



San Diego County Regional Airport Authority

San Diego, California



Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2006



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

Prepared by
Finance Division
San Diego County Regional Airport Authority
San Diego, California

Vernon D. Evans
Vice President, Finance/CFO

Kathy Kiefer
Director of Accounting

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Introductory Section



Authority Overview

Letter of Transmittal

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Authority Board Members and Executive Staff

Authority Organization Chart

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 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 17.6 million passengers in fiscal year 2006.



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

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November 9, 2006

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, 2006, is submitted herewith. The Authority's Accounting Department prepared this report. Responsibility for the accuracy, completeness and fairness of the presented data, 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 (referred to as "GAAP"). The independent auditor's report 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 executive staff, and the Authority's organizational chart. The Financial Section includes the Independent Auditor's 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.

GAAP requires 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, 2003 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.

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 Authority Board Members.

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. The U.S. Census Bureau estimates that as of July 1, 2005, San Diego County is the sixth largest county in the United States, and the City of San Diego (the "City") ranks as the seventh largest city in the Nation. The County's population has grown at an average rate of 1.2% over the past five 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%), Carlsbad (3%), and Vista (3%). The combined San Diego/Tijuana metropolitan population exceeds five 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 July 2006, 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 May 2006 "2005-2035 Airport Economic Analysis" prepared for the Authority found that in 2005 the air transportation services provided at SDIA had a \$9.9 billion total impact on the regional economy, including the effects of \$2.6 billion in spending by visitors who enter the region by air transportation and the value of good shipped by air. About 115,000 jobs, or one of every 16 jobs in the region, are directly or indirectly related to the operation of SDIA and the economic activity it supports.

Fiscal year 2006 was a record year for the Authority. Passenger enplanements reached 8.8 million, a 3.6% increase over fiscal year 2005. This was the second consecutive year 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 fiscal year 2006, the Authority implemented an advanced in-line explosives detection baggage screening system at Terminal 2 East. The system consists of a network of conveyor belts which route checked bags out of view of passengers to one of three behind-the-scenes CTX 9000 EDS (Explosive Detection System) machines, where any potential threats in checked baggage can be quickly detected and addressed before it is loaded onto airplanes. Major benefits of the new system include: 1) Enhanced passenger convenience: After checking bags at the ticket counter or curbside, passengers do not have to handle them again until they reach their destination; 2) More open space in the terminals: The EDS machines currently in the ticketing areas of Terminal 2 East will be removed to serve other sections of the airport, also behind the scenes; 3) Greatly increased

baggage screening capacity: The system has increased baggage screening throughput in Terminal 2 East from about 540 bags an hour to 1,200 an hour.

The Transportation Security Administration (TSA) and the Authority partnered to bring the new system to SDIA, with the Authority providing \$12.3 million in critical funding for the bulk of the project and the TSA purchasing each of the \$1.2 million CTX machines. The Authority also carried out the project design and construction with no interruption to airline operations, which involved working with the airlines to successfully integrate the system and making major modifications to back-of-the-house areas of Terminal 2 East.

Airport Site Selection Program – As mandated by the state law that created the Authority, an Airport Site Selection Program was initiated which narrowed down a list of potential new airport sites to nine potential sites, including expansion of SDIA at its existing location. The Airport Site Selection Program attained a number of milestones in fiscal year 2006 culminating in the Board's decision in June to approve language for the November 7, 2006 county-wide ballot. The ballot question that will be posed is:

"To provide for San Diego's long-term air transportation needs, shall the Airport Authority and government officials work to obtain approximately 3,000 of 23,000 acres at MCAS Miramar by 2020 for a commercial airport, provided

- necessary traffic and freeway improvements are made,
- military readiness is maintained without expense to the military for modifying or relocating operations,
- no local taxes are used on the airport,
- overall noise impacts are reduced, and necessary Lindbergh Field improvements are completed?"

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 facility 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. In fiscal year 2006, the Authority completed the Programmatic Document phase of the implementation, which establishes the scope and budget for the program and received Authority Board approval for the program. Prior to moving into the design phase of the program, the Authority will complete the environmental review process and receive Board approval for the program.

Airport Resource Planning Project – The Airport Resource Planning (ARP) Project is designed to replace the financial information system that was inherited from the Port District. The ARP system is an integrated organization-wide system covering accounts receivable, accounts payable, general ledger, contracts, purchasing and payroll. Specific modules have

been developed for all departments to replace stand-alone systems previously used. During fiscal year 2006 the system underwent rigorous testing and began operations in January 2006.

Parking – Fiscal year 2006 was the first full year of operations of SAN Park’s three long-term parking lots: SAN Park NTC, located just west of Terminal 2 on the former Naval Training Center property; SAN Park Harbor Drive; and SAN Park Pacific Highway. By rebranding these lots under the SAN Park umbrella the Authority realized improved revenues and usage of these facilities. Long term parking revenues in fiscal year 2006 grew by 5% and usage by 11%. 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.

Approval of Passenger Facility Charge (PFC) #4 – In fiscal year 2006, the Federal Aviation Administration approved collection of an additional \$110 million in PFCs. PFCs are a \$4.50 charge per enplaned passenger departing from SDIA. In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. This money will be used to fund a variety of projects including airside improvements (\$76.4 million), security improvements (\$16.9 million), terminal improvements (\$9.5 million) and baggage screening enhancements (\$2.1 million).

Other New Concessions and Services – In fiscal year 2006, the Authority renegotiated its car rental license agreement with the 18 car rental companies serving the airport. The new five-year contract increases the Authority’s participation to 10% of growth revenues, up from a sliding scale of 3%, 7% and 9%. The Authority is projecting a \$1.9 million increase in revenues over the 12-month period beginning March 2006, when the agreement was executed.

Fiscal year 2006 saw the first full year of operations of the new concessions at Gates 1 and 2, which were the showcase pieces of an approximately \$4 million midterm reinvestment by Host International, Inc., SDIA’s master concessionaire for food/beverage and gift/news outlets. The July 2005 opening of Karl Strauss Brewery and Express Connection, a gift/news concession, contributed to an overall 8.7% increase in airport concession revenues over fiscal year 2005.

