



San Diego County Regional Airport Authority

San Diego, California



Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2005





Comprehensive Annual Financial Report

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Prepared by
Finance Division

Vernon D. Evans
Vice President, Finance/CFO

Kathy Kiefer
Director of Accounting



San Diego County Regional Airport Authority Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

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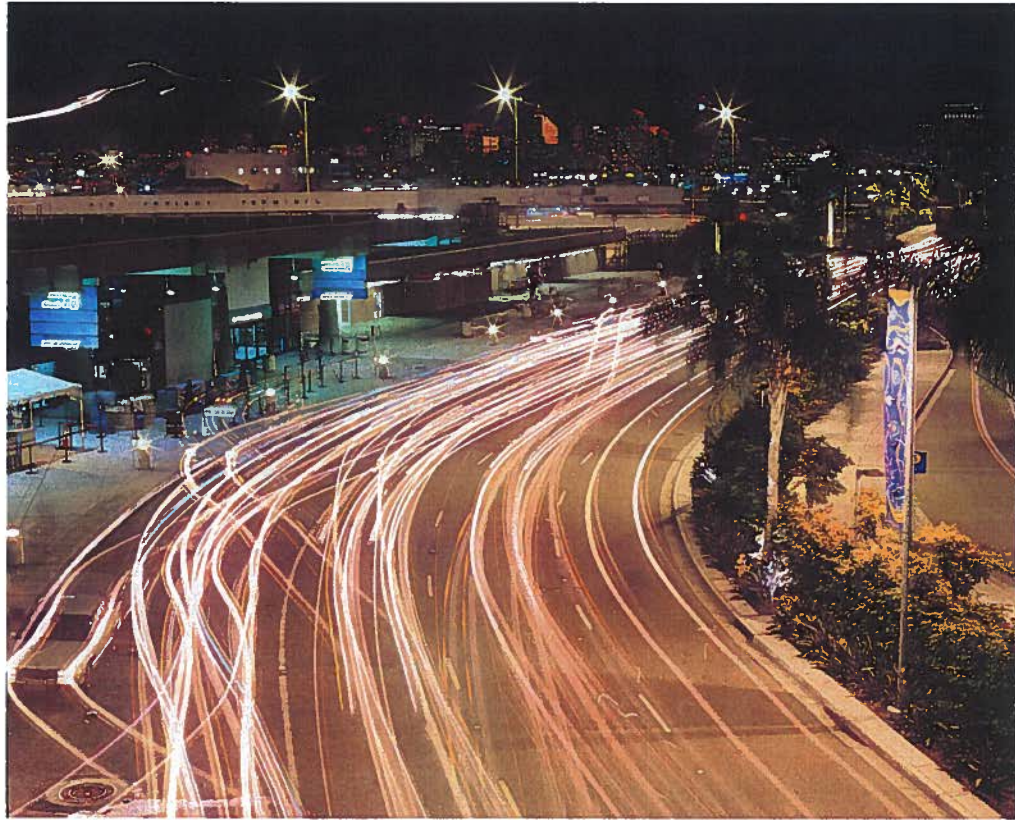
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Introductory Section



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Airport Authority Overview

The San Diego County Regional Airport Authority was established by state law in 2003 to operate San Diego International Airport and address the region's long-term air transportation needs. A nine-member appointed Board representing all areas of the County governs the Airport Authority.

San Diego International Airport – funded through user fees and not local taxes – is the nation's busiest single-runway commercial-service airport, serving some 16.9 million passengers in FY 2005.



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

P.O. BOX 82776, SAN DIEGO, CA 92138-2776
619-400-2400 WWW.SAN.ORG

November 16, 2005

To the Public:

The Comprehensive Annual Financial report (the “CAFR”) of the San Diego County Regional Airport Authority (“SDCRAA”, or the “Authority”) for the fiscal year ended June 30, 2005, is submitted herewith. The Authority’s Accounting Department prepared this report. Responsibility for both the accuracy of the presented data and completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Authority’s financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States of America. The report of the independent auditors on the financial statements is included on page 1.

The CAFR is presented in three sections: introductory, financial, and statistical. The Introductory Section, which is unaudited, includes this letter of transmittal, a list of Board Members and managerial staff, and the Airport’s organizational chart. The Financial Section includes the independent auditors’ report, management’s discussion and analysis, and the basic financial statements. The Statistical Section, which is unaudited, includes selected financial and operational information presented on a multi-year basis.

Accounting principles generally accepted in the United States of America (GAAP), require that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management’s Discussion and Analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors in the Financial Section of this report.

PROFILE OF AUTHORITY AND ORGANIZATIONAL STRUCTURE

The Authority was established pursuant to California State Act AB 93, which was signed into California State law in October 2001. The Act established the Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout the County of San Diego (the “County”). The Authority is vested with four principal responsibilities: (1) the operation of San Diego International Airport (“SDIA”, or the “Airport”), (2) the planning and operation of any future airport that could be developed as a supplement to or replacement for SDIA, (3) the development of a comprehensive land use plan for the entire county by June 30, 2005, and (4) the role to serve as the region’s Airport Land Use Commission.

A nine-member Board governs the Authority, with three paid members serving as the Executive Committee. The three paid members are appointed in the following manner: by the Governor, and confirmed by the Senate; by the Sheriff of the County, and confirmed by the San Diego County Board of Supervisors; and by the Mayor of the City of San Diego, and confirmed by a majority vote of the San Diego City Council. Board members serve terms varying from two years to six years.



SAN DIEGO
INTERNATIONAL
AIRPORT

The management of the Authority and its operations are carried out by a staff headed by the President/Chief Executive Officer, who is appointed by and reports directly to the members of the Authority.

ECONOMIC CONDITION

The Air Trade Area for the Airport includes the County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. Population in the San Diego metropolitan area surpassed 3 million in 2003 making it the 17th most populated metropolitan area in the United States. The County is the fourth largest county in terms of population, and the City of San Diego (the "City") ranks as the 7th largest city. It has grown at an average rate of 1.8% over the past 5 years. The majority of the County's population is concentrated in the western portion. The largest cities in the County are San Diego (43%), Chula Vista (7%), Oceanside (6%), Escondido (5%), El Cajon (3%), and Carlsbad (3%). The combined San Diego/Tijuana metropolitan population exceeds 5 million inhabitants.

San Diego County has enjoyed a stable economic climate during the past five years with unemployment rates lower than the State of California's; in August 2005, the County's unemployment rate was 4.3% compared to 5.1% for the State. This reflects the nature of the region's economy, which was once highly dependent on the defense industry. The region's economy is now diversified and provides an attractive mix of leisure and business sectors. The County is home to more than 150 publicly traded companies.

A 2001 "Airport Economic Analysis Study" prepared for the Authority, the San Diego Association of Governments, the District, the City, the County, the San Diego Regional Economic Development Corporation and the San Diego Convention and Visitors Bureau, found that the Airport contributed \$4.5 billion to the regional economy every year and accounted for 4% of the region's total economic output. In addition, every job at the airport contributes to 15 other jobs in the region.

Fiscal year 2005 was a record year for the Authority. Passenger enplanements reached 8.5 million, a 6.3% increase over FY 2004. This was the first time that passenger enplanements exceeded those levels achieved prior to the events of September 11, 2001. See the Management's Discussion and Analysis section of the Financial Section of this report for further discussion of the current year activity.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Security Enhancements – During FY 2005, the Authority began a TSA - regulated training initiative with its law enforcement provider, the Harbor Police Department. The training initiative improved and enhanced aviation security and public safety at the Airport. This comprehensive training program focuses on upgrading an officer's expertise, knowledge and competencies in all facets of security operations. The focus of the training ranges from response to passenger screening checkpoints and baggage screening systems, to perimeter patrols and counter-terrorism measures. In addition, the program includes resolution techniques and protocols of potential threats posed by suspicious bags/items related to passenger and property screening.

In summer 2004, the Authority implemented a summer internship program utilizing approximately 20 college students for divestiture processes at the Airport's seven passenger screening checkpoints. The student initiative re-directed certified screeners to more critical functions associated with passenger and property screening. This was accomplished by replacing trained TSA personnel who typically perform

these functions. This resulted in shorter security lines and decreased waiting times while significantly improving the overall experience and efficiency of passenger screening operations.

New Airport Site Selection Program – As mandated by the state law that created the Authority, an Airport Site Selection Program has been initiated which identifies nine potential sites for a new airport, including expansion of SDIA at its existing location. The Airport Site Selection Program attained a number of milestones in fiscal year 2005. In July, 2004, the Board, using Geographic Information System technology, added two non-military sites to the list bringing the total number of sites under consideration to nine. In February, 2005, the Authority released the results of a public opinion survey it commissioned that was designed to measure the level of support for a new airport and gauge public awareness of the issues surrounding the region's air transportation needs. The survey was conducted by CIC Research of San Diego and included interviews with 1,600 San Diego County Residents. According to the survey, 63 percent agreed that the Airport Authority should be studying the need for a new airport, and 58 percent said there was a need for the Airport Authority to plan for construction of a new airport. In June, 2005, the Airport Authority initiated a series of dialogues with San Diego citizens regarding the Airport Site Selection Program on a dedicated website, <http://future.signonsandiego.com>.

Airport Master Plan Program for SDIA – The Authority is preparing a Master Plan for the Airport (the “Master Plan”) with the primary goal of improving air service and customer service. The Master Plan is intended to improve airfield and terminal efficiency and capacity, improve tenant facilities, improve Airport access, utilize developable properties, improve the regional economy, meet the Authority’s financial goals and address stakeholder and community input. The Authority has developed facility requirements for the Airport to accommodate forecasted growth in passenger traffic and aircraft operations. The Authority completed the development of facilities’ requirements and draft preliminary concepts in June 2005. The facility requirements identified a need for expanded terminal areas, including adding 10 gates to the existing 41 gates in order to accommodate passenger traffic growth through 2015. The Board authorized staff to initiate the state and federal environmental review of the preliminary concept for this terminal expansion. The environmental review and state coastal permitting process is estimated to be completed in 2006.

Airport Resource Planning Project – The Airport Resource Planning (ARP) Project is scheduled to replace the existing financial information system that was inherited from the Port District. The ARP system will be an enterprise wide system covering accounts receivable, accounts payable, general ledger, contracts, purchasing and payroll. Specific modules are being developed for all departments to replace stand-alone systems that are currently being used. The system has been undergoing rigorous testing and modification during 2005 and is expected to begin operation in FY 2006.

Parking – FY 2005 marked the creation of significant initiatives aimed at expanding the airport’s public parking inventory and the development of an airport-wide branding campaign for its parking services, SAN Park. Commencing service in mid-November 2004, SAN Park NTC, located just west of Terminal 2 on the former Naval Training Center property, added 1,300 much needed parking stalls to the airport’s inventory. SAN Park NTC provides for safe, convenient, and economical long-term parking at an introductory rate of \$12.00 per day. Shortly, thereafter, in April 2005, SAN Park Harbor Drive was introduced into service. Located on the former Teledyne Ryan property just east of the airport, this facility provides 351 additional long-term parking stalls at the current rate of \$12.00 per day. Each of these locations offers free shuttle service to and from the airport’s terminal buildings. These additions bring the total number of airport parking spaces to 2,750.

With the introduction of these two new parking services to the airport's inventory, it was incumbent on the Authority to package each of the services under one brand name to properly capitalize on its name recognition. As a result, the SAN Park umbrella was created to cover each of the parking services. In addition to SAN Park NTC and SAN Park Harbor Drive, the parking service, Airport Connection, located on the former General Dynamics property, on the north side of the airport, was re-branded to SAN Park Pacific Highway. As part of the branding process, the passenger shuttles providing service for each location were uniquely wrapped with scenes indicative of the San Diego region. Currently the SAN Park umbrella covers on-airport parking service, three long-term parking services, a Cell Phone Waiting Lot, and airport employee parking.

Refurbishment of Terminal One Gates 1 and 2 – FY 2005 saw the complete refurbishment and enlargement of Terminal One's Gates 1 and 2, including the hold rooms and baggage claim area, seismic retrofit of the facilities, installation of ground level jet bridges, and new concession facilities. The project culminated with the opening of 2,400 square feet of new concession space in August 2005, including a Karl Strauss Restaurant and Bar with table service, Chili's To Go kiosk and a gift and news shop.

Other New Concessions & Services – Also in FY 2005, the airport added a Starbucks Coffee unit which opened in the West Rotunda of Terminal One. The airport also added CheckPoint Mailers. These CheckPoint Mailers were incorporated at security checkpoints to allow passengers to mail items back to themselves that would be confiscated at the checkpoint.

Airport Advisory Committee – Pursuant to the authorizing legislation the Airport Advisory Committee began functioning during FY 2005. The Committee's 30 members represent a variety of aviation, government, educational and business interests within the County of San Diego. The purpose of the Advisory Committee is to serve as a sounding board and catalyst for the development of recommendations to the Authority Board on issues relating to the planning and development of all airport facilities for the County of San Diego, including airport activities and operations of the United States Department of Defense. The committee meets on a bi-monthly schedule.

Investment Advisor – In FY 2005 the Authority engaged the services of Public Financial Management, as investment advisor. The investment advisor provides assistance in managing the Authority's investment portfolio.

FINANCIAL INFORMATION

The Board is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Airport are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal controls are designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

INDEPENDENT AUDIT

The financial records of the Authority are audited annually by independent public accountants. McGladrey & Pullen LLP, performed the audit for the fiscal years ended June 30, 2005 and 2004. Their report on the financial statements is presented in this report.

AWARDS AND ACKNOWLEDGEMENTS

The Authority has been the recipient of numerous awards in customer service and marketing. However we are particularly proud to have received the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the second year that the Authority received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport's Finance and Communications Divisions. We sincerely appreciate everyone's efforts in preparing this report.

