City of Phoenix

PHX SKY HARBOR

CITY OF PHOENIX AVIATION DEPARTMENT

Annual Financial Report
June 30, 2012

City of Phoenix Aviation Department

3400 East Sky Harbor Boulevard, Suite 3300
Phoenix, Arizona 85034-4405
Phone: 602-273-3300
TTY: 1-800-781-1010

www.skyharbor.com

City of Phoenix

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City of Phoenix Aviation Department

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Aviation Department
Danny Murphy, Aviation Director

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City of Phoenix

MESSAGE FROM THE AVIATION DIRECTOR

Essential to the success and prosperity of any city is a well-run airport. At Phoenix Sky Harbor International Airport, we take our role seriously as the gateway to Arizona and the largest economic engine in the state.

As one of the ten busiest airports in the United States, more than 40 million passengers visit Phoenix Sky Harbor every year. Our employees, along with a team of nearly 400 Navigator volunteers make sure that they feel welcome. Sky Harbor is known throughout the world as ***America's Friendliest Airport®***. Next to safety and security, customer service is our top priority.

The PHX Sky Train™, opening in the first quarter of 2013, will enhance customer service by providing seamless connections between the regional light rail system, Phoenix Sky Harbor's largest economy parking area and Terminal 4, which serves 80 percent of our passengers. By 2015, the Sky Train will serve all of Sky Harbor's terminals. Customers will even have the opportunity to check bags and print boarding passes at the Sky Train stations. Public feedback has been overwhelmingly positive, as passengers look forward to the new conveniences that the PHX Sky Train™ will bring.

Media and customers alike have also taken notice of the dozens of new restaurants opening in Terminal 4. The Airport's busiest terminal is in the midst of a complete food and beverage renovation, offering popular local, regional and national brands. The goal of the new concessions program is not only enhanced customer service but increased revenue generated by Sky Harbor's new offerings.

The City of Phoenix Aviation Department owns and operates Phoenix Sky Harbor and two general aviation airports; Phoenix Deer Valley Airport, one of the busiest general aviation airports in the United States, and Phoenix Goodyear Airport located west of Phoenix. Both of the Department's general aviation airports are known statewide for their excellent management, customer service and award-winning safety programs.

The City of Phoenix Aviation Department has maintained strong financial performance during a difficult economic period affecting nearly every sector of our national economy. Holding our cost structure virtually flat during the economic downturn and careful management of our resources resulted in net revenues that exceeded previous forecasts. We continue to achieve and surpass our financial goals. This success was recently validated by Standard and Poor's and Moody's affirmations of our excellent credit ratings.

As Aviation Director for the City of Phoenix, what makes me most proud is our team of employees who work 24 hours a day, seven days a week ensuring that our three airports operate at the height of efficiency and that customers receive the care they deserve. It is not uncommon for executives from other airports to ask me how Sky Harbor has achieved the reputation of offering such excellent customer service. One visit to Sky Harbor is all it takes to learn that our people make the difference.

Sincerely,

Danny Murphy
Aviation Director, City of Phoenix Aviation Department

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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

Providing a world-class airport experience while keeping costs competitive is the goal of every employee every day at Phoenix Sky Harbor International Airport (the Airport). 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).

Management is keenly focused on customer service. This is evident from the moment travelers enter the Airport and encounter one of nearly 400 Navigator volunteers. This dedicated customer service team not only ensures that the Airport lives up to its title of "America's Friendliest Airport®", Navigator volunteers have also helped save millions of dollars in staffing expenses since the program's inception.

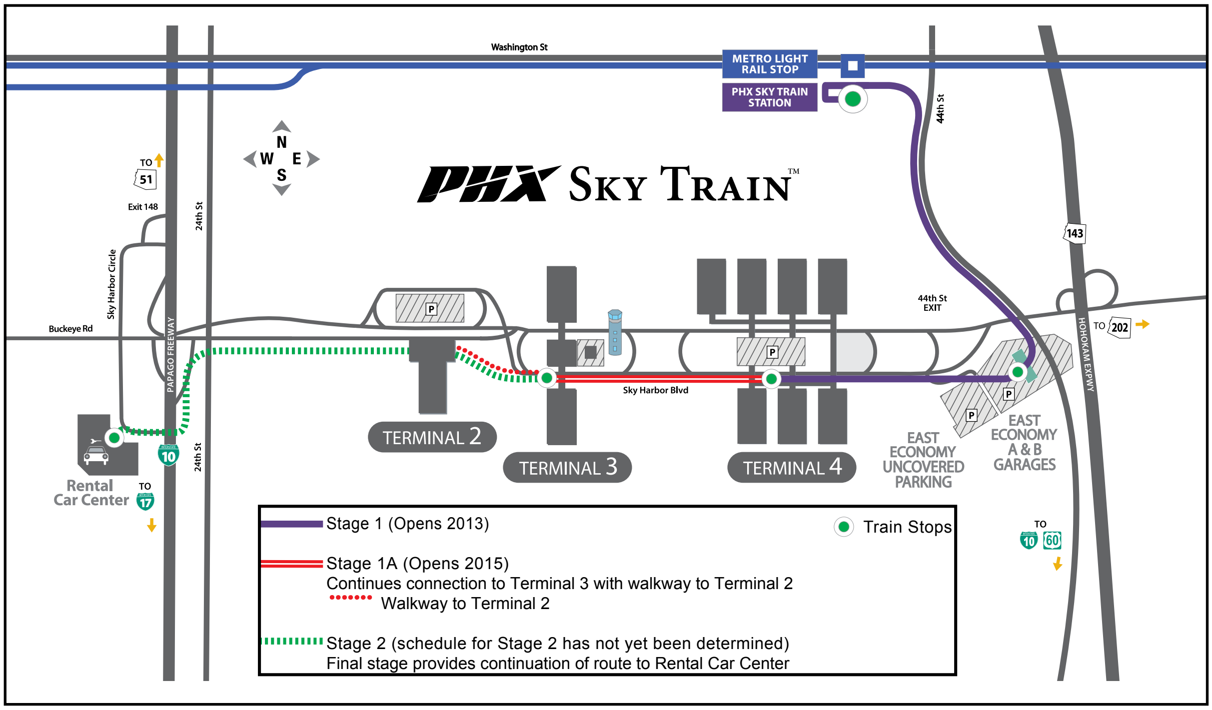
The Department strives to find ways to improve the travel experience while carefully managing its financial resources. The PHX Sky Train™ is a perfect example. Stage 1 opens in early 2013 and will provide more efficient movement of passengers by replacing the current bus service. This will result in increased customer convenience and decreased roadway congestion. When the full system is complete, it will replace an existing fleet of 100 airport buses and reduce the fuel consumption of its current bus fleet by approximately 1.8 million gallons annually.

Another project which will enhance customer service and increase revenue at the Airport is a complete restaurant overhaul underway in Terminal 4. Passengers are already taking notice of the new local, regional and national food and beverage concepts in the Airport's busiest terminal.

Attracting additional nonstop flight options for those traveling to and from the Airport is a top priority for the City. Management is actively involved in air service development efforts to ensure that Phoenix and the surrounding community have high quality air service at competitive fares.

The City continues to be recognized for its excellent financial management. In November 2012, 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. These international ratings organizations noted the Airport's strong financial performance, maintenance of a low-cost, low-debt facility, vibrant predominately origin and destination (O&D) market, experienced and effective administrative team, and excellent integration of Airport and City decision-making.

The PHX Sky Train™



The PHX Sky Train™ will serve between 13,000 – 16,000 passengers daily beginning in the first quarter of 2013. In Stage 1, this automated train will connect the regional light rail system, the Airport's largest economy parking area and Terminal 4, which serves nearly 80% of the Airport's passengers. The next stage of the project, Stage 1a opening in early 2015, will extend to Terminal 3 with a short walkway to Terminal 2. Stage 2 will serve the Airport Rental Car Center.

The PHX Sky Train™ will provide a new front door to the Airport, offering a seamless connection with the regional METRO light rail system. Passengers exiting the light rail system will use an elevated, air-conditioned walkway to access the PHX Sky Train™ station at 44th Street and Washington. At the station, travelers will have an opportunity to check luggage and print boarding passes before proceeding to the platform to board the PHX Sky Train™.

Buses, which are currently used to transport customers and employees between Airport terminals and the light rail system, will be significantly reduced when the train opens in

PHX Sky Train™ connection to METRO Light Rail

2013. The train will replace all inter-terminal buses by 2015. The PHX Sky Train™ will run continuously in both directions 24 hours a day, seven days per week, stopping as frequently as every three minutes to pick up travelers. It will reduce congestion on airport roadways and curbs while transporting passengers between terminals, parking facilities and public transit much more quickly and efficiently than the current Airport busing system.

Expanded Concession Offerings

Terminal 4 is in the midst of a complete food and beverage renovation. The Airport's busiest terminal is welcoming more than 40 new restaurants in 2012 – 2013. The new concepts have already attracted the attention of travelers in addition to local and national news media.

New restaurants are located on both sides of security and offer Airport visitors a taste of some of the best dining options the Phoenix area has to offer. Management's priority is to offer travelers a variety of popular local, regional and national brands in order to achieve the greatest possible customer satisfaction. The result of this improved food and beverage program is improved customer service and higher anticipated sales. In fact, Arizona's largest newspaper (The Arizona Republic) recently reported that the "bounty of new restaurants" at the Airport provides extra incentive to arrive early.

The Customer Experience

Customer service is second only to safety and security at the Airport. One nationally-recognized customer service amenity is the Airport's mobile website, developed internally by City staff. This popular site, accessible by visiting skyharbor.com on any mobile device, assists travelers in locating restaurants and shops, finding airline gates, locating parking facilities and more. The site was awarded first place in the website category in the Airports Council International – North America (ACI-NA) 2012 Excellence in Marketing and Communications contest. In addition to its easily-accessible mobile-friendly website, the Airport also has a robust social media program with nearly 19,000 Facebook fans and nearly 8,000 Twitter followers as of December 2012. The Airport also uses Google+, Pinterest, YouTube and other new media to increase visibility, communicate with customers and increase efficiency by helping passengers navigate airport facilities.

Expedited screening came to the Airport in August 2012, when the Transportation Security Administration (TSA) began to offer its Pre Check program to US Airways frequent flyers. This, combined with Customs and Border Protection (CBP) Global Entry enrollment now available at the Airport, makes it even more convenient for frequent fliers to navigate security. Providing Global Entry to passengers arriving from international destinations not only improves efficiency and customer service, it also enables better use of existing facilities and paves the way for future international service at the Airport.

In 2012, the Airport made significant improvements to its roadway signage. The goal was to ease navigation on roadways, reducing congestion and traffic hazards caused by motorists unfamiliar with the Airport. Public response to the new signs has been overwhelmingly positive. The Airport has also continued its popular terminal garage parking coupon, available during peak leisure travel periods. The 40% off coupon consistently increases parking revenue and entices drivers to park in the terminal parking garages over holiday weekends and during busy vacation travel times.

Every day of the week, highly-trained Navigator volunteers walk the terminals assisting passengers and welcoming them to America's Friendliest Airport™. The Airport also makes a special effort to welcome members of the military and their families at the USO, re-located to the Airport's busiest terminal, Terminal 4 in November 2012. This new, larger facility has received national attention and demonstrates the commitment of the City to military men and women serving our country.

Green Initiatives

Solar panels on Rental Car Center

Reducing energy use through greener construction and energy efficient buildings, use of alternative fuels and reduction of waste are high priorities for the City. The Department negotiated a solar power deal in 2012 effectively holding electrical power rates flat while taking advantage of the desert climate with more than 300 days of sunshine every year. As a result, a 5.4 megawatt high efficiency solar power system, with 12,000 solar panels on top of the Rental Car Center and nearly 4,000 panels on the roof of the East Economy Parking garages, was installed at the Airport. It is anticipated that the project will generate approximately 51% of the electricity demand at the Airport's Rental Car Center, East Economy Parking garages and parking toll plaza.

Management is also committed to reducing energy use through greener construction and energy efficient buildings. The PHX Sky Train™ project will be LEED (Leadership in Energy and Environmental Design) certified. This certification is expected to be awarded as a result of factors such as a 50% reduction in landscaping water use at PHX Sky Train™ stations, reduced power consumption and a robust recycling program during construction. By taking cars and buses off the Airport roadways, Stage 1 of the PHX Sky Train™ will decrease greenhouse gas emissions by 5,500 tons per year.