Strategic Business Planning – During fiscal year 2006, the Authority began to deploy its strategic business planning process in an effort to enhance its competitive practices. Staff worked on divisional goals, strategies, objectives, programs, projects and performance measures as well as the development of a strategic business plan. The condensed version of the plan was released with a full version to be released in fiscal year 2007 when the process is finalized.

Website Redesign - During fiscal year 2006, the Authority evaluated its website for user-friendliness and made appropriate modifications to increase public and traveler information and accessibility. The new website was unveiled on July 1, 2006. The redesigned site features include user-friendly, one-stop information about flights and other activities at San Diego International Airport, including updated terminal maps, flight timetables and directions. In addition, a separate section presents information about the Authority and its major initiatives and state-mandated responsibilities, including the Airport Site Selection Program, the Airport Master Plan and the Airport Land Use Commission.

FINANCIAL INFORMATION

The Board is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Authority 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, 2006, 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, marketing and other areas. 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, 2005. 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 Division and Public and Community Relations Department. 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, 2005. This is the second consecutive year that the Authority 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, 2005

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.



Carla E. Pudge

President

Jeffrey R. Enos

Executive Director

Authority Board Members and 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 A. Peterson
- Mayor Mary Sessom
- Mayor Morris Vance
- Councilmember Anthony Young

Executive Staff

Thella F. Bowens, President and CEO/Executive Director

Mark Burchyett, Chief Auditor

Breton K. Lobner, General Counsel

Brent Buma, Vice President, Marketing & Communications

Bryan Enarson, Vice President, Development

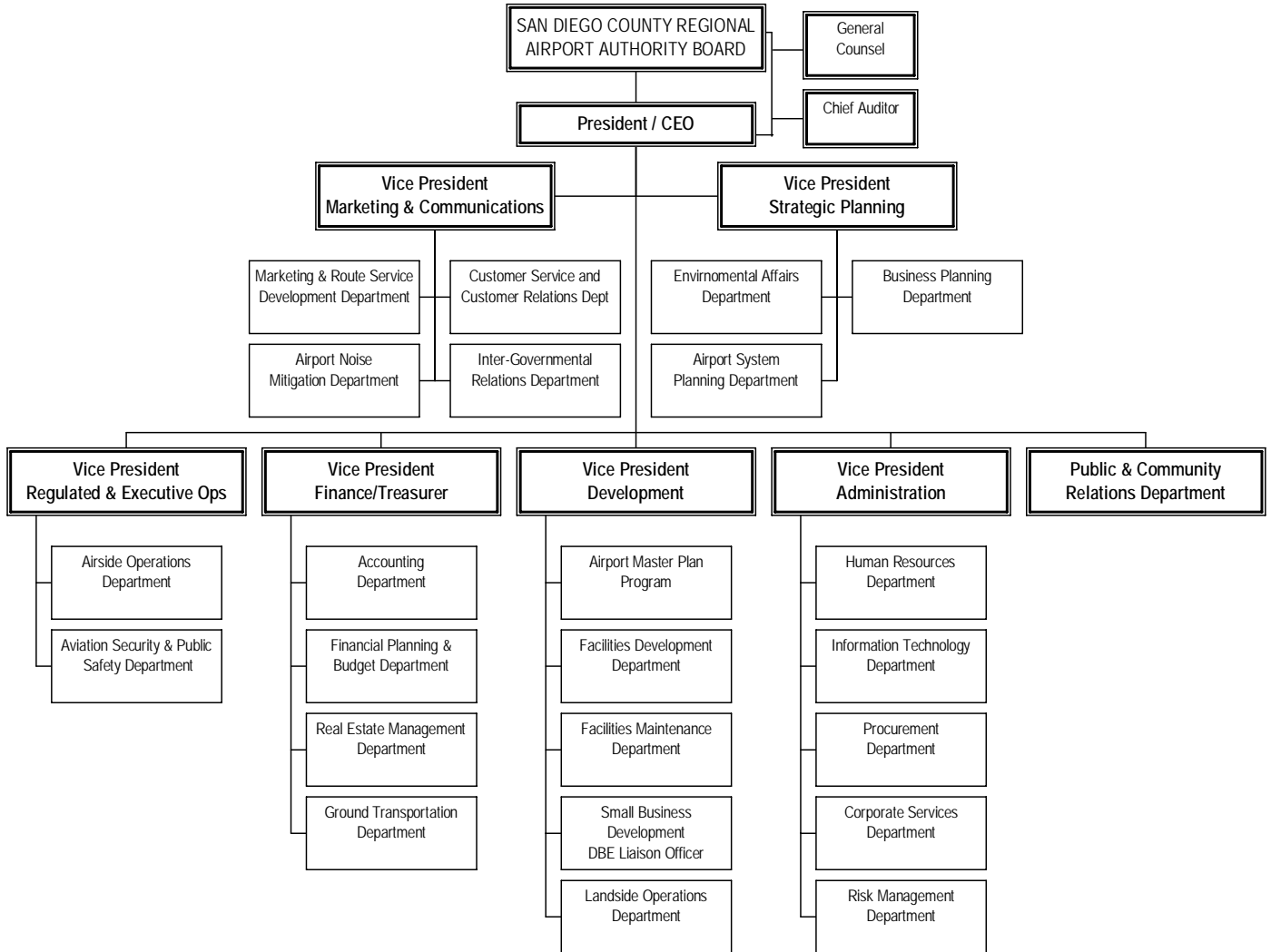
Vernon D. Evans, Vice President, CFO/Treasurer

Angela Shafer-Payne, Vice President, Strategic Planning

Ted Sexton, Vice President, Regulated and Executive Operations

Jeffrey Woodson, Vice President, Administration

Authority Organization Chart



Financial Section



Independent Auditor's Report

Management's Discussion and Analysis

Balance Sheets

Statements of Revenues, Expenses and
Change in Authority 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, 2006 and 2005, 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2006 and 2005, 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 October 6, 2006 on our consideration of the Authority's internal control over financial reporting and 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 13 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
October 6, 2006

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2005 TO JUNE 30, 2006**

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, 2006 and 2005.