Respectively submitted,



Thella F. Bowens
President/Chief Executive Officer



Vernon D. Evans
Vice President, Finance/Treasurer

GFOA Certificate of Achievement in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This is the second consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County
Regional Airport Authority,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey L. Ecker

Executive Director

Airport Authority Board Members & Executive Staff

Board Members

Executive Committee

- Joe W. Carver (Chairman)
- Xema Jacobson
- William D. Lynch

General Members

- Robert L. Maxwell
- Paul Nieto (Vice Chairman)
- Paul Peterson
- Mayor Mary Sessom
- Mayor Morris Vance
- Councilmember Anthony Young

Executive Staff

Thella F. Bowens, President and CEO/Executive Director

Fred Bolger, Acting Chief Auditor

Breton K. Lobner, General Counsel

Bryan Enarson, Vice President, *Development*

Vernon D. Evans, Vice President, *CFO/Treasurer*

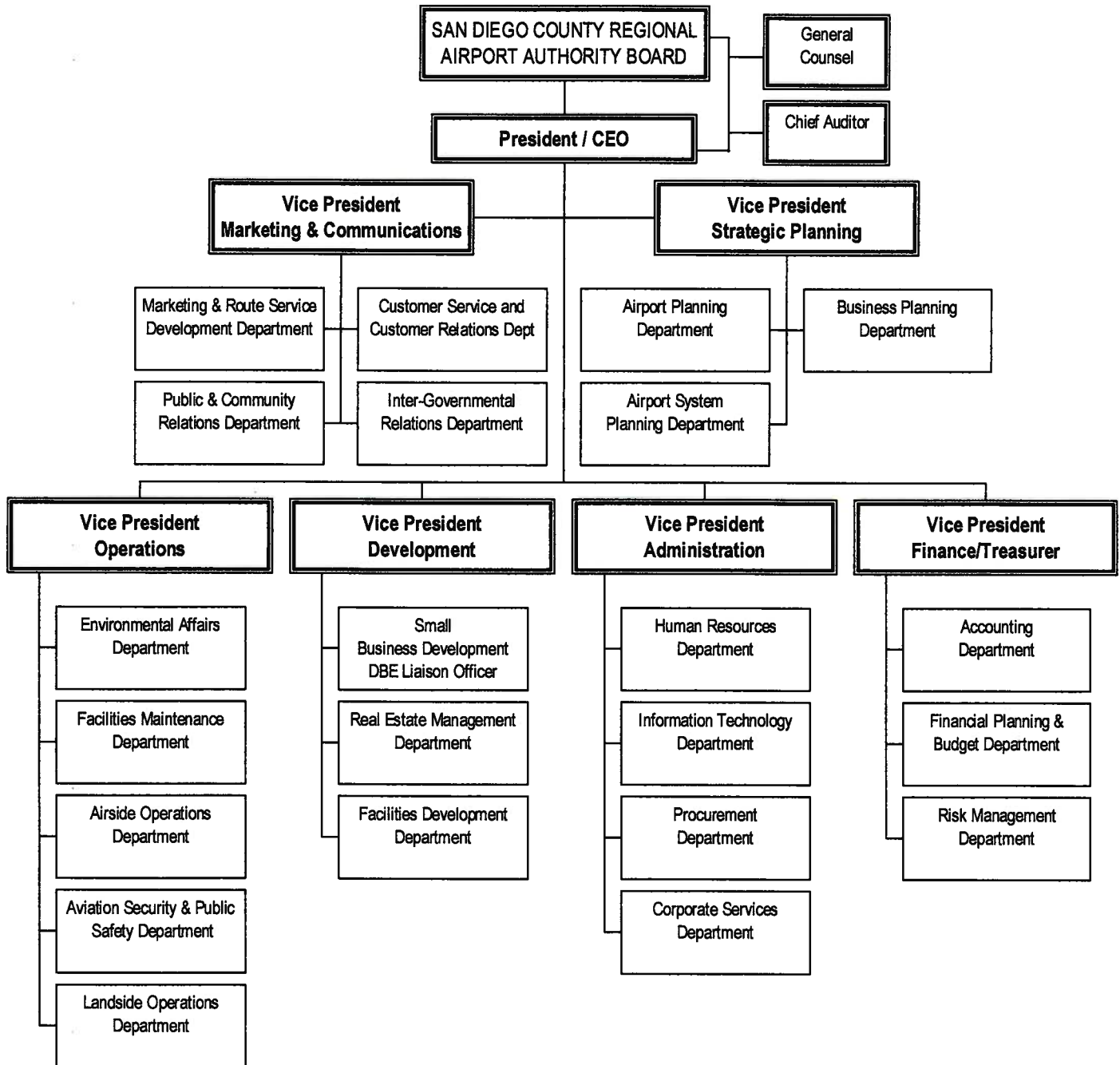
Angela Shafer-Payne, Vice President, *Strategic Planning*

Ted Sexton, Vice President, *Operations*

Robert R. Wigington, Acting Vice President, *Marketing & Communications*

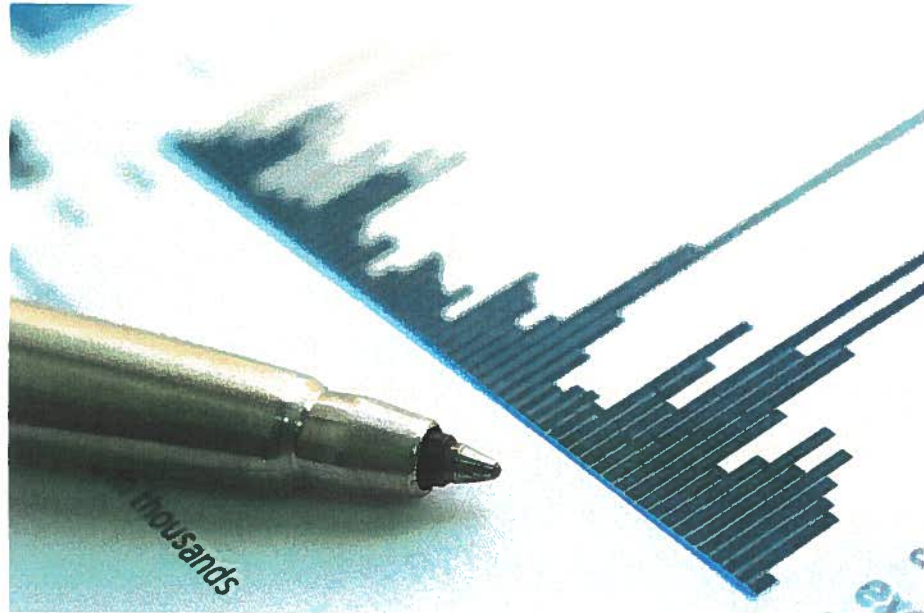
Jeffrey Woodson, Vice President, *Administration*

Airport Authority Organization Chart





Financial Section



- Independent Auditor's Report
- Management's Discussion and Analysis
 - Basic Financial Statements
 - Balance Sheets
- Statements of Revenues, Expenses & Change in Net Assets
 - Statements of Cash Flows
- Notes to Financial Statements



McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Members of the Board
San Diego County Regional Airport Authority
San Diego, California

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Authority) as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2005 on our consideration of the Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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.

McGladrey & Pullen, LLP

San Diego, California
September 28, except for Notes 5 and 13, as to which the date is October 7, 2005

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2004 TO JUNE 30, 2005**

INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2005 and 2004.

The Authority was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of SDIA transferred from the San Diego Unified Port District (District) to the Authority. The Authority adopted a June 30 fiscal year and produced its first audited financial statements for the six months ended June 30, 2003.

USING THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion & Analysis (MD&A), the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the balance sheet, the statement of activities, and the statement of cash flows. The notes are essential to a full understanding of the data contained in the financial statements.

The comparative Balance Sheets depict the Authority's financial position as of a point in time—June 30, 2005 and June 30, 2004—and include all assets and liabilities of the Authority. The Balance Sheets demonstrate that the Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted. Net assets are displayed in three components—invested in capital assets, net of related debt; restricted; and unrestricted.

The comparative Statements of Revenues, Expenses and Change in Net Assets report total operating revenues, operating expenses, nonoperating revenues and expenses, and change in Authority net assets. Revenues and expenses are categorized as either operating or nonoperating, based upon management's policy as established in accordance with definitions set forth in GASB 33 and GASB 34. Significant recurring sources of the Authority's revenues, including Passenger Facility Charges (PFC), investment income and settlement income, are reported as nonoperating revenues. The Authority's interest expense is reported as nonoperating expense. Capital grant contributions represent grants for capital improvement purposes.

The comparative Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities and investing activities.

The Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at or near SDIA. Since the Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide a significant portion of the revenues to operate, maintain and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

The public policy decision to transfer responsibility for SDIA from the District to the newly created Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (Commission). The Commission was established to evaluate regional governance in San Diego County and report to the California State Legislature on measures to improve it.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) established the composition and jurisdiction of the Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

The policymakers recognized the complexity of transferring a commercial airport to a newly created entity. To ensure a smooth transition, the Authority was vested with the responsibility to develop and execute an Airport Transition Plan with the complete support and cooperation of the District, the Federal Aviation Administration and the State of California.

Legislative Background

AB 93 was signed into California State law in October 2001. The Act established the Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout the County of San Diego. The Authority is vested with four principal responsibilities:

- (1) Operation of SDIA,
- (2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA,
- (3) Development of comprehensive airport land use plans for the airports in the county by June 30, 2005, and
- (4) Serving as the region's Airport Land Use Commission

The Authority is required to conduct a planning process to recommend to voters a supplemental or replacement site for SDIA to meet the future air service demands of the region no later than November 2006.

Subsequent legislative changes to AB93 were introduced and passed in California Senate Bill 1896 (Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

Transfer of Assets and Liabilities/Joint Audit

The Authority and District collaboratively developed a financial Memorandum of Understanding (MOU) outlining the essential aspects of the Airport Transfer, including the timely transfer and identification of assets and liabilities relating specifically to the transfer of SDIA's asset and operations transfer on January 1, 2003. The MOU addresses the transfer process, litigation matters, utility obligations and treatment of employees.

The Authority and District commissioned a joint audit in accordance with the Act. Independent auditors McGladrey & Pullen, LLP, issued an audit report on the Authority's balance sheet as of January 1, 2003—dated June 13, 2003. In addition, they prepared an audit report on the Authority's finances for the first six months of operation ending June 30, 2003—dated October 17, 2003.

Airport Activities Highlights

Following the administrative requirement to obtain certification from the FAA to operate SDIA, the change in airport proprietorship from the District to the Authority had no significant impact on SDIA's operations. During the first 30 months of the Authority's existence, both passenger enplanements and SDIA's financial position improved. Increases in airline passenger traffic have reflected increased air service, concerted customer service initiatives and continued economic improvement.

The changes in SDIA's major activities under the District's management from January 1, 2000 through December 31, 2002, transitioning to the Authority's management as of January 1, 2003, are as follows:

	2000	2001	2002	2003	2004	2005
Enplaned Passengers	7,768,050	8,004,178	7,299,511	7,505,705	7,947,440	8,449,107
% increase (decrease)	2.8%	3.0%	(8.8%)	2.8%	5.9%	6.3%
Total Passengers	15,540,545	15,972,825	14,580,659	14,991,814	15,880,137	16,875,804
% increase (decrease)	3.0%	2.8%	(8.7%)	2.8%	5.9%	6.3%
Aircraft Operations	213,291	212,691	199,539	206,729	206,410	213,478
% increase (decrease)	(4.2%)	(0.3%)	(6.2%)	3.6%	(0.2%)	3.4%
Freight and Mail (in tons)	152,015.9	149,264.9	158,692.5	158,561.8	151,230.8	175,749.4
% increase (decrease)	16.6%	(1.8%)	6.3%	(0.1%)	(4.6%)	16.2%
Landed Weight (000)	11,106	11,275	10,626	10,841	10,749	11,200
% increase (decrease)	1.9%	1.5%	(5.8%)	2.0%	(0.9%)	4.2%

SDIA showed healthy (6.3%) growth in passenger enplanements in fiscal 2005 despite continued financial turmoil in the airline industry. The level of enplaned passengers now exceeds pre-9/11 levels. SDIA also experienced positive trends in aircraft operations (3.4% growth) freight and mail tonnage (16.2% growth) and landed weights (2.8% growth), reflecting increased service at SDIA and the addition of three new carriers in fiscal 2005, Aloha Airlines, Independence Air (which ceased service to SDIA on October 31) and West Jet.

Statement of Revenues, Expenses and Change in Net Assets (in thousands)

The metric 'Change in Net Assets' is an indicator of whether the Authority's overall fiscal condition has improved or worsened during the fiscal year. Following is a summary of the statement of revenues, expenses and change in net assets.

	July 1– December 31, 2002 (audited) ⁽¹⁾	January 1– June 30, 2003 (audited)	Total 2003	June 30, 2004	June 30, 2005
Operating revenues	\$ 43,069	\$ 42,262	\$ 85,331	\$ 96,572	\$108,123
Operating expenses	49,024	51,152	100,176	114,626	121,068
Nonoperating revenue, net	5,599	10,343	15,942	34,932	33,959
Capital grant contributions	2,441	6,683	9,124	5,033	7,522
Startup costs	(2,342)	(957)	(3,299)	-	-
Increase in net assets		7,179		21,911	28,536
Net assets, beginning of year		338,593		345,772	367,683
Net assets, end of year		\$ 345,772		\$ 367,683	\$ 396,219

⁽¹⁾ Audited SDIA operations of the San Diego Unified Port District.

Statement of Revenues, Expenses and Change in Net Assets (continued)

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections below.

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

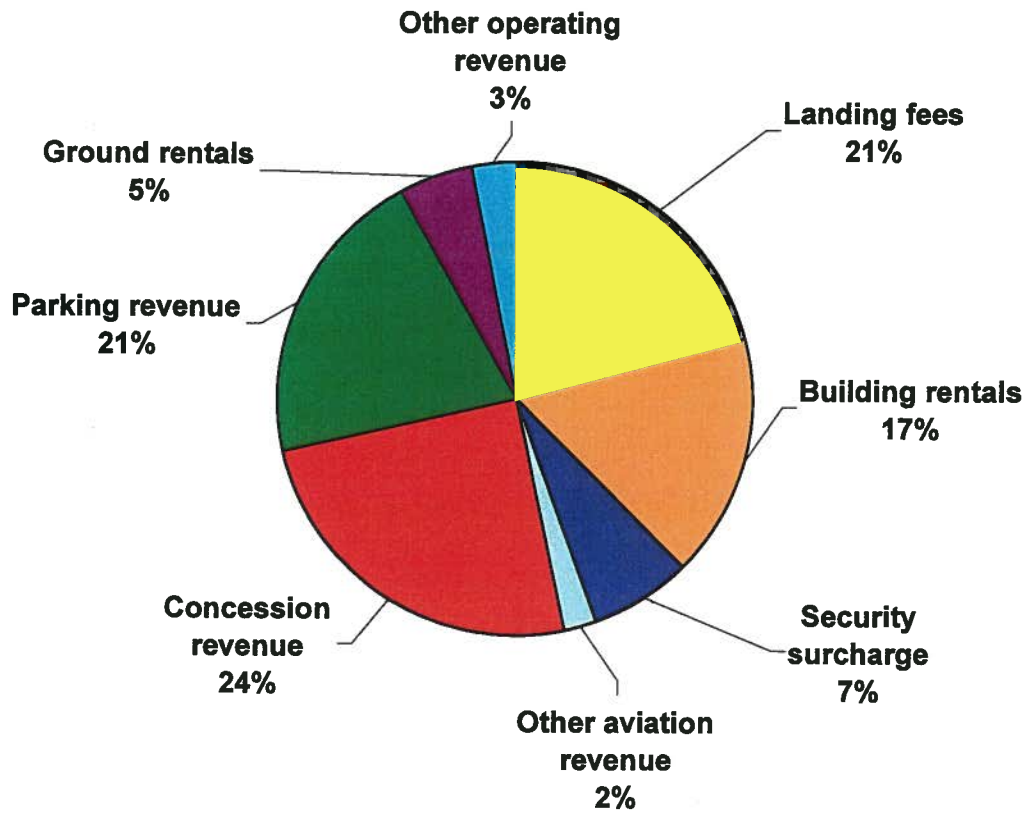
	July 1– December 31, 2002 (audited) ⁽¹⁾	January 1– June 30, 2003 (audited)	FY 2003	FY 2004	FY 2005	From 2004 to 2005	
						Increase (Decrease)	% Change
Airline revenue:							
Landing fees	\$ 9,156	\$ 8,604	\$ 17,760	\$ 22,874	\$ 22,607	\$ (267)	(1.2)%
Building rentals	9,959	8,770	18,729	19,511	18,041	(1,470)	(7.6)%
Security surcharge ⁽²⁾	-	-	-	-	7,800	7,800	100.0%
Other aviation revenue	896	1,333	2,229	1,812	1,757	(55)	(3.0)%
Total airline revenue	20,011	18,707	38,718	44,197	50,934	6,737	15.2%
Concession revenue	11,293	11,711	23,004	24,571	26,552	1,981	8.1%
Parking revenue	7,666	9,317	16,983	21,335	23,216	1,881	8.8%
Ground rentals	2,289	2,184	4,473	4,269	5,294	1,025	24.0%
Other operating revenue	1,810	343	2,153	2,200	2,856	656	29.8%
Total operating revenue	\$ 43,069	\$ 42,262	\$ 85,331	\$ 96,572	\$ 108,123	\$ 11,551	12.0%

(1) Audited SDIA operations of the San Diego Unified Port District.

