55.6 million as of June 30, 2014, increased to $55.7 million as of June 30, 2015, and was recorded as unearned aviation revenue in the statements of net position.

The following table shows the air carriers that served the Airport in fiscal year 2015:

AIR CARRIERS SERVING THE AIRPORT

Fiscal Year 2015

Domestic passenger air carriers

AirTran Airways
Alaska Airlines
American Airlines
Delta Air Lines
Frontier Airlines
Hawaiian Airlines
JetBlue Airways
Southwest Airlines
Sun Country (MN Airlines)
United Airlines
US Airways
Virgin America

Commuter air carriers

Compass Airlines (Delta Air Lines)
Compass Airlines (American Air Lines)
Mesa Airlines (American Airlines)
Mesa Airlines (US Airways)
SkyWest Airlines (Delta Airlines)
SkyWest Airlines (United Airlines)

Foreign flag carriers

Aer Lingus
Aeromexico
Air Canada
Air China (CAAC)
Air France
Air New Zealand
All Nippon Airways
Asiana Airlines
British Airways
Cathay Pacific Airways
China Airlines
China Eastern Airlines
China Southern Airlines
Emirates Airlines
Etihad Airways
EVA Airways
Japan Airlines
KLM Royal Dutch Airlines
Korean Air Lines
Lufthansa German Airlines
Philippine Airlines
Scandinavian Airlines
Singapore Airlines
Swiss International Air Lines
TACA (Avianca)
Turkish Airlines
Virgin Atlantic Airlines
WestJet Airlines
XL Airways France

Cargo only carriers

ABX Air Inc.
Air Cargo Carriers
Ameriflight
Atlas Air (DHL)
Federal Express
Kalitta Air
Nippon Cargo Airlines
Southern Air
United Parcel Service

Charter air carriers

Qantas Airways (Swissport)
Republic Airlines

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2015, 2014, and 2013:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

		FY 2015	FY 2014	FY 2013
Effective average terminal rental rate (per sq. ft.)	$	149.98	140.85	131.55
Signatory Airline – landing fee rate (per 1,000 lbs.)		4.57	4.29	4.01
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)		5.03	4.72	4.41

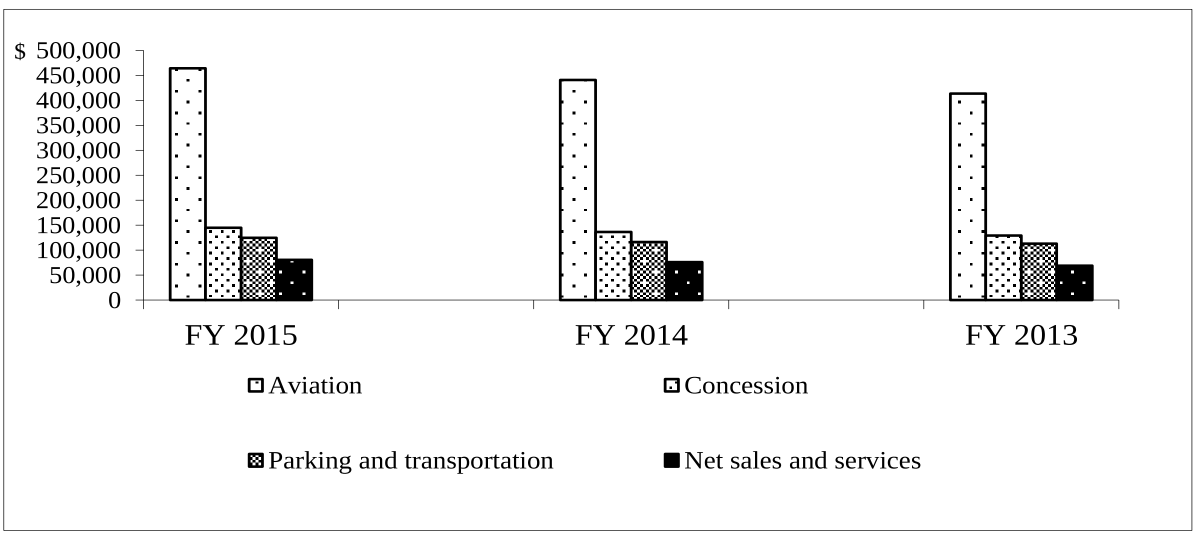
During fiscal years ended June 30, 2015, 2014, and 2013, revenues realized from the following source equal or exceed 5% of the Airport's total operating revenues:

	FY 2015	FY 2014	FY 2013
United Airlines	23.5%	23.6%	22.2%

The following shows a comparative summary of operating revenues for fiscal years 2015, 2014, and 2013 (in thousands):

COMPARATIVE SUMMARY OF AIRPORT'S OPERATING REVENUES

		FY 2015	FY 2014	FY 2013	FY 2015 Percentage Increase	FY 2014 Percentage Increase
Aviation	$	464,610	441,259	413,918	5.3%	6.6%
Concession		144,781	136,587	129,545	6.0	5.4
Parking and transportation		125,087	116,703	113,551	7.2	2.8
Net sales and services		80,886	76,142	69,344	6.2	9.8
Total operating revenues	$	815,364	770,691	726,358	5.8%	6.1%



(Continued)

Fiscal Year 2015

Operating revenues increased by 5.8%, from $770.7 million in fiscal year 2014 to $815.4 million in fiscal year 2015. The Airport experienced increases in aviation revenues, concession revenues, parking & transportation revenues, and net sales and services revenues.

Aviation revenues increased by 5.3%, from $441.3 million in fiscal year 2014 to $464.6 million in fiscal year 2015, due to increases in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 6.5%, from $4.29 in fiscal year 2014 to $4.57 in fiscal year 2015. The airline average annual terminal rent per square foot increased 6.5%, from $140.85 in fiscal year 2014 to $149.98 in fiscal year 2015, partially due to a 7.7% increase in airline terminal rental revenue requirement. Airline leased space increased 1.4% to 1.62 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by $11.2 million (8.2%), which reflects the rate increase and a 3.1% increase in airline landed weight. Terminal rentals increased by $10.7 million (4.6%), based on the rate increase and additional leased space. The overcharge balance increased by $0.1 million, from $55.6 million in fiscal year 2014 to $55.7 million at the end of fiscal year 2015. In aggregate, all other aviation revenues declined by $2.2 million (2.8%), from $76.8 million in fiscal year 2014 to $74.6 million in fiscal year 2015, with net aviation rental revenue and activity-based fees including aircraft parking, jet bridge fees, and employee parking showing decreases.

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 6.0%, from $136.6 million in fiscal year 2014 to $144.8 million in fiscal year 2015. The higher revenues primarily resulted from a 4.7% increase in passenger enplanements and deplanements, and a higher spend rate per passenger. Revenues from rental car concessions increased by $1.2 million (2.4%), primarily due to a 4.8% increase in rental car transactions. Food and beverage revenues increased $1.7 million (9.2%), due to passenger increases and the reopening of Boarding Area E in Terminal 3 on January 28, 2014. Retail merchandise excluding duty free revenue increased $0.9 million (6.5%) primarily from Consumer Price Index (CPI) Minimum Annual Guarantee (MAG) adjustments and stronger than expected increases in passenger spending in the international terminal. Revenues from duty free sales increased $2.8 million (9.9%) from higher international passenger traffic and an increased level of marketing and promotional activity by DFS, which experienced an increase in gross sales of 4.4% compared to the prior year. Other concession revenues increased by $1.4 million (18.3%), primarily from the opening of the American Express Centurion Lounge in November 2014. Net miscellaneous changes for other concession services and non-airline terminal space rental revenues increased by $0.2 million (1.4%).

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 7.2%, from $116.7 million in fiscal year 2014 to $125.1 million in fiscal year 2015. The average ticket price for public parking increased by 1.6% from $28.68 in fiscal 2014 to $29.13 in fiscal year 2015; partly offset by a decline of 29,432 parking transactions (0.8%). The net result was a parking revenue increase of $0.8 million (0.7%). Ground transportation, including taxi trip fee revenue increased by $7.7 million (51.3%) in fiscal year 2015, due to commercial vehicle trip fee rate increases of up to 3.6% and the commencement of transportation network companies' (TNC) operations at the Airport. The TNC pilot program began in September 2014 and resulted in over 1.7 million Airport pick-ups/drop-offs and $6.5 million in trip fee revenue during fiscal year 2015. Limousines experienced a volume increase of 12.4% compared to the prior fiscal year, while other modes of transportation experienced declines including door-to-door pre-arranged vans (31.1%), charter buses (8.6%), off-airport parking vans (4.9%), shared-ride-vans (1.4%), and taxis (0.8%).

Net sales and service revenues consist of revenue derived from utility services, telecommunication access fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 6.2%, from $76.1 million in fiscal year 2014 to $80.9 million in fiscal year 2015. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $1.7 million (4.6%), due to the aforementioned 4.8% increase in rental car contracts. The per rental car contract rate of $20 was unchanged in fiscal year 2015. Fees collected for the cost of the Rental Car Center (RCC) increased $1.1 million (7.9%) due to RCC structure and surface rent adjustments that were part of rental car companies' five-year lease extensions in January 2014. Miscellaneous airport revenue increased $0.7 million (152.4%) primarily due to an Airline environmental settlement credit. Penalties increased by $0.3 million (2910.2%) resulting from revisions to airfield safety rules and regulations and its enforcement. Governmental agency rentals increased $0.2 million (4.9%) due to the opening of the Airport Data Center in November 2013. Licenses and permits fees increased $0.2 million (15.1%) from increased badging activity from tenant employees and contractors. Miscellaneous terminal fees increased $0.2 million (6.5%) due to increases to the Terminal 2 baggage handling system maintenance contract. Revenue from the sale of water-sewage disposal increased $0.1 million (3.6%) from an 11.8% water rate increase partly offset by an 8.1% usage decline. Net revenue from all other sales and services including electricity usage, food court infrastructure and cleaning fees, refuse disposal, telecommunication access fees, and settlements increased $0.2 million (2.0%).

Fiscal Year 2014

Operating revenues increased by 6.1%, from $726.4 million in fiscal year 2013 to $770.7 million in fiscal year 2014. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 6.6%, from $413.9 million in fiscal year 2013 to $441.3 million in fiscal year 2014, due to increases in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 7.0%, from $4.01 in fiscal year 2013 to $4.29 in fiscal year 2014. The airline average annual terminal rent per square foot increased 7.1%, from $131.55 in fiscal year 2013 to $140.85 in fiscal year 2014, partially due to a 7.7% increase in airline terminal rental revenue requirement. Airline leased space increased 0.6% to 1.59 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by $11.9 million (9.5%), which reflects the rate increase and a 3.1% increase in airline landed weight. Terminal rentals increased by $20.0 million (9.5%), based on the rate increase and additional leased space. The overcharge balance increased by $3.7 million, from $51.9 million in fiscal year 2013 to $55.6 million at the end of fiscal year 2014. In aggregate, all other aviation revenues increased by $4.8 million (6.7%), from $71.9 million in fiscal year 2013 to $76.8 million in fiscal year 2014, 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 5.4%, from $129.5 million in fiscal year 2013 to $136.6 million in fiscal year 2014. The higher revenues were primarily driven by a 3.2% increase in passenger enplanements and deplanements, and a higher spend rate per passenger. Revenues from rental car concessions increased by $4.3 million (9.1%), primarily due to a 5.6% increase in rental car transactions. Food and beverage revenues increased $1.6 million (10.0%), due to the aforementioned passenger increases and the reopening of Boarding Area E in Terminal 3 on January 28, 2014. Retail merchandise excluding duty free revenue increased $0.5 million (3.7%) primarily from Consumer Price Index (CPI) Minimum Annual Guarantee (MAG) adjustments. Revenues from duty free sales increased $1.3 million (5.0%) from increased demand on luxury goods as DFS Group (DFS) gross sales increased 13.3% compared to the prior year. Other concession revenues increased by $0.4 million (8.8%), primarily from higher foreign currency exchange activity. Advertising revenues experienced a year-over-year decline of $0.9 million (8.5%). Starting in fiscal year 2014, advertising revenue was based on a fixed annual MAG of $10.0 million. Net miscellaneous changes for other concession services and non-airline terminal space rental revenues declined by $0.2 million (1.7%).

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 2.8%, from $113.6 million in fiscal year 2013 to $116.7 million in fiscal year 2014. Total parking transactions increased by 93,886 exits (2.7%) while the average ticket price declined by 1.9% from $29.25 in fiscal 2013 to $28.68 in fiscal year 2014. As a result, parking revenues in fiscal year 2014 increased by $0.7 million (0.7%). Ground transportation, including taxi trip fee revenues increased by $2.4 million (19.5%) in fiscal year 2014, partly due to commercial vehicle trip fee increases of up to 3.6%. All modes of transportation experienced volume increases, including limousines (43.5%), hotel shuttles (35.0%), charter buses (30.8%), door-to-door pre-arranged vans (14.3%), off-airport parking vans (7.9%) and taxis (7.7%).

