

PHX DVT BYR

 CITY OF PHOENIX AVIATION DEPARTMENT

Annual Financial Report

June 30, 2013



City of Phoenix Aviation Department

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City of Phoenix



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Aviation Department

Danny Murphy, Aviation Director

Finance Department

Jeff DeWitt, Chief Financial Officer



City of Phoenix



MESSAGE FROM THE AVIATION DIRECTOR

Phoenix Sky Harbor International Airport is not only **America's Friendliest Airport®** when it comes to customer service; it is also business-friendly. We at Sky Harbor pride ourselves on keeping costs competitive for our airline partners while delivering innovative, world-class service to our passengers. These efforts are paying off in the form of new air service.

In the fourth quarter of 2013, Sky Harbor welcomed two new airlines. Volaris, the largest, low-cost airline in Mexico, began nonstop service from Phoenix to Mexico City and Guadalajara, three days per week. In addition, ultra low-cost carrier Spirit Airlines launched nonstop service between Phoenix Sky Harbor and Dallas/Fort Worth, Chicago O'Hare, Denver and Minneapolis-St. Paul. Both of these airlines recognized Sky Harbor as an optimal location to grow their business and stimulate additional demand for air travel.

With the American Airlines/US Airways merger officially complete and now in the implementation stage, the City of Phoenix is looking forward to the potential of additional service from the "New American Airlines." I join Phoenix Mayor Greg Stanton in expressing confidence that the merger will bring long-term gains to the Phoenix area and the entire state of Arizona.

The City of Phoenix Aviation Department, which owns and operates Phoenix Sky Harbor International Airport, Phoenix Deer Valley Airport and Phoenix Goodyear Airport, strives to provide state-of-the-art facilities for customers while engaging in conservative, flexible and cost-effective planning. The future development of Terminal 3 is a perfect example. In order to meet expected demand, Sky Harbor is planning improvements to its second-busiest terminal, but completing construction in phases in order to maximize flexibility and allow for changes in airline markets or other economic conditions that impact passenger activity.

The popular PHX Sky Train® is another project being completed in phases. Stage one opened in April 2013, transporting passengers between the regional light rail system, the Airport's busiest economy parking area and Terminal 4, which serves 80 percent of Sky Harbor's passengers. In its first year, the train has consistently exceeded operational expectations. The train's next stage, which will provide service to all three terminals, is expected to open by early 2015 - in time for the Phoenix area to host Super Bowl XLIX.

Super Bowl visitors will also enjoy all new food and beverage options in Terminal 4, as they sample some of the most popular restaurants Arizona has to offer. The Terminal 4 restaurant renovation project will be complete by the middle of 2014.

Additional improvements, such as the reconfiguration of Sky Harbor's international arrivals area, are planned. But whether it's a major construction project or routine maintenance, keeping costs competitive and projects flexible are cornerstones of every plan. While our Aviation staff's dedication to customer service is a key to our success, it's equally important that Sky Harbor remains a great place to do business.

Sincerely,

Danny Murphy
Aviation Director, City of Phoenix Aviation Department

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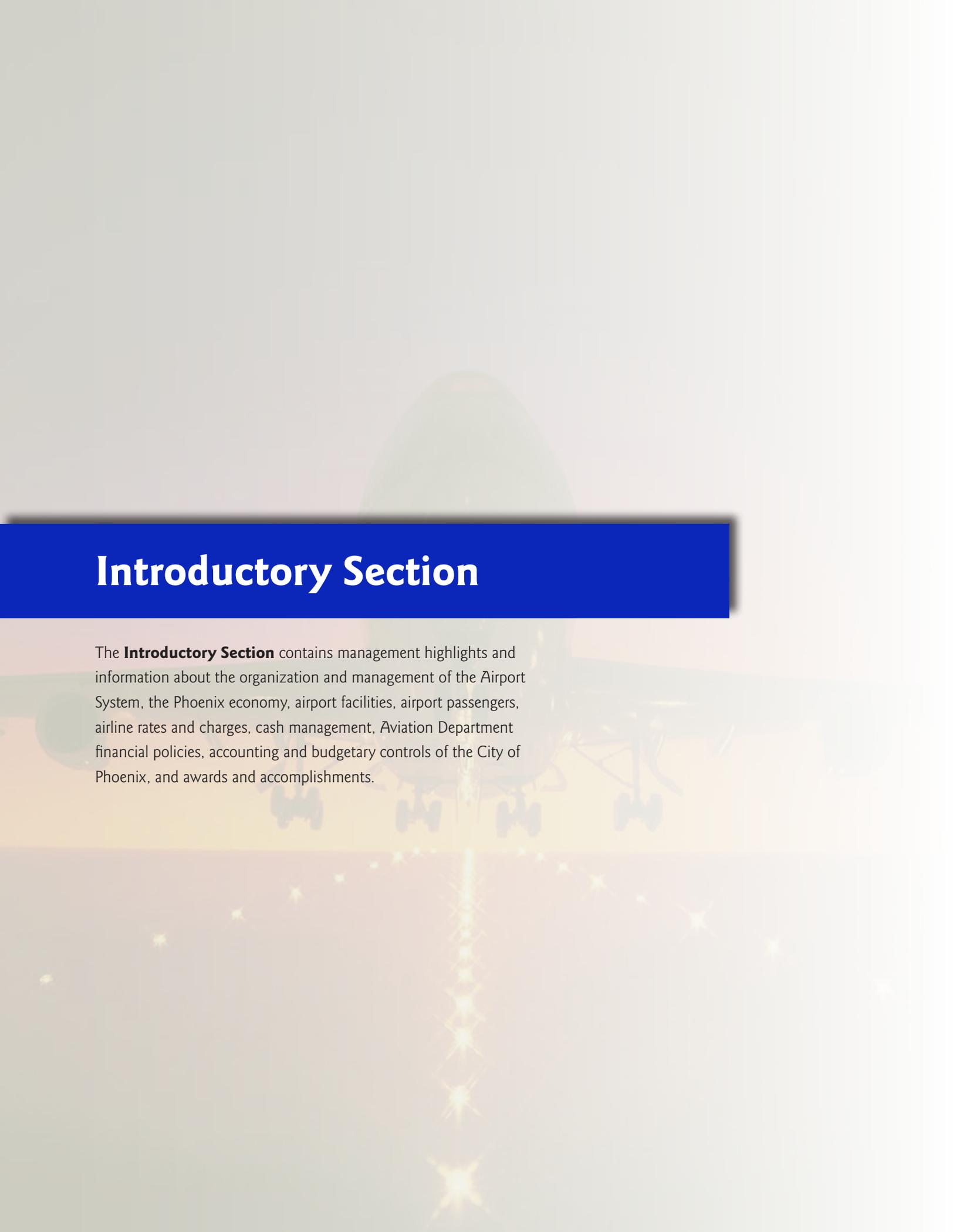
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City of Phoenix



Introductory Section

The **Introductory Section** contains management highlights and information about the organization and management of the Airport System, the Phoenix economy, airport facilities, airport passengers, airline rates and charges, cash management, Aviation Department financial policies, accounting and budgetary controls of the City of Phoenix, and awards and accomplishments.



City of Phoenix



Management Highlights

As the largest economic engine in the state of Arizona, Phoenix Sky Harbor International Airport (the Airport) strives to deliver a world-class experience to every customer, every day. This year, the Airport has accomplished that goal with increased air service, updated food and beverage concepts and enhanced customer service amenities.

The Airport is one of the ten busiest in the United States, serving approximately 40 million passengers per year. The Airport is owned and operated by the City of Phoenix (the City) through the Aviation Department (the Department). In addition to the Airport, the City owns and operates Phoenix Deer Valley Airport, the busiest general aviation airport in the United States, and Phoenix Goodyear Airport (collectively, the Airport System).

Two new air carriers launched service from the Airport in the fall of 2013. Volaris, the largest low-cost carrier in Mexico, and Spirit Airlines, a growing low-cost domestic carrier, added a total of six daily flights to destinations in Mexico and the United States. In addition to having more flight options, travelers are also now treated to new food choices at the Airport, including some of the most popular restaurants in the Phoenix area. These new restaurants have resulted in increased revenue for the Airport and positive attention in local, national and social media.

The Airport successfully rolled out the PHX Sky Train® in the spring of 2013 to strong initial ridership and

increased parking revenue in part as a result of the train's popularity. The PHX Sky Train® carries passengers between the regional light rail system, the Airport's East Economy Parking and Terminal

4, the Airport's busiest terminal. The two-minute ride between East Economy Parking and Terminal 4, combined with amenities such as Early Bag Check, increased the appeal of East Economy Parking beginning in spring 2013 contributing to higher parking revenue.

Solid financial performance is a primary reason the Airport's bond rating is among the highest in the nation. Standard and Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's) affirmed the Airport's double-A category ratings (AA- and Aa3 respectively) on the outstanding senior-lien bonds. S&P and Moody's also affirmed the Airport's single-A category ratings (A+ and A1 respectively) on the Airport's outstanding junior-lien revenue bonds. In making their rating affirmations, these organizations noted the Airport's strong financial performance, maintenance of a low-cost, low-debt facility, vibrant origin and destination (O&D) market, experienced and effective administrative team and excellent integration of Airport and City decision-making.





Two New Airlines

On October 19, 2013, elected officials joined business and tourism leaders to welcome the inaugural Volaris flight from Guadalajara. Volaris started service with three weekly flights between the Airport and Guadalajara. On December 4, 2013, Volaris began service between the Airport and Mexico City three times per week. The Airport currently serves 20 international cities with nonstop service on six airlines.

Spirit airlines began service from the Airport on October 25, 2013 with a nonstop daily flight to Dallas/Fort Worth. On November 7, 2013, Spirit added seasonal non-stop daily service from the Airport to Chicago O'Hare, Denver International Airport and Minneapolis-St. Paul.



Food and Beverage Enhancements

Terminal 4, the Airport's busiest terminal, is more than half way through a complete food and beverage overhaul. The program has already attracted national attention for its high-quality offerings and award-winning local, regional and national cuisine. In 2013 Cowboy Ciao, a local favorite was named "Best New Airport Restaurant" by Entrepreneur magazine. Passengers are taking notice, expressing their delight on social media and arriving early to enjoy the cuisine. The proof is in the revenue. Food and beverage-related income (a component of terminal concessions) increased 20.9 percent, to \$19.1 million in fiscal year 2013 from \$15.8 million in fiscal year 2012.



Success is occurring even before the food and beverage renovation is complete. Restaurants in the first phase of the Terminal 4 food and beverage program opened throughout calendar year 2012. More than ten additional restaurants opened in calendar year 2013 with approximately ten more rounding out the program in spring 2014. The goal of the food and beverage concession overhaul in the Airport's busiest terminal was to provide passengers with a mix of local, regional and national concepts and optimize sales and revenues while maintaining customer service standards during the construction period.

Customer Service Enhancements

Customer service is a top priority for the Department. Several new initiatives are making the travel experience even easier at the Airport today, with additional customer service enhancements planned in the future.



Credit Card Express was launched in all of the Airport's parking facilities in September 2013. This service allows customers to enter a parking facility by inserting a credit card, then exit using the same card. The traveler's credit card is billed for the time spent in the parking facility and a receipt is printed. Customers no longer need to take a ticket and present it upon exit. The service is popular with frequent travelers who appreciate the ability to enter and exit parking facilities quickly and efficiently.

The Airport continues to offer its popular terminal garage parking coupon during peak leisure travel periods. The 40 percent off coupon also increases revenue by approximately \$3 million per year by enticing travelers to park in the terminal garages during holiday weekends and peak leisure travel periods.





Customer feedback related to the expansion of the Transportation Security Administration (TSA) pre-check program at the Airport has been extremely positive. In October 2013 pre-check became available in all three terminals at the Airport. It had previously been available at only one security checkpoint. Pre-check provides passengers enrolled in the program expedited security screening by allowing them to leave on their shoes, light outerwear, and belt and customers also may leave their laptops and liquid in their baggage.

The number of international passengers is expected to grow significantly over the next 20 years. In order to accommodate this growth, the Airport is planning improvements to increase the capacity of its international facility. The enhancements will include increased passenger queuing space, improved vertical circulation to and from the facility, and an expanded baggage claim area. Management is coordinating with internal stakeholders, including Customs and Border Protection and airline business partners to plan the improvements, which are expected to be complete in 2016.

Sustainability

The Department incorporates environmentally-friendly practices into its construction planning, daily operations and customer service. Stage I of the new PHX Sky Train® has achieved Gold LEED

(Leadership in Energy and Environmental Design) certification. More than 50 percent of all construction demolition waste associated with the project was recycled and salvaged, a minimum of 10 percent recycled content was used in building materials and landscape water needs were reduced by more than 50 percent at the train stations.

One of the Airport's most innovative recycling programs involves the re-use of rubber that is removed from the runways. Each time an aircraft lands, the tires leave rubber residue which must be extracted. The Airport is now sending much of that rubber to a local recycler for use in rubberized asphalt for roadways and other products.

Concrete from demolition projects, cardboard and mulch from plant trimmings are additional examples of products that are re-used and recycled. In addition, the Airport offers a comprehensive recycling program in public areas of the Airport terminals and in employee areas. Currently more than 30 percent of the waste generated at the Airport is diverted from local landfills.

Reducing waste is also a key goal. The Airport's new post-security water bottle refilling stations are reducing the use of disposable plastic bottles. These stations offer passengers the opportunity to carry an empty reusable bottle through security and fill it with chilled, filtered water before they board their flight. The new customer service amenity has been well-received, with passengers filling water bottles thousands of times per day.



The Airport recycles concrete from runway and taxiway re-construction and uses it as a sub-base for other paving projects. This process is not only sustainable, it saves the Department thousands of dollars per project.



This rendering illustrates improvements planned for the Airport's Terminal 3.

Terminal 3 Modernization

The Airport is preparing for the future through an incremental development plan for its second-busiest terminal. Terminal 3 opened in 1979, when seven million passengers per year traveled through the Airport. Now, with 40 million passengers every year, the Airport has launched a Terminal 3 modernization project, designed to provide consistent and enhanced customer service and more efficient operations for airlines and concessionaires. Upon completion of the Terminal 3 modernization project, the Airport's oldest terminal, Terminal 2, will be retired.

The Terminal 3 modernization plan is broken into three components to maximize flexibility and address changes in airline markets or other economic conditions which could impact passenger activity. The first component will expand the two existing security checkpoints, the second will be a reconfiguration of terminal passenger flow and concessions, and the third component will include expansion of the terminal's south concourse.

The Airport has planned carefully to accomplish the Terminal 3's modernization in the most flexible and cost-effective manner possible in order to best match terminal capacity with passenger demand. The Airport has hired a contractor who is currently in early design on the first component. The design of this component is tentatively scheduled to be complete by late 2014 with construction on the security checkpoints starting soon thereafter. Subsequent components will follow as needed .

Social Media Growth

Social media allows the Airport to communicate directly with customers, answering questions, announcing new amenities and providing instant updates on Airport conditions. The Airport has a robust social media presence which continues to grow. Followers of the Airport's Facebook page increased by more than 10,000 in calendar year 2013, bringing the total number of Facebook fans to more than 30,000. The Airport has nearly 11,000 followers on Twitter. In addition, the Airport uses Google+, Pinterest and YouTube to promote programs and communicate with customers. In calendar year 2013, the Airport joined Instagram, a widely-used social network which allows users to share photos. The Airport uses Instagram to post photos of events, amenities and services.



Federal and State Investment

The Airport System continues to receive substantial federal grants to maintain a safe airfield for aircraft operations. In October 2012, former U.S. Transportation Secretary Ray LaHood announced that the Airport would receive a \$16 million FAA grant to fund an apron rehabilitation project near its busiest terminal, Terminal 4. In Fiscal Year 2013, the Federal Aviation Administration (FAA) awarded the Airport a total of \$20.7 million in federal grants.

State government has also demonstrated a commitment to the Airport by making investments in runway and taxiway rehabilitation and enhancements.

Organization and Management

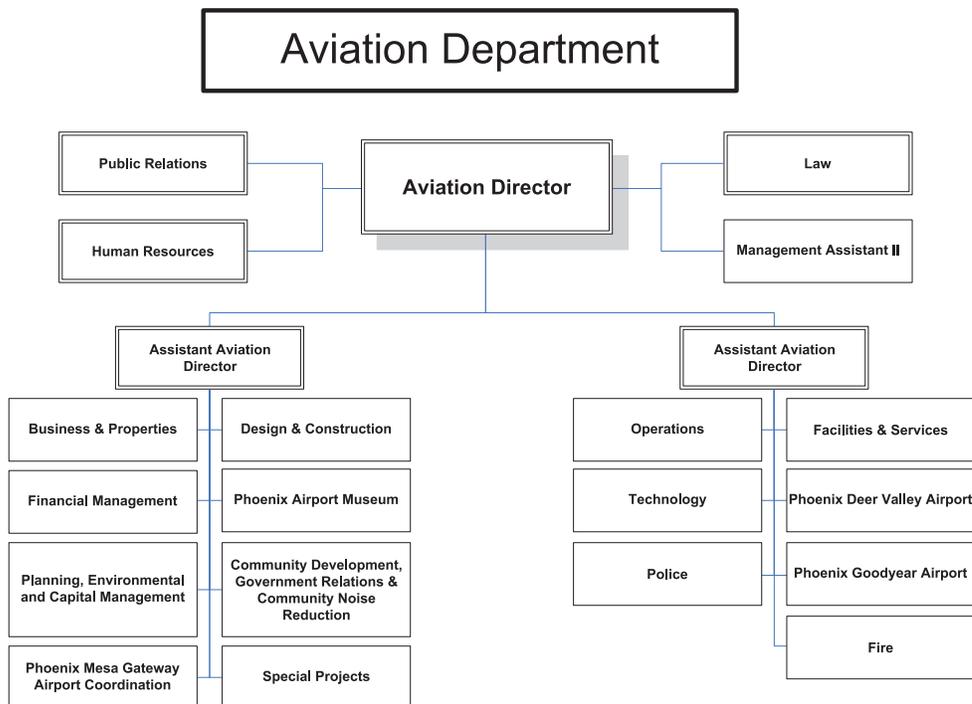
Phoenix was founded in 1870 as an agricultural community, and in 1881 was incorporated as a city. Phoenix operates under a City Council-Manager form of government as provided by its Charter, which was adopted in 1913. Under this organizational structure, the Mayor and City Council appoint a city manager to act as the chief operating officer. The Mayor and City Council set policy direction and the City Manager implements those policies in an efficient and effective

manner. In 1982, an initiative was passed by the Phoenix voters creating a district system for electing city council members and the number of city council seats was increased from six to eight. The Mayor is elected at-large, while city council members are elected by voters in each of eight separate districts they represent. The Mayor and each city council member have equal voting power.

The City owns and operates the Airport System. The City accounts for the Airport System financial operations as a separate Aviation Enterprise Fund according to generally accepted accounting principles for governmental entities. The City has operated the Airport System through the Department as a self-supporting enterprise since 1967.

The City Council establishes the major policies attendant to the development and operation of the Airport. The City Council appoints the City Manager who administers the policies relative to the Airport. The City Manager appoints the Aviation Director. The City Council adopts ordinances establishing fee structures for use of the Airport facilities, including airline rates and charges.

The Phoenix Aviation Advisory Board (PAAB) is made up of nine members approved by the City Council to 4-year terms and meets on a monthly





basis. The PAAB provides non-binding advisory recommendations regarding the Airport System, including airline rates and charges, concession agreements, leases, master plans, noise studies and development plans.

The Department is headed by an Aviation Director who reports to the Assistant City Manager. The Aviation Director is responsible for executing the aviation policies of the City Council and administering the operations of the Airport System. Reporting to the Aviation Director are two Assistant Aviation Directors. The Aviation Director and Assistant Aviation Directors head the Department staff. Certain accounting, bond financing, treasury, and related financial functions are performed by the City's Finance Department.

Phoenix Economy

The City of Phoenix has grown steadily in the past six decades. In 1950, Phoenix occupied 17 square miles with a population of almost 107,000, ranking 99th among American cities. The 1990 census recorded

Phoenix's population at 983,403 and the 2010 census recorded population at 1,447,128. As of July 1, 2013, Phoenix encompassed 519.30 square miles, with the City of Phoenix Planning and Development Department estimating population at 1,485,719, making Phoenix the 6th most populous city in the United States.

The Phoenix metropolitan area includes the cities of Mesa, Glendale, Tempe, Scottsdale, Chandler, Peoria, Goodyear, Tolleson, El Mirage, Surprise, Litchfield Park and Avondale; the towns of Buckeye, Gilbert and Paradise Valley; and all unincorporated areas of Maricopa County. The area is widely known for its mild winters, warm summers, and low annual rainfall averaging 8.3 inches per year.

Major employers of the metropolitan area include the State of Arizona, Wal-Mart Stores, Inc., Banner Health Systems, City of Phoenix, Wells Fargo, Maricopa County, Arizona State University, Bank of America, Intel Corporation, JP Morgan Chase and US Airways Group, Inc.¹

¹ US Airways Group, Inc. merged with American Airlines Inc. on December 9, 2013. The merged entity will operate as American Airlines Group Inc.

Phoenix is a popular tourist destination with attractions including resorts, spas, professional sports, shopping, golf, restaurants and nightlife, all set amidst the Sonoran Desert. The area also offers museums and galleries, a variety of sporting events, Old West and Native American history and outdoor recreation facilitated by more than 300 days of sunshine each year. In addition to the attractions within the Phoenix area, the northern part of Arizona is home to Grand Canyon National Park, Red Rock Country of Sedona, the Painted Desert, the Petrified Forest, Meteor Crater, ancient Native American ruins, and the Navajo and Hopi reservations.