International Air Service Development

International traffic is one of the fastest growing segments of air travel at the Airport and is a top priority for the City. Management's air service development program is guided by a strategic plan based on detailed analysis of available air travel data, as well as information provided by corporate business, economic development and tourism partners.

The goals of the Air Service Development Program are to:

- Enhance economic growth through improved access to domestic and global markets
- Meet air service market demands while maintaining competitive air fares
- Promote the region by allying with business and tourism groups

In December 2012, British Airways increased nonstop service between the Airport and London Heathrow Airport from six to seven days per week. Adding the seventh day of service is estimated to bring the total economic impact on the metropolitan area to $100 million per year.

Most of the recent growth in international service has come from service to Canada. The Canadian market continues to grow and the Airport will continue to increase its existing service as well as to add additional routes.

Southwest Airlines is expected to begin international service between Phoenix and Mexico within the next few years. US Airways has had great success in Mexico and is expected to continue building that market.

Federal and State Investment

The Airport system continues to receive substantial federal grants to maintain a safe airfield for aircraft operations. In fact, in Fiscal Year 2012, the Federal Aviation Administration (FAA) awarded the Airport a total of $21.0 million. In October 2012, 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.

State government has also demonstrated a commitment to the Airport by making investments in the regional freeway system to provide better access. In the summer of 2012, the Arizona Department of Transportation completed an interchange on the east side of the Airport which, for the first time, enabled direct access to and from a heavily-used state highway. This allowed drivers to exit directly onto State Route 143 rather than taking a longer path to the freeway.

Organization and Management

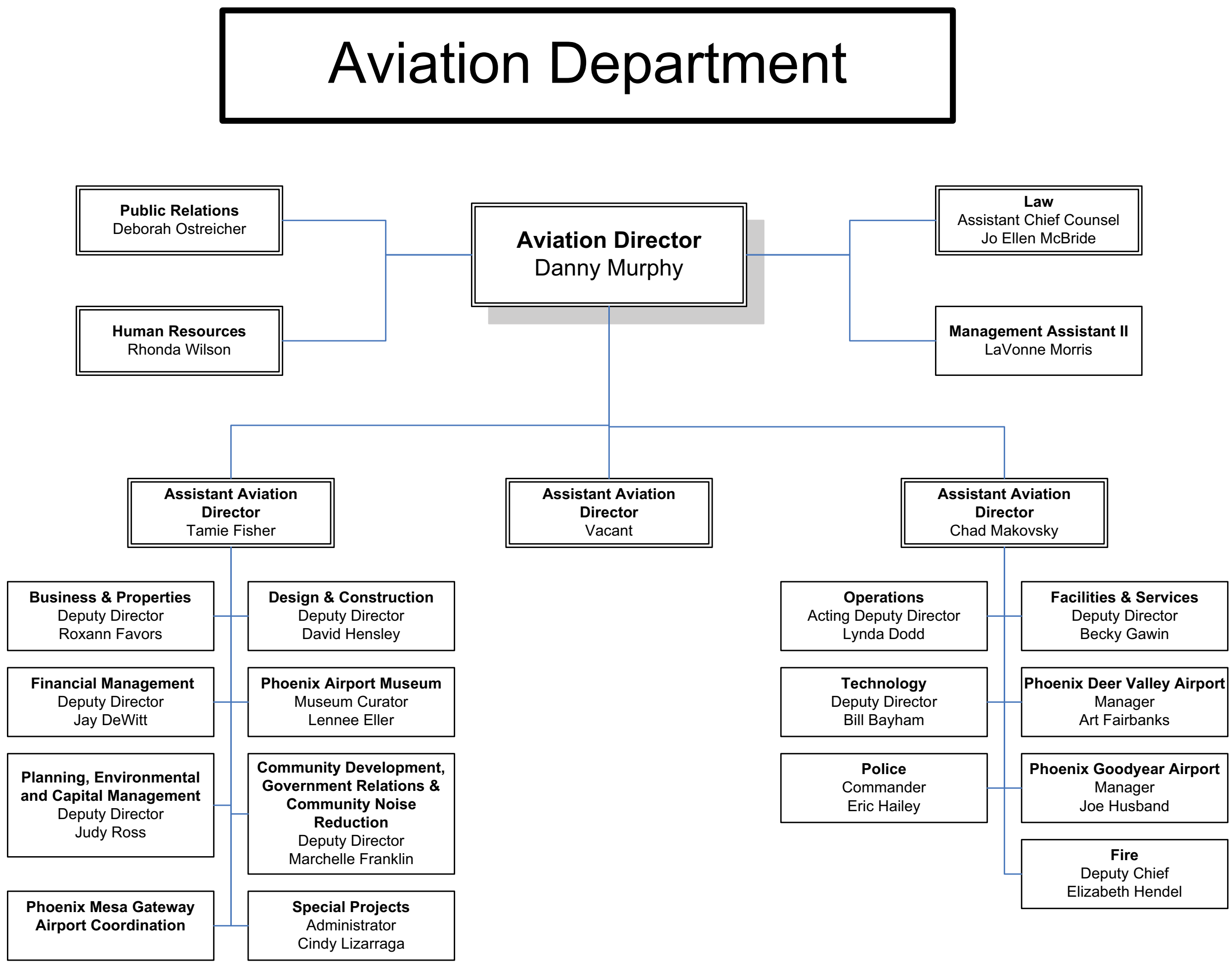
Phoenix was founded in 1870 as an agricultural community, and in 1881 was incorporated as a city. Phoenix operates under a City Council-Manager form of government as provided by its Charter, which was adopted in 1913. Under this organizational structure, the Mayor and City Council appoint a city manager 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 three 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.



Introductory Section

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 1,445,632. As of July 1, 2012, Phoenix encompassed 519.10 square miles, with the City of Phoenix Planning and Development Department estimating population at 1,464,405 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, Honeywell, Boeing, Wal-Mart Stores, Inc., Banner Health Systems, City of Phoenix, Wells Fargo and Company, Apollo Group Inc., Maricopa County, Arizona State University, Bank of America, Intel Corporation, JP Morgan Chase and US Airways 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. In 2011, Phoenix hosted the Major League Baseball (MLB) All-Star Game and in 2009, the City hosted the National Basketball Association (NBA) All-Star Game. The Phoenix area is also the location of the annual Fiesta Bowl and Buffalo Wild Wings Bowl college football bowl games and the annual Waste Management Phoenix Open PGA golf tournament.

Phoenix 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.

The Phoenix International Raceway is a major venue for NASCAR auto racing events. The Raceway hosts two major NASCAR events annually, including the Subway Fresh Fit 500™, NASCAR Sprint Cup Series weekend held in March, and the NASCAR Sprint Cup Series weekend in November.

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 that 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 December 1, 2012, the Airport had 30,919 public and employee parking spaces. A consolidated rental car facility is located west of the terminals on a 141-acre site, with 5,651 ready/return garage spaces and an 113,000 square foot commercial service building.

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 503,545 general aviation operations in Fiscal Year 2012.

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 offers flights to 38 cities on three airlines: Allegiant Air, Frontier Airlines and Spirit Airlines.

Airport Passengers

The total number of enplaned passengers at the Airport increased after the recent economic downturn. Between Fiscal Year 2010 and Fiscal Year 2012, enplaned passengers increased at an average of 3.1% 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 2010 and Fiscal Year 2012, O&D passengers increased 2.4% per year, while connecting passengers grew at an average 4.0% 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.

HISTORICAL PASSENGER ENPLANEMENTS
Phoenix Sky Harbor International Airport
(Fiscal Years)

	BY FLIGHT DESTINATION		BY TYPE OF PASSENGER				
			Origin-Destination (O&D)				
	Domestic	International	Resident	Visitor	Total O&D	Connecting	**TOTAL**
FISCAL YEAR							
2012	19,134,426	1,146,261	5,354,623	6,393,574	11,748,197	8,532,490	**20,280,687**
2011	18,592,674	1,088,559	5,079,224	6,110,834	11,190,058	8,491,175	**19,681,233**
2010	18,095,390	1,001,139	5,045,044	6,162,090	11,207,134	7,889,395	**19,096,529**
COMPOUND ANNUAL GROWTH RATE							
2010-2012	2.8%	7.0%	3.0%	1.9%	2.4%	4.0%	**3.1%**
2011-2012	2.9%	5.3%	5.4%	4.6%	5.0%	0.5%	**3.0%**
2010-2011	2.7%	8.7%	0.7%	-0.8%	-0.2%	7.6%	**3.1%**

Note: FY 2011 data was restated by the DOT during FY 2012.

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

PHX644-0001

The 10 largest U.S. passenger airlines provide regular service at the Airport, providing nonstop passenger service to 99 airports. The table below lists the passenger and cargo airlines that provided service at the Airport in Fiscal Year 2012.

AIRLINES REPORTING ENPLANED PASSENGERS AND AIR CARGO
Phoenix Sky Harbor International Airport
(Fiscal Year 2012)

MAJOR/NATIONAL	REGIONAL/COMMUTER	FOREIGN-FLAG
Alaska	American Eagle	AeroMexico
American	Atlantic Southeast (Delta Connection) *(c)*	Air Canada
Delta	ExpressJet (United Express) *(c)*	British Airways
Frontier	Great Lakes	WestJet
Hawaiian	Mesa (US Airways Express)	
JetBlue	Mesaba (Delta Connection)	**ALL-CARGO AIRLINES**
Southwest *(a)*	Pinnacle (Delta Connection)	ABX Air
Sun Country	Skywest (Delta Connection,	Air Transport International
United *(b)*	US Airways Express, United Express)	AirNet Systems
US Airways	United Express	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.

(c) Atlantic Southeast and ExpressJet received a single operating certificate in November 2011. Starting in December 2011 the two airlines were branded and operate as ExpressJet.

Source: City of Phoenix Aviation Department.

PHX644-0002

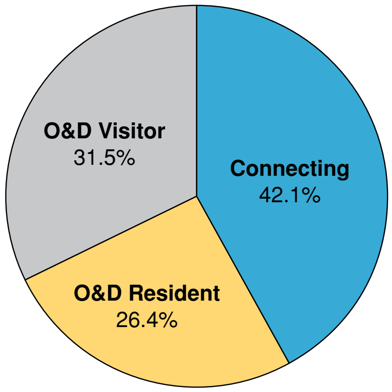
In Fiscal Year 2012, 94.3% of passengers were enplaned on domestic flights, while the remainder (5.7%) boarded international flights. Between Fiscal Year 2010 and Fiscal Year 2012 domestic passengers grew at an average 2.8% per year while international passengers grew at an average of 7.0% per year.

In Fiscal Year 2012, 57.9% of enplaned passengers traveled directly from or to the Airport as O&D passengers. Of the total O&D passengers, 45.6% were residents initiating their trips at the Airport and 54.4% were visitors who initiated their trips at other airports and were making their return journey from the Airport.

In Fiscal Year 2012, 42.1% 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 fourth 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 2012.

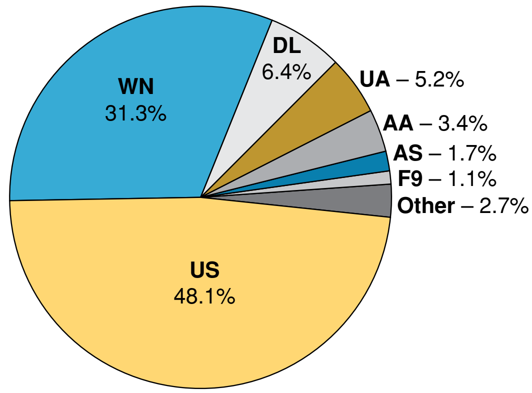
The composition of enplaned passengers at the Airport has remained relatively steady between Fiscal Year 2010 and Fiscal Year 2012. US Airways, the Airport's largest carrier, accounted for 48.1% of enplaned passengers at the Airport in Fiscal Year 2012, a slight decrease from 48.5% in Fiscal Year 2010. Over the same period Southwest Airlines (along with its AirTran subsidiary) increased its enplaned passenger share to 31.3% in Fiscal Year 2012 from 29.7% in Fiscal Year 2010.