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 9.8%, from $69.3 million in fiscal year 2013 to $76.1 million in fiscal year 2014. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $2.5 million (7.3%), due to the aforementioned 5.6% increase in rental car contracts. The per rental car contract rate of $20 was unchanged in fiscal year 2014. Fees collected for the cost of the Rental Car Center (RCC) increased $1.0 million (8.1%) due to RCC structure and surface rent adjustments that were part of rental car companies' five-year lease extensions. Revenues from governmental agency rent increased $0.8 million (24.9%) due to the opening of the Airport Data Center in November 2013, a portion of which is leased to the City. Revenues from electricity usage increased by $2.2 million (95.8%), due to increased consumption and the expiration of a settlement between the San Francisco Public Utilities Commission (PUC), under which airline tenants' electricity was charged at 74% of PUC rates compared to 100% in fiscal year 2014. Revenues from water and sewage disposal increased by $0.5 million (14.9%) resulting from a 6.3% water rate increase and a modest increase in water usage. Collection charges, which can be variable, decreased by $0.5 million (55.2%). Net revenue from all other sales and services including food court infrastructure and cleaning fees, settlements, licenses and permits, refuse disposal, and telecommunication access fees, was flat.

Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2015, 2014, and 2013 (in thousands):

	FY 2015	FY 2014	FY 2013 (As Restated)	FY 2015 Percentage Increase (Decrease)	FY 2014 Percentage Increase (Decrease)
Personnel	$ 226,790	250,088	239,194	(9.3)%	4.6%
Depreciation	216,146	222,815	176,522	(3.0)	26.2
Contractual services	67,491	65,126	62,939	3.6	3.5
Light, heat, and power	22,296	20,919	19,250	6.6	8.7
Services provided by other City departments	17,958	16,918	14,576	6.1	16.1
Repairs and maintenance	33,278	29,831	27,593	11.6	8.1
Materials and supplies	14,592	14,536	14,038	0.4	3.5
General and administrative	5,132	3,334	2,807	53.9	18.8
Amortization of prepaid bond insurance costs	522	669	1,985	(22.0)	(66.3)
Environmental remediation	4,824	1,424	146	238.8	875.3
Total operating expenses	$ 609,029	625,660	559,050	(2.7)%	11.9%

Fiscal Year 2015

Operating expense decreased $16.7 million (2.7%), from $625.7 million in fiscal year 2014 to $609.0 million in fiscal year 2015, due to decrease in personnel, amortization expense and depreciation. The decrease was partially offset by an increase in contractual services, services provided by other City departments, repairs and maintenance, and environmental remediation. In fiscal year 2015, the Airport capitalized $12.7 million of indirect costs related to construction of capital projects as overhead, compared to $14.8 million in fiscal year 2014. The variance in the different operating expense categories are discussed below.

Personnel costs decreased $23.3 million (9.3%), from $250.1 million in fiscal year 2014 to $226.8 million in fiscal year 2015. The decrease was primarily due to the adoption of GASB 68 in fiscal year 2015 which reduced pension expense by $31.1 million. Excluding the effect of GASB 68, personnel costs increased $6.9 million due to cost of living adjustment and additional positions.

Depreciation decreased $6.7 million (3.0%), from $222.8 million in fiscal year 2014 to $216.1 million in fiscal year 2015. The decrease was primarily due to the prior year depreciation adjustment of $18.0 million in fiscal year 2014. Excluding the prior year adjustment, current year depreciation expense increased $12.0 million due to the addition of completed capital improvement projects such as Terminal 3 Boarding Area E Refurbishment, Runway Safety Area Program, Checked Baggage Inspection System, West Field Cargo Building, Security Connector Terminal 2 (T2) to Terminal 1 (T1), Network Infrastructure Improvement, and Public Wi-Fi.

Contractual services increased $2.4 million (3.6%), from $65.1 million in fiscal year 2014 to $67.5 million in fiscal year 2015. The increase was primarily driven by costs incurred for consultant services in support of Airport long-term planning and the buy-back of a Terminal 3 concession lease.

Light, heat, and power expenses increased $1.4 million (6.6%), from $20.9 million in fiscal year 2014 to $22.3 million in fiscal year 2015. The increase was primarily due to the net effect of higher electric rates and lower consumption.

Services provided by other City departments increased $1.1 million (6.1%), from $16.9 million in fiscal year 2014 to $18.0 million in fiscal year 2015. The increase was primarily due to higher costs for city attorney legal services and the FAMIS replacement project.

Repairs and maintenance expense increased $3.5 million (11.6%), from $29.8 million in fiscal year 2014 to $33.3 million in fiscal year 2015. This increase was primarily due to higher costs to support and maintain additional networking hardware installed as part of various Airport improvement projects.

Materials and supplies expenditures increased $0.1 million (0.4%), from $14.5 million in fiscal year 2014 to $14.6 million in fiscal year 2015. The increase was due to higher spending on building maintenance supplies and computer equipment.

General and administrative expenses increased $1.8 million (53.9%), from $3.3 million in fiscal year 2014 to $5.1 million in fiscal year 2015. The increase was primarily due to an increase in legal expense.

Amortization of bond issue costs decreased $0.2 million (22.0%), from $0.7 million in fiscal year 2014 to $0.5 million in fiscal year 2015. The decrease was primarily due to the decrease of unamortized prepaid bond insurance costs.

Environmental remediation costs increased $3.4 million (238.8%), from $1.4 million in fiscal year 2014 to $4.8 million in fiscal year 2015. The increase was primarily due to the remediation costs related to capital improvement projects.

Fiscal Year 2014

Operating expenses increased $66.6 million (11.9%), from $559.1 million in fiscal year 2013 to $625.7 million in fiscal year 2014, due to increases in personnel, contractual services, services provided by other City departments, repairs and maintenance, and depreciation. The increase was partially offset by a decrease in amortization expense. In fiscal year 2014, the Airport capitalized $14.8 million of indirect costs related to construction of capital projects as overhead, compared to $11.7 million in fiscal year 2013. The variances in the different operating expense categories are discussed below.

Personnel costs increased $10.9 million (4.6%), from $239.2 million in fiscal year 2013 to $250.1 million in fiscal year 2014. The increase in personnel costs was primarily due to higher salary costs and pension contribution. In fiscal year 2014, the City's pension contribution rate was 24.82% as compared to 20.71% in fiscal year 2013. The increase in personnel costs was partially offset by the increase of $1.8 million of personnel costs allocated to capital improvement projects as overhead.

Depreciation increased $46.3 million (26.2%), from $176.5 million in fiscal year 2013 to $222.8 million in fiscal year 2014. The increase was primarily due to the addition of completed capital improvement projects such as Terminal 3 Boarding Area E, Runway Safety Area (RSA) Program, and Checked Baggage Inspection System (CBIS). Included in current year was $18.0 million of prior year's depreciation expense due to a change in the estimated useful lives of certain asset class that was not recorded in fiscal year 2013.

Contractual services increased $2.2 million (3.5%), from $62.9 million in fiscal year 2013 to $65.1 million in fiscal year 2014. The increase was primarily due to the costs incurred in the issuance of the Airport's Second Series Revenue Bonds, Series 2013A/B/C. The increase was partially offset by a decrease in airfield shuttle service.

Light, heat, and power expenses increased $1.6 million (8.7%), from $19.3 million in fiscal year 2013 to $20.9 million in fiscal year 2014. The increase was primarily due to increases in electricity rates and energy consumption, and the reopening of Boarding Area E in Terminal 3.

Services provided by other City departments increased $2.3 million (16.1%), from $14.6 million in fiscal year 2013 to $16.9 million in fiscal year 2014. The increase was primarily due to increases in risk management costs.

Repairs and maintenance increased $2.2 million (8.1%), from $27.6 million in fiscal year 2013 to $29.8 million in fiscal year 2014. The increase was primarily due to airfield, facilities, and groundside maintenance projects, and expenses related to the crash of Asiana flight 214.

Materials and supplies expenditures increased $0.5 million (3.5%), from $14.0 million in fiscal year 2013 to $14.5 million in fiscal year 2014. The increase was primarily due to increases in electrical materials and supplies, uniforms, and expenses related to the crash of Asiana flight 214.

General and administrative expenses increased $0.5 million (18.8%), from $2.8 million in fiscal year 2013 to $3.3 million in fiscal year 2014. The increase was primarily due to an increase in legal expenses.

Amortization of prepaid bond insurance costs decreased $1.3 million (66.3%), from $2.0 million in fiscal year 2013 to $0.7 million in fiscal year 2014. The decrease was primarily due to a decrease in unamortized prepaid bond insurance costs.

Environmental remediation costs increased $1.3 million (875.3%), from $0.1 million in fiscal year 2013 to $1.4 million in fiscal year 2014. The increase was primarily due to the expenses of the crash of Asiana flight 214 and the remediation costs related to capital improvement projects.

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2015, 2014, and 2013 (in thousands):

	FY 2015	FY 2014	FY 2013	FY 2015 Percentage Increase (Decrease)	FY 2014 Percentage Increase (Decrease)
Nonoperating revenues:					
Passenger facility charges (PFC)	$ 92,042	86,966	84,329	5.8%	3.1%
Investment income	9,118	5,425	1,686	68.1	221.8
Other	1,323	1,337	(485)	(1.0)	375.7
Total nonoperating revenues	102,483	93,728	85,530	9.3	9.6
Nonoperating expenses:					
Interest expense	210,608	201,998	195,503	4.3	3.3
Write-offs and loss on disposal	8,104	42,552	52,442	(81.0)	(18.9)
Other	25,597	52,776	28,172	(51.5)	87.3
Total nonoperating expenses	244,309	297,326	276,117	(17.8)	7.7
Capital contributions	32,119	91,024	65,958	(64.7)	38.0
Transfers to City and County of San Francisco	(40,480)	(37,994)	(36,464)	6.5	4.2
Total	$ (150,187)	(150,568)	(161,093)	(0.3)%	(6.5)%

Fiscal Year 2015

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet the capitalization requirement. PFCs, which became effective in October 2001, generated $92.0 million during fiscal year 2015, an increase of 5.8% compared to the $87.0 million received in fiscal year 2014. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased $3.7 million (68.1%), from $5.4 million in fiscal year 2014 to $9.1 million in fiscal year 2015. The increase was primarily due to the $5.8 million of fair value adjustment of the City’s investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Excluding the effect of the fair value adjustments, actual investment income decreased $2.1 million due to the expiration of the last Forward Purchase and Sale Agreement with Merrill Lynch Capital Services on November 1, 2014.

Other nonoperating revenues in fiscal years 2015 and 2014 were primarily operating grants received during the fiscal year.

Interest expense increased $8.6 million (4.3%), from $202.0 million in fiscal year 2014 to $210.6 million in fiscal year 2015, primarily due to increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal decreased $34.4 million (81.0%), from $42.5 million in fiscal year 2014 to $8.1 million in fiscal year 2015, primarily due to no significant write-off of capital assets during fiscal year 2015.

Other nonoperating expenses decreased $27.2 million (51.5%), from $52.8 million in fiscal year 2014 to $25.6 million in fiscal year 2015. The decrease was primarily due to the decrease in capital improvement project costs that did not meet the capitalization requirement.

Capital contributions received from federal grants decreased $58.9 million (64.7%), from $91.0 million in fiscal year 2014 to $32.1 million in fiscal year 2015. The decrease was primarily due to the completion of the TSA Checked Baggage Inspection System, Airport Traffic Control Tower, and Runway Safety Area Program.

The annual service payments transferred to the City increased $2.5 million (6.5%), from $38.0 million in fiscal year 2014 to $40.5 million in fiscal year 2015. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2015.

Fiscal Year 2014

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet the capitalization requirement. PFCs, which became effective in October 2001, generated $87.0 million during fiscal year 2014, an increase of 3.1% compared to the $84.3 million received in fiscal year 2013. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased $3.7 million (221.8%), from $1.7 million in fiscal year 2013 to $5.4 million in fiscal year 2014. The increase was primarily due to the fair value adjustment of the two Forward Purchase Sales Agreements (FPSAs) in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* and the investment fair value adjustment of the City's investment pool in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Excluding the effect of the fair value adjustment, investment income decreased $5.0 million. The decrease was primarily due to the expiration of two FPSAs on May 1, 2013, and November 1, 2013, which produced guaranteed earnings of 3.450% and 4.349%, respectively.