Major sporting events also draw tourists. In 2015, the Phoenix area will host Super Bowl XLIX. This will mark the third time the area has hosted the National Football League's (NFL's) championship game. The Phoenix area is also the location of the annual Tostitos Fiesta Bowl and Buffalo Wild Wings Bowl college football bowl games and the annual Waste Management Phoenix Open PGA golf tournament. In addition, each January runners from around the world travel to Phoenix to participate in the annual Rock 'n' Roll Marathon.

The Phoenix area is home to five major league professional sports teams: Arizona Diamondbacks Major League Baseball team, Arizona Cardinals National Football League team, Phoenix Suns National Basketball Association team, Phoenix Coyotes National Hockey League team and Phoenix Mercury Women's National Basketball Association team. At the college level, the Arizona State Sun Devils compete within the Pacific-12 Conference in a number of sports, including baseball, basketball, and football.

The favorable Arizona climate brings 15 Major League Baseball teams, known as the Cactus League, to the Phoenix area each February and March for spring training and preseason play. The teams include the Arizona Diamondbacks, Chicago Cubs, Chicago White Sox, Cincinnati Reds, Cleveland Indians, Colorado Rockies, Kansas City Royals, Los Angeles Angels of Anaheim, Los Angeles Dodgers, Milwaukee Brewers, Oakland Athletics, San Diego Padres, San Francisco Giants, Seattle Mariners and Texas Rangers. In the spring of 2013, the Phoenix area hosted several World Baseball Classic games. Fans had the opportunity to see match-ups between Canada, Italy, Mexico and the United States.



Phoenix International Raceway (PIR), a major venue for NASCAR auto racing events, celebrates its 50th anniversary in 2014. The Raceway hosts two nationally-televised events annually, including the NASCAR Sprint Cup Series in March and the NASCAR Chase for the Sprint Cup Series in November. In February 2014, PIR will host the NASCAR Mexico Toyota Series for the second year.



Convention visitors are another important component of tourism. The state-of-the-art Phoenix Convention Center is a LEED-certified green building that offers nearly 900,000 square feet of rentable meeting and exhibit space, making it one of the 25 largest convention facilities in the United States. Phoenix's world-class convention center attracts national and international visitors. Each year, the convention center hosts several convention events that draw hundreds-of-thousands of out-of-town delegates who each spend an average of \$1,451 during their stay, which makes a positive impact on the local economy.



Airport Facilities

The Airport, located approximately four miles east of the downtown Phoenix area, was established in 1935. The Airport occupies approximately 3,000 acres of land located entirely within the City and is accessible within minutes from the central business district. It is the only Arizona airport designated as a large hub by the Federal Aviation Administration (FAA) and is the principal commercial service airport serving metropolitan Phoenix and most of the State's population. There are no other U.S. large-hub commercial service airports within a 5-hour drive from Phoenix, with the closest being Las Vegas' McCarran International Airport (approximately 290 miles to the northwest).

The Airport has three passenger terminal buildings, Terminals 2, 3, and 4. Collectively, the three terminals provide 108 passenger hold rooms and associated aircraft parking positions (gates). Terminal 2 contains approximately 330,000 square feet and 12 gates. Terminal 3 contains approximately 880,000 square feet and 16 gates. Terminal 4 contains approximately 2.3 million square feet and 80 gates. US Airways and Southwest Airlines, the two largest carriers at the Airport, and all international carriers operate exclusively from Terminal 4. As of May 2013, the Airport had 30,926 public and employee parking spaces. A consolidated rental car facility is located west of the terminals on a 135-acre site that includes approximately 5,600 ready/return garage spaces in a 2.2 million square foot garage and a 107,000 square foot lobby.

The Airport has three parallel air carrier runways (8/26 is 11,490 feet in length, 7L/25R is 10,300 feet in length, and 7R/25L is 7,800 feet in length) and a network of supporting taxiways, aprons and hold areas. Together with the terminals, the Airport facilities are capable of accommodating the operations of all commercial jet aircraft currently in use.

The City also serves the area's general aviation traffic activity through two reliever airports that it owns and operates. Phoenix Deer Valley Airport is located in the northern part of the City and Phoenix Goodyear Airport is located to the west. Together these two facilities handled 493,798 general aviation operations in Fiscal Year 2013.

The City is also a member government in the Phoenix-Mesa Gateway Airport Authority, which owns and operates Phoenix-Mesa Gateway Airport, located approximately 30 miles east of the Airport. Phoenix-Mesa Gateway serves as a commercial reliever airport to the Airport and is currently served by Allegiant Airlines with flights to 30 cities. On October 24, 2013, Spirit Airlines ceased service at Phoenix-Mesa Gateway and the following day began service at Phoenix Sky Harbor International Airport.



The 10 largest U.S. passenger airlines provide regular service at the Airport, providing nonstop passenger service to 100 airports. The table below lists the passenger and cargo airlines that provided service at the Airport in Fiscal Year 2013.

AIRLINES REPORTING ENPLANED PASSENGERS AND AIR CARGO

Phoenix Sky Harbor International Airport
(Fiscal Year 2013)

MAJOR/NATIONAL

Alaska
American
Delta
Frontier
Hawaiian
JetBlue
Southwest (a)
Sun Country
United (b)
US Airways

REGIONAL/COMMUTER

American Eagle
ExpressJet (United Express)
Great Lakes
Mesa (US Airways Express)
Pinnacle (Delta Connection)
Skywest (Delta Connection,
US Airways Express, United Express)

FOREIGN-FLAG

AeroMexico
Air Canada
British Airways
WestJet

ALL-CARGO AIRLINES

ABX Air
AirNet Systems
Ameriflight
DHL
Empire
Federal Express
Gulf & Caribbean Cargo
UPS

(a) Southwest acquired AirTran in September 2010. The two airlines are being integrated under the Southwest brand and received a single operating certificate from the FAA in March 2012.

(b) United acquired Continental in October 2010. The two airlines received a single operating certificate from the FAA in November 2011.

Source: City of Phoenix Aviation Department.

Airport Passengers

The total number of enplaned passengers at the Airport increased after the recent economic downturn. Between Fiscal Year 2011 and Fiscal Year 2013, enplaned passengers increased at an average of 1.4% per year. The composition of enplaned passengers by segment has not materially changed over the period, as the Airport remained primarily a domestic origin and destination (O&D) market.

Between Fiscal Year 2011 and Fiscal Year 2013, O&D passengers increased 2.5% per year, while connecting passengers declined at an average 0.1% per year. For more detailed information on enplaned passengers, please refer to Schedules 12 and 13 on pages 88 and 89 in the Airport Statistics section of the Supplementary Information section.

In Fiscal Year 2013, 94.5% of passengers were enplaned on domestic flights, while the remaining 5.5% boarded international flights. Between Fiscal Year 2011 and Fiscal Year 2013 domestic passengers grew at an average 1.4% per year while international passengers grew at an average of 1.0% per year.

In Fiscal Year 2013, 58.1% of enplaned passengers traveled directly from or to the Airport as O&D

passengers. Of the total O&D passengers, 46.0% were residents initiating their trips at the Airport and 54.0% were visitors who initiated their trips at other airports and were making their return journey from the Airport.

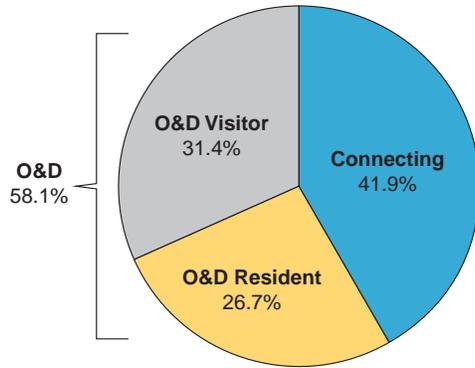
In Fiscal Year 2013, 41.9% of enplaned passengers connected through the Airport. The Airport's location facilitates connecting trip routings between the southwestern United States and points eastward. The Airport is one of three major connecting hub airports in the route network of US Airways and is the fifth largest "focus city" airport in the route network of Southwest Airlines. The two airlines accounted for 97% of the Airport's connecting passengers in Fiscal Year 2013.

The composition of enplaned passengers at the Airport has remained relatively steady between Fiscal Year 2011 and Fiscal Year 2013. US Airways, the Airport's largest carrier, accounted for 49.1% of enplaned passengers at the Airport in Fiscal Year 2013, a slight increase from 48.3% in Fiscal Year 2011. Over the same period Southwest Airlines (along with its AirTran subsidiary) increased its enplaned passenger share to 31.1% in Fiscal Year 2013 from 30.7% in Fiscal Year 2011.

HISTORICAL PASSENGER ENPLANEMENTS							
Phoenix Sky Harbor International Airport (Fiscal Years)							
FISCAL YEAR	BY FLIGHT DESTINATION		BY TYPE OF PASSENGER				
	Domestic	International	Origin-Destination (O&D)			Connecting	TOTAL
			Resident	Visitor	Total O&D		
2013	19,094,138	1,141,650	5,408,315	6,350,653	11,758,968	8,476,820	20,235,788
2012	19,134,426	1,144,032	5,353,660	6,392,308	11,745,968	8,532,490	20,278,458
2011	18,592,674	1,088,559	5,079,224	6,110,834	11,190,058	8,491,175	19,681,233
COMPOUND ANNUAL GROWTH RATE							
2011-2013	1.3%	2.4%	3.2%	1.9%	2.5%	-0.1%	1.4%
ANNUAL GROWTH RATE							
2012-2013	-0.2%	-0.2%	1.0%	-0.7%	0.1%	-0.7%	-0.2%
2011-2012	2.9%	5.1%	5.4%	4.6%	5.0%	0.5%	3.0%

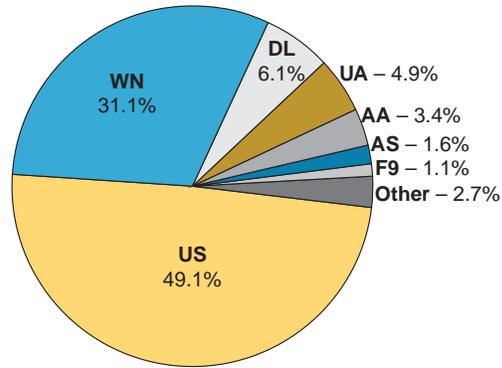
Note: FY 2012 reflects a restatement and may differ from last year's annual report.
Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

ENPLANED PASSENGERS
Fiscal Year 2013



Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

ENPLANED PASSENGERS
(by Airline – Fiscal Year 2013)



US US Airways DL Delta AA American F9 Frontier
 WN Southwest/AirTran UA United/Continental AS Alaska Other All Other Airlines
 Note: Includes regional code-sharing affiliates, if any.
 Source: City of Phoenix Aviation Department.

US Airways

US Airways is the surviving brand of a September 2005 merger with America West Airlines, which began commercial service in 1983, built its corporate headquarters in Tempe, Arizona and established a major hub at the Airport. In February 2013, American Airlines and US Airways announced a merger to create the world's largest airline as measured by seat-mile capacity. In August 2013, opponents of the merger, including the U.S. Department of Justice, filed an antitrust lawsuit to

block the deal. A settlement was reached and the U.S. Bankruptcy court approved the settlement in November 2013, clearing the way for completion of the merger which occurred in December 2013.

In Fiscal Year 2013, the Airport was ranked as the third largest US Airways hub in terms of departing seats behind Charlotte and Philadelphia. US Airways and its regional code-sharing affiliates accounted for 49.1% of enplaned passengers at the Airport in Fiscal Year 2013 - the largest share of any airline at the Airport.

SCHEDULED DEPARTING SEATS ON US AIRWAYS
Top U.S. Airports in the US Airways System
(Fiscal Years)

Rank	Airport	2013		2012		2011	
		Seats	% of Total	Seats	% of Total	Seats	% of Total
1	Charlotte	22,930,105	22.2%	22,051,896	21.4%	21,974,381	21.4%
2	Philadelphia	14,554,170	14.1	14,234,211	13.8	13,915,068	13.5
3	Phoenix	11,717,575	11.3	11,755,256	11.4	11,594,744	11.3
4	Washington-Reagan	6,318,438	6.1	5,479,515	5.3	5,505,290	5.4
5	Boston	2,618,299	2.5	2,703,820	2.6	2,727,235	2.7
6	New York-LaGuardia	2,093,878	2.0	3,487,734	3.4	3,562,175	3.5
7	Orlando	1,546,996	1.5	1,415,832	1.4	1,436,174	1.4
8	Pittsburgh	1,292,709	1.3	1,379,417	1.3	1,421,378	1.4
9	Chicago-O'Hare	1,197,581	1.2	1,128,244	1.1	1,083,105	1.1
10	Las Vegas	1,067,254	1.0	1,336,482	1.3	1,642,540	1.6
	All other	38,059,089	36.8	37,876,067	36.8	37,967,072	36.9
	TOTAL	103,396,094	100.0%	102,848,474	100.0%	102,829,162	100.0%

Note: Represents seats on scheduled domestic and international flights and includes regional code-sharing affiliates. Seats are provided and estimated by source, based on equipment configurations and historical flight data; changes to historical reported data may occur.

Source: OAG Aviation Worldwide Ltd., online database, accessed October 2013.

Southwest Airlines

Southwest Airlines started commercial service in 1971 and has served the Airport since 1982. In Fiscal Year 2013, Southwest/AirTran offered more seats at the

Airport than at all but four airports in its system - Chicago-Midway, Las Vegas, Baltimore, and Atlanta. As noted, Southwest/AirTran accounted for 31.1% of enplaned passengers at the Airport in Fiscal Year 2013, ranking second behind US Airways.

SCHEDULED DEPARTING SEATS ON SOUTHWEST AIRLINES AND AIRTRAN AIRWAYS Top U.S. Airports in the Combined Southwest/AirTran System (Fiscal Years)

Rank	Airport	2013		2012		2011	
		Seats	% of Total	Seats	% of Total	Seats	% of Total
1	Chicago-Midway	11,895,013	6.5%	11,332,300	6.1%	10,915,109	5.8%
2	Las Vegas	11,038,821	6.0	10,781,242	5.8	10,911,156	5.8
3	Baltimore	10,778,212	5.9	10,784,520	5.8	10,620,699	5.7
4	Atlanta	8,531,388	4.6	8,768,213	4.7	8,788,742	4.7
5	Phoenix	8,424,217	4.6	8,642,025	4.6	8,656,453	4.6
6	Denver	8,260,786	4.5	7,661,300	4.1	7,030,892	3.8
7	Houston-Hobby	6,998,342	3.8	6,517,708	3.5	6,307,195	3.4
8	Orlando	6,483,531	3.5	7,343,205	3.9	7,571,706	4.0
9	Dallas-Love	5,739,967	3.1	5,807,978	3.1	5,814,191	3.1
10	Los Angeles	5,462,400	3.0	5,497,089	2.9	5,657,153	3.0
	All other	100,505,321	54.6	103,518,967	55.5	105,209,013	56.1
	TOTAL	184,117,998	100.0%	186,654,547	100.0%	187,482,309	100.0%

Notes: Represents seats on scheduled domestic and international flights.

Includes AirTran. Southwest acquired AirTran in September 2010. The two airlines are being integrated under the Southwest brand and received a single operating certificate from the FAA in March 2012.

Seats are provided and estimated by source, based on equipment configurations and historical flight data; changes to historical reported data may occur.

Source: OAG Aviation Worldwide Ltd., online database, accessed October 2013.





Airline Rates and Charges

In 1981, the Mayor and City Council formally adopted a compensatory (cost of services) rate-setting policy which provides (1) that charges to aviation users be established on the basis of the costs to provide, maintain and operate the Airport facilities and services, and (2) that these costs be recovered from aviation users on a basis not to exceed their proportional use thereof. Under this compensatory rate-setting methodology, the City bears the risk of any revenue shortfall and retains any surplus revenue for its own discretionary expenditures. Rates and charges are typically adjusted at the beginning of each Fiscal Year after the City has reviewed proposed rate changes and capital expenditures with airline representatives. However, the City retains its proprietary right to adjust fees and to determine its capital expenditures without airline approval. The City also has the unilateral right to adjust terminal rates and landing fees at any time to reflect changes in cost. Any such adjustment is subject to federal law and regulations.

The City uses short-term (month-to-month) Letters of Authorization (each, a LOA) for airline space within its terminal facilities. Such LOA can be terminated by either party upon 30-days' notice, providing the City with the flexibility to maximize the use of its terminal facilities.

Cash Management

As noted, the Department operates as a separate enterprise fund of the City, however cash resources are pooled with other City departments and invested by the City Treasurer. Interest earned by the pool is distributed monthly to individual enterprise funds based on daily equity in the pool.

Cash and cash equivalents are considered to be cash in bank accounts, cash on hand and short term investments with original maturities of 90 days or less from the date of acquisition. The City's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

Aviation Department Financial Policies

Management is focused on maintaining sound financial performance which is evident from the strong financial metrics and high bond ratings achieved. The Department has adopted specific financial and debt management policies to ensure the Airport's continued solid financial performance. These financial policies include:

- Debt Service Coverage:** Management seeks to maintain Senior Lien Bond debt service coverage of at least 1.75x-2.00x. Fiscal Year 2013 debt service coverage, which was 2.04x, was above target. Fiscal Year 2012 coverage of 1.87x was in the mid-range of the target. Fiscal Year 2011 coverage, which was 2.04x, was above target. Management also seeks to maintain aggregate debt service coverage (coverage of Senior Lien Bond debt service and Junior Lien Bond debt service) of at least 1.50x. The City's aggregate debt service coverage for fiscal years 2013, 2012, and 2011 was 1.98x, 1.82x, and 1.99x, respectively.
- Passenger Facility Charge (PFC) Leveraging:** Management has established a PFC leverage target of no greater than 65%-75% of annual collections to preserve adequate PFC pay-as-you-go capacity and provide bondholder protection should unexpected volatility occur in operations and revenue. For Fiscal Year 2013, this target continues to be met with 56% PFC leveraging, which is up from 41% in Fiscal Year 2012 and 33% in Fiscal Year 2011. The increase in recent years is due primarily to scheduled debt service payment increases on bonds issued in 2010.
- Cash and Liquidity:** Management has established a target of at least 475 Days Cash On Hand¹. In Fiscal Year 2013, Fiscal Year 2012 and Fiscal Year 2011 management exceeded the target achieving 524, 522, and 562 days respectively. Furthermore, management has an active Commercial Paper program supported by two Letters of Credit to provide liquidity and support short-term capital needs.
- Cost Per Enplanement (CPE):** The Airport maintains one of the industry's most competitive (lowest) CPE figures for similarly sized U.S. airports. Management has the flexibility to increase CPE to maintain financial metrics and develop facilities. The CPE was \$5.53 in Fiscal Year 2013, \$5.23 in Fiscal Year 2012 and \$5.15 in Fiscal Year 2011.

FINANCIAL TARGETS & MANAGEMENT POLICIES Phoenix Sky Harbor International Airport	
Debt Service Coverage Targets	
Senior Lien: 1.75-2.00x	Aggregate (PFC Offset): at least 1.50x
PFC Leveraging no greater than 65%-75% of Annual Collections	
Debt Service Coverage (Revenue Method): at least 1.40x	
Utilize Junior Lien for PFC Leveraging	
Days Cash on Hand: at least 475 Days	
Maintain Competitive CPE, with Increases Targeted to Maintain Metrics and Develop Facilities	

¹ "Days Cash On Hand" is defined as unrestricted cash available for operations divided by annual operating expenses times 365 days.

Accounting and Budgetary Controls of the City

Independent Audits

The City Charter requires an annual audit by independent certified public accountants. The independent audit firm of Grant Thornton LLP was selected to perform the audit of the City's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2013. Included in the financial section of the CAFR is the Independent Auditor's Report on the financial statements of the governmental activities, business-type activities, discretely presented component units, each major fund and aggregate remaining funds.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Grant Thornton LLP was also contracted to perform the single audit of the City's major grant programs. This audit was designed to meet the requirements of the Single Audit Act of 1996 and related OMB Circular A-133. Due to the size and complexity of the City's financial systems, the single audit report is issued separately from the CAFR.

Grant Thornton LLP also conducted an independent audit of the Department's financial statements for Fiscal Year 2013 (see Financial Section).

Budgeting Systems and Controls

The City maintains budgetary controls, which are designed to ensure compliance with legal provisions of the annual budget adopted by the City Council. An operating budget is legally adopted by ordinance each fiscal year for the General, several special revenue, Secondary Property Tax Debt Service, City Improvement Debt Service and enterprise funds on a modified accrual basis plus encumbrances. Legal budget control is maintained at the fund level, except the General Fund for which the control is by program.



After tentative adoption of the budget, the City Council may make changes, but may not increase the budget totals except in those areas exempted by State budget law. The exemptions apply to Federal funds, Arizona Highway User funds, debt service and bond funds. After final adoption, transfers between budget appropriations for non-exempt areas may be made by the City Council. Throughout the budget year, the City Council may also appropriate additional general purpose funds by use of a contingency appropriation reserved to cover emergencies or other necessary expenditures as determined by the City Council. Supplemental appropriations may be adopted for expenditures exempt from the State expenditure limitation, such as federally funded programs, provided funds are available. State law requires the City to re-budget (re-appropriate) funds for the completion of contracts which were originally budgeted for and encumbered in a previous fiscal year. This law necessitates an additional appropriation ordinance to re-budget funds for contracts not completed by June 30.

Awards and Accomplishments

The Department received numerous awards in calendar year 2013, with the PHX Sky Train® project leading the way. The train was selected for a top honor in the prestigious Valley Forward Environmental Excellence Awards. The project was recognized for providing a vital transit link to the



Phoenix area alleviating roadway congestion and enhancing customer service. The stunning glass mural project incorporated into the walls of the walkways between Terminal 4 and the PHX Sky Train® station was honored with an Award of Merit in the Valley Forward Art in Public Places category. Four artist-designed terrazzo floors in the PHX Sky Train® stations were named “2013 Job of the Year” by the National Terrazzo and Mosaic Association. The train was also selected as the recipient of the “2013 Going Green Award,” presented at the 6th Annual Airports Going Green Conference in Chicago. And the PHX Sky Train® Stage One project was honored as Outstanding Transit Innovation in the Arizona Transit Association/Arizona Department of Transportation joint Excellence Awards.