ENPLANED PASSENGERS
(by Type of Passenger—Fiscal Year 2012)



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 2012)



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 Fiscal Year 2012, 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 48.1% of enplaned passengers at the Airport in Fiscal Year 2012—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)

		2012		2011		2010	
Rank	Airport	Seats	% of Total	Seats	% of Total	Seats	% of Total
1	Charlotte	22,019,067	21.5%	21,940,934	21.3%	19,832,244	19.8%
2	Philadelphia	13,945,840	13.6	13,816,716	13.4	13,584,798	13.6
3	**Phoenix**	**11,848,427**	**11.6**	**11,687,609**	**11.4**	**11,405,259**	**11.4**
4	Washington-Reagan	5,500,509	5.4	5,536,368	5.4	5,409,581	5.4
5	New York-LaGuardia	3,460,340	3.4	3,605,050	3.5	3,762,740	3.8
6	Boston	2,730,674	2.7	2,769,930	2.7	2,928,700	2.9
7	Orlando	1,412,831	1.4	1,431,792	1.4	1,423,052	1.4
8	Pittsburgh	1,363,229	1.3	1,403,914	1.4	1,343,922	1.3
9	Las Vegas	1,342,404	1.3	1,658,862	1.6	2,319,766	2.3
10	Chicago-O'Hare	1,127,792	1.1	1,082,368	1.1	1,081,372	1.1
	All other	37,614,983	36.7	37,960,800	36.9	36,850,243	36.9
	TOTAL	**102,366,096**	100.0%	**102,894,343**	100.0%	**99,941,677**	100.0%

Note: Represents seats on scheduled domestic and international flights and includes regional code-sharing affiliates. Seats are calculated based on current equipment configurations and historical flight data; changes to historical reported data may occur.
Source: Official Airline Guides, Inc.

PHX644-0006

Southwest Airlines

Southwest Airlines started commercial service in 1971 and has served the Airport since 1982. In Fiscal Year 2012, Southwest/AirTran offered more seats at the Airport than at all but three airports in its system—Las Vegas, Chicago-Midway and Baltimore. As noted, Southwest/AirTran accounted for 31.3% of enplaned passengers at the Airport in Fiscal Year 2012, 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)

		2012		2011		2010	
Rank	Airport	Seats	% of Total	Seats	% of Total	Seats	% of Total
1	Chicago-Midway	11,690,428	6.1%	11,275,216	5.9%	11,008,926	5.9%
2	Las Vegas	11,110,600	5.8	11,255,345	5.9	11,254,046	6.0
3	Baltimore	11,034,585	5.8	10,853,083	5.7	10,193,444	5.4
4	**Phoenix**	**8,896,545**	**4.7**	**8,908,793**	**4.6**	**8,610,447**	**4.6**
5	Atlanta	8,782,274	4.6	8,789,580	4.6	9,304,549	5.0
6	Denver	7,893,759	4.1	7,273,069	3.8	5,927,277	3.2
7	Orlando	7,474,123	3.9	7,709,584	4.0	7,615,086	4.1
8	Houston-Hobby	6,663,058	3.5	6,454,916	3.4	6,450,396	3.4
9	Dallas-Love	5,920,328	3.1	5,925,415	3.1	6,017,480	3.2
10	Los Angeles	5,627,325	2.9	5,806,116	3.0	5,843,741	3.1
	All other	106,013,317	55.5	107,725,588	56.1	105,500,154	56.2
	TOTAL	**191,106,342**	100.0%	**191,976,705**	100.0%	**187,725,546**	100.0%

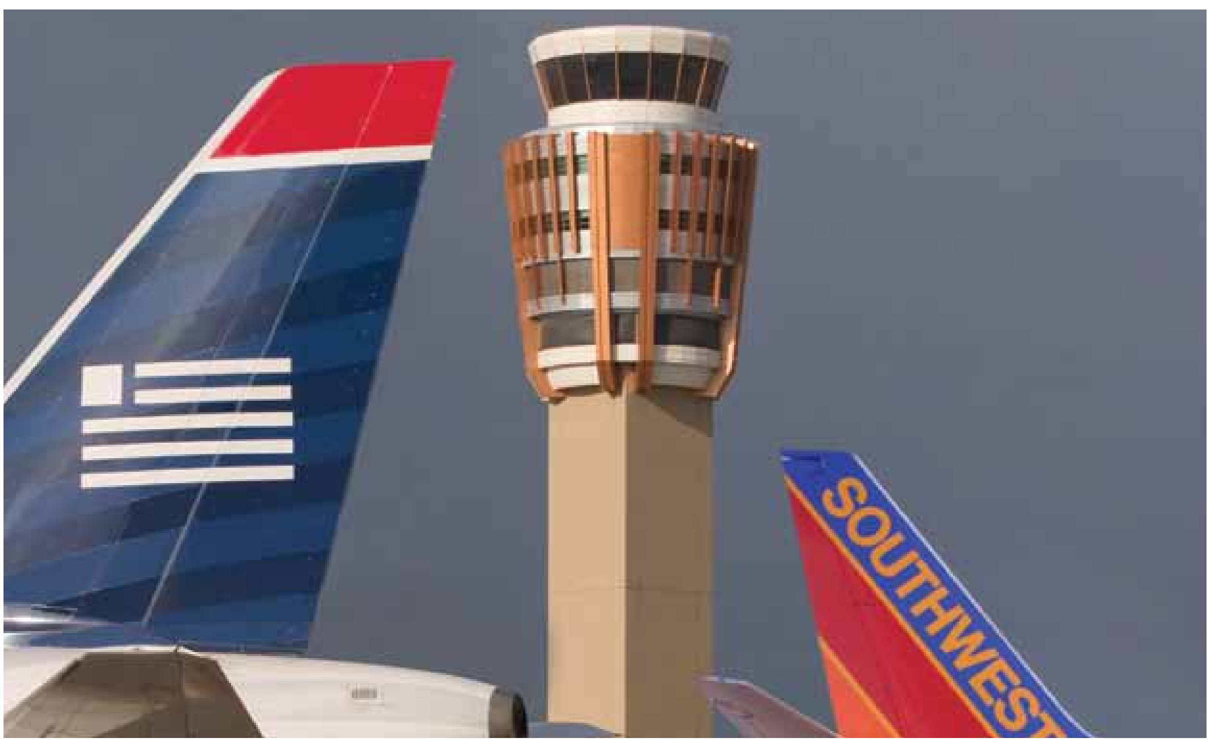
Notes: Represents seats on scheduled domestic and international flights.

Seats are calculated based on current equipment configurations and historical flight data; changes to historical reported data may occur.

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.

Source: Official Airline Guides, Inc.

PHX644-0007



Airline Rates & 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 2012 debt service coverage, which was 1.87x, was in the mid-range of the target. Fiscal Year 2011 coverage of 2.04x was slightly above the target range. Fiscal Year 2010 coverage, which was 1.62x, was slightly below target as a result of the economic downturn. 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 was 1.82x in Fiscal Year 2012 and 1.99x in Fiscal Year 2011, when the first issuance of Junior Lien Revenue Bonds occurred.

- **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 2012, this target continues to be met with 41% PFC leveraging, which is slightly up from 33% PFC leveraging in Fiscal Year 2011.

- **Cash & Liquidity:** Management has established a target of at least 475 Days Cash On Hand[1]. In Fiscal Year 2012, Fiscal Year 2011 and Fiscal Year 2010 management exceeded the target achieving 522, 562, and 576 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 $5.23 in Fiscal Year 2012, $5.15 in Fiscal Year 2011 and $4.88 in Fiscal Year 2010.

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

PHX644-0009

[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 2012. 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 2012 (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

Management's focus on customer service, safety and security is evident in the Department's awards and accomplishments. In 2012, Stage 1 of the PHX Sky Train™ was named Best Transportation Project by Engineering News Record (ENR) Southwest. The project was also given ENR Southwest's first Safety award, making it the only project to win in two categories.

Airports Council International North America (ACI-NA) recognized the Airport's mobile website, awarding it first place in the 2012 Excellence in Marketing and Communications contest. The site, which was created entirely by City staff, was recognized for design, ease of navigation and overall effectiveness.

Honors were also bestowed upon individuals, including Deputy Aviation Director Deborah Ostreicher who received the Greater Phoenix Chamber of Commerce 2012 ATHENA Public Sector award. This prestigious award recognizes women in the public and private sectors for their professional accomplishments, strong commitment to the community and mentorship of women.

In 2012, Phoenix Deer Valley Airport received the Arizona Safety Award, presented by the Arizona Safety Advisory Group of Arizona (ASAG). Phoenix Deer Valley Airport was recognized for a comprehensive communication campaign which created a culture of safety at the facility.

The Department also had the honor of hosting the 2012 American Association of Airport Executives (AAAE) Conference. Nearly 2,000 aviation professionals attended this annual event to network and discuss industry issues. Hosting the event offered the opportunity to showcase Airport facilities and the entire metropolitan area.

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, 2012.

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 2012, the Aviation Enterprise Fund achieved 522 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 funding the expansion of the PHX Sky Train to Terminal 3 backed by Letters of Credit. Stage 1, which will be completed on time and under budget, opens in early 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 1.87x and an aggregate coverage of 1.82x for fiscal year 2012. 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

Jeff DeWitt
Chief Financial Officer

City of Phoenix

Grant Thornton

Report of Independent Certified Public Accountants

Grant Thornton LLP
2398 E Camelback Road, Suite 600
Phoenix, AZ 85016-9004

T 602.474.3400
F 602.474.3421
www.GrantThornton.com

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

We have audited the accompanying statement of net assets of the Aviation Enterprise Fund (a major fund of the City of Phoenix, Arizona) (the "Entity"), as of and for the year ended June 30, 2012, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended, which collectively comprise the Entity's basic financial statements. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Aviation Enterprise Fund as of and for the year ended June 30, 2011 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 6, 2012.

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

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

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 established by the American Institute of Certified Public Accountants. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and the statistical section are presented for the 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 express no opinion on it.

GRANT THORNTON LLP

Phoenix, Arizona
January 22, 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, 2012. 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 2012

- Total net assets for the Aviation Enterprise Fund at June 30, 2012 were $1,789.6 million. This is an increase of $19.6 million over total net assets 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 airline 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.

Fiscal Year 2011

- Total net assets for the Aviation Enterprise Fund at June 30, 2011 were $1,770.0 million. This is an increase of $12.1 million over total net assets at June 30, 2010.
- Operating revenues were $288.7 million for Fiscal Year 2011, an increase of $21.9 million.
- The increase in revenues is due to higher airline operating revenues as well as increases in concessions, parking and ground transportation revenues reflecting the higher passenger activity at the Airport.
- Total operating expenses, exclusive of depreciation and amortization, increased by $24.3 million to $240.6 million in Fiscal Year 2011.
- The increase in operating expenses, exclusive of depreciation and amortization, is attributable to higher airfield and terminal maintenance and repair expenses, increased expenses related to technical support around the Airport, increased expenses associated with noise mitigation and environmental remediation, and expenses related to the sale of bonds funded by operating revenues.

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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 Assets presents information on all of the Aviation Enterprise Fund's assets and liabilities as of June 30, 2012 and 2011. The Comparative Statements of Revenues, Expenses, and Changes in Net Assets presents financial information showing how the Aviation Enterprise Fund's net assets changed during the fiscal years ended June 30, 2012 and 2011. The Comparative Statements of Cash Flows relates to the cash and cash equivalent in-flows and out-flows as a result of financial transactions during the two fiscal years and also includes a reconciliation of operating loss to the net cash provided by operating activities.

Summary of Net Assets

The following is a summary of assets, liabilities, and net assets as of June 30:

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

	2012	2011	2010
Assets			
Unrestricted Current Assets	$ 303,967	$ 291,759	$ 217,613
Restricted Current Assets	379,751	544,998	296,937
Capital Assets, net	2,815,460	2,668,637	2,508,150
OPEB Asset	50	68	158
Total Assets	3,499,228	3,505,462	3,022,858
Liabilities			
Current Liabilities Payable from Current Assets	31,207	26,978	21,331
Current Liabilities Payable from Restricted Assets	150,290	135,744	331,331
Bonds Payable, non current	1,511,646	1,555,830	893,565
Pollution Remediation	10,831	11,555	13,817
Accrued Compensated Absences	5,641	5,354	4,950
Total Liabilities	1,709,615	1,735,461	1,264,994
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,325,444	1,312,605	1,465,741
Restricted	106,337	106,350	51,730
Unrestricted	357,832	351,046	240,393
Total Net Assets	$ 1,789,613	$ 1,770,001	$ 1,757,864

Financial Section

The analysis below explains the changes in net assets.