Other nonoperating revenues in fiscal years 2014 and 2013 were primarily operating grants received during the fiscal year. Excluding the effect of the reclassification of two federal grants in fiscal year 2013, totaling $1.2 million, from operating to capital grants, operating grants increased $0.6 million. The increase was primarily due to donations received for the marketing and reopening of Boarding Area E.

Interest expense increased $6.5 million (3.3%), from $195.5 million in fiscal year 2013 to $202.0 million in fiscal year 2014, primarily due to increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal decreased $9.9 million (18.9%), from $52.4 million in fiscal year 2013 to $42.5 million in fiscal year 2014, primarily due to the disposal and write-off of capital assets that should have been expensed in prior years.

Other nonoperating expenses increased $24.6 million (87.3%), from $28.2 million in fiscal year 2013 to $52.8 million in fiscal year 2014. The increase was primarily due to capital improvement costs that did not meet the capitalization requirement.

Capital contributions received from federal grants during fiscal year 2014 were $91.0 million for FAA's Airport Improvement Program, Airport Traffic Control Tower, and Runway Status Lights System, and TSA's Airport Checked Baggage Screening System.

The annual service payments transferred to the City increased $1.5 million (4.2%), from $36.5 million in fiscal year 2013 to $38.0 million in fiscal year 2014. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2014.

Fiscal Year 2015

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use commercially reasonable efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that meet the dollar thresholds established in the Agreement.

Fiscal year 2015 major capital projects included:

		Amount
Terminal 3 East Improvements	$	115,228,647
Runway Safety Area Program		43,804,471
Airport Traffic Control Tower		25,282,642
Terminal 1 ATCT Integrated Facilities		24,260,616
Terminal 1 Redevelopment Program		20,112,615
Ground Transportation Management System Replacement		10,113,011
International Terminal and Terminal 3 Checked Baggage Inspection System Modernization		7,326,224
Network Infrastructure Upgrades		6,067,684
Airfield Miscellaneous Improvements		5,762,176
Power & Lighting Improvements		5,546,249
International Terminal Renovation		5,348,097
Terminal 2 Renovation		3,941,476
Waste Water Improvements		2,239,293
Mobile Command Post		1,722,605
Terminal 3 Boarding Area E Refurbishment Project		1,639,336
South Field Redevelopment Program		1,503,292
West Field Cargo Redevelopment		1,375,685
Capital Equipment		1,292,375
Aerial Ladder With Pumper Replacement		1,101,144
Consolidated Administrative Campus		1,089,303
Noise Insulation Improvements		1,043,435
Total	$	285,800,376

The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects continuing in fiscal year 2016 include the Terminal 3 East and Terminal 3 West Improvement Projects, and the T1 Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system. Other notable fiscal year 2016 continuing projects include the Southfield Tenant Relocation Project, the Boarding Area A 400 Hertz System and Infrastructure Improvement Project, and the new Industrial Waste Treatment Plant.

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

Fiscal Year 2014

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use commercially reasonable efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that meet the dollar thresholds established in the Agreement.

Fiscal year 2014 major capital projects included:

		Amount
Runway Safety Area Program	$	116,943,861
Terminal 3 Boarding Area E Refurbishment		75,811,987
Terminal 3 East Improvements		63,427,064
Air Traffic Control Tower and Terminal 1 Integrated Facility		55,644,414
International Terminal and Terminal 3 Checked Baggage Inspection System Modernization		37,475,203
West Field Cargo Redevelopment Phase 1		25,180,233
S-LAN Replacement		13,127,279
Airfield Operation Facility		10,359,326
Terminal 1 Redevelopment Program		6,737,027
Ground Transportation Management System		3,728,386
Terminal 2 Boarding Area D Renovations		3,687,789
Boarding Area A 400 Hertz System and Infrastructure		3,634,986
Industrial Waste Treatment Plant Construction		2,513,876
Superbay Hangar Door Upgrade		2,133,603
SFO Training Center		1,591,837
Terminal 1 Lighting Improvement		1,251,627
Boarding Area A Checkpoint Expansion		1,233,565
Public Wi-Fi - Terminals		1,198,312
New Data Center Facility		1,181,994
SharePoint ERP Phase 1		1,160,680
Total	$	428,023,049

The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects continuing in fiscal year 2015 include Terminal 3 East Checkpoint Reconfiguration, the Runway Safety Area Program with partial funding from the FAA, West Field Cargo Redevelopment, the Air Traffic Control Tower Program with partial funding from the FAA, improvement to the Baggage Handling System, and the Checked Baggage Inspection System with partial funding from the TSA. Several of these projects are expected to be completed in fiscal year 2015, including the Runway Safety Area Program and the West Field Cargo Redevelopment Project.

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

Fiscal Year 2015

Debt Administration

Capital Plan Bonds: During fiscal year 2015, the Airport issued two new series of bonds to fund new capital projects. On September 24, 2014, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2014A (Alternative Minimum Tax (AMT)/Private Activity) and 2014B (Non-AMT/Governmental Purpose) in the principal amount of $473.6 million, to finance and refinance (through the repayment of commercial paper notes) the following projects: (a) completion of ongoing projects such as the air traffic control tower, baggage handling system modernization, runway safety area improvement, and Terminal 3 East check point reconfiguration, (b) Terminal 1 redevelopment, (c) Terminal 3 redevelopment, (d) construction of an extension of the AirTrain, and (e) development of a new long-term parking garage and other projects in the Airport's five-year Capital Plan.

Refunding Bonds: The Airport did not issue any refunding bonds during fiscal year 2015.

Cash Defeasance: In November 2014, the Airport redeemed $1.1 million of the Second Series Variable Rate Revenue Refunding Bonds, Series 2010A in connection with a Closing Agreement with the Internal Revenue Service under its Voluntary Closing Agreement Program (see note 7g).

On June 25, 2015 the Airport used available cash on hand to defease all of the Second Series Revenue Refunding Bonds, Issue 29A (AMT) ($2.7 million) and a portion of the Second Series Revenue Refunding Bonds, Issue 32G (Non-AMT) ($2.9 million).

Remarketed Bonds: The Airport did not remarket any outstanding bonds during fiscal year 2015.

Credit Enhancement: On January 28, 2015, the Airport closed a four-year extension of the irrevocable letter of credit issued by MUFG Union Bank, N.A. (formerly known as Union Bank, N.A.) supporting the Second Series Variable Rate Revenue Refunding Bonds, Series 37C. The letter of credit will expire January 28, 2019. The extension of the letter of credit did not require a remarketing of the bonds.

Subordinate Commercial Paper Notes: During fiscal year 2015, the Airport retired $249.0 million in commercial paper notes that were outstanding as of July 1, 2014, and issued $40.0 million in new money commercial paper notes that remain outstanding as of June 30, 2015.

Interest Rate Swaps: The Airport ended fiscal year 2015 with six interest rate swaps outstanding with a total notional amount of $480.9 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, while 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, 2015, 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.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

During fiscal year 2015, 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 2014

Debt Administration

Capital Plan Bonds: During fiscal year 2014, the Airport issued three series of bonds to fund new capital projects. On July 31, 2013, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2013A (Alternative Minimum Tax (AMT)/Private Activity), 2013B (Non-AMT/Governmental Purpose) and 2013C (Taxable) in the principal amount of $461.1 million, to finance a portion of the engineering and construction costs associated with the Terminal 3 East improvements, the renovation of Boarding Area E, and other projects in the Airport's five-year Capital Plan.

Refunding Bonds: The Airport did not issue any refunding bonds during fiscal year 2014.

Remarketed Bonds: The Airport remarketed two series of outstanding bonds during fiscal year 2014:

- On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank, National Association that expired on May 4, 2014.

- On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank, National Association with an expiration date of July 11, 2014.

Credit Enhancement: The Airport negotiated an extension of the letter of credit associated with the following series of outstanding bonds during fiscal year 2014:

- On December 17, 2013, the Airport closed a three-year extension of the expiration date (from January 31, 2014, to December 14, 2016) of the irrevocable letter of credit issued by JP Morgan Chase Bank, National Association supporting the Second Series Variable Rate Revenue Refunding Bonds, Series 2010A (AMT/Private Activity). The extension of the letter of credit did not require a remarketing of the bonds.

Subordinate Commercial Paper Notes: During fiscal year 2014, the Airport issued $249.4 million in new money commercial paper notes. The Airport negotiated changes to the following letters of credit during fiscal year 2014, each of which supports a separate subseries of commercial paper notes, thereby increasing the overall size of the commercial paper program from $300.0 million to $400.0 million:

- On January 10, 2014, the Airport closed a five-year extension of the expiration date (from May 1, 2014, to May 2, 2019) of the $100.0 million irrevocable direct-pay letter of credit issued by State Street Bank and Trust Company.
- On June 18, 2014, Royal Bank of Canada amended and restated its irrevocable direct-pay letter of credit to increase the principal amount thereof from $100.0 million to $200.0 million and extend its expiration date to May 19, 2017.

Interest Rate Swaps: The Airport ended fiscal year 2014 with six interest rate swaps outstanding with a total notional amount of $482.2 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, while 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, 2014, 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.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

During fiscal year 2014, 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 2015

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2015, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings on the outstanding debt of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On September 4, 2014, Moody's, S&P, and Fitch assigned ratings of "A1", "A+", and "A+", respectively, to the Series 2014A/B Bonds that were issued on September 24, 2014.

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit support that subseries.

On December 2, 2014, Moody's Investors Service (Moody's) downgraded the rating of Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU). The Second Series Variable Rate Revenue Refunding Bonds, Series 36B and 36C (Non-AMT/Private Activity) are secured by an irrevocable direct-pay letter of credit issued by BTMU. As a result, the long-term rating of the bonds were lowered from "Aa1" to "Aa2".

On May 19, 2015, Fitch upgraded the long-term and short-term credit ratings of JPMorgan Chase Bank, National Association (JPMorgan). The Second Series Variable Rate Revenue Refunding Bonds, Series 2010A are secured by an irrevocable direct-pay letter of credit issued by JPMorgan. Fitch's long-term rating on the Bonds was raised from "AA" to "AA+" and the short term rating was raised from "F-1" to "F-1+".

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 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 2015, the Airport's bond insurance companies ratings were unchanged. The public ratings of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) were "A2" by Moody's and "AA" by S&P. The public ratings of National Public Finance Guarantee Corp. (which has assumed the obligations of MBIA Insurance Corporation and Financial Guaranty Insurance Corp.) were "A3" by Moody's and "AA-" by S&P.

Fiscal Year 2014

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2014, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On July 3, 2013, Moody's, S&P, and Fitch assigned ratings of "A1", "A+", and "A+", respectively, to the Series 2013A-C Bonds, which were sold on July 18, 2013, and closed on July 31, 2013.

On April 25, 2014, the Airport remarketed the Issue 36B Bonds and the Issue 36C Bonds, each with a new irrevocable letter of credit issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. that replaced the prior letters of credit issued by U.S. Bank, National Association. In connection with the new letters of credit, Fitch lowered its joint-support ratings on each series of the Bonds from "AA+/F1+" to "AA/F1", S&P lowered its joint-support ratings from "AAA/A-1+" to "AAA/A-1", and Moody's affirmed its joint-support ratings of "Aa1/VMIG1".

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit support that subseries. On June 11, 2014, Moody's, S&P, and Fitch confirmed their assigned ratings of "P-1", "A-1+", and "F1+", respectively, to the subseries of commercial paper notes supported by the Royal Bank of Canada letter of credit.

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 2014, several of the Airport's bond insurance companies were upgraded by the credit rating agencies. On March 18, 2014, S&P upgraded the rating of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) from "AA-" to "AA" and the rating of National Public Finance Guarantee Corp. (which has assumed the obligations of MBIA Insurance Corporation and Financial Guaranty Insurance Company) from "A" to "AA-". On May 21, 2014, Moody's upgraded the rating of National Public Finance Guarantee Corp. from "Baa1" to "A3".

Fiscal Year 2016 Airline Rates and Charges

Rates and Charges, Fiscal Year 2016

Terminal rental rates and airline landing fees for fiscal year 2016 have been developed as part of the annual budget process that started in October 2014. The Lease and Use Agreement between the Airport and the Signatory Airlines provides the rate-setting methodology for calculating the terminal rental rates and Airline landing fees. 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 2016, which became effective on July 1, 2015, are as follows:

Effective average terminal rental rate (per sq. ft)	$157.18
Signatory Airline – landing fee rate (per 1,000 lbs.)	4.87
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	6.09
General aviation – landing fee rate (per 1,000 lbs.)	5.36

The effective average terminal rental rate increased by 4.8%, from $149.98 per sq. ft. in fiscal year 2015 to $157.18 per sq. ft. in fiscal year 2016. The fiscal year 2015 landing fee rate for Signatory Airlines increased by 6.7%, from $4.57 per 1,000 pounds in fiscal year 2015 to $4.87 per 1,000 pounds in fiscal year 2016, while the fiscal year 2016 landing fee rate for general aviation aircraft increased by 6.7%, from $5.03 per 1,000 pounds in fiscal year 2015 to $5.36 per 1,000 pounds in fiscal year 2016. The Non-Signatory Airline landing fee rate increased by 6.7%, from $5.71 per 1,000 pounds in fiscal year 2015 to $6.09 per 1,000 pounds in fiscal year 2016.