In October 2013, the Airport was recognized with two Annual Clean Air Campaign Awards: The Maricopa Association of Governments (MAG) Livable Communities award and the Corporate Sustainability Award, recognizing the Department’s Sustainability Management Plan. In addition, the Department’s Public Relations team received a first place award in the Airports Council International – North America (ACI-NA) Excellence in Airport Marketing and Communication Contest. The award recognized the Airport for the successful and effective communication of the US Airways/American Airlines merger announcement.

With safety and security as its top priorities, the Airport was proud to receive a perfect score in its annual Federal Aviation Administration (FAA) certification inspection in 2013. During the comprehensive inspection, officials carefully audit records, fueling procedures and emergency response. The entire airfield is also evaluated. This was the seventh perfect inspection in the past eight years at the Airport.



This award-winning terrazzo floor is located in the walkway between the regional light rail system and the PHX Sky Train® 44th Street Station.



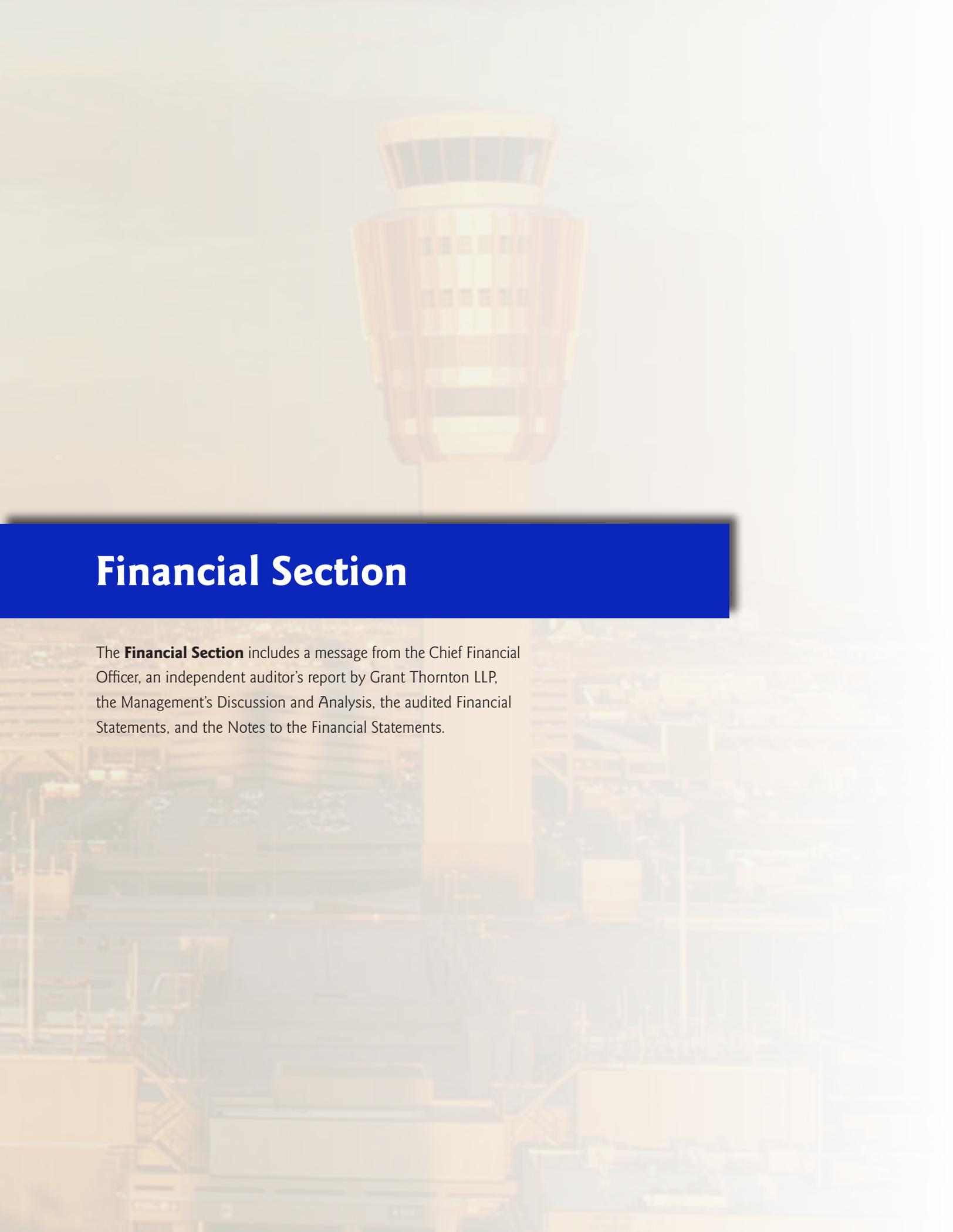
Left to right: Steve Thompson - Lead Valley Forward Award Judge, Danny Murphy - Aviation Director, Greg Stanton - Mayor of Phoenix



City of Phoenix



City of Phoenix



Financial Section

The **Financial Section** includes a message from the Chief Financial Officer, an independent auditor's report by Grant Thornton LLP, the Management's Discussion and Analysis, the audited Financial Statements, and the Notes to the Financial Statements.



City of Phoenix

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

FINANCE DEPARTMENT MISSION

**Stewardship, Integrity, Innovation
in service to our customers**

I am pleased to submit, with the Aviation Department, the City of Phoenix Aviation Department Annual Financial Report for the fiscal year ended June 30, 2013.

The objective of this report is to provide a detailed and concentrated look at the Aviation Enterprise Fund's financial status. There are many positive financial areas of the Aviation Enterprise Fund to highlight including:

- **Cash and Liquidity:** In fiscal year 2013, the Aviation Enterprise Fund achieved 524 Days Cash on Hand. The target goal of management is at least 475 days.
- **Commercial Paper Program:** The Aviation Enterprise Fund has a \$200 million Commercial Paper Program to fund the expansion of the PHX Sky Train to Terminal 3 backed by Letters of Credit. Stage 1, which was completed on time and under budget, opened in March 2013, and construction on Stage 1a is well underway.
- **Debt Service Coverage:** The Aviation Enterprise Fund continues to show strong Debt Service Coverage with Senior Lien coverage of 2.02x and an aggregate coverage of 1.96x for fiscal year 2013. The target Senior Lien coverage of management is 1.75x – 2.00x, and the target aggregate coverage of management is at least 1.50x.
- In November 2012, both Standard & Poor's and Moody's Investors Service affirmed the rating on the Aviation Enterprise Fund outstanding Senior Lien bonds at "AA-/Aa3" and the rating on outstanding Junior Lien bonds at "A+/A1".

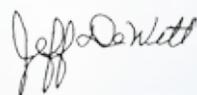
The Finance Department strives for financial integrity and is pleased to present the Financial Section of the report, which includes an independent auditor's report by Grant Thornton LLP, the Management's Discussion and Analysis, the audited financial statements, and the Notes to the Financial Statements.

Additional financial information can be found in the Supplementary Information section of the report. This includes more detail on the Aviation Enterprise Fund's Cash on Hand and more detail regarding debt service.

The Finance Department also provides critical information about the Aviation Enterprise Fund, as well as all other City of Phoenix finances on an investor website at www.phoenix.gov/finance/investor.

This report successfully highlights the Aviation Enterprise Fund's financial activities. The completion of this report could not have been accomplished without the dedicated service of the Finance and Aviation staff. I would like to express my appreciation to all team members who assisted and contributed to its preparation.

Sincerely,



Jeff DeWitt
Chief Financial Officer





City of Phoenix

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Mayor and Members of the City Council
City of Phoenix, Arizona

Report on the financial statements

We have audited the accompanying statements of net position of the Aviation Enterprise Fund (a major fund of the City of Phoenix, Arizona) (the “Entity”) as of and for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and notes to the financial statements, which collectively comprise the Entity’s basic financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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

As discussed in Note 1, the financial statements present only the Entity, a major fund of the City of Phoenix, and do not purport to, and do not, present fairly the financial position of the City of Phoenix as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aviation Enterprise Fund of the City of Phoenix, Arizona as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 29 through 39, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

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

GRANT THORNTON LLP

Phoenix, Arizona
December 20, 2013

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) is a narrative overview and analysis of the financial activities of the City of Phoenix (the City) Aviation Enterprise Fund. It provides an introduction and discussion of the financial statements of the Phoenix Sky Harbor International Airport (the Airport) and two general aviation airports, Phoenix Goodyear Airport and Phoenix Deer Valley Airport (collectively, the Airport System) as of and for the Fiscal Year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

Financial Highlights

Fiscal Year 2013

- Total net position for the Aviation Enterprise Fund at June 30, 2013 was \$1,765.6 million. This is a decrease of \$24.0 million from total net position at June 30, 2012.
- Operating revenues increased by \$5.9 million to \$305.7 million in Fiscal Year 2013.
- The increase in revenues is due to higher airline operating revenues as well as increases in parking and car rental revenues.
- Total operating expenses, exclusive of depreciation and amortization were \$247.4 million in Fiscal Year 2013, an increase of \$15.4 million from Fiscal Year 2012.
- The increase in expenses, exclusive of depreciation and amortization, is due to increases in major repairs, utilities, supplies and maintenance in Fiscal Year 2013. Expenses associated with the issuance of new Senior Lien Airport Revenue Refunding Bonds accounted for a portion of the increase.

Fiscal Year 2012

- Total net position for the Aviation Enterprise Fund at June 30, 2012 was \$1,789.6 million. This is an increase of \$19.6 million over total net position at June 30, 2011.
- Operating revenues increased by \$11.1 million to \$299.8 million in Fiscal Year 2012.
- The increase in revenues is due to higher airline operating revenues resulting from an increase in landing and terminal fees, as well as increases in parking and ground transportation revenues attributable to passenger traffic growth. A significant increase in other revenues also contributed to the total increase in revenues due to one-time refunds and insurance payments.
- Total operating expenses, exclusive of depreciation and amortization were \$232.0 million in Fiscal Year 2012, a decrease of \$8.6 million from Fiscal Year 2011.
- The decrease in expenses, exclusive of depreciation and amortization, is due to a decrease in major repairs and maintenance in Fiscal Year 2012. Environmental remediation and noise mitigation expenses were also significantly lower in Fiscal Year 2012 compared to Fiscal Year 2011.

Overview of the Financial Statements

The Aviation Enterprise Fund is an enterprise fund of the City. This fund is used to account for the Airport System's ongoing operations and activities, which are similar to those often found in the private sector and where recovery cost and the determination of net income is useful or necessary for sound fiscal management. It uses the accrual basis of accounting; revenues are recognized when earned and expenses are recognized as incurred. Following the MD&A are the financial statements, notes to the financial statements, and supplemental schedules of the Aviation Enterprise Fund. These statements, notes and schedules, together with the MD&A, are designed to provide an understanding of the Aviation Enterprise Fund's financial position, results of operations, and cash flows.

The Comparative Statements of Net position present information on all of the Aviation Enterprise Fund's assets, liabilities, deferred inflows and outflows and net position as of June 30, 2013 and 2012. The Comparative Statements of Revenues, Expenses, and Changes in Net position present financial information showing how the Aviation Enterprise Fund's net position changed during the fiscal years ended June 30, 2013 and 2012. The Comparative Statements of Cash Flows relate to the cash and cash equivalent in-flows and out-flows as a result of financial transactions during the two fiscal years and also include reconciliations of operating loss to the net cash provided by operating activities.

Summary of Net Position

The following is a summary of assets, liabilities, deferred inflows and outflows, and net position as of June 30:

SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION Aviation Enterprise Fund (Fiscal Years; in thousands)

	2013	2012	2011
Assets			
Unrestricted Current Assets	\$ 319,892	\$ 303,967	\$ 291,759
Restricted Current Assets	366,898	379,751	544,998
Capital Assets, net	2,821,432	2,815,460	2,668,637
OPEB Asset	55	50	68
Total Assets	3,508,277	3,499,228	3,505,462
Deferred Outflows of Resources	2,049	1,192	1,643
Liabilities			
Current Liabilities Payable from Current Assets	32,111	31,207	26,978
Current Liabilities Payable from Restricted Assets	232,233	150,290	135,744
Bonds Payable, non-current	1,465,246	1,512,838	1,557,473
Pollution Remediation	9,500	10,831	11,555
Accrued Compensated Absences	5,618	5,641	5,354
Total Liabilities	1,744,708	1,710,807	1,737,104
Deferred Inflows of Resources	-	-	-
Net Position			
Net Investment in Capital Assets	1,255,699	1,325,444	1,312,605
Restricted	106,337	106,337	106,350
Unrestricted	403,582	357,832	351,046
Total Net Position	\$ 1,765,618	\$ 1,789,613	\$ 1,770,001

The analysis below explains the summary of assets, liabilities and net position.

Fiscal Year 2013 Compared to Fiscal Year 2012

Total assets increased by \$9.0 million, or 0.3%, in Fiscal Year 2013, compared to Fiscal Year 2012. This was primarily due to the increase in cash and cash equivalents from the drawdown on the bond anticipation note, offset by spending for capital construction.

Total liabilities increased by \$33.9 million, or 2.0% in Fiscal Year 2013, compared to Fiscal Year 2012. The increase is due to a combination of an increase in current liabilities of \$82.8 million, a decrease in long-term debt of \$47.6 million, and a decrease in other non-current liabilities of \$1.3 million. The increase in current liabilities is substantially due to a draw on the commercial paper program notes to fund Stage 1a of the Sky Train project. The decrease in long-term debt is due to debt service payments in FY 2013.

Total net position decreased by \$24.0 million, or 1.3%, in Fiscal Year 2013. As of June 30, 2013, \$1,255.7 million was an investment in capital assets and \$403.6 million was unrestricted and available for short term operations and ongoing obligations. The amount restricted for debt service reserves totaled \$106.3 million for Fiscal Year 2013.

Fiscal Year 2012 Compared to Fiscal Year 2011

Total assets decreased by \$6.2 million, or 0.2%, in Fiscal Year 2012, compared to Fiscal Year 2011. This was primarily the net result of the increase in cash and cash equivalents from increased revenues and an increase in capital assets offset by a decrease in investments of Junior Lien Airport Revenue bond proceeds used to pay for construction costs.

Total liabilities decreased by \$26.3 million, or 1.5%, in Fiscal Year 2012, compared to Fiscal Year 2011 due to debt service payments.

Total net position increased by \$19.6 million, or 1.1%, in Fiscal Year 2012. As of June 30, 2012, \$1,325.4 million was an investment in capital assets and \$357.8 million was unrestricted and available for short term operations and ongoing obligations. The amount restricted for debt service reserves totaled \$106.3 million for Fiscal Year 2012.

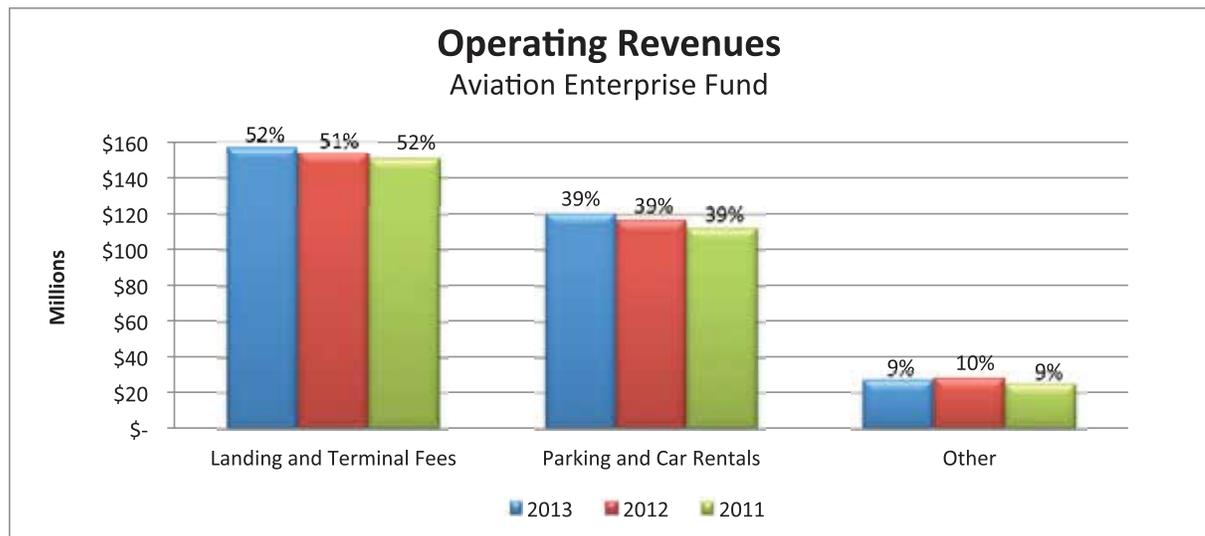
The following is a summary of changes in net position as of June 30:

CHANGES IN NET POSITION			
Aviation Enterprise Fund			
(Fiscal Years; in thousands)			
	2013	2012	2011
Operating Revenues	\$ 305,686	\$ 299,767	\$ 288,660
Operating Expenses Before Depreciation	(247,416)	(232,049)	(240,602)
Operating Income Before Depreciation	58,270	67,718	48,058
Depreciation	(146,034)	(127,699)	(128,697)
Operating Loss	(87,764)	(59,981)	(80,639)
Non-Operating Revenues	9,054	7,871	14,666
Non-Operating Expenses	(79,473)	(81,032)	(74,866)
Capital Contributions	134,157	152,754	152,976
Transfers	31	-	-
Change in Net Position	(23,995)	19,612	12,137
Net Position, July 1	1,789,613	1,770,001	1,757,864
Net Position, June 30	<u>\$ 1,765,618</u>	<u>\$ 1,789,613</u>	<u>\$ 1,770,001</u>

The following is a summary of operating revenues for the Fiscal Years ending June 30:

OPERATING REVENUES
Aviation Enterprise Fund
(Fiscal Years; in thousands)

	2013	2012	2011
Landing and Terminals Fees			
Airline Landing Fees	\$ 44,791	\$ 42,978	\$ 41,200
Airline Terminal Fees	65,189	63,143	60,138
Terminal Concessions	43,072	45,120	47,657
Other	4,656	3,148	2,012
Subtotal	<u>157,708</u>	<u>154,389</u>	<u>151,007</u>
Parking and Car Rentals			
Parking	75,441	72,722	69,775
Car Rentals	45,140	44,032	42,687
Subtotal	<u>120,581</u>	<u>116,754</u>	<u>112,462</u>
Other Revenues			
Commercial	12,861	12,230	12,492
Ground Transportation	4,774	4,722	4,515
Other	9,762	11,672	8,184
Subtotal	<u>27,397</u>	<u>28,624</u>	<u>25,191</u>
Total Operating Revenues	<u>\$ 305,686</u>	<u>\$ 299,767</u>	<u>\$ 288,660</u>



The analysis below explains the increases and decreases in operating revenues.

Fiscal Year 2013 Compared to Fiscal Year 2012

Operating revenues increased by \$5.9 million, or 2.0%, to \$305.7 million in Fiscal Year 2013 from \$299.8 million in Fiscal Year 2012. This increase is primarily due to increases in airline landing and terminal fees, as well as increases in parking, car rentals, and commercial revenue, offset by a decrease in terminal concessions.

Landing and Terminal Fees increased by \$3.3 million, or 2.1% which is net of an increase in airline landing and terminal fee increases offset by a decrease in terminal concession revenues. The increase in airline landing fees resulted from an increase in the landing fee rate at the Airport to \$1.85 per 1,000 pounds in Fiscal Year 2013 from \$1.67 in Fiscal Year 2012. The airline terminal fee increase was due to a terminal space rental rate increase. The airline terminal fee increase in Fiscal Year 2013 was split into 6-month increments, with the average per square foot rate at the end of the fiscal year at \$117.12. Terminal concession revenues decreased in Fiscal Year 2013 due to the continued construction in the Terminal 4 concession area.

Parking and Car Rentals increased by \$3.8 million, or 3.3%. This increase is attributable to an improving economy as well as growth in total origin and destination (O&D) traffic at the Airport of 0.1%. Factors contributing to the increase in parking revenues in Fiscal Year 2013 include the opening of the PHX Sky Train® as well as an increase in the length of time passengers parked at the airport.

Other Revenues decreased by \$1.2 million, or 4.3% due to one-time refunds and insurance payments received in Fiscal Year 2012. Also included in this category is reimbursement income for the construction of the environmental remediation system at the Airport which was lower in Fiscal Year 2013 compared to Fiscal Year 2012.

Fiscal Year 2012 Compared to Fiscal Year 2011

Operating revenues increased by \$11.1 million, or 3.8%, to \$299.8 million in Fiscal Year 2012 from \$288.7 million in Fiscal Year 2011. This increase is primarily due to increases in airline landing and terminal fees, as well as increases in parking, car rentals, and ground transportation, offset by a decrease in terminal concessions.

Landing and Terminals Fees increased by \$3.4 million, or 2.2% which is net of airline landing fees and terminal fee increases and terminal concession revenue decrease. The increase in airline landing fees resulted from an increase in the landing fee rate at the Airport to \$1.67 per 1,000 pounds in Fiscal Year 2012 from \$1.62 in Fiscal Year 2011. The airline terminal fee increase was due to a terminal space rental rate increase and a change in the rate methodology to allow for the equalization of rates across all terminals. The airline terminal fee increase in Fiscal Year 2012 was split into 6-month increments, with the average per square foot rate at the end of the fiscal year at \$106.68.

