

Financial Statements with Schedule of Passenger Facility Charge Revenues and Expenditures

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

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

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

As discussed in note 1, the financial statements of the Airport are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2011 and 2010, the changes in its financial position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2011 and 2010, and changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 31 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in note 2(b) to the financial statements, the Airport adopted the recognition and disclosure requirements of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009. The financial statements for the year ended June 30, 2009 were restated to reflect the impact of adoption.

KPMG LIP

October 28, 2011

Management's Discussion and Analysis

June 30, 2011 and 2010

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO) presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2011 with comparative data for the fiscal year ended June 30, 2010. All amounts are expressed in thousands of dollars unless otherwise indicated.

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

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

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

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

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

Highlights of Airline Operations at the Airport

SFO passenger traffic continued to grow in fiscal year 2011 with the post-recession return of business and international travel. The fiscal year 2011 ended with 19.8 million enplanements, an increase of 3.9% or 735,611 from the prior year.

New services, in both the domestic and international sectors, and travel demand that kept pace with capacity growth on an overall basis were the primary drivers of enplanement growth. Domestic growth was from all low cost carriers (LCC) and most legacy airlines. International growth was from a number of new services and increased passenger demand to Asia earlier in the year, and Europe and Canada later in the year. Continued airline capacity management drove load factors (the ratio of passengers to airline seat capacity) slightly higher to an average of 81.9%.

The 3.9% fiscal year-over-year enplanement increase at SFO compares to a decline of 1.9% at Oakland International Airport and an increase of 2.0% at Mineta San Jose International Airport, resulting in a Bay Area passenger market share increase of 0.8 percentage point for SFO to 69.1%. SFO's fiscal year-over-year

Management's Discussion and Analysis

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enplanements also fared better than the U.S. carrier national average increase of 3.0% compared to the prior fiscal year.¹

Passenger and Other Traffic Activity

Domestic enplanements increased by 3.4% during fiscal year 2011, which reflected growth from all LCCs and most legacy airlines. International enplanements increased by 5.3% compared to fiscal year 2010. Europe was the international region with the largest increase in passenger volume. Seat capacity to the region grew with new and increased services from Swiss International, Air Berlin, Lufthansa and Air France, while load factors sustained high levels achieved in the prior fiscal year. Asia, which had the strongest growth through the first three quarters of the fiscal year, saw declines in the last quarter. Canada, a region that also experienced enplanement growth, had service increases from WestJet and Air Canada. Demand declined on Japan flights since the earthquake and tsunami in March 2011. Overall load factors increased fiscal year-over-year by 0.4 percentage point to 81.9%. Cargo and U.S. mail tonnage declined by 7.8% compared to fiscal year 2010, with Europe and Latin America being the only regions with increases. Total aviation operations increased 2.4% compared to fiscal year 2010 levels. Aircraft revenue landed weight, which determines revenue generated by landing fees, in fiscal year 2011, was 1.6% above fiscal year 2010 levels.

The following table² presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2011, 2010, and 2009:

	FY 2011	FY 2010*	FY 2009	% Change FY 2011	% Change FY 2010
Flight operations	392,669	383,457	379,200	2.4%	1.1%
Landing weight (in 000 lbs.)	29,044,239	28,594,479	28,487,236	1.6	0.4
Total passengers	39,980,029	38,448,243	36,733,910	4.0	4.7
Total enplaned and deplaned passengers	39,726,471	38,203,961	36,475,612	4.0	4.7
Enplaned passengers	19,836,013	19,100,402	18,225,064	3.9	4.8
Deplaned passengers	19,890,458	19,103,559	18,250,548	4.1	4.7
Domestic passengers	30,725,774	29,697,949	28,030,334	3.5	5.9
International passengers	9,000,697	8,506,012	8,445,278	5.8	0.7
Cargo and U.S. mail tonnage (in					
metric tons)	398,383	431,990	420,739	(7.8)	2.7

* Numbers updated to include revised data received subsequent to the 2010 fiscal year end.

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

² Sources: Analysis of Airline Traffic, fiscal years 2010 and 2011.

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Fiscal Year 2011

Passenger Traffic

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

The domestic enplanement growth was on a 2.5% increase in seat capacity, primarily due to service increases from LCCs AirTran, Frontier, JetBlue and Virgin America, and legacy carriers Continental, Delta, United and US Airways. International enplanement growth was on a 6.1% increase in seat capacity. New and increased services from Air Berlin, Air France, LAN Peru, Lufthansa, Swiss International and Virgin America fully offset service discontinuances by Mexicana and Qantas. Compared to the prior fiscal year, load factor increased in the domestic sector by 0.7 percentage point to 81.4%. Load factor declined in the international sector by 0.7 percentage point to 81.4%. Load factor declined in the second half of the year. Global events that affected international travel demand included political unrest in the Middle East and the earthquake and tsunami in Japan.

Flight Operations

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

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

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

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

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Cargo Tonnage

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

Fiscal Year 2010

Passenger Traffic

Compared to fiscal year 2009, passenger enplanements in fiscal year 2010 increased by 4.8% from 18.2 million to 19.1 million passengers. International passenger enplanements increased 0.5%, while domestic enplanements increased 6.1%. The enplanement increase totaled 875,338 passengers, 856,019 of which were domestic and 19,319 were international. The domestic enplanement growth was on a 2.7% increase in seat capacity, primarily from LCCs Southwest Airlines, Virgin America, JetBlue and AirTran. International enplanements increased slightly in spite of a 5.2% decrease in seat capacity, indicating strong gains in load factors. The capacity decline was primarily due to the discontinuance of service by Aer Lingus since October 2009 and a number of temporary service suspensions by United to Europe and Asia in the fall of 2009. Toward the end of fiscal year 2010, United's services were reinstated and new international services commenced by Air Berlin, Swiss International and Virgin America, slightly offsetting earlier capacity declines. Compared to the prior fiscal year, load factors increased in the domestic sector by 3.0 percentage points to 81.4% and in the international sector by 4.7 percentage points to 84.5%.

Flight Operations

During fiscal year 2010, the number of aircraft operations (takeoffs and landings) increased by 4,257 flights or 1.1% from prior fiscal year levels. Commercial traffic increased by 1.5%, or 5,604 flights; civil and military traffic decreased by 8.3%, or 1,347 flights.

Scheduled airline passenger and cargo landings increased by 1.8% with an increase in landed weight for these landings of 0.4% compared to the prior fiscal year. Domestic passenger landings increased by 2.4% while landed weight increased by 3.6%. This was mainly due to a substantial increase in regional jet landings of 6,579 or 33.9%, and a decline in lower aircraft weight turboprop landings of 2,785 or 11.9%, both primarily from SkyWest Airlines and United Express. Aircraft gauge changes were also evident among narrow and wide body

Management's Discussion and Analysis

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aircraft, although without as much impact. Average aircraft seat capacity per landing was stable at approximately 121 seats.

In the international market, fiscal year-over-year landed weight decreased by 6.1%, while landings decreased by 3.2%, indicating a trend toward smaller aircraft size. The fleet mix shifted with fewer wide body landings, which declined by 878 or 7.0% due to reductions in long-haul international service seen during the first three quarters of the fiscal year. Narrow body aircraft landings increased by 108 or 1.7%, and regional jet landings increased slightly by 26 or 0.6%. This change in the fleet mix brought the average aircraft seat capacity per landing down to 225 seats, four less seats than the prior fiscal year.

Cargo only landings increased by 7.8% fiscal year-over-year, but landed weight decreased by 4.4%. These opposite trends were driven by an increase of 335 Ameriflight turboprop landings and the discontinuance of service by China Cargo Airlines, which operated more than 100 wide body freighter flights in prior fiscal year. This change significantly shifted the freighter fleet mix towards small aircraft and resulted in a landed weight decline.

Cargo Tonnage

Fiscal year 2010 cargo and U.S. mail tonnage increased by 11,251 metric tons or 2.7% compared to fiscal year 2009. Mail tonnage decreased by 6,294 metric tons or 11.3% and cargo volume excluding mail increased by 17,544 metric tons or 4.8%. Domestic cargo volume decreased by 9.3%, while international cargo increased by 14.9%, fully offsetting domestic declines. The international cargo increase reflected improved trade activity, primarily to the Asia/Middle East region, where import and export freight combined increased by more than 23,000 metric tons, or 31% during the six months between January and June 2010. Mail volumes continued to decline, and according to industry publications, lagged the general economic recovery at the time, due to increasing migration of mail to electronic alternatives. Cargo-only airlines, which carried 21.3% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 17.9%. A major reason for the decline was the discontinuance of service by China Cargo Airlines since March 2009. Airlines with passenger only or mixed passenger and freight operations showed an increase of 10.2%.

Financial Highlights, Fiscal Year 2011

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by \$291 million.
- Total revenue bonds payable by the Airport increased by \$34.9 million.
- No new short-term notes or bonds scheduled to become due in a single "balloon" payment (via a mandatory tender by bondholders for purchase by the Airport) were issued in fiscal year 2011.
- Operating revenues were \$607.3 million.
- Operating expenses were \$494.9 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of \$77.0 million from passenger facility charges) were \$103.4 million.

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- Capital contributions from Airport Improvement Program (AIP), Federal-Aid Highway Program and Transportation Security Administration (TSA) Airport Checked Baggage Inspection System were \$24.0 million.
- Transfers to the City and County of San Francisco included an annual service payment of \$30.2 million and surety bond program revenue transfer of \$0.4 million.
- Net assets increased by \$2.4 million.

Financial Highlights, Fiscal Year 2010

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by \$288.5 million.
- Total revenue bonds payable by the Airport increased by \$616.7 million.
- No new short-term notes or bonds scheduled to become due in a single "balloon" payment (via a mandatory tender by bondholders for purpose by the Airport) were issued in fiscal year 2010 other than to refund previously issued such notes or bonds.
- Operating revenues were \$578 million.
- Operating expenses were \$475.5 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of \$73.8 million from passenger facility charges) were \$99.5 million.
- Capital contributions from AIP, Federal-Aid Highway Program and TSA Airport Checked Baggage Inspection System were \$44.2 million.
- Transfers to the City and County of San Francisco consisted of an annual service payment of \$28.1 million.
- Net assets increased by \$19.1 million.

Management's Discussion and Analysis

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Overview of the Airport's Financial Statements

Net Asset Summary

A condensed summary of the Airport's net assets for the fiscal years 2011, 2010, and 2009 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NE	T ASSETS
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	FY 20	11 FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Assets:					
	\$ 374	.666 361.370	345,640	13,296	15,730
Restricted assets available for		, , ,	,	,	,
current outlay	106	,323 125,689	91,962	(19,366)	33,727
Noncurrent assets			- 181	—	(181)
Noncurrent restricted assets	438	,705 679,654	,	(240,949)	321,348
Capital assets, net	3,814	,264 3,711,791	3,584,425	102,473	127,366
Unamortized bond issuance					
costs	38	,070 36,827	38,997	1,243	(2,170)
Total assets	4,772	,028 4,915,331	4,419,511	(143,303)	495,820
Deferred outflows on derivative					
instruments	63	,382 89,505	5 57,157	(26,123)	32,348
Total assets and deferred					
outflows	4,835	,410 5,004,836	4,476,668	(169,426)	528,168
Liabilities:					
Current liabilities payable from					
unrestricted assets	218	,923 262,551	196,917	(43,628)	65,634
Current liabilities payable from	210	,725 202,551	190,917	(43,020)	05,054
restricted assets	78	,803 242,554	171,733	(163,751)	70,821
Noncurrent liabilities	4,178	, , ,	· · · · · ·	62,049	340,344
Noncurrent derivative instrument	,	, , ,	, ,	,	,
liabilities	68	,304 94,838	62,615	(26,534)	32,223
Total liabilities	4,544	,440 4,716,304	4,207,282	(171,864)	509,022
Net assets:					
Invested in capital assets, net					
of related debt	18	,280 (34,377	(19,676)	52,657	(14,701)
Restricted for debt service		,226 54,170	, , , ,	(26,944)	12,184
Restricted for capital projects		,981 81,471	,	(24,490)	21,681
Unrestricted		,483 187,268		1,215	(18)
Total net assets	\$ 290	,970 288,532	269,386	2,438	19,146

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Fiscal Year 2011

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

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

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

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

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

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

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

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

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

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing the accrual of compensated absences (vacation and vested sick leave) and workers' compensation liabilities and other postemployment benefits obligation. Noncurrent liabilities before derivative

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instrument liabilities increased by 1.5% to \$4.2 billion in fiscal year 2011 primarily due to revenue bonds issued during the fiscal year.

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

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

Fiscal Year 2010

The Airport's assets and deferred outflows exceeded liabilities by \$288.5 million and \$269.4 million as of June 30, 2010 and June 30, 2009, respectively, representing a 7.1% increase or \$19.1 million. Unrestricted net assets represented 77.7% and 84.0% of total net assets as of June 30, 2010 and June 30, 2009, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 4.6% from \$345.6 million on June 30, 2009 to \$361.4 million on June 30, 2010 due principally to the increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay increased as of June 30, 2010 principally due to the increase in cash and investments from passenger facility charges (PFC) held in the City Treasury (\$13.5 million) as well as increased deposits to the debt service fund (\$20.9 million).

Noncurrent restricted assets increased from \$358.3 million in fiscal year 2009 to \$679.7 million in fiscal year 2010 due to an increase of \$258.0 million in cash and investments held in City Treasury representing unspent proceeds from the sale of revenue bonds, incremental deposits of \$54.2 million to the debt service reserve fund and an increase in grants receivable of \$8.9 million.