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 Chief Business & Finance Officer, San Francisco International Airport, P.O. Box 8097, San Francisco, California 94128.

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

Statements of Net Position

June 30, 2015 and 2014

(In thousands)

		2015	2014
Assets			
Current assets:			
Cash and investments held in City Treasury	$	403,522	380,170
Cash and investments outside City Treasury		6,435	6,616
Cash – Revolving Fund		10	10
Accounts receivable (net of allowance for doubtful accounts: 2015: $633; 2014: $547)		38,895	37,027
Accrued interest – City Treasury		341	423
Accrued interest – outside City Treasury		734	968
Inventories		42	56
Other current assets		619	681
Restricted assets:			
Cash and investments held in City Treasury		141,013	141,692
Cash and investments outside City Treasury		74,491	65,551
Accrued interest - Other		3	—
Grants receivable		20,563	60,794
Passenger facility charges receivable		9,649	10,309
Total current assets		696,317	704,297
Non-current assets:			
Restricted assets:			
Cash and investments held in City Treasury		259,152	230,817
Cash and investments outside City Treasury		382,146	346,217
Accrued interest – City Treasury		436	425
Prepaid bond insurance costs		1,952	2,474
Capital assets, net		3,936,426	3,869,718
Total non-current assets		4,580,112	4,449,651
Total assets		5,276,429	5,153,948
Deferred outflows of resources			
Unamortized loss on refunding of debt		78,388	92,147
Deferred outflows on derivative instruments		66,809	64,964
Deferred outflows on employer pension contributions		37,517	—
Total deferred outflows of resources	$	182,714	157,111

(Continued)

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

Statements of Net Position

June 30, 2015 and 2014

(In thousands)

		2015	2014
Liabilities			
Current liabilities:			
Accounts payable	$	55,734	40,782
Accrued payroll		7,370	15,285
Compensated absences		9,860	8,728
Accrued workers' compensation		1,363	1,243
Estimated claims payable		2,427	1,319
Unearned aviation revenue		55,704	55,633
Current maturities of long-term debt		153,471	145,733
Payable from restricted assets:			
Accounts payable		43,544	87,072
Accrued payroll		347	861
Grants received in advance		6,439	13,000
Accrued bond interest payable		33,587	31,007
Commercial paper		40,000	249,000
Current maturities of long-term debt		30,694	29,147
Total current liabilities		440,540	678,810
Noncurrent liabilities:			
Compensated absences, net of current portion		6,433	7,224
Accrued workers' compensation, net of current portion		4,718	4,427
Estimated claims payable, net of current portion		1,345	68
Long-term debt, net of current maturities		4,480,730	4,169,755
Other postemployment benefits obligation		115,297	103,783
Net pension liability		111,932	—
Derivative instrument		80,722	80,235
Total noncurrent liabilities		4,801,177	4,365,492
Total liabilities		5,241,717	5,044,302
Deferred inflows of resources			
Deferred inflows related to pensions		100,290	—
Total deferred inflows of resources		100,290	—
Net position			
Net investment in capital assets		(103,109)	(149,894)
Restricted for debt service		37,427	25,390
Restricted for capital projects		165,224	200,219
Unrestricted		17,594	191,042
Total net position	$	117,136	266,757

See accompanying notes to financial statements.

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Operating revenues			
Aviation	$	464,610	441,259
Concession		144,781	136,587
Parking and transportation		125,087	116,703
Net sales and services		80,886	76,142
Total operating revenues		815,364	770,691
Operating expenses			
Personnel		226,790	250,088
Depreciation		216,146	222,815
Contractual services		67,491	65,126
Light, heat, and power		22,296	20,919
Services provided by other City departments		17,958	16,918
Repairs and maintenance		33,278	29,831
Materials and supplies		14,592	14,536
General and administrative		5,132	3,334
Amortization of prepaid bond insurance costs		522	669
Environmental remediation		4,824	1,424
Total operating expenses		609,029	625,660
Operating income		206,335	145,031
Nonoperating revenues (expenses)			
Investment income		9,118	5,425
Interest expense		(210,608)	(201,998)
Passenger facility charges		92,042	86,966
Write-offs and loss on disposal		(8,104)	(42,552)
Other nonoperating revenues		1,323	1,337
Other nonoperating expenses		(25,597)	(52,776)
Total nonoperating expenses, net		(141,826)	(203,598)
Gain/(Loss) before capital contributions and transfers		64,509	(58,567)
Capital contributions			
Grants		32,119	91,024
Transfers to City and County of San Francisco		(40,480)	(37,994)
Changes in net position		56,148	(5,537)
Total net position – beginning of year (as original reported)		266,757	272,294
Restatement due to adoption of GASB 68		(205,769)	—
Total net position – beginning of year (as restated)		60,988	272,294
Total net position – end of year	$	117,136	266,757

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, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities			
Cash received from airline carriers, concessionaires, and others	$	835,229	784,560
Cash paid for employees' services		(253,502)	(234,514)
Cash paid to suppliers of goods and services		(168,295)	(163,472)
Net cash provided by operating activities		413,432	386,574
Cash flows from noncapital financing activities			
Transfers to City and County of San Francisco		(40,480)	(37,994)
Other noncapital financing revenues		1,323	1,337
Other noncapital financing expenses		(25,597)	(52,776)
Net cash used in noncapital financing activities		(64,754)	(89,433)
Cash flows from capital and related financing activities			
Principal paid on revenue bonds and commercial paper notes		(182,645)	(163,445)
Interest paid on revenue bonds and commercial paper notes		(221,630)	(207,763)
Acquisition and construction of capital assets		(325,039)	(375,053)
Revenues from passenger facility charges		92,702	86,868
Proceeds from sale of revenue bonds		268,420	295,322
Proceeds from commercial paper notes		40,000	249,350
Capital contributed by federal agencies and others		65,789	82,047
Net cash used in capital and related financing activities		(262,403)	(32,674)
Cash flows from investing activities			
Sales of investments with Trustee		764,511	2,406,640
Purchases of investments with Trustee		(808,924)	(2,459,855)
Interest received on investments		8,016	9,055
Net cash used in investing activities		(36,397)	(44,160)
Net increase in cash and cash equivalents		49,878	220,307
Cash and cash equivalents, beginning of year		759,954	539,647
Cash and cash equivalents, end of year	$	809,832	759,954
Reconciliation of cash and cash equivalents to the statements of net position			
Cash and investments held in City Treasury – unrestricted	$	403,522	380,170
Cash and investments held in City Treasury – restricted		400,165	372,509
Cash and investments outside City Treasury – unrestricted		6,435	6,616
Cash and investments outside City Treasury – restricted		149	1,110
Cash – Revolving Fund		10	10
Cash, cash equivalents, and investments		810,281	760,415
Unrealized gain on investments		(449)	(461)
Cash and cash equivalents, June 30	$	809,832	759,954

(Continued)

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

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$	206,335	145,031
Adjustments for non-cash and other activities:			
Depreciation		216,146	222,815
Allowance for doubtful accounts		86	163
Amortization of prepaid bond insurance costs		522	670
GASB 68 pension expense adjustment		(205,769)	—
Cost of issuance paid from bond proceeds		1,527	1,817
Changes in assets and liabilities:			
Accounts receivable		(1,955)	(10,617)
Inventories		14	31
Other current assets		62	(5)
Accrued payroll receivable		1	(1)
Deferred outflows on employer pension contributions		(37,517)	—
Accounts payable and other liabilities		17,336	7,385
Accrued payroll		(7,915)	1,715
Compensated absences		341	353
Accrued workers' compensation		411	437
Other postemployment benefits obligation		11,514	13,070
Unearned aviation revenue		71	3,710
Deferred inflows related to pension		100,290	—
Net pension liability		111,932	—
Net cash provided by operating activities	$	413,432	386,574
Noncash transactions			
Accrued capital asset costs	$	43,890	87,932
Bond refunding		249,527	182,342

See accompanying notes to financial statements.

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as an enterprise 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 seventeenth in terms of cargo.[5] 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. Airport 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).

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, concessionaires, and parking and transportation charges. Operating expenses of the Airport include personnel costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the actuarial consultancy firm Cheiron for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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[5] Source: Airports Council International – North America, 2014 North American Traffic Report.

(b) Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions*, which is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Also, in November 2013, the GASB issued GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The provisions of the Statements No. 68 and No. 71 are effective for fiscal years beginning after June 15, 2014. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014. As of July 1, 2014, the Airport restated its net position from $266.8 million to $61.0 million to record beginning net pension liability and beginning deferred outflows of resources.

Governmental Accounting Standards Board (GASB) Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations.* GASB Statement No. 69 establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application.* GASB Statement No. 72 changes how fair value is measured and provides guidance for applying fair value. The new standard is effective for periods beginning after June 15, 2015. The Airport will implement the provisions of Statement No. 72 in fiscal year 2016.

Governmental Accounting Standards Board (GASB) Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension Plans.* GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other postemployment benefits other than pensions (OPEB). The new standard is effective for periods beginning after June 15, 2017. The Airport will implement the provisions of Statement No. 75 in fiscal year 2018.

Governmental Accounting Standards Board (GASB) Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. The new standard is effective for periods beginning after June 15, 2015. The Airport will implement the provisions of Statement No. 76 in fiscal year 2016.

Governmental Accounting Standards Board (GASB) Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures.* GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. The Airport will implement the provisions of Statement No. 77 in fiscal year 2017.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, 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 statements of net position 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 position and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash for financial reporting. The City considers highly liquid investments with original maturities of three months or less 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, the debt service reserve fund, the cost of issuance fund, the debt service holding fund, and the variable rate demand bond fee account for the Airport's revenue bonds are held and invested at the Airport's direction by an independent bond trustee. A portion of the debt service reserve fund was also invested in accordance with a Forward Purchase and Sale Agreement that was intended to produce a guaranteed earnings rate. The last Forward Purchase and Sale Agreement expired on November 1, 2014. The Airport reports these investments at fair value based on quoted market information obtained from fiscal agents or other sources.

(d) Capital Assets

Capital assets are stated at historical cost, or if donated, at fair value at the date of donation. The capitalization threshold for real property is $100,000 and $5,000 for personal property with a useful life greater than one year.

(Continued)

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
Intangible assets	3 – 20

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) Capitalized Interest

Interest cost of debt issued for acquiring a capital asset is capitalized as part of the historical cost of the asset. 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.

(f) Derivative Instruments

The Airport has entered into certain derivative instruments, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. Under hedge accounting, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statements of net position.

(g) Bond Issuance Costs, Discounts, and Premiums

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Compensated Absences

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

(i) Net Position

Net position consists of the following:

Net Investment in Capital Assets – consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets (including any unamortized original issue discounts or premiums related to the debt). Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt (such as deferred losses on advance refundings) are also included in this component of net position.

Restricted for Debt Service and Capital Projects – consists of restricted assets and deferred outflows of resources reduced by liabilities related to those assets and deferred outflows of resources. Restricted assets are those assets with restrictions on their use that are externally imposed (by creditors, grantors, contributors, or the laws or regulations of other governments).

Unrestricted Net Position – consists of the net amount of the assets, deferred outflows of resources, and liabilities, of the Airport that are not restricted for any project or other purpose.

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

(j) Aviation Revenue and Unearned 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. During fiscal year 2010, 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 operate under month-to-month permits.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service, pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission. Non-cash accrued pension obligations other than those actually paid or budgeted to be paid during the fiscal year are excluded. 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 has aviation revenue collected in advance from the airlines of approximately $55.7 million and $55.6 million as of June 30, 2015 and 2014, respectively.

(k) Concession Revenues

Concession revenues consist of rentals and fees derived from food and beverage concessions, duty free, retail merchandise and rental car concessions. Revenues are based on terms of lease agreements entered between the Airport and concessionaires, and are the greater of a percentage of tenant's gross revenues or a MAG amount.

(l) Parking and Transportation Revenues

Parking and transportation revenues consist of fees derived from parking facilities and ground transportation operations. Parking revenues are parking fees collected from all public parking facilities at the Airport. Transportation revenues are ground transportation trip fees assessed to commercial vehicles that service the Airport.

(m) Net Sales and Services 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).