Passenger enplanements at the Airport increased to 20.3 million in Fiscal Year 2012 from 19.7 million in Fiscal Year 2011, representing a 3.0% increase, which contributed to the increased ground transportation revenues. Terminal concession revenues decreased due to revenue loss from the construction in the Terminal 4 concession area.

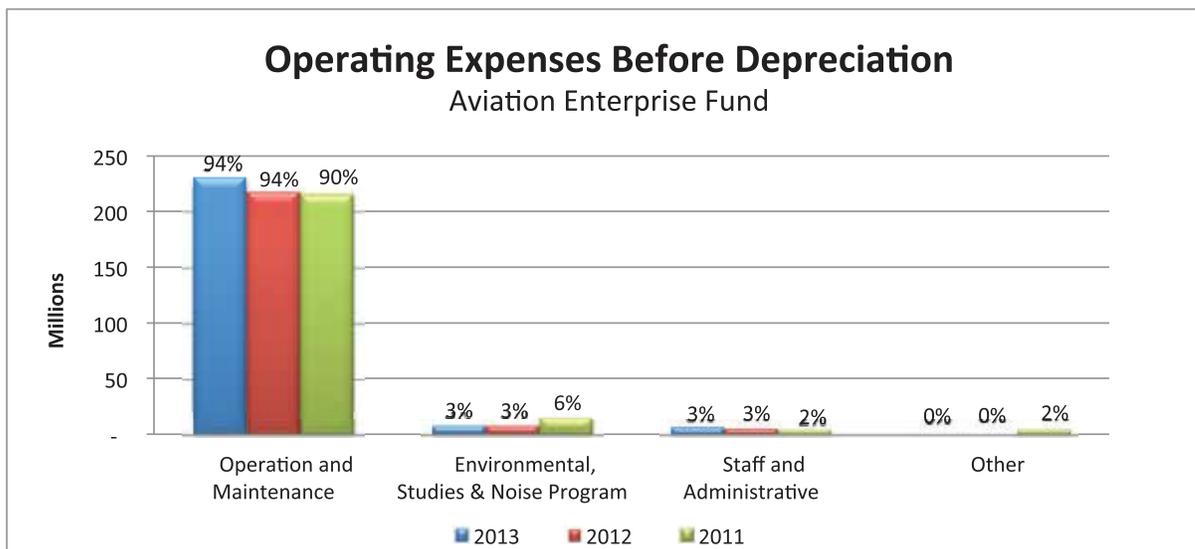
Parking and Car Rentals increased by \$4.3 million, or 3.8%. This increase is attributable to growth in total origin and destination (O&D) traffic at the Airport of 5% in Fiscal Year 2012.

Other Revenues increased by \$3.4 million, or 13.6%. The increase in Other Revenues was due to one-time refunds and insurance payments for damage to buildings from vandalism and theft. Also included in this category is reimbursement income for the construction of the environmental remediation system at the Airport which was higher in Fiscal Year 2012 compared to Fiscal Year 2011.

The following is a summary of operating expenses before depreciation for the Fiscal Years ending June 30:

OPERATING EXPENSES BEFORE DEPRECIATION
Aviation Enterprise Fund
(Fiscal Years; in thousands)

	2013	2012	2011
Operating Expenses Before Depreciation			
Operation and Maintenance	\$ 232,186	\$ 217,942	\$ 216,366
Environmental, Studies & Noise Program	8,361	8,218	15,364
Staff and Administrative	6,869	5,889	4,364
Other	-	-	4,508
Total Operating Expenses Before Depreciation	\$ 247,416	\$ 232,049	\$ 240,602



The analysis below explains the increases and decreases in operating expenses before depreciation.

Fiscal Year 2013 Compared to Fiscal Year 2012

Total operating expenses before depreciation increased by \$15.4 million or 6.6%, to \$247.4 million in Fiscal Year 2013 from \$232.0 million in Fiscal Year 2012. The following is a summary of the increase:

Operation and Maintenance expenses increased by \$14.2 million, or 6.5% in Fiscal Year 2013. The increase was due to several factors, including a \$6.6 million increase in expenses related to the continuing restoration and maintenance of airfield, airside, and roadway pavement. Increases in utilities, supplies, and various maintenance contracts equaled \$4.0 million. Expenses for technical support and technological services, such as the Common Use Terminal Equipment System and Access Control System increased by \$1.0 million in Fiscal Year 2013. Expenses associated with the issuance of new Senior Lien Airport Revenue Refunding Bonds in Fiscal Year 2013 were \$0.9 million.

Environmental, Studies and Noise Program expenses remained stable, showing a slight increase of \$0.1 million, or 1.7% in Fiscal Year 2013.

Staff and Administrative expenses increased by \$1.0 million, or 16.6%, in Fiscal Year 2013. This is due to an increase in the Aviation Enterprise Fund's share of the City-wide overhead, due to continued refinements in allocation methodology of information technology services.

Fiscal Year 2012 Compared to Fiscal Year 2011

Total operating expenses before depreciation decreased by \$8.6 million or 3.6%, to \$232.0 million in Fiscal Year 2012 from \$240.6 million in Fiscal Year 2011. The following is a summary of the decrease:

Operation and Maintenance expenses remained stable, showing a slight increase of \$1.6 million, or 0.7%. This increase is primarily due to increases in maintenance contracts regarding Aviation Enterprise Fund software technology services, as well as an increase for maintenance of elevators, escalators, and moving walkways.

Environmental, Studies and Noise Program expenses decreased by \$7.1 million, or 46.5% in Fiscal Year 2012 due to a decrease in continuing work on noise compatibility in the areas surrounding the Airport.

Staff and Administrative expenses increased by \$1.5 million in Fiscal Year 2012. This is due to a change in reporting of the Aviation Enterprise Fund's share of the City-wide overhead for the Information Technology Services Department. Previously, these costs were included in Operation and Maintenance expenses.

Other Expenses in Fiscal Year 2011 was comprised of major maintenance efforts that did not result in capital assets for the Aviation Enterprise Fund. Similar expenses in Fiscal Year 2012 are included in Operation and Maintenance expenses, resulting in a \$4.5 million decrease in Other Expenses.

Short-Term Debt

The Aviation Enterprise Fund, through the City, maintains an active commercial paper program for ongoing capital needs and liquidity for the benefit of airport improvements. In November 2012, \$100.0 million out of an authorized \$200.0 million of commercial paper was issued, and remains outstanding at June 30, 2013.

Long-Term Debt

City of Phoenix Civic Improvement Corporation Senior Lien Airport Revenue Bonds

The Aviation Enterprise Fund, through the City, has entered into certain agreements with the City of Phoenix Civic Improvement Corporation (the CIC) for the purchase of certain improvements and expansion projects at the City's airports. The CIC issued bonds for the improvements and expansion projects, and the Aviation Enterprise Fund made a senior lien pledge of Net Airport Revenues to make payments sufficient to pay principal of and interest on the bonds. The debt service requirements on senior lien airport revenue bonds are secured by a first lien pledge of Net Airport Revenues. The term Net Airport Revenues is defined in the Airport Revenue Bond Ordinance to mean Airport Revenues, after provisions for payment of the Cost of Maintenance and Operation.

As of June 30, 2013 and 2012, there was \$542.9 million and \$599.6 million, respectively, principal amount outstanding in Senior Lien Airport Revenue Bonds (issued by the CIC).

The debt service reserve requirement for the Senior Lien Airport Revenue Bonds is \$47.0 million which has been fully funded with cash.

In March 2013, the CIC issued \$196,600,000 of Senior Lien Airport Revenue Refunding Bonds, Series 2013 (AMT). Proceeds of the bonds refunded \$231,390,000 of outstanding Senior Lien Airport Revenue Bonds, Series 2002B (AMT). The bonds have an average life of 11.8 years, were sold at an all-in true interest cost of 3.28% and produced present value savings, net of transaction costs, of \$46,424,267.

For more information regarding Senior Lien debt, please refer to Note 5 in the Notes to the Financial Statements, and Schedules 4 and 5 on pages 78 and 79 in the Debt Section of the Supplementary Information.

City of Phoenix Civic Improvement Corporation Junior Lien Airport Revenue Bonds

The Aviation Enterprise Fund, through the City, has entered into certain purchase agreements with the CIC for the purchase of certain improvements and expansion projects at the City's airports. The CIC issued bonds for the improvements and expansion projects, and the Aviation Enterprise Fund made a junior lien pledge of Net Airport Revenues to make payments sufficient to pay principal of and interest on the bonds. The debt service requirements on junior lien airport revenue bonds are junior to the senior lien airport revenue bonds and are secured by a pledge of the Designated Revenues. The term Designated Revenues is defined in the Airport Revenue Bond Ordinance to mean Net Airport Revenues, after payments required on any senior lien airport revenue bonds.

As of June 30, 2013 and 2012, there was \$684.4 million and \$696.1 million, respectively, principal amount outstanding in Junior Lien Airport Revenue Bonds (issued by the CIC).

The debt service reserve requirement for the Junior Lien Airport Revenue Bonds is \$56.6 million, which has been fully funded with cash.

For more information regarding Junior Lien debt, please refer to Note 5 in the Notes to the Financial Statements, and Schedules 6 and 7 on pages 80 and 81 in the Debt Section of the Supplementary Information.

City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds, Taxable Series 2004

The Rental Car Facility Charge Revenue Bonds are special revenue obligations of the CIC, payable solely from certain payments required to be made by the Aviation Enterprise Fund, through the City, to the CIC pursuant to the City Purchase Agreement dated June 1, 2004. Pledged revenues consist primarily of Customer Facility Charge (CFC) revenues and amounts on deposit in various reserve funds. Pledged revenues do not include amounts required to be paid by the rental car companies as ground rents or concession fees, amounts on deposit or required to be deposited to the Administrative Costs Fund, amounts on deposit in the Transportation Operations and Maintenance (O&M) fund or the Transportation reserve fund, the Aviation Enterprise Fund transportation O&M fund, or CFC's that exceed the pledged rate.

The CFC was imposed June 1, 2002 at a rate of \$3.50 per transaction day and was increased to \$4.50 per transaction day on September 1, 2003. The CFC rate per transaction day increased to \$6.00 on January 1, 2009; however, only \$4.50 of the \$6.00 CFC per transaction day is included as pledged revenues. If the Aviation Enterprise Fund deposits the additional \$1.50 of the CFC rate into the Trustee-held Revenue Fund, then the additional monies become pledged revenues for the benefit of bondholders. In Fiscal Year 2013 and Fiscal Year 2012, the Aviation Enterprise Fund deposited the entire \$6.00 CFC rate per transaction day into the Trustee-held Revenue Fund for the benefit of bondholders.

As of June 30, 2013 and 2012, there were \$212.3 million and \$220.2 million, respectively, principal amount outstanding in Rental Car Facility Charge Revenue Bonds (issued by the CIC).

The debt service reserve requirement for the Rental Car Facility Charge Revenue Bonds is \$21.3 million, which has been fully funded with cash and securities.

For more information regarding the Rental Car Facility Charge Revenue Bonds, please refer to Note 5 in the Notes to the Financial Statements, and Schedules 8 and 9 on pages 82 and 83 in the Debt Section of the Supplementary Information.

Airport General Obligation Bonds

As of June 30, 2013 and 2012, the Aviation Enterprise Fund had \$8.9 million and \$9.6 million, respectively, principal amount of Airport General Obligation Bonds outstanding. The debt service requirements of Airport General Obligation Bonds have been paid from Net Airport Revenues remaining after payment of senior lien and junior lien airport revenue bonded debt service requirements. In the event such Net Airport Revenues should prove insufficient to pay airport general obligation debt service requirements or should the Aviation Enterprise Fund, through the City, decide not to pay the debt service from Net Airport Revenues, this indebtedness would then be paid from ad valorem taxes or other available sources.

For more information regarding Airport General Obligation Bonds, please refer to Note 5 in the Notes to the Financial Statements, and Schedules 10 and 11 on pages 84 and 85 in the Debt Section of the Supplementary Information.

Capital Assets

The Aviation Enterprise Fund's capital assets for the fiscal years ended June 30, 2013 and June 30, 2012, was \$2.8 billion, net of accumulated depreciation each year. This represents increases of \$6.0 million and \$146.8 million in fiscal years 2013 and 2012, respectively.

CAPITAL ASSETS
Aviation Enterprise Fund
(Fiscal Years; in thousands)

	2013	2012	2011
Land	\$ 556,528	\$ 554,261	\$ 569,150
Buildings	1,527,698	1,198,247	1,183,963
Improvements Other Than Buildings	1,496,923	1,251,096	1,189,631
Equipment	523,890	360,086	352,052
Intangibles	22,700	22,002	21,595
Construction in Progress	191,589	783,364	578,883
Total Capital Assets	4,319,328	4,169,056	3,895,274
Less: Accumulated Depreciation	(1,497,896)	(1,353,596)	(1,226,637)
Net Capital Assets	<u>\$ 2,821,432</u>	<u>\$ 2,815,460</u>	<u>\$ 2,668,637</u>

Major additions to capital assets during Fiscal Year 2013 included the following:

- Continued construction of the PHX Sky Train® of \$120.1 million.
- Construction and improvement of Airport taxiways and aprons amounted to \$7.0 million.
- Aviation safety and security additions valued at \$5.3 million
- Land acquisition valued at \$1.7 million

Major additions to capital assets during Fiscal Year 2012 included the following:

- Design and construction related to the PHX Sky Train® valued at \$178.6 million.
- Construction and improvement of the Airport taxiways and aprons valued at \$18.4 million.
- Land acquisition valued at \$15.9 million
- Aviation safety and security valued at \$13.9 million
- Signage improvement valued at \$12.2 million

Additional information on the Aviation Enterprise Fund's capital assets can be found in Note 4 in the Notes to the Financial Statements.

Economic Factors Affecting the Aviation Enterprise Fund

A vibrant and expanding Phoenix Metropolitan Area and growing U.S. economy, in Fiscal Year 2013 and Fiscal Year 2012, bolstered the Aviation Enterprise Fund's strong net revenues, debt service coverage and cash balances. The Airport System was impacted, both positively and negatively, by the below listed events during this period:

- Airport passenger traffic rebounded faster than many U.S. airports and is now stabilizing. Passenger enplanements were essentially flat at -0.2% in Fiscal Year 2013 after healthy growth of 3.0% in Fiscal Year 2012. Regional economic strength supports the rebound, as the Phoenix-Mesa-Glendale Metropolitan Statistical Area's unemployment rate continues to be lower, at 6.9%, than the U.S., at 7.6% (as of July 2013). Furthermore, single family home construction permits issued in June 2013 reflect an increase of 11.4% over those issued in June 2012.
- Nationally, the Airlines have reduced seat capacity resulting in higher load factors. The Airport's load factors of 82.2% in Fiscal Year 2013 and 79.3% in Fiscal Year 2012 illustrate the ability to continue accommodating additional passengers with existing supply.
- The economic downturn benefited PHX Sky Train® construction because of competitive contract bids and attractive commercial paper interest rates. PHX Sky Train® Stage 1 opened April 8, 2013, under budget. PHX Sky Train® Stage 1a, connecting Terminal 3, is well underway and scheduled to open in early 2015.
- US Airways Group, the Airport's largest airline, with 49.0% and 48.1% of the enplaned passengers in Fiscal Year 2013 and Fiscal Year 2012, merged with American Airlines Inc. on December 9, 2013. American Airlines provided 3.4% of the Airport's enplaned passengers in Fiscal Years 2013 and 2012 respectively. The merged entity, American Airlines Group Inc., provides service at the Airport.

Requests for Financial Information

This financial report is designed to provide a general overview of the Aviation Enterprise Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Phoenix Finance Department, 251 West Washington Street, 9th Floor, Phoenix, Arizona 85003.

For prior annual reports, airport statistics, and other City financial information please visit our investor website at: <http://phoenix.gov/finance/investor>

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Position
June 30, 2013 and 2012
(in thousands)

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and Cash Equivalents	\$ 45,871	\$ 32,425
Investments	261,874	257,449
Receivables		
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2013, \$43 and 2012, \$2,261)	10,045	12,094
Intergovernmental	188	68
Deposits in Escrow	338	338
Inventories	1,576	1,593
Total Unrestricted Current Assets	<u>319,892</u>	<u>303,967</u>
Restricted Assets		
Debt Service		
Cash and Securities with Fiscal Agents/Trustees	197,464	202,897
Accrued Interest Receivable	3	46
Customer Facility Charge		
Cash and Cash Equivalents	11,703	728
Cash and Securities with Fiscal Agents/Trustees	38,345	31,692
Investments	9,874	23,708
Accounts Receivable	2,988	2,913
Capital Projects		
Cash and Cash Equivalents	16,558	1,680
Investments	77,569	97,774
Receivables		
Intergovernmental	2,698	10,471
Passenger Facility Charge	9,696	7,842
Total Restricted Current Assets	<u>366,898</u>	<u>379,751</u>
Total Current Assets	<u>686,790</u>	<u>683,718</u>
Noncurrent Assets		
Capital Assets		
Land	556,528	554,261
Buildings	1,527,698	1,198,247
Improvements Other Than Buildings	1,496,923	1,251,096
Equipment and Artwork	523,890	360,086
Intangibles	22,700	22,002
Construction in Progress	191,589	783,364
Less: Accumulated Depreciation	<u>(1,497,896)</u>	<u>(1,353,596)</u>
Total Capital Assets, Net of Accumulated Depreciation	2,821,432	2,815,460
OPEB Asset	55	50
Total Noncurrent Assets	<u>2,821,487</u>	<u>2,815,510</u>
Total Assets	<u>3,508,277</u>	<u>3,499,228</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding Bonds	<u>2,049</u>	<u>1,192</u>
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The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Position (continued)
June 30, 2013 and 2012
(in thousands)

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>
Current Liabilities Payable from Current Assets		
Accounts Payable	\$ 15,301	\$ 16,474
Trust Liabilities and Deposits	1,413	1,012
Advance Payments	12,833	9,708
Current Portion of Pollution Remediation	1,690	3,124
Current Portion of Accrued Compensated Absences	874	889
Total Current Liabilities Payable from Current Assets	<u>32,111</u>	<u>31,207</u>
Current Liabilities Payable from Restricted Assets		
Debt Service		
Matured Bonds Payable	36,070	33,975
Bond Anticipation Notes Payable	100,000	-
Interest Payable	36,426	40,597
Current Portion of General Obligation Bonds	500	710
Current Portion of Municipal Corporation Obligations:		
Current Portion of Rental Car Facility Revenue Bonds	8,285	7,845
Current Portion of Aviation Revenue Bonds	35,250	33,615
Capital Projects		
Accounts Payable	15,702	33,548
Total Current Liabilities Payable from Restricted Assets	<u>232,233</u>	<u>150,290</u>
Total Current Liabilities	<u>264,344</u>	<u>181,497</u>
Noncurrent Liabilities		
General Obligation Bonds	8,405	8,905
Municipal Corporation Obligations:		
Rental Car Facility Revenue Bonds	204,055	212,340
Aviation Revenue Bonds	1,192,065	1,262,105
Unamortized Premium (Discount), Net	60,721	29,488
Pollution Remediation	9,500	10,831
Accrued Compensated Absences	5,618	5,641
Total Noncurrent Liabilities	<u>1,480,364</u>	<u>1,529,310</u>
Total Liabilities	<u>1,744,708</u>	<u>1,710,807</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Gain on Refunding Bonds	-	-
<u>NET POSITION</u>		
Net Investment in Capital Assets	1,255,699	1,325,444
Restricted for Bond Retirement	87,432	87,432
Restricted for CFC Transportation O&M / Improvement Reserves	18,905	18,905
Unrestricted	403,582	357,832
Total Net Position	<u>\$ 1,765,618</u>	<u>\$ 1,789,613</u>

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Landing and Terminals Fees	\$ 157,708	\$ 154,389
Parking and Car Rentals	120,581	116,754
Other	27,397	28,624
Total Operating Revenues	<u>305,686</u>	<u>299,767</u>
Operating Expenses		
Operation and Maintenance	232,186	217,942
Environmental, Studies and Noise Program	8,361	8,218
Depreciation	146,034	127,699
Staff and Administrative	6,869	5,889
Total Operating Expenses	<u>393,450</u>	<u>359,748</u>
Operating Loss	<u>(87,764)</u>	<u>(59,981)</u>
Non-Operating Revenues (Expenses)		
Investment Income:		
Net Decrease in Fair		
Value of Investments	(8,535)	(5,105)
Interest	9,054	7,855
Interest on Capital Debt	(70,785)	(75,927)
Gain (Loss) on Disposal of Capital Assets	(153)	16
Total Non-Operating Revenues (Expenses)	<u>(70,419)</u>	<u>(73,161)</u>
Net Loss Before Contributions and Transfers	(158,183)	(133,142)
Capital Contributions	134,157	152,754
Transfer from General Fund - Change for Phoenix	31	-
Change in Net Position	(23,995)	19,612
Net Position, July 1	<u>1,789,613</u>	<u>1,770,001</u>
Net Position, June 30	<u>\$ 1,765,618</u>	<u>\$ 1,789,613</u>

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Receipts from Customers	\$ 309,407	\$ 295,426
Payments to Suppliers	(171,617)	(149,845)
Payments to Employees	(72,894)	(71,622)
Payment of Staff and Administrative Expenses	(6,869)	(5,889)
Net Cash Provided by Operating Activities	<u>58,027</u>	<u>68,070</u>
Cash Flows from Noncapital Financing Activities		
Transfers from Other Funds	<u>31</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	101,795	1
Principal Paid on Capital Debt	(43,482)	(28,525)
Interest Paid on Capital Debt	(88,829)	(81,879)
Acquisition and Construction of Capital Assets	(159,133)	(269,720)
Proceeds from Sales of Capital Assets	199	52
Capital Contributions	141,735	149,886
Net Cash (Used) by Capital and Related Financing Activities	<u>(47,715)</u>	<u>(230,185)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(642,471)	(736,548)
Proceeds from Sale and Maturities of Investment Securities	680,873	936,589
Net Activity for Short-Term Investments	(8,788)	(34,507)
Interest on Investments	562	3,087
Net Cash Provided by Investing Activities	<u>30,176</u>	<u>168,621</u>
Net Increase in Cash and Cash Equivalents	40,519	6,506
Cash and Cash Equivalents, July 1	<u>269,760</u>	<u>263,254</u>
Cash and Cash Equivalents, June 30	<u>\$ 310,279</u>	<u>\$ 269,760</u>
Reconciliation of Operating Loss to		
Net Cash Provided by Operating Activities		
Operating Loss	\$ (87,764)	\$ (59,981)
Adjustments		
Depreciation	146,034	127,699
(Increase) Decrease in Assets		
Receivables	(2,023)	(3,447)
Allowance for Doubtful Accounts	2,218	164
Inventories	17	(175)
OPEB Asset	(5)	18
Increase (Decrease) in Liabilities		
Accounts Payable	(1,173)	5,034
Trust Liabilities and Deposits	401	331
Advance Payments	3,125	(1,389)
Pollution Remediation	(2,765)	(482)
Accrued Compensated Absences	(38)	298
Net Cash Provided by Operating Activities	<u>\$ 58,027</u>	<u>\$ 68,070</u>
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	\$ 519	\$ 450
Increase in Fair Value of Investments	200	85
Total Noncash Transactions Affecting Financial Position	<u>\$ 719</u>	<u>\$ 535</u>
Cash and Cash Equivalents		
Unrestricted		
Cash and Cash Equivalents	\$ 45,871	\$ 32,425
Cash Deposits	338	338
Total Unrestricted	<u>46,209</u>	<u>32,763</u>
Restricted		
Cash and Cash Equivalents	28,261	2,408
Cash and Securities with Fiscal Agents/Trustees	235,809	234,589
Total Restricted	<u>264,070</u>	<u>236,997</u>
Total Cash and Investments	<u>\$ 310,279</u>	<u>\$ 269,760</u>

The accompanying notes are an integral part of these financial statements.