The Authority was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of San Diego International Airport (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 and 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 sheets, the statements of revenues, expenses and changes in net assets, and the statements 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, 2006 and June 30, 2005 - 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; other 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 most 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 AB 93 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 dated June 13, 2003 on the Authority's balance sheet as of January 1, 2003. In addition, they prepared an audit report dated October 17, 2003 on the Authority's finances for the first six months of operation ended June 30, 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 42 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 the SDIA's major activities under the District's management from January 1, 2000 through December 31, 2002, and the Authority's management as of January 1, 2003, are as follows:

	2000	2001	2002	2003	2004	2005	2006
Enplaned Passengers	\$ 7,768,050	\$ 8,004,178	\$ 7,299,511	\$ 7,505,705	\$ 7,947,440	\$ 8,449,107	\$ 8,749,734
<i>% increase (decrease)</i>	2.8%	3.0%	(8.8)%	2.8%	5.9%	6.3%	3.6%
Total Passengers	15,540,545	15,972,825	14,580,659	14,991,814	15,880,137	16,875,804	17,483,516
<i>% increase (decrease)</i>	3.0%	2.8%	(8.7)%	2.8%	5.9%	6.3%	3.6%
Aircraft Operations	213,291	212,691	199,539	206,729	206,410	213,478	221,684
<i>% increase (decrease)</i>	(4.2)%	(0.3)%	(6.2)%	3.6%	(0.2)%	3.4%	3.8%
Freight and Mail (in tons)	152,016	149,265	158,693	158,562	151,231	175,749	189,607
<i>% increase (decrease)</i>	16.6%	(1.8)%	6.3%	(0.1)%	(4.6)%	16.2%	7.9%
Landed Weight (000)	11,106	11,275	10,626	10,841	10,749	11,200	11,527
<i>% increase (decrease)</i>	1.9%	1.5%	(5.8)%	2.0%	(0.8)%	4.2%	2.9%

SDIA showed healthy growth (3.6%) in passenger enplanements in fiscal 2006 despite continued financial turmoil in the airline industry. The level of enplaned passengers is now 9.3% above pre-9/11 levels of fiscal year 2001. SDIA also experienced positive trends in aircraft operations (3.8% growth) freight and mail tonnage (7.9% growth) and landed weights (2.9% growth), all reflecting increased service at SDIA.

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 financial condition has improved or deteriorated during the fiscal year. Net assets increased in FY06 from \$396 million to \$434 million. Following is a summary of the statements of revenues, expenses and change in net assets.

Increase in Net Assets	2004	2005	2006
Operating revenues	\$ 96,572	\$ 108,123	\$ 119,495
Operating expenses	114,626	121,068	132,915
Nonoperating revenues, net	34,933	33,959	38,846
Capital grant contributions	5,033	7,522	12,145
Increase in net assets	21,912	28,536	37,571
Net assets, beginning of year	345,772	367,684	396,220
Net assets, end of year	<u>\$ 367,684</u>	<u>\$ 396,220</u>	<u>\$ 433,791</u>

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

FINANCIAL HIGHLIGHTS

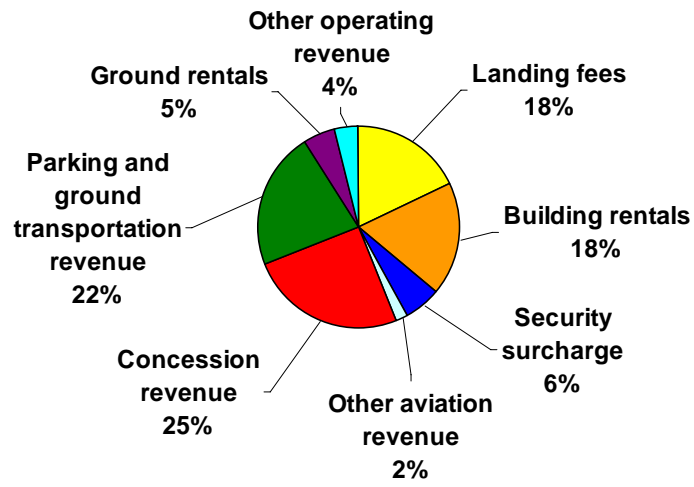
Operating Revenues (in thousands)

	2004	2005	2006	From 2005 to 2006	
				Increase (Decrease)	% Change
Airline revenue:					
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	\$ (364)	-1.61%
Building rentals	19,511	18,041	21,137	3,096	17.16%
Security surcharge ⁽¹⁾	-	7,800	7,759	(41)	-0.53%
Other aviation revenue	1,812	1,757	1,868	111	6.32%
Total airline revenue	44,197	50,205	53,007	2,802	5.58%
Concession revenue	24,571	26,552	29,362	2,810	10.58%
Parking and ground transportation revenue	21,986	23,723	26,904	3,181	13.41%
Ground rentals	4,269	5,294	5,505	211	3.99%
Other operating revenue	1,549	2,349	4,717	2,368	100.81%
Total operating revenue	\$ 96,572	\$ 108,123	\$ 119,495	\$ 11,372	10.52%

(1) Beginning 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 2006 operating revenues increased \$11.4 million (10.5%) from \$108.1 million to \$119.5 million. The biggest contributor was airline revenues, which increased \$2.8 million (5.6%). This is primarily due to higher airline landed weights and rate increases in building rentals. Additionally, in 2006, concession revenues increased \$2.8 million (10.6%). Concession revenues include terminal retail food and beverages, advertising, baggage carts, licenses and percentage rents from off-airport tenants. The greater passenger activity at SDIA contributed to the increased concession revenues. Parking revenue grew \$3.2 million (13.4%), reflecting increased passenger enplanements and a full year of operating new parking lots containing 1,600 new stalls. Other operating revenues increased by \$2.4 million (100.8%) due to planning grant revenues. The grant revenue increase is due to the advisory vote for airport site selection scheduled to go before the voters in November 2006.