(2) In FY 2005, costs associated with providing police, guard, access control and fingerprinting services were removed from landing fees and building rentals and charged separately to the airlines.

FY 2005 operating revenues increased \$11.6 million (12.0%) from \$96.6 million to \$108.1 million. The biggest contributor was airline revenues, which increased \$6.7 million (15.2%) in 2005 due primarily to higher airline rates, fees and charges to recover increased costs for police and emergency medical services, expanded airport site selection and land use compatibility efforts, additional funding for the employee retirement plan, and increased general and administration expenses. Concession revenues, which include terminal retail, food and beverage, advertising, baggage carts, license percentage rents from off-airport tenants, and rental car revenues, increased \$1.98 million (8.1%) due primarily to greater passenger activity at SDIA and enhanced retail. Parking revenue grew \$1.9 million (8.8%), reflecting increased passenger enplanements and the opening of new parking lots containing 1,600 new stalls. Ground rentals grew \$1.0 million (24.0%), reflecting increased revenue generated from the SDIA cargo facility.

San Diego County Regional Airport Authority FY 2005 Revenues



Operating Expenses (in thousands)

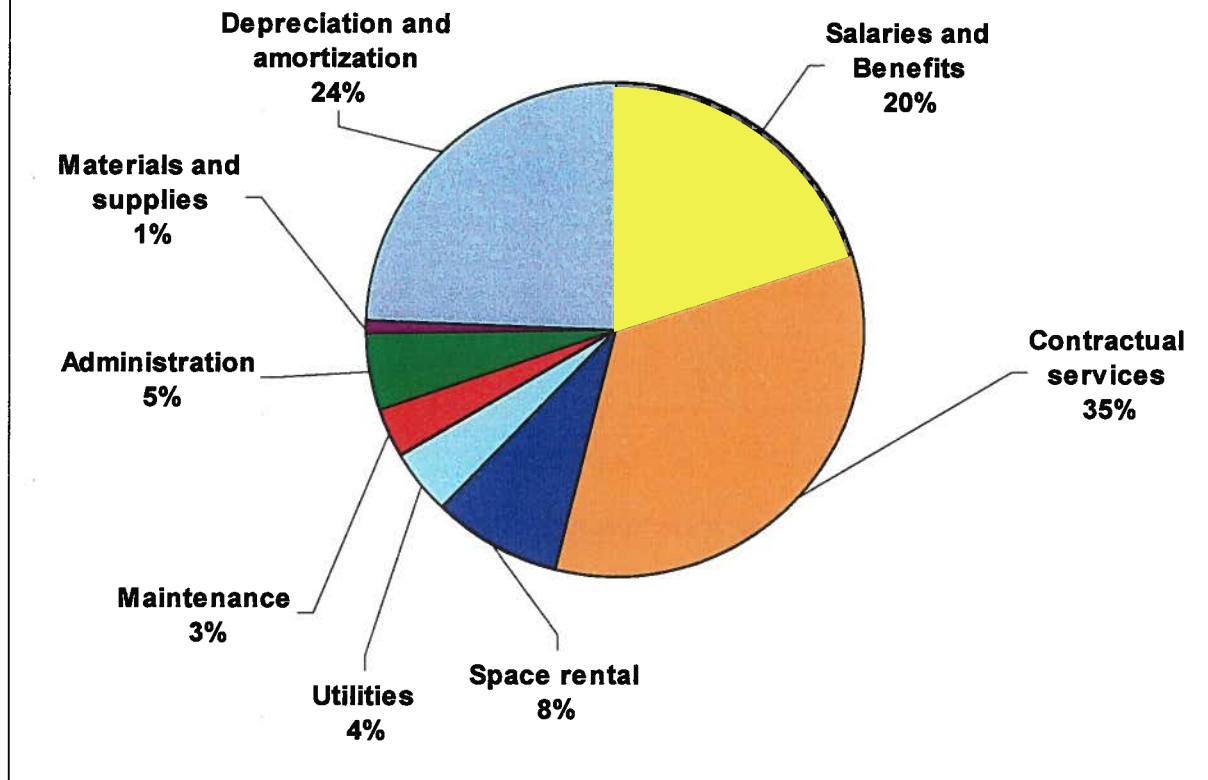
	July 1– December 31, 2002 (audited) ⁽¹⁾	January 1– June 30, 2003 (audited)	FY 2003	FY 2004	FY 2005	From 2004 to 2005	
						Increase (Decrease)	% Change
Direct expenses	\$ 28,380	\$ -	\$ 28,380	\$ -	\$ -	\$ -	-
General and administrative expenses	6,183	-	6,183	-	-	-	-
Salaries and benefits	-	7,323	7,323	21,955	23,623	1,668	7.6%
Contractual services	-	18,997	18,997	32,912	41,401	8,489	25.8%
Space rental	-	5,293	5,293	8,826	10,174	1,348	15.3%
Utilities	-	2,525	2,525	4,914	5,121	207	4.2%
Maintenance	-	1,598	1,598	5,343	4,050	(1,293)	(24.2)%
Administration	-	1,551	1,551	6,230	5,852	(378)	(6.0)%
Materials and supplies	-	1,267	1,267	1,453	1,148	(305)	(21.0)%
Total operating expenses before depreciation and amortization	34,563	38,554	73,117	81,633	91,369	9,736	11.9%
Depreciation and Amortization	14,461	12,598	27,059	32,993	29,699	(3,294)	(4.1)%
Total operating expenses	\$ 49,024	\$ 51,152	\$ 100,176	\$ 114,626	\$ 121,068	\$ 6,442	5.6%

(1) Audited SDIA operations of the San Diego Unified Port District.

Operating Expenses

In FY 2005, operating expenses increased \$6.4 million (5.6%) from \$114.6 million to \$121.0 million due primarily to higher costs for police and emergency medical services, expanded new airport site selection and land use compatibility efforts, additional funding for the employee retirement plan, and increased general and administration expenses. Salaries and benefits increased \$1.7 million (7.6%) due to new employee hiring and reflecting salary increases and higher pension-related costs. Contractual services increased \$8.5 million (25.8%), reflecting increased costs for security and police services provided principally by the District's Harbor Police. Also included are operating costs associated with the Teledyne Ryan site. Space rental consists of lease payments for various properties contiguous to the airport, including the former General Dynamics, Teledyne Ryan and Harbor Island properties. FY 2005 space rental costs increased \$1.4 million (15.3%) due primarily to higher rents paid to the District for the Teledyne Ryan and General Dynamics sites. Utilities costs increased \$0.2 million (4.2%), reflecting mandated rate increases. Maintenance costs decreased \$1.3 million (-24.2%) because the expensing of certain assets was accelerated in 2004. Depreciation and amortization expenses decreased \$3.3 million (-4.1%) because the depreciation of certain existing assets was accelerated in 2004.

San Diego County Regional Airport Authority FY 2005 Expenses



Nonoperating Revenues and Expenses (in thousands)

	July 1– December 31, 2002 (audited) ⁽¹⁾	January 1– June 30, 2003 (audited)	FY 2003	FY 2004	FY 2005	From 2004 to 2005	
						Increase (Decrease)	% Change
Settlement income	\$ 133	\$ -	\$ 133	\$ -	\$ -	\$ -	-
PFCs	9,372	10,236	19,608	31,241	33,710	2,469	7.9%
Quieter Home Program, net	(2,630)	275	(2,355)	(1,375)	(1,582)	(207)	15.1%
Interest income	957	2,355	3,312	3,830	6,413	2,583	67.4%
Interest expense	(2,280)	(1,892)	(4,172)	(4,294)	(4,387)	(93)	2.2%
Other nonoperating income (expense)	47	(631)	(584)	5,530	(195)	(5,725)	(103.5)%
Nonoperating revenues	\$ 5,599	\$ 10,343	\$ 5,942	\$ 34,932	\$ 33,959	\$ (973)	(2.8)%

(1) Audited SDIA operations of San Diego Unified Port District.

Congress established the PFCs in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Authority collects a \$4.50 PFC from revenue enplaned passengers pay for the cost to design and construct eligible Airport capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Authority the month following collection less a \$0.11 administration fee. PFCs increased \$2.5 million in 2005 primarily due to increased enplanements.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 70 dB Community Noise Equivalent Level contour. The project is eligible for a maximum Airport Improvement Program (AIP). From inception to June 30, 2005, the Authority has spent \$35,172,793 and received reimbursement for \$27,068,167.

Interest income is derived from interest earned by the Authority on investments, commercial paper reserves, Series 1995 Bonds reserves and notes receivable from the District. Interest income increased \$2.6 million (67.4%) primarily due to increased funds available for investment and rising interest rates of return.

Interest expense includes interest paid and accrued on the 1995 Series Bonds and Commercial Paper A & B.

Other nonoperating income (expense) includes proceeds and expenses for legal settlements, gain (loss) on the sale of fixed assets, and other miscellaneous revenue and expenses. Nonoperating income decreased \$5.7 million (103.5%) primarily due to legal settlements received in 2004 and the expensing of certain assets in 2005.

Capital Grant Contributions

The authority receives Airport Improvement Program (AIP) entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is complete on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

Assets, Liabilities and Net Assets

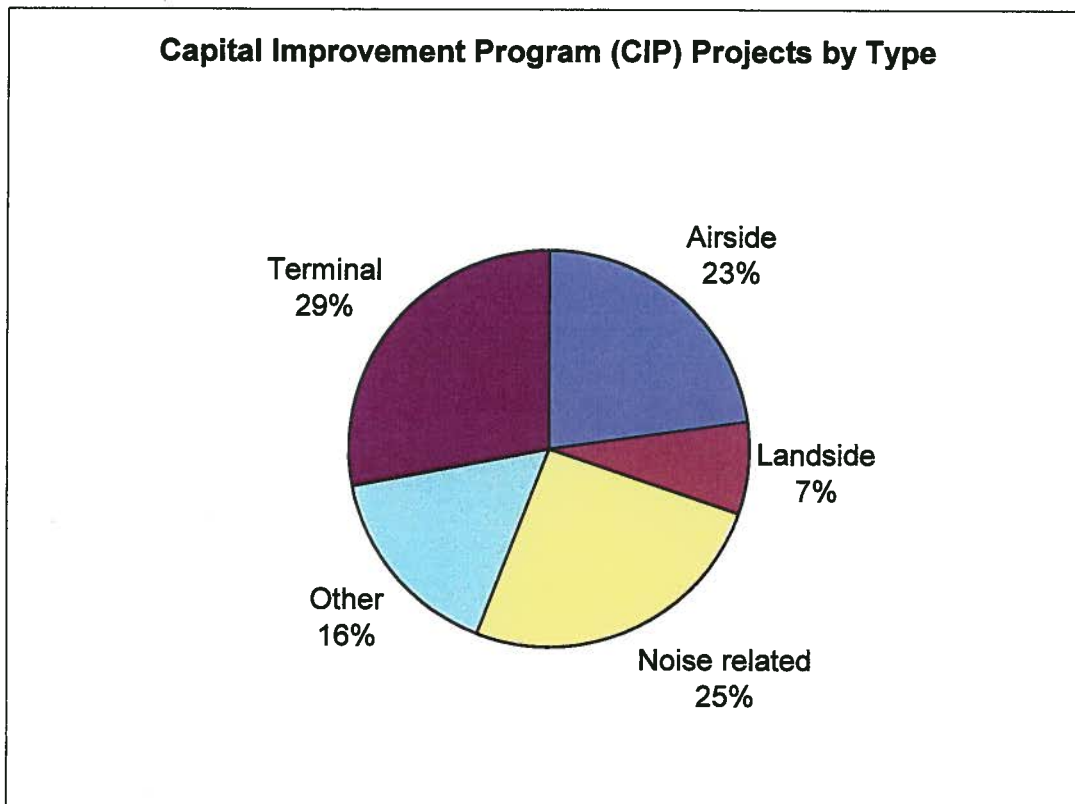
The balance sheets present the financial position of the Authority at June 30, 2005 compared to June 30, 2004 and June 30, 2003. The statements include all assets and liabilities of the Authority. A summary comparison of the Authority's assets, liabilities and net assets at June 30, 2003, 2004 and 2005 is as follows:

<i>(in thousands)</i>	June 30		
	2003	2004	2005
Assets			
Current and other assets	\$ 161,579	\$ 203,045	\$ 222,957
Capital assets, net	325,229	304,556	311,541
Total assets	\$ 486,808	\$ 507,601	\$ 534,498
Liabilities			
Current liabilities	\$ 24,207	\$ 23,593	\$ 25,051
Long-term liabilities	116,829	116,325	113,227
Total liabilities	141,036	139,918	138,278
Net Assets			
Invested in capital assets, net of related debt	262,086	244,889	257,232
Other restricted reserve	3,381	16,670	36,208
Unrestricted	80,305	106,124	102,780
Total net assets	345,772	367,683	396,220
Total liabilities and net assets	\$ 486,808	\$ 501,601	\$ 534,498

As of June 30, 2005, the Authority's assets exceeded liabilities by \$396.2 million, a \$28.5 million increase over June 30, 2004, and a \$22 million increase from 2004 to 2003. The largest portion of the Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot practically be sold or otherwise liquidated. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net assets of \$102.8 million as of 2005 and \$106.1 million as of 2004 may be used to meet any of the Authority's ongoing obligations. As of June 30, 2005 and 2004, management has designated unrestricted funds in the amount of \$10.4 million and \$30.4 million respectively for capital commitments and retirement contributions. In addition, as of June 30, 2005 and 2004, management has designated unrestricted net assets of \$4.0 million for operating and insurance contingencies.

Capital Improvement Program

The funds used for the capital improvements or to expand SDIA's facilities are derived from several sources, including the FAA through AIP grants, PFCs and SDIA funds. Currently, SDIA's \$258.5 million capital improvement program (CIP) follows a pay-as-you-go approach utilizing commercial paper program, as and when needed, for short-term financing needs. The current CIP consists of \$59.2 million for airside projects, \$19.2 million for landside projects, \$65.8 million for noise-related projects, \$72.3 million for terminal projects and \$42.0 million for various other projects. The current SDIA CIP does not include the master plan and related projects.