City of Phoenix

Notes to the Financial Statements

The **Notes to the Financial Statements** include a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying financial statements. An index to the Notes follows:

Note	Description
1	Organization and Summary of Significant Accounting Policies
2	Cash and Investments
3	Receivables
4	Capital Assets
5	Long-Term Obligations
6	Refunded, Refinanced and Defeased Obligations
7	Risk Management
8	Operating Leases
9	Contractual and Other Commitments
10	Contingent Liabilities
11	Deferred Compensation Plan (DCP)
12	Pension Plans
13	Other Postemployment Benefits (OPEB)
14	Capital Contributions
15	Subsequent Events



City of Phoenix

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

The City of Phoenix (the City) owns and operates Phoenix Sky Harbor International Airport (the Airport) and two general aviation airports, Phoenix Goodyear Airport and Phoenix Deer Valley Airport (collectively, the Aviation Enterprise Fund). The City has operated the Aviation Enterprise Fund as a self-supporting enterprise since 1967, according to Part II, Chapter 4 of the City of Phoenix Code of Ordinances.

I. Organization and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a) Reporting Entity

The accompanying financial statements include only the Aviation Enterprise Fund and are not intended to present fairly the financial position of the City, and the changes in its financial position and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

b) Jointly Governed Organizations—Phoenix-Mesa Gateway Airport Authority

The Phoenix-Mesa Gateway Airport Authority is a nonprofit corporation established and funded by the City of Phoenix, City of Mesa, Towns of Gilbert and Queen Creek, and the Gila River Indian Community. The purpose of the entity is the redevelopment of Williams Air Force Base that was closed in September 1993 to become the Phoenix-Mesa Gateway Airport Authority. The Board of Directors consists of the mayors for the respective municipalities and the governor of the tribal community. The Aviation Enterprise Fund contributed \$1.3 million per year in both fiscal years 2013 and 2012 (life to date \$13.0 million) to the Phoenix-Mesa Gateway Airport Authority operating and capital budget.

c) Basis of Accounting

The Aviation Enterprise Fund is an enterprise fund of the City and the cost of providing services is recovered primarily through their fees and charges. The Aviation Enterprise Fund, through the City, has established activity rates and fees to recover the cost of providing services, including capital costs, and has issued debt backed by these revenues.

Since the Aviation Enterprise Fund is an enterprise fund of the City, the accrual basis of accounting is followed, whereby revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, environmental expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

d) Pooled Cash and Investments

The Aviation Enterprise Fund's cash resources are combined through the City to form a cash and investment pool managed by the City Treasurer. Excluded from this pool are the investments of the City of Phoenix Employee Retirement System and certain other legally restricted funds. Interest earned by the pool is distributed monthly to individual funds based on daily equity in the pool.

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The Aviation Enterprise Fund's cash and cash equivalents are considered to be cash in bank, cash on hand, and short-term investments with original maturities of 90 days or less from the date of acquisition.

The Aviation Enterprise Fund's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

e) Accounts Receivable

Accounts receivable are reported net of an allowance of doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the potential for losses, taking into account historical experience and currently available information.

f) Deposits in Escrow

Deposits in Escrow are performance bonds and security deposits made by airport tenants.

g) Inventories

Inventories consist of materials and supplies which have been valued at the lower of cost (weighted average cost method) or market and are primarily accounted for on the consumption method.

h) Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than two years. All artwork and land is capitalized. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	10 to 40 years
Improvements other than Buildings	10 to 50 years
Runways and Taxiways	18 to 25 years
Roadways	20 to 25 years
Equipment	5 to 30 years
Intangible Assets	5 to 40 years

A gain or loss on disposal of capital assets is recognized when assets are retired from service or are sold or otherwise disposed of.

City of Phoenix, Arizona
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i) Compensated Absences

Vacation and compensatory time benefits are accrued as liabilities as employees earn the benefits to the extent that they meet both of the following criteria: 1) the Aviation Enterprise Fund's obligation through the City is attributable to employees' services already rendered; and 2) it is probable that the Aviation Enterprise Fund, through the City, will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Sick leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the Aviation Enterprise Fund, through the City, will compensate the employees through cash payments conditioned on the employees' termination or retirement. All of the outstanding compensated absences are recorded as a liability.

j) Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method.

k) Statements of Cash Flows

For purposes of the statements of cash flows, all highly liquid investments (including restricted assets) with original maturities of 90 days or less when purchased are considered to be cash equivalents.

l) Rates and Charges

The Aviation Enterprise Fund annually establishes airline facility rentals, landing fees and other charges sufficient to recover the costs of operations, maintenance and debt service related to the airfield and space rented by the airlines. Any differences between amounts collected from the actual costs allocated to the airlines' leased space are credited or billed to the airlines.

m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/ expenditures during the reporting period. Actual results could differ from those estimates.

n) New Accounting Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The Aviation Enterprise Fund implemented this Statement in fiscal year 2013.

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GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The Aviation Enterprise Fund implemented this statement in fiscal year 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Aviation Enterprise Fund implemented this statement in fiscal year 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, improves accounting and financial reporting for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Aviation Enterprise Fund will implement this Statement in fiscal year 2015.

The Aviation Enterprise Fund has not fully determined the effects that implementation of Statement No. 68 will have on the Aviation Enterprise Fund's financial statements.

2. Cash and Investments

Cash and cash equivalents at June 30, 2013 and June 30, 2012, was composed of the following (in thousands):

	June 30,	
	2013	2012
Cash in Bank	\$ 413	\$ 132
Cash on Hand	3	3
Short-Term Pooled Investments	45,921	37,886
Short-Term Non-Pooled Investments	27,795	(3,188)
Total Cash and Cash Equivalents	<u>\$ 74,132</u>	<u>\$ 34,833</u>

A summary of Aviation Enterprise Fund cash and cash equivalents at June 30, 2013, and June 30, 2012 (in thousands):

	June 30,	
	2013	2012
Unrestricted	\$ 45,871	\$ 32,425
Restricted	28,261	2,408
Total Cash and Cash Equivalents	<u>\$ 74,132</u>	<u>\$ 34,833</u>

City of Phoenix, Arizona
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Deposits

Cash deposits are subject to custodial risk. Custodial risk is the risk that in the event of a bank failure, the Aviation Enterprise Fund's deposits through the City may not be returned. The Aviation Enterprise Fund's deposits through the City during the year and at fiscal year-end were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name. The carrying amount of the Aviation Enterprise Fund's deposits at June 30, 2013 and June 30, 2012 was \$413,519 and \$131,691, respectively and the bank ledger balance was \$45,549 and \$146,676, respectively.

Cash with fiscal agents and trustees are subject to custodial risk. The Aviation Enterprise Fund's contracts through the City with the fiscal agents and trustees call for these deposits to be fully covered by collateral held in the fiscal agents' and trustees' trust departments but not in the City's name. Each trust department pledges a pool of collateral against all trust deposits it holds. The carrying amount of the Aviation Enterprise Fund's cash with fiscal agents and trustees and the bank ledger balance at June 30, 2013 and June 30, 2012 were \$214,564,489 and \$213,483,676 respectively. Securities with fiscal agents and trustees are not subject to custodial risk. The carrying amount and the bank ledger balance of the Aviation Enterprise Fund's securities with fiscal agents and trustees at June 30, 2013 and June 30, 2012 was \$21,244,142 and \$21,105,656 respectively.

Investments

Aviation Enterprise Fund investments are included in the City's pooled investments. The City Charter and ordinances authorize the City to invest in U.S. Treasury securities, securities guaranteed, insured or backed by the full faith and credit of the U.S. Government, U.S. Government agency securities, repurchase agreements, commercial paper, money market accounts, certificates of deposit, the State Treasurer's Local Government Investment Pool "LGIP", highly rated securities issued or guaranteed by any state or political subdivision thereof rated in the highest short-term or second highest long-term category and investment grade corporate bonds, debentures, notes and other evidence of indebtedness issued or guaranteed by a solvent U.S. corporation which are not in default as to principal or interest. Investments are carried at fair value. It is the City's policy generally to hold investments until maturity. A detailed listing of City investments can be found in the City of Phoenix Comprehensive Annual Financial Report ("City CAFR") in Note 5 in the Notes to the Financial Statements.

Total investments for the Aviation Enterprise Fund at June 30, 2013 and June 30, 2012 stated at fair value, were \$349,316,019 and \$378,930,780, respectively. The following summarizes those amounts reported in "Investments" in the accompanying financial statements (in thousands):

	June 30,	
	2013	2012
Unrestricted	\$ 261,874	\$ 257,449
Restricted	87,443	121,482
Total Investments	\$ 349,317	\$ 378,931

City of Phoenix, Arizona
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Interest Rate Risk

The Aviation Enterprise Fund follows the City's policies for interest rate risk. In order to limit interest rate risk, the City's investment policy limits maturities as follows:

U.S. Treasury Securities	5 year final maturity
Securities guaranteed, insured, or backed by the full faith and credit of the U.S. Government	5 year final maturity
U.S. Government Agency Securities	5 year final maturity
Repurchase Agreements	60 days
Municipal Obligations	5 years for long-term issuances
Money Market Mutual Funds	90 days
Commercial Paper	270 days

For Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO), the maximum weighted average life using current Public Securities Association (PSA) prepayment assumptions shall be 12 years at the time of purchase for MBS and 5 years at the time of purchase for CMO.

Credit Risk

The Aviation Enterprise Fund follows the City's policies regarding credit risk. The City's investment policy limits its purchase of investments to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's (S&P) and Moody's Investors Service (Moody's). The portfolio is primarily invested in securities issued by the U.S. Treasury or by U.S. Government Agency Securities which are rated Aaa by Moody's and AA+ by S&P. Repurchase agreements are generally collateralized by U.S. Treasuries and U.S. Government Agency Securities at 102%. Municipal securities must have a short-term minimum rating of A1 by S&P and P1 by Moody's and a long-term uninsured rating of A+ by S&P and A1 by Moody's. The rating requirements do not apply to obligations issued by the City of Phoenix. Money market mutual funds must have a current minimum money market rating of AAAm by S&P and Aaa-mf by Moody's. For commercial paper, an Issuer's program must have a minimum rating of A1 by S&P and P1 by Moody's. The issuing corporation must be organized and operating in the United States and have a minimum long-term debt rating of A+ by S&P and A1 by Moody's. Programs rated by only one of the agencies are ineligible.

The City has invested in commercial paper and corporate notes issued by various financial institutions. These investments are insured by the Federal Deposit Insurance Corporation (FDIC) via the Temporary Liquidity Guarantee Program (TLGP). The FDIC created this program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount.

City of Phoenix, Arizona
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Notes to the Financial Statements
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Concentration of Credit Risk

Aviation Enterprise Fund investments are included in the City's pooled investments. Investments in any one issuer that represent 5% or more of total City investments are as follows (in thousands):

Issuer	Fair Value 2013	Fair Value 2012
FHLB	\$ 200,603	\$ 386,722
FNMA	*	168,477
FHLMC	*	109,095

*Investment does not meet the 5% criteria at June 30, 2013

3. Receivables

Receivables at June 30, 2013 and June 30, 2012 are stated net of the allowance for doubtful accounts, and are summarized as follows (in thousands):

	June 30, 2013				
	Accounts	Interest	Intergovernmental (1)	Passenger Facility Charge	Total
Unrestricted	\$ 10,045	\$ -	\$ 188	\$ -	\$ 10,233
Restricted	2,988	3	2,698	9,696	15,385
Total Receivables	\$ 13,033	\$ 3	\$ 2,886	\$ 9,696	\$ 25,618

	June 30, 2012				
	Accounts	Interest	Intergovernmental (1)	Passenger Facility Charge	Total
Unrestricted	\$ 12,094	\$ -	\$ 68	\$ -	\$ 12,162
Restricted	2,913	46	10,471	7,842	21,272
Total Receivables	\$ 15,007	\$ 46	\$ 10,539	\$ 7,842	\$ 33,434

(1) Intergovernmental Receivables include monies due from other governmental entities for grants.

An allowance for doubtful accounts of \$42,732 as of June 30, 2013 and \$2,261,168 as of June 30, 2012 had been established for the Aviation Enterprise Fund. In Fiscal Year 2013, a receivable from ABC Rent A Car was written off due to an uncollectible settlement. Aviation Enterprise Fund Accounts Receivable included unbilled charges of \$7,845,770 at June 30, 2013 and \$6,938,664 at June 30, 2012.

City of Phoenix, Arizona
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4. Capital Assets

Capital asset activity for the Aviation Enterprise Fund at June 30, 2013 and June 30, 2012 was as follows (in thousands):

	Balances July 1, 2012	Additions	Deletions	Balances June 30, 2013
Non-depreciable assets:				
Land	\$ 554,261	\$ 2,267	\$ -	\$ 556,528
Artwork	4,585	2,928	-	7,513
Construction-in-Progress	783,364	98,057	(689,832)	191,589
Total non-depreciable assets	<u>1,342,210</u>	<u>103,252</u>	<u>(689,832)</u>	<u>755,630</u>
Depreciable assets:				
Buildings	1,198,247	329,625	(174)	1,527,698
Improvements	1,251,096	245,859	(32)	1,496,923
Equipment	355,501	162,770	(1,894)	516,377
Intangible Assets	22,002	698	-	22,700
Total depreciable assets	<u>2,826,846</u>	<u>738,952</u>	<u>(2,100)</u>	<u>3,563,698</u>
Less accumulated depreciation for:				
Buildings	(546,558)	(51,888)	54	(598,392)
Improvements	(672,124)	(62,779)	32	(734,871)
Equipment	(126,778)	(29,471)	1,648	(154,601)
Intangible Assets	(8,136)	(1,896)	-	(10,032)
Total accumulated depreciation	<u>(1,353,596)</u>	<u>(146,034)</u>	<u>1,734</u>	<u>(1,497,896)</u>
Total depreciable assets, net	<u>1,473,250</u>	<u>592,918</u>	<u>(366)</u>	<u>2,065,802</u>
Total capital assets, net	<u>\$ 2,815,460</u>	<u>\$ 696,170</u>	<u>\$ (690,198)</u>	<u>\$ 2,821,432</u>

	Balances July 1, 2011	Additions	Deletions	Balances June 30, 2012
Non-depreciable assets:				
Land	\$ 569,150	\$ 7,232	\$ (22,121)	\$ 554,261
Artwork	4,576	9	-	4,585
Construction-in-Progress	578,883	255,598	(51,117)	783,364
Total non-depreciable assets	<u>1,152,609</u>	<u>262,839</u>	<u>(73,238)</u>	<u>1,342,210</u>
Depreciable assets:				
Buildings	1,183,963	14,382	(98)	1,198,247
Improvements	1,189,631	61,465	-	1,251,096
Equipment	347,476	8,702	(677)	355,501
Intangible Assets	21,595	407	-	22,002
Total depreciable assets	<u>2,742,665</u>	<u>84,956</u>	<u>(775)</u>	<u>2,826,846</u>
Less accumulated depreciation for:				
Buildings	(501,878)	(44,778)	98	(546,558)
Improvements	(616,278)	(55,846)	-	(672,124)
Equipment	(103,131)	(24,289)	642	(126,778)
Intangible Assets	(5,350)	(2,786)	-	(8,136)
Total accumulated depreciation	<u>(1,226,637)</u>	<u>(127,699)</u>	<u>740</u>	<u>(1,353,596)</u>
Total depreciable assets, net	<u>1,516,028</u>	<u>(42,743)</u>	<u>(35)</u>	<u>1,473,250</u>
Total capital assets, net	<u>\$ 2,668,637</u>	<u>\$ 220,096</u>	<u>\$ (73,273)</u>	<u>\$ 2,815,460</u>

The amount of interest cost capitalized for the Aviation Enterprise Fund at June 30, 2013 and June 30, 2012 was \$4,851,584 and \$3,251,178, respectively.

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5. Long-Term Obligations

Changes in long-term obligations at June 30, 2013 and June 30, 2012 are summarized as follows (in thousands):

	Balances July 1, 2012	Additions	Reductions	Balances June 30, 2013	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 9,615	\$ -	\$ (710)	\$ 8,905	\$ 500
Municipal Corporation Obligations					
Rental Car Facility Revenue Bonds	220,185	-	(7,845)	212,340	8,285
Aviation Revenue Bonds	<u>1,295,720</u>	<u>196,600</u>	<u>(265,005)</u>	<u>1,227,315</u>	<u>35,250</u>
Subtotal	1,525,520	196,600	(273,560)	1,448,560	44,035
Discounts/Premiums	<u>29,488</u>	<u>33,178</u>	<u>(1,945)</u>	<u>60,721</u>	<u>-</u>
Total Bonds and Notes Payable	<u>1,555,008</u>	<u>229,778</u>	<u>(275,505)</u>	<u>1,509,281</u>	<u>44,035</u>
Other Liabilities:					
Accrued Compensated Absences	6,530	6,492	(6,530)	6,492	874
Pollution Remediation	<u>13,955</u>	<u>-</u>	<u>(2,765)</u>	<u>11,190</u>	<u>1,690</u>
Total Other Liabilities	<u>20,485</u>	<u>6,492</u>	<u>(9,295)</u>	<u>17,682</u>	<u>2,564</u>
Total Long-Term Obligations	<u>\$ 1,575,493</u>	<u>\$ 236,270</u>	<u>\$ (284,800)</u>	<u>\$ 1,526,963</u>	<u>\$ 46,599</u>

	Balances July 1, 2011	Additions	Reductions	Balances June 30, 2012	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 10,500	\$ 5	\$ (890)	\$ 9,615	\$ 710
Municipal Corporation Obligations					
Rental Car Facility Revenue Bonds	227,620	-	(7,435)	220,185	7,845
Aviation Revenue Bonds	<u>1,321,375</u>	<u>-</u>	<u>(25,655)</u>	<u>1,295,720</u>	<u>33,615</u>
Subtotal	1,559,495	5	(33,980)	1,525,520	42,170
Discounts/Premiums	<u>31,953</u>	<u>1</u>	<u>(2,466)</u>	<u>29,488</u>	<u>-</u>
Total Bonds and Notes Payable	<u>1,591,448</u>	<u>6</u>	<u>(36,446)</u>	<u>1,555,008</u>	<u>42,170</u>
Other Liabilities:					
Accrued Compensated Absences	6,232	6,530	(6,232)	6,530	889
Pollution Remediation	<u>14,437</u>	<u>1,535</u>	<u>(2,017)</u>	<u>13,955</u>	<u>3,124</u>
Total Other Liabilities	<u>20,669</u>	<u>8,065</u>	<u>(8,249)</u>	<u>20,485</u>	<u>4,013</u>
Total Long-Term Obligations	<u>\$ 1,612,117</u>	<u>\$ 8,071</u>	<u>\$ (44,695)</u>	<u>\$ 1,575,493</u>	<u>\$ 46,183</u>

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Issues of long-term debt were as follows at June 30, 2013 and June 30, 2012 (dollars in thousands):