**San Diego County Regional Airport Authority FY 2006
Revenues**

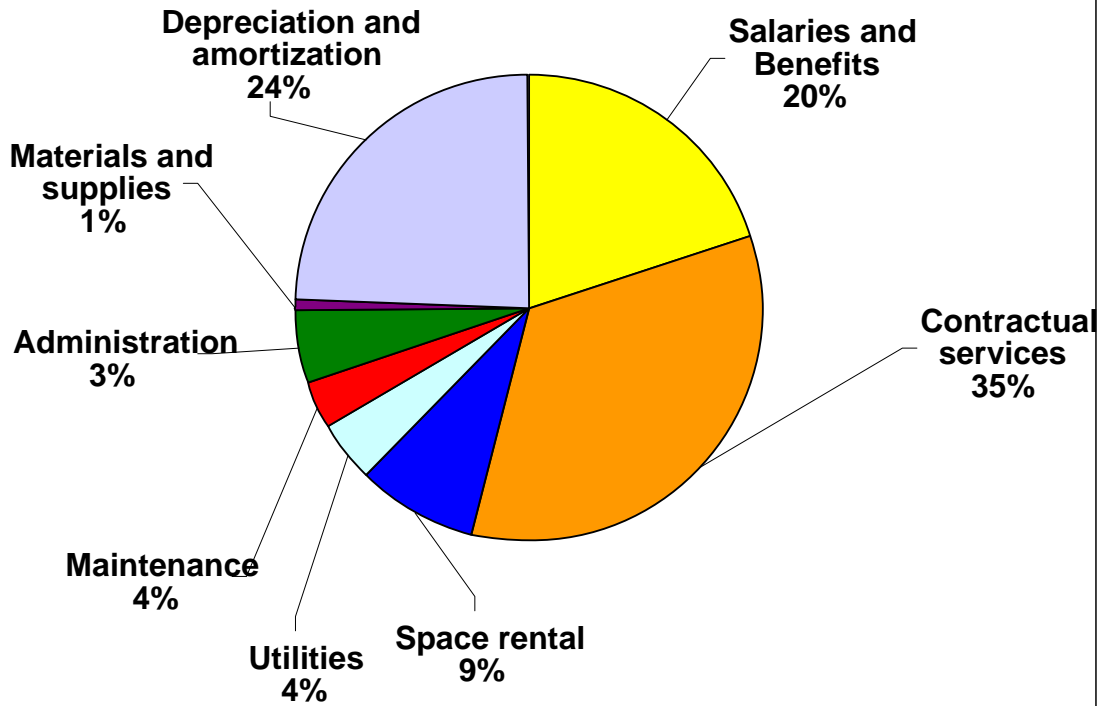


Operating Expenses (in thousands)

	2004	2005	2006	From 2005 to 2006	
				Increase (Decrease)	% Change
Salaries and benefits	\$ 21,955	\$ 23,623	\$ 26,847	\$ 3,224	13.6%
Contractual services	32,912	41,401	46,743	5,342	12.9%
Space rental	8,826	10,174	11,353	1,179	11.6%
Utilities	4,914	5,121	5,416	295	5.8%
Maintenance	5,343	4,050	5,390	1,340	33.1%
Administration	6,230	5,852	4,279	-1,573	-26.9%
Materials and supplies	1,453	1,148	1,328	180	15.7%
Total operating expenses before depreciation and amortization	81,633	91,369	101,356	9,987	10.9%
Depreciation and amortization	32,993	29,699	31,559	1,860	6.3%
Total operating expenses	\$ 114,626	\$ 121,068	\$ 132,915	\$ 11,847	9.8%

In FY 2006, operating expenses increased \$11.8 million (9.8%) from \$121.1 million to \$132.9 million due primarily to higher costs for salaries and benefits and contractual benefits and maintenance. The biggest increase was due to contract services regarding the site selection, approximately \$5.7 million. This is off-set by approximately \$4.2 million from a planning grant recorded in "Other operating revenues". Salaries and benefits increased \$3.2 million (13.6%), reflecting lower position vacancies, higher overtime and benefit costs and lower staff capitalization for capital projects. 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 2006 space rental costs increased \$ 1.2 million (11.6%) due primarily to a full year of rent expense for the Teledyne Ryan lease during FY06 compared to only six months of rent expense for this lease during FY05. Utilities costs increased \$0.3 million (5.8%), due to exceptionally higher temperatures in May and June. Maintenance costs increased \$1.3 million (33.1%) due to increased refuse and hazmat disposal costs, facility maintenance costs and fuel and lubricant costs. Administration costs decreased \$1.6 million (-26.9%) reflecting more conservative travel and training. Additionally, less allowance for bad debts was deemed necessary to reserve in 2006. Depreciation and amortization expenses increased \$1.9 million (6.3%) due to the implantation of our \$9 million ERP system.

San Diego County Regional Airport Authority FY 2006 Expenses



Nonoperating Revenues and Expenses (in thousands)

	2003	2004	2005	2006	From 2005 to 2006	
					Increase (Decrease)	% Change
PFCs	\$ 19,608	\$ 31,241	\$ 33,710	\$ 34,981	\$ 1,271	3.8%
Quieter Home Program, net	(2,355)	(1,375)	(1,582)	(908)	674	42.6%
Joint Studies Program	-	-	-	(688)	(688)	100.0%
Interest income	3,312	3,831	6,413	9,306	2,893	45.1%
Interest expense	(4,172)	(4,294)	(4,387)	(4,809)	(422)	-9.6%
Other nonoperating income (expenses)	(584)	5,530	(195)	964	1,159	-594.4%
Nonoperating revenues, net	<u>\$ 15,809</u>	<u>\$ 34,933</u>	<u>\$ 33,959</u>	<u>\$ 38,846</u>	<u>\$ 4,887</u>	<u>14.4%</u>

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 to 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 \$1.3 million in 2006 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 an Airport Improvement Program (AIP). From inception to June 30, 2006, the Authority has spent \$38,879,734 and received reimbursement for \$28,406,203.

Interest income is derived from interest earned by the Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District. Interest income increased \$2.9 million (45.1%) primarily due to increased funds available for investment and rising interest rates of return.

Interest expense includes interest paid and accrued on the Series 1995 Bonds, Series 2005 Bonds, and Series A and Series B Commercial Paper.

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 increased \$1.2 million primarily due to a reversal of contingent liabilities of \$0.8 million.