Capital Financing and Debt Management

As of June 30, 2005, \$60.6 million in bonds and \$51.7 million in commercial paper were outstanding. Airport revenue bonds were issued by the District in 1995 through the California Maritime Infrastructure Authority for the expansion of Terminal 2 from 225,000 sq. ft. to 549,000 sq. ft. The debt is insured by AMBAC and the underlying ratings are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The commercial paper is supported by an irrevocable letter of credit from BNP Paribas and is rated A-1 by Standard and Poor's and F1+ by Fitch Ratings. Refer to note 5 Debt, in the notes to Financial Statements for more detailed information.

The SDIA's PFC program was established in 1994, and currently authorizes the imposition of a \$4.50 fee on enplaning passengers. SDIA's fourth PFC application for \$110 million in capital spending was submitted to the FAA in July 2005.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Authority has received approximately \$17.7 million in grant awards for the federal fiscal year ended September 30, 2005 and \$14.4 million in 2004. The 2005 awards consisted of \$4.9 million in entitlements and \$12.8 million in discretionary funds and the 2004 awards consisted of \$1.4 million in entitlements and \$13 million in discretionary funds. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the SDCRAA's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Finance Department P.O. Box 82776, San Diego, CA 92138. They can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.

San Diego County Regional Airport Authority

**Balance Sheets
June 30, 2005 and 2004**

Assets	2005	2004
Unrestricted Current Assets		
Cash and cash equivalents (Note 2)	\$ 9,886,189	\$ 8,654,097
Investments (Note 2)	15,986,884	11,293,117
Tenant lease receivables, net of allowance of 2005 \$453,271 and 2004 \$964,152	5,254,357	5,702,163
Grants receivable	5,385,755	5,066,039
Notes receivable, current portion (Note 3)	792,847	281,292
Inventory	204,949	222,280
Other current assets	2,677,334	4,141,109
Total unrestricted current assets	40,188,315	35,360,097
 Cash and Investments Designated for Specific Capital Projects and Other Commitments (Notes 2, 7 and 12)	 10,362,547	 30,372,517
 Current Restricted Assets (Notes 2, 5 and 6)		
Restricted cash, cash equivalents and investments, not with Trustee	81,578,533	60,687,406
Restricted cash and investments with Trustee	5,674,324	5,979,095
Passenger facility charges receivable	4,084,234	5,362,236
Other restricted assets	555,660	362,881
Total current restricted assets	91,892,751	72,391,618
Total current assets	142,443,613	138,124,232
 Capital Assets (Note 4)		
Land and land improvements	23,581,619	23,581,619
Buildings and structures	335,050,139	336,904,439
Machinery and equipment	11,690,446	10,696,297
Runways, roads and parking lots	200,745,194	192,369,884
Construction in progress	47,106,955	19,314,475
	618,174,353	582,866,714
Less accumulated depreciation	(306,633,654)	(278,311,034)
Capital assets, net	311,540,699	304,555,680
 Investments, noncurrent (Note 2)	 21,669,682	 9,767,186
Notes Receivable, long-term portion (Note 3)	51,859,612	52,652,459
Deferred Costs, Series 1995 Bonds, net	2,305,336	2,501,944
Net Pension Asset (Note 7)	4,678,704	-
Total noncurrent assets	392,054,033	369,477,269
Total assets	\$ 534,497,646	\$ 507,601,501

See Notes to Financial Statements.

Liabilities and Authority Net Assets	2005	2004
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	\$ 2,956,439	\$ 2,727,249
Accrued liabilities	18,802,722	14,523,246
Deposits	106,646	90,320
Total current liabilities payable from unrestricted assets	21,865,807	17,340,815
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt, Series 1995 Bonds (Note 5)	2,480,000	2,355,000
Accrued interest on Series 1995 Bonds and commercial paper Naval Training Center Remediation (Note 6)	704,800	660,965
	-	3,236,284
Total current liabilities payable from restricted assets	3,184,800	6,252,249
Total current liabilities	25,050,607	23,593,064
Noncurrent Liabilities		
Commercial paper notes payable (Note 5)	51,694,000	51,694,000
Long-term debt, less current portion, Series 1995 Bonds (Note 5)	58,125,000	60,605,000
Deferred rent liability (Note 11)	2,823,181	3,353,016
Long-term liabilities, other	585,334	672,828
Total noncurrent liabilities	113,227,515	116,324,844
Total liabilities	138,278,122	139,917,908
Commitments and Contingencies (Notes 6, 7, 9, 11 and 12)		
Authority Net Assets		
Invested in capital assets, net of related debt (Note 1)	257,232,295	244,889,294
Other restricted (Note 1)	36,207,491	16,669,665
Unrestricted (Note 1)	102,779,738	106,124,634
Total Authority net assets	396,219,524	367,683,593
Total liabilities and Authority net assets	\$ 534,497,646	\$ 507,601,501

San Diego County Regional Airport Authority

**Statements of Revenues, Expenses and Change in Authority Net Assets
Years Ended June 30, 2005 and 2004**

	2005	2004
Operating revenues:		
Airline revenue:		
Landing fees	\$ 22,607,122	\$ 22,873,581
Building rentals (Note 10)	18,041,267	19,510,766
Security surcharge	7,799,897	-
Other aviation revenue	1,757,286	1,811,953
Concession revenue	26,552,119	24,570,999
Parking revenue	23,215,737	21,335,449
Ground rentals (Note 10)	5,293,605	4,269,295
Other operating revenue	2,856,286	2,199,533
Total operating revenues	108,123,319	96,571,576
Operating expenses:		
Salaries and benefits	23,622,985	21,954,665
Contractual services (Note 12)	41,400,554	32,911,781
Space rental (Note 11)	10,173,580	8,826,024
Utilities	5,121,166	4,914,139
Maintenance	4,050,420	5,342,579
Administration	5,851,690	6,230,908
Materials and supplies	1,148,323	1,452,743
Total operating expenses before depreciation and amortization	91,368,718	81,632,839
Income from operations before depreciation and amortization	16,754,601	14,938,737
Depreciation and amortization	29,699,203	32,993,075
Operating (loss)	(12,944,602)	(18,054,338)
Nonoperating revenues (expenses):		
Passenger facility charges	33,709,718	31,241,047
Quieter Home Program, net	(1,581,920)	(1,375,291)
Interest income	6,413,362	3,830,494
Interest expense (Note 5)	(4,387,138)	(4,293,925)
Other revenues (expenses), net	(195,156)	5,530,408
Nonoperating revenue, net	33,958,866	34,932,733
Income before capital grant contributions	21,014,264	16,878,395
Capital grant contributions	7,521,667	5,033,188
Change in Authority net assets	28,535,931	21,911,583
Authority net assets, beginning of year	367,683,593	345,772,010
Authority net assets, end of year	\$ 396,219,524	\$ 367,683,593

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statements of Cash Flows
Years Ended June 30, 2005 and 2004**

	2005	2004
Cash Flows from Operating Activities		
Receipts from customers	\$ 109,159,800	\$ 96,024,758
Payments to suppliers	(65,871,584)	(60,361,544)
Payments to employees	(23,824,545)	(19,940,471)
Other receipts (payments)	(341,881)	10,269
Net cash provided by operating activities	<u>19,121,790</u>	<u>15,733,012</u>
Cash Flows from Noncapital Financing Activities		
Settlement receipts (payments)	(504,990)	8,783,980
Quieter Home Program receipts	3,958,966	8,735,273
Quieter Home Program payments	(5,540,886)	(10,110,564)
Net cash (used in) provided by noncapital financing activities	<u>(2,086,910)</u>	<u>7,408,689</u>
Cash Flows from Capital and Related Financing Activities		
Capital expenditures	(31,866,008)	(16,743,518)
Proceeds on sale of capital assets	(3,681,634)	711,652
Federal grants received (excluding Quieter Home Program)	7,201,951	7,168,361
Proceeds from passenger facility charges	34,987,720	29,259,806
Payment of Series 1995 Bond principal	(2,355,000)	(2,245,000)
Pension contribution	(4,900,000)	-
Interest and debt fees paid	(4,343,303)	(4,469,229)
Net cash (used in) provided by capital and related financing activities	<u>(4,956,274)</u>	<u>13,682,072</u>
Cash Flows from Investing Activities		
Purchase of short-term investments	304,771	35,259
Principal payments received on notes receivable	281,292	303,592
Interest received from notes receivable, investment securities and Series 1995 Bonds	6,044,843	3,827,425
Net cash provided by investing activities	<u>6,630,906</u>	<u>4,166,276</u>
Net increase in cash and investments	<u>18,709,512</u>	<u>40,990,049</u>
Cash and investments, beginning of year	<u>120,774,323</u>	<u>79,784,274</u>
Cash and investments, end of year	<u>\$ 139,483,835</u>	<u>\$ 120,774,323</u>
Reconciliation of Cash and Investments to the Balance Sheets		
Cash and investments	\$ 47,542,755	\$ 29,714,400
Cash and investments designated for specific capital projects and other commitments	10,362,547	30,372,517
Cash and investments, restricted	81,578,533	60,687,406
	<u>\$ 139,483,835</u>	<u>\$ 120,774,323</u>

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statements of Cash Flows, Continued
Years Ended June 30, 2005 and 2004**

	2005	2004
Noncash Investing, Capital and Financing Activities		
Amount receivable for Naval Training Center remediation	\$ -	\$ 3,236,284
Additions to capital assets included in accounts payable	\$ 3,524,541	\$ 5,539,294
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	\$ (12,944,602)	(18,054,338)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	29,699,203	32,993,075
Amortization of pension contribution	221,296	-
Settlement gain on Pond 20	-	(951,000)
Other operating expenses	(341,881)	10,269
Changes in assets and liabilities:		
Tenant lease receivables	447,806	131,126
Other assets	1,656,846	(357,709)
Accounts payable (on noncapital items)	(92,484)	(455,156)
Accrued liabilities (on noncapital items)	1,076,609	1,065,122
Deposits	16,326	25,306
Deferred rent liability	(529,835)	1,303,266
Other long-term liabilities	(87,494)	23,051
Net cash provided by operating activities	\$ 19,121,790	\$ 15,733,012

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Reporting entity: The San Diego County Regional Airport Authority (SDCRAA or the Authority), an autonomous public agency, was established as a result of legislation, Assembly Bill 93 (2001) as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (the District) to the Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Authority and the District, which implemented the Act.

As of June 1, 2004, the District and the Authority entered into a Settlement Agreement which finalized all outstanding issues related to the January 1, 2003 transfer of certain assets and liabilities. The agreement required the Authority to pay the District \$150,000 to settle miscellaneous claims. The Settlement Agreement memorialized all outstanding issues, such as lease agreements and charges by the District to the Authority for services provided by the District. Additionally, the agreement included a noncompete clause, terms to an existing promissory note, resolution of mitigation funds and a litigation release.

Responsibilities of the Authority include, among other things, the operation, maintenance, development, management and regulation of the SDIA and its facilities. In addition, the Authority has the responsibility to plan and locate a site for a new international airport or to expand the existing SDIA. The proposed relocation/expansion plan will require a countywide public vote on the recommendation of the Authority, which is to occur no later than the November 2006 general election. In addition, the Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all organizations, agencies, boards, commissions and authorities for which the Authority is financially accountable. The Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on, the Authority. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

Measurement focus and basis of accounting: The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, the Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Authority net assets. The Authority applies all applicable Financial Accounting Standards Board (FASB) pronouncements, including those issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

The financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Evaluation of long-lived assets: Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. Management has determined that no impairment of long-lived assets currently exists.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tenant lease receivables: Tenant lease receivables are carried at original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants, based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

Investments: Investments are stated at fair market value on a portfolio basis.

Restricted assets: Funds are set aside as restricted assets, and they are not available for current expenses, when constraints placed on their use are legally enforceable due to either:

- Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors.
- Laws or regulations of other governments.
- Constitutional provisions or enabling legislation.

Designated assets: The Authority's management may designate funds which they do not consider to be available for general operations. At June 30, 2005 and 2004, management had designated funds for specific approved capital projects and other commitments totaling \$10,362,547 and \$30,372,517 respectively.

Deferred bond costs: The 1995 revenue bond original issue discount and issuance costs are deferred and amortized over the term of the bonds, using the straight-line method, which approximates the effective interest method.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Capital assets: Capital assets are recorded at cost, except for property contributed by third parties, which is recorded at fair market value at the date of contribution, less an allowance for accumulated depreciation.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Land improvements	30 to 40 years
Runways, taxiways, roads and parking areas	5 to 30 years
Buildings, structures and improvements	5 to 30 years
Automotive and equipment, office furniture and fixtures	3 to 10 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed.

Airport Improvement Program (AIP): The District initially received approval from the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants. These grants transferred to the Authority, effective January 1, 2003. AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Authority believes that no significant liabilities to the Authority would result from such an audit.

Passenger facility charges: The District initially received approval from the FAA to impose a PFC at the SDIA. The approval for the PFC was transferred by the FAA to the Authority, effective January 1, 2003. The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2005 and 2004, accrued PFC receivables totaled \$4,084,234 and \$5,362,236 respectively, and there were \$31,567,597 and \$10,944,548 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2005 and 2004, respectively.

On May 20, 2003, the FAA approved the Authority's PFC application to increase the charge per enplaned passenger from \$3.00 to \$4.50 beginning August 1, 2003, with an estimated charge expiration date of March 1, 2006. Approximately \$150 million in PFC revenues will be collected and applied toward eligible capital project costs. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75%.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Retentions payable: The Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Authority. The Authority's policy is to record the retention payable only after completion and acceptance have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying balance sheet. Amounts related to unpaid retentions on uncompleted contracts are included in Cash Designated for Specific Capital Projects.

Compensated absences: All employees of the Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation. As part of the transfer of airport operations at January 1, 2003, the Authority assumed the liability for unutilized leave of employees who transferred from the District to the Authority.

Authority net assets: Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted net assets represent amounts that are appropriated or are legally segregated for a specific purpose. Authority net assets are reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Invested in capital assets, net of related debt as of June 30:

	<u>2005</u>	<u>2004</u>
Invested in capital assets, net	\$ 201,547,036	\$ 192,403,625
Series 1995 Bond reserve	5,614,502	5,612,772
Commercial paper reserve	187,406	205,141
Commercial paper held by Trustee	59,821	366,323
	<u>207,408,765</u>	<u>198,587,861</u>
Series 1995 Bond reserves:		
Operations and maintenance reserve	33,797,580	31,030,810
Operations and maintenance subaccount reserve	8,449,395	7,758,168
Revenue and replacement reserve	5,400,000	5,400,000
Debt service principal and interest	2,176,555	2,112,455
	<u>49,823,530</u>	<u>46,301,433</u>
Total invested in capital assets, net of related debt	<u>\$ 257,232,295</u>	<u>\$ 244,889,294</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Restricted net assets as of June 30:

	<u>2005</u>	<u>2004</u>
Passenger facility charges unapplied	\$ 31,567,597	\$ 10,944,548
Passenger facility charges receivable	4,084,234	5,362,236
Owner Controlled Insurance Program (OCIP) loss reserve	555,660	362,881
Total other restricted net assets	<u>\$ 36,207,491</u>	<u>\$ 16,669,665</u>

Unrestricted net assets as of June 30 include designations of net assets that represent tentative management plans that are subject to change, consisting of:

	<u>2005</u>	<u>2004</u>
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	2,000,000	2,000,000
Capital projects and other commitments (Note 7)	10,362,547	30,372,517
	<u>\$ 14,362,547</u>	<u>\$ 34,372,517</u>

Revenue classifications: The Authority will classify revenues as operating or nonoperating based on the following criteria:

Operating revenues are from the revenue sources that constitute the principal ongoing activities of the Authority's operations. The major components of SDIA's operating revenue sources consist of landing fees and terminal building and ground rentals, concession and parking fees, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the SDIA landing and terminal areas.