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 $25.8 million, or 1.5%, in Fiscal Year 2012, compared to Fiscal Year 2011 due to debt service payments.

Total net assets increased by $19.6 million, or 1.1%, in Fiscal Year 2012. As of June 30, 2012, $1,325.4 million was invested in capital assets, net of related debt 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.

Fiscal Year 2011 Compared to Fiscal Year 2010

Total assets increased by $482.6 million, or 16.0%, in Fiscal Year 2011, compared to Fiscal Year 2010. This was primarily due to an increase in cash, cash equivalents and investments associated with the new Junior Lien Airport Revenue bond series. Capital assets also increased due to continuing construction of the new PHX Sky Train™.

Total liabilities increased by $470.5 million, or 37.2%, in Fiscal Year 2011, compared to Fiscal Year 2010. This is due to an increase in Municipal Corporation Obligations payable associated with the Junior Lien Airport Revenue bonds issued in Fiscal Year 2011.

Total net assets increased by $12.1 million, or 0.7%, in Fiscal Year 2011. As of June 30, 2011, $1,312.6 million was invested in capital assets, net of related debt and $351.0 million was unrestricted and available for short term operations and ongoing obligations. The amount restricted for debt service reserves totaled $106.4 million for Fiscal Year 2011.

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

CHANGES IN NET ASSETS
Aviation Enterprise Fund
(Fiscal Years; in thousands)

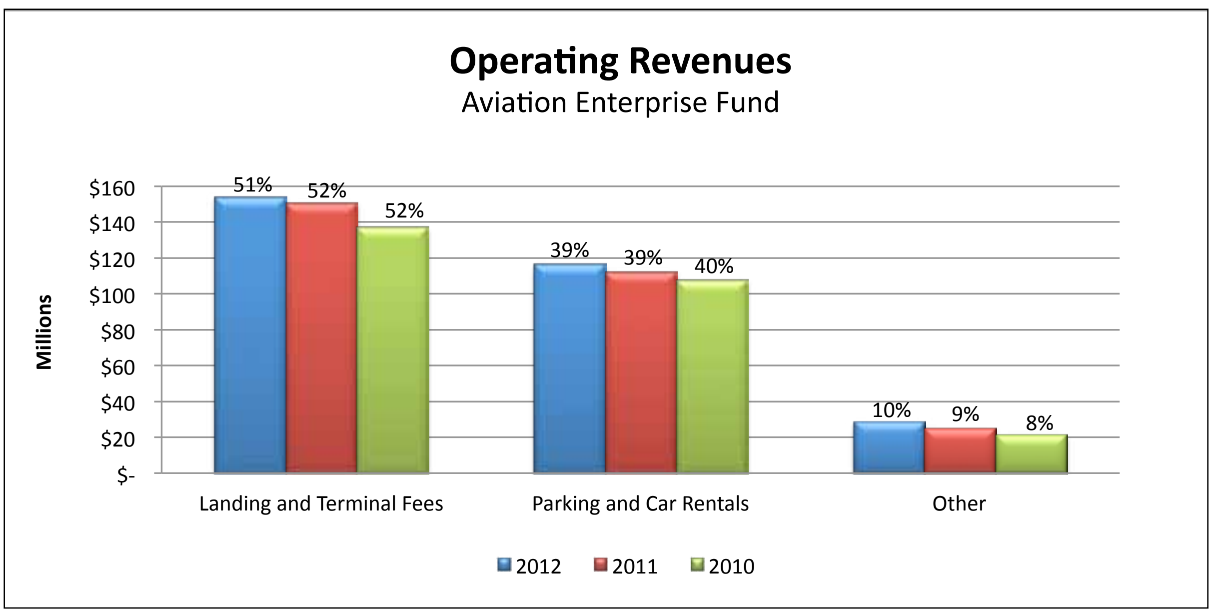
	2012	2011	2010
Operating Revenues	$ 299,767	$ 288,660	$ 266,778
Operating Expenses Before Depreciation	(232,049)	(240,602)	(216,263)
Operating Income Before Depreciation	67,718	48,058	50,515
Depreciation	(127,699)	(128,697)	(129,034)
Operating Loss	(59,981)	(80,639)	(78,519)
Non-Operating Revenues	7,871	14,666	6,455
Non-Operating Expenses	(81,032)	(74,866)	(51,125)
Capital Contributions	152,754	152,976	153,215
Increase in Net Assets	19,612	12,137	30,026
Net Assets, July 1	1,770,001	1,757,864	1,727,838
Net Assets, June 30	$ 1,789,613	$ 1,770,001	$ 1,757,864

Financial Section

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

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

	2012	2011	2010
Landing and Terminals Fees			
Airline Landing Fees	$ 42,978	$ 41,200	$ 38,294
Airline Terminal Fees	63,143	60,138	54,867
Terminal Concessions	45,120	47,657	42,268
Other	3,148	2,012	2,088
Subtotal	154,389	151,007	137,517
Parking and Car Rentals			
Parking	72,722	69,775	66,130
Car Rentals	44,032	42,687	41,788
Subtotal	116,754	112,462	107,918
Other Revenues			
Commercial	12,230	12,492	13,827
Ground Transportation	4,722	4,515	3,386
Other	11,672	8,184	4,130
Subtotal	28,624	25,191	21,343
Total Operating Revenues	$ 299,767	$ 288,660	$ 266,778



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

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 and car rentals, 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.

Fiscal Year 2011 Compared to Fiscal Year 2010

Operating revenues increased by $21.9 million, or 8.2%, to $288.7 million in Fiscal Year 2011 from $266.8 million in Fiscal Year 2010. This increase is primarily due to increases in airline landing and terminal fees, as well as increases in terminal concessions and ground transportation. Passenger enplanements at the Airport increased to 19.7 million in Fiscal Year 2011 from 19.1 million in Fiscal Year 2010, representing a 3.1% increase, which helped generate the increased terminal concession and ground transportation revenues.

Landing and Terminals Fees increased by $13.5 million, or 9.8%. This includes an increase in airline landing fees, resulting from an increase in the landing fee rate at the Airport to $1.62 per 1,000 pounds in Fiscal Year 2011 from $1.55 in Fiscal Year 2010. Airline terminal fees also grew due to a terminal space rental rate increase. In Fiscal Year 2011, the average per square foot rate at the Airport was $81.76, up from $77.12 in Fiscal Year 2010. Terminal concession revenues also increased, primarily due to the end of the temporary Minimum Annual Guarantee (MAG) relief provided to concessionaires during the first half of Fiscal Year 2010.

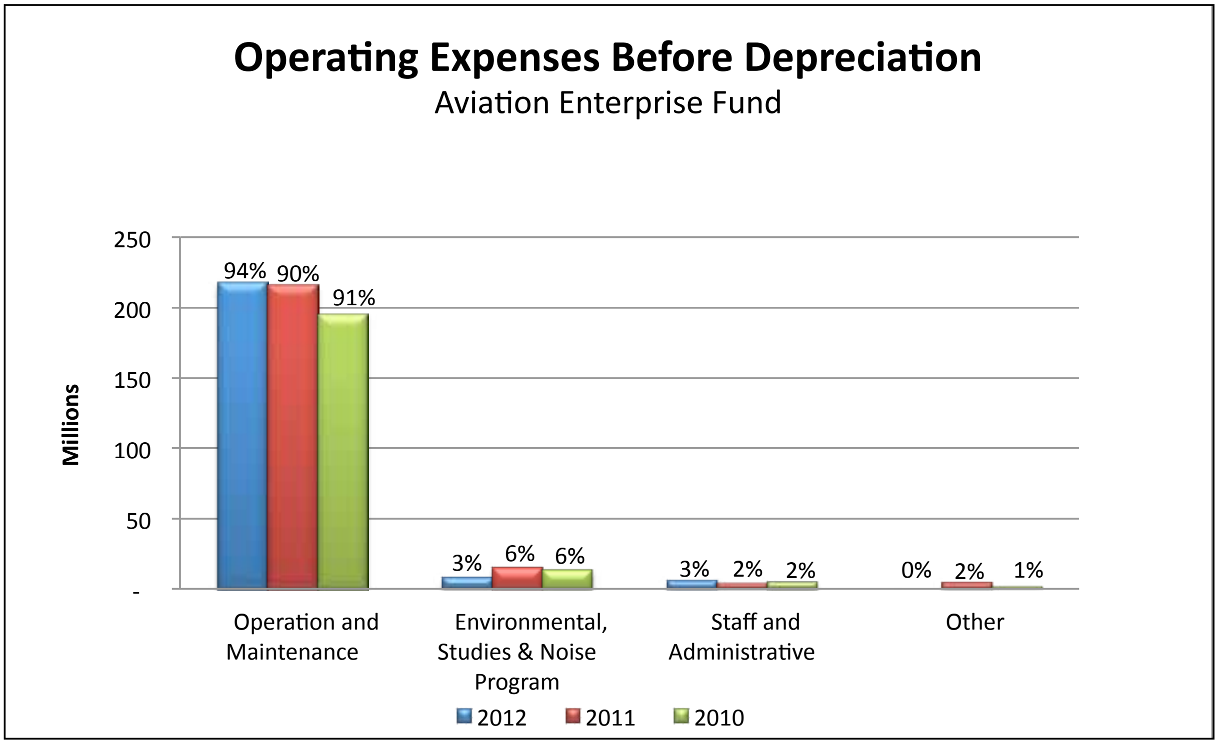
Parking and Car Rentals increased by $4.5 million, or 4.2%. This increase is attributable to growth in origin and destination (O&D) traffic at the Airport of 0.7% in Fiscal Year 2011.

Other Revenues increased by $3.8 million, or 18.0%. Ground transportation revenues expanded due to increased taxicab contracts and rising numbers of taxicabs servicing the Airport. Also included in this category is reimbursement income for the construction of the environmental remediation system at the Airport.

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

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

	2012		2011		2010	
Operating Expenses Before Depreciation						
Operation and Maintenance	$	217,942	$	216,366	$	195,538
Environmental, Studies & Noise Program		8,218		15,364		13,811
Staff and Administrative		5,889		4,364		5,037
Other		-		4,508		1,877
Total Operating Expenses Before Depreciation	$	232,049	$	240,602	$	216,263



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

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 and technology services, as well as an increase for maintenance of elevators, escalators, and moving walkways.

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Environmental, Studies & 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 Operating 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.

Fiscal Year 2011 Compared to Fiscal Year 2010

Operating expenses before depreciation increased by $24.3 million or 11.3%, to $240.6 million in Fiscal Year 2011 from $216.3 million in Fiscal Year 2010.

Operation and Maintenance expenses increased by $20.8 million, or 10.7%. This increase is due to several factors, including the continuing restoration and maintenance of airfield, airside and roadway pavement around the Airport, which increased by $8.4 million in Fiscal Year 2011. Another factor in the Operation and Maintenance expense increase was the issuance of new Junior Lien Airport Revenue Bonds in Fiscal Year 2011. The expenses associated with this debt issuance were $4.3 million. Expenditures for technical support and technological services around the Airport, such as the Common Use Terminal Equipment (CUTE) System and Closed Circuit Television (CCTV) increased by $3.9 million in Fiscal Year 2011. Utilities, supplies, and various maintenance contracts around the Airport System increased by $2.3 million in Fiscal Year 2011 and terminal rehabilitation, which included repairs to moving walkways, elevators and the roof in Terminal 4 increased by $1.2 million. Miscellaneous expenses relating to professional service contracts, ground transportation and security increased by $0.7 million in Fiscal Year 2011.

Environmental, Studies & Noise Program expenses increased by $1.6 million, or 11.2%, in Fiscal Year 2011. This increase is due to continuing work on noise compatibility in the areas surrounding the Airport, as well as environmental remediation expenses.

Staff and Administrative expenses decreased by $0.7 million, or 13.4%, in Fiscal Year 2011. This is due to a decrease in the Aviation Enterprise Fund's share of the City-wide overhead. Overhead has been decreased because of staffing cuts and vacancies in general funded City departments.

Other expenses increased by $2.6 million, or 140.2%, in Fiscal Year 2011. This is due to construction projects expensed in Fiscal Year 2011.