June 30, 2013										
Issue Date	Purpose	Maturity Dates	Effective Interest Rate	Average Life (Years)	Original Amount	Principal Outstanding	Interest Outstanding	Unamortized Discount (Premium)	Ratings Moody's	Ratings S&P
Municipal Corporation Obligations										
06/18/08	Airport Revenue (2a)	7/1/20-38	5.02	22.5	\$ 206,840	\$ 206,840	\$ 180,355	\$ (520)	Aa3	AA-
06/18/08	Airport Revenue (Taxable) (2a)	7/1/12-19	4.68	7.8	43,160	33,925	6,485	(607)	Aa3	AA-
06/18/08	Airport Revenue Refunding (2a)	7/1/09-22	4.26	8.0	109,850	76,000	18,993	(1,634)	Aa3	AA-
06/18/08	Airport Revenue Refunding (Taxable) (2a)	7/1/09-20	4.58	5.6	68,520	29,555	6,398	(768)	Aa3	AA-
03/05/13	Airport Revenue Refunding (2a)	7/1/14-32	3.28	11.8	196,600	196,600	112,091	(32,285)	Aa3	AA-
Total Sr. Lien Obligations					624,970	542,920	324,322	(35,814)		
09/01/10	Airport Revenue (2b)(3)	7/1/13-40	4.69	19.0	642,680	630,970	521,064	(22,851)	A1	A+
09/01/10	Airport Revenue (Taxable) (2b)(3)(4)	7/1/40	3.67	29.8	21,345	21,345	38,037	-	A1	A+
09/01/10	Airport Revenue Refunding (2b)	7/1/23-25	4.33	13.9	32,080	32,080	17,696	(1,942)	A1	A+
Total Jr. Lien Obligations					696,105	684,395	576,797	(24,793)		
06/02/04	Rental Car Facility (Taxable) (1)(5)	7/1/07-29	6.20	16.5	260,000	212,340	128,069	-	A3	A-
Total Municipal Corporation Obligations					1,581,075	1,439,655	1,029,188	(60,607)		
General Obligation Bonds										
06/01/03	Refunding	7/1/05-16	3.25	11.9	9,735	8,540	882	(113)	Aa1	AAA
06/13/07	Refunding	7/1/09-14	4.22	4.6	3,205	360	14	(1)	Aa1	AAA
06/12/12	Refunding	7/1/15	4.00	3.05	5	5	1	-	Aa1	AAA
Total General Obligation Bonds					12,945	8,905	897	(114)		
Total Aviation Enterprise Fund Bonds					\$ 1,594,020	\$ 1,448,560	\$ 1,030,085	\$ (60,721)		

June 30, 2012										
Issue Date	Purpose	Maturity Dates	Effective Interest Rate	Average Life (Years)	Original Amount	Principal Outstanding	Interest Outstanding	Unamortized Discount (Premium)	Ratings Moody's	Ratings S&P
Municipal Corporation Obligations										
05/01/02	Airport Sr. Lien Refunding (1) (2a)	7/1/08-13	4.82	9.5	\$ 23,225	\$ 6,100	\$ 351	\$ (43)	Aa3	AA-
05/01/02	Airport Sr. Lien Revenue (1) (2a)	7/1/14-32	5.53	22.7	231,390	231,390	153,648	1,376	Aa3	AA-
06/18/08	Airport Revenue (2a)	7/1/20-38	5.02	22.5	206,840	206,840	190,695	(550)	Aa3	AA-
06/18/08	Airport Revenue (Taxable) (2a)	7/1/12-19	4.68	7.8	43,160	38,655	8,490	(795)	Aa3	AA-
06/18/08	Airport Revenue Refunding (2a)	7/1/09-22	4.26	8.0	109,850	83,070	22,924	(1,972)	Aa3	AA-
06/18/08	Airport Revenue Refunding (Taxable) (2a)	7/1/09-20	4.58	5.6	68,520	33,560	8,167	(980)	Aa3	AA-
Total Sr. Lien Obligations					682,985	599,615	384,275	(2,964)		
09/01/10	Airport Revenue (2b)(3)	7/1/13-40	4.69	19.0	642,680	642,680	552,813	(24,244)	A1	A+
09/01/10	Airport Revenue (Taxable) (2b)(3)(4)	7/1/40	3.67	29.8	21,345	21,345	39,446	-	A1	A+
09/01/10	Airport Revenue Refunding (2b)	7/1/23-25	4.33	13.9	32,080	32,080	19,300	(2,118)	A1	A+
Total Jr. Lien Obligations					696,105	696,105	611,559	(26,362)		
06/02/04	Rental Car Facility (Taxable) (1)(5)	7/1/07-29	6.20	16.5	260,000	220,185	141,500	-	A3	A-
Total Municipal Corporation Obligations					1,639,090	1,515,905	1,137,334	(29,326)		
General Obligation Bonds										
06/01/03	Refunding	7/1/05-16	3.25	11.9	9,735	8,690	1,239	(160)	Aa1	AAA
06/13/07	Refunding	7/1/09-14	4.22	4.6	3,205	920	51	(2)	Aa1	AAA
06/12/12	Refunding	7/1/15	4.00	3.05	5	5	1	-	Aa1	AAA
Total General Obligation Bonds					12,945	9,615	1,291	(162)		
Total Aviation Enterprise Fund Bonds					\$ 1,652,035	\$ 1,525,520	\$ 1,138,625	\$ (29,488)		

- (1) Insured by a municipal bond insurance policy, a reserve account surety bond, or a debt service reserve fund.
- (2) The City has pledged net airport revenues as security for these bonds. The net revenues pledged are as follows:
 - (a) Senior lien pledge on all outstanding airport obligations.
 - (b) Junior lien pledge on all outstanding airport obligations.
- (3) The City has further pledged an irrevocable commitment of net proceeds of a passenger facility charge for these bonds. The passenger Facility Charge (PFC) is currently imposed at the rate of \$4.50 per qualifying enplaned passenger.
- (4) The City currently intends to irrevocably elect to treat these bonds as "Recovery Zone Economic Development Bonds" (RZEDB) for purposes of the Recovery Act and the Code. In addition to the senior lien pledge and the irrevocable commitment of the PFC revenues, the junior lien interest requirement of these bonds will be further secured by an irrevocable commitment of the 2010 RZEDB subsidy payments. The subsidy payments rebate 45% of the interest requirement for these bonds. On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, which has resulted in a reduction of the federal subsidy payments by 8.7% for the federal government's fiscal year ending September 30, 2013 (the "Sequester Reductions"). However, the City does not expect the Sequester Reductions to have a material adverse effect on its ability to make payments of interest in this issue.
- (5) The City has made a first priority pledge of a \$4.50 per day car rental usage fee to be paid by rental car customers arriving at Phoenix Sky Harbor International Airport as security for the bonds.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

The Aviation Enterprise Fund, through the City, has complied with all significant financial covenants of its bonded indebtedness. A brief description of the Aviation Enterprise Fund's long-term obligations follows.

Municipal Corporation Obligations

The Aviation Enterprise Fund, through the City, has entered into certain agreements with the City of Phoenix Civic Improvement Corporation (the "CIC") an affiliated nonprofit corporation, for the construction and acquisition of certain facilities and equipment. Under the terms of these agreements, the CIC issued bonds or certificates of participation to finance the facilities and equipment, and the Aviation Enterprise Fund, through the City, agreed to make lease and purchase payments sufficient to pay principal and interest on the outstanding obligations. The Aviation Enterprise Fund, through the City, also pays all expenses of operating and maintaining the facilities and equipment.

General Obligation Bonds

The Aviation Enterprise Fund, through the City, has issued general obligation bonds for capital programs. The debt service requirements have been paid from Net Airport Revenues remaining after payment of senior lien and junior lien airport revenue bonded debt service requirements. In the event such Net Airport Revenues should prove insufficient to pay airport general obligation debt service requirements or should the Aviation Enterprise Fund, through the City, decide not to pay the debt service from Net Airport Revenues, this indebtedness would then be paid from ad valorem taxes or other available sources.

The following details the issuance of debt for Fiscal Year 2013.

- In March 2013, the CIC issued \$196,600,000 of Senior Lien Airport Revenue Refunding Bonds, Series 2013 (AMT). Proceeds of the bonds refunded \$231,390,000 of outstanding Senior Lien Airport Revenue Bonds, Series 2002B (AMT). The bonds have an average life of 11.8 years, were sold at an all-in true interest cost of 3.28% and produced present value savings, net of transaction costs of \$46,424,267.

The following details the issuance of debt for Fiscal Year 2012.

- In June 2012, the Aviation Enterprise Fund, through the City, issued \$5,000 of General Obligation Refunding Bonds, Series 2012C. Proceeds of the bonds refunded \$5,000 of outstanding general obligation bonds. The bonds have an average life of 3.0 years and were sold at a true interest cost of 4.00%.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

Debt Service Requirements

Debt service requirements, including principal and interest are as follows (in thousands):

Fiscal Years	Municipal Corporation Obligations					
	Senior Lien		Junior Lien		Rental Car Facility	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 23,145	\$ 26,885	\$ 12,105	\$ 34,363	\$ 8,285	\$ 12,992
2015	22,870	25,862	12,705	33,764	8,750	12,527
2016	24,010	24,765	13,310	33,160	9,255	12,022
2017	25,235	23,562	13,960	32,511	9,795	11,478
2018	26,575	22,275	14,655	31,817	10,370	10,903
2019 - 23	127,955	91,170	94,390	148,134	62,070	44,306
2024 - 28	103,375	63,437	129,075	118,813	83,790	22,589
2029 - 33	115,660	34,891	136,530	87,802	20,025	1,252
2034 - 38	74,095	11,475	174,865	49,489	-	-
2039 - 43	-	-	82,800	6,944	-	-
	<u>\$ 542,920</u>	<u>\$ 324,322</u>	<u>\$ 684,395</u>	<u>\$ 576,797</u>	<u>\$ 212,340</u>	<u>\$ 128,069</u>

Fiscal Years	General Obligation	
	Principal	Interest
2014	\$ 500	\$ 366
2015	4,095	347
2016	4,310	183
	<u>\$ 8,905</u>	<u>\$ 896</u>

Pollution Remediation

This liability is primarily a result of leaking underground storage tanks at the Airport and Phoenix Goodyear Airport. The tanks at the Airport were discovered to be leaking in 1988 and the Aviation Enterprise Fund is implementing a corrective action plan which was approved by the Arizona Department of Environmental Quality (ADEQ) to ensure the contamination does not spread. The remediation of a fuel release at Phoenix Goodyear Airport discovered in the 1980's is being implemented as approved by the United States Environmental Protection Agency (US EPA). The total remaining liability for all remediation activities for the Aviation Enterprise Fund as of June 30, 2013 and June 30, 2012 is \$11,190,000 and \$13,954,510, respectively. This liability is based on estimates by engineers of the efforts needed to complete the remediation. These costs are expected to increase over time due to inflation, which will affect the liability amounts in future years.

6. Refunded, Refinanced and Defeased Obligations

Future debt service on refunded bonds has been provided through advanced refunding bond issues whereby refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued and guaranteed by the United States government. These securities are then deposited in an irrevocable trust under an escrow agreement which states that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flows generated by the securities, will be sufficient to service the previously issued bonds.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

7. Risk Management

The Aviation Enterprise Fund maintained a combination of commercial insurance and self-insurance during the fiscal year ended June 30, 2013, as described below.

Liability – The Aviation Enterprise Fund purchased commercial airport liability insurance specifically covering Airport premises and operations for the Airport System. The stand-alone insurance program provides first dollar coverage through a combination of both primary and excess liability policies. Additionally, general Aviation Enterprise Fund liabilities other than airport operations are covered under the City's self-insurance program, which has a \$7,500,000 retention. Excess liability coverage was purchased for losses that exceed the self-insured retention.

Property – Aviation Enterprise Fund property is insured under the City's blanket commercial property and boiler/machinery insurance purchased for City owned buildings and structures.

Workers' Compensation – As City employees, Aviation Enterprise Fund employees enjoy the same benefits package as their City co-workers, whether purchased commercially or self-insured. The City maintained a self-insured retention of \$15,000,000 for its workers' compensation exposure. Excess workers' compensation insurance was purchased for losses exceeding the self-insured retention.

Fidelity and Surety – Aviation Enterprise Fund officials and employees are covered by public official bonds and surety bonds as required by state statute or City Charter. Further, the City's blanket "Crime" policy extends to Aviation Enterprise Fund employees.

Health and Dental – Health insurance plans for Aviation Enterprise Fund employees were self-insured through the City of Phoenix Health Care Benefits Trust fiduciary fund. Dental coverage was provided through two different plans. A dental PPO was self-insured through the City of Phoenix Health Care Benefits Trust and a dental HMO was provided through commercial insurance accounted for in the City of Phoenix General Fund.

The Aviation Enterprise Fund is included in the City's self-insurance reserve. Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on an actuarial analysis of reported claims and estimates of claims incurred but not reported.

Long-term disability benefits for Aviation Enterprise Fund employees were self-insured through the City of Phoenix Long-Term Disability Trust fiduciary fund. As a partially funded other post-employment benefit, no liability is reflected. Claims that are expected to be paid with expendable available financial resources are accounted for in the City of Phoenix

General Fund. All other claims are accounted for in the City's government-wide statement of net position.

For additional information regarding the City's Risk Management policies, including information on fiduciary funds, please refer to Note 13 in the Notes to the Financial Statements in the City CAFR.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

8. Operating Leases

The Aviation Enterprise Fund leases certain airport facilities to third parties. Minimum future rentals on non-cancelable operating leases at June 30, 2013 were as follows (in thousands):

Years Ending	
June 30	
2014	\$ 72,273
2015	70,961
2016	70,806
2017	49,292
2018	30,526
2019-2068	<u>277,583</u>
Total	<u>\$ 571,441</u>

The above amounts do not include contingent rentals, which also may be received under the Aviation Enterprise Fund facilities leases, primarily as a percentage of sales in excess of stipulated minimums. Contingent rentals amounted to \$20,606,959 for the fiscal year ended June 30, 2013, and \$17,383,300 for the fiscal year ended June 30, 2012. A summary of the assets leased to third parties under the Aviation Enterprise Fund operating lease agreements at June 30, 2013 and June 30, 2012, is as follows (in thousands):

	June 30	
	<u>2013</u>	<u>2012</u>
Buildings	\$ 1,007,532	\$ 986,057
Less: Accumulated Depreciation	(490,096)	(447,586)
	<u>\$ 517,436</u>	<u>\$ 538,471</u>

9. Contractual and Other Commitments

The Aviation Enterprise Fund has entered into various construction contracts and these commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements. Commitments of \$156.8 and \$232.0 million are remaining at June 30, 2013 and June 30, 2012, respectively.

10. Contingent Liabilities

Pending Litigation

The Aviation Enterprise Fund, through the City, is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. As discussed in Note 7 (and in more detail in Note 13 in the Notes to the Financial Statements of the City CAFR), the Aviation Enterprise Fund, through the City, is primarily self-insured, and has accrued a liability for estimated claims outstanding. As with any risk retention program, however, the Aviation Enterprise Fund, through the City, is contingently liable in respect to claims beyond those currently accrued. In the opinion of City management, based on the advice of the City Attorney, the outcome of such claims will not have a material adverse effect on the Aviation Enterprise Fund's financial position, results of operations or liquidity at June 30, 2013.

City of Phoenix, Arizona
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Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

Sick Leave

Aviation Enterprise Fund employees are covered under the same sick leave benefits as City employees. Sick leave is continuously accumulated at the rate of 15 days per year but can only be taken in the event of illness. Upon retirement, for every 173 hours of unused sick leave, one month of creditable service is allowed in determining a General Employee Retirement Plan pension. A balance of over 80 hours after making the above calculation will allow an extra month of creditable service. The dollar amount of any cash payment as described below is included in the final average compensation, but the hours used are excluded from credited service.

Supervisory and Professional, Confidential Office and Clerical, Field Unit 1, Field Unit 2, and Office and Clerical employees who have accumulated 750 qualifying hours or more of unused sick leave at the time of normal service retirement are eligible to receive a payment equal to their base hourly rate for 25% of the hours in excess of 250 hours.

Middle management and Executive General City employees who have accumulated 750 qualifying hours or more of accrued or unused sick leave at the time of normal service retirement are eligible to receive a payment up to 20% of their base hourly rate. Payment percentage is increased by 1% for each full year of service in excess of 20 years to a maximum of 50%.

Sick leave is accrued as a liability as it is earned by the employees only if the leave is attributable to past service and it is probable that the employees will be compensated through cash payments conditioned on the employees' termination or retirement. In accordance with these criteria, a portion of the sick leave accumulated by general employees as described above has been accrued as a liability in the accompanying financial statements. The June 30, 2013, actuarial valuation of the sick leave liability was based on the termination method, with the liability pro-rated based on the current service of a participant. The projected sick leave benefit payment under the termination method is calculated as the maximum sick leave hours eligible for payment multiplied by the probability of an individual employee reaching retirement multiplied by the employee's projected salary at first eligibility for retirement pro-rated based on the employee's current service to date over the projected service to retirement increased by the cost of salary-related fringe benefits.

The Aviation Enterprise Fund employees' sick leave benefit balances (both accrued and unaccrued) at June 30, 2013 and June 30, 2012, were as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Sick Leave Benefit	\$ 16,245	\$ 16,304
Less: Amount Accrued as a Liability	<u>(1,735)</u>	<u>(1,729)</u>
Total Sick Leave Benefit Balance	<u>\$ 14,510</u>	<u>\$ 14,575</u>

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

Liabilities Under Grants

The Aviation Enterprise Fund participates in a number of federal and state assisted grant programs. The audits of these programs for earlier years and the year ended June 30, 2013 have not been completed in all cases; accordingly, final determination of the Aviation Enterprise Fund's compliance with applicable grant requirements will be determined at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although City management believes any such claims would be immaterial to the Aviation Enterprise Fund's financial position at June 30, 2013.

11. Deferred Compensation Plan (DCP)

Aviation Enterprise Fund employees are covered under the same Deferred Compensation Plan and Defined Contribution Plan as City Employees. The City established the Deferred Compensation Plan and the Defined Contribution Plan to provide eligible employees with a means to supplement retirement income.

The Deferred Compensation Plan was created in accordance with Internal Revenue Code Section 457. It allowed eligible employees to defer up to \$17,500 of their salaries during calendar year 2013 and \$17,000 of their salaries during calendar year 2012. The plan has numerous investment options and allows enrollment or changes on an ongoing basis. A 1996 federal law requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of participants and their beneficiaries. On September 23, 1998, the City Council approved Ordinance No.S-25613 that amended the Plan to comply with the 1996 federal law. The Ordinance established a trust into which all assets of the Plan were transferred December 4, 1998.

The Defined Contribution Plan was created in accordance with Internal Revenue Code Section 415(c)(1)(A) and provides employees with an additional option for tax-deferred retirement savings. Eligible employees may make personal contributions to the Plan by electing to defer a designated percentage of their salary to the Plan. Employee contribution elections are irrevocable. The 2013 and 2012 annual contribution limit was \$51,000 and \$50,000 respectively. The City also contributes to the Plan on behalf of eligible employees in an amount equal to a percentage of employee's base annual salary. The Aviation Enterprise Fund, through the City, contributed \$1,475,569 for the year ended June 30, 2013, and \$1,499,738 for the year ended June 30, 2012.

A governing board makes decisions about fund options available under both plans. Due to the tax-deferred nature of the Plans, generally speaking, the funds cannot be withdrawn while still employed by the City, unless a severe financial hardship exists. IRS regulations provide guidance regarding hardship withdrawals. Nationwide Investment Services Corporation is currently the administrator for both Plans.

12 Pension Plans

(a) Plan Description

Aviation Enterprise Fund full-time employees are covered by the City of Phoenix Employees' Retirement Plan (COPERS). In addition to normal retirement benefits, COPERS also provides for disability and survivor benefits, as well as deferred pensions for former employees. Pension benefits vest after five years for general City employees.

COPERS is a single-employer defined benefit pension plan for all full-time classified civil service general City employees. Members are eligible for retirement benefits upon meeting one of the following age and service requirements:

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

1. Age 60 years, with ten or more years of credited service.
2. Age 62 years, with five or more years of credited service.
3. Any age, which added to years of credited service, equals 80.

COPERS is authorized by and administered in accordance with Chapter XXIV of the Charter of the City of Phoenix. Authority to make amendments to the plan rests with City voters. It is administered by a nine-member Retirement Board. COPERS has been included as part of the City's reporting entity as a pension trust fund. Copies of the separately issued COPERS financial report, which includes financial statements and required supplemental information, may be obtained from COPERS 200 West Washington, 10th Floor, Phoenix, Arizona 85003.

(b) Funding Policy

The employee contribution rate is 5% of compensation. The City contributes an actuarially determined amount to COPERS to fully fund benefits for active members and to amortize any unfunded actuarial liability as a level percent of projected member payroll over an open period of 20 years from July 1, 2011. The Aviation Enterprise Fund's contributions to COPERS equaled the annual required contributions and were as follows (in actual dollars):

<u>Fiscal Year Ended</u>	<u>Required Contributions</u>	<u>Percentage of Covered Payroll</u>
June 30, 2013	\$ 10,453,831	20.15%
June 30, 2012	9,988,663	18.18%
June 30, 2011	8,350,189	16.04%

13. Other Postemployment Benefits (OPEB)

Post-Employment Healthcare and Long-Term Disability Program

The Aviation Enterprise Fund, through the City, provides certain post-employment health care benefits for its retirees. Retirees meeting certain qualifications are eligible to participate in the City's health insurance program along with the City's active employees. As of August 1, 2007, separate rates have been established for active and retiree health insurance.

Medical Expense Reimbursement Plan and Long-Term Disability Trust

Employees eligible to retire in 15 years or less from August 1, 2007, will receive a monthly subsidy from the City's Medical Expense Reimbursement Plan (MERP) when they retire. The MERP is a single-employer, defined benefit plan. Contributions by the City (plus earnings thereon) are the sole source of funding for the MERP.