(n) Environmental Remediation Expenses and Recoveries

The Airport incurs costs associated with environmental remediation activities, which arise during the normal course of business. These costs are recorded as a liability when the Airport is required to perform the remediation and if the costs can be reasonably estimated. The Airport records environmental remediation cost recoveries as nonoperating revenues in the financial statements.

(o) 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 generally earned upon expenditures of the funds.

(p) 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.

(q) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains its operating cash, cash equivalents, investments, and its restricted cash and investments as part of the City's pool of cash and investments. The City's investment pool is 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.

Cash and investments, at fair value, held by the City in the City's pool as of June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Pooled cash and investments		
Cash and investments held in City Treasury – unrestricted	$ 403,522	380,170
Cash and investments held in City Treasury – restricted current	141,013	141,692
Cash and investments held in City Treasury – restricted non-current	259,152	230,817
Total cash and investments in City Treasury	$ 803,687	752,679

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**
12.6%	11.9%	10.5%	65.0%

(b) Cash and Investments with Fiscal Agent

The restricted assets for revenue bond reserves, debt service and costs of issuance 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). The unrestricted assets in the debt service holding fund and the variable rate demand bond fee account are not pledged to the payment of the Airport Commission's bonds, but are held by the Senior Trustee for the convenience of the Airport Commission in the administration and investment of monies delivered to the Senior Trustee prior to the time the Airport Commission is required to make deposits into the Debt Service Fund or pay the fees of the remarketing agents for the Airport Commission's variable rate bonds, respectively. As of June 30, 2015 and 2014, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit Ratings June 30, 2015 (S&P/Moody's/ Fitch)	June 30, 2015 Maturities	June 30, 2015 Fair value	June 30, 2014 Maturities	June 30, 2014 Fair value
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	October 30, 2015	$ 32,207	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	September 28, 2016	20,005	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	November 23, 2016	15,759	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	May 30, 2017	7,485	—	—
Federal National Mortgage Association Discount Notes	AA+/Aaa/AAA	September 27, 2017	13,893	October 26, 2017	41,989
Federal National Mortgage Association Discount Notes	AA+/Aaa/na	October 26, 2017	62,329	—	—
US Treasury Notes	AA+/Aaa/AAA	November 30, 2016	30,236	—	—
US Treasury Notes	AA+/Aaa/AAA	May 31, 2017	48,777	July 31, 2014	820
US Treasury Notes	AA+/Aaa/AAA	July 31, 2018	14,514	August 31, 2014	819
US Treasury Notes	AA+/Aaa/AAA	February 28, 2019	13,582	September 30, 2014	820
US Treasury Notes	AA+/Aaa/AAA	April 30, 2019	14,098	October 31, 2014	819
US Treasury Notes	AA+/Aaa/AAA	May 31, 2019	11,011	November 30, 2014	212
US Treasury Notes	AA+/Aaa/AAA	August 31, 2019	28,497	December 31, 2014	212
US Treasury Notes	AA+/Aaa/AAA	September 30, 2019	51,314	January 31, 2015	212
US Treasury Notes	AA+/Aaa/AAA	November 30, 2019	7,248	February 28, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	March 31, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	April 30, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	May 31, 2015	1
US Treasury Notes	AA+/Aaa/AAA	—	—	August 15, 2015	54,151
US Treasury Notes	AA+/Aaa/AAA	—	—	May 15, 2016	54,048
US Treasury Notes	AA+/Aaa/AAA	—	—	November 30, 2016	49,101
US Treasury Notes	AA+/Aaa/AAA	—	—	May 31, 2017	32,185
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	May 27, 2016	19,258	November 3, 2014	102,167
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	February 22, 2017	11,050	February 22, 2017	11,018
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	January 12, 2018	12,935	—	—
Goldman Sachs Financial Square Treasury Obligations Fund	AAAm/Aaa/NR	—	6,486	—	7,627
Cash		—	42,388	—	61,547
Total cash and investments with fiscal agent			$ 463,072		418,384

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 Trustees 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 in any principal and interest payment accounts 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 Airport 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 $463.1 million and $418.4 million in investments held by, and in the name of, the Trustees as of June 30, 2015 and 2014, 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.

During fiscal year 2015, the last of the Airport's Forward Purchase and Sale Agreements (FPSA) with Merrill Lynch Capital Services (MLCS) expired on November 1, 2014. MLCS has fulfilled all of its delivery obligations under the FPSA. Since the expiration of this agreement, the Airport has not entered into any new FPSAs.

(c) Forward Purchase and Sale Agreement

Objective and Terms – During fiscal year 2015, a portion of the Airport's debt service reserve fund was invested by the Senior Trustee in investments delivered in accordance with a ten-year FPSA with Merrill Lynch Capital Services that was intended to produce guaranteed earnings at rates of 4.329%. Under this FPSA, the Senior Trustee was required to purchase $100.0 million of investment securities every six months, maturing on the following May 1 or November 1, as applicable, for the bond reserve fund. The final delivery of securities for purchase occurred on May 1, 2014. This agreement expired on November 1, 2014. Since the expiration of this agreement the Airport has not entered into any new FPSAs.

The Airport accounted for and disclosed the FPSA as an investment derivative in accordance with GASB 53 as of and for the years ended June 30, 2015 and June 30, 2014.

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. Grants receivable of $20.6 million and $60.8 million as of June 30, 2015 and 2014, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

In making decisions concerning the distribution of discretionary grants to an airport, federal law requires the Secretary of Transportation to consider, as a negative mitigating factor, the fact that the airport in question is using its revenues above specified historical levels for purposes other than its capital or operating costs. The Airport Commission pays a portion of the Airport’s revenues to the City’s General Fund as an Annual Service Payment (ASP), in part as compensation for all indirect services, management and facilities provided by the City to the Airport. The Airport Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. In the federal fiscal year ended September 30, 2013, the FAA did not award discretionary grants to the Airport. In federal fiscal year ending September 30, 2014, the FAA provided discretionary grants of $45.6 million, $11.9 million less than the Airport had requested, as a result of the amount of the Annual Service Payments. In federal fiscal year ended September 30, 2015, the Airport did not apply for any discretionary grants. The FAA may continue to reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Airport Commission needs to fund from other sources, including operating revenues, PFCs and bond proceeds.

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.

The Airport received $13.2 million in federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA) from the TSA in the Department of Homeland Security (DHS) (for checked baggage screening equipment) and two grants totaling $14.5 million from the FAA in the DOT (for runway improvements). The Office of Inspector General (OIG) for each of the DHS and DOT have audited ARRA grants for several airports nationwide, including the above three grants received by the Airport.

The DHS audit concluded that one Airport expenditure was questionable because it was not adequately supported by the Airport’s accounting records. The Airport has repaid $0.1 million of the TSA funding. The initial DOT audit concluded that several Airport expenditures of the two FAA ARRA grants were questionable because of inadequate documentation, work outside the approved scope for otherwise eligible projects, and non-qualifying expenditures. The Airport repaid approximately $1.8 million of the two ARRA grants and voluntarily reduced other AIP grant reimbursement requests by $1.2 million. Following an internal review, the Airport identified an additional $0.9 million of ineligible expenditures reimbursed from grant proceeds that will be reimbursed to the FAA. The Airport continues to be reviewed and audited with respect to these and other grants and may be required to repay additional grant amounts it has received.

(5) Capital Assets

Capital assets consist of the following (in thousands):

Fiscal Year 2015

		July 1, 2014	Additions	Deletions	June 30, 2015
Capital assets not being depreciated					
Land	$	3,074	—	—	3,074
Intangible assets		6,881	—	—	6,881
Construction in progress		384,422	204,257	(228,880)	359,799
Total capital assets not being depreciated		394,377	204,257	(228,880)	369,754
Capital assets being depreciated/amortized					
Buildings, structures, and improvements		5,465,525	287,006	(9,428)	5,743,103
Equipment		258,086	22,483	(8,486)	272,083
Intangible assets		141,546	786	—	142,332
Total capital assets being depreciated/amortized		5,865,157	310,275	(17,914)	6,157,518
Less accumulated depreciation/amortization					
Buildings, structures, and improvements		(2,167,711)	(179,010)	6,726	(2,339,995)
Equipment		(105,372)	(30,528)	8,390	(127,510)
Intangible assets		(116,733)	(6,608)	—	(123,341)
Total accumulated depreciation/amortization		(2,389,816)	(216,146)	15,116	(2,590,846)
Total capital assets being depreciated/amortized, net		3,475,341	94,129	(2,798)	3,566,672
Total capital assets, net	$	3,869,718	298,386	(231,678)	3,936,426

Total interest costs were approximately $220.6 million for fiscal year 2015 and $210.4 million for fiscal year 2014, of which approximately $10.0 million and $8.4 million, respectively, were 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 capital asset will enable the Airport to capture the full and true cost of a capital asset. The indirect costs capitalized for the years ended June 30, 2015 and 2014, were $12.7 million and $14.8 million, respectively.

(Continued)

Fiscal Year 2014

	July 1, 2013	Additions	Deletions	Reclassification	June 30, 2014
Capital assets not being depreciated					
Land	$ 3,074	—	—	—	3,074
Intangible assets	—	—	—	6,881	6,881
Construction in progress	227,278	289,951	(132,807)	—	384,422
Total capital assets not being depreciated	230,352	289,951	(132,807)	6,881	394,377
Capital assets being depreciated/ amortized					
Buildings, structures, and improvements	5,430,018	168,878	(133,371)	—	5,465,525
Equipment	187,100	72,142	(1,156)	—	258,086
Intangible assets	148,229	198	—	(6,881)	141,546
Total capital assets being depreciated/ amortized	5,765,347	241,218	(134,527)	(6,881)	5,865,157
Less accumulated depreciation/ amortization					
Buildings, structures, and improvements	(2,080,859)	(193,605)	106,753	—	(2,167,711)
Equipment	(84,496)	(22,030)	1,154	—	(105,372)
Intangible assets	(109,553)	(7,180)	—	—	(116,733)
Total accumulated depreciation/ amortization	(2,274,908)	(222,815)	107,907	—	(2,389,816)
Total capital assets being depreciated/ amortized, net	3,490,439	18,403	(26,620)	(6,881)	3,475,341
Total capital assets, net	$ 3,720,791	308,354	(159,427)	—	3,869,718

Included in the fiscal year 2014 addition of accumulated depreciation of buildings, structures, and improvements was $18.0 million of prior year depreciation expense, due to a change in the estimated useful lives of certain asset class that was not recorded in fiscal year 2013. Included in the deletion of buildings, structures, and improvements was $23.5 million of net book value write-off related to fiscal years prior to 2012.

(Continued)

(6) Subordinate Commercial Paper Notes

Fiscal Year 2015

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146, as amended and supplemented (the Note Resolution), authorizing the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in three series that are subdivided into nine subseries according to tax status and that are secured by three direct-pay letters of credit. Two $100.0 million direct-pay letters of credit are issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and June 17, 2016, respectively. The third letter of credit issued by Royal Bank of Canada in the amount of $200.0 million expires May 19, 2017. Each of the letters of credit supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of $400.0 million as of June 30, 2015.

In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Note Resolution) (see note 8).

The CP notes are special, limited obligations of the Commission, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on a parity with any other bonds or other obligations from time to time outstanding under the Note Resolution. As of June 30, 2015, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2015, the Airport issued $40.0 million of new money CP (AMT) to fund capital improvement projects.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2015 (in thousands):

	Interest rate	July 1, 2014	Increases	Decreases	June 30, 2015
Commercial paper (Taxable)	0.1%-0.14%	$ 1,000	—	(1,000)	—
Commercial paper (AMT)	0.07% – 0.09%	163,000	40,000	(163,000)	40,000
Commercial paper (Non-AMT)	0.07%	85,000	—	(85,000)	—
Total		$ 249,000	40,000	(249,000)	40,000

Fiscal Year 2014

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146, as amended and supplemented (the Note Resolution), authorizing the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in three series that are subdivided into nine subseries according to tax status and that are secured by three direct-pay letters of credit. Two $100.0 million direct-pay letters of credit are issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and June 17, 2016, respectively. The third letter of credit issued by Royal Bank of Canada was amended and restated June 18, 2014, to increase the principal component thereof from $100.0 million to $200.0 million and extend the expiration date to May 19, 2017. Each of these letters of credit supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of $400.0 million as of June 30, 2014.

In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Note Resolution) (see note 8).