Short-Term Debt

Although no commercial paper was outstanding as of June 30, 2012, 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.

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, 2012 and 2011, there was $599.6 million and $625.3 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 as of June 30, 2012 and June 30, 2011 was $50.4 million, which has been fully funded with cash.

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.

There was $696.1 million principal amount outstanding in Junior Lien Airport Revenue Bonds (issued by the CIC) in both fiscal years 2012 and 2011.

The debt service reserve requirement for the Junior Lien Airport Revenue Bonds as of June 30, 2012 was $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 2012 and Fiscal Year 2011, 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, 2012 and 2011, there was $220.1 million and $227.6 million, respectively, principal amount outstanding in Rental Car Facility Charge Revenue Bonds (issued by the CIC).

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, 2012 and 2011, the Aviation Enterprise Fund had $9.6 million and $10.5 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.

Airport Excise Tax Revenue Bonds

The Aviation Enterprise Fund, through the City, entered into a lease agreement with the CIC in order to finance various improvements at the City's airports with airport excise tax revenue bonds issued by the CIC. There were no airport excise tax revenue bonds outstanding as of June 30, 2012 and 2011. As of June 30, 2010, there was a $0.6 million in principal amount outstanding of airport excise tax revenue bonds. The Aviation Enterprise Fund, through the City, had agreed to make lease payments to the CIC in the amounts sufficient to pay principal and interest on the excise tax bonds. These payments were made from Net Airport Revenues after the payment of senior lien and junior lien airport revenue bonded debt service.

Capital Assets

The Aviation Enterprise Fund's investment in capital assets for the fiscal years ended June 30, 2012 and June 30, 2011, was $2.8 billion and $2.7 billion, respectively, net of accumulated depreciation. This represents increases of $146.8 million and $160.5 million in fiscal years 2012 and 2011, respectively.

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

	2012	2011	2010
Land	$ 554,261	$ 569,150	$ 553,520
Buildings	1,198,247	1,183,963	1,147,518
Improvements Other Than Buildings	1,251,096	1,189,631	1,145,057
Equipment	360,086	352,052	292,843
Intangibles	22,002	21,595	7,812
Construction in Progress	783,364	578,883	462,317
Less: Accumulated Depreciation	(1,353,596)	(1,226,637)	(1,100,917)
Net Capital Assets	$ 2,815,460	$ 2,668,637	$ 2,508,150

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

Major additions to capital assets during Fiscal Year 2011 included the following:

- Design and construction related to the PHX Sky Train™ valued at $227.5 million.
- Construction and improvements of the Airport runways, taxiways and aprons valued at $26.3 million.
- Land acquisition valued at $17.1 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

Despite the lingering economic pressures in Fiscal Year 2012 and Fiscal Year 2011, the Aviation Enterprise Fund continued to post 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:

- The Airport is rebounding faster than many U.S. airports with enplanement growth of 3.0% in Fiscal Year 2012 and 3.1% in Fiscal Year 2011. Regional economic strength supports the rebound, as the Phoenix-Mesa-Glendale Metropolitan Statistical Area's unemployment rate continues to be lower, at 7.1%, than the U.S., at 8.1% (as of August 2012). Furthermore, single family home construction permits issued in August 2012 reflect an increase of 53% over those issued in August 2011.

- Nationally, the Airlines have reduced seat capacity resulting in higher load factors. The Airport's load factors of 79.3% in Fiscal Year 2012 and 76.8% in Fiscal Year 2011 illustrate the ability to accommodate additional passengers with existing supply. US Airways and Southwest Airlines, the two largest airlines serving the Airport, experienced enplanement increases of 2.6% and 5.3%, respectively, between Fiscal Years 2011-2012.

- The economic downturn resulted in lower regional discretionary income levels in Fiscal Year 2012 and Fiscal Year 2011, as compared to levels experienced prior to the downturn. This reduction in discretionary income has negatively impacted the revenues of the Airport System. For example, parking and car rental revenues for the Airport System have continued to increase but at a rate that is lower than recent O&D traffic growth. Additionally, some of the increases in parking and rental car revenues can be attributed to changes in parking rates and not as a result of increased transactions.

- Weakness in the economic climate continues to benefit the ongoing PHX Sky Train™ construction because of competitive contract bids and attractive commercial paper interest rates. As PHX Sky Train™ Stage 1 nears completion, the project is on schedule and under budget.

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.

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Assets
June 30, 2012 and 2011
(in thousands)

ASSETS	2012	2011
Current Assets		
Cash and Cash Equivalents	$ 32,425	$ 22,722
Investments	257,449	258,406
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2012, $2,261 and 2011, $2,097)	12,094	8,879
Intergovernmental	68	-
Deposits in Escrow	338	334
Inventories	1,593	1,418
Total Unrestricted Current Assets	303,967	291,759
Restricted Assets		
Debt Service		
Cash and Securities with Fiscal Agents/Trustees	202,897	198,135
Accrued Interest Receivable	46	383
Customer Facility Charge		
Cash and Cash Equivalents	728	482
Cash and Securities with Fiscal Agents/Trustees	31,692	24,166
Investments	23,708	23,761
Accounts Receivable	2,913	2,810
Capital Projects		
Cash and Cash Equivalents	1,680	17,415
Investments	97,774	262,298
Receivables		
Intergovernmental	10,471	7,438
Passenger Facility Charge	7,842	8,110
Total Restricted Current Assets	379,751	544,998
Total Current Assets	683,718	836,757
Noncurrent Assets		
Capital Assets		
Land	554,261	569,150
Buildings	1,198,247	1,183,963
Improvements Other Than Buildings	1,251,096	1,189,631
Equipment and Artwork	360,086	352,052
Intangibles	22,002	21,595
Construction in Progress	783,364	578,883
Less: Accumulated Depreciation	(1,353,596)	(1,226,637)
Total Capital Assets, Net of Accumulated Depreciation	2,815,460	2,668,637
OPEB Asset	50	68
Total Noncurrent Assets	2,815,510	2,668,705
Total Assets	3,499,228	3,505,462

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

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Assets (continued)
June 30, 2012 and 2011
(in thousands)

	2012	2011
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	16,474	11,440
Trust Liabilities and Deposits	1,012	681
Deferred Revenue	9,708	11,097
Current Portion of Pollution Remediation	3,124	2,882
Current Portion of Accrued Compensated Absences	889	878
Total Current Liabilities Payable from Current Assets	31,207	26,978
Current Liabilities Payable from Restricted Assets		
Debt Service		
Matured Bonds Payable	33,975	28,525
Interest Payable	40,597	41,284
Current Portion of General Obligation Bonds	710	885
Current Portion of Rental Car Facility Revenue Bonds	7,845	7,435
Current Portion of Municipal Corporation Obligations	33,615	25,655
Capital Projects		
Accounts Payable	33,548	31,960
Total Current Liabilities Payable from Restricted Assets	150,290	135,744
Total Current Liabilities	181,497	162,722
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2012, $302 and 2011, $509)	8,603	9,106
Rental Car Facility Revenue Bonds	212,340	220,185
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2012, $890 and 2011, $1,134)	1,261,215	1,294,586
Unamortized Premium (Discount), Net	29,488	31,953
Pollution Remediation	10,831	11,555
Accrued Compensated Absences	5,641	5,354
Total Noncurrent Liabilities	1,528,118	1,572,739
Total Liabilities	1,709,615	1,735,461
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,325,444	1,312,605
Restricted for Bond Retirement	87,432	87,432
Restricted for CFC Transportation O&M / Improvement Reserves	18,905	18,918
Unrestricted	357,832	351,046
Total Net Assets	$ 1,789,613	$ 1,770,001

Financial Section

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 Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(in thousands)

	2012	2011
Operating Revenues		
Landing and Terminals Fees	$ 154,389	$ 151,007
Parking and Car Rentals	116,754	112,462
Other	28,624	25,191
Total Operating Revenues	299,767	288,660
Operating Expenses		
Operation and Maintenance	217,942	216,366
Environmental, Studies & Noise Program	8,218	15,364
Depreciation	127,699	128,697
Staff and Administrative	5,889	4,364
Other	-	4,508
Total Operating Expenses	359,748	369,299
Operating Loss	(59,981)	(80,639)
Non-Operating Revenues (Expenses)		
Investment Income:		
Net Decrease in Fair Value of Investments	(5,105)	(4,254)
Interest	7,855	6,863
Interest on Capital Debt	(75,927)	(70,612)
Gain on Disposal of Capital Assets	16	7,803
Total Non-Operating Revenues (Expenses)	(73,161)	(60,200)
Net Loss Before Contributions	(133,142)	(140,839)
Capital Contributions	152,754	152,976
Change in Net Assets	19,612	12,137
Net Assets, July 1	1,770,001	1,757,864
Net Assets, June 30	$ 1,789,613	$ 1,770,001

Financial Section

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, 2012 and 2011
(in thousands)

	2012	2011
Cash Flows from Operating Activities		
Receipts from Customers	$ 295,426	$ 290,928
Payments to Suppliers	(149,845)	(166,428)
Payments to Employees	(71,622)	(69,904)
Payment of Staff and Administrative Expenses	(5,889)	(4,364)
Net Cash Provided by Operating Activities	68,070	50,232
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	1	491,056
Principal Paid on Capital Debt	(28,525)	(26,735)
Interest Paid on Capital Debt	(81,879)	(61,371)
Acquisition and Construction of Capital Assets	(269,720)	(296,741)
Proceeds from Sales of Capital Assets	52	8,479
Capital Contributions	149,886	158,558
Net Cash Provided/(Used) by Capital and Related Financing Activities	(230,185)	273,246
Cash Flows from Investing Activities		
Purchases of Investment Securities	(736,548)	(2,526,597)
Proceeds from Sale and Maturities of Investment Securities	936,589	2,359,739
Net Activity for Short-Term Investments	(34,507)	(89,649)
Interest on Investments	3,087	2,729
Net Cash Provided/(Used) by Investing Activities	168,621	(253,778)
Net Increase in Cash and Cash Equivalents	6,506	69,700
Cash and Cash Equivalents, July 1	263,254	193,554
Cash and Cash Equivalents, June 30	$ 269,760	$ 263,254
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	$ (59,981)	$ (80,639)
Adjustments		
Depreciation	127,699	128,697
(Increase) Decrease in Assets		
Receivables	(3,447)	(3,044)
Allowance for Doubtful Accounts	164	1,135
Prepaid Items	-	170
Inventories	(175)	34
OPEB Asset	18	90
Increase (Decrease) in Liabilities		
Accounts Payable	5,034	1,682
Trust Liabilities and Deposits	331	195
Deferred Revenue	(1,389)	3,982
Pollution Remediation	(482)	(2,503)
Accrued Compensated Absences	298	433
Net Cash Provided by Operating Activities	$ 68,070	$ 50,232
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	$ 450	$ 433
Contributions of Capital Assets	-	5
Increase (Decrease) in Fair Value of Investments	85	(560)
Total Noncash Transactions Affecting Financial Position	$ 535	$ (122)
Cash and Cash Equivalents		
Unrestricted		
Cash and Cash Equivalents	$ 32,425	$ 22,722
Cash Deposits	338	334
Total Unrestricted	32,763	23,056
Restricted		
Cash and Cash Equivalents	2,408	17,897
Cash and Securities with Fiscal Agents/Trustees	234,589	222,301
Total Restricted	236,997	240,198
	$ 269,760	$ 263,254

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 Post Employment Benefits (OPEB)
14	Capital Contributions
15	Subsequent Events

City of Phoenix

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.

1. 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 in both fiscal years 2012 and 2011 (life to date $11.7 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.

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.

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 assets. 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, and net assets, 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. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs). The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The Aviation Enterprise Fund will implement this Statement in fiscal year 2013.

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 will implement this Statement in fiscal year 2013.

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 will implement 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 will implement 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 Statements No. 60, No. 62, No. 63, No. 65, and No. 68 will have on the Aviation Enterprise Fund's financial statements.