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 completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

Assets, Liabilities and Net Assets

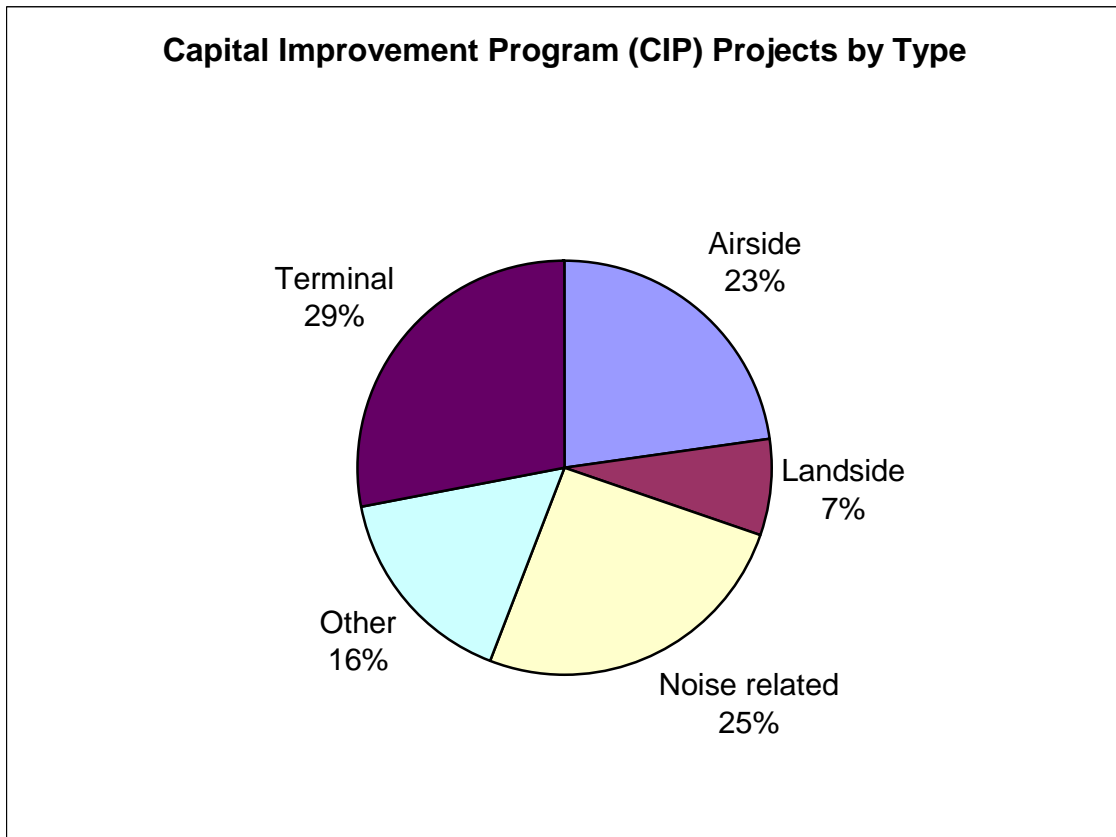
The balance sheets present the financial position of the Authority at June 30, 2006 compared to June 30, 2005, and June 30, 2004. The statements include all assets, and net assets of the Authority. A summary comparison of the Authority's assets, liabilities and net assets at June 30, 2004, 2005 and 2006 is as follows:

<i>(in thousands)</i>	2004	2005	2006
Assets			
Current assets	\$ 138,124	\$ 142,444	\$ 150,657
Capital assets, net	304,556	311,541	320,423
Noncurrent assets	64,922	80,513	101,258
Total assets	\$ 507,602	\$ 534,498	\$ 572,338
Liabilities			
Current liabilities	\$ 23,593	\$ 25,051	\$ 31,144
Long-term liabilities	116,325	113,227	107,403
Total liabilities	\$ 139,918	\$ 138,278	\$ 138,547
Net Assets			
Invested in capital assets, net of related debt	\$ 244,889	\$ 257,232	\$ 266,247
Other reserve	16,670	36,208	55,936
Unrestricted	106,125	102,780	111,608
Total net assets	367,684	396,220	433,791
Total liabilities and net assets	\$ 507,602	\$ 534,498	\$ 572,338

As of June 30, 2006, the Authority's assets exceeded liabilities by \$433.8 million, a \$37.6 million increase over June 30, 2005, and a \$28.5 million increase from 2005 to 2004. 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 \$116.5 million as of 2006 and \$102.8 million as of 2005 may be used to meet any of the Authority's ongoing obligations. As of June 30, 2006 and 2005, management has designated unrestricted funds in the amount of \$8.2 million and \$10.4 million, respectively, for capital commitments and retirement contributions. In addition, as of June 30, 2006 and 2005, management has designated unrestricted net assets of \$4.0 million for operating and insurance contingencies.

Capital Asset and 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 \$274.9 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 \$55.2 million for airside projects, \$18.7 million for landside projects, \$38.2 million for noise-related projects, \$89.1 million for terminal projects and \$73.6 million for various other projects. The current SDIA CIP does not include the master plan and related projects.



Among the larger projects undertaken during fiscal year 2006 were a variety of parking lot improvements, upgrades to gates 1 and 2 in Terminal 1, baggage screening enhancements, an engineered material arresting system for runway 27 to comply with FAA safety requirements, a retail enhancement program and the airport resource planning system.

Additional information of the Authority's capital assets can be found in Note 4 on pages 32-33 of this report.

Capital Financing and Debt Management

As of June 30, 2006, \$56.27 million in bonds and \$51.7 million in commercial paper were outstanding. In October 2005 the Authority sold \$56.27 million of San Diego County Regional Airport Authority Airport Revenue Refunding Bonds Series 2005. These refunded the outstanding Series 1995 Airport revenue bonds that 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 Series 2005 bonds are 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 the Financial Statements for more detailed information.

Additional information of the Authority's long-term debt can be found in Note 5 on pages 36-38 of this report.

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 approved for draw downs by the FAA in March 2006.

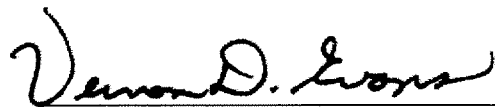
FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Authority has received approximately \$14.1 million in grant awards for the federal fiscal year ended September 30, 2006 and \$17.7 million in 2005. The 2006 awards consisted of \$1.3 million in entitlements and \$12.7 million in discretionary funds and the 2005 awards consisted of \$4.9 million in entitlements and \$12.8 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. The Finance Department can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.