The CP notes are special, limited obligations of the Commission, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on a parity with any other bonds or other obligations from time to time outstanding under the Note Resolution. As of June 30, 2014, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2014, the Airport issued $248.0 million of new money CP (AMT and Non-AMT) to fund capital improvement projects and $1.4 million of taxable CP to fund costs of issuance. A portion of the taxable CP was retired with Airport operating funds during the fiscal year.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2014 (in thousands):

	Interest rate		July 1, 2013	Increases	Decreases	June 30, 2014
Commercial paper (Taxable)	0.10%	$	15,425	1,350	(15,775)	1,000
Commercial paper (AMT)	0.08% – 0.15%		125,150	163,000	(125,150)	163,000
Commercial paper (Non-AMT)	0.07%		39,950	85,000	(39,950)	85,000
Total		$	180,525	249,350	(180,875)	249,000

(7) Long-Term Obligations

Long-term obligation activity for the years ended June 30, 2015 and 2014, was as follows (in thousands):

		July 1, 2014 (As Restated)	Additions	Reductions	June 30, 2015	Due within one year
Revenue bonds payable	$	4,204,425	473,610	(181,645)	4,496,390	184,165
Less unamortized discounts		(287)	—	8	(279)	—
Add unamortized premiums		140,497	44,336	(16,049)	168,784	—
Total revenue bonds payable		4,344,635	517,946	(197,686)	4,664,895	184,165
Compensated absences		15,952	12,775	(12,434)	16,293	9,860
Accrued workers' compensation		5,670	2,681	(2,270)	6,081	1,363
Estimated claims payable		1,387	2,403	(18)	3,772	2,427
Other postemployment benefits obligation		103,783	11,514	—	115,297	—
Net pension liability (see note 10a)		239,459	—	(127,527)	111,932	—
Derivative instruments		80,235	487	—	80,722	—
Total	$	4,791,121	547,806	(339,935)	4,998,992	197,815

		July 1, 2013 (As Restated)	Additions	Reductions	June 30, 2014	Due within one year
Revenue bonds payable	$	3,906,395	461,125	(163,095)	4,204,425	174,880
Less unamortized discounts		(294)	—	7	(287)	—
Add unamortized premiums		139,332	16,539	(15,374)	140,497	—
Total revenue bonds payable		4,045,433	477,664	(178,462)	4,344,635	174,880
Compensated absences		15,599	12,759	(12,406)	15,952	8,728
Accrued workers' compensation		5,233	2,661	(2,224)	5,670	1,243
Estimated claims payable		1,562	386	(561)	1,387	1,319
Other postemployment benefits obligation		90,713	13,070	—	103,783	—
Derivative instruments		81,338	—	(1,103)	80,235	—
Total	$	4,239,878	506,540	(194,756)	4,551,662	186,170

Bond Transactions and Balances

On December 3, 1991, the Commission adopted Resolution No. 91-0210, as amended and supplemented (the Senior Bond Resolution), authorizing the issuance from time to time of San Francisco International Airport Second Series Revenue Bonds to finance capital projects at the Airport. The maximum principal amount of such bonds is not limited by the Senior Bond Resolution, but the Commission must satisfy an additional bonds test prior to the issuance of any such bonds. The Senior Bond Resolution constitutes a contract between the Commission and the registered owners of the bonds under which the Commission has irrevocably pledged the Net Revenues of the Airport to the payment of the principal of and interest on the bonds.

Net Revenues are generally defined in the Senior Bond Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Senior Bond Resolution) (see note 8).

The bonds are special, limited obligations of the Commission, and the payment of the principal of and interest on the bonds is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Senior Bond Resolution. The payment of the principal of and interest on all previously issued bonds under the Senior Bond Resolution is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing any additional bonds issued thereunder.

As of June 30, 2015 and 2014, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2015	2014
Second Series Revenue Bonds				
Issue 29 A/B	02/05/03	4.00% – 5.50%	$ —	11,845
Issue 31F	02/10/05	4.75% – 4.91%	26,270	45,175
Issue 32F/G	11/16/06	4.00% – 5.25%	380,410	406,495
Issue 34C/D/E/F	03/27/08	4.25% – 5.75%	303,470	317,110
Issue 36A	06/03/09	Variable rate	100,000	100,000
Issue 36B	06/03/09	Variable rate	40,620	40,620
Issue 36C	06/03/09	Variable rate	36,145	36,145
Issue 37C	06/03/09	Variable rate	89,080	89,495
Issue 2009A/B	09/03/09	4.90%	175,000	175,000
Issue 2009C	11/03/09	3.88% – 5.00%	80,590	103,490
Issue 2009D	11/04/09	2.00% – 4.00%	83,900	84,295
Issue 2009E	11/18/09	4.38% – 6.00%	485,800	485,800
Issue 2010A	02/10/10	Variable rate	213,295	215,220
Issue 2010C	04/07/10	3.00% – 5.00%	288,240	328,550
Issue 2010D	04/07/10	3.00% – 5.00%	74,910	85,390
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	5.00% – 5.75%	49,070	60,520
Issue 2011B	02/22/11	5.00% – 5.50%	33,565	40,435
Issue 2011C	07/21/11	5.00%	163,720	163,720
Issue 2011D	07/21/11	5.00%	124,110	124,110
Issue 2011E	07/21/11	2.63% – 4.48%	37,590	50,785
Issue 2011F	09/20/11	5.00%	123,325	123,325
Issue 2011G	09/20/11	5.00% – 5.25%	106,195	106,195
Issue 2011H	09/20/11	1.92% – 4.15%	101,600	104,830
Issue 2012A	03/22/12	5.00%	208,025	208,025
Issue 2012B	03/22/12	4.00% – 5.00%	108,265	108,265
Issue 2013A	07/31/13	5.00% – 5.50%	360,785	360,785
Issue 2013B	07/31/13	5.00%	87,860	87,860
Issue 2013C	07/31/13	2.12% – 2.86%	12,480	12,480
Issue 2014A	09/24/14	5.00%	376,320	—
Issue 2014B	09/24/14	5.00%	97,290	—
			4,496,390	4,204,425
Unamortized discount			(279)	(287)
Unamortized premium			168,784	140,497
Total revenue bonds payable			4,664,895	4,344,635
Less current portion			(184,165)	(174,880)
Total long-term revenue bonds payable			$ 4,480,730	4,169,755

Fiscal Year 2015

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

Pursuant to resolutions approved in fiscal years 2008, 2012 and 2014, the Airport Commission has authorized the issuance of up to $4.8 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance 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, 2015, $3.2 billion of the authorized capital plan bonds remained unissued.

On September 24, 2014, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2014A (AMT/Private Activity), and Series 2014B (Non-AMT/Governmental Purpose) in the total amount of $473.6 million. The Series 2014A/B Bonds are uninsured, long-term, fixed rate bonds. The Series 2014A Bonds mature between May 1, 2039 and May 1, 2044 with an interest rate of 5.0%. The Series 2014B Bonds mature on May 1, 2044, with an interest rate of 5.0%.

The net proceeds of $460.1 million (comprised of a $473.6 million bond principal amount, less $1.5 million in underwriting fees, deposits to the capitalized interest accounts and the reserve account, and payment of costs of issuance, together with $44.3 million in net original issue premium) were used to retire the outstanding balance of subordinate commercial paper notes ($248.0 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport ($212.1 million).

(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, 2015, net of expired sale authorizations, $1.4 billion of such refunding bonds remained unissued. During fiscal year 2015, no new refunding bonds were issued and no refunding bonds were remarketed.

(c) Variable Rate Demand Bonds

As of June 30, 2015, the Airport Commission had outstanding an aggregate principal amount of $479.1 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and 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 separate irrevocable letters of credits issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables 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 0.520% and 0.570% per annum. As of June 30, 2015, there were no unreimbursed draws under these facilities.

On January 28, 2015, the Airport closed a four-year extension of the irrevocable letter of credit issued by MUFG Union Bank, N.A. (formerly known as Union Bank, N.A.) supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 37C. The letter of credit will expire January 28, 2019. The extension of the letter of credit did not require a remarketing of the bonds.

The primary terms of the letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2015, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	$100,000,000	$40,620,000	$36,145,000	$89,080,000	$213,295,000
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	January 28, 2019	December 14, 2016
Credit Provider	U.S. Bank(1)	BTMU(2)	BTMU(2)	MUFG Union Bank (3)	JP Morgan(4)

(1) U.S. Bank National Association
(2) The Bank of Tokyo-Mitsubishi UFJ. Ltd.
(3) Formerly Union Bank, N.A.
(4) JP Morgan Chase Bank, N.A.

(d) 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 notional amount of $405.0 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 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, 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, 2008 and December 3, 2008, the Airport refunded Issue 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 a swap associated with the Series 2010A-3 Bonds, with a notional amount of $72.0 million. The Airport paid a termination amount of $6.7 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 the unhedged portions of Issue 36A/B/C.

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 notional amount of $30.0 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, 2015, 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, 2015.

#	Current Bonds		Initial Notional Amount	Notional Amount June 30, 2015	Effective Date
1	36AB	$	70,000,000	70,000,000	2/10/2005
2	36AB		69,930,000	69,930,000	2/10/2005
3	36C		30,000,000	30,000,000	2/10/2005
4	2010A*		79,684,000	78,965,000	5/15/2008
5	37C		89,856,000	89,045,000	5/15/2008
6	2010A		143,947,000	142,927,000	2/1/2010
	Total	$	483,417,000	480,867,000	

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

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 bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2015, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport 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+/Aa2/AA-	3.444%	$	(8,100,871)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.445%		(8,101,725)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.444%		(3,471,522)
4	2010A	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	A+/Aa3/NR	3.773%		(14,262,278)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.898%		(17,082,892)
6	2010A	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	A-/A3/A	3.925%		(29,483,515)
		Total			$	(80,502,803)

*The ratings for the 2010A swaps are the ratings of the guarantor.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2015 is as follows (in thousands):

		Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2014	$	64,964	80,235
Change in fair value to year end		1,845	487
Balance as of June 30, 2015	$	66,809	80,722

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 statements of net position. 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 difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2015.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (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, 2015, the Airport paid a total of $1.9 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2015, 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, 2015, 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, 2015 (S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	None	N/A

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 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 or its guarantor 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.

The Airport's swap guarantor Goldman Sachs Group, Inc. was upgraded by one of the rating agencies during the year ended June 30, 2015.

The Airport's swap counterparties Goldman Sachs Bank USA, Merrill Lynch Capital Services and JPMorgan Chase Bank, National Association, were each upgraded by one or more of the rating agencies during the year ended June 30, 2015.

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, 2015, 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.

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, were outstanding in the principal amounts of $78.1 million and $82.6 million, respectively, as of June 30, 2015 and 2014. SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the SFO Fuel bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by the Net Revenues of 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 SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(f) Debt Service Reserve and Covenants

The Airport 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 Airport 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 Airport Commission may also establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Airport Commission has established two reserve accounts in the Reserve Fund: the Issue 1 Reserve Account and the 2009 Reserve Account, both 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 Airport Commission’s outstanding bonds. The Airport 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, 2015, the reserve requirement was $358.9 million, which was satisfied by $361.7 million of cash and investment securities, and reserve fund surety policies in the principal amount of $132.7 million. All of the providers of such reserve policies have one or more credit ratings below the Airport’s rating or are no longer rated. In addition, $75.8 million of such surety policies have likely experienced a reduction in value in accordance with their terms.

2009 Reserve Account

The Airport 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, 2015, the reserve requirement for the 2009 Reserve Account was $15.6 million, which was satisfied by $19.1 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.). The value of this reserve policy may be adjusted downward under certain circumstances and may have experienced a reduction in value.

Series Secured by Other or No Reserve Accounts

As permitted under the 1991 Master Resolution, the Airport Commission may establish separate reserve accounts for individual series of bonds, or may issue bonds without a reserve account.

The Airport Commission originally established a separate reserve account for its Second Series Revenue Refunding Bonds, Series 2009D, which were issued on November 4, 2009, and remarketed on December 4, 2012. The Series 2009D Bonds are now secured by the Issue 1 Reserve Account. In connection with the remarketing, the entire $8.8 million in the Series 2009D Reserve Account was transferred to the Issue 1 Reserve Account.

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

Reserve Policies

Under the 1991 Master Resolution, the Airport 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 the ASP 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. For example, the 1991 Master Resolution includes in the definition of Operating and Maintenance Expenses (which is used to calculate Net Revenues) "the *payment* of pension charges … with respect to employees of the Commission…" (emphasis added) and excludes a number of non-cash accrual items. Accordingly, the Commission excludes from its rate covenant calculations any non-cash accrued pension obligations other than those actually paid during the fiscal year.