Capital assets, net of depreciation, increased by 3.6% in fiscal year 2010 due to increased capital expenditures.

Unamortized bond issuance costs decreased from \$39.0 million in fiscal year 2009 to \$36.8 million in fiscal year 2010 due to amortization of the deferred costs.

Deferred outflows on derivative instruments of \$89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB 53 in fiscal year 2010. Per reporting guidelines of GASB 53, deferred outflows on derivative instruments as of June 30, 2009 were restated at the amount of \$57.2 million.

Current liabilities payable from unrestricted assets increased by 33.4% from \$196.9 million as of June 30, 2009 to \$262.6 million as of June 30, 2010 due to the \$64.8 million increase in current maturities of the Airport's long-term debt and increase in provision for estimated claims adjustment as determined by actuarial variation partially offset by decreases of \$8.1 million in other current liabilities.

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Current liabilities payable from restricted assets increased by 41.3% from \$171.7 million as of June 30, 2009 to \$242.6 million as of June 30, 2010 primarily because of the issuance of additional commercial paper notes during fiscal year 2010 and increased construction activities relating to Terminal 2 and other capital projects.

Noncurrent liabilities before derivative instrument liabilities increased by 9.0% to \$4.1 billion in fiscal year 2010 primarily due to revenue bonds issued during the fiscal year.

Noncurrent derivative instrument liabilities of \$94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per GASB 53. Per the reporting guidelines of GASB 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of \$62.6 million.

As of June 30, 2010, the Airport's net assets invested in capital assets, net of related debt were negative \$34.4 million, compared to negative \$19.7 million in the prior year because of the residual effect of the Airport depreciating its capital assets faster than repaying of its bonded debt.

Management's Discussion and Analysis

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Highlights of Changes in Net Assets

The following table shows a condensed summary of changes in net assets for fiscal years 2011, 2010, and 2009 (in thousands):

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Operating revenues \$ Operating expenses	607,323 494,940	578,041 475,509	552,577 479,883	29,282 19,431	25,464 (4,374)
Operating income	112,383	102,532	72,694	9,851	29,838
Other nonoperating expenses, net	(103,370)	(99,490)	(119,634)	(3,880)	20,144
Income/(loss) before transfers, and capital contributions	9,013	3,042	(46,940)	5,971	49,982
Transfers to the City and County of San Francisco	(30,608)	(28,100)	(26,849)	(2,508)	(1,251)
Deficiency before capital contributions	(21,595)	(25,058)	(73,789)	3,463	48,731
Capital contributions	24,033	44,204	29,780	(20,171)	14,424
Changes in net assets	2,438	19,146	(44,009)	(16,708)	63,155
Total net assets at beginning of year	288,532	269,386	313,395	19,146	(44,009)
Total net assets at end of year \$	290,970	288,532	269,386	2,438	19,146

SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET ASSETS

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; operation of the public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed to air carriers are set periodically based on formulas and procedures described in the 1981 Lease and Use Agreement⁴ (Agreement).

⁴ In 1981, the City entered into long-term Lease and Use Agreements with a number of airlines covering, among other things, the procedures and formulas for the periodic setting of terminal rentals and landing fees for the use of the Airport. The Lease and Use Agreements each expired on June 30, 2011. In fiscal year 2011, the Airport and airlines reached a new 10-year Lease and Use Agreement that became effective on July 1, 2011. In January 2000, the City approved amendments to the original Lease and Use Agreements to address, among other issues, the relocation of certain tenants from the old International Terminal to the new International Terminal Complex (ITC). The City also executed new Lease and Operating Agreements with nonsignatory airlines operating in the new ITC. The Lease and Use Agreements 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."

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

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

The net overcharge for fiscal year 2011 is \$5.5 million. This net overcharge amount increased the balance of overcharge shown in the financial statements for fiscal year 2010 from \$49.0 million to \$54.5 million in fiscal year 2011.

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The following table shows the air carriers that served the Airport in fiscal year 2011:

AIR CARRIERS SERVING THE AIRPORT

Fiscal Year 2011 **Domestic passenger air carriers Foreign flag carriers Cargo only carriers** ABX Air Inc. AirTran Airways Aeromexico Alaska Airlines Air Canada Air Cargo Carriers American Airlines Air China (CAAC) Ameriflight Federal Express **Continental Airlines** Air France Delta Air Lines Air New Zealand Nippon Cargo Airlines Frontier Airlines Southern Air All Nippon Airways Hawaiian Airlines Asiana Airlines Volga-Dnepr JetBlue Airways **British Airways** Cathay Pacific Airways Southwest Airlines Sun Country (MN Airlines) China Airlines United Airlines **Emirates Airlines US** Airways **EVA** Airways Virgin America Seasonal/Charter air carriers Japan Airlines KLM Royal Dutch Airlines Air Berlin Korean Air Allegiant Air LAN Peru Miami Air International Lufthansa German Airlines North American Airlines World Airways Mexicana Airlines **Commuter air carriers Philippine** Airlines Horizon Air (Alaska Airlines) Qantas Airways Mesa Airlines (US Airways Express) Singapore Airlines Mesaba Airlines (Delta Connection) Swiss International Air Lines SkyWest Airlines (Delta Connection **TACA** International and United Express) Virgin Atlantic Airlines WestJet Airlines

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2011, 2010, and 2009:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

	_	FY 2011	FY 2010	FY 2009
Effective average terminal rental rate (per sq. ft.)	\$	113.54	100.61	95.85
Scheduled aircraft with permit - landing fee rate (per 1,000 lbs.)		3.59	3.15	3.00
General aviation and itinerant aircraft - landing fee rate (per 1,000 lbs.)		3.95	3.47	3.30

Management's Discussion and Analysis

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During fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009, revenues realized from the following sources equal or exceed 5% of the Airport's total operating revenues:

	FY 2011	FY 2010	FY 2009
United Airlines	21.6%	22.0%	22.0%
Parking Revenues / New South Park	14.2	12.6	12.1

The following shows a comparative summary of operating revenues for fiscal years 2011, 2010, and 2009:

Comparative Summary of Airport's Operating Revenues

	 FY 2011	FY 2010		FY 2009	Percentage Increase FY 2011	Percentage Increase FY 2010
Aviation	\$ 340,812	330,846		315,777	3.09	% 4.8%
Concession	109,574	104,457		101,099	4.9	3.3
Parking and transportation	91,633	84,179	*	79,190	* 8.9	6.3
Net sales and services	65,304	58,559		56,511	11.5	3.6
Total operating						
revenues	\$ 607,323	578,041		552,577	5.19	4.6%

* Effective fiscal year 2011, the parking operator remitted the parking tax, payable to the City of South San Francisco, to the Airport. For comparison purpose, the fiscal year 2010 and 2009 amounts were grossed up by \$1.3 million, respectively.



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Fiscal Year 2011

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

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

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

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 8.9% from \$84.2 million in fiscal year 2010 to \$91.6 million in fiscal year 2011. Total parking transactions increased by 105,000 exits or 3.3%, and the average ticket price was higher by 5.5% due to longer parking durations, despite no rate change from the prior year. As a result, parking revenues in fiscal year 2011 increased by \$6.6 million or 9%. Ground transportation trip fee revenues increased by \$0.6 million or 5.9%, primarily driven by a 14.9% increase in taxi activity, which is probably a result of

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recovery of business travel. Parking fines increased \$0.2 million due to a prior year catch-up remittance made to San Mateo County in fiscal year 2010.

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

Fiscal Year 2010

Operating revenues increased by 4.6% from \$552.6 million in fiscal year 2009 to \$578.0 million in fiscal year 2010. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 4.8% from \$315.8 million in fiscal year 2009 to \$330.8 million in fiscal year 2010 primarily due to increases in airline terminal rentals and landing fees. In aggregate, all other aviation revenues declined by 0.7% from \$65.6 million in fiscal year 2009 to \$65.1 million in fiscal year 2010 attributable primarily to a decline in tenant employee parking offset by an increase in other aviation activity fees and leasing. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 5.0% from \$3.00 in fiscal year 2009 to \$3.15 in fiscal year 2010 while airline average annual terminal rent per square foot also increased 5.0% from \$95.85 in fiscal year 2009 to \$100.61 in fiscal year 2010. Before the aforementioned net undercharge adjustment, revenue from landing fees increased by \$4.6 million, reflecting the 3.7% increase in airline landed weight, while terminal rentals increased by \$8.8 million primarily from the increase in the average terminal rental rate. The overcharge decreased by \$2.1 million from \$51.1 million in fiscal year 2010. Aviation net rental revenue and activity fees, including jet bridge fees, fixed base operations (general aviation) and itinerant activity, increased by \$0.3 million while employee parking revenue decreased by \$0.7 million.

Concession revenues, increased by 3.3% from \$101.1 million in fiscal year 2009 to \$104.5 million in fiscal year 2010. The main driver of the increase was the 4.7% increase in passenger enplanements and deplanements. Retail

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merchandise revenues increased \$0.8 million or 2.1%, primarily due to higher passenger activity and a higher percentage of retail concessionaires exceeding their MAG. Duty Free Shops (DFS), however, did not exceed its MAG; rent is unchanged from fiscal year 2009 to 2010. Revenue from rental car concessions increased by \$0.6 million or 1.8%. Rental car transactions increased 4.5% and average sale per rental contract increased 8.6%. Advertising revenues increased \$0.5 million or 9.1% from fiscal year 2009 to 2010 due to a combination of a 0.5% gross sales increase in fiscal year 2010 and MAG based on the lease term. Telephone revenues increased \$0.4 million or 11.3% from higher Wi-Fi service activity. Food and beverage revenues increased \$0.2 million or 2.1% based on the aforementioned passenger activity increase. An administrative adjustment in recording rent elements for the rental car center increased non-airline rental revenues by \$1.4 million or 75.7%. Return on land value is now fully reflected in this account, which is subject to the Annual Service Payment. Additionally, net miscellaneous changes related to other retail and passenger services revenues declined \$0.6 million or 7.5% primarily due to the termination of the CLEAR Registered Traveler lease in June 2009.

Parking and transportation revenues increased by 6.3% from \$79.2 million in fiscal year 2009 to \$84.2 million in fiscal year 2010. Although parking exits only increased by 0.6%, parking revenues increased by \$4.6 million or 6.7% due to the full year effect of a \$1 per hour short term parking rate increase in November 2008 and an average ticket price increase of 6.2% during fiscal year 2010 due to longer parking durations. Ground transportation trip fee revenues increased \$0.7 million or 7.0% as ground transportation trips increased by 2.5% and trip fees increase an average of 2.4%. These increases were partly offset by a \$0.3 million or 112.9% decrease in traffic fines due to the catch-up remittance of prior period collections to San Mateo County.

Revenues from net sales and services increased \$2.0 million or 3.6% to \$58.6 million in fiscal year 2010 compared to fiscal year 2009. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased \$2.3 million or 10.7% due to a 4.5% increase in rental car contracts and a \$1.00 per contract fee increase. Revenues from water usage increased \$0.4 million or 10.2% due to the combination of increased water usage and a 3.9% rate increase at the beginning of the fiscal year and an additional mid-year increase of 2.5% in fiscal year 2010. Rental car facility structure rent increased \$0.4 million or 3.6% due to the full year effect of new rental car leases effective January 2009, offset by the administrative adjustment in recording rent elements related to land value for the rental car center. The new rental car lease included a higher rent amount for the use of the rental car center. Miscellaneous terminal rental fees increased by \$0.2 million or 7.5% reflecting the full year effect of the opening of the secure connector between Terminal 3 and the International Terminal Boarding Area G. The net revenue increase from sales and services were partly offset by a decrease in revenue collected for electricity which declined 43.0% or \$1.0 million. This decrease was due to the combination of a California Public Utilities Commission approved electricity refund of \$0.8 million from over collections from prior periods and a 9.9% decrease in kilowatt-hour usage by Airport tenants.

Management's Discussion and Analysis

June 30, 2011 and 2010

Operating Expenses

The following shows a comparative summary of operating expenses for fiscal years 2011, 2010, and 2009 (in thousands):

	_	FY 2011	FY 2010	FY 2009	Percentage Increase (Decrease) FY 2011	Percentage Increase (Decrease) FY 2010
Personnel	\$	210,243	191,279	199,519	9.9%	(4.1)%
Depreciation		160,050	163,541	158,216	(2.1)	3.4
Contractual services		51,856	46,609	55,258	11.3	(15.7)
Light, heat, and power		19,522	17,162	19,306	13.8	(11.1)
Services provided by other City						
departments		11,818	10,567	11,422	11.8	(7.5)
Repairs and maintenance		20,712	19,818	17,523	4.5	13.1
Materials and supplies		12,416	11,077	11,435	12.1	(3.1)
General and administrative		4,522	9,806 *	2,492 *	(53.9)	293.5
Amortization of bond issuance costs		3,490	4,671	4,550	(25.3)	2.7
Environmental cleanup expenses		311	979	162	(68.2)	504.3
Subtotal	\$	494,940	475,509	479,883	4.1%	(0.9)%

* Effective in fiscal year 2011, the parking operator started remitting the City of South San Francisco (SSF) parking tax to the Airport. The Airport then made the parking tax payment directly to SSF. For comparison, the fiscal year 2010 and 2009 amounts of general and administrative expenses, which included the parking tax, were grossed up by \$1.3 million, respectively.