Thella F. Bowens
Chief Executive Officer/President



Vernon D. Evans
Chief Financial Officer/Vice President of Finance/
Treasurer

San Diego County Regional Airport Authority

Balance Sheets

June 30, 2006 and 2005

Assets	2006	2005
Unrestricted Current Assets		
Cash and cash equivalents (Note 2)	\$ 5,998,363	\$ 9,886,189
Investments (Note 2)	14,476,312	15,986,884
Tenant lease receivables, net of allowance of 2006 \$109,063 and 2005 \$453,271	6,144,231	5,254,357
Grants receivable	7,497,765	5,385,755
Notes receivable, current portion (Note 3)	1,298,411	792,847
Inventory	224,892	204,949
Other current assets	2,833,304	2,677,334
Total unrestricted current assets	38,473,278	40,188,315
Cash and Investments Designated for Specific Capital Projects and Other Commitments (Notes 2, 7 and 11)		
	8,218,225	10,362,547
Current Restricted Assets (Notes 2 and 5)		
Restricted cash and cash equivalents, not with Trustee	53,985,944	19,856,761
Restricted investments, not with Trustee	37,945,356	61,721,772
Restricted cash and investments with Trustee	5,568,676	5,674,324
Passenger facility charges receivable	5,588,921	4,084,234
Other restricted assets	876,960	555,660
Total current restricted assets	103,965,857	91,892,751
Total current assets	150,657,360	142,443,613
Capital Assets (Note 4)		
Land and land improvements	23,581,619	23,581,619
Buildings and structures	366,782,918	335,050,139
Machinery and equipment	24,034,302	11,690,446
Runways, roads and parking areas	203,867,621	200,745,194
Construction in progress	40,175,668	47,106,955
	658,442,128	618,174,353
Less accumulated depreciation	(338,019,244)	(306,633,654)
Capital assets, net	320,422,884	311,540,699
Investments, noncurrent (Note 2)	45,002,334	21,669,682
Notes Receivable, long-term portion (Note 3)	50,561,201	51,859,612
Deferred Costs, Series 1995 Bonds, net	-	2,305,336
Deferred Costs, Series 2005 Bonds, net	774,036	-
Net Pension Asset (Note 6)	4,920,108	4,678,704
Total noncurrent assets	421,680,563	392,054,033
Total assets	\$ 572,337,923	\$ 534,497,646

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Balance Sheets, Continued
June 30, 2006 and 2005

Liabilities and Authority Net Assets	2006	2005
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	\$ 3,598,251	\$ 2,956,439
Accrued liabilities	20,763,617	17,712,703
Deposits	106,005	106,646
Compensated absences, current portion	1,397,395	1,090,019
Total current liabilities payable from unrestricted assets	25,865,268	21,865,807
Current Liabilities Payable from Restricted Assets		
Current portion Series 1995 Bonds (Note 5)	-	2,480,000
Current portion of Series 2005 Bonds (Note 5)	3,515,000	-
Accrued interest on bonds and commercial paper	1,764,184	704,800
Total current liabilities payable from restricted assets	5,279,184	3,184,800
Total current liabilities	31,144,452	25,050,607
Noncurrent Liabilities		
Commercial paper notes payable (Note 5)	51,694,000	51,694,000
Series 1995 Bonds, less current portion (Note 5)	-	58,125,000
Series 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	52,690,562	-
Deferred rent liability (Note 10)	2,250,365	2,823,181
Compensated absences, net of current portion	425,247	438,687
Tenant security deposits	342,362	146,647
Total noncurrent liabilities	107,402,536	113,227,515
Total liabilities	138,546,988	138,278,122
Commitments and Contingencies (Notes 6, 8, 10 and 11)		
Authority Net Assets		
Invested in capital assets, net of related debt (Note 1)	266,246,879	257,232,295
Other restricted (Note 1)	55,936,445	40,886,195
Unrestricted (Note 1)	111,607,611	98,101,034
Total Authority net assets	433,790,935	396,219,524
Total liabilities and Authority net assets	\$ 572,337,923	\$ 534,497,646

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Change in Authority Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues		
Airline revenue		
Landing fees	\$ 22,242,806	\$ 22,607,122
Building rentals (Note 9)	21,137,448	18,041,267
Security surcharge	7,758,983	7,799,897
Other aviation revenue	1,867,678	1,757,286
Concession revenue	29,361,976	26,552,119
Parking and ground transportation revenue	26,904,459	23,723,069
Ground rentals (Note 9)	5,505,219	5,293,605
Other operating revenue	4,716,845	2,348,954
Total operating revenues	119,495,414	108,123,319
Operating expenses		
Salaries and benefits	26,847,317	23,622,985
Contractual services (Note 11)	46,743,374	41,400,554
Space rental (Note 10)	11,353,486	10,173,580
Utilities	5,416,165	5,121,166
Maintenance	5,389,936	4,050,420
Administration	4,279,442	5,851,690
Materials and supplies	1,326,729	1,148,323
Total operating expenses before depreciation and amortization	101,356,449	91,368,718
Income from operations before depreciation and amortization	18,138,965	16,754,601
Depreciation and amortization	31,559,237	29,699,203
Operating (loss)	(13,420,272)	(12,944,602)
Nonoperating revenues (expenses)		
Passenger facility charges	34,981,343	33,709,718
Quieter Home Program, net of grant revenues of \$2,406,558	(907,897)	(1,581,920)
Joint Studies Program	(688,239)	-
Interest income	9,305,828	6,413,362
Interest expense (Note 5)	(4,809,144)	(4,387,138)
Other revenues (expenses), net	964,331	(195,156)
Nonoperating revenue, net	38,846,222	33,958,866
Income before capital grant contributions	25,425,950	21,014,264
Capital grant contributions	12,145,461	7,521,667
Change in Authority net assets	37,571,411	28,535,931
Authority net assets, beginning of year	396,219,524	367,683,593
Authority net assets, end of year	\$ 433,790,935	\$ 396,219,524