The City has established the City of Phoenix MERP Trust and the City of Phoenix Long-Term Disability (LTD) Trust to fund all or a portion of the City's share of liabilities incurred in providing the benefits as reflected in the Administrative Regulation 2.42 Medical Expense Reimbursement Plan for Retirees and Eligible Surviving Spouses or Qualified Domestic Partners and in Administrative Regulation 2.323 City of Phoenix Long-Term Disability Program. A five member Board of Trustees has been delegated responsibility for fiduciary oversight of the MERP Trust and LTD Trust, subject to oversight of the City Council. The LTD Trust issues a separate report that can be obtained from the City's Finance Department, through the Financial Accounting and Reporting Division on the 9th Floor of 251 W. Washington Street, Phoenix, Arizona, 85003.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

The City's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Post-Employment Health Plan

Employees eligible to retire in more than 15 years from August 1, 2007 who have payroll deductions for City medical insurance coverage are entitled to a \$150 monthly contribution to a Post Employment Health Plan (PEHP) account in lieu of MERP subsidies. PEHP is a 100% employer-paid defined contribution. Funds accumulated in the account can be used upon termination of employment for qualified medical expenses. The current administrator of the plan is Nationwide Retirement Solutions.

Actuarial Valuations

In the July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on plan assets. The actuarial value of assets was equal to fair value. The AAL, or in this case surplus, is amortized over a period such that the normal cost plus the amortization payment equals the budgeted contribution amount. The amortization will not exceed 30 years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Aviation Enterprise Fund's contribution to the City of Phoenix MERP Trust was \$1,965,357 and \$1,939,030 at June 30, 2013 and June 30, 2012, respectively. The contribution to the City of Phoenix LTD Trust was \$151,707 and \$101,800 at June 30, 2013 and June 30, 2012, respectively.

14. Capital Contributions

Governmental Grants

The Aviation Enterprise Fund periodically receives grant revenues from federal agencies which are either for capital projects or operating purposes. Revenue is considered earned as the related approved capital outlays or expenses are incurred. Revenues from capital grants are reported as capital contributions on the statements of Revenue, Expenses, and Changes in Net Position and revenues from operating grants are reported as non-operating revenues.

City of Phoenix, Arizona
Aviation Enterprise Fund
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

Passenger Facility Charges (PFC)

The Passenger Facility Charge (PFC) Program allows the collection of PFC fees up to \$4.50 for every enplaned passenger at commercial airports controlled by public agencies. Airports use these fees to fund FAA approved projects to enhance safety, security, or capacity. These fees may also be used to reduce noise or increase air carrier competition. For detailed PFC information, please refer to Schedules 16 and 17 in the Airport Statistics section of the Supplementary Information.

Customer Facility Charge (CFC)

Under the CFC Ordinance, the Rental Car Center Companies and other rental car companies who obtain customers at the Airport are currently required to charge and collect the CFC at the Initial Rate and remit such funds to a financial institution designated by the City.

The CFC was imposed June 1, 2002 and was increased to \$4.50 per transaction day September 1, 2003 from the initial rate of \$3.50. The CFC rate per transaction day increased to \$6.00 January 1, 2009; however, only \$4.50 of the \$6.00 CFC per transaction day is considered pledged revenues. If the Aviation Enterprise Fund deposits the additional \$1.50 of the CFC rate into the Trustee-held Revenue Fund, then the additional monies become Pledged Revenues for the benefit of bondholders. In Fiscal Years 2013 and 2012, the City deposited the entire \$6.00 CFC rate per transaction day into the Trustee-held Revenue Fund for the benefit of bondholders. For detailed CFC information, please refer to Schedule 18 on pages 96 and 97 in the Airport Statistics section of the Supplementary Information.

A summary of Capital Contributions at June 30, 2013 and June 30, 2012 is as follows (in thousands):

	June 30,	
	2013	2012
Governmental Grants	\$ 13,910	\$ 32,060
Passenger Facility Charge (PFC)	78,791	79,441
Customer Facility Charge (CFC)	41,456	41,253
Total	\$ 134,157	\$ 152,754

15. Subsequent Events

City Manager

City Manager David Cavazos retired on October 16, 2013, ending a 27 year career with the City of Phoenix. He served as City Manager for 4 years. Mayor Greg Stanton and the Phoenix City Council have appointed Ed Zuercher as the Acting City Manager pending a nationwide recruitment for a permanent replacement.

Aviation Director

Aviation Director Danny Murphy is on a temporary assignment as Acting Assistant City Manager effective October 17, 2013. During this period, Assistant Aviation Director Tamie Fisher will serve as Acting Aviation Director.

Chief Financial Officer

Chief Financial Officer Jeff DeWitt retired on December 4, 2013, ending a 24 year career with the City of Phoenix. He served as Chief Financial Officer for 4 years. Acting City Manager Ed Zuercher appointed Neal Young as the Acting Chief Financial Officer pending recruitment for a permanent replacement.

Pension Reform

On March 12, 2013, Phoenix voters passed Proposition 201 – Reform of the City of Phoenix Employees' Retirement Plan. The reform has transformed COPERS into a two tiered retirement plan. Changes affect new general city employees hired on or after July 1, 2013 (Tier 2). The Tier 2 contribution rate is based on a 50/50 split with the City of Phoenix's actuarially determined rate. Employees are eligible for retirement based on one of the determining factors:

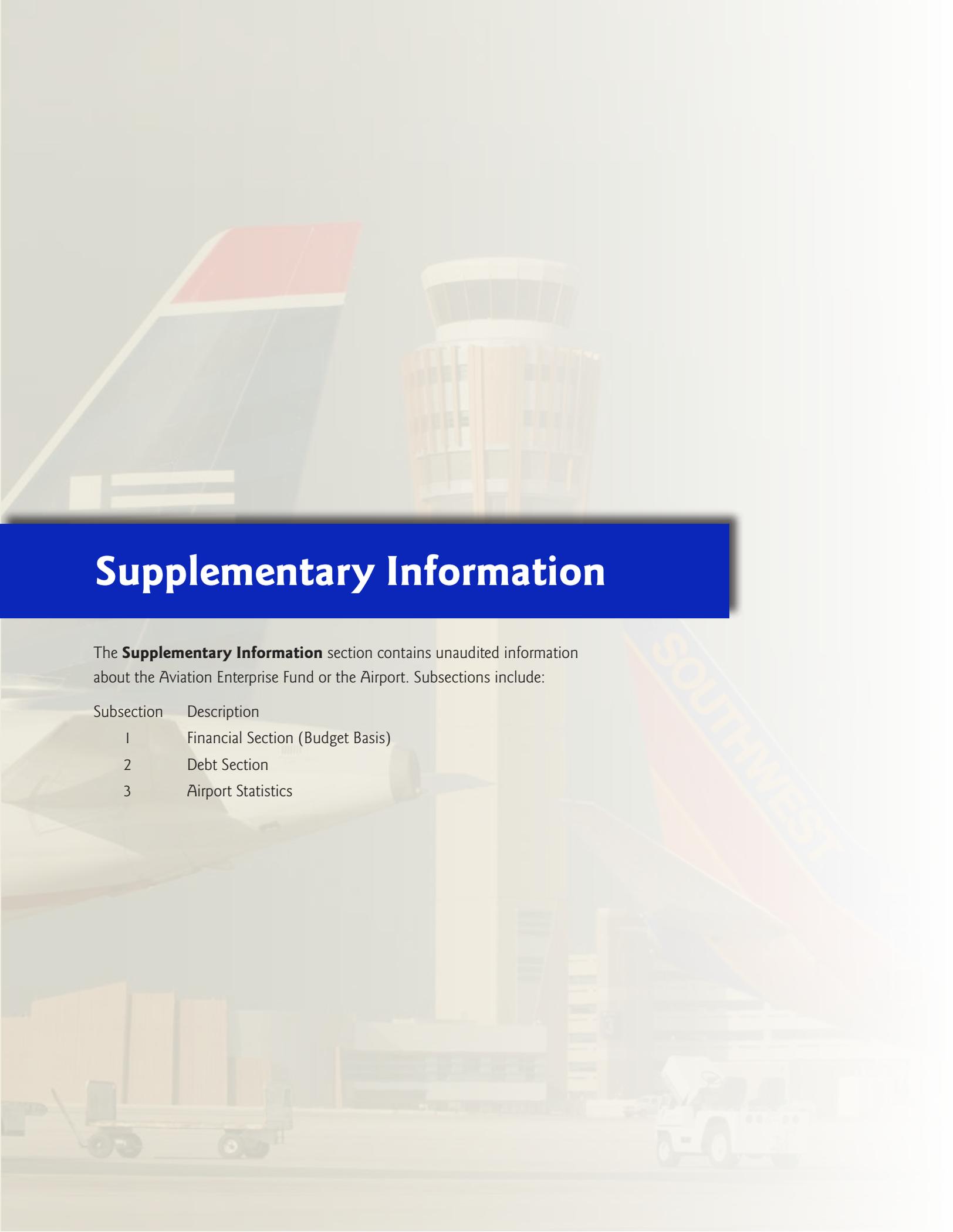
1. Age sixty years, with ten or more years of credited service.
2. Age sixty-two years, with five or more years of credited service.
3. Any age, which added to years of credited service, equals eighty-seven (Rule of 87).

US Airways

US Airways Group, Inc. merged with American Airlines Inc. on December 9, 2013. The merged entity will operate as American Airlines Group, Inc.



City of Phoenix



Supplementary Information

The **Supplementary Information** section contains unaudited information about the Aviation Enterprise Fund or the Airport. Subsections include:

Subsection	Description
1	Financial Section (Budget Basis)
2	Debt Section
3	Airport Statistics



City of Phoenix

Financial Section (Budget Basis)

The Financial Section (Budget Basis) includes:

Schedule	Description
1	City of Phoenix, Aviation Enterprise Fund - Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances (non-GAAP)
2	City of Phoenix, Aviation Enterprise Fund - Reconciliation of Airport Cash on Hand to Available Fund Balance per Budgetary Presentation
3	City of Phoenix, Aviation Enterprise Fund - Reconciliation of GAAP Operating Revenues and Expenses to Revenues and Expenditures per Budgetary Presentation



City of Phoenix

SCHEDULE 1
CITY OF PHOENIX, AVIATION ENTERPRISE FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
(non-GAAP)
(In Expense Priority Established by the Airport Bond Ordinance)
(For the 12 months ended June 30; in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES			
Landing Area	\$ 44,791	\$ 42,978	\$ 41,200
Terminal Area	118,312	108,011	108,612
Ground Transportation	117,640	113,871	109,760
Other	26,107	32,363	32,329
Interest	467	833	1,356
Total Revenues before Reimbursement	307,317	298,056	293,257
Transportation O&M Expense Reimbursement (1)	12,473	12,593	12,102
Total Revenues	<u>319,790</u>	<u>310,649</u>	<u>305,359</u>
EXPENDITURES AND ENCUMBRANCES			
Cost of Maintenance and Operation			
Personal Services	103,197	98,743	97,690
Contractual Services	95,703	89,725	84,819
Supplies	11,654	11,536	11,252
Equipment/Minor Improvements	3,915	2,716	2,499
Total Cost of Maintenance and Operation (1)	<u>214,469</u>	<u>202,720</u>	<u>196,260</u>
Net Airport Revenue Available for Revenue Bond			
Debt Service (Net Airport Revenues)	105,321	107,929	109,099
Total Senior Lien Airport Revenue Bond Debt Service	51,639	57,819	53,450
Senior Lien Revenue Bond Debt Service Coverage	2.04	1.87	2.04
Net Airport Revenue Available After Senior Lien Revenue Bond Debt Service (Designated Revenues)	53,682	50,110	55,649
Total Junior Lien Airport Revenue Bond Debt Service (2)	1,604	1,604	1,337
Junior Lien Revenue Bond Debt Service Coverage	33.47	31.24	41.62

Net Airport Revenue Available After Senior and Junior Lien Revenue Bond Debt Service	52,078	48,506	54,312
Other Expenditures			
Capital Improvements	37,481	40,470	34,603
General Obligation Bond Debt Service	1,105	1,315	1,314
Lease-Purchase Payments	-	-	645
Total Other Expenditures	<u>38,586</u>	<u>41,785</u>	<u>36,562</u>
Total Expenditures and Encumbrances	<u>306,298</u>	<u>303,928</u>	<u>287,609</u>
Excess of Revenues Over Expenditures and Encumbrances	13,492	6,721	17,750
OTHER FINANCING SOURCES (USES)			
Recovery of Prior Years Expenditures	2,545	1,577	4,212
Transfer to General Fund: Staff and Administrative - Central Service	(6,869)	(5,889)	(4,364)
Transfers (to) from Other Funds			
Transfers to Other Funds	(4,347)	(14,193)	(14,333)
Transfers from Other Funds (5)	155,461	-	-
Net Transfers (to) from Other Funds	<u>151,114</u>	<u>(14,193)</u>	<u>(14,333)</u>
Total Other Financing Sources (Uses)	<u>146,790</u>	<u>(18,505)</u>	<u>(14,485)</u>
Net Increase in Fund Balance	160,282	(11,784)	3,265
FUND BALANCE, JULY 1	<u>149,572</u>	<u>161,356</u>	<u>158,091</u>
FUND BALANCE, JUNE 30	309,854	149,572	161,356
Airport Improvement Reserve Fund Balance, June 30 (5)	-	151,454	150,971
Total Available Fund Balance (Budgetary), June 30	<u>309,854</u>	<u>301,026</u>	<u>312,327</u>
Non-Cash Budgetary Transactions (3)	(2,109)	(11,152)	(10,056)
Total Airport Cash on Hand, June 30 (4)	<u>\$ 307,745</u>	<u>\$ 289,874</u>	<u>\$ 302,271</u>

- (1) Rental Car Center Transportation O&M Expenses as defined in the CFC Bond Documents are included as a Cost of Maintenance and Operation. Amounts reimbursed to the City by the CFC trustee to pay the rental car busing service expenses (included as a Cost of Maintenance and Operation) are included as Revenues. The CAFR Exhibit E-5 provides a presentation of expenditures that are subsequently reimbursed as revenues.
- (2) Debt service is net of the Junior Lien Passenger Facility Charge Credits and the Recovery Zone Economic Development Bonds subsidy from the United States Treasury.
- (3) Consists of budgetary encumbrances, revenue recoveries and other timing differences.
- (4) Fiscal Year 2011 consists of Current Cash and Cash Equivalents and Current Investments from CAFR Exhibit E-1, adjusted by \$21 million, to reflect eligible reimbursement as of June 30 from bond proceeds reflected in Restricted Capital Projects Cash and Cash Equivalents and Investments.
- (5) The Airport Improvement Reserve fund balance was transferred to the operating fund in fiscal year 2013. The related cash and investments had previously been reported in the capital funds and was an addition to the Total Airport Cash on Hand for this schedule.

SCHEDULE 2
CITY OF PHOENIX, AVIATION ENTERPRISE FUND
RECONCILIATION OF AIRPORT CASH ON HAND TO AVAILABLE FUND BALANCE PER
BUDGETARY PRESENTATION
(For the 12 months ended June 30; in thousands)

	<u>2013</u>	<u>2012</u>
Comparative Statement of Net Assets		
Cash and Cash Equivalents (Unrestricted)	\$ 45,871	\$ 32,425
Investments (Unrestricted)	<u>261,874</u>	<u>257,449</u>
Total Airport Cash on Hand, June 30	307,745	289,874
Adjusted For:		
Non-Cash Budgetary Transactions (1)	<u>2,109</u>	<u>11,152</u>
Available Fund Balance per Budgetary Presentation (2)	<u>\$ 309,854</u>	<u>\$ 301,026</u>

Notes

- (1) Consists of budgetary encumbrances, revenue recoveries and other timing differences.
- (2) Budgetary Presentation is shown on Schedule 1 - City of Phoenix Aviation Enterprise Fund Comparative

SCHEDULE 3
CITY OF PHOENIX, AVIATION ENTERPRISE FUND
RECONCILIATION OF GAAP OPERATING REVENUES AND EXPENSES TO REVENUES
AND EXPENDITURES PER BUDGETARY PRESENTATION
(For the 12 months ended June 30; in thousands)

	<u>2013</u>	<u>2012</u>
Revenues		
Total GAAP Operating Revenues	\$ 305,686	\$ 299,767
Adjusted for :		
Interest	467	833
Transportation O&M Expense Reimbursement	12,473	12,593
All Other (1)	1,164	(2,544)
Revenues per Budgetary Presentation (2)	<u>\$ 319,790</u>	<u>\$ 310,649</u>
Operating Expenses/Expenditures		
Total GAAP Operating Expenses	\$ 393,450	\$ 359,748
Adjusted for :		
Environmental, Studies & Noise Program	(8,361)	(8,218)
Depreciation	(146,034)	(127,699)
Staff and Administrative	(6,869)	(5,889)
Other (1)	(7,290)	758
Expensed Capital (3)	(10,427)	(15,980)
Bond Issuance Expenses	-	-
Maintenance and Operation Expenditures per Budgetary Presentation (2)	<u>\$ 214,469</u>	<u>\$ 202,720</u>
Senior Lien Coverage Calculation		
Revenue	\$ 319,790	\$ 310,649
Operating Expenditures	214,469	202,720
Designated Revenue for Senior Lien Debt Service	<u>\$ 105,321</u>	<u>\$ 107,929</u>
Senior Lien Debt Service	<u>\$ 51,639</u>	<u>\$ 57,819</u>
Senior Lien Debt Service Coverage (4)	2.04	1.87
Junior Lien Coverage Calculation		
Designated Revenue for Senior Lien Debt Service	\$ 105,321	\$ 107,929
Senior Lien Debt Service	51,639	57,819
Designated Revenue for Junior Lien Debt Service	<u>\$ 53,682</u>	<u>\$ 50,110</u>
Junior Lien Debt Service	\$ 46,472	\$ 34,762
Adjusted for :		
Junior Lien PFC Credit	(44,262)	(32,524)
2010 RZEDB Subsidy Payments	(606)	(634)
Net Junior Lien Debt Service	<u>\$ 1,604</u>	<u>\$ 1,604</u>
Junior Lien Debt Service Coverage (4)	33.47	31.24
Aggregate Senior & Junior Liens Coverage Calculation		
Designated Revenue for Debt Service	\$ 105,321	\$ 107,929
Aggregate Senior & Junior Liens Debt Service	53,243	59,423
Aggregate Senior & Junior Liens Debt Service Coverage	1.98	1.82

Notes

- (1) Includes various GAAP accounting entries. Also includes budgetary encumbrances and revenue recoveries.
- (2) Budgetary Presentation is shown on the City of Phoenix Aviation Enterprise Fund Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances on page 73.
- (3) Includes repairs and studies that do not result in a major improvement to the Aviation Enterprise Fund.
- (4) As defined in the City Purchase Agreement.



City of Phoenix

Debt Section

The Debt Section includes:

Schedule	Description
4	City of Phoenix Civic Improvement Corporation - Senior Lien Airport Revenue Bonds - Schedule of Debt Outstanding
5	City of Phoenix Civic Improvement Corporation - Senior Lien Airport Revenue Bonds - Schedule of Debt Service Requirements
6	City of Phoenix Civic Improvement Corporation - Junior Lien Airport Revenue Bonds - Schedule of Debt Outstanding
7	City of Phoenix Civic Improvement Corporation - Junior Lien Airport Revenue Bonds - Schedule of Debt Service Requirements
8	City of Phoenix Civic Improvement Corporation - Rental Car Facility Charge Revenue Bonds - Schedule of Outstanding Debt
9	City of Phoenix Civic Improvement Corporation - Rental Car Facility Charge Revenue Bonds - Schedule of Debt Service Requirements
10	City of Phoenix - Airport General Obligation Bonds - Schedule of Debt Outstanding
11	City of Phoenix - Airport General Obligation Bonds - Schedule Of Debt Service Requirements

SCHEDULE 4
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
SENIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2013)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-18-08	2008A	\$ 206,840,000	7-1-20/38	4.80% - 5.00%	\$ 206,840,000
06-18-08	2008B	43,160,000	7-1-12/19	5.00% - 5.25%	33,925,000
06-18-08	2008C (b)	109,850,000	7-1-09/22	3.00% - 5.00%	76,000,000
06-18-08	2008D (b)	68,520,000	7-1-09/20	4.00% - 5.50%	29,555,000
03-05-13	2013	196,600,000	7-1-14/32	3.00% - 5.00%	196,600,000
Total					<u>\$ 542,920,000</u>

Notes:

(a) Does not include bonds maturing on July 1, 2013.

(b) Series 2008C, 2008D and 2013 were used for refunding purposes.

**SCHEDULE 5
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
SENIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT SERVICE REQUIREMENTS**

Fiscal Year	Principal	Interest	Total
2014	\$ 23,145,000	\$ 26,885,087	\$ 50,030,087
2015	22,870,000	25,862,288	48,732,288
2016	24,010,000	24,764,925	48,774,925
2017	25,235,000	23,561,763	48,796,763
2018	26,575,000	22,275,450	48,850,450
2019	27,935,000	20,983,500	48,918,500
2020	29,505,000	19,624,625	49,129,625
2021	25,710,000	18,151,250	43,861,250
2022	26,995,000	16,865,750	43,860,750
2023	17,810,000	15,544,550	33,354,550
2024	18,710,000	14,654,050	33,364,050
2025	19,640,000	13,718,550	33,358,550
2026	20,630,000	12,736,550	33,366,550
2027	21,655,000	11,705,050	33,360,050
2028	22,740,000	10,622,300	33,362,300
2029	23,870,000	9,487,750	33,357,750
2030	25,065,000	8,294,250	33,359,250
2031	26,320,000	7,041,000	33,361,000
2032	27,635,000	5,725,000	33,360,000
2033	12,770,000	4,343,250	17,113,250
2034	13,410,000	3,704,750	17,114,750
2035	14,080,000	3,034,250	17,114,250
2036	14,785,000	2,330,250	17,115,250
2037	15,520,000	1,591,000	17,111,000
2038	16,300,000	815,000	17,115,000
Total	\$ 542,920,000	\$ 324,322,188	\$ 867,242,188

SCHEDULE 6
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
JUNIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2013)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
09-01-10	2010A	\$ 642,680,000	7-1-13/40	2.00% - 5.25%	\$ 630,970,000 (1)
09-01-10	2010B	21,345,000	07-01-40	6.60%	21,345,000 (1),(2)
09-01-10	2010C (b)	32,080,000	7-1-23/25	5.00%	32,080,000
Total					<u>\$ 684,395,000</u>

Notes

(1) Debt service due on or before July 1, 2016 on these bonds is also secured by an irrevocable commitment of net proceeds of a passenger facility charge (the "PFC") imposed by the City and collected on behalf of the City by non-exempt passenger air carriers at Phoenix Sky Harbor International Airport. The PFC is currently imposed at the rate of \$4.50 per qualifying enplaned passenger and is required to be remitted to the City less any accrued interest and an \$0.11 per PFC airline collection fee.