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Authority's operations. The major components of the nonoperating revenue sources are interest income from cash and investments, certain legal settlement income and passenger facility charges.

Expense classifications: The Authority will classify expenses as operating or nonoperating based on the following criteria:

Operating expenses are from expense sources that constitute the principal ongoing activities of the Authority's operations. The major components of SDIA's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, administration and materials and supplies.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Nonoperating expenses are from expense sources that are related to financing, investing, and other activities that do not constitute the principal ongoing activities of the Authority's operations. The major components of nonoperating expenses sources are expenditures for the Quieter Home program, interest expense, and other nonoperating expenses such as legal settlements.

Federal grants: When a grant agreement is approved and all eligibility requirements have been met, the expenditures are recorded as a federal grant receivable and as a capital grant contribution or operating grant revenue, as appropriate.

Cash and cash equivalents: For purposes of the statement of cash flows, cash and cash equivalents is defined to be cash and investments readily convertible into cash. This includes cash on hand, demand deposits, certificates of deposit, commercial paper, U.S government and agency obligations, mutual funds, and repurchase agreements collateralized by the U.S government or agency obligations with an original maturity of less than three months, including restricted assets.

Inventories: Inventories are stated at purchase price and consist of office, janitorial, maintenance, kitchen and other supplies. The cost of these supplies is recorded as an expense in the month they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in first-out basis.

Pronouncements issued, not yet effective: The GASB has issued several pronouncements prior to June 30, 2005, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the Authority:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 46, *Net Assets Restricted for Enabling Legislation (An Amendment of GASB Statement No. 34)*.
- GASB Statement No. 47, *Accounting for Termination Benefits*.

Additionally, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

Reclassification: Certain unrestricted current assets in the 2004 balance sheet have been reclassified to reflect the investments' noncurrent classification used in the financial statements as of and for the year ended June 30, 2005. These reclassifications had no impact on income or Authority net assets.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments

Summary of cash and investments: Cash and investments are reported in the accompanying balance sheet as follows at June 30:

	<u>2005</u>	<u>2004</u>
Unrestricted and undesignated, cash and cash equivalents	\$ 9,886,189	\$ 8,654,097
Unrestricted and undesignated, current investments	15,986,884	11,293,117
Unrestricted and undesignated, noncurrent investments	21,669,682	9,767,186
	<u>47,542,755</u>	<u>29,714,400</u>
Designated for specific capital projects and other commitments	<u>10,362,547</u>	<u>30,372,517</u>
Restricted:		
Series 1995 Bonds reserves:		
Operations and maintenance reserve	33,797,580	31,030,810
Operations and maintenance subaccount reserve	8,449,395	7,758,168
Renewal and replacement reserve	5,400,000	5,400,000
Debt service principal and interest reserve	2,176,555	2,112,455
	<u>49,823,530</u>	<u>46,301,433</u>
Passenger facility charges unapplied	31,567,597	10,944,548
Naval Training Center remediation	-	3,236,284
Commercial paper reserve	187,406	205,141
Total restricted	<u>81,578,533</u>	<u>60,687,406</u>
Total cash and investments, not with Trustee	<u>139,483,835</u>	<u>120,774,323</u>
Series 1995 Bonds guaranteed investment contract held by Trustee	5,614,503	5,612,772
Commercial paper interest held by Trustee	59,821	366,323
Total guaranteed investment contract and commercial paper interest held by Trustee	<u>5,674,324</u>	<u>5,979,095</u>
Total cash and investments	<u>\$ 145,158,159</u>	<u>\$ 126,753,418</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Components of cash and investments at June 30 are summarized below:

	<u>2005</u>	<u>2004</u>
Unrestricted cash:		
Cash in banks	\$ 1,694,019	\$ 1,067,260
Cash on hand	54,100	54,100
Total cash	<u>1,748,119</u>	<u>1,121,360</u>
Unrestricted cash equivalents:		
Union Bank of California, Money Market	172,531	-
Zions First National Bank, Money Market	22,724	33,518
Zions First National Bank, Commercial Paper	6,644,294	7,499,219
Zions First National Bank, U.S. Agency Securities	1,298,521	-
Total unrestricted cash and cash equivalents	<u>9,886,189</u>	<u>8,654,097</u>
Restricted cash equivalents:		
U.S. Bank Repurchase Agreements	19,856,761	23,692,464
Total cash and cash equivalents	<u>29,742,950</u>	<u>32,346,561</u>
Unrestricted and restricted investments:		
San Diego County Investment Pool (SDCIP)	36,028,052	35,306,258
Local Agency Investment Fund (LAIF)	36,304,882	35,657,169
Zions First National Bank, Liquid Asset Management	17,538,151	17,464,335
Union Bank of California, Investment Portfolio	19,869,800	-
Total investments	<u>109,740,885</u>	<u>88,427,762</u>
Total cash and investments, not with Trustee	<u>139,483,835</u>	<u>120,774,323</u>
Investments held by Trustee:		
Series 1995 Bonds guaranteed investment contract held by Trustee	5,614,503	5,612,772
Commercial paper interest	59,821	366,323
Total investments held by Trustee	<u>5,674,324</u>	<u>5,979,095</u>
Total cash and investments	<u>\$ 145,158,159</u>	<u>\$ 126,753,418</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Investments authorized in accordance with California Government Code Section 3601 and under the provisions of the Authority's investment policy: The table below identifies the investment types that are authorized by the Authority's investment policy. The table also identifies certain provisions of the Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of bond proceeds held by bond trustee that are governed by provisions of debt agreements of the Authority, rather than general provisions of the Authority's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	36 months	30%	None
Medium-term notes	36 months	15%	5%
Repurchase agreements	1 year	None	None
Mortgage-backed securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
San Diego County Investment Pool (SDCIP)	N/A	None	None
Nonnegotiable certificates of deposit	1 year	10%	None
Money market mutual funds	N/A	None	None
California agency indebtedness	N/A	None	None

Investments authorized by debt agreements: Investments held by the bond trustee are governed by the provisions of the debt agreement rather than the general provisions of California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	270 days	40%	10%
Commercial paper	180 days	25%	10%
Repurchase agreements	1 year	None	None
Money market portfolio	1 year	None	None

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

The Authority has monies held by trustees pledged to the payment or security of certain bonds, the proceeds of which were used solely to pay for the expansion of the West Terminal at SDIA, as noted in Note 1 at June 30, 2005 and 2004 as Series 1995 Bond guaranteed investment contract held by Trustee of \$5,614,503 and \$5,612,772 respectively, and commercial paper interest held by Trustee of \$59,821 and \$366,323 respectively. The Series 1995 Bond guaranteed investment contract earns interest at 6.25% and matures on November 1, 2020.

Disclosures related to interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide cash flow and liquidity needs for operations. The Authority monitors interest rate risk inherent in its portfolio by measuring the segmented time of its portfolio. The Authority has no specific limitations with respect to this metric.

Investment type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial paper	\$ 7,899,903	\$ 7,899,903	\$ -	\$ -	\$ -
Corporate notes	1,517,121	1,517,121	-	-	-
U.S. agency securities	30,004,202	12,289,680	11,409,532	6,304,990	-
LAIF	36,304,882	36,304,882	-	-	-
Money market fund	195,255	195,255	-	-	-
Repurchase agreement	19,856,761	19,856,761	-	-	-
SDCIP	36,028,052	36,028,052	-	-	-
U.S. Treasury notes and bonds	5,929,540	1,974,380	1,984,220	1,970,940	-
	\$ 137,735,716	\$ 116,066,034	\$ 13,393,752	\$ 8,275,930	\$ -

Custodial credit risk (deposits): Custodial credit risk for deposits is the risk that, in event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority maintains a bank account where at the conclusion of each business day, balances in this account are 'swept' into overnight investments which are either U.S. government securities (guaranteed) or in U.S. agency securities (government sponsored). The California Code and the Authority's investment policy authorize these types of investments.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2005 for each investment type:

Investment type		Unrated	AAA*	A*	P-1**
Commercial paper	\$ 7,899,903	\$ -	\$ -	\$ 3,798,574	\$ 4,101,329
Corporate notes	1,517,121	-	-	1,517,121	-
U.S. agency securities	30,004,202	-	26,101,002	3,903,200	-
LAIF	36,304,882	36,304,882	-	-	-
Money market fund	195,255	195,255	-	-	-
Repurchase agreement	19,856,761	-	-	19,856,761	-
SDCIP	36,028,052	36,028,052	-	-	-
US Treasury notes and bonds	5,929,540	5,929,540	-	-	-
	<u>\$ 137,735,716</u>	<u>\$ 78,457,729</u>	<u>\$ 26,101,002</u>	<u>\$ 29,075,656</u>	<u>\$ 4,101,329</u>

* Source: Standard and Poor's

** Source: Moody's Investors Service

Concentration of credit risk: The investment policy of the Authority contains no limitations on the amount that can be invested in by any one issuer beyond that stated above. Investments that represent 5% or more of the Authority's investments are as follows:

Issuer	Type	Fair Value	% of Portfolio
US Bank	Repurchase agreements	\$ 19,856,761	14.42
FHLB	U.S. agency securities	12,974,381	9.42
Freddie Mac	U.S. agency securities	9,624,399	6.99
Fannie Mae	U.S. agency securities	7,405,422	5.38
		<u>\$ 49,860,963</u>	<u>36.20</u>

Investment in state investment pool: The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Investment in county investment pool: The Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP, which are recorded on an amortized cost basis.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50 million promissory note to the Authority. The promissory note was unsubordinated and fully negotiable, bearing interest at prime (6.00% at June 30, 2005) plus 1% until December 31, 2005.

The note requires monthly interest-only payments until December 31, 2005. Pursuant to an agreement with the District, commencing January 1, 2006, the Note will be amortized over 25 years and will mature on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5% per annum. At June 30, 2005 and 2004, the note had a value of \$50 million. The current portion recorded on the note for the year ended June 30, 2005 was \$496,427.

As part of the transfer of airport operations, pursuant to the Act, the District is reimbursing the Authority for the fair market value of the Pond 20 property. The District is required to pay the Authority monthly principal and interest payments over a 10-year period at an interest rate of prime plus 1%. A receivable for the Pond 20 property was recorded by the Authority at January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value is \$3,329,000. Repayment terms remain unchanged. At June 30, 2005 and 2004, the note receivable is recorded at a value of \$2,652,459 and \$2,933,757 respectively. The current portion for the year ended June 30, 2005 and 2004 was \$296,420 and \$281,292 respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2004	Increases	Decreases	Balance at June 30, 2005
Nondepreciable assets:				
Land	\$ 22,452,007	\$ -	\$ -	\$ 22,452,007
Construction in progress	19,314,475	40,634,279	(12,841,799)	47,106,955
Total nondepreciable assets	<u>41,766,482</u>	<u>40,634,279</u>	<u>(12,841,799)</u>	<u>69,558,962</u>
Depreciable assets:				
Land improvements	1,129,612	-	-	1,129,612
Buildings and structures	336,904,439	1,845,028	(3,699,328)	335,050,139
Machinery and equipment	10,696,297	1,065,213	(71,064)	11,690,446
Runways, roads and parking lots	192,369,884	8,375,310	-	200,745,194
Total capital assets being depreciated	<u>541,100,232</u>	<u>11,285,551</u>	<u>(3,770,392)</u>	<u>548,615,391</u>
Less accumulated depreciation for:				
Land improvements	(787,725)	(160,164)	2,666	(945,223)
Building and structures	(163,277,796)	(17,954,311)	1,106,245	(180,125,862)
Machinery and equipment	(6,572,773)	(1,979,803)	71,064	(8,481,512)
Runaways, roads and parking lots	(107,672,740)	(9,408,317)	-	(117,081,057)
Total accumulated depreciation	<u>(278,311,034)</u>	<u>(29,502,595)</u>	<u>1,179,975</u>	<u>(306,633,654)</u>
Total capital assets being depreciated, net	<u>262,789,198</u>	<u>(18,217,044)</u>	<u>(2,590,417)</u>	<u>241,981,737</u>
Capital assets, net	<u>\$ 304,555,680</u>	<u>\$ 22,417,235</u>	<u>\$ (15,432,216)</u>	<u>\$ 311,540,699</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets, Continued

	Balance at June 30, 2003	Increases	Decreases	Balance at June 30, 2004
Nondepreciable assets:				
Land	\$ 22,452,007	\$ -	\$ -	\$ 22,452,007
Construction in progress	48,820,607	14,466,484	(43,972,616)	19,314,475
Total nondepreciable assets	<u>71,272,614</u>	<u>14,466,484</u>	<u>(43,972,616)</u>	<u>41,766,482</u>
Depreciable assets:				
Land improvements	1,129,612	-	-	1,129,612
Buildings and structures	323,413,131	13,491,308	-	336,904,439
Machinery and equipment	8,997,065	3,191,733	(1,492,501)	10,696,297
Runways, roads and parking lots	166,611,296	25,758,588	-	192,369,884
Total capital assets being depreciated	<u>500,151,104</u>	<u>42,441,629</u>	<u>(1,492,501)</u>	<u>541,100,232</u>
Less accumulated depreciation for:				
Land improvements	(630,226)	(157,499)	-	(787,725)
Building and structures	(144,899,242)	(18,378,554)	-	(163,277,796)
Machinery and equipment	(5,534,676)	(1,711,356)	673,259	(6,572,773)
Runways, roads and parking lots	(95,130,582)	(12,542,158)	-	(107,672,740)
Total accumulated depreciation	<u>(246,194,726)</u>	<u>(32,789,567)</u>	<u>673,259</u>	<u>(278,311,034)</u>
Total capital assets being depreciated, net	<u>253,956,378</u>	<u>9,652,062</u>	<u>(819,242)</u>	<u>262,789,198</u>
Capital assets, net	<u>\$ 325,228,992</u>	<u>\$ 24,118,546</u>	<u>\$ (44,791,858)</u>	<u>\$ 304,555,680</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt

The following is a summary of changes in the long-term liability activity:

	Principal Balance at June 30, 2004	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2005	Due within One Year
Debt obligations:					
Commercial paper	\$ 51,694,000	\$ -	\$ -	\$ 51,694,000	\$ -
Series 1995 Bonds	62,960,000	-	(2,355,000)	60,605,000	2,480,000
Total debt obligations	114,654,000	-	(2,355,000)	112,299,000	2,480,000
Compensated absences	1,533,961	1,216,153	(1,221,408)	1,528,706	1,090,019
Long-term liabilities	<u>\$ 116,187,961</u>	<u>\$ 1,216,153</u>	<u>\$ (3,576,408)</u>	<u>\$ 113,827,706</u>	<u>\$ 3,570,019</u>
	Principal Balance at June 30, 2003	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2004	Due Within One Year
Debt obligations:					
Commercial paper	\$ 51,694,000	\$ -	\$ -	\$ 51,694,000	\$ -
Series 1995 Bonds	65,205,000	-	(2,245,000)	62,960,000	2,355,000
Total debt obligations	116,899,000	-	(2,245,000)	114,654,000	2,355,000
Compensated absences					
Long-term liabilities	972,455	1,520,136	(958,630)	1,533,961	958,630
	<u>\$ 117,871,455</u>	<u>\$ 1,520,136</u>	<u>\$ (3,203,630)</u>	<u>\$ 116,187,961</u>	<u>\$ 3,313,630</u>

Commercial paper Series A and B: In June 2002, the District authorized the selection of a new letter of credit/commercial paper provider. The new commercial paper offering, which is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 1995 Bonds, provides for borrowings up to \$100,000,000 through September 2007. Proceeds from the issuances are to be used to finance further improvements to airport. Effective September 27, 2002, each series of notes became secured by an irrevocable letter of credit. Each letter of credit expires on September 26, 2007. Each commercial paper note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The commercial paper notes outstanding at June 30, 2005 become due on October 3, 2005, and the notes were rolled into another issuance. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank. Interest expense for the year ended June 30, 2005 and 2004 amounted to \$899,417 and \$828,034, including accrued interest of \$181,578 and \$181,511, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt, Continued

At June 30, 2005 and 2004, the principal amount outstanding for Series A was \$22,134,000 with an average annual interest rate of 1.76% and 1.06%, and the principal amount outstanding for Series B Commercial Paper was \$29,560,000 with an average annual interest rate of 1.73% and .99% respectively. The commercial paper notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues at least 110% times the debt service for that year. In addition, the commercial paper notes require the Authority to maintain an interest reserve account with the note trustee and to reserve a certain amount in the Authority's books. At June 30, 2005 and 2004, the amount held by the trustee was \$59,821 and \$366,323 respectively, and the amount reserved by the Authority was \$187,406 and \$205,141 respectively. The commercial paper is supported by an irrevocable letter of credit from Banque Nationale de Paris Paribas and is rated A-1+ by Standard & Poor's rating group and F1+ by Fitch Ratings.

In conjunction with the transfer of airport operations from the District to the Authority, and pursuant to the MOU, these commercial paper obligations were assumed by the Authority.

Airport revenue bonds, Series 1995: In fiscal year 1996, the California Maritime Infrastructure Authority issued Airport Revenue Bonds (Series 1995 Bonds) for the San Diego Unified Port District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, to fund a Reserve Account, and to pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Authority on January 1, 2003, these bond obligations were assumed by the Authority.

The Series 1995 Bonds were issued in the aggregate principal amount of \$76,690,000, consisting of \$29,895,000 in serial bonds and \$46,795,000 in term bonds. The serial bonds bear interest at 4% to 5.5% and mature in fiscal years 1998 to 2010. The term bonds bear interest at 5.0% to 5.375% and mature in fiscal years 2013 to 2021. Interest on the bonds is payable semiannually on May 1 and November 1 of each year, beginning May 1, 1996. Interest expense for the years ending June 30, 2005 and 2004 amounted to \$3,177,796 and \$3,290,647 respectively, including accrued interest of \$523,222 and \$542,454 at June 30, 2005 and 2004 respectively.

The Series 1995 Bonds are payable solely from and secured by 'Pledged Revenues.' Pledged Revenues are defined as all revenues and other cash receipts of the Authority's airport operations, reduced by operation and maintenance expenses. Pledged Revenues do not include cash received from passenger facility charges or federal grants.

The Series 1995 Bonds require that charges for services be set each fiscal year at rates sufficient to produce Pledged Revenues at least 125% times the debt service for that year. In addition, the Series 1995 Bonds require the Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Authority's books. At June 30, 2005 and 2004, the amount held by the trustee was \$5,614,503 and \$5,612,772 respectively, and the amount reserved by the Authority totaled \$49,823,530 and \$46,301,433 respectively. The debt is insured by the American Municipal Bond Assurance Corporation (AMBAC) and the underlying public ratings of the Series 1995 Bonds as of June 30, 2005, are A+/A1/A+ by Standard & Poor's rating group, Moody's Investors Service and Fitch Ratings, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt, Continued

The bonds maturing on or before November 1, 2005 are not subject to optional redemption. The bonds maturing on or after November 1, 2006, are subject to optional redemption. The term bonds maturing on November 1, 2012, 2015 and 2020 are subject to mandatory sinking fund redemption.

The required debt service payments for the Series 1995 Bonds for fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,480,000	\$ 3,071,131	\$ 5,551,131
2007	2,615,000	2,936,249	5,551,249
2008	2,755,000	2,797,936	5,552,936
2009	2,900,000	2,649,456	5,549,456
2010	3,060,000	2,490,369	5,550,369
2011-2015	18,025,000	9,731,091	27,756,091
2016-2020	23,355,000	4,395,638	27,750,638
2021	5,415,000	135,375	5,550,375
	<u>\$ 60,605,000</u>	<u>\$ 28,207,245</u>	<u>\$ 88,812,245</u>

The Authority issued \$56,270,000 Refunding Revenue Bonds, Series 2005 on October 7, 2005 for settlement as of November 9, 2005. The proceeds of the bonds will be used to advance refund the Series 1995 Bonds. (See Note 13.)

Employee vacation that vests is recorded when earned. Accumulated sick leave is not accrued because employee rights to receive compensation for the unused portion terminate upon severance of employment.

Note 6. Naval Training Center Remediation Reserve

In 1993 the Base Realignment and Closure Commission of the Department of Defense recommended, and Congress and the President approved, the closure of a substantial portion of the Naval Training Center (NTC) military installation located in the City of San Diego, including the area known as Camp Nimitz. Due to the closure of the NTC, the District decided to acquire a portion of the NTC land, including Camp Nimitz, which was expected to be designated for future expansion of SDIA. Twenty-five acres of the NTC land the District decided to acquire for future expansion of the SDIA was initially designated as the endangered California Least Tern nesting habitat conservation easement (the CLT Easement) site. Presence of the CLT Easement greatly limited development of the NTC land for expansion of SDIA.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Naval Training Center Remediation Reserve, Continued

The transaction was finalized during fiscal year 2001, with the District acquiring title to the NTC land. The District entered into an Environmental Services Cooperative Agreement with the United States Navy covering the parcels of the NTC land acquired by the District, under which the District assumed certain environmental cleanup responsibilities for these parcels. Under the agreement, the Navy remitted \$3,700,000 to the District to fund the environmental cleanup. The Authority assumed the obligation to remediate the NTC parcels upon separation from the District in the amount of \$3,236,284, which is reflected as a liability on the accompanying balance sheet at June 30, 2004.

All remediation funds for the NTC land were expended by June 30, 2005 and this eliminated the accompanying liability on the balance sheet at June 30, 2005.

Note 7. Defined Benefit Plan and Subsequent Event

Plan description: The Authority's defined benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District and the Authority, administered by the Retirement Board of Administration (the CERS Board). San Diego City Charter Section 144, and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in CERS to the CERS Board. The Authority contributes to the Federal Social Security Program. The CERS Board issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101.

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Authority to pay a portion of the employees' contributions. The Authority contribution rate, as determined through actuarial valuation, was approximately 8.25%, expressed as a percentage of covered payroll.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 7. Defined Benefit Plan and Subsequent Event, Continued

Annual pension cost: For the years ended June 30, 2005 and 2004, the annual pension cost was \$4,414,239 and \$2,199,708 respectively for the CERS pension. These amounts are equal to the Authority's required and actual contributions for each year. The required annual contribution will be determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, which is the method utilized by CERS. The actuarial assumptions used by CERS include (a) 8% investment rate of return, (b) projected salary increases of 4.75%, and (c) the assumption that benefits for certain members will increase after retirement. Both (a) and (b) include an inflation component of 4.25%. The actuarial value of assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payrolls over a closed 18-year period. On September 16, 2004, the Authority made a contribution payment in the amount of \$3,900,000 in addition to the annual required contribution to reflect a desired funded ratio of 90%. At June 30, 2004, the pending contribution was recorded as cash and investments designated for specific capital projects and commitments. On June 21, 2005, the Authority made an additional contribution of \$1,000,000. At June 30, 2005, the total contribution of \$4,900,000 less amortization of \$221,296 is recorded as a Net pension asset of \$4,678,704. The contributions will be amortized over an 18-year period.

Schedule of Funding Progress for CERS (\$ in thousands—unaudited):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Pension Cost
12/31/02	\$ 11,028	\$ 11,526	\$ 498	95.7	\$ 8,871	5.6	N/A ⁽¹⁾
06/30/03 ⁽²⁾	11,142	16,279	5,137	68.4	11,577	44.4	\$ 2,200
6/30/04	16,225	23,579	7,354	68.8	15,606	47.1	4,414

⁽¹⁾ Authority was created January 1, 2003.

⁽²⁾ Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 8. Employees' Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, which is available to all full-time Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets to be held in the IRC Section 457 plans are not the property of the Authority and are not subject to the claims of the Authority's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, employee assets are not reflected in the Authority's financial statements.

Note 9. Risk Management

The Authority has developed a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control and claims administration. The Authority maintains airport owners and operators primary general liability insurance with coverage of \$50 million for losses arising out of liability for airport operations. The Authority has also purchased a 'War, Hijacking and Other Perils Endorsement' with coverage of up to \$50 million. Coverage under this endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Authority also maintains excess general liability insurance with coverage of \$450 million in excess of the \$50 million primary liability coverage. The Authority's coverage includes a variety of retentions or deductibles. A \$2,000,000 contingency reserve has been established, within unrestricted net assets, by the Authority's management to respond to uninsured and under-insured catastrophic losses. This fund is maintained pursuant to Board action only; there is no other requirement that it be maintained. Management considers this contingency reserve to be designated to cover the cost of future retentions, deductibles and uninsured claims.

The Authority has an active loss prevention program, staffed by a full-time risk manager, a risk analyst, a safety manager, and a safety analyst. In addition, insurer property and casualty loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a web-based claims information system.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 10. Lease Revenues

The Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc.

Note 11. Lease Commitments

General Dynamics lease: The Authority is leasing from the District the land used by SDIA for \$1 per year, for 66 years, through December 31, 2068. In addition, the Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement calls for predetermined rents through December 31, 2005, with future rents based upon a market rate established in late 2005 by an appraisal (or arbitration). As part of the settlement negotiations with the District commencing January 1, 2006, the fair market rent for the General Dynamics (GD) lease will not exceed \$7.5 million annually. A portion of the land is leased to the District for employee parking for District administration building employees and is leased back by the District at the same fair market value rent paid by the Authority.

Teledyne Ryan lease: The Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires December 31, 2068 with \$3 million annual rent. The Authority received credits for \$107,108 in reduced rent based on a previous lease agreement for the property during 2005.

On October 3, 2005, the Authority's Board approved a lease with the San Diego Unified Port District for the property located at 2701 North Harbor Drive, known as the Teledyne Ryan property. The term of the lease is 64 years and commenced January 31, 2005. On October 11, 2005, this lease will be presented to the District's Board for approval and final signature. The lease is expected to be approved.

Other district leases: SDIA leases from the District three additional properties adjacent to SDIA. These properties require monthly rentals of \$94,235, \$19,325 and \$4,151 and expire in December 2007, December 2007 and April 2012, respectively.

Under current law, in the event SDIA is relocated and the District leases are no longer used by SDIA for airport purposes, all District leases will terminate and use of the property will revert to the District.

Building lease: SDIA leases modular buildings from an unrelated third party that requires monthly rentals of \$15,205 through November 2005.

Deferred rent (benefit) liability: SDIA accrues rent expense for the two leases with predetermined escalating payments by the straight-line method over the respective lease terms. The accumulated benefit of the reduced scheduled payments of those two leases is recorded as a deferred rent liability of \$2,823,181 and \$3,353,016 as of June 30, 2005 and 2004, respectively. The accumulated benefit (accrued liability) is expected to decrease gradually over the remaining 63 years.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments, Continued

The future rental commitment under the seven operating lease agreements as of June 30 is due as follows:

Years Ending June 30,

2006	\$ 12,589,000
2007	11,913,000
2008	11,231,000
2009	10,550,000
2010	10,550,000
2011-2015	52,591,000
2016-2020	52,500,000
2021-2025	52,500,000
2026-2030	52,500,000
2031-2035	52,500,000
2036-2040	52,500,000
2041-2045	52,500,000
2046-2050	52,500,000
2051-2055	52,500,000
2056-2060	52,500,000
2061-2065	52,500,000
2066-2069	36,750,000
	<u>\$ 671,174,000</u>

The total rental expense charged to operations for the year ending June 30 consists of the following:

	<u>2005</u>	<u>2004</u>
Rental payments made	\$ 10,703,415	\$ 7,522,758
Increase (decrease) in accumulated benefit of reduced rents	(529,835)	1,303,266
	<u>\$ 10,173,580</u>	<u>\$ 8,826,024</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments and Contingencies

Commitments: As of June 30, 2005 and 2004, the Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Authority has funds which have been classified as noncurrent assets for the unpaid contractual portion of capital projects that are currently in progress, for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed, and for the contractual costs of upgrading certain major equipment. At June 30, 2005 and 2004, these noncurrent funds totaled \$10,362,547 and \$30,372,517, respectively, and are classified on the accompanying balance sheet as Cash and Investments Designated for Specific Capital Projects and Other Commitments.
- ii. Support Services—As part of the MOU, the Authority was required to purchase specified District services from January 1, 2003 to June 30, 2005, and the District was required to meet the standards and specifications established by the Authority for those services. The services were purchased on a declining basis during that period as the Authority phased in its own staff and operational resources. The Authority had the option to purchase (by mutual agreement) services from the District for a longer period of time. However, the MOU was not renewed and services were purchased from other sources. Services provided by the District Harbor Police are required to be purchased by the Authority as long as the SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Authority could purchase, and the manner of calculating the payments for such services. The largest amount that became payable under any of these is under the Police Services Agreement, which is for Harbor Police services. The District provided monthly billings to the Authority, with payment generally due 30 days after the date of the invoice and provision of appropriate supporting documentation. During the years ended June 30, 2005 and 2004, the Authority expensed \$10,173,581 and \$9,427,480, respectively, for these services.
- iii. Major contracts – During 2005, the authority board approved a contract with G&T Conveyor Company for \$11.9 million to modify the baggage handling system for 100% screening of baggage. At June 30, 2005, approximately \$2.9 million had been spent and the remaining contract is due to be completed during FY 2006.
- iv. Postretirement Healthcare Benefits—In addition to the pension benefits described in Note 7, the Authority will provide postretirement healthcare benefits to retirees. Currently, expenditures for postretirement healthcare benefits, which include medical and dental coverage and life insurance coverage, will be recognized as they are paid. In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which will be effective during the fiscal year ending June 30, 2007. The Authority has not yet performed the analysis to measure the effect on implementing this standard to its financial statements.
- v. In addition, the Authority has a profit sharing plan as defined under Section 401(a) of the Internal Revenue Code. Under the plan, eligible employees receive annual discretionary employer contributions. Authority contributions are immediately vested by the participants.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments and Contingencies, Continued

Contingencies: As of June 30, 2005, the Authority is subject to contingencies arising from legal matters as described below:

The Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenant/operators to indemnify the Authority for any damage to property or losses to the Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Authority to be named as an additional insured under certain insurance policies of the tenant/operators. And, finally, the Authority also tenders these claims to its own insurers once they become asserted claims. Thus, according to the Authority's legal counsel, when these types of claims are asserted against the Authority, the Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenant/operators involved, from the tenant/operator's insurers and from its own insurers. The Authority's legal counsel cannot predict the net exposure to the Authority with respect to these matters, or the probability or remoteness of any outcome.