2. Cash and Investments

Cash and cash equivalents at June 30, 2012, and June 30, 2011, was composed of the following (in thousands):

	June 30,	
	2012	2011
Cash in Bank	$ 132	$ 284
Cash on Hand	3	3
Short-Term Pooled Investments	37,886	25,788
Short-Term Non-Pooled Investments	(3,188)	14,544
Total Cash and Cash Equivalents	$ 34,833	$ 40,619

	June 30,	
	2012	2011
Unrestricted	$ 32,425	$ 22,722
Restricted	2,408	17,897
Total Cash and Cash Equivalents	$ 34,833	$ 40,619

Financial Section

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, 2012 and June 30, 2011 was $131,691 and $283,524, respectively and the bank ledger balance was $146,676 and $292,210, 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, 2012 and June 30, 2011 was $213,483,676 and $55,639,403 respectively. Securities with fiscal agents and trustees are not subject to custodial risk. The carrying amount of the Aviation Enterprise Fund's securities with fiscal agents and trustees at June 30, 2012 and June 30, 2011 was $21,105,656 and $166,661,565 respectively and the bank ledger balance was $21,105,656 and $166,896,928 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, 2012 and June 30, 2011 stated at fair value, were $378,930,780 and $544,464,653 respectively. The following summarizes those amounts reported in "Investments" in the accompanying financial statements (in thousands):

	June 30,	
	2012	2011
Unrestricted	$ 257,449	$ 258,406
Restricted	121,482	286,059
Total Investments	$ 378,931	$ 544,465

Financial Section

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.

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 2012	Fair Value 2011
FNMA	$ 168,477	$ 190,363
FHLMC	109,095	271,720
FHLB	386,772	403,734

3. Receivables

Receivables at June 30, 2012 and June 30, 2011 are stated net of the allowance for doubtful accounts, and are summarized as follows (in thousands):

	June 30, 2012				
	Accounts	Interest	Intergov-ernmental (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

	June 30, 2011				
	Accounts	Interest	Intergov-ernmental (1)	Passenger Facility Charge	Total
Unrestricted	$ 8,879	$ -	$ -	$ -	$ 8,879
Restricted	2,810	383	7,438	8,110	18,741
Total Receivables	$ 11,689	$ 383	$ 7,438	$ 8,110	$ 27,620

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

An allowance for doubtful accounts of $2,261,168 as of June 30, 2012 and $2,096,557 as of June 30, 2011 had been established for the Aviation Enterprise Fund. Aviation Enterprise Fund Accounts Receivable included unbilled charges of $6,938,664 at June 30, 2012 and $5,283,087 at June 30, 2011.

4. Capital Assets

Capital asset activity for the Aviation Enterprise Fund at June 30, 2012 and June 30, 2011 was as follows (in thousands):

	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	1,152,609	262,839	(73,238)	1,342,210
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	2,742,665	84,956	(775)	2,826,846
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	(1,226,637)	(127,699)	740	(1,353,596)
Total depreciable assets, net	1,516,028	(42,743)	(35)	1,473,250
Total capital assets, net	$ 2,668,637	$ 220,096	$ (73,273)	$ 2,815,460

	Balances July 1, 2010	Additions	Deletions	Balances June 30, 2011
Non-depreciable assets:				
Land	$ 553,520	$ 16,221	$ (591)	$ 569,150
Artwork	4,729	26	(179)	4,576
Construction-in-Progress	462,317	302,340	(185,774)	578,883
Total non-depreciable assets	1,020,566	318,587	(186,544)	1,152,609
Depreciable assets:				
Buildings	1,147,518	37,261	(816)	1,183,963
Improvements	1,145,057	45,330	(756)	1,189,631
Equipment	288,114	61,674	(2,312)	347,476
Intangible Assets	7,812	13,791	(8)	21,595
Total depreciable assets	2,588,501	158,056	(3,892)	2,742,665
Less accumulated depreciation for:				
Buildings	(458,258)	(44,132)	512	(501,878)
Improvements	(560,763)	(55,865)	350	(616,278)
Equipment	(77,065)	(28,174)	2,107	(103,132)
Intangible Assets	(4,831)	(526)	8	(5,349)
Total accumulated depreciation	(1,100,917)	(128,697)	2,977	(1,226,637)
Total depreciable assets, net	1,487,584	29,359	(915)	1,516,028
Total capital assets, net	$ 2,508,150	$ 347,946	$ (187,459)	$ 2,668,637

The amount of interest cost capitalized for the Aviation Enterprise Fund at June 30, 2012 and June 30, 2011 was $3,251,178 and $4,745,587, respectively.

5. Long-Term Obligations

Changes in long-term obligations at June 30, 2012 and June 30, 2011 are summarized as follows (in thousands):

	Balances July 1, 2011	Additions	Reductions	Balances June 30, 2012	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 10,500	$ -	$ (885)	$ 9,615	$ 710
Municipal Corporation Obligations (1)	1,548,995	-	(33,090)	1,515,905	41,460
	1,559,495	-	(33,975)	1,525,520	42,170
Discounts/Premiums	31,953	112	(2,577)	29,488	-
Deferred Loss on Refunding	(1,643)	-	451	(1,192)	-
Total Bonds and Notes Payable	1,589,805	112	(36,101)	1,553,816	42,170
Other Liabilities:					
Accrued Compensated Absences	6,232	6,530	(6,232)	6,530	889
Pollution Remediation	14,437	1,535	(2,017)	13,955	3,124
Total Other Liabilities	20,669	8,065	(8,249)	20,485	4,013
Total Long-Term Obligations	$ 1,610,474	$ 8,177	$ (44,350)	$ 1,574,301	$ 46,183

	Balances July 1, 2010	Additions	Reductions	Balances June 30, 2011	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 11,350	$ -	$ (850)	$ 10,500	$ 885
Municipal Corporation Obligations (1)	914,850	696,105	(61,960)	1,548,995	33,090
	926,200	696,105	(62,810)	1,559,495	33,975
Discounts/Premiums	5,032	29,348	(2,427)	31,953	-
Deferred Loss on Refunding	(2,077)	-	434	(1,643)	-
Total Bonds and Notes Payable	929,155	725,453	(64,803)	1,589,805	33,975
Other Liabilities:					
Accrued Compensated Absences	5,799	6,232	(5,799)	6,232	878
Pollution Remediation	16,940	-	(2,503)	14,437	2,882
Total Other Liabilities	22,739	6,232	(8,302)	20,669	3,760
Total Long-Term Obligations	$ 951,894	$ 731,685	$ (73,105)	$ 1,610,474	$ 37,735

(1) Municipal Corporation Obligations include Rental Car Facility Revenue Bonds

Financial Section

Issues of long-term debt were as follows at June 30, 2012 and June 30, 2011 (dollars in thousands):

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.
(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.

June 30, 2011

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	$ 11,615	$ 1,005	$ (123)	Aa3	AA-
05/01/02	Airport Sr. Lien Revenue (1) (2a)	7/1/14-32	5.53	22.7	231,390	231,390	166,058	1,487	Aa3	AA-
06/18/08	Airport Revenue (2a)	7/1/20-38	5.02	22.5	206,840	206,840	201,034	(579)	Aa3	AA-
06/18/08	Airport Revenue (Taxable) (2a)	7/1/12-19	4.68	7.8	43,160	43,160	10,720	(1,004)	Aa3	AA-
06/18/08	Airport Revenue Refunding (2a)	7/1/09-22	4.26	8.0	109,850	89,125	27,157	(2,336)	Aa3	AA-
06/18/08	Airport Revenue Refunding (Taxable) (2a)	7/1/09-20	4.58	5.6	68,520	43,140	10,464	(1,256)	Aa3	AA-
	Total Sr. Lien Obligations				$ 682,985	$ 625,270	$ 416,438	$ (3,811)		
09/01/10	Airport Revenue (2b)(3)	7/1/13-40	4.69	19.0	$ 642,680	$ 642,680	$ 584,562	$ (25,636)	A1	A+
09/01/10	Airport Revenue (Taxable) (2b)(3)(4)	7/1/40	3.67	29.8	21,345	21,345	40,854	-	A1	A+
09/01/10	Airport Revenue Refunding (2b)	7/1/23-25	4.33	13.9	32,080	32,080	20,904	(2,294)	A1	A+
	Total Jr. Lien Obligations				$ 696,105	$ 696,105	$ 646,320	$ (27,930)		
06/02/04	Rental Car Facility (Taxable) (1)(5)	7/1/07-29	6.20	16.5	$ 260,000	$ 227,620	$ 155,338	$ -	A3	A-
	Total Municipal Corporation Obligations				**$ 1,639,090**	**$ 1,548,995**	**$ 1,218,096**	**$ (31,741)**		
General Obligation Bonds										
06/01/02	Refunding	7/1/03-14	4.37	8.4	$ 9,625	$ 5	$ 1	$ -	Aa1	AAA
06/01/03	Refunding	7/1/05-16	3.25	11.9	9,735	8,830	1,602	(206)	Aa1	AAA
06/13/07	Refunding	7/1/09-14	4.22	4.6	3,205	1,665	118	(6)	Aa1	AAA
	Total General Obligation Bonds				**$ 22,565**	**$ 10,500**	**$ 1,721**	**$ (212)**		
	Total Aviation Enterprise Fund Bonds				**$ 1,661,655**	**$ 1,559,495**	**$ 1,219,817**	**$ (31,953)**		

(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.
(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.

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 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%.

The following details the issuance of debt for Fiscal Year 2011.

- In September 2010, the CIC issued $642,680,000 of Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT). Proceeds of the bonds were used to refund $200,000,000 aggregate principal amount of the CIC's Airport Revenue Bond Anticipation Notes, Series 2008A and 2008B and to finance a portion of the PHX Sky Train at Sky Harbor International Airport. The bonds have an average life of 19.0 years and were sold at a true interest cost of 4.69%.
- In September 2010, the CIC issued $21,345,000 of Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Bonds – Direct Payment). The bonds were issued as Recovery Zone Economic Development Bonds (Direct Pay) whereby the CIC elected to receive subsidy payments in the amount of 45% of each interest payment on the Recovery Zone Economic Development Bonds, paid directly to US Bank, National Association, as trustee, from the United States Treasury. The bond proceeds will be used for vacant land acquisition and related capital costs for noise mitigation. The bonds have an average life of 29.8 years and were sold at a true interest cost of 3.67%.
- In September 2010, the CIC issued $32,080,000 of Junior Lien Airport Revenue Refunding Bonds, Series 2010C (Non-AMT). Proceeds of the bonds refunded outstanding Senior Lien Airport Revenue Bonds, Series 1998A (Maturities July 1, 2023-2025 called September 15, 2010). The bonds have an average life of 13.9 years, were sold at a true interest cost of 4.33% and produced present value savings, net of transaction costs, of $2,242,464.

Debt Service Requirements

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

Fiscal	Municipal Corporation Obligations					
	Senior Lien		Junior Lien		Rental Car Facility	
Years	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 21,905	$ 30,806	$ 11,710	$ 34,762	$ 7,845	$ 13,431
2014	23,730	29,666	12,105	34,363	8,285	12,992
2015	23,670	28,427	12,705	33,764	8,750	12,527
2016	24,975	27,165	13,310	33,160	9,255	12,022
2017	26,310	25,853	13,960	32,511	9,795	11,478
2018-22	143,920	107,522	80,370	151,982	58,500	47,872
2023-27	108,625	75,007	134,195	125,470	78,885	27,497
2028-32	139,615	44,010	130,020	94,311	38,870	3,681
2033-37	70,565	15,003	166,465	57,889	-	-
2038-40	16,300	816	121,265	13,347	-	-
	$ 599,615	$ 384,275	$ 696,105	$ 611,559	$ 220,185	$ 141,500

Fiscal	General Obligation	
Years	Principal	Interest
2013	$ 710	$ 395
2014	500	366
2015	4,095	347
2016	4,310	183
	$ 9,615	$ 1,291

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, 2012 and June 30, 2011 is $13,954,510 and $14,436,857, 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.

During fiscal year 2012, the City issued General Obligation Refunding Bonds, Series 2012C to reduce the present value of future debt service payments for the City as a whole. These savings were available to the City due to improved municipal bond market conditions (i.e., lower interest rates) during the year. Of the $176,465,000 of General Obligation Refunding Bonds, Series 2012C issued by the City, $5,000 refunded $5,000 of outstanding general obligation bonds for the Aviation Enterprise Fund. The refunding did not result in any true economic savings for the Aviation Enterprise Fund. The bonds were advanced refunded on June 12, 2012 with a call date of July 1, 2012. The bonds have an average life of 3.0 years and were sold at a true interest cost of 4.00%.