Fiscal Year 2011

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

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

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

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June 30, 2011 and 2010

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

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

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

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

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

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

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

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

Fiscal Year 2010

Operating expenses decreased 0.9% or \$4.4 million from \$479.9 million in fiscal year 2009 to \$475.5 million in fiscal year 2010 due to the increase in indirect costs capitalized during the current fiscal year. In fiscal year 2010, the Airport capitalized \$27.4 million in indirect costs related primarily to Terminal 2 construction compared to \$6.1 million in fiscal year 2009, an increase of \$21.3 million negating in full the \$16.9 million increase in operating expenses. The variance in the different operating expense categories are discussed below.

Personnel costs decreased 4.1% or \$8.2 million from \$199.5 million in fiscal year 2009 to \$191.3 million in fiscal year 2010 due to the \$13.2 million increase in personnel costs capitalized as overhead nullifying the \$5.0 million increase in the City's pension contributions. For fiscal year 2009, the City's contribution rate was 4.99% of pensionable salary, compared to 9.49% of pensionable salary for fiscal year 2010.

Depreciation increased 3.4% or \$5.3 million from \$158.2 million to \$163.5 million for fiscal year 2009 and 2010, respectively, reflecting the full fiscal year effect of depreciating additional capital assets placed in service.

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Contractual services decreased 15.7% or \$8.7 million from \$55.3 million in fiscal year 2009 to \$46.6 million in fiscal year 2010 due to the combined effect of the increase in cost allocated to overhead, \$3.0 million decrease in expenses, and termination of the Airport's off-site warehouse lease.

Light, heat, and power decreased 11.1% or \$2.1 million from \$19.3 million in fiscal year 2009 to \$17.2 million in 2010 due to the \$1.2 million increase in overhead allocated costs and a one-time credit from the Airport's utility provider representing refund of an over collection of the utility's "Energy Resource Recovery Account".

Services provided by other City departments decreased 7.5% or \$0.8 million from \$11.4 million in fiscal year 2009 to \$10.6 million in fiscal year 2010 principally due to the increase in cost allocated to overhead.

Repairs and maintenance increased 13.1% or \$2.3 million from \$17.5 million in fiscal year 2009 to \$19.8 million in fiscal year 2010 due to increased maintenance costs relating to the AirTrain, which provides for indexed based price escalation and increased maintenance costs of the Airport's various other facilities partially offset by the increase in costs allocated to overhead.

Materials and supplies decreased 3.1% or \$0.3 million from \$11.4 million in fiscal year 2009 to \$11.1 million in fiscal year 2010 principally due to the \$0.8 million increase in cost allocated to overhead negating in part the \$0.4 million increase in the price of materials and supplies used to support and maintain the various Airport facilities.

General and administrative expenses increased 293.5% or \$7.3 million from \$2.5 million in fiscal year 2009 to \$9.8 million in fiscal year 2010 mainly due to an increase in Airport's estimated claims adjustments as determined by actuarial valuation.

Amortization of bond issuance costs increased 2.7% or \$0.1 million from \$4.6 million in fiscal year 2009 to \$4.7 million in fiscal year 2010 mainly due to increase of bond refunding transactions in fiscal year 2010.

Environmental remediation costs increased 504.3% or \$0.8 million from \$0.2 million in fiscal year 2009 to \$1.0 million in fiscal year 2010 principally due to the increase in costs relating to the removal and disposal of hazardous waste.

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Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2011, 2010, and 2009 (in thousands):

	_	FY 2011	FY 2010	FY 2009	Percentage Increase (Decrease) FY 2011	Percentage Increase (Decrease) FY 2010
Nonoperating revenues:						
Passenger facility charges	\$	77,004	73,759	68,845	4.4%	7.1%
Investment income		15,386	20,691	22,805	(25.6)	(9.3)
Other	_	2,102	2,022	3,943	4.0	(48.7)
Total	_	94,492	96,472	95,593	(2.1)%	0.9%
Nonoperating expenses:						
Interest expense		195,935	186,838	204,746	4.9%	(8.7)%
Write-offs, loss on disposal, and other	_	1,927	9,124	10,481	(78.9)	(12.9)
Total		197,862	195,962	215,227	1.0%	(9.0)%
	\$	(103,370)	(99,490)	(119,634)	3.9%	(16.8)%

Fiscal Year 2011

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense and loss on the disposal of capital assets. PFCs, which became effective in October 2001, generated \$77 million during fiscal year 2011, an increase of 4.4% compared to the \$73.8 million received in fiscal year 2010. The increase in PFC revenue was mainly due to an increase in passenger traffic since there was no change in the PFC fee. The decrease in investment income was due to a lower investment yield; the average interest rate earned on the Airport's pooled cash declined from 1.38% in fiscal year 2010 to 1.24% in fiscal year 2011. Another factor contributing to the decrease in investment income was the Airport's share of the City-wide unrealized loss on investment.

Other nonoperating revenue in fiscal year 2011 and 2010 were principally operating grants received during the fiscal years.

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

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

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

Fiscal Year 2010

Passenger Facility Charges, generated \$73.8 million during fiscal year 2010 an increase of 7.1% compared to the \$68.8 million received in fiscal year 2009. The increase in PFC revenue was mainly due to an increase in passenger traffic since there was no change in the PFC fee. The decrease in investment income was due to a lower investment yield; the average interest rate earned on the Airport's pooled cash declined from 2.57% in fiscal year 2009 to 1.38% in fiscal year 2010.

Other nonoperating revenue in fiscal year 2010 was principally operating grants received during the fiscal year, whereas nonoperating revenue in fiscal year 2009 was principally the reversal of a provision for loss contingencies relating to certain litigation.

In fiscal year 2010, transfers to the City increased by \$1.25 million, 4.7 % above fiscal year 2009. This increase is proportionate to the increase in concession, parking, and transportation revenues during the fiscal year.

Capital contributions received from federal grants during fiscal year 2010 were \$44.2 million.

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June 30, 2011 and 2010

Fiscal Year 2011

Capital Acquisitions and Construction

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

Amount

The fiscal year's major capital additions included:

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

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Fiscal Year 2010

Capital Acquisitions and Construction

The fiscal year's major capital additions included:

	_	Amount
Terminal 2 Boarding Area D Renovation	\$	176,468,484
Building 575 Improvements		9,420,505
Terminal Upper Level Viaduct Improvement		7,918,995
Runway 1R-19L Overlay and Reconstruction		5,742,628
Taxiways "A" and "B" Reconstruction		5,727,282
Mel Leong Treatment Plant Shop		5,454,063
Runway 28R-10L Overlay and Reconstruction		5,229,535
Domestic Terminals Pre-Conditioned Air		4,919,046
Aircraft Rescue Fire Fighting Crash and Rescue Vehicle		3,055,155
Field Lighting Building Improvement		2,162,521
Power Distribution System Upgrade		1,773,032
SFO Network Upgrade		1,604,137
Central Plant High Temperature Water System Improvement		1,583,932
Boarding Area "B" Apron Reconstruction		1,214,179
Airfield Drainage Improvement		1,116,777
Storm Drain System Improvement - East Detention Basin		1,016,424
Central Plant Boiler Improvement (Emergency)	_	1,005,307
Total	\$_	235,412,002

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

Fiscal Year 2011

Long-Term Debt Administration

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

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

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

Management's Discussion and Analysis

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

<u>Remarketing</u>: During fiscal year 2011, the Airport remarketed several series of outstanding bonds:

- On September 15, 2010, the Airport remarketed its outstanding Second Series Revenue Refunding Bonds, Series 2009A/B (Non-AMT/Private Activity) in the principal amount of \$175.0 million as long-term fixed rate bonds with a final maturity date of May 1, 2029. The 2009A/B Bonds were originally issued on September 3, 2009 and were scheduled to become due in a single "balloon" payment on September 15, 2010 (via a mandatory tender by bondholders for purchase by the Airport).
- On May 4, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally issued with a letter of credit from Union Bank of California, N.A., which expired on May 6, 2011.

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

<u>Interest Rate Swaps</u>: The Airport ended fiscal year 2011 with seven interest rate swaps outstanding with a total notional amount of \$513.4 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, and the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2011, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C/D, Issue 37B/C, and Series 2010A Bonds, either directly or indirectly.

On December 16, 2010, the Airport terminated a \$71.97 million interest rate swap with Depfa Bank plc, which was related to the Series 2010A-3 Bonds, due to the credit rating deterioration of the counterparty. Although this swap was terminated, the associated Bonds were not refunded and remain outstanding. Following the termination of the swap, the \$79.68 million interest rate swap with Merrill Lynch Capital Services, Inc. instead became associated for hedging purposes with the Series 2010A-3 Bonds and a \$7.68 million portion of the Airport's previously unhedged Issue 37D Bonds. None of the Airport's other swaps became associated with different series of the Airport's outstanding bonds over the fiscal year.

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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

Fiscal Year 2010

Long-Term Debt Administration

<u>Capital Plan Bonds</u>: During fiscal year 2010, the Airport issued bonds to fund new capital projects for the first time in about a decade. On November 18, 2009, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2009E (Non-Alternative Minimum Tax (AMT)/Private Activity) in the principal amount of \$485.8 million, the proceeds of which have been used to finance a portion of the engineering and construction costs associated with the renovation of Terminal 2 and Boarding Area D, as well as other projects within the Airport's five-year Capital Plan.

<u>Refunding Bonds</u>: In fiscal year 2010, the Airport took advantage of low interest rates to refund and restructure a large portion of its long-term debt for debt service and cash-flow savings. The Airport closed five refunding bond transactions totaling \$1.3 billion during fiscal year 2010, a number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), the economic stimulus package enacted by Congress and signed into law on February 17, 2009. The Airport also continues to respond to the ongoing effects of the global financial crisis. The Airport issued the following refunding bonds during fiscal year 2010:

- On September 3, 2009, the Airport issued its long-term fixed rate Second Series Revenue Refunding Bonds, Series 2009A and Series 2009B (Non-AMT/Private Activity) in the total amount of \$175.0 million to purchase and hold in trust its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 34A/B, which were trading at distressed levels due to the credit rating downgrade of the liquidity facility provided by Landesbank Baden-Württemberg, New York Branch.
- On November 3, 2009, the Airport issued its long-term fixed rate Second Series Revenue Refunding Bonds, Series 2009C (Non-AMT/Private Activity), in the principal amount of \$132.9 million to purchase and cancel outstanding bonds of several series subject to the AMT tendered by bondholders as a result of a tender offer by the Airport. This transaction was made possible by the ARRA and resulted in the refunding of bonds subject to the AMT with bonds that are not subject to the AMT.
- On November 4, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009D (Non-AMT/Private Activity) in the total amount of \$88.2 million to refund the Airport's Second Series Revenue Notes, Series 2008B, which were scheduled to become due in a single "balloon" payment on December 1, 2009 (via a mandatory tender by bondholders for purchase by the Airport). The Series 2009D Bonds have a nominal maturity of May 1, 2029, but are again subject to mandatory tender by bondholders for purchase by the Airport on December 4, 2012.
- On February 10, 2010, the Airport issued its long-term Second Series Variable Rate Revenue Refunding Bonds, Series 2010A (AMT) (formerly designated as the "Issue 35" Bonds) in the total amount of \$216.0 million in a weekly interest rate mode with a letter of credit from JPMorgan Chase Bank, National

Management's Discussion and Analysis

June 30, 2011 and 2010

Association, in order to refund and defease outstanding bonds of several series for debt service savings. The Series 2010A Bonds are hedged by two forward-starting interest rate swaps with Goldman Sachs Bank USA and Depfa Bank PLC New York which were bid out in July 2007 and became effective in February 2010.

• On April 7, 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010C (Non-AMT/Governmental Purpose), Series D (Non-AMT/Private Activity) and Series E (Taxable) in the total amount of \$618.6 million, as long-term fixed rate refunding bonds in order to refund and defease outstanding bonds of several series for debt service savings, including the Airport's Second Series Revenue Notes, Series 2008A-1 and A-2, which were subject to mandatory tender by bondholders for purchase by the Airport on May 1, 2010.

<u>Interest Rate Swaps</u>: The Airport ended fiscal year 2010 with eight interest rate swaps outstanding in the notional amount of \$585.4 million. As of June 30, 2010, the Airport's interest rate swaps are associated with the Airport's Issue 36A/B/C/D, Issue 37C, Series 2009D and Series 2010A Bonds, either directly or indirectly.

In July 2007, the Airport bid out two forward starting swaps in the notional amount of \$215.9 million which became effective in February 2010 upon the issuance of the Airport's Series 2010A variable rate bonds (which were formerly designated as the "Issue 35" Bonds).

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

During fiscal year 2010, 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 2011

Credit Ratings and Bond Insurance

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

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

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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

Fiscal Year 2010

Credit Ratings and Bond Insurance

<u>Credit Ratings</u>: Fitch upgraded the Airport's long-term credit rating from "A" with a Positive Rating Outlook to "A+" with a Stable Rating Outlook on September 28, 2009, which was subsequently affirmed by Fitch with the Airport's issuance of the 2009CD, 2010A and 2010C-E Bonds. Over the year, Moody's and Standard and Poor's maintained their long-term ratings of "A1" and "A" with Stable Rating Outlooks, respectively. In addition, the Airport's Series 2010A Bonds received short-term ratings based solely on the credit strength of the letter of credit provided by JPMorgan Chase Bank, National Association, while the Airport's Series 2009A/B Bonds received short-term ratings of "VMIG1", "A-1" and "F1" by Moody's, Standard and Poor's and Fitch. Moody's subsequently affirmed the "VMIG1" short-term rating with the issuance of the 2009D Bonds.