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

		Principal	Interest	Total
Fiscal year:				
2016	$	184,165	222,512	406,677
2017		194,125	214,223	408,348
2018		203,190	205,372	408,562
2019		226,025	195,967	421,992
2020		269,125	185,074	454,199
2021 - 2025		1,242,585	737,387	1,979,972
2026 - 2030		962,150	445,000	1,407,150
2031 - 2035		401,120	271,611	672,731
2036 - 2040		376,290	177,040	553,330
2041 - 2044		437,615	56,036	493,651
Total	$	4,496,390	2,710,222	7,206,612

The table below presents the revenue bond debt service requirements in the event 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 (in thousands):

		Principal	Interest	Total
Fiscal year:				
2016	$	182,915	222,512	405,427
2017		490,305	209,306	699,611
2018		256,100	193,920	450,020
2019		287,920	180,497	468,417
2020		240,650	167,127	407,777
2021 - 2025		1,053,860	668,700	1,722,560
2026 - 2030		769,615	420,492	1,190,107
2031 - 2035		401,120	271,611	672,731
2036 - 2040		376,290	177,040	553,330
2041 - 2044		437,615	56,036	493,651
Total	$	4,496,390	2,567,241	7,063,631

(g) Post-Issuance Compliance with Federal Tax Law

The Airport follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Internal Revenue Code of 1986, the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the Internal Revenue Service (IRS). As a result, the Airport from time to time identifies and addresses relatively minor tax law compliance issues. As part of its tax diligence procedures, the Airport determined in August 2012 that small portions of the proceeds of a number of outstanding series of bonds were applied for purposes that present tax law compliance issues. In particular, a small portion of the Airport's passenger terminal facilities financed from proceeds of those bonds (less than 0.1%) were used for retail locations where wine was sold for consumption off-Airport. Such uses of proceeds are prohibited by the Code. If not addressed with the IRS, the failure to observe such limitation could cause the interest on such bonds to be includable in gross income for federal income tax purposes retroactively to the date of their issuance. In November 2013, the Airport finalized a closing agreement with the IRS under its Tax Exempt Bond Voluntary Closing Agreement Program (VCAP) with respect to the Airport's Series 2009C/D Bonds pursuant to which the Airport made a payment to the IRS of approximately $5,000 and retired a small portion ($200,000) of the Series 2009D Bonds allocable to such use of bond proceeds. In November 2014, the Commission executed a second closing agreement with the IRS with respect to the other bonds affected by this compliance issue, pursuant to which the Commission made a payment to the IRS of approximately $67,000 and retired $1,145,000 of the Commission's Series 2010A Bonds.

(h) Cash Defeasance of Bonds

In November 2014, the Airport redeemed $1.1 million of the Second Series Variable Rate Refunding Bonds, Series 2010A in connection with a Closing Agreement with the IRS (see note 7g). On June 25, 2015, the Airport used cash on hand to defease $5.6 million principal amount of outstanding Airport Second Series Revenue Refunding Bonds:

- Issue 29A (AMT) Bonds ($2.7 million)
- Issue 32G (Non-AMT) Bonds ($2.9 million)

Fiscal Year 2014

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

Pursuant to resolutions approved in fiscal years 2008, 2012 and 2014, the Airport Commission has authorized the issuance of up to $4.8 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance 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, 2014, $3.7 billion of the authorized capital plan bonds remained unissued.

On July 31, 2013, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2013A (AMT), Series 2013B (Non-AMT/Governmental Purpose) and Series 2013C (Taxable) in the total amount of $461.1 million. The Series 2013A-C Bonds are uninsured, long-term, fixed rate bonds. The Series 2013A (AMT) Bonds mature between May 1, 2020 and May 1, 2038 with interest rates from 5.00% to 5.50%. The Series 2013B (Non-AMT/Governmental Purpose) Bonds mature on May 1, 2043, with an interest rate of 5.00%. The Series 2013C (Taxable) Bonds mature between May 1, 2017 and May 1, 2019, with interest rates from 2.12% to 2.86%.

The net proceeds of $405.8 million (comprised of a $461.1 million bond principal amount, less $71.8 million in underwriting fees, deposits to the capitalized interest accounts and the reserve account, and payment of costs of issuance, together with $16.5 million in net original issue premium) were used to retire the outstanding balance of subordinate commercial paper notes ($180.5 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport ($225.3 million).

(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, 2014, net of expired sale authorizations, $1.4 billion of such refunding bonds remained unissued. During fiscal year 2014, no new refunding bonds were issued, and the following refunding bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36B

On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit from U.S. Bank National Association that expired on May 4, 2014. The Issue 36B Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank National Association with an expiration date of July 11, 2014. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

(c) Variable Rate Demand Bonds

As of June 30, 2014, the Airport Commission had outstanding an aggregate principal amount of $481.5 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and 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 separate irrevocable letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables 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 0.52% and 0.78% per annum. As of June 30, 2014, there were no unreimbursed draws under these facilities.

On December 17, 2013, the Airport obtained an extension of the letter of credit issued by JP Morgan Chase Bank, N.A. securing the Series 2010A Bonds, and on April 25, 2014, the Airport obtained a replacement letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. for the Issue 36B Bonds in advance of the expiration dates of the letters of credit securing both series of bonds.

On April 25, 2014, the Airport obtained an additional letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. to support the Issue 36C Bonds in advance of the July 11, 2014 stated expiration date of the prior letter of credit securing those bonds.

The primary terms of the letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2014, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	$100,000,000	$40,620,000	$36,145,000	$89,895,000	$215,970,000
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	July 13, 2015	December 14, 2016
Credit Provider	U.S. Bank(1)	BTMU(2)	BTMU(2)	Union Bank(3)	JP Morgan(4)

(1) U.S. Bank National Association
(2) The Bank of Tokyo-Mitsubishi UFJ. Ltd.
(3) Union Bank, N.A.
(4) JP Morgan Chase Bank, N.A.

(d) 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 notional amount of $405.0 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 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, 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, 2008 and December 3, 2008, the Airport refunded Issue 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 a swap associated with the Series 2010A-3 Bonds, with a notional amount of $72.0 million. The Airport paid a termination amount of $6.7 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 the unhedged portions of Issue 36A/B/C.

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 notional amount of $30.0 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, 2014, 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, 2014.

#	Current Bonds		Initial Notional Amount	Notional Amount June 30, 2014	Effective Date
1	36AB	$	70,000,000	70,000,000	2/10/2005
2	36AB		69,930,000	69,930,000	2/10/2005
3	36C		30,000,000	30,000,000	2/10/2005
4	2010A*		79,684,000	79,331,000	5/15/2008
5	37C		89,856,000	89,459,000	5/15/2008
6	2010A		143,947,000	143,447,000	2/1/2010
	Total	$	483,417,000	482,167,000	

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

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 bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2014, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport 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%	$ (8,554,207)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.445%	(8,553,738)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.444%	(3,665,905)
4	2010A	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	A+/AA3/NR	3.773%	(13,918,663)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.898%	(16,776,927)
6	2010A	Goldman Sachs Group, Inc.	A-/Baa1/A	3.925%	(28,480,952)
		Total			$ (79,950,392)

*The ratings for the 2010A swaps are the ratings of the guarantor.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2014, is as follows (in thousands):

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2013	$ 64,743	81,338
Change in fair value to year end	221	(1,103)
Balance as of June 30, 2014	$ 64,964	80,235

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 statements of net position. 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 difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2014.

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, 2014, the Airport paid a total of $1.8 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2014, 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, 2014, 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, 2014 (S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	None	N/A

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 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 or its guarantor 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.

The Airport's swap guarantors Goldman Sachs Group, Inc. and Merrill Lynch Derivative Products AG were each downgraded by one of the rating agencies during the year ended June 30, 2014.

The downgrades to Goldman Sachs and Merrill Lynch did not constitute 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, 2014, 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.

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, were outstanding in the principal amounts of $82.6 million and $87.0 million, respectively, as of June 30, 2014 and 2013. SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the SFO Fuel bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by the Net Revenues of 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 SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(8) Revenue Pledged

The Commission has pledged all of the Net Revenues of the Airport to repay the following obligations when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds (Senior Bonds) issued and to be issued under the Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (Senior Bond Resolution), and amounts due under the letters of credit securing the Senior Bonds to the extent provided in the Senior Bond Resolution, (2) the San Francisco International Airport Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) issued and to be issued under the Commission's Resolution No. 97-0146 adopted on May 20, 1997, as amended and supplemented (Note Resolution) and amounts due to reimburse drawings under the letters of credit securing the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments. The Senior Bonds and Commercial Paper Notes are issued to finance capital projects at the

Airport and to refund previously issued Senior Bonds and Commercial Paper Notes. The pledges of Net Revenues described above are in force so long as the secured obligations are outstanding. As of June 30, 2015, the final maturities of the obligations secured by the Net Revenues are Senior Bonds that mature in fiscal year 2044.

Net Revenues are defined in the Senior Bond Resolution and the Note Resolution as Revenues less Operation and Maintenance Expenses. Revenues are defined to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with GAAP. Revenues do not include: (a) investment income from moneys in (i) the Construction Fund, (ii) the Debt Service Fund which constitute capitalized interest, or (iii) the Reserve Fund if and to the extent there is any deficiency therein; (b) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds (as defined in the Senior Bond Resolution); (c) Special Facility Revenues (as defined in the Senior Bond Resolution) and any income realized from the investment thereof unless designated as Revenues by the Commission; (d) any passenger facility or similar charge levied by or on behalf of the Commission unless designated as Revenues by the Commission; (e) grants-in-aid, donations and bequests; (f) insurance proceeds not deemed to be Revenues in accordance with GAAP; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City.

Operation and Maintenance Expenses are defined in the Senior Bond Resolution and the Note Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Senior Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments to the City; (f) any costs, or charges made therefor, for capital additions, replacements or improvements to the Airport which, under GAAP, are properly chargeable to a capital account or reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operating and Maintenance Expenses include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to Commission employees.

During fiscal years 2015 and 2014, the original principal amount of Senior Bonds and Commercial Paper Notes issued, principal and interest remaining due on outstanding Senior Bonds and Commercial Paper Notes, principal and interest paid on such obligations, and applicable Net Revenues are as set forth in the table below (in thousands). There were no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

		2015	2014
Bonds issued with revenue pledge	$	473,610	461,125
Bond principal and interest remaining due at the end of the fiscal year		7,206,612	6,491,433
Commercial paper issued with subordinate revenue pledge		40,000	249,350
Commercial paper principal and interest remaining due at the end of the fiscal year		40,001	249,047
Net revenues		439,381	403,036
Bond principal and interest paid in the fiscal year		384,427	354,387
Commercial paper principal and interest paid in the fiscal year		3,418	2,298

Pledged Facilities Rent from Fuel System Lease with SFO Fuel Company LLC

The Commission entered into a Fuel System Lease dated as of September 1, 1997, with SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport. The facilities rent payable by SFO Fuel has been pledged and assigned to the bond trustee to secure the repayment of the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, which were outstanding in the aggregate principal amounts of $78.1 million and $82.6 million, respectively, as of June 30, 2015 and 2014. The SFO Fuel bonds were issued to finance improvements to the jet fuel storage and distribution system at the Airport. The pledge of the facilities rent will be in effect until the maturity of the SFO Fuel bonds on January 1, 2027, unless additional bonds (including refunding bonds) with a later maturity are issued.

(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 $29.5 million and $25.1 million as of June 30, 2015 and 2014, respectively.

A five-year car rental lease agreement option was exercised effective January 1, 2014. Under this agreement, the rental car companies will continue to 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 $43.2 million and $41.5 million as of June 30, 2015 and 2014, respectively.

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

Fiscal year ending:		
2016	$	97,139
2017		93,117
2018		75,966
2019		37,894
2020		14,667
2021 and thereafter		34,861
Total	$	353,644

(10) Employee Benefit Plans

(a) Retirement Plan

The City administers a cost-sharing multiple-employer defined benefit pension plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System).

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Employers Retirement System (SFERS) – Cost Sharing

Valuation Date (VD)	June 30, 2013 updated to June 30, 2014
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

The City is an employer of the Plan with a proportionate share of 93.78% as of June 30, 2014. The Airport's allocation percentage was determined based on the Airport's employer contributions divided by the City's total employer contributions for fiscal year 2014. The Airport's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 6.74% as of the measurement date.

Plan Description

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The Charter and Administrative Code of the City and County of San Francisco are the legal authorities that establish and amend 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, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits

The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

Funding and Contribution Policy

Contributions are made to the basic Plan by both the City and its participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2015 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2015, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2013 actuarial report, the required employer contribution rate for fiscal year 2015 ranged from 22.26% to 26.76%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2014 was $499.8 million. The Airport's allocation of employer contributions for fiscal year 2014 was $33.7 million and $37.5 million for fiscal year 2015.

Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $1.66 billion. The Airport's net pension liability for the Plan is measured as the proportionate share of the City's net pension liability. The City's net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Airport's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was $239.5 million and $111.9 million, respectively. In fiscal year 2015, there were no changes in benefits and amounts reported as changes in assumptions resulted primarily from a change in the discount rate and a change in the Supplemental COLA assumption.