Under the Eighth Variance Agreement to Title 21 of the California Airport Noise Standards, adopted by the District on July 9, 2001, and approved by the State of California, Department of Transportation on August 27, 2001, the District agreed to enhance its Residential Sound Attenuation Program (RSAP), which began as a result of litigation. Beginning with the District's 2001-02 fiscal years, the District's funding for the RSAP was \$2 million per year for three years with a commitment to use the District's best efforts to obtain matching FAA AIP discretionary funds. If the FAA does provide a full federal match to the District's contribution, the RSAP will be funded at \$10 million per year for the three years of the Eighth Variance Agreement. If the FAA does not provide matching federal funds in the amount of \$8 million per year, the District further agreed to contribute an additional \$1 million in any such year of the Eighth Variance Agreement. From inception to December 31, 2002, the District had expended approximately \$14,355,000 on the RSAP. As part of the transfer of airport operations, the State of California, Department of Transportation transferred the future commitments under the Eighth Variance Agreement to the Authority, and the Authority assumed those commitments. As of June 30, 2005, the program had cumulatively expended \$35,172,793.

The Eighth Variance Agreement expired on August 27, 2004. On June 27, 2004, the Authority submitted an application for a subsequent (ninth) variance from the State. The provisions of the Eighth Variance Agreement remain in place until the ninth variance application is addressed by State. This is expected to occur in Fall 2005.

The Authority is also named as a defendant in certain other legal actions arising from transactions conducted in the ordinary course of business, including claims filed by certain contractors for disputes related to compensation for contracted work and general liability claims for alleged injuries on Authority property. The Authority's legal counsel has indicated that it is not currently possible to estimate the amount or range of potential loss to the Authority related to these cases. At June 30, 2005 and 2004, the Authority had \$10,362,547 and \$30,372,517, respectively, designated against net assets as a contingency reserve for future specific capital projects and other commitments.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments and Contingencies, Continued

As the ultimate resolution of these items is not yet determinable, no amounts have been recorded for the above items by the Authority as of June 30, 2005.

In addition, on June 3, 2003, the court approved settlement of a claim against an architecture firm wherein the District was the plaintiff. As the claim was related to airport construction projects, the claim and subsequent settlement were transferred to the SDCRAA as of January 1, 2003. Per the settlement, the Authority owed \$500,000 and received \$3.6 million. In 2005 and 2004, a total of approximately \$2.7 million was paid out from settlement funds.

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District: During 2004 the Authority initiated litigation against the District, entitled San Diego County Regional Airport Authority v. San Diego Unified Port District, and related cross-actions, S.D.S.C. Case No. GIC 821224. The litigation resulted in a comprehensive settlement agreement (hereinafter Settlement Agreement) that specified that the District lease the 46.9-acre Teledyne Ryan property (hereinafter the Property) to the Authority commencing January 1, 2005. The Property is currently the subject of three pending legal actions:

The first action is litigation entitled TDY Industries, Inc. v. San Diego Unified Port District and San Diego Unified Port District v. TDY Industries, Inc. (consolidated), San Diego Superior Court Case No. GIC 779490 that resulted in a judgment in favor of the District and an award of damages in the amount of \$21,347,519, of which \$9,770,393 is an award for demolition and environmental abatement costs, but which is now on appeal.

The second action is litigation, entitled: San Diego Unified Port District v. TDY Industries, *et al*, USDC No. 3:03CV1146, a pending federal court action wherein the District is seeking to recover cleanup costs and environmental damages from TDY and related cross-actions. TDY has filed a third-party complaint against General Dynamics and the Authority wherein TDY is seeking (i) contribution under CERCLA, (ii) declaratory relief under Federal and State law, (iii) a judicial declaration that TDY is entitled to reimbursement and indemnification from the Authority and General Dynamics for environmental costs which TDY may incur as a result of release of chemical substances, (iv) compensation for an alleged public nuisance and continued investigation and remediation costs that TDY alleges it will continue to incur due to the release of chemical substances by the Authority and General Dynamics. The Authority has filed counterclaims and cross claims against TDY with respect to claims alleged by the Authority under CERCLA, the Resource Conservation and Recovery Act, public nuisance, nuisance per se, trespass, equitable indemnity seeking injunctive relief, declaratory judgment, cost recovery and contribution.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 12. Commitments and Contingencies, Continued

The third action involved an order by the California Regional Water Quality Control Board, San Diego Region, entitled Cleanup and Abatement Order (CAO) No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304.

On October 3, 2005, the Authority's Board approved a lease agreement for the Property. The agreement dictates each party's future responsibility and source of funds for the demolition, abatement and remediation on the Property. As to the first action, the District has agreed to remit any funds received for demolition and abatement costs (presently the judgment of \$9,770,393 which is now on appeal) to the Authority to remediate the Property. Should the judgment amount be insufficient to complete the demolition and remediation as contemplated in the lawsuit or required by law, the District and Authority agree to equally share the remaining costs. The judgment is considered a gain contingency; therefore, the Authority has not recorded the anticipated remediation funds.

As to the second action, the matter is pending in federal district court and seeks damages for cleanup costs, remediation and environmental damages on the Property. The preliminary estimate for the costs of the demolition and renovation of structures and remediation of the site range from \$50 million to \$70 million, depending on the redevelopment option chosen. The federal court case is ongoing. The parties (District, Authority, General Dynamics, Allegheny/Teledyne Ryan) are conducting discovery. A trial date is set for May 30, 2006. The District and Authority have agreed that the net sum of any judgment in the case, after deduction of litigation costs, shall be available to the Authority for cleanup and remediation costs on the Property. Should the net amount be insufficient to cover the costs, the District and Authority shall equally pay any remaining expenses.

As to the third case, an administrative matter pertaining substantially to the same issues as the second case, the Authority is not a party to the proceeding at this time. TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated (hereinafter Allegheny) are named in the California Regional Water Quality Control Board, San Diego Region, CAO that requires the Property to be remediated. Allegheny, however, has petitioned the Water Quality Control Board to add the Authority, the District, and General Dynamics Corporation to the CAO.

The Authority's management believes that ultimate liability resulting from the above cases, if any, will not be material to the Authority's financial condition.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 13. Subsequent Events

Airport Revenue Refunding Bonds: On September 26, 2005, the Board of Directors adopted Resolution No. 2005-0119, authorizing the issuance of Airport Revenue Refunding Bonds, Series 2005, in an amount not to exceed \$63 million. Additionally, the Board authorized the approval of issuing a Master Trust Indenture, a First Supplemental Trust Indenture, Preliminary and Final Official Statements, a Bond Purchase Agreement, an Escrow Agreement and a Continuing Disclosure Certificate.

The Series 2005 Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Net Revenues which include certain income and revenue received by the Authority from the operation of the Airport System and certain limited funds and accounts held by the Trustee under the Indenture. Additionally, future parity obligations may be issued by the Authority.

The proceeds of the Series 2005 Bonds will be used to refund \$58,125,000 aggregate principal amount of outstanding California Maritime Infrastructure Authority's Airport Revenue Bonds, Series 1995; fund a reserve fund and pay certain costs of issuance of the Series 2005 Bonds. The November 1, 2005 principal payment of \$2,480,000 will be paid from funds accumulated in the Debt Service Fund.

The Series 2005 Bonds, in the amount of \$56,270,000, were sold on October 7, 2005 and will be delivered on November 9, 2005. The Series 2005 Bonds were insured by AMBAC and rated AAA/Aaa/AAA by Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively. The underlying ratings are A+/A1/A+ by Standard and Poor's, Moody's Investors Service and Fitch Ratings, respectively.

Tenant bankruptcies: Delta Air Lines, Inc. and Northwest Airlines filed bankruptcy September 14, 2005. These two airlines combined represent 16% and 15% of the total airline revenues for fiscal years ended 2005 and 2004, respectively. The Authority currently has letters of credit on both of the airlines totaling \$1.3 million, which are available for drawing down for either prepetition or postpetition debt. The outstanding accounts receivable balance as of June 30, 2005 totaled \$148,700 for Delta Air Lines, Inc. and \$157,000 for Northwest Airlines. The letters of credit expire in November 2006 and there is no assurance that the letters of credit supporting the airline tenant receivables will be renewed in the future. It is not known whether these airlines under bankruptcy protection will assume or reject their respective affected agreements with the Authority. The Authority is unable to predict how long any airline in bankruptcy protection will continue operating or whether any of these airlines will liquidate in the future.

Statistical Section

(unaudited)



- Airport Revenues and O&M Expenses
- Airport Authority Employee Strength
 - Population & Economic Metrics
 - Aircraft Operations
 - Landed Weights
 - Passenger Enplanements
- Enplanement Market Share by Airline
- Revenue Bond Debt Service Coverage



Exhibit S-1 Airport Revenues and O&M Expenses (\$000)

Operating Revenues

Operating Revenues	2005	2004	% Change
Aviation Revenue			
Landing fees	\$ 22,607	\$ 22,874	(1.2%)
Building rentals	18,041	19,511	(7.5%)
Security surcharge	7,800	-	-
Other aviation	1,757	1,812	(3.0%)
Concession revenue	26,552	24,571	8.1%
Parking revenue	23,216	21,335	8.8%
Ground rental	5,294	4,269	24.0%
Other operating revenue	2,856	2,200	29.8%
Total Operating Revenues	\$ 108,123	\$ 96,572	12.0%

Operating and Maintenance Expenses

Operation and Maintenance Expenses	2005	2004	% Change
Salaries and benefits	\$ 23,623	\$ 21,955	7.6%
Contractual services	41,401	32,912	25.8%
Space rental	10,174	8,826	15.3%
Utilities	5,121	4,914	4.2%
Maintenance	4,050	5,342	(24.2%)
Administration	5,852	6,231	(6.1%)
Materials and supplies	1,148	1,453	(21.0%)
Total O&M Expenses	\$ 91,369	\$ 81,633	11.9%