<u>Bond Insurance</u>: All bonds issued during fiscal year 2010 were sold without municipal bond insurance, except for an aggregate \$168.3 million principal amount of the Issue 2009C, 2010C and 2010D Bonds, which are insured by Assured Guaranty Municipal Corp.

Management's Discussion and Analysis

June 30, 2011 and 2010

Fiscal Year 2012 Airline Rates and Charges

Rates and Charges, Fiscal Year 2012

Terminal rental rates and airline landing fees for fiscal year 2012 have been developed as part of the annual budget process that started in October 2010. The Lease and Use Agreement between the Airport and the Signatory Airlines provides for the rate-setting methodology for calculating the terminal rental rates and Airline landing fees as discussed earlier. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2012, which became effective on July 1, 2011, are as follows:

Effective average terminal rental rate (per sq. ft)	\$122.93
Scheduled aircraft with permit – landing fee rate (per 1,000 lbs.)	3.79
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	4.17

The effective average terminal rental rate increased by 8.3% from \$113.54 per sq. ft. in fiscal year 2011 to \$122.93 per sq. ft. in fiscal year 2012. The fiscal year 2012 landing fee rate for scheduled aircraft with a permit increased by 5.6% from \$3.59 per 1,000 pounds in fiscal year 2011 to \$3.79 per 1,000 pounds in fiscal year 2012 while the fiscal year 2012 landing fee rate for general aviation and itinerant aircraft increased by 5.6% from \$3.95 per 1,000 pounds in fiscal year 2011 to \$4.17 per 1,000 pounds in fiscal year 2012.

Requests for Information

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

Statements of Net Assets

June 30, 2011 and 2010

(In thousands)

	 2011	2010
Assets:		
Current assets: Unrestricted current assets:		
Cash and investments held in City Treasury –		
Operating Fund	\$ 336,063	326,281
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful		
accounts: 2011, \$595; 2010, \$440)	35,542	30,902
Accrued interest Inventories	903 117	1,180 86
Other current assets	2,031	2,911
Total unrestricted current assets	 374,666	361,370
Restricted assets available for current outlay: Cash and investments held in City Treasury Revenue bond debt service:	40,939	50,515
Investments with Trustee	53,081	65,999
Grants receivable	2,667	—
Passenger facility charges receivable	 9,636	9,175
Total restricted assets available for current outlay	 106,323	125,689
Total current assets	 480,989	487,059
Restricted assets: For capital outlay: Cash and investments held in City Treasury	135,103	359,958
Accrued interest – City Treasury For revenue bond debt service reserve:		328
Investments with Trustee	297,582	297,915
Grants receivable	6,009	21,415
Other assets	 11	38
Total restricted assets	 438,705	679,654
Capital assets, net	3,814,264	3,711,791
Unamortized bond issuance costs	 38,070	36,827
Total assets	4,772,028	4,915,331
Deferred outflows on derivative instruments	 63,382	89,505
Total assets and deferred outflows	 4,835,410	5,004,836

Statements of Net Assets

June 30, 2011 and 2010

(In thousands)

	2011	2010
Liabilities:		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities \$,	27,625
Accrued payroll	10,743	9,416
Compensated absences	7,490	7,955
Accrued workers' compensation	942	995
Estimated claims payable Deferred aviation revenue	4,379	8,978
Rent collected in advance	54,543 6,689	49,014 12,385
Current maturities of long-term debt	111,412	146,183
-		
Total current liabilities payable from unrestricted assets	218,923	262,551
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	21,760	52,768
Accrued payroll	438	503
Grants received in advance	2,066	
Accrued bond interest payable	30,191	29,406
Commercial paper		128,660
Notes Payable	2,335	1,980
Current maturities of long-term debt	22,013	29,237
Total current liabilities payable from restricted assets	78,803	242,554
Total current liabilities	297,726	505,105
Noncurrent liabilities:		
Compensated absences, net of current portion	7,148	6,373
Accrued workers' compensation, net of current portion	4,024	4,044
Estimated claims payable, net of current portion	7,178	1,035
Notes payable, net of current portion	22,421	62,665
Long-term debt, net of current maturities	4,077,102	3,995,963
Other postemployment benefits obligation	60,537	46,281
Subtotal before derivative instruments	4,178,410	4,116,361
Derivative instruments liabilities	68,304	94,838
Total liabilities	4,544,440	4,716,304
Net assets:		
Invested in capital assets, net of related debt	18,280	(34,377)
Restricted for debt service	27,226	54,170
Restricted for capital projects	56,981	81,471
Unrestricted	188,483	187,268
Total net assets \$	290,970	288,532

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands)

_	2011	2010
Operating revenues:		
Aviation \$	340,812	330,846
Concession	109,574	104,457
Parking and transportation	91,633	84,179
Net sales and services	65,304	58,559
Total operating revenues	607,323	578,041
Operating expenses:		
Personnel	210,243	191,279
Depreciation	160,050	163,541
Contractual services	51,856	46,609
Light, heat, and power	19,522	17,162
Services provided by other City departments	11,818	10,567
Repairs and maintenance	20,712	19,818
Materials and supplies	12,416	11,077
General and administrative	4,522	9,806
Amortization of bond issuance costs	3,490	4,671
Environmental cleanup expenses	311	979
Total operating expenses	494,940	475,509
Operating income	112,383	102,532
Nonoperating revenues (expenses):		
Investment income	15,386	20,691
Interest expense	(195,935)	(186,838)
Passenger facility charges	77,004	73,759
Write-offs, loss on disposal and demolition costs	(1,927)	(9,124)
Other nonoperating revenues, net	2,102	2,022
Total nonoperating expenses, net	(103,370)	(99,490)
Income before capital contributions and transfers	9,013	3,042
Capital contributions:		
Federal grants	24,033	44,204
Transfers to the City and County of San Francisco (note 10)	(30,608)	(28,100)
Changes in net assets	2,438	19,146
Total net assets – beginning of year	288,532	269,386
Total net assets – ending of year \$	290,970	288,532

See accompanying notes to financial statements.
Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	_	2011	2010
Cash flows from operating activities: Cash received from airline carriers, concessionaires, and others Cash paid for employees' services Cash paid to suppliers of goods and services	\$	618,003 (194,424) (137,885)	589,593 (176,049) (126,500)
Net cash provided by operating activities	_	285,694	287,044
Cash flows from noncapital financing activities: Transfers to the City and County of San Francisco Other noncapital financing receipts	_	(30,608) 2,102	(28,100) 2,022
Net cash used in noncapital financing activities	_	(28,506)	(26,078)
 Cash flows from capital and related financing activities: Principal paid on revenue bonds, notes and commercial paper borrowings Interest paid on revenue bonds, notes and commercial paper borrowings Acquisition and construction of capital assets Proceeds from passenger facility charges 		(134,800) (215,452) (281,567) 76,543	(118,835) (198,597) (252,827) 73,196
Proceeds from sale of revenue bonds and notes Proceeds from commercial paper Capital contributed by federal agencies and others	_	6,650 38,838	496,941 46,420 35,298
Net cash (used in) provided by capital and related financing activities	_	(509,788)	81,596
Cash flows from investing activities: Sale of investments with Trustee Purchases of investments with Trustee Interest received on investments	_	2,693,188 (2,682,281) 18,683	2,429,039 (2,504,072) 18,976
Net cash provided by (used in) investing activities	_	29,590	(56,057)
Net (decrease) increase in cash and cash equivalents		(223,010)	286,505
Cash and cash equivalents, beginning of year		733,919	447,414
Cash and cash equivalents, end of year	\$	510,909	733,919
Reconciliation of cash and cash equivalents to the statements of net assets:	_		
Cash and investments held in City Treasury – Operating Fund Cash – Revolving Fund Restricted cash and investments in City Treasury	\$	336,063 10 176,042	326,281 10 410,473
Cash, cash equivalents, and investments		512,115	736,764
Unrealized (gain) on investments		(1,206)	(2,845)
Cash and cash equivalents, June 30, 2011	\$	510,909	733,919

(Continued)

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Reconciliation of operating income to net cash provided by			
operating activities:			
Operating income	\$	112,383	102,532
Adjustments to reconcile operating income to net cash			
provided by operating activities:			
Depreciation and amortization		160,050	163,541
Provision for doubtful accounts		155	73
Amortization of bond issuance costs		3,490	4,671
Changes in operating assets and liabilities:			
Accounts receivable		(5,588)	(245)
Inventories		(31)	(5)
Travel		(2)	—
Other current assets		(2,344)	(4,323)
Accounts payable and other liabilities		1,927	8,999
Accrued payroll		1,327	904
Compensated absences		310	446
Accrued workers' compensation		(73)	(175)
Other postemployment benefits obligation		14,256	14,055
Deferred aviation revenue		5,529	(2,061)
Rent collected in advance		(5,695)	(1,368)
Net cash provided by operating activities	\$	285,694	287,044
Noncash transactions:	. <u></u>		
Accrued capital asset costs	\$	22,466	58,822
Bond refunding	Ŧ	470,740	1,283,685

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2011 and 2010

(1) **Definition of Reporting Entity**

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

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

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

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

(b) Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) No. 53

Effective July 1, 2009, the Airport adopted the provisions of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments, and has retroactively restated its 2009 financial statements. This Statement addresses the recognition, measurement, and disclosure of information

Notes to Financial Statements

June 30, 2011 and 2010

regarding derivative instruments entered into by state and local governments. It also provides reporting guidelines for hedging derivative instruments and investment derivative instruments.

As of June 30, 2011, the Airport's derivative instruments comprised seven 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, 2010 and 2011.

Required disclosures related to the Airport's swaps are presented in note 7(f).

Governmental Accounting Standards Board (GASB) No. 51

Effective July 1, 2009, the Airport adopted the provisions of GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets. This Statement establishes standards for the recognition and measurement of intangible assets including easements and computer software.

This Statement requires all capitalized intangible assets to be classified as capital assets and recognized in the statement of net assets only if they are considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognize intangible assets that are internally generated, including internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization.

The implementation of GASB 51 did not have a significant impact on the Airport for the fiscal years ended June 30, 2010 and 2011.

Governmental Accounting Standards Board (GASB) No. 49

Effective July 1, 2008, the Airport adopted the provisions of GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations.

This Statement establishes a framework for recognition and measurement of pollution remediation liabilities that incorporates the following interrelated features:

- Obligating events;
- Components and benchmarks; and
- Measurement, including the expected cash flow technique.

The implementation of GASB 49 did not have a significant impact on the Airport for the fiscal years ended June 30, 2010 and 2011.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, and investments and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statement of net assets as "Cash and investments held in City

Notes to Financial Statements

June 30, 2011 and 2010

Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

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

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

(d) Capital Assets

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

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

	Years
Buildings, structures, and	
improvements	5 - 50
Equipment	5 - 10
Easements	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) Bond Issuance Costs, Discounts, and Premiums

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

Notes to Financial Statements

June 30, 2011 and 2010

(f) Compensated Absences

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

(g) Net Assets

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

(h) Aviation Revenue and Deferred Aviation Revenue

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

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport owed the Airlines approximately \$54.5 million and \$49.0 million on June 30, 2011 and 2010, respectively, which represents aviation revenue collected in advance.

(i) Security Deposits

Airline leases and permits require airlines to deliver a security deposit to the Airport within five days after 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 airline agreements that expired on June 30, 2011, the bonds or letters of credit are renewed and increased annually in order to equal either two or six months of fees, depending on the agreement, as estimated by the Airport Director. Under the 2011 Lease and Use Agreement, the security deposits are equal to two months of fees. 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.

Notes to Financial Statements

June 30, 2011 and 2010

(j) Net Sales and Service Revenues

Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City (see note 10).

(k) Environmental Cleanup Expenses and Recoveries

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

(1) Capital Contributions

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

(m) Use of Estimates

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

(n) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

(3) Cash, Cash Equivalents, and Investments

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

Notes to Financial Statements

June 30, 2011 and 2010

Cash and investments, at fair value held by the City in the City's pool as of June 30, 2011 and 2010 are as follows (in thousands):

	 2011	2010
Pooled cash and investments:		
Cash and investments held in City Treasury – operating	\$ 336,063	326,281
Cash and investments held in City Treasury - restricted		
for current outlay	40,939	50,515
Cash and investments held in City Treasury – restricted	105 100	250.050
for capital outlay	 135,103	359,958
Total cash and investments in City Treasury	\$ 512,105	736,754

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

Investment maturities (in months)					
Under 1	1-6	6 - 12	12 - 60		
1.3%	13.2%	13.4%	72.1%		

Notes to Financial Statements

June 30, 2011 and 2010

The restricted assets for revenue bond reserves and debt service are held by an independent bond trustee (the Trustee). As of June 30, 2011 and June 30, 2010, the Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

	Credit Ratings (S&P/Moody's/	June 30, 2	2011	June 30, 2	2010
Investments	Fitch)	Maturities	Fair value	Maturities	Fair value
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	July 6, 2011	\$ 46,496	July 2, 2010	\$ 2,255
Federal National Mortgage		•		•	
Association Discount Notes	A-1+/P-1/F1+	_	_	July 6, 2010	53,371
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	—	—	August 3, 2010	2,255
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	—		September 2, 2010	2,254
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	—	—	October 4, 2010	2,254
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	—		November 1, 2010	254,977
Federal National Mortgage					
Association Discount Notes	A-1+/P-1/F1+	—	—	November 2, 2010	2,255
Federal Home Loan Mortgage					
Corp Discount Notes	A-1+/P-1/F1+	October 31, 2011	52,055	November 15, 2010	1,348
Federal Home Loan Mortgage					
Corp Discount Notes	A-1+/P-1/F1+	November 1, 2011	145,547	—	—
Federal Home Loan Bank					
Discount Note	A-1+/P-1/F1+	November 1, 2011	106,450	July 1, 2010	42,934
Cash	Non-Rated		115	—	11
Total			\$ 350,663		\$ 363,914

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

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

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

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

Notes to Financial Statements

June 30, 2011 and 2010

Funds held by the Trustee in funds and accounts established under the 1991 Master Resolution are invested in "Permitted Investments" as defined in the 1991 Master Resolution.