(2) Represents bonds issued as Recovery Zone Economic Development Bonds (RZEDB) for purposes of the American Recovery and Reinvestment Act of 2009, and the Internal Revenue Code of 1986. Subject to the City's compliance with certain requirements of the Code, the City expects to receive semiannual cash subsidy payments rebating a portion of the interest on these bonds from the United States Treasury in an amount equal to 45% of the interest payable each respective interest payment date. The debt service shown below has not been reduced by the expected subsidy payments. On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, which has resulted in a reduction of the federal subsidy by 8.7% (the "Sequester Reductions"). However, the City does not expect the Sequester Reductions to have a material adverse effect on its ability to make payments of interest on the RZEDB bonds.

(a) Does not include bonds maturing on July 1, 2013.

(b) Series 2010C was issued for refunding purposes.

SCHEDULE 7
 CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
 JUNIOR LIEN AIRPORT REVENUE BONDS
 SCHEDULE OF DEBT SERVICE REQUIREMENTS

Fiscal Year	Principal	Interest	Total
2014	\$ 12,105,000	\$ 34,363,101	\$ 46,468,101
2015	12,705,000	33,763,851	46,468,851
2016	13,310,000	33,160,151	46,470,151
2017	13,960,000	32,510,601	46,470,601
2018	14,655,000	31,816,851	46,471,851
2019	15,285,000	31,186,801	46,471,801
2020	16,025,000	30,443,751	46,468,751
2021	16,785,000	29,684,276	46,469,276
2022	17,620,000	28,850,026	46,470,026
2023	28,675,000	27,969,026	56,644,026
2024	30,110,000	26,535,276	56,645,276
2025	31,615,000	25,029,776	56,644,776
2026	21,365,000	23,502,183	44,867,183
2027	22,430,000	22,433,933	44,863,933
2028	23,555,000	21,312,433	44,867,433
2029	24,730,000	20,134,683	44,864,683
2030	25,965,000	18,898,183	44,863,183
2031	27,200,000	17,663,108	44,863,108
2032	28,570,000	16,303,107	44,873,107
2033	30,065,000	14,803,183	44,868,183
2034	31,645,000	13,224,770	44,869,770
2035	33,230,000	11,642,520	44,872,520
2036	34,890,000	9,981,020	44,871,020
2037	36,635,000	8,236,520	44,871,520
2038	38,465,000	6,404,770	44,869,770
2039	40,390,000	4,481,520	44,871,520
2040	42,410,000	2,462,020	44,872,020
Total	\$ 684,395,000	\$ 576,797,440	\$ 1,261,192,440

SCHEDULE 8
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2013)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-02-04	2004	\$ 260,000,000	7-1-07/29	3.69% - 6.25%	\$ 212,340,000
					<u>\$ 212,340,000</u>

Notes:

(a) Does not include bonds maturing on July 1, 2013

**SCHEDULE 9
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF DEBT SERVICE REQUIREMENTS**

Fiscal Year	Principal	Interest	Total
2014	\$ 8,285,000	\$ 12,992,152	\$ 21,277,152
2015	8,750,000	12,526,536	21,276,536
2016	9,255,000	12,021,660	21,276,660
2017	9,795,000	11,478,392	21,273,392
2018	10,370,000	10,903,426	21,273,426
2019	10,990,000	10,284,336	21,274,336
2020	11,645,000	9,628,234	21,273,234
2021	12,365,000	8,909,737	21,274,737
2022	13,130,000	8,146,816	21,276,816
2023	13,940,000	7,336,696	21,276,696
2024	14,800,000	6,476,597	21,276,597
2025	15,710,000	5,563,438	21,273,438
2026	16,695,000	4,581,562	21,276,562
2027	17,740,000	3,538,125	21,278,125
2028	18,845,000	2,429,375	21,274,375
2029	20,025,000	1,251,563	21,276,563
Total	\$ 212,340,000	\$ 128,068,645	\$ 340,408,645

SCHEDULE 10
CITY OF PHOENIX
AIRPORT GENERAL OBLIGATION BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2013)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-01-03	2003	\$ 9,735,000	7-1-05/16	2.00% - 4.25%	\$ 8,540,000
06-13-07	2007B	3,205,000	7-1-09/14	4.00%	360,000
06-12-12	2012C (b)	5,000	07-01-15	4.00%	5,000
Total					<u>\$ 8,905,000</u>

Notes:

- (a) Does not include bonds maturing on July 1, 2013
- (b) Series 2012C refunded 2002 GO Bonds

SCHEDULE 11
 CITY OF PHOENIX
 AIRPORT GENERAL OBLIGATION BONDS
 SCHEDULE OF DEBT SERVICE REQUIREMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 500,000	\$ 366,205	\$ 866,205
2015	4,095,000	346,975	4,441,975
2016	4,310,000	183,175	4,493,175
Total	<u>\$ 8,905,000</u>	<u>\$ 896,355</u>	<u>\$ 9,801,355</u>



City of Phoenix

Airport Statistics

The Airport Statistics include:

Schedule	Description
12	Phoenix Sky Harbor International Airport - Schedule of Historical Passenger Enplanements - By Type of Passenger
13	Phoenix Sky Harbor International Airport - Schedule of Historical Passenger Enplanements - By Flight Destination
14	Phoenix Sky Harbor International Airport - Schedule of Enplaned Passengers by Airline
15	Phoenix Sky Harbor International Airport - Schedule of Historical Average Cost Per Enplanement
16	Phoenix Sky Harbor International Airport - Schedule of PFC Approvals and Revenues
17	Phoenix Sky Harbor International Airport - Schedule of Historical PFC Collections
18	City of Phoenix Civic Improvement Corporation - Rental Car Facility Charge Revenue Bonds - Schedule of Annual Receipts, Net Annual CFC Revenues, and Debt Service Coverage
19	Phoenix Sky Harbor International Airport - Schedule of Rental Car Gross Sales by Company

SCHEDULE 12
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF HISTORICAL PASSENGER ENPLANEMENTS
BY TYPE OF PASSENGER
 Last Ten Fiscal Years

Fiscal Year	By type of passenger				
	Origin-Destination (O&D)			Connecting	Total
	Resident	Visitor	Total O&D		
2013	5,408,315	6,350,653	11,758,968	8,476,820	20,235,788
2012	5,353,660	6,392,308	11,745,968	8,532,490	20,278,458
2011	5,079,224	6,110,834	11,190,058	8,491,175	19,681,233
2010	5,045,044	6,162,090	11,207,134	7,889,395	19,096,529
2009	5,143,399	6,179,321	11,322,720	7,589,400	18,912,120
2008	5,914,064	6,893,816	12,807,880	7,859,650	20,667,530
2007	5,892,402	6,922,303	12,814,705	7,948,165	20,762,870
2006	5,776,785	6,879,403	12,656,188	7,986,075	20,642,263
2005	5,507,782	6,748,709	12,256,491	7,813,195	20,069,686
2004	5,178,604	6,367,189	11,545,793	7,410,605	18,956,398

Notes

FY 2012 data was restated by the DOT during FY 2013.

Sources:

City of Phoenix Aviation Department; U.S. DOT, Air Passenger Origin-Destination Survey, reconciled to Schedules T100 and 298C T1.

SCHEDULE 13
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF HISTORICAL PASSENGER ENPLANEMENTS
BY FLIGHT DESTINATION
 Last Ten Fiscal Years

Fiscal Year	By flight destination		
	Domestic	International	Total
2013	19,094,138	1,141,650	20,235,788
2012	19,134,426	1,144,032	20,278,458
2011	18,592,674	1,088,559	19,681,233
2010	18,095,390	1,001,139	19,096,529
2009	17,980,137	931,983	18,912,120
2008	19,751,515	916,015	20,667,530
2007	19,891,566	871,304	20,762,870
2006	19,749,643	892,620	20,642,263
2005	19,258,385	811,301	20,069,686
2004	18,220,965	735,433	18,956,398

Note:
 FY 2012 reflects a restatement and may differ from last year's annual report.

Source: City of Phoenix Aviation Department

SCHEDULE 14
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF ENPLANED PASSENGERS BY AIRLINE
 Last Ten Fiscal Years

	Fiscal Year				
	2013	2012	2011	2010	2009
Enplaned Passengers					
US Airways	9,938,189	9,746,536	9,501,321	9,258,060	9,221,795
Southwest/AirTran (a)	6,294,553	6,353,423	6,036,115	5,665,452	5,546,157
Southwest	6,263,035	6,259,080	5,936,498	5,576,010	5,431,992
AirTran	31,518	94,343	99,617	89,442	114,165
Delta (b)	1,240,735	1,296,941	1,256,788	1,250,333	1,180,336
United (c)	574,221	1,058,382	1,121,492	1,236,187	1,253,507
American	682,323	696,593	666,985	628,645	638,183
Alaska	324,218	343,867	328,390	326,624	332,754
Frontier (d)	218,072	217,964	253,391	276,521	289,627
WestJet	163,247	150,795	116,551	89,400	64,363
JetBlue	90,743	109,521	99,601	80,861	76,917
British Airways	91,609	92,099	85,600	75,619	79,479
Hawaiian	85,553	86,867	85,197	84,912	87,649
Air Canada	78,611	79,454	78,022	57,468	54,915
All Other	453,714	46,016	51,780	66,447	86,438
Total	20,235,788	20,278,458	19,681,233	19,096,529	18,912,120
Share of Total					
US Airways	49.0%	48.1%	48.2%	48.6%	48.8%
Southwest/AirTran (a)	31.1	31.3	30.7	29.7	29.3
Southwest	30.9	30.8	30.2	29.2	28.7
AirTran	0.2	0.5	0.5	0.5	0.6
Delta (b)	6.1	6.4	6.4	6.5	6.2
United (c)	2.8	5.2	5.7	6.5	6.6
American	3.4	3.4	3.4	3.3	3.4
Alaska	1.6	1.7	1.7	1.7	1.8
Frontier (d)	1.1	1.1	1.3	1.4	1.5
WestJet	0.8	0.7	0.6	0.5	0.3
JetBlue	0.6	0.6	0.5	0.4	0.4
British Airways	0.5	0.5	0.4	0.4	0.4
Hawaiian	0.4	0.4	0.4	0.4	0.5
Air Canada	0.4	0.4	0.4	0.3	0.3
All Other	2.2	0.2	0.3	0.3	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Notes

FY 2012 reflects a restatement and may differ from last year's annual report.

Passengers reported by regional affiliates have been grouped with their respective code-sharing partners.

- (a) Southwest acquired AirTran in September 2010.
- (b) Includes Northwest Airlines, which merged with Delta in October 2008, for all years shown.
- (c) Includes Continental Airlines, which merged with United in May 2010, for all years shown.
- (d) Includes Midwest Airlines, which merged with Frontier in April 2010, for all years shown.

SCHEDULE 14 (Continued)
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF ENPLANED PASSENGERS BY AIRLINE
 Last Ten Fiscal Years

	Fiscal Year				
	2008	2007	2006	2005	2004
Enplaned Passengers					
US Airways	9,784,717	9,660,048	9,915,159	9,771,239	9,191,427
Southwest/AirTran (a)	6,200,672	6,285,404	6,105,629	5,771,556	5,455,272
Southwest	6,052,552	6,240,937	6,105,629	5,771,556	5,455,272
AirTran	148,120	44,467	-	-	-
Delta (b)	1,340,302	1,180,998	1,184,964	1,260,505	1,202,564
United (c)	1,386,791	1,533,290	1,526,452	1,455,918	1,278,527
American	700,978	752,317	654,570	639,850	675,412
Alaska	382,930	376,946	366,229	363,364	357,912
Frontier (d)	309,091	322,157	288,527	250,017	214,635
WestJet	50,748	37,985	19,561	13,359	-
JetBlue	85,395	120,435	60,926	34,406	-
British Airways	87,041	87,104	92,908	91,337	79,617
Hawaiian	86,755	84,820	87,615	89,438	83,252
Air Canada	51,082	55,432	48,690	44,708	50,803
All Other	201,028	265,934	291,033	283,989	366,977
Total	<u>20,667,530</u>	<u>20,762,870</u>	<u>20,642,263</u>	<u>20,069,686</u>	<u>18,956,398</u>
Share of Total					
US Airways	47.4%	46.4%	48.0%	48.6%	48.6%
Southwest/AirTran (a)	30.0	30.3	29.6	28.8	28.8
Southwest	29.3	30.1	29.6	28.8	28.8
AirTran	0.7	0.2	-	-	-
Delta (b)	6.5	5.7	5.7	6.3	6.3
United (c)	6.7	7.4	7.4	7.3	6.7
American	3.4	3.6	3.2	3.2	3.6
Alaska	1.9	1.8	1.8	1.8	1.9
Frontier (d)	1.5	1.6	1.4	1.2	1.1
WestJet	0.2	0.2	0.1	0.1	-
JetBlue	0.4	0.6	0.3	0.2	-
British Airways	0.4	0.4	0.5	0.5	0.4
Hawaiian	0.4	0.4	0.4	0.4	0.4
Air Canada	0.2	0.3	0.2	0.2	0.3
All Other	1.0	1.3	1.4	1.4	1.9
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SCHEDULE 15
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF HISTORICAL AVERAGE COST PER ENPLANEMENT
 Last Ten Fiscal Years

Fiscal Year	Total Airline Revenues (in thousands)	Enplaned Passengers	Cost Per Enplanement
2013	\$ 111,911	20,236	\$ 5.53
2012	106,121	20,278	5.23
2011	101,338	19,681	5.15
2010	93,161	19,097	4.88
2009	95,143	18,912	5.03
2008	88,874	20,668	4.30
2007	86,436	20,763	4.16
2006	84,021	20,642	4.07
2005	84,204	20,070	4.20
2004	79,075	18,957	4.17

Note:

FY 2012 reflects a restatement in enplaned passengers and may differ from last year's annual report.

SCHEDULE 16
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF PFC APPROVALS AND REVENUES
(as of June 30, 2013)

	<u>Approval Amount</u>	<u>Revenues</u>	<u>Remaining Authority</u>
PFC Approvals			
Closed PFC Approvals			
PFC 1	\$ 93,230,839	\$ 93,230,839	\$ -
PFC 2	147,875,677	147,875,677	-
PFC 3	208,085,801	208,085,801	
PFC 4	<u>246,977,086</u>	<u>246,977,086</u>	-
Subtotal	<u>696,169,403</u>	<u>696,169,403</u>	-
Active PFC Approvals			
PFC 5	187,649,602	187,649,602	-
PFC 6	<u>1,940,493,949</u>	<u>282,350,790</u>	<u>1,658,143,159</u>
Subtotal	<u>2,128,143,551</u>	<u>470,000,392</u>	<u>1,658,143,159</u>
Total PFC Approvals	<u><u>\$ 2,824,312,954</u></u>	<u><u>\$ 1,166,169,795</u></u>	<u><u>\$ 1,658,143,159</u></u>

Source: Federal Aviation Administration and City of Phoenix Aviation Department

SCHEDULE 17
 PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
 SCHEDULE OF HISTORICAL PFC COLLECTIONS
 Last Ten Fiscal Years

Fiscal Year	PFC Rate	Airline Admin Fee	Net PFC Rate	Enplaned Passengers		Total PFC Collections (in thousands)
				Total (in thousands)	PFC Eligible (a)	
2013	\$ 4.50	\$ 0.11	\$ 4.39	20,236	88.8%	\$ 78,879
2012	4.50	0.11	4.39	20,278	89.6%	79,726
2011	4.50	0.11	4.39	19,681	94.0%	81,210
2010	4.50	0.11	4.39	19,097	91.3%	76,530
2009	4.50	0.11	4.39	18,912	87.8%	72,924
2008	4.50	0.11	4.39	20,668	94.7%	85,964
2007	4.50	0.11	4.39	20,763	92.4%	84,212
2006	4.50	0.11	4.39	20,642	93.5%	84,705
2005	4.50	0.11	4.39	20,070	95.2%	83,878
2004	4.50	0.11	4.39	18,957	94.4%	78,533

Notes

FY 2012 reflects a restatement and may differ from last year's annual report

(a) Imputed from enplaned passengers, net PFC rate, and total PFC collections.

Timing variances exist between when PFCs are collected by airlines and when they are remitted to the airport, which can result in annual fluctuations of PFC collections and percent eligible passengers.



City of Phoenix

SCHEDULE 18
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF ANNUAL RECEIPTS, NET ANNUAL CFC REVENUES, AND DEBT SERVICE COVERAGE
 Last Nine Fiscal Years

Fiscal Year	Transaction Days (a) (in thousands)	Pledged CFC Rate (b)	Annual Receipts (c)			Admin. Costs
			Pledged CFCs	Additional Deposits	Annual Receipts	
(in thousands)						
2013	6,763	\$ 4.50	\$ 30,434	\$ 10,145	\$ 40,579	\$ 19
2012	6,923	4.50	31,154	10,385	41,539	22
2011	6,565	4.50	29,541	9,847	39,388	146
2010	5,854	4.50	26,341	8,780	35,121	3
2009	6,361	4.50	28,626	8,534	37,160	50
2008	8,348	4.50	37,565	-	37,565	3
2007	7,651	4.50	34,428	-	34,428	31
2006	7,226	4.50	32,519	-	32,519	111
2005	6,807	4.50	30,632	-	30,632	-

Notes

- (a) Imputed from Trustee records using Annual Receipts, reflects Transaction Days on deposits for July 1 through June 30.
- (b) Effective January 1, 2009, the Customer Facility Charge (CFC) collection rate increased to \$6.00 per transaction day from \$4.50 per transaction day. \$4.50 of the \$6.00 collection rate is considered Pledged Revenues and is required to be deposited into the Trustee-held Revenue Fund. The Pledged Revenues must be used to fund various accounts established under the Bond Indenture. The City may, but is not required to, deposit the CFC receipts generated by the additional \$1.50 into the Trustee-held Revenue Fund. If the additional \$1.50 is deposited into the Trustee-held Revenue Fund, the monies become Pledged Revenues.
- (c) Includes CFC receipts generated by the \$4.50 Pledged collection rate and \$1.50 additional non-pledged collection rate.

SCHEDULE 18 (continued)
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF ANNUAL RECEIPTS, NET ANNUAL CFC REVENUES, AND DEBT SERVICE COVERAGE
 Last Nine Fiscal Years

Fiscal Year	Net Annual CFC Revenue	Amount Available in Debt Service Coverage Fund	Net Annual CFC Receipts Available for Debt Service	2004 Bonds Debt Service	Debt Service Coverage	
					By Net Annual CFC Revenue	By Net Annual CFC Revenue and Debt Service Coverage Fund
(in thousands)						
2013	\$ 40,560	\$ 5,320	\$ 45,880	\$ 21,276	1.91	2.16
2012	41,517	5,320	46,837	21,273	1.95	2.20
2011	39,242	5,320	44,562	21,274	1.84	2.09
2010	35,118	5,320	40,438	21,277	1.65	1.90
2009	37,110	5,320	42,430	21,278	1.74	1.99
2008	37,562	5,320	42,882	21,278	1.77	2.02
2007	34,397	5,320	39,717	21,278	1.62	1.87
2006	32,408	5,320	37,728	15,318	2.12	2.46
2005	30,632	5,393	36,025	16,552	1.85	2.18

SCHEDULE 19
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF RENTAL CAR GROSS SALES BY COMPANY
 Last Three Fiscal Years

	Fiscal Year		
	2013	2012	2011
Gross Receipts			
Hertz Car Rental	\$ 75,780,948	\$ 72,885,393	\$ 70,710,477
National Car Rental	62,807,873	62,915,076	62,476,798
Avis Rent-A-Car	48,737,668	47,762,142	49,264,865
Enterprise Leasing	41,598,477	42,126,958	40,233,855
Budget Rent-A-Car	37,392,795	37,825,248	35,451,289
Dollar Rent A Car	23,892,198	24,441,338	24,248,198
Thrifty Car Rental	12,917,062	14,017,070	15,538,257
Fox Rent A Car	12,427,944	13,087,506	12,317,380
Simply Wheelz	12,535,901	11,175,292	11,339,302
Payless Car Rental	11,306,594	10,038,448	7,499,228
SIXT Rent a Car	2,682,024	-	-
Total	<u>\$ 342,079,484</u>	<u>\$ 336,274,471</u>	<u>\$ 329,079,649</u>
Share of Total			
Hertz Car Rental	22.1%	21.7%	21.5%
National Car Rental	18.4	18.7	19.0
Avis Rent-A-Car	14.2	14.2	15.0
Enterprise Leasing	12.2	12.5	12.2
Budget Rent-A-Car	10.9	11.2	10.8
Dollar Rent A Car	7.0	7.3	7.4
Thrifty Car Rental	3.8	4.2	4.7
Fox Rent A Car	3.6	3.9	3.7
Simply Wheelz	3.7	3.3	3.4
Payless Car Rental	3.3	3.0	2.3
SIXT Rent a Car	0.8	-	-
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>



City of Phoenix



City of Phoenix



City of Phoenix

PHX DVT GYR

☉ CITY OF PHOENIX AVIATION DEPARTMENT



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