For fiscal year ended June 30, 2015, the City's recognized pension expense was $95.7 million including amortization of deferred outflow/inflow related pension items. The Airport's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $6.5 million. At June 30, 2015, the Airport's reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources set forth below (in thousands).

Schedule of Deferred Inflows and Outflows

		Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$	—	3,708
Net difference between projected and actual earnings on pension plan investments		—	95,890
Change in proportionate share		—	692
Pension contributions subsequent to the measurement date		37,517	—
Total	$	37,517	100,290

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

Fiscal year		Deferred outflows of resources	Deferred inflows of resources
2016	$	—	25,073
2017		—	25,073
2018		—	25,073
2019		—	25,071
Total	$	—	100,290

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2014, is provided below, including any assumptions that differ from those used in the July 1, 2013 actuarial valuation. The July 1, 2013 actuarial valuation report with complete description of all other assumptions can be found on the Retirement System's website http://mysfers.org/.

Key Actuarial Assumptions	
Valuation Date	June 30, 2013 updated to June 30, 2014
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Expected Rate of Return	7.58%
Municipal Bond Yield	4.39% as of June 30, 2013
	4.31% as of June 30, 2014
	Bond Buyer 20-Bond GO Index, July 3, 2013 and July 2, 2014
Discount Rate	7.52% as of June 30, 2013
	7.58% as of June 30, 2014
Administrative Expenses	0.45% of payroll

	Old Miscellaneous and all New Plans	Old Police & Fire pre 7/1/75 Retirements	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA	2.00%	3.00%	4.00%	5.00%

Mortality rates for active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

Discount Rate

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rates were 7.52% as of June 30, 2013 and 7.58% as of June 30, 2014, respectively.

The discount rate used to measure the total pension liability as of June 30, 2014, was 7.58%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date plus an amortization payment on the unfunded actuarial liability. The amortization payment is based on 15-year closed amortization as a level percentage of payment and closed 20-year amortization as a level percentage of payroll of experience gains and losses and assumption changes. Supplemental COLAs are amortized over a closed 5-year period from the date they are granted. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, we developed an assumption as of June 30, 2014, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for member with a 2.00% basic COLAs for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal year	Assumption
2015	0.000%
2020	0.364%
2025	0.375%
2030	0.375%
2035+	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2083 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.31% to the extent they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2014 is 7.58%.

The long-term expected rate of return on pension plan investments was 7.58%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long-term Expected Real Rates of Return

Asset class	Target allocation	Long-term expected real rate of return
Global equity	47%	5.3%
Fixed income	25%	1.8%
Private equity	16%	8.8%
Real assets	12%	5.8%

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airport's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the Airport's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

Employer	Proportionate share	1% decrease share of NPL @ 6.58%	Share of NPL @ 7.58%	1% increase share of NPL @ 8.58%
Airport	6.7414%	$ 277,262	$ 111,932	$ (26,901)

(b) Health Care Benefits

Health care benefits of Airport employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately $33.6 million and $34.8 million in fiscal years 2015 and 2014, 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 $9.4 million and $10.8 million for fiscal years 2015 and 2014, respectively, to provide postretirement benefits for retired Airport employees on a pay-as-you-go basis, as well as $0.4 million and $0.3 million for fiscal years 2015 and 2014, respectively, to fund the Airport's share of the City's retiree health care trust fund. The City did not allocate to the Airport any additional share of the payments made by the City's Health Service System for postretirement health benefits in fiscal years 2015 and 2014.

The City has determined a Citywide annual required contribution (ARC), interest on net other postemployment benefits other than pensions (OPEB), 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, 2015 and 2014, based upon its percentage of Citywide payroll costs is presented below.

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

	2015	2014
Annual required contribution	$ 21,409	21,071
Interest on net OPEB obligation	4,872	4,410
Adjustment to ARC	(4,062)	(3,677)
Annual OPEB cost	22,219	21,804
Contribution made	(10,705)	(8,734)
Increase in net OPEB obligation	11,514	13,070
Net OPEB obligation – beginning of year	103,783	90,713
Net OPEB obligation – end of year	$ 115,297	103,783

As of June 30, 2015, the Airport has set aside $97.5 million in a separate fund for purposes of the OPEB obligations and such amount is included in Unrestricted Cash and Investment in the accompanying statements of net position. 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 related to the City's postretirement health care obligations. The report may be obtained by writing to 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 position. These services include utilities provided to tenants (see note 2m) and the Airport. The cost of all services provided by the City work order system totaled approximately $135.8 million and $131.3 million in fiscal years 2015 and 2014, respectively. Included in personnel operating expenses are approximately $68.1 million and $66.3 million in fiscal years 2015 and 2014, 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 $5.0 million per fiscal year. Annual service payments to the City were $40.5 million and $38.0 million in fiscal years 2015 and 2014, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net position.

(12) Passenger Facility Charges

As of June 30, 2015, the FAA has approved several Airport applications to collect and use passenger facility charges (from PFC #2 to PFC #6) in a total cumulative amount of $1.7 billion, with a final charge expiration date estimated to be March 1, 2026. During the fiscal years ended June 30, 2014 and 2015, the following changes occurred to the Airport's PFC collection authorizations.

In October 2013, the FAA approved the Airport's fifth application (PFC #5) for $610.5 million to pay for debt service related costs associated with the reconstruction and reopening of Terminal 2 and Boarding Area D renovations. The earliest charge effective date is January 1, 2017 and is based upon the estimated charge expiration date of PFC #3. The FAA estimates the charge expiration date for PFC #5 to be June 1, 2023. In November 2014, the FAA approved an amendment to PFC #5 that increased the imposition and use authority by $131.3 million from $610.5 million to $741.7 million. The estimated expiration date for PFC #5 was changed from June 1, 2023 to October 1, 2024. The Airport is working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels.

In June 2015, the FAA approved the Airport's sixth PFC application (PFC #6) for $141.1 million to pay for debt service related to the Runway Safety Area Program and the installation of ten passenger boarding bridges at Boarding Area E. The FAA estimates the charge expiration date for PFC #6 to be March 1, 2026.

PFC collections and related interest earned for the years ended June 30, 2015 and 2014, are as follows (in thousands):

		2015	2014
Amount collected	$	92,042	86,966
Interest earned		1,155	1,050
Total	$	93,197	88,016

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, 2015 are as follows (in thousands):

Construction	$	58,296
Operating		16,213
Total	$	74,509

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 the Airport, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with Airport 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 2015, the Airport disbursed approximately $1.0 million in this phase of the program ($0.5 million in federal grants and $0.5 million in Airport funds). In fiscal year 2014, the Airport disbursed approximately $0.3 million in this phase of the program ($0.2 million in federal grants and $0.1 million in Airport funds). As of June 30, 2015, the cumulative disbursements of Airport funds under this program were approximately $122.2 million.

(b) 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 2011 Lease and Use Agreement, security deposits are renewed and increased annually in order to equal to two months of fees, as established by the Airport Director each fiscal year in accordance with the lease. 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.

(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 $1.0 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 $5.0 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 and Target Range Liability for the San Francisco Police Department's firearms range located at the Airport.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of $750.0 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 Terrorism Risk Insurance Program Reauthorization Act (TRIPA) of 2015. 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 Director of Risk Management, has elected not to secure such coverage.

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2013, resulted from the following activity (in thousands):

Balance as of June 30, 2013	$	1,562
Claim payments		(561)
Claims and changes in estimates		386
Balance as of June 30, 2014		1,387
Claim payments		(18)
Claims and changes in estimates		2,403
Balance as of June 30, 2015	$	3,772

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 as of June 30, 2013	$	5,233
Claim payments		(2,224)
Claims and changes in estimates		2,661
Balance as of June 30, 2014		5,670
Claim payments		(2,270)
Claims and changes in estimates		2,681
Balance as of June 30, 2015	$	6,081

(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) Financial Guarantees

The Airport participates in the City and County of San Francisco's surety bond program which provides training, support and City-funded surety bond guaranties for local business enterprise (LBE) contractors who want to bid on construction contracts for City departments (including the Airport), but cannot qualify for the required surety bonds on their own. If program parameters are met, the Airport may guaranty the lesser of $750,000 or 40% of the face amount of the surety bond, which would enable the LBE contractor to bid on Airport construction work. There were no outstanding Airport guaranties under the program as of June 30, 2015.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2j) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2015 and 2014, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	2015	**2014**
United Airlines	23.5%	23.6%

(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:	
2016	$ 162
2017	87
2018	87
Total	$ 336

Net operating lease expense incurred for the fiscal year ended 2015 was the same as 2014 at approximately $0.2 million.

(14) Subsequent Events

Credit Rating Changes

On September 11, 2015, Fitch upgraded the credit rating on the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A, and San Francisco International Airport 1997 Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 2000A, from "BBB+" to "A-" (Stable Outlook).

On October 5, 2015, Fitch upgraded the long-term credit rating of U.S. Bank National Association. The Commission's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A are secured by an irrevocable direct-pay letter of credit issued by U.S. Bank. As a result, on October 6, 2015, Fitch raised its long-term credit rating (joint support) on the Issue 36A Bonds from "AA+" to "AAA."

Issuance of Capital Plan Bonds

In September 2015, the Airport Commission authorized the issuance of an additional $243 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and $225 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Commission also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Commission does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately $243 million, which will be applied to the $225 million construction costs of the hotel and AirTrain station, capitalized interest and other costs of issuance. The bonds require the approval of the City's Board of Supervisors before they can be issued.

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

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

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2015 and 2014

(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, 2013	$ 792,209	15,046	807,255	(707,379)	99,876
Fiscal year 2013 – 2014 transactions:					
Reversal of prior year passenger facility charges accrual	(10,212)	—	(10,212)	—	(10,212)
Quarter ended September 30, 2013	22,012	175	22,187	—	22,187
Quarter ended December 31, 2013	20,031	128	20,159	—	20,159
Quarter ended March 31, 2014	20,694	258	20,952	—	20,952
Quarter ended June 30, 2014	24,131	307	24,438	(35,700)	(11,262)
Unrealized gain on investments	—	182	182	—	182
Passenger facility charges accrual	10,310	—	10,310	—	10,310
Total fiscal year 2013 – 2014 transactions	86,966	1,050	88,016	(35,700)	52,316
Program to date as of June 30, 2014	879,175	16,096	895,271	(743,079)	152,192
Fiscal year 2014 – 2015 transactions:					
Reversal of prior year passenger facility charges accrual	(10,309)	—	(10,309)	—	(10,309)
Quarter ended September 30, 2014	22,486	291	22,777	—	22,777
Quarter ended December 31, 2014	22,553	255	22,808	—	22,808
Quarter ended March 31, 2015	21,320	330	21,650	(47,000)	(25,350)
Quarter ended June 30, 2015	26,343	287	26,630	(47,550)	(20,920)
Unrealized loss on investments	—	(8)	(8)	—	(8)
Passenger facility charges accrual	9,649	—	9,649	—	9,649
Total fiscal year 2014 – 2015 transactions	92,042	1,155	93,197	(94,550)	(1,353)
Program to date as of June 30, 2015	$ 971,217	17,251	988,468	(837,629)	150,839

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

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

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2015

(1) General

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 02-02-C-00-SFO, 03-03-C-01-SFO, 11-05-C-00-SFO, and 13-06-C-00-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:

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection (in thousands)
02-02-C-00-SFO	$ 4.50	October 1, 2001	$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
11-05-C-00-SFO	4.50	January 1, 2017	741,744
13-06-C-00-SFO	4.50	October 1, 2024	141,076
Total			$ 1,715,963

(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 2a of the Airport's basic financial statements.

KPMG

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

Independent Auditors’ Report on Internal Control Over Financial Reporting 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, 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, the financial statements of the business-type activities 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), which comprise the statement of financial position as of and for the year ended June 30, 2015, and the related statements of revenues, expenses, and changes in financial position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued a report thereon dated November 5, 2015. Our report included an emphasis of matter paragraph related to the Airport’s adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The July 1, 2014 beginning net position was restated for the retrospective application of this new accounting guidance.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Airport’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Airport's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
November 5, 2015

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

KPMG LLP
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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:

Report on Compliance for Passenger Facility Charge Program

We have audited the Airport Commission, City and County 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 (the Guide) that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. 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 passenger facility charge 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 on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion

In our opinion, the Airport complied, in all material respects, with the types of 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, 2015.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

San Francisco, California
November 5, 2015

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

Schedule of Findings and Responses

Year ended June 30, 2015

I. Summary of Auditors' Results

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

6. Any audit findings: **No**

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

None