Funds held by the Trustee in funds and accounts established under the 1997 Subordinate Resolution are invested in "Permitted Investments" as defined in the 1997 Subordinate Resolution (excluding Banker's Acceptances that are permitted investments only for funds relating to the 1991 Master Resolution). The Airport's policy on Banker's Acceptances of a banking institution requires the highest short-term rating category by at least two Rating Agencies, and must not exceed 270 days maturity or forty percent (40%) of monies invested pursuant to the 1991 Master Resolution. In addition, no more than twenty percent (20%) of monies invested pursuant to the 1991 Master Resolution is to be invested in the Banker's Acceptances of any one commercial bank. The Airport has approximately \$350.7 million and \$363.9 million in investments held by, and in the name of, the Trustee as of June 30, 2011 and 2010, respectively.

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

Forward Purchase and Sale Agreements

Objective and Terms – The Airport's independent Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds according to three Forward Purchase and Sale Agreements (FPSAs) which lock in a guaranteed earnings rate on these investments of 3.450% - 4.329%. All investments under the FPSAs are made with the intention that securities will be held to maturity, and all are invested only in eligible securities pursuant to California Government Code and as defined by the Airport's 1991 Master Bond Resolution. The securities under the FPSAs always mature in an amount equal to the par amount of Airport funds initially invested, plus accrued interest at the agreed upon guaranteed interest rate. These investments are scheduled to mature upon each scheduled debt service payment date on the associated bonds.

The Trustee holds the securities on behalf of the Airport and the provider of the FPSAs has absolutely no rights, title or interest in the securities being sold to the Airport. Therefore, the Airport bears no counterparty risk associated with the investment provider. In the unlikely event the provider of the FPSAs would no longer exist or fail to perform, the Airport will have preserved its principal and can invest in alternative investments available at that time.

If the Airport's needs so dictate, the Airport may sell the securities at any time prior to their maturity in the open market and use the proceeds of such sale for the permitted purposes of the applicable fund. The securities are recorded at their fair market value as of June 30, 2011 and not at the guaranteed interest rate that the Airport will receive upon maturity. As of June 30, 2011, the accrued interest was recorded in the interest receivable account.

Notes to Financial Statements

June 30, 2011 and 2010

(4) Grants Receivable

Grants receivable of \$8,676,000 and \$21,415,000 as of June 30, 2011 and June 30, 2010, respectively, are based on actual costs incurred, subject to federal reimbursement limits.

Project costs are subject to audit by the funding agencies to ensure that the costs are allowable under the grant agreements. If any project costs are disallowed, amounts recorded as grants receivable will be reduced or refunded to the respective funding agencies. During the years ended June 30, 2011 and 2010, the Airport experienced no reduction to its grants receivable nor refunded any amounts to the funding agencies.

Notes to Financial Statements

June 30, 2011 and 2010

(5) Capital Assets

Capital assets consist of the following (in thousands):

	July 1, 2010	Additions	Deletions	Transfers	June 30, 2011
Capital assets not being depreciated:					
Land	\$ 2,787				2,787
Construction in progress	333,312	261,784	(1,878)	(509,388)	83,830
	000,012		(1,070)	(00);000)	
Total capital assets not being					
depreciated	336,099	261,784	(1,878)	(509,388)	86,617
Capital assets being depreciated/ amortized:					
Buildings, structures, and	5 1 40 000		(1.02.0)	100.144	5 (10 050
improvements	5,142,832	114	(1,034)	498,466	5,640,378
Equipment	85,970	2,564	(1,883)	10,922	97,573
Easements and	141 096				141 096
intangible assets	141,086				141,086
Total capital assets					
being depreciated	/				
amortized	5,369,888	2,678	(2,917)	509,388	5,879,037
Less accumulated depreciation/ amortization for: Buildings, structures, and					
improvements	(1,850,880)	(147,757)	985		(1,997,652)
Equipment	(55,229)	(5,218)	1,871	_	(58,576)
Easements	(88,087)	(7,075)		_	(95,162)
Total accumulated depreciation/					
amortization	(1,994,196)	(160,050)	2,856		(2,151,390)
Total capital assets being depreciated	/				
amortized, net	3,375,692	(157,372)	(61)	509,388	3,727,647
Total capital assets,					
net	\$ 3,711,791	104,412	(1,939)		3,814,264

Notes to Financial Statements

June 30, 2011 and 2010

	July 1, 2009	Additions	Deletions	Transfers	June 30, 2010
Capital assets not being					
depreciated:					
Land \$,	—	—	—	2,787
Construction in progress	109,900	298,467	(8,957)	(66,098)	333,312
Total capital assets not being depreciated	112,687	298,467	(8,957)	(66,098)	336,099
Capital assets being depreciated/ amortized:					
Buildings, structures, and					
improvements	5,088,064	—	(3,772)	58,540	5,142,832
Equipment	79,161	1,194	(1,943)	7,558	85,970
Easements and					
intangible assets	139,617	1,469			141,086
Total capital assets being depreciated/ amortized	5,306,842	2,663	(5,715)	66,098	5,369,888
Less accumulated depreciation/ amortization for: Buildings, structures, and					
improvements	(1,701,445)	(151,944)	2,509		(1,850,880)
Equipment	(52,786)	(4,383)	1,940		(55,229)
Easements	(80,873)	(7,214)		_	(88,087)
Total accumulated depreciation/ amortization	(1,835,104)	(163,541)	4,449		(1,994,196)
Total capital assets being depreciated/ amortized, net	3,471,738	(160,878)	(1,266)	66,098	3,375,692
Total capital assets,	a a a a a a		(10.000)		
net \$	3,584,425	137,589	(10,223)		3,711,791

Total interest cost was approximately \$216,571,000 for fiscal year 2011 and \$206,887,000 for fiscal year 2010, of which approximately \$20,636,000 and \$20,049,000, respectively, was capitalized. Total interest income for fiscal year 2011 was \$16,784,000 of which \$1,398,000 was capitalized. Total interest income for fiscal year 2010 was \$23,068,000 of which \$2,377,000 was capitalized.

In fiscal year 2007, the Airport completed a cost allocation plan (CAP) developed in accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*. Capturing indirect costs as a component of a building or other fixed asset will enable the Airport to capture the full and true cost of a

Notes to Financial Statements

June 30, 2011 and 2010

capital asset. Effective July 1, 2006, the CAP established an indirect cost rate of 8% on a total cost input base applied on capital projects.

In fiscal year 2011, the Airport updated the CAP based on the fiscal year 2010 audited historical costs. The updated CAP established a new indirect cost rate of 5.9%. The indirect costs capitalized for the year ended June 30, 2011 and 2010 were \$12.81 million and \$27.36 million, respectively.

(6) Commercial Paper

On May 20, 1997, the Airport Commission authorized the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of \$400 million or the stated amount of the letter of credit securing the CP. In anticipation of the expiration on May 9, 2011, of the \$200 million letter of credit from State Street Bank and Trust Company securing the Airport's subordinate commercial paper notes, the Airport obtained two new \$100 million direct-pay letters of credit from State Street Bank and from Barclays Bank PLC. Each of the new letters of credit supports separate subseries of commercial paper notes, expires on May 2, 2014, and permits the Airport to issue CP up to a combined maximum principal amount of \$200 million.

The Airport had \$128.66 million of CP outstanding as of July 1, 2010, and none at fiscal year end. Of the amount outstanding at the beginning of the fiscal year, \$121.88 million was issued during fiscal years 2008 through 2010 to fund capital improvements at the Airport, and pay costs of bond issuance and other incidental costs, while \$6.78 million was issued in fiscal year 2009 to refund a portion of the Issue 21 Bonds as a result of a voluntary closing agreement with the Internal Revenue Service. During fiscal year 2011, the Airport issued additional CP notes to fund \$4.7 million of additional capitalized interest on the Series 2009E Bonds issued for the Terminal 2 project, and to fund a \$6.65 million Series 2010A-3 swap termination payment to Depfa Bank PLC and related fees.

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

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

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

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

Notes to Financial Statements

June 30, 2011 and 2010

(7) Long-Term Debt

Fiscal Year 2011

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

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

Second Series Revenue Refunding Bonds, Series 2010F/G (New Issue)

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

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

Second Series Revenue Refunding Bonds

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

Second Series Revenue Refunding Bonds, Series 2009A/B (Remarketing)

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

Notes to Financial Statements

June 30, 2011 and 2010

due in a single "balloon" payment on September 15, 2010 (via a mandatory tender by bondholders for purpose by the Airport).

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

Second Series Revenue Refunding Bonds, Series 2011A/B

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

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

Notes to Financial Statements

June 30, 2011 and 2010

	_	Amount refunded	Interest rates	Redemption price	_
Second Series Revenue Bond Issue:					
26A 27A 27B	\$	3,050,000 41,470,000 69,625,000	5.00% 5.50% 5.00% - 5.25%	101 100 100	% % %
Total	-	114,145,000			
Series 2008A Notes: 2008A-3	-	41,065,000	6.750%	100	%
Total refunded	\$	155,210,000			

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

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

Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Remarketing)

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

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

Notes to Financial Statements

June 30, 2011 and 2010

Second Series Revenue Refunding Bonds, Series 2009A and B

On September 3, 2009, the Airport issued \$175.0 million of long-term fixed rate Second Series Revenue Refunding Bonds Series 2009A and B, in the amount of \$92.5 and \$82.5 million, respectively, to purchase and hold in trust all of the outstanding Issue 34A/B variable rate demand bonds. The Series 2009A/B Bonds have a final maturity date of May 1, 2029, but were subject to mandatory tender by the bondholders for purchase by the Airport on September 15, 2010, and bore interest at 0.75%

The net proceeds of \$175.0 million (\$175.0 million in bond principal less \$15.0 million in underwriting fees, deposits to separate 2009A and B reserve accounts, and costs of issuance, together with \$13.8 million in available prior bond debt service reserve funds and \$1.2 million in other funds of the Airport) were used to purchase and hold in trust all of the outstanding Issue 34A/B Bonds.

	_	Amount purchased	Interest rates	Purchase price
Second Series Variable Rate Revenue Bonds, Issue:				
34A	\$	92,500,000	Variable	100%
34B	_	82,500,000	Variable	100%
Total	\$	175,000,000		

The refunded bonds were purchased on September 4, 2009 and deposited into separate trust accounts. The Airport will make payments of principal and interest on the Issue 34A/B Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust accounts. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 34A/B Bonds

The purchase of the Issue 34A/B Bonds with Series 2009A/B Bonds was initiated by the Commission to address credit concerns regarding the liquidity provider on the 34A/B Bonds and was not undertaken to specifically generate an economic gain for the Airport. While the Issue 34A/B Bonds are held in the trust accounts, the bond insurance policy associated with Issue 34A/B Bonds will remain in place.

Second Series Revenue Refunding Bonds, Series 2009C

Following a tender offer by the Airport (an invitation to bondholders to tender their bonds for purchase by the Airport), the Airport issued its long-term fixed rate Second Series Revenue Refunding Bonds, Series 2009C, on November 3, 2009, in the amount of \$132.92 million to purchase and cancel portions of its outstanding Issue 32H, 34C and 34E fixed rate bonds and Series 2008A Revenue Notes that were voluntarily tendered by bondholders for purchase. The Series

Notes to Financial Statements

June 30, 2011 and 2010

2009C Bonds mature between May 1, 2011 and May 1, 2025, with interest rates ranging between 3.00% and 5.00%.

The Series 2009C Bonds were issued as one of several refundings made possible by the American Recovery and Reinvestment Act of 2009 (ARRA) to replace bonds subject to the federal Alternative Minimum Tax (AMT) with bonds that are not, resulting in debt service savings to the Airport. The Series 2009C-1 Bonds in the principal amount of \$67.620 million were sold with bond insurance from Assured Guaranty Municipal Corporation, while the Series 2009C-2 Bonds in the principal amount of \$65.3 million were uninsured.

The net proceeds of \$129.95 million (net of \$11.81 million in deposits to a new 2009 Debt Service Reserve Account and payment of underwriter's discount and costs of issuance, together with net original issue premium of \$8.84 million) were deposited with the bond trustee to purchase and cancel \$120.22 million of the following bonds upon their tender by bondholders.

		_	Amount purchased	Interest rates	Purchase price
Second Serie Bond Issue	5 110 / 0110/0				
32H		\$	640,000	4.00 - 5.00%	100.500% - 104.500%
34C			23,560,000	4.00 - 5.00%	102.500% - 106.860%
34E		_	35,755,000	4.00 - 5.75%	98.000% - 108.551%
	Total	_	59,955,000		
Series 2008A	Notes:				
2008A-1			55,000	5.50%	99.500%
2008A-2			58,935,000	6.50%	109.620%
2008A-3		_	1,275,000	6.75%	110.100%
	Total		60,265,000		
	Total refunded	\$	120,220,000		

The tendered bonds were purchased and cancelled on November 4, 2009.