During fiscal year 2011, the Aviation Enterprise Fund, through the City, issued Junior Lien Airport Revenue Refunding Bonds, Series 2010C (non-AMT) to reduce the present value of future debt service payments. These savings were available due to improved municipal bond market conditions (i.e., lower interest rates) during the year. The effect of the refunding is summarized as follows (in thousands):

	Civic Improvement Corporation Junior Lien Airport Revenue (non-AMT)
Series	2010C
Closing Date	09/01/10
Net Interest Rate	4.49%
Refunding Bonds Issued	$ 32,080
Premium	2,274
Issuance Costs and Insurance	(70)
Net Proceeds	$ 34,284
Refunded Amount	$ 34,285
Decrease in Debt Service	3,667
Economic Gain	2,242
Number of Years Affected	15

Financial Section

The deferred and amortized amounts of accounting losses on bond refundings (which are netted against outstanding bond obligations) at June 30, 2012 and June 30, 2011 are summarized as follows (in thousands):

	June 30, 2012				
	Deferred Amount July 1	Additions (Gains)/Losses	Reductions due to Refundings	Amortization Gains/(Losses)	Deferred Amount June 30
General Obligation	$ 509	$ 122	$ (122)	$ (207)	$ 302
Municipal Corporation Obligation	1,134	-	-	(244)	890
	$ 1,643	$ 122	$ (122)	$ (451)	$ 1,192

	June 30, 2011				
	Deferred Amount July 1	Additions (Gains)/Losses	Reductions due to Refundings	Amortization Gains/(Losses)	Deferred Amount June 30
General Obligation	$ 716	$ -	$ -	$ (207)	$ 509
Municipal Corporation Obligation	1,361	(1)	-	(226)	1,134
	$ 2,077	$ (1)	$ -	$ (433)	$ 1,643

7. Risk Management

The Aviation Enterprise Fund maintained a combination of commercial insurance and self-insurance during the fiscal year ended June 30, 2012, 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-insured reserve. Self-insured claims for the Aviation Enterprise Fund are reported as liabilities by the City 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 assets.

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.

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, 2012 were as follows (in thousands):

Years Ending June 30	
2013	$ 58,739
2014	53,058
2015	51,209
2016	50,958
2017	34,953
2018-2068	243,673
	$ 492,590

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 $17,383,300 for the fiscal year ended June 30, 2012, and $9,701,340 for the fiscal year ended June 30, 2011. A summary of the assets leased to third parties under the Aviation Enterprise Fund operating lease agreements at June 30, 2012 and June 30, 2011 is as follows (in thousands):

	June 30	
	2012	2011
Buildings	$ 1,198,247	$ 1,183,963
Less: Accumulated Depreciation	(546,558)	(501,878)
	$ 651,689	$ 682,085

Financial Section

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 $232,901,000 and $243,815,000 are remaining at June 30, 2012 and June 30, 2011 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, 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, 2012, 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 sick leave benefit balances (both accrued and unaccrued at June 30, 2012 and June 30, 2011 were as follows (in thousands):

	June 30, 2012	June 30, 2011
Sick Leave Benefit	$ 16,304	$ 16,326
Less: Amount Accrued as a Liability	(1,729)	(1,967)
Total Sick Leave Benefit Balance	$ 14,575	$ 14,359

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, 2012 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, 2012.

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 $17,000 of their salaries during calendar year 2012 and $16,500 of their salaries during calendar year 2011. 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 2012 and 2011 annual contribution limit was $50,000 and $49,000 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 $1,499,738 for the year ended June 30, 2012, and $1,491,172 for the year ended June 30, 2011.

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:

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)

Fiscal Year Ended	Required Contributions	Percentage of Covered Payroll
June 30, 2012	$ 9,988,663	18.18%
June 30, 2011	8,350,189	16.04%
June 30, 2010	7,507,548	14.35%

13. Other Post Employment 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.

<u>Medical Expense Reimbursement Plan and Long-Term Disability Trust</u>

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, as current retirees do. 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.

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.

<u>Post-Employment Health Plan</u>

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 both the July 1, 2011 actuarial valuation for LTD and the August 1, 2011 actuarial valuation for MERP, 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 $1,939,030 and $2,137,168 at June 30, 2012 and June 30, 2011, respectively. The contribution to the City of Phoenix LTD Trust was $101,800 and $52,476 at June 30, 2012 and June 30, 2011, 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 Assets and revenues from operating grants are reported as operating revenues. The Aviation Enterprise Fund has also received a grant through the American Recovery and Reinvestment Act (ARRA) of 2009.

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 2012 and 2011, 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, 2012 and June 30, 2011 is as follows (in thousands):

	June 30, 2012	June 30, 2011
Governmental Grants	$ 32,060	$ 33,299
Passenger Facility Charge (PFC)	79,441	80,398
Customer Facility Charge (CFC)	41,253	39,274
Other	-	5
Total	$ 152,754	$ 152,976

15. Subsequent Events

Debt Issuances

On November 7, 2012, the CIC issued $100,000,000 of Commercial Paper. The notes were issued as commercial paper in varying maturities up to 270 days and at various interest rates.

Pension Reform

On September 25, 2012, the Phoenix City Council adopted city staff's recommended pension reforms to be presented to the voters in March 2013, with changes effective July 1, 2013. The recommended changes for new hires are:

- Employee contribution rate based on a 50/50 split of actuarially determined rate
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement System (ASRS) schedule
- Change Rule of 80 provision to Rule of 87
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force
- Allow new city hires with service on account with ASRS prior to July 1, 2011 to join COPERS under current provisions

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)

	2012	2011	2010
REVENUES			
Landing Area	$ 42,978	$ 41,200	$ 38,295
Terminal Area	108,011	108,612	97,825
Ground Transportation	113,871	109,760	104,949
Other	32,363	32,329	27,623
Interest	833	1,356	3,180
Total Revenues before Reimbursement	298,056	293,257	271,872
Transportation O&M Expense Reimbursement (1)	12,593	12,102	11,923
Total Revenues	310,649	305,359	283,795
EXPENDITURES AND ENCUMBRANCES			
Cost of Maintenance and Operation			
Personal Services	98,743	97,690	96,496
Contractual Services	89,725	84,819	87,011
Supplies	11,536	11,252	9,503
Equipment/Minor Improvements	2,716	2,499	2,144
Total Cost of Maintenance and Operation (1)	202,720	196,260	195,154
Net Airport Revenue Available for Revenue Bond Debt Service (Net Airport Revenues)	107,929	109,099	88,641
Total Senior Lien Airport Revenue Bond Debt Service	57,819	53,450	54,588
Senior Lien Revenue Bond Debt Service Coverage	1.87	2.04	1.62
Net Airport Revenue Available After Senior Lien Revenue Bond Debt Service (Designated Revenues)	50,110	55,649	34,053
Total Junior Lien Airport Revenue Bond Debt Service (2)	1,604	1,337	-
Junior Lien Revenue Bond Debt Service Coverage	31.24	41.62	-
Net Airport Revenue Available After Senior and Junior Lien Revenue Bond Debt Service	48,506	54,312	34,053
Other Expenditures			
Capital Improvements	40,470	34,603	13,607
General Obligation Bond Debt Service	1,315	1,314	1,343
Lease-Purchase Payments	-	645	311
Total Other Expenditures	41,785	36,562	15,261
Total Expenditures and Encumbrances	303,928	287,609	265,003
Excess of Revenues Over Expenditures and Encumbrances	6,721	17,750	18,792
OTHER FINANCING SOURCES (USES)			
Recovery of Prior Years Expenditures	1,577	4,212	2,649
Transfer to General Fund: Staff and Administrative - Central Service	(5,889)	(4,364)	(5,037)
Transfers (to) from Other Funds			
Transfers to Other Funds	(14,193)	(14,333)	-
Transfers from Other Funds	-	-	11,056
Net Transfers (to) from Other Funds	(14,193)	(14,333)	11,056
Total Other Financing Sources (Uses)	(18,505)	(14,485)	8,668
Net Increase in Fund Balance	(11,784)	3,265	27,460
FUND BALANCE, JULY 1	161,356	158,091	130,631
FUND BALANCE, JUNE 30	149,572	161,356	158,091
Airport Improvement Reserve Fund Balance, June 30	151,454	150,971	178,787
Total Available Fund Balance (Budgetary), June 30	301,026	312,327	336,878
Non-Cash Budgetary Transactions (3)	(11,152)	(10,056)	(28,763)
Total Airport Cash on Hand, June 30 (4)	$ 289,874	$ 302,271	$ 308,115

(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 and 2010 consists of Current Cash and Cash Equivalents and Current Investments from CAFR Exhibit E-1, adjusted by $21 million and $100 million, respectively, to reflect eligible reimbursement as of June 30 from bond proceeds reflected in Restricted Capital Projects Cash and Cash Equivalents and Investments.

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)

	2012	2011
Comparative Statement of Net Assets		
Cash and Cash Equivalents (Unrestricted)	$ 32,425	$ 22,722
Investments (Unrestricted)	257,449	258,406
Eligible Reimbursement of Bond Proceeds (1)	-	21,143
Total Airport Cash on Hand, June 30	289,874	302,271
Adjusted For:		
Non-Cash Budgetary Transactions (2)	11,152	10,056
Available Fund Balance per Budgetary Presentation (3)	**$ 301,026**	**$ 312,327**

Notes
(1) Reflected in Restricted Capital Projects, Cash and Cash Equivalents and Investments.
(2) Consists of budgetary encumbrances, revenue recoveries and other timing differences.
(3) Budgetary Presentation is shown on Schedule 1 - City of Phoenix Aviation Enterprise Fund Comparative Schedule of Revenues, Expenditures, and Changes in Fund Balances

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)

	2012	2011
Revenues		
Total GAAP Operating Revenues	$ 299,767	$ 288,660
Adjusted for :		
Interest	833	1,356
Transportation O&M Expense Reimbursement	12,593	12,102
All Other (1)	(2,544)	3,241
Revenues per Budgetary Presentation (2)	**$ 310,649**	**$ 305,359**
Operating Expenses/Expenditures		
Total GAAP Operating Expenses	$ 359,748	$ 369,299
Adjusted for :		
Environmental, Studies & Noise Program	(8,218)	(15,364)
Depreciation	(127,699)	(128,697)
Staff and Administrative	(5,889)	(4,364)
Other (1)	758	(6,236)
Expensed Capital (3)	(15,980)	(14,078)
Bond Issuance Expenses	-	(4,300)
Maintenance and Operation Expenditures per Budgetary Presentation (2)	**$ 202,720**	**$ 196,260**
Senior Lien Coverage Calculation		
Revenue	$ 310,649	$ 305,359
Operating Expenditures	202,720	196,260
Designated Revenue for Senior Lien Debt Service	$ 107,929	$ 109,099
Senior Lien Debt Service	57,819	53,450
Senior Lien Debt Service Coverage (4)	**1.87**	**2.04**
Junior Lien Coverage Calculation		
Designated Revenue for Senior Lien Debt Service	$ 107,929	$ 109,099
Senior Lien Debt Service	57,819	53,450
Designated Revenue for Junior Lien Debt Service	$ 50,110	$ 55,649
Junior Lien Debt Service	34,762	28,968
Adjusted for :		
Junior Lien PFC Credit	(32,524)	(27,103)
2010 RZEDB Subsidy Payments	(634)	(528)
Net Junior Lien Debt Service	1,604	1,337
Junior Lien Debt Service Coverage (4)	**31.24**	**41.62**
Aggregate Senior & Junior Liens Coverage Calculation		
Designated Revenue for Debt Service	$ 107,929	$ 109,099
Aggregate Senior & Junior Liens Debt Service	59,423	54,787
Aggregate Senior & Junior Liens Debt Service Coverage	**1.82**	**1.99**

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 Debt Outstanding
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, 2012)

Delivery Date	Series	Original Issuance	Maturity Dates	Coupons	Bonds Outstanding (a)
5-1-02	2002A	$ 23,225,000	7-1-08/13	5.00% - 5.75%	$ 6,100,000
5-1-02	2002B	231,390,000	7-1-14/32	5.25% - 5.75%	231,390,000
6-18-08	2008A	206,840,000	7-1-20/38	4.80% - 5.00%	206,840,000
6-18-08	2008B	43,160,000	7-1-12/19	5.00% - 5.25%	38,655,000
6-18-08	2008C (b)	109,850,000	7-1-09/22	3.00% - 5.00%	83,070,000
6-18-08	2008D (b)	68,520,000	7-1-09/20	4.00% - 5.50%	33,560,000
					$ 599,615,000