Source: San Diego County Regional Airport Authority

Exhibit S-1 (continued)
Airport Revenues and O&M Expenses

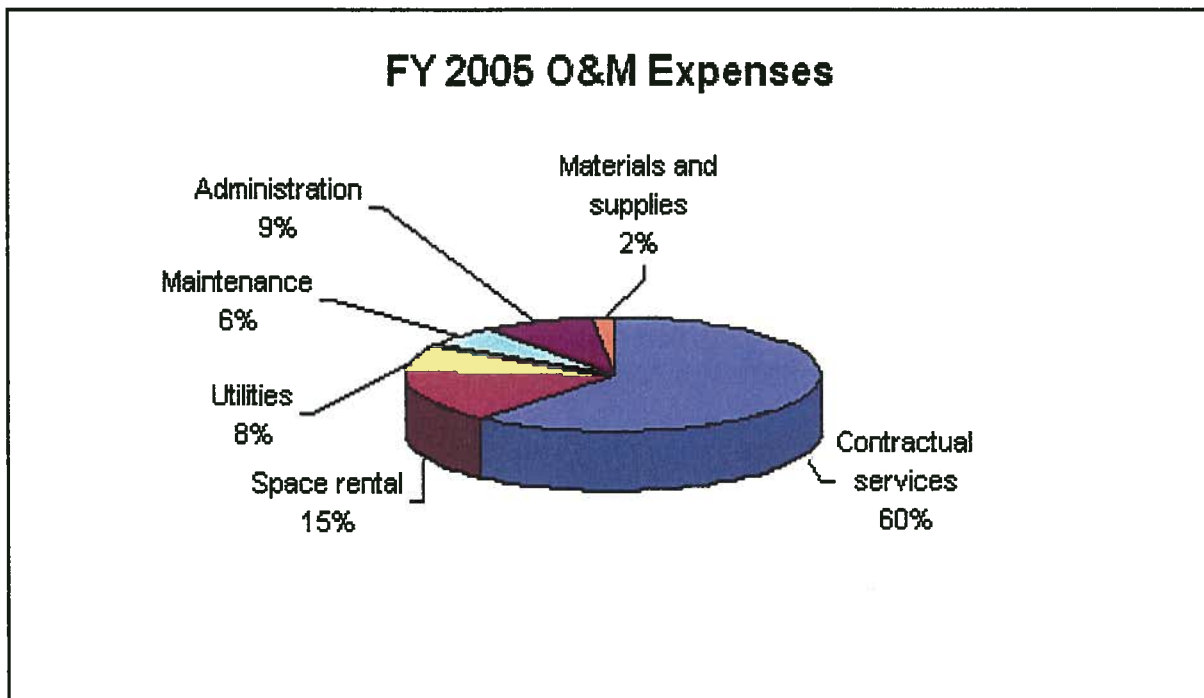
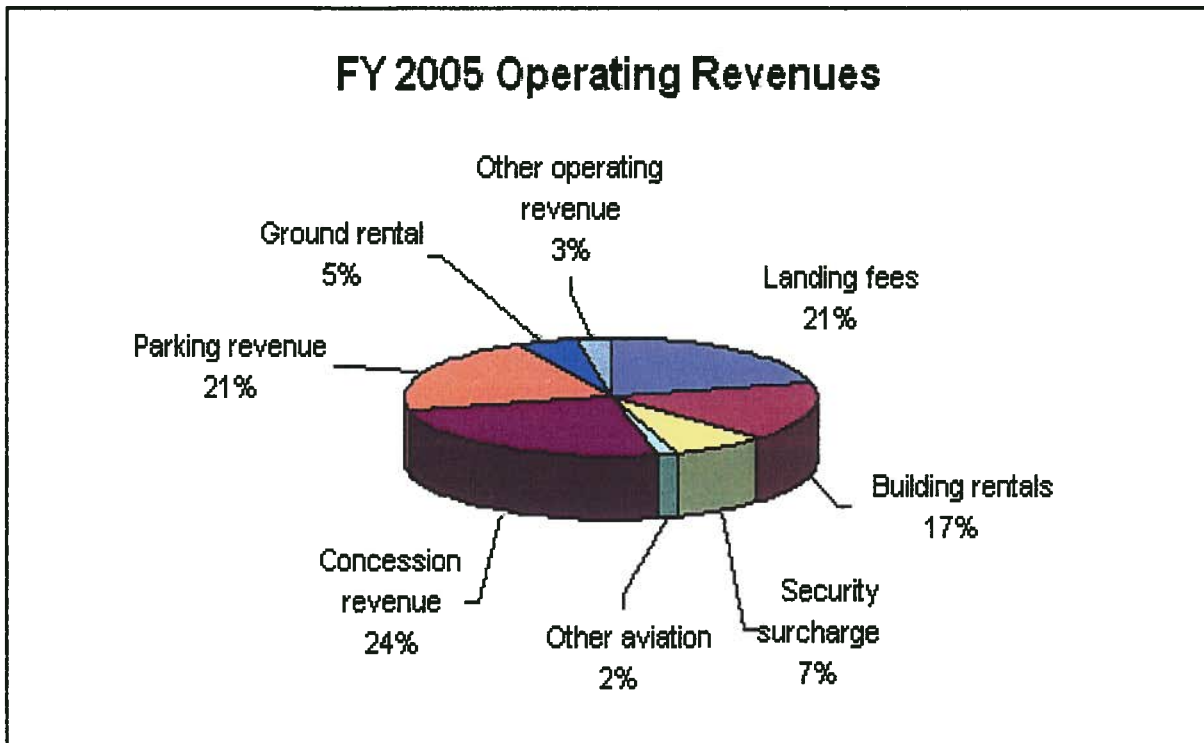
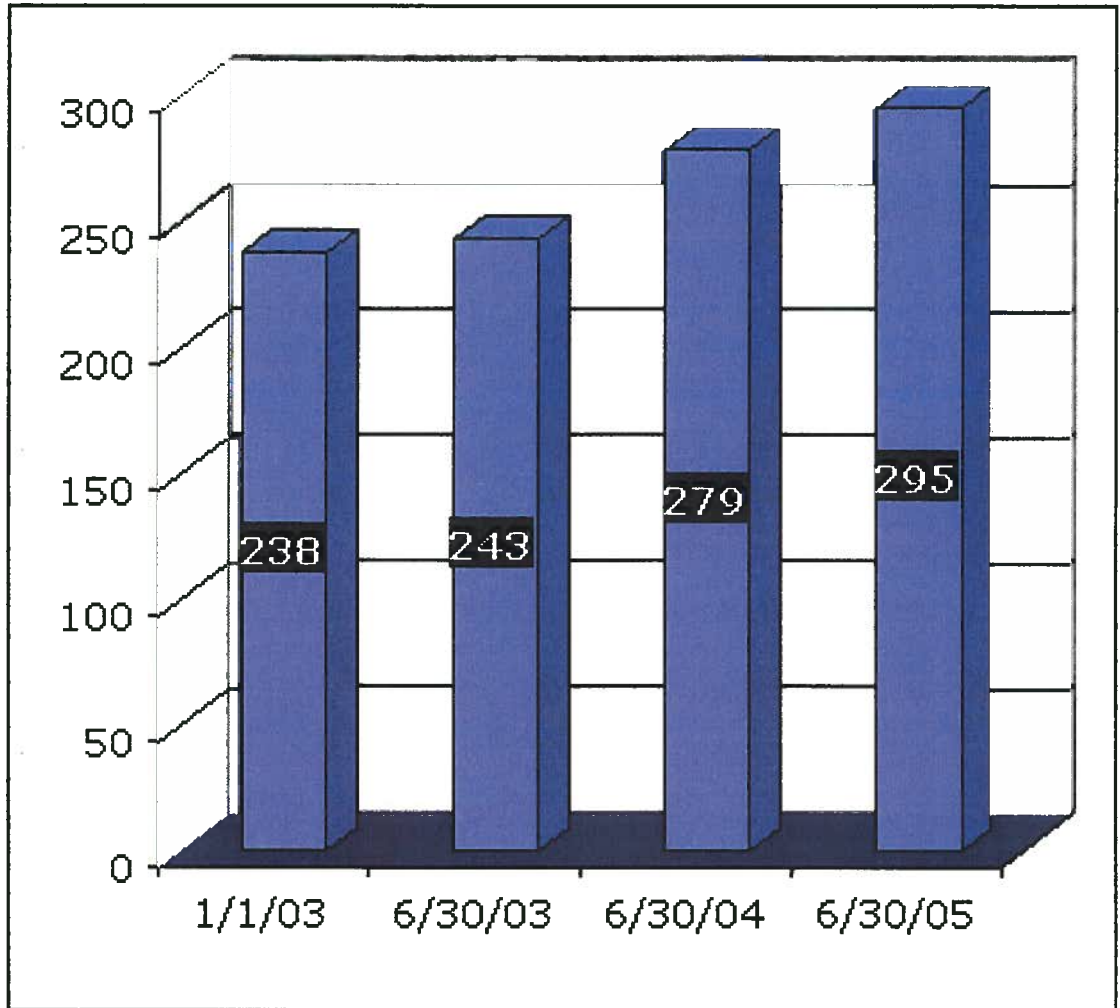


Exhibit S-2
Airport Authority Employee Strength (Full Time Equivalents)



Source: San Diego County Regional Airport Authority

Exhibit S-3 Population & Economic Metrics

Calendar Year	Estimated Population ^[1]	% Change	Per Capita Personal Income ^[2]	% Change	Labor Force ^[3]	Employed ^[3]	Unemployed Level ^[3]	Unemployment Rate ^[3]
2000	2,813,833	(1.5%)	\$32,803	8.5%	1,376,649	1,322,676	53,973	3.9%
2001	2,863,657	1.8%	\$33,933	3.4%	1,408,485	1,349,592	58,893	4.2%
2002	2,920,010	2.0%	\$34,915	2.9%	1,447,495	1,373,123	74,372	5.1%
2003	2,971,805	1.8%	\$35,841	2.7%	1,467,353	1,391,093	76,260	5.2%
2004	3,013,014	3.2%	n/a	n/a	1,490,333	1,420,041	70,292	4.7%

Sources:

[1] California Department of Finance, Demographic Research Unit, Population Estimates for Counties and State, 2001-2004 with DRU Benchmark

[2] US Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income

[3] US Department of Labor, Bureau of Labor Statistics - Labor Force Data by County

Exhibit S-4
Aircraft Operations (Takeoffs & Landings)

Fiscal Year	Air Carriers	Air Commuters	Civil	Military	Total
2000	152,582	43,070	16,916	723	213,291
2001	152,180	44,850	14,694	968	212,692
2002	143,615	40,163	14,139	1,622	199,539
2003	143,283	47,802	14,415	1,229	206,729
2004	144,145	46,484	14,712	1,069	206,410
2005	148,990	50,820	13,239	429	213,478

Source: San Diego Unified Port District and the San Diego County Regional Airport Authority

Exhibit S-5
Landed Weights (thousand pounds)

Airline ⁽¹⁾	FY 2000		FY 2001		FY 2002		FY 2003		FY 2004	
	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share
Southwest	3,122,576	30.0%	3,211,567	28.5%	3,128,635	29.4%	3,286,030	30.3%	3,418,786	31.9%
United	1,600,038	15.4%	1,517,050	13.5%	1,294,795	12.2%	1,234,404	11.4%	1,192,898	11.1%
American	1,275,787	12.3%	1,192,778	10.6%	1,257,128	11.8%	1,231,431	11.4%	1,045,382	9.8%
Delta	990,825	9.5%	976,869	8.7%	997,061	9.4%	1,051,990	9.7%	963,140	9.0%
America West	520,833	5.0%	598,551	5.3%	504,567	4.7%	500,867	4.6%	587,754	5.5%
Alaska Airlines	571,665	5.5%	587,451	5.2%	570,659	5.4%	568,499	5.2%	574,698	5.4%
Continental	445,770	4.3%	420,365	3.7%	401,283	3.8%	423,145	3.9%	441,702	4.1%
Northwest	328,795	3.2%	405,496	3.6%	350,966	3.3%	385,725	3.6%	352,928	3.3%
American Eagle	247,576	2.4%	318,164	2.8%	252,448	2.4%	271,184	2.5%	341,205	3.2%
US Airways	338,437	3.3%	447,146	4.0%	425,417	4.0%	307,783	2.8%	307,919	2.9%
Skywest	204,558	2.0%	216,685	1.9%	178,431	1.7%	233,991	2.2%	239,521	2.2%
Frontier Airlines	84,024	0.8%	111,024	1.0%	117,535	1.1%	127,679	1.2%	142,867	1.3%
Hawaiian	-	-	6,576	0.1%	128,759	1.2%	117,934	1.1%	135,040	1.3%
Mesa	-	-	-	-	7,191	0.1%	69,207	0.6%	53,856	0.5%
JetBlue	-	-	-	-	-	-	-	-	144,191	1.3%
Others			534,817	4.7%	348,345	3.3%	368,528	3.4%	133,439	1.2%
Subtotal	9,786,397	94.0%	10,544,540	93.5%	9,963,218	93.8%	10,178,396	93.9%	10,075,326	94.0%
Cargo										
Federal Express	238,982	2.3%	250,906	2.2%	301,457	2.8%	341,374	3.1%	343,931	3.2%
United Parcel	70,400	0.7%	106,004	0.9%	109,033	1.0%	113,867	1.1%	109,421	1.0%
ABX Air	63,433	0.6%	66,552	0.6%	63,021	0.6%	68,544	0.6%	69,360	0.6%
Emery Air										
Freight (Menlo)	183,760	1.8%	161,187	1.4%	77,802	0.7%	54,740	0.5%	40,972	0.4%
DHL Airways, Inc (ASTAR)	-	-	-	-	37,249	0.4%	40,960	0.4%	40,640	0.4%
Others			146,047	1.3%	74,636	0.7%	43,259	0.4%	36,085	0.3%
Subtotal	626,608	6.0%	730,696	6.5%	663,198	6.2%	662,744	6.1%	640,409	6.0%
Total	10,413,006	100.0%	11,275,236	100.0%	10,626,416	100.0%	10,841,140	100.0%	10,715,735	100.0%
Annual % Chng			8.3%		(5.8%)		2.0%		(1.2%)	

Exhibit S-6
Passenger Enplanements

Fiscal Year	Passenger Enplanements	% Change
2000	7,768,050	2.8%
2001	8,004,178	3.0%
2002	7,299,511	(8.8%)
2003	7,505,705	2.8%
2004	7,947,440	5.9%
2005	8,449,107	6.3%

Source: San Diego Unified Port District and the San Diego County Regional Airport Authority

Exhibit S-7

Enplanement Market Share by Airline

Air Carrier	2000		2001		2002		2003		2004		2005	
	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share	Enplane- ments	Share
Aeromexico	44,673	0.6%	42,014	0.5%	35,773	0.5%	43,154	0.6%	47,533	0.6%	49,488	0.6%
Alaska	435,485	5.6%	436,516	5.5%	422,628	5.8%	419,644	5.6%	439,430	5.5%	476,395	5.6%
Aloha	-	-	-	-	-	-	-	-	-	-	29,051	0.3%
America West	318,053	4.0%	408,139	5.1%	379,434	5.2%	369,279	4.9%	450,256	5.7%	466,615	5.5%
American	908,407	11.7%	880,523	11.0%	859,409	11.8%	860,889	11.5%	831,823	10.5%	879,144	10.4%
British Airways	38,548	0.5%	47,026	0.6%	57,383	0.8%	59,937	0.8%	16,756	0.2%	--	
Continental	358,697	4.6%	332,050	4.1%	314,023	4.3%	319,737	4.3%	354,114	4.5%	401,803	4.8%
Delta	668,083	8.6%	672,925	8.4%	631,055	8.6%	711,123	9.5%	674,570	8.5%	713,872	8.4%
Frontier	61,624	0.8%	83,587	1.0%	84,912	1.2%	99,325	1.3%	140,846	1.8%	152,917	1.8%
Hawaiian	-	-	4,414	0.1%	78,610	1.1%	81,393	1.1%	101,847	1.3%	108,798	1.3%
Jet Blue	-	-	-	-	-	-	706	0.0%	119,517	1.5%	118,762	1.4%
Mesa	-	-	-	-	5,718	0.1%	51,090	0.7%	42,235	0.5%	114,010	1.3%
Northwest	271,590	3.5%	315,001	3.9%	286,270	3.9%	303,878	4.0%	310,795	3.9%	319,790	3.8%
Southwest	2,500,724	32.2%	2,643,920	33.0%	2,445,634	33.5%	2,613,353	34.8%	2,741,470	34.5%	2,866,405	33.9%
Sun County	9,500	0.1%	17,431	0.2%	11,179	0.2%	12,864	0.2%	21,515	0.3%	27,339	0.3%
United	1,248,206	16.1%	1,171,911	14.6%	955,910	13.1%	890,984	11.9%	939,722	11.8%	982,535	11.6%
US Airways	244,899	3.2%	334,271	4.2%	311,569	4.3%	237,094	3.2%	241,167	3.0%	251,629	3.0%
Other	253,650	3.3%	204,840	2.6%	89,371	1.2%	24,555	0.3%	-	-	8,439	0.1%
Total Air Carrier	7,362,139	94.8%	7,594,568	94.9%	6,968,878	95.5%	7,099,005	94.6%	7,473,596	94.0%	7,966,992	94.3%
Commuter												
American Eagle	204,062	2.5%	237,810	3.0%	187,314	2.6%	216,014	2.9%	276,485	3.5%	288,843	3.4%
SkyWest	168,794	2.1%	171,800	2.1%	139,475	1.9%	182,545	2.4%	197,359	2.5%	193,272	2.3%
Other	31,052	0.4%	-	-	3,844	0.1%	8,141	0.1%	-	-	--	
Total Commuter	403,908	5.2%	409,610	5.1%	330,633	4.5%	406,700	5.4%	473,844	6.0%	482,115	5.7%
Total Enplanements	7,766,047	100.0%	8,004,178	100.0%	7,299,511	100.0%	7,505,705	100.0%	7,947,440	100.0%	8,449,107	100.0%

Exhibit S-8 Revenue Bond Debt Service Coverage

Fiscal Year	Airport Revenues Per Trust Agreement	O&M Expenses Per Trust Agreement	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage (x)
				Principal	Interest	Total	
2000	\$ 76,786,444	\$ 48,626,616	\$ 28,159,828	\$ 1,865,000	\$ 3,687,408	\$ 5,552,408	5.07
2001	\$ 83,248,186	\$ 52,428,324	\$ 30,819,862	\$ 1,950,000	\$ 3,603,711	\$ 5,553,711	5.55
2002	\$ 79,984,609	\$ 63,567,570	\$ 16,417,039	\$ 2,035,000	\$ 3,515,024	\$ 5,550,024	2.96
2003	\$ 87,248,899	\$ 74,241,128	\$ 13,007,771	\$ 2,135,000	\$ 3,415,861	\$ 5,550,861	2.34
2004	\$ 99,190,423	\$ 82,489,503	\$ 16,700,920	\$ 2,245,000	\$ 3,308,606	\$ 5,553,606	3.01
2005	\$ 112,505,787	\$ 90,919,846	\$ 21,585,941	\$ 2,355,000	\$ 3,197,029	\$ 5,552,029	3.89

Source: San Diego Unified Port District and the San Diego County Regional Airport Authority