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 119,076,903	\$ 108,879,902
Payments to suppliers	(72,576,509)	(66,122,760)
Payments to employees	(26,051,600)	(23,824,545)
Other receipts	-	189,192
Net cash provided by operating activities	20,448,794	19,121,789
Cash Flows from Noncapital Financing Activities		
Settlement (payments)	-	(504,989)
Pension contribution	(513,627)	(4,900,000)
Quieter Home Program receipts	2,984,717	5,092,166
Quieter Home Program payments	(3,337,234)	(5,995,785)
Joint Studies Program payments	(24,635)	-
Net cash (used in) noncapital financing activities	(890,779)	(6,308,608)
Cash Flows from Capital and Related Financing Activities		
Capital expenditures	(39,562,547)	(31,411,109)
Proceeds from sale of capital assets	-	(3,681,634)
Federal grants received (excluding Quieter Home Program)	9,455,292	6,068,751
Proceeds from passenger facility charges	33,476,656	34,987,720
Proceeds from capital debt	65,575,243	-
Proceeds to defease 1995 capital debt	(65,575,243)	-
Payment of Series 1995 Bond principal	(2,480,000)	(2,355,000)
Interest and debt fees paid	(3,899,276)	(4,343,303)
Net cash (used in) capital and related financing activities	(3,009,875)	(734,575)
Cash Flows from Investing Activities		
Sales (purchases) of investments, net	3,905,268	(21,340,368)
Change in value of investments, net	4,165,118	2,101,773
Principal payments received on notes receivable	792,847	281,292
Interest received from notes receivable, commercial paper and bonds	4,829,984	4,275,086
Net cash provided by (used in) investing activities	13,693,217	(14,682,217)
Net increase (decrease) in cash and cash equivalents	30,241,357	(2,603,611)
Cash and cash equivalents, beginning of year	29,742,950	32,346,561
Cash and cash equivalents, end of year	\$ 59,984,307	\$ 29,742,950
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 5,998,363	\$ 9,886,189
Restricted cash and cash equivalents, not with Trustee	53,985,944	19,856,761
	\$ 59,984,307	\$ 29,742,950

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows, Continued
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	\$ (13,420,272)	\$ (12,944,602)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	31,559,237	29,699,203
Amortization of pension contribution	272,221	221,296
Bad debt (recovery) expense	(16,268)	279,898
Construction in progress write-off	461,623	-
Other operating expenses	-	189,192
Changes in assets and liabilities:		
Tenant lease receivables	(873,606)	167,908
Other current assets	(218,553)	1,656,845
Accounts payable (on noncapital items)	1,244,512	(92,485)
Accrued liabilities (on noncapital items)	1,523,706	464,148
Deposits	(641)	16,326
Deferred rent liability	(572,816)	(529,835)
Tenant security deposits	195,715	(850)
Compensated absences	293,936	(5,255)
Net cash provided by operating activities	\$ 20,448,794	\$ 19,121,789
Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	\$ 1,535,171	\$ 3,524,541

See Notes to Financial Statements.

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.

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: Accounting pronouncement GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, was effective for the Authority for year ended June 30, 2006. This Statement established accounting and financial reporting standards for impairment of capital assets. The Authority's capital assets include property, plant, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. The Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. This Statement will require the Authority to report the effects of capital asset impairment in its financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset, and to account for insurance recoveries in the same manner. The Authority's management has determined that no impairment of capital 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 the 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

Designated assets: The Authority's management may designate funds which they do not consider to be available for general operations. At June 30, 2006 and 2005, management had designated funds for specific approved capital projects and other commitments totaling \$8,218,225 and \$10,362,547, respectively.

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
Machinery and equipment	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, 2006 and 2005, accrued PFC receivables totaled \$5,588,921 and \$4,084,234 respectively, and there were \$44,550,456 and \$31,567,597 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2006 and 2005, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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 April 1, 2009.

Approximately \$349 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%.

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 accrued liabilities on the accompanying balance sheets. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

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.

San Diego County Regional Airport Authority

Notes to Financial Statements

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

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

	2006	2005
Invested in capital assets, net	\$ 213,297,359	\$ 201,547,036
Bond reserve with Trustee	5,513,529	5,614,502
Bond reserve	4,827,992	-
Commercial paper reserve	352,235	187,406
Commercial paper held by Trustee	55,147	59,821
	<u>224,046,262</u>	<u>207,408,765</u>

Bond reserves:

Operations and maintenance reserve	27,600,463	33,797,580
Operations and maintenance subaccount reserve	9,200,154	8,449,395
Revenue and replacement reserve	5,400,000	5,400,000
Debt service principal and interest	-	2,176,555
	<u>42,200,617</u>	<u>49,823,530</u>
Total invested in capital assets, net of related debt	<u>\$ 266,246,879</u>	<u>\$ 257,232,295</u>

Restricted net assets as of June 30:

	2006	2005
Passenger facility charges unapplied	\$ 44,550,456	\$ 31,567,597
Passenger facility charges receivable	5,588,921	4,084,234
Net pension asset	4,920,108	4,678,704
Owner Controlled Insurance Program (OCIP) loss reserve	876,960	555,660
Total other restricted net assets	<u>\$ 55,936,445</u>	<u>\$ 40,886,195</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:

	2006	2005
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 8)	2,000,000	2,000,000
Capital projects and other commitments (Note 11)	8,218,225	10,362,547
	<u>\$ 12,218,225</u>	<u>\$ 14,362,547</u>

Notes to Financial Statements

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

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 the Authority'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 the Authority's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, administration and materials and supplies.

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 includes cash on hand, demand deposits, commercial paper and repurchase agreements collateralized by the U.S. government or agency obligations with original maturities of three months or less from the date of acquisition.

Deferred bond costs: The 2005 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. Additionally, a bond premium was paid and, using again the straight-line method, will be amortized over the term of the bond.

Notes to Financial Statements

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

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 a pronouncement prior to June 30, 2006, that has an effective date that may impact future financial presentations.

Management is currently in the process of determining what, if any, impact implementation of the following statement may have on the financial statement of the Authority:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

It is estimated by actuarial calculations that the current nonfunded liability could be significant to the Authority. The Authority has cash and investments designated for specific capital projects and other commitments of \$2.7 million in preparation for prefunding and implementation of GASB Statement No. 45 by fiscal year 2007.