Notes:
(a) Does not include bonds maturing on July 1, 2012.
(b) Series 2008C and 2008D 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
2013	$21,905,000	$30,805,550	$52,710,550
2014	23,730,000	29,665,675	53,395,675
2015	23,670,000	28,427,325	52,097,325
2016	24,975,000	27,164,700	52,139,700
2017	26,310,000	25,852,875	52,162,875
2018	27,765,000	24,448,950	52,213,950
2019	29,255,000	23,029,963	52,284,963
2020	30,960,000	21,533,650	52,493,650
2021	27,275,000	19,949,763	47,224,763
2022	28,665,000	18,559,475	47,224,475
2023	19,595,000	17,126,850	36,721,850
2024	20,610,000	16,117,713	36,727,713
2025	21,670,000	15,056,275	36,726,275
2026	22,790,000	13,940,212	36,730,212
2027	23,960,000	12,766,437	36,726,437
2028	25,195,000	11,532,362	36,727,362
2029	26,485,000	10,237,100	36,722,100
2030	27,850,000	8,872,900	36,722,900
2031	29,290,000	7,438,350	36,728,350
2032	30,795,000	5,929,588	36,724,588
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
	$ 599,615,000	$ 384,274,213	$ 983,889,213

SCHEDULE 6
CITY OF PHOENIX, CIVIC IMPROVEMENT CORPORATION
JUNIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2012)

Delivery Date	Series	Original Issuance	Maturity Dates	Coupons	Bonds Outstanding (a)	
9-1-10	2010A	$642,680,000	7-1-13/40	4.99%	$ 642,680,000	(1)
9-1-10	2010B	21,345,000	7-1-40	6.60%	21,345,000	(1),(2)
9-1-10	2010C (b)	32,080,000	7-1-23/25	5.00%	32,080,000	
					$ 696,105,000	

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 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.

(a) Does not include bonds maturing on July 1, 2012.
(b) Series 2010C was used 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
2013	$ 11,710,000	$ 34,761,501	$ 46,471,501
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
	$ 696,105,000	$ 611,558,941	$ 1,307,663,941

Supplementary Information

SCHEDULE 8
CITY OF PHOENIX, CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2012)

Delivery Date	Series	Original Issuance	Maturity Dates	Coupons	Bonds Outstanding (a)
6-2-04	2004	$ 260,000,000	7-1-07/29	3.69% - 6.25%	$ 220,185,000
					$ 220,185,000

Notes:
(a) Does not include bonds maturing on July 1, 2012

Supplementary Information

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

Fiscal Year	Principal	Interest	Total
2013	$ 7,845,000	$ 13,431,473	$ 21,276,473
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
	$ 220,185,000	$ 141,500,118	$ 361,685,118

SCHEDULE 10
CITY OF PHOENIX
AIRPORT GENERAL OBLIGATION BONDS
SCHEDULE OF DEBT OUTSTANDING
(as of June 30, 2012)

Delivery Date	Series	Original Issuance	Maturity Dates	Coupons	Bonds Outstanding (a)
6/1/03	2003	9,735,000	7-1-05/16	2.00% - 4.25%	$ 8,690,000
6/13/07	2007B	3,205,000	7-1-09/14	4.00%	920,000
6/12/12	2012C	5,000	7/1/15	4.00%	5,000 (b)
					$ 9,615,000

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

Supplementary Information

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

Fiscal Year	Principal	Interest	Total
2013	$ 710,000	$ 394,616	$ 1,104,616
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
	$ 9,615,000	$ 1,290,971	$ 10,905,971

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

	By type of passenger				
Fiscal	Origin-Destination (O&D)				
Year	Resident	Visitor	Total O&D	Connecting	Total
2012	5,354,623	6,393,574	11,748,197	8,532,490	20,280,687
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
2003	n.c.	n.c.	10,911,007	7,271,140	18,182,147

Notes
n.c. Denotes not calculated.
FY 2011 data was restated by the DOT during FY 2012.

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	By flight destination		
Year	Domestic	International	Total
2012	19,134,426	1,146,261	20,280,687
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
2003	17,530,164	651,983	18,182,147

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				
	2012	2011	2010	2009	2008
Enplaned Passengers					
US Airways	9,746,536	9,501,321	9,258,060	9,221,795	9,784,717
Southwest/AirTran (a)	6,353,423	6,036,115	5,665,452	5,546,157	6,200,672
Southwest	*6,259,080*	*5,936,498*	*5,576,010*	*5,431,992*	*6,052,552*
AirTran	*94,343*	*99,617*	*89,442*	*114,165*	*148,120*
Delta (b)	1,296,941	1,256,788	1,250,333	1,180,336	1,340,302
United (c)	1,058,382	1,121,492	1,236,187	1,253,507	1,386,791
American	696,593	666,985	628,645	638,183	700,978
Alaska	343,867	328,390	326,624	332,754	382,930
Frontier (d)	217,964	253,391	276,521	289,627	309,091
WestJet	150,795	116,551	89,400	64,363	50,748
JetBlue	109,521	99,601	80,861	76,917	85,395
British Airways	94,328	85,600	75,619	79,479	87,041
Hawaiian	86,867	85,197	84,912	87,649	86,755
Air Canada	79,454	78,022	57,468	54,915	51,082
All Other	46,016	51,780	66,447	86,438	201,028
Total	20,280,687	19,681,233	19,096,529	18,912,120	20,667,530
Share of Total					
US Airways	48.1%	48.2%	48.6%	48.8%	47.4%
Southwest/AirTran (a)	31.3	30.7	29.7	29.3	30.0
Southwest	*30.8*	*30.2*	*29.2*	*28.7*	*29.3*
AirTran	*0.5*	*0.5*	*0.5*	*0.6*	*0.7*
Delta (b)	6.4	6.4	6.5	6.2	6.5
United (c)	5.2	5.7	6.5	6.6	6.7
American	3.4	3.4	3.3	3.4	3.4
Alaska	1.7	1.7	1.7	1.8	1.9
Frontier (d)	1.1	1.3	1.4	1.5	1.5
WestJet	0.7	0.6	0.5	0.3	0.2
JetBlue	0.6	0.5	0.4	0.4	0.4
British Airways	0.5	0.4	0.4	0.4	0.4
Hawaiian	0.4	0.4	0.4	0.5	0.4
Air Canada	0.4	0.4	0.3	0.3	0.2
All Other	0.2	0.3	0.3	0.5	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Notes

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				
	2007	2006	2005	2004	2003
Enplaned Passengers					
US Airways	9,660,048	9,915,159	9,771,239	9,191,427	8,941,737
Southwest/AirTran (a)	6,285,404	6,105,629	5,771,556	5,455,272	4,985,745
Southwest	*6,240,937*	*6,105,629*	*5,771,556*	*5,455,272*	*4,985,745*
AirTran	*44,467*	-	-	-	-
Delta (b)	1,180,998	1,184,964	1,260,505	1,202,564	1,289,997
United (c)	1,533,290	1,526,452	1,455,918	1,278,527	1,101,027
American	752,317	654,570	639,850	675,412	769,434
Alaska	376,946	366,229	363,364	357,912	392,364
Frontier (d)	322,157	288,527	250,017	214,635	150,420
WestJet	37,985	19,561	13,359	-	-
JetBlue	120,435	60,926	34,406	-	-
British Airways	87,104	92,908	91,337	79,617	76,603
Hawaiian	84,820	87,615	89,438	83,252	52,714
Air Canada	55,432	48,690	44,708	50,803	65,063
All Other	265,934	291,033	283,989	366,977	357,043
Total	20,762,870	20,642,263	20,069,686	18,956,398	18,182,147
Share of Total					
US Airways	46.4%	48.0%	48.6%	48.6%	49.1%
Southwest/AirTran (a)	30.3	29.6	28.8	28.8	27.4
Southwest	*30.1*	*29.6*	*28.8*	*28.8*	*27.4*
AirTran	*0.2*	-	-	-	-
Delta (b)	5.7	5.7	6.3	6.3	7.1
United (c)	7.4	7.4	7.3	6.7	6.1
American	3.6	3.2	3.2	3.6	4.2
Alaska	1.8	1.8	1.8	1.9	2.2
Frontier (d)	1.6	1.4	1.2	1.1	0.8
WestJet	0.2	0.1	0.1	-	-
JetBlue	0.6	0.3	0.2	-	-
British Airways	0.4	0.5	0.5	0.4	0.4
Hawaiian	0.4	0.4	0.4	0.4	0.3
Air Canada	0.3	0.2	0.2	0.3	0.4
All Other	1.3	1.4	1.4	1.9	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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 (in thousands)	Cost Per Enplanement
2012	$ 106,121	20,281	$ 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
2003	76,390	18,183	4.20

SCHEDULE 16
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
SCHEDULE OF PFC APPROVALS AND REVENUES
(as of June 30, 2012)

	Approval Amount	Revenues	Remaining Authority
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	-
Subtotal	$ 449,192,317	$ 449,192,317	$ -
Active PFC Approvals			
PFC 4	222,250,000	222,250,000	-
PFC 5	202,200,000	202,200,000	-
PFC 6	1,858,636,000	243,413,269	1,615,222,731
Subtotal	$ 2,283,086,000	$ 667,863,269	$ 1,615,222,731
Total PFC Approvals	$ 2,732,278,317	$ 1,117,055,586	$ 1,615,222,731

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

				Enplaned Passengers		
Fiscal Year	**PFC Rate**	**Airline Admin Fee**	**Net PFC Rate**	**Total** (in thousands)	**PFC Eligible (a)**	**Total PFC Collections** (in thousands)
2012	$ 4.50	$ 0.11	$ 4.39	20,281	89.5%	$ 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
2003	4.50	0.11	4.39	18,183	81.1%	64,772

Notes
(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 Eight Fiscal Years

			Annual Receipts (c)			
Fiscal Year	Transaction Days (a) (in thousands)	Pledged CFC Rate (b)	Pledged CFCs	Additional Deposits	Annual Receipts	Admin. Costs
			(in thousands)			
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	35,122	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 Eight Fiscal Years

					Debt Service Coverage	
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	By Net Annual CFC Revenue	By Net Annual CFC Revenue and Debt Service Coverage Fund
	(in thousands)					
2012	$ 41,517	$ 5,320	$ 46,836	$ 21,273	1.95	2.20
2011	$ 39,242	5,320	44,562	21,274	1.84	2.09
2010	$ 35,119	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	42,881	21,278	1.77	2.02
2007	$ 34,398	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		
	2012	2011	2010
Gross Receipts			
Hertz Car Rental	$ 72,885,393	$ 70,710,477	$ 73,372,874
National Car Rental	62,915,076	62,476,798	63,305,026
Avis Rent-A-Car	47,762,142	49,264,865	47,344,934
Enterprise Leasing	42,126,958	40,233,855	33,712,586
Budget Rent-A-Car	37,825,248	35,451,289	31,634,457
Dollar Rent A Car	24,441,338	24,248,198	24,674,367
Thrifty Car Rental	14,017,070	15,538,257	17,163,253
Fox Rent A Car	13,087,506	12,317,380	11,888,482
Simply Wheelz	11,175,292	11,339,302	10,426,257
Payless Car Rental	10,038,448	7,499,228	4,604,327
Total	$ 336,274,471	$ 329,079,649	$ 318,126,563
Share of Total			
Hertz Car Rental	21.7%	21.5%	23.1%
National Car Rental	18.7	19.0	19.9
Avis Rent-A-Car	14.2	15.0	14.9
Enterprise Leasing	12.5	12.2	10.6
Budget Rent-A-Car	11.2	10.8	9.9
Dollar Rent A Car	7.3	7.4	7.8
Thrifty Car Rental	4.2	4.7	5.4
Fox Rent A Car	3.9	3.7	3.7
Simply Wheelz	3.3	3.4	3.3
Payless Car Rental	3.0	2.3	1.4
Total	100.0%	100.0%	100.0%

City of Phoenix

City of Phoenix

City of Phoenix Aviation Department

3400 East Sky Harbor Boulevard, Suite 3300
Phoenix, Arizona 85034-4405
Phone: 602-273-3300
TTY: 1-800-781-1010

www.skyharbor.com