Second Series Revenue Refunding Bonds, Series 2009D

On November 4, 2009, the Airport issued its short-term fixed rate Second Series Revenue Refunding Bonds, Series 2009D, in the principal amount of \$88.19 million to purchase the Second Series Revenue Notes, Series 2008B, which were scheduled to become due in a single "balloon" payment on December 1, 2009 (via a mandatory tender by bondholders for purchase by the Airport). The Series 2009D Bonds have a nominal final maturity date of May 1, 2029, but are again subject to mandatory tender by bondholders for purchase by the Airport at 2.25%.

Notes to Financial Statements

June 30, 2011 and 2010

The net proceeds of \$90.72 million (\$88.19 million in bond principal, together with \$2.53 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease the Series 2008B Notes until their purchase and cancellation upon their mandatory tender by bondholders for purchase by the Airport. Costs of issuance, including underwriters' compensation were funded with \$700,000 of taxable commercial paper proceeds.

	_	Amount purchased	Interest rate	Purchase price
Second Series Revenue Notes, Series 2008B	\$	88,190,000	3.00%	100%
Total	\$ _	88,190,000		

The Series 2008B Notes were initially issued to refund certain Second Series Variable Rate Revenue Bonds impacted by the bankruptcy of Lehman Brothers in fall 2008 (Issue 37B) and were not issued to produce debt service savings. Similarly, the Series 2009D Bonds were issued to refund the Series 2008B Notes which were subject to mandatory tender by bondholders for purchase by the Airport on December 1, 2009, and not to generate an economic gain for the Airport. The Series 2008B Notes were purchased and cancelled on December 1, 2009.

Second Series Revenue Bonds, Series 2009E (Capital Plan Bonds)

On November 18, 2009, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2009E, in the amount of \$485.8 million to fund a portion of the construction costs associated with the Airport's Capital Plan. The Series 2009E Bonds are uninsured fixed rate bonds maturing between May 1, 2020 and May 1, 2029, with interest rates from 4.375% to 6.000%.

The net proceeds of \$413.7 million (\$485.8 million in bond principal less \$81.2 million in underwriting fees, deposits to the capitalized interest account, payment of underwriting fees and costs of issuance, together with \$9.1 million in net original issue premium) were deposited into a construction account to fund capital projects at the Airport.

Second Series Variable Rate Revenue Refunding Bonds, Series 2010A

On February 10, 2010, the Airport issued its long-term Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, in the amount of \$216.0 million to refund certain outstanding Issue 23A, 24A, 25 and 26A fixed rate bonds. The Series 2010A Bonds are comprised of \$86.4 million of Series 2010A-1, \$57.6 million of Series 2010A-2 and \$72.0 million of Series 2010A-3 Bonds, which were issued in a weekly interest rate mode. The Series 2010A Bonds mature on May 1, 2030, and are secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on February 3, 2013.

Notes to Financial Statements

June 30, 2011 and 2010

The net proceeds of \$218.4 million (\$216.0 million bond principal less \$1.5 million in costs of issuance and underwriting fees, together with \$3.9 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease and redeem \$210.5 million of the following revenue bonds.

	_	Amount refunded	Interest rates	Redemption price
Second Series Revenue				
Bond Issue:				
23A	\$	8,530,000	5.25%	101%
24A		73,915,000	5.50 - 6.00%	101%
25		83,220,000	5.50 - 6.00%	101%
26A	_	44,825,000	5.250%	101%
Total	\$ _	210,490,000		

The refunded bonds were redeemed on March 12, 2010 (Issue 23A) and May 1, 2010 (Issues 24A, 25 and 26A).

The refunding resulted in the recognition of \$6.64 million in deferred refunding loss for fiscal year ended June 30, 2010 but reduced the Airport's aggregate debt service payments over the next twenty one years by approximately \$22.4 million. However, remarketing and facility liquidity fees associated with the variable rate bonds and related swaps hedging the bonds resulted in a net negative cash flow of approximately \$18.9 million, in spite of which, the Airport still realized an economic gain (the difference between the present value of the old and new debt service payments, net of refunding expenses) of \$0.5 million because of the savings realized during the early years.

Second Series Revenue Refunding Bonds, Series 2010C-E

On April 7, 2010, the Airport issued its long-term fixed rate Second Series Revenue Refunding Bonds, Series 2010C-E in the aggregate principal amount of \$618.6 million, comprised of \$345.7 million of Series 2010C (Non-AMT/Governmental Purpose), \$89.9 million of Series 2010D (Non-AMT/Private Activity), and \$183.0 million of Series 2010E (Taxable), to refund certain outstanding Issue 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 24B, 25, 26A, 26B, 27B and 28B fixed rate bonds and all of outstanding Series 2008A-1 and A-2 Notes. The Series 2010C and D Bonds mature between May 1, 2014 and May 1, 2027, and bear interest at rates between 3.0% and 5.0%, while the Series 2010E Bonds mature between May 1, 2011 and May 1, 2014, and bear interest at rates between 1.15% and 2.968%.

Notes to Financial Statements

June 30, 2011 and 2010

Net proceeds of \$678.80 million (\$618.57 million in bond principal less \$12.65 million in underwriting fees, cost of issuance and deposit to the reserve fund, together with \$46.23 million in net original issue premium and available debt service funds of \$26.65 million), were deposited in irrevocable escrows with the bond trustee to defease and redeem \$656.57 million in revenue bonds described below.

			Amount refunded	Interest rates	Redemption price
Second Series Bond Issue:					
15A		\$	32,020,000	4.60 - 5.00%	100%
15B			11,735,000	4.40 - 4.50%	100%
18A			18,385,000	5.00%	100%
20			146,070,000	4.50 - 4.75%	100%
21			36,085,000	4.50 - 4.75%	100%
22			26,455,000	4.70 - 5.00%	100%
23A			44,925,000	5.00 - 5.50%	100.5%
23B			7,760,000	4.50 - 5.00%	100.5%
24A			15,375,000	5.50 - 5.875%	101%
24B			2,085,000	5.00 - 5.125%	101%
25			17,310,000	5.50 - 5.875%	101%
26A			26,750,000	5.00 - 5.25%	101%
26B			107,375,000	4.50 - 5.00%	101%
27B			56,695,000	5.00 - 5.25%	100%
28B		_	7,595,000	5.250%	100%
-	Total		556,620,000		
Series 2008A	Notes:				
2008A-1			49,945,000	5.50%	100%
2008A-2			50,000,000	6.50%	100%
r	Total	_	99,945,000		
r	Total refunded	\$	656,565,000		
		_			

The refunded bonds were or will be redeemed on May 3, 2010 (Series 2008A Notes), May 7, 2010 (Issues 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 25, 26A and 26B), May 1, 2011 (Issue 27B), and May 1, 2012 (Issue 28B). The refunding resulted in the recognition of a deferred accounting loss of \$23.5 million for fiscal year ended June 30, 2010. The Airport however reduced its aggregate debt service payments by approximately \$66.1 million over the next twenty one years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of \$41.6 million.

Notes to Financial Statements

June 30, 2011 and 2010

(b) 1991 Master Resolution

Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the Airport's parity reserve account (the Issue 1 Reserve Account), the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the Issue 1 Reserve Account or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

Under the terms of the 1991 Master Bond 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 bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and
- (b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond 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.

Notes to Financial Statements

June 30, 2011 and 2010

As of June 30, 2011 and June 30, 2010, long-term revenue bonds consisted of the following (in thousands):

Second Series Revenue Bonds: Issue 15 01/01/98 4.400% 5.000% \$ 194,545 Issue 16 04/01/98 4.750% 5.500% 32,135 32,135 Issue 17 04/01/98 4.750% 5.500% 10,755 10,755 Issue 20 10/01/98 4.500% 4.750% $23,575$ 23,575 Issue 21 10/01/98 4.700% 5.250% $66,860$ 66.860 Issue 23 05/01/99 5.000% $ 3.050$ 30,100 Issue 26 12/07/00 5.000% $ 3.050$ 31,2402 Issue 27 07/11/01 4.125% 5.500% 107,265 116,660 Issue 30 02/10/04 3.865% 5.250% 34.820 34.820 Issue 31F 01/26/05 4.300% 5.250% 43.820 34.820 Issue 32 F/G/H 01/26/05 4.300% 5.250% 34.820 34.820 Issue 36A 05/07/08 Variabl	Description	Date of issue	Interest rate	2011	2010	
	Second Series Revenue Bonds:					
		01/01/98	4 400% - 5 000% \$	194 545	194 545	
Issue 17 $04/01/98$ $4.750\% - 5.500\%$ 10.755 10.755 Issue 18 $07/01/98$ $5.000\% - 5.250\%$ $39,130$ $39,130$ Issue 20 $10/01/98$ $4.500\% - 4.750\%$ 47.950 47.950 Issue 21 $10/01/98$ $4.500\% - 4.750\%$ 23.575 23.575 Issue 23 $05/01/99$ $5.000\% - 5.250\%$ $66,860$ $66,860$ Issue 23 $05/01/99$ 5.000% 30.500 12.290 $91,290$ $91,290$ $91,290$ Issue 27 $07/11/01$ $4.125\% + 5.500\%$ $170,860$ $187,200$ $185w2 30$ $34,820$ 34.820						
$\begin{array}{c c c c c c c c c c c c c c c c c c c $						
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$\begin{array}{c c c c c c c c c c c c c c c c c c c $,	· · ·	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$						
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 23					
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Issue 26	12/07/00				
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Issue 27	07/11/01	4.125% - 5.500%	226,745		
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Issue 28	03/14/02	4.000% - 5.500%	170,860		
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Issue 29	02/05/03	4.000% - 5.500%			
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Issue 30	02/10/04	3.865% - 5.250%	34,820	34,820	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 31F	01/26/05	4.390% - 4.910%	88,665	100,640	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 32 F/G/H	11/16/06	4.000% - 5.250%	423,510	431,245	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 34C/D/E/F	03/27/08	4.000% - 5.750%	394,190	408,540	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 36A	05/07/08	Variable rate	100,000	100,000	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 36B (Remarket)	05/04/11	Variable rate	40,620	40,620	
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Issue 36C/D	05/20/08	Variable rate	68,830	68,830	
Issue 2009C $11/03/09$ $3.000\% - 5.000\%$ $126,565$ $132,915$ Issue 2009D $11/04/09$ 3.000% $88,190$ $88,190$ Issue 2009E $11/18/09$ $4.375\% - 6.000\%$ $485,800$ $485,800$ Issue 2010A $02/10/10$ $3.895\% - 3.925\%$ $215,970$ $215,970$ Issue 2010C $04/07/10$ $3.000\% - 5.000\%$ $345,735$ $345,735$ Issue 2010D $04/07/10$ $3.000\% - 5.000\%$ $89,860$ $89,860$ Issue 2010E $04/07/10$ $1.150\% - 2.968\%$ $132,970$ $182,970$ Issue 2010F $08/05/10$ 5.000% $7,100$ Issue 2010G $08/05/10$ 5.000% $7,100$ Issue 2011A $02/22/11$ $4.000\% - 5.750\%$ $88,815$ Issue 2011B $02/22/11$ $4.000\% - 5.500\%$ $66,535$ Unamortized discount $(4,249)$ $(4,151)$ $(114,091)$ Unamortized deferred amount on refunding $(104,418)$ $(114,091)$ Unamortized premium $103,963$ $109,260$ Total revenue bond payable $4,210,526$ $4,171,383$ Less current portion $(133,425)$ $(175,420)$		05/15/08	Variable rate	109,585		
Issue 2009D $11/04/09$ 3.000% $88,190$ $88,190$ Issue 2009E $11/18/09$ $4.375\% - 6.000\%$ $485,800$ $485,800$ Issue 2010A $02/10/10$ $3.895\% - 3.925\%$ $215,970$ $215,970$ Issue 2010C $04/07/10$ $3.000\% - 5.000\%$ $345,735$ $345,735$ Issue 2010D $04/07/10$ $3.000\% - 5.000\%$ $89,860$ $89,860$ Issue 2010E $04/07/10$ $1.150\% - 2.968\%$ $132,970$ $182,970$ Issue 2010F $08/05/10$ 5.000% $7,100$ Issue 2010G $08/05/10$ 5.000% $7,100$ Issue 2011A $02/22/11$ $4.000\% - 5.750\%$ $88,815$ Issue 2011B $02/22/11$ $4.000\% - 5.500\%$ $66,535$ Unamortized discount $(4,249)$ $(4,151)$ $(114,091)$ Unamortized deferred amount on refunding $(104,418)$ $(114,091)$ Unamortized premium $103,963$ $109,260$ Total revenue bond payable $4,210,526$ $4,171,383$ Less current portion $(133,425)$ $(175,420)$		09/15/10				
Issue 2009E $11/18/09$ $4.375\% - 6.000\%$ $485,800$ $485,800$ Issue 2010A $02/10/10$ $3.895\% - 3.925\%$ $215,970$ $215,970$ Issue 2010C $04/07/10$ $3.000\% - 5.000\%$ $345,735$ $345,735$ Issue 2010D $04/07/10$ $3.000\% - 5.000\%$ $89,860$ $89,860$ Issue 2010E $04/07/10$ $1.150\% - 2.968\%$ $132,970$ $182,970$ Issue 2010F $08/05/10$ 5.000% $7,100$ Issue 2010G $08/05/10$ 5.000% $7,100$ Issue 2011A $02/22/11$ $4.000\% - 5.750\%$ $88,815$ Issue 2011B $02/22/11$ $4.000\% - 5.500\%$ $66,535$ Unamortized discount $(4,249)$ $(4,151)$ $(104,418)$ $(114,091)$ Unamortized premium $103,963$ $109,260$ $109,260$ Total revenue bond payable $4,210,526$ $4,171,383$ Less current portion $(133,425)$ $(175,420)$,		
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		11/04/09				
Issue 2010C $04/07/10$ $3.000\% - 5.000\%$ $345,735$ $345,735$ Issue 2010D $04/07/10$ $3.000\% - 5.000\%$ $89,860$ $89,860$ Issue 2010E $04/07/10$ $1.150\% - 2.968\%$ $132,970$ $182,970$ Issue 2010F $08/05/10$ 5.000% $121,360$ Issue 2010G $08/05/10$ 5.000% $7,100$ Issue 2011A $02/22/11$ $4.000\% - 5.750\%$ $88,815$ Issue 2011B $02/22/11$ $4.000\% - 5.500\%$ $66,535$ Unamortized discount $(4,249)$ $(4,151)$ Unamortized deferred amount on refunding $(104,418)$ $(114,091)$ Unamortized premium $103,963$ $109,260$ Total revenue bond payable $4,210,526$ $4,171,383$ Less current portion $(133,425)$ $(175,420)$	Issue 2009E			,	· · ·	
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$						
Issue 2010E $04/07/10$ $1.150\% - 2.968\%$ $132,970$ $182,970$ Issue 2010F $08/05/10$ 5.000% $121,360$ Issue 2010G $08/05/10$ 5.000% $7,100$ Issue 2011A $02/22/11$ $4.000\% - 5.750\%$ $88,815$ Issue 2011B $02/22/11$ $4.000\% - 5.500\%$ $66,535$ Unamortized discount $(4,249)$ $(4,151)$ Unamortized deferred amount on refunding $(104,418)$ $(114,091)$ Unamortized premium $103,963$ $109,260$ Total revenue bond payable $4,210,526$ $4,171,383$ Less current portion $(133,425)$ $(175,420)$,		
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$						
Issue 2010G 08/05/10 5.000% 7,100 Issue 2011A 02/22/11 4.000% - 5.750% 88,815 Issue 2011B 02/22/11 4.000% - 5.500% 66,535 4,215,230 4,180,365 Unamortized discount (4,249) (4,151) Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)					182,970	
Issue 2011A 02/22/11 4.000% - 5.750% 88,815 — Issue 2011B 02/22/11 4.000% - 5.500% 66,535 — 4,215,230 4,180,365 Unamortized discount (4,249) (4,151) Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)					—	
Issue 2011B 02/22/11 4.000% - 5.500% 66,535 — 4,215,230 4,180,365 Unamortized discount (4,249) (4,151) Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)					—	
4,215,230 4,180,365 Unamortized discount (4,249) (4,151) Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)					—	
Unamortized discount (4,249) (4,151) Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)	Issue 2011B	02/22/11	4.000% - 5.500%	66,535		
Unamortized deferred amount on refunding (104,418) (114,091) Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)				4,215,230	4,180,365	
Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)	Unamortized discount			(4,249)	(4,151)	
Unamortized premium 103,963 109,260 Total revenue bond payable 4,210,526 4,171,383 Less current portion (133,425) (175,420)	Unamortized deferred amount or	n refunding			,	
Less current portion (133,425) (175,420)				,		
Less current portion (133,425) (175,420)	-	-				
	Less current portion			(133,425)	(175,420)	
	-	revenue bond pa	ayable \$			

Notes to Financial Statements

June 30, 2011 and 2010

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

		Principal	Interest	Total
Fiscal year:	_			
2012	\$	133,425	196,490	329,915
2013		148,285	192,052	340,337
2014		161,445	187,095	348,540
2015		177,012	180,488	357,500
2016		183,784	171,967	355,751
2017 - 2021		1,093,881	718,134	1,812,015
2022 - 2026		1,201,973	436,186	1,638,159
2027 - 2031		752,440	189,740	942,180
2032 - 2036		206,615	78,461	285,076
2037 - 2040	_	156,370	19,442	175,812
	\$	4,215,230	2,370,055	6,585,285

Revenue bond debt service requirements if (i) the credit and liquidity facilities (letter of credits or standby purchase agreements) 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 credit and liquidity facilities, and (ii) the Airport's outstanding fixed rate bonds scheduled to become due (via a mandatory tender by bondholders for purchase by the Airport) are not remarketed as or refunded with long-term fixed rate bonds, are as follows (in thousands):

	Principal	Interest	Total
Fiscal year:			
2012	\$ 133,425	196,490	329,915
2013	604,695	189,339	794,034
2014	236,660	170,995	407,655
2015	265,295	161,491	426,786
2016	181,240	148,810	330,050
2017 - 2021	935,785	613,163	1,548,948
2022 - 2026	957,120	368,213	1,325,333
2027 - 2031	538,025	171,676	709,701
2032 - 2036	206,615	78,461	285,076
2037 - 2040	 156,370	19,442	175,812
	\$ 4,215,230	2,118,080	6,333,310
2017 - 2021 2022 - 2026 2027 - 2031 2032 - 2036	 935,785 957,120 538,025 206,615 156,370	613,163 368,213 171,676 78,461 19,442	1,548,9 1,325,3 709,7 285,0 175,8

Notes to Financial Statements

June 30, 2011 and 2010

(c) Second Series Revenue Notes

Second Series Revenue Refunding Notes, Series 2008A

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

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

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

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

Notes to Financial Statements

June 30, 2011 and 2010

As of June 30, 2011 and 2010, outstanding notes consisted of the following (in thousands):

Description	Date of issue	Interest rate	2011	2010
Notes: 2008 A Notes	11/23/2008	6.50% - 6.75% \$	25,460	66,525
Unamortized deferred amount on refunding Unamortized premium			25,460 (730) 26	66,525 (2,338) 458
Total notes	payable		24,756	64,645
Less: current portion		_	(2,335)	(1,980)
Total long-	term notes payable	\$	22,421	62,665

Long-term notes debt service requirements to maturity are as follows (in thousands):

		Principal	Interest	Total
Fiscal year:	—			
2012	\$	2,335	1,655	3,990
2013		2,245	1,503	3,748
2014		2,945	1,357	4,302
2015		3,090	1,166	4,256
2016		3,190	965	4,155
2017 - 2019	_	11,655	1,531	13,186
	\$	25,460	8,177	33,637

Notes to Financial Statements

June 30, 2011 and 2010

(d) Changes in Long-term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 was as follows (in thousands):

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

Notes to Financial Statements

June 30, 2011 and 2010

	July 1, 2009	Additions	Reductions	June 30, 2010	Due within one year
Revenue bonds payable S Less unamortized discount Unamortized deferred amount	5 3,563,705 (7,749)	1,716,440	(1,099,780) 3,598	4,180,365 (4,151)	175,420
on refunding	(82,699)	(62,360)	30,968	(114,091)	_
Add unamortized premium	52,665	64,186	(7,591)	109,260	
Total revenue bonds payable	3,525,922	1,718,266	(1,072,805)	4,171,383	175,420
Notes payable S Less unamortized discount Unamortized deferred amount	314,925 (322)		(248,400) 322	66,525	1,980
on refunding	(12,466)		10,128	(2,338)	
Add unamortized premium	2,735		(2,277)	458	
Total notes payable	304,872	_	(240,227)	64,645	1,980
Other postemployment benefits					
obligation	32,226	14,055	—	46,281	—
Compensated absences	13,882	546	(100)	14,328	7,955
Accrued workers' compensation	5,214	1,683	(1,858)	5,039	995
Estimated claims payable	66	10,051	(104)	10,013	8,978
Total	3,882,182	1,744,601	(1,315,094)	4,311,689	195,328

(e) Special Facilities Lease Revenue Bonds

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

Notes to Financial Statements

June 30, 2011 and 2010

(f) Interest Rate Swaps

Fiscal Year 2011

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the "2004 swaps") with an aggregate notational amount of \$405.0 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 May 1, 2030, respectively.

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

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

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

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% 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, 2011, the fair value of the Airport's seven outstanding swaps, which had a total notional amount of \$513.39 million are as follows:

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

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

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

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

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

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

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

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

Fair Value

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

Risks

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

Credit Risk - As of June 30, 2011, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

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

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

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

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

Notes to Financial Statements

June 30, 2011 and 2010

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

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

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

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

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

Fiscal Year 2010

Objective and Terms – On December 16, 2004, the Airport entered into seven forward-starting interest rate swaps (the 2004 swaps), in connection with the anticipated issuance of its San Francisco

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International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was used as a means to increase the Airport's debt service savings, when compared with fixed-rate refunding bonds at the time of issuance. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps, in connection with the anticipated issuance of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and the Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The final maturity of the 2004 swaps is May 1, 2026, and the final maturities of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues were transferred to the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and 37A, respectively. Subsequently, on December 3, 2008, the Airport refunded Issues 37A and 37B. Concurrently, the 2004 swaps associated with Issue 37A were terminated. However, the 2007 swap associated with Issue 37B was not terminated and is now not assigned to any bond issue for tax law purposes, but is associated with \$79.7 million of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Series 2009D.

Following the refunding of Issue 37A on October 30, 2008, the three interest rate swaps in the aggregate notional amount of \$205.1 million were terminated. The Airport paid a termination amount in connection with the termination of the interest rate swaps in the aggregate amount of \$6.67 million from proceeds of the 2008A Notes. The termination amounts were paid to Lehman Brothers Special Financing and to J.P. Morgan Chase & Co. (as successor to Bear Stearns Capital Markets Inc.), the parent company of J.P. Morgan Securities.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from its swap counterparties equal to 63.5% of USD-LIBOR-BBA1 plus 0.29%. The Airport receives 61.85% of USD-LIBOR-BBA plus 0.34% under the 2007 and 2010 swaps. These payments are intended to approximate the variable interest rates on the bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed interest rate on the associated bond issues. No monthly payments were made on the 2010 swaps prior to their effective date of February 1, 2010.

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As of June 30, 2010, the fair value of the Airport's eight outstanding swaps had a total notional amount of \$585,360,000, and were broken down by series as follows:

Associated Bonds		Notional Amount	Effective Date	Bank Counterparty
36AB	\$	70,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36A		69,930,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36C		30,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36D		29,970,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
2009AB *		79,684,000	5/15/2008	Merrill Lynch Capital Services, Inc.
37C		89,856,000	5/15/2008	J.P. Morgan Chase Bank, N.A.
2010A		71,973,000	2/1/2010	Depfa Bank PLC, New York
2010A	_	143,947,000	2/1/2010	Goldman Sachs Bank USA
	\$	585,360,000		

* The swap previously associated with 37B was applied to a portion of 2009AB.

The swaps hedging Issue 36A-D Bonds terminate on May 1, 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Moody's	S&P	Fitch	 Fair value to Airport
J.P. Morgan Chase Bank, N.A. \$	70,000,000	3.4440%	Aa1	AA-	AA-	\$ (8,273,544)
J.P. Morgan Chase Bank, N.A.	69,930,000	3.4450%	Aa1	AA-	AA-	(8,273,028)
J.P. Morgan Chase Bank, N.A.	30,000,000	3.4400%	Aa1	AA-	AA-	(3,545,804)
J.P. Morgan Chase Bank, N.A.	29,970,000	3.4450%	Aa1	AA-	AA-	 (3,545,583)
(Aggregate notional amount) \$	199,900,000					\$ (23,637,959)
Notes to Financial Statements

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The swaps hedging the Issue 37B and 37C Bonds (the former is currently applied to Series 2009D Bonds) terminate on May 1, 2029, which is the final maturity date of the Issue 37B/C Bonds. Following the refunding of the Issue 37B bonds, the Airport did not restructure the amortization of the swap to match the amortization of the Series 2009D Bonds, resulting in a mismatch in later years and a lack of integration for tax purposes. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

		Counterparty credit ratings				
Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Moody's	S&P	Fitch	 Fair value to Airport
Merrill Lynch Capital Services \$ J.P. Morgan Chase Bank, N.A.	79,684,000 89,856,000	3.8980% 3.8980%	A2 Aal	A AA-	A+ AA-	\$ (14,406,604) (16,245,705)
(Aggregate notional amount) \$	169,540,000					\$ (30,652,309)

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

		Counterparty credit ratings					
Counterparty/guarantor	 Initial Notional	Fixed rate payable by Airport	Moody's	S&P	Fitch		Fair value to Airport
Depfa Bank PLC, New York Goldman Sachs Bank USA	\$ 71,973,000 143,947,000	3.8950% 3.9250%	A3 Aa3	BBB A	A- A+	\$	(13,334,586) (27,212,875)
(Aggregate notional amount)	\$ 215,920,000					\$	(40,547,461)

Fair Value

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

Risks

Basis Risk - The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds,

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while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ending June 30, 2010, the Airport received \$427,539 in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk - As of June 30, 2010, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. The Airport's swap policy limits counterparty credit risk by limiting exposure to any one counterparty at the time a swap is executed to not more than 20% of the total portfolio. While the Airport's exposure to J.P. Morgan Chase Bank, N.A. and affiliates complied with the swap policy when the applicable swaps were executed, the Airport's exposure as of June 30, 2010 exceeded this threshold due to JPMorgan's acquisition of Bear Stearns Capital Markets, Inc. The swap policy does not require remedial action in this case.

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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, 2010 (S&P/Moody's)
Issue 36C	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 36AB (two swaps)	FGIC/National Public Finance Guarantee Corporation	A/Baa1
Issue 36D	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 37C	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2009D	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2010A (two swaps)	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 non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

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The impact of the interest rate swaps on the financial statements for the year ended June 30, 2010 and 2009 is as follows:

	_	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance June 30, 2009 Change in fair value to year end	\$	57,157,300 32,347,202	62,614,754 32,222,978
Balance June 30, 2010	\$	89,504,502	94,837,732

Deferred outflows on derivative instrument of \$89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in fiscal year 2010. Per reporting guidelines of GASB 53, deferred outflows on derivative instrument as of June 30, 2009 were restated at the amount of \$57.2 million.

Derivative instrument liabilities of \$94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per the newly implemented GASB 53. Per reporting guidelines of GASB 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of \$62.6 million.

(g) Variable Rate Demand Bonds

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

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

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York Branch. For additional information regarding the Issue 36C/D and 37C/D bonds, please see the "Subsequent Events" section of this document.

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

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

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

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

(8) 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

¹ Letter of Credit.

² Standby Bond Purchase Agreement.

³ Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

⁴ Wells Fargo Bank, National Association.

⁵ U.S. Bank National Association

⁶ Dexia Crédit Local acting through its New York Branch.

⁷ JPMorgan Chase Bank, N.A.

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June 30, 2011 and 2010

minimum guarantees were approximately \$18,578,000 and \$15,890,000 in fiscal years 2011 and 2010, respectively.

A new car rental agreement became effective January 1, 2009 and will expire on December 31, 2013 with the option to extend for five years. Under this agreement, the rental car companies pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with the terms of their concession agreement, the MAG for the rental car operators does not apply if the number of deplaning passengers on all scheduled airlines during one calendar month is less than 70% of the number of deplaning passengers for the same calendar month of the base year (1996).

The MAG attributable to the rental car companies was approximately \$40,865,000 and \$30,870,000 for fiscal years 2011 and 2010, respectively.

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

Fiscal year ending:	
2012	\$ 87,951
2013	83,074
2014	76,701
2015	68,424
2016	 65,389
	\$ 381,539

(9) Employee Benefit Plans

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

Plan Description

The City has a single-employer defined benefit retirement plan (the Plan), which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the Airport along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority that establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco, California 94102, or by calling (415) 487-7020.

Notes to Financial Statements

June 30, 2011 and 2010

Funding Policy

Contributions are made to the basic plan by both the Airport and its employees. Employee contributions are mandatory. Employee contribution rates for 2011, 2010, and 2009 range from 7.0% to 8.0% as a percentage of covered payroll. The Airport is required to contribute at an actuarially determined rate. The actuarially determined contribution rate as a percentage of covered payroll was 13.56% in 2011, 9.49% in 2010, and 4.99% in 2009. The Airport contributed 100% of its annual contributions of \$21,749,000 in 2011, \$16,443,000 in 2010, and \$10,742,000 in 2009.

(b) Health Care Benefits

Health care benefits of Airport employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately \$30,359,000 and \$27,585,000 in fiscal years 2011 and 2010, 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 \$8,959,000 and \$7,630,000 for fiscal years 2011 and 2010, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. The City did not allocate any additional amount to the Airport's contribution allocation for payments made from the Health Service System for postretirement health benefits in fiscal years 2011 and 2010, respectively.

The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other postemployment benefits other than pensions (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related costs to Airport for the year ended June 30, 2010 based upon its percentage of City-wide payroll costs is presented below.

Notes to Financial Statements

June 30, 2011 and 2010

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

	 2011	2010
Annual required contribution Interest on net OPEB obligation Adjustment to ARC	\$ 22,752 2,146 (1,683)	21,363 1,491 (1,169)
Annual OPEB cost (expense)	23,215	21,685
Contribution made	 (8,959)	(7,630)
Increase in net OPEB obligation	14,256	14,055
Net OPEB obligation – beginning of year	 46,281	32,226
Net OPEB obligation – end of year	\$ 60,537	46,281

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

(10) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net assets. These services include utilities provided to tenants (see note 2(j)) and the Airport. The cost of all services provided by the City work order system totaled approximately \$111,932,000 and \$104,222,000 in fiscal years 2011 and 2010, respectively. Included in personnel operating expenses are approximately \$58,944,000 and \$55,296,000 in fiscal years 2011 and 2010, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than \$5,000,000 per fiscal year. Payments to the City were \$30,181,000 and \$28,100,000 in fiscal years 2011 and 2010, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net assets.

(11) Passenger Facility Charges

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

Notes to Financial Statements

June 30, 2011 and 2010

June 1, 2003. In January 2004, the FAA approved the Airport's amendment to delete PFC #1 as a result of the suspension of the runway reconfiguration project.

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

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

PFC collections and related interest earned for the 12 months ended June 30, 2011 are as follows (in thousands):

Amount collected Interest earned	\$ 77,004 935
	\$ 77,939

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

(12) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2011 are as follows (in thousands):

Construction	\$ 29,782
Operating	 7,048
Total	\$ 36,830

Notes to Financial Statements

June 30, 2011 and 2010

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/or acquisition of easements for aircraft noise, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with SFO funds (using bond proceeds, operating and other internally generated funds), as well as federal grants. In fiscal year 2008, these components of the program were finalized and a new phase was started with the Airport managing all new noise insulation work directly; in fiscal year 2011 the Airport disbursed approximately \$341,000 in this new phase of the program (\$200,000 federal grants and \$141,000 SFO funds). As of June 30, 2011 and June 30, 2010, the cumulative disbursements of SFO funds under this program were approximately \$121.2 million.

(b) Agreements with Airlines

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

(c) Litigation

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

(d) Risk Management

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

The Airport has an ongoing loss prevention program, a safety officer, property loss control and ongoing employee training programs. The Airport has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and

Notes to Financial Statements

June 30, 2011 and 2010

objectives. The Airport carries general liability insurance coverage of \$1 billion, subject to a deductible of \$10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a deductible of \$500,000 per single occurrence.

Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Airport pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public officials' liability and employment practices liability coverage of \$5 million, subject to a deductible of \$100,000 per single occurrence for each wrongful act other than employment practices' violations, and \$200,000 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels.

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

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2009 resulted from the following activity (in thousands):

Balance, June 30, 2009 Claim payments Claims and changes in estimates	\$ 66 (104) 10,051
Balance, June 30, 2010	10,013
Claim payments Claims and changes in estimates	(486) 2,030
Balance, June 30, 2011	\$ 11,557

Notes to Financial Statements

June 30, 2011 and 2010

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

Balance, June 30, 2009	\$ 5,214
Claim payments	(1,858)
Claims and changes in estimates	 1,683
Balance, June 30, 2010	5,039
Claim payments	(1,781)
Claims and changes in estimates	 1,708
Balance, June 30, 2011	\$ 4,966

(e) Grants

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

(f) Loan Guarantees

The Airport continues to serve as the guarantor of certain loans on behalf of various food and beverage concession tenants within the International Terminal. The Airport's remaining maximum exposures under these loan guarantee agreements were approximately \$0 and \$76,000 as of June 30, 2011 and June 30, 2010, respectively.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2(h)) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2011 and June 30, 2010, revenues realized from the following sources exceeded 5% of the Airport's total operating revenues:

	2011	2010
United Airlines	21.6%	22.0%
Parking Revenues / New South Park	14.2	12.6

Notes to Financial Statements

June 30, 2011 and 2010

(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 years ending:	
2012	\$ 194
2013	120
2014	118
2015	75
2016	
Total	\$ 507

Net operating lease expense incurred for the fiscal years ended 2011 and 2010 was approximately \$0.2 million and \$0.3 million, respectively.

(13) Subsequent Events

On March 16, 2011 the Airport and JPMorgan Chase Bank, National Association agreed to adjust the facility fee on the letter of credit supporting the \$215.97 million Series 2010A Bonds from 1.35% to 1.05% per annum and extended the facility termination date from February 8, 2013 to January 31, 2014. The reduction in facility fee commenced on July 1, 2011.

On July 13, 2011, the Airport terminated the standby bond purchase agreement with Dexia Crédit Local, acting through its New York Branch, relating to the \$36.15 million Issue 36C Bonds and remarketed them with a new irrevocable direct-pay letter of credit from U.S. Bank National Association with an expiration date of July 11, 2014. Following the remarketing, Assured Guaranty no longer insures the payment of principal and interest on the Issue 36C Bonds.

On July 13, 2011, the Airport also terminated the standby bond purchase agreement with Dexia relating to the \$89.9 million Issue 37C Bonds and remarketed them with a new irrevocable direct-pay letter of credit from Union Bank, N.A. with an expiration date of July 13, 2015. Following the remarketing, Assured Guaranty no longer insures the payment of principal and interest on the Issue 37C Bonds.

On July 21, 2011, the Airport issued \$350.42 million of its Second Series Revenue Refunding Bonds, Series 2011C/D/E, to defease and refund portions of the Issue 15A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 27B, 28A and 30 Bonds for debt service savings, and the remaining Series 2008A-4 Notes. The refunded bonds were redeemed on August 1, 2011, with the exception of the Issue 28A and 30 Bonds and the Series 2008A-4 Notes, which will be redeemed on May 1, 2012. Following this transaction, the Airport has no Series 2008A Notes outstanding.

Notes to Financial Statements

June 30, 2011 and 2010

On September 20, 2011 the Airport issued \$354.58 million of its Second Series Revenue Refunding Bonds, Series 2011F/G/H, to defease and refund portions of the Issue 15A, 15B, 16A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 28A, 28B, 28C, 29A, 29B and 30 Bonds for debt service savings, and to refund the Issue 36D and 37D Bonds, which were variable rate bonds, with long-term fixed rate bonds. Proceeds were also used to make a \$4.64 million termination payment to JPMorgan Chase Bank N.A. to terminate the \$29.97 million Issue 36D interest rate swap. The refunded bonds were redeemed on September 23, 2011, with the exception of the Issues 28A/B/C and Issue 30 Bonds which will be redeemed on May 1, 2012, and the Issue 29A/B Bonds which will be redeemed on May 1, 2013. Following this transaction, the Airport has no remaining liquidity facilities with Dexia. With the termination of the swap associated with the Issue 36D Bonds, the Airport reduced the total notional amount of its interest rate swap portfolio from \$513.39 million to \$483.42 million.

On September 21, 2011, Moody's downgraded the long-term credit rating of Bank of America Corporation, the guarantor of the Airport's \$79.68 million interest rate swap with Merrill Lynch Capital Services, to "Baa1" with a negative outlook.

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2011 and 2010

(In thousands)

	F	Passenger acility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
Program to date as of June 30, 2009	\$	475,680	11,270	486,950	(441,179)	45,771
Fiscal year 2009 – 2010 transactions: Reversal of prior year passenger facility charges accrual Quarter ended September 30, 2009 Quarter ended December 31, 2009 Quarter ended March 31, 2010 Quarter ended June 30, 2010 Unrealized gain on investments Passenger facility charges accrual		(8,612) 18,494 18,027 16,866 19,809 9,175	140 210 292 280 306	(8,612) 18,634 18,237 17,158 20,089 306 9,175	 (61,000) 	$(8,612) \\18,634 \\18,237 \\17,158 \\(40,911) \\306 \\9,175$
Total fiscal year 2009 – 2010 transactions		73,759	1,228	74,987	(61,000)	13,987
Program to date as of June 30, 2010		549,439	12,498	561,937	(502,179)	59,758
Fiscal year 2010 – 2011 transactions: Reversal of prior year passenger facility charges accrual Quarter ended September 30, 2010 Quarter ended December 31, 2010 Quarter ended March 31, 2011 Quarter ended June 30, 2011 Unrealized loss on investments Passenger facility charges accrual	_	(9,175) 19,987 18,361 17,064 21,131 9,636	225 240 272 303 (105)	(9,175) 20,212 18,601 17,336 21,434 (105) 9,636	(87,200)	$\begin{array}{c} (9,175) \\ 20,212 \\ 18,601 \\ 17,336 \\ (65,766) \\ (105) \\ 9,636 \end{array}$
Total fiscal year 2010 – 2011 transactions		77,004	935	77,939	(87,200)	(9,261)
Program to date as of June 30, 2011	\$	626,443	13,433	639,876	(589,379)	50,497

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

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2011

(1) General

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

Amounto

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

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

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



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

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

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

We have audited the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LIP

October 28, 2011

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT



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

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

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

Compliance

We have audited the Airport Commission, City and Country of San Francisco, San Francisco International Airport's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

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

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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



October 28, 2011

Schedule of Findings and Responses

Year ended June 30, 2011

I. Summary of Auditors' Results

- 1. The type of report issued on the basic financial statements: **Unqualified opinion**
- 2. Significant deficiencies in internal control were disclosed by the audit of the financial statements: None reported

Material weaknesses: None

- 3. Noncompliance which is material to the financial statements: None
- 4. Significant deficiencies in internal control over the passenger facility charge program: None reported. Material weaknesses: None
- 5. The type of report issued on compliance for the passenger facility charge program: Unqualified opinion
- 6. Any audit findings: **No**

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

None