Reclassifications: Certain reclassifications have been made to the 2005 financial information in order to conform to the 2006 presentation. These reclassifications had no impact on net 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 sheets as follows at June 30:

	2006	2005
Unrestricted and undesignated, cash and cash equivalents	\$ 5,998,363	\$ 9,886,189
Unrestricted and undesignated, current investments	14,476,312	15,986,884
Unrestricted and undesignated, noncurrent investments	<u>45,002,334</u>	<u>21,669,682</u>
	<u>65,477,009</u>	<u>47,542,755</u>
Designated for specific capital projects and other commitments	<u>8,218,225</u>	<u>10,362,547</u>
Restricted:		
Bonds reserves:		
Operations and maintenance reserve	27,600,463	33,797,580
Operations and maintenance subaccount reserve	9,200,154	8,449,395
Renewal and replacement reserve	5,400,000	5,400,000
Debt service principal and interest reserve	-	2,176,555
	<u>42,200,617</u>	<u>49,823,530</u>
Passenger facility charges unapplied	44,550,456	31,567,597
Commercial paper reserve	352,235	187,406
Series 2005 Bond principal and interest payment	4,827,992	-
Total restricted	<u>91,931,300</u>	<u>81,578,533</u>
Bond guaranteed investment contract held by Trustee	5,513,529	5,614,503
Commercial paper interest held by Trustee	55,147	59,821
Total guaranteed investment contract and commercial paper interest held by Trustee	<u>5,568,676</u>	<u>5,674,324</u>
Total cash and investments	<u>\$ 171,195,210</u>	<u>\$ 145,158,159</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:

	2006	2005
Unrestricted cash and cash equivalents:		
Cash on hand	\$ 54,100	\$ 54,100
Cash in banks	19,606	1,694,019
Union Bank of California, Money Market	418,512	172,531
Zions First National Bank, Money Market	1,142,484	22,724
Zions First National Bank, Commercial Paper	4,363,661	6,644,294
Zions First National Bank, U.S. Agency Securities	-	1,298,521
Total unrestricted cash and cash equivalents	5,998,363	9,886,189
Restricted cash equivalents:		
Series 2005 Bond principal and interest payment	4,827,992	-
U.S. Bank Repurchase Agreements, net of bank overdraft	13,804,514	19,856,761
Union Bank of California, U.S. Agency Securities	14,888,500	-
Union Bank of California, Commercial Paper	20,464,938	-
Total cash and cash equivalents	59,984,307	29,742,950
Unrestricted and restricted investments:		
San Diego County Investment Pool (SDCIP)	22,185,332	36,028,052
Local Agency Investment Fund (LAIF)	11,412,249	36,304,882
Union Bank of California, Investment Portfolio	51,134,327	19,869,800
Zions First National Bank, Liquid Asset Management	20,910,319	17,538,151
Total investments	105,642,227	109,740,885
Total cash and investments, not with Trustee	165,626,534	139,483,835
Investments held by Trustee:		
Bond guaranteed investment contract held by Trustee	5,513,529	5,614,503
Commercial paper interest	55,147	59,821
Total investments held by Trustee	5,568,676	5,674,324
Total cash and investments	\$ 171,195,210	\$ 145,158,159

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%	5%
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	30%	None
Money market mutual funds	N/A	None	None
California agency indebtedness	N/A	None	None
Active deposits	N/A	10%	None
Investment agreements/Guaranteed investment contracts	N/A	None	None

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

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	None	None	None
U.S. agency securities	None	None	None
Banker's acceptances	360 days	None	None
Commercial paper	270 days	None	None
Repurchase agreements	None	None	None
Money market portfolio	None	None	None
Cash	None	None	None
Deposit accounts	None	None	None
Municipal bonds	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None
San Diego County Investment Pool (SDCIP)	None	None	None
Certificates of deposit	None	None	None
Investment agreements	None	None	None

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, 2006 and 2005 as Series 2005 and 1995 Bond collateralized investment contract held by Trustee of \$5,513,529 and \$5,614,502, respectively, and commercial paper interest held by Trustee of \$55,147 and \$59,821 respectively. The Series 2005 Bond guaranteed investment contract earns interest at 5.162% and matures on July 1, 2020.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

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. Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the entity's investments by maturity:

Investment type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Corporate notes	\$ 9,607,912	\$ 3,350,561	\$ 6,257,351	\$ -	\$ -
U.S. agency securities	51,402,538	23,691,751	10,811,253	16,899,534	-
LAIF	11,412,249	11,412,249	-	-	-
Money market fund	5,568,676	5,568,676	-	-	-
SDCIP	22,185,332	22,185,332	-	-	-
U.S. Treasury notes and bonds	11,034,196	-	4,597,381	6,436,815	-
	<u>\$ 111,210,903</u>	<u>\$ 66,208,569</u>	<u>\$ 21,665,985</u>	<u>\$ 23,336,349</u>	<u>\$ -</u>

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, 2006 for each investment type:

Investment type		Unrated	AAA*	AA*	A*	A-1*	Aa**
Corporate notes	\$ 9,607,912	\$ -	\$ 1,952,860	\$ 4,304,491	\$ 999,730	\$ 1,200,420	\$ 1,150,411
U.S. agency securities	51,402,538	2,989,110	48,413,428	-	-	-	-
LAIF	11,412,249	11,412,249	-	-	-	-	-
Money market fund	5,568,676	-	55,147	-	-	5,513,529	-
SDCIP	22,185,332	22,185,332	-	-	-	-	-
U.S. Treasury notes and bonds	11,034,196	11,034,196	-	-	-	-	-
	<u>\$ 111,210,903</u>	<u>\$ 47,620,887</u>	<u>\$ 50,421,435</u>	<u>\$ 4,304,491</u>	<u>\$ 999,730</u>	<u>\$ 6,713,949</u>	<u>\$ 1,150,411</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
U.S. Treasury	U.S. Treasury notes and bonds	\$ 11,034,196	9.92
Federal Home Loan Bank	U.S. agency securities	22,890,656	20.58
Freddie Mac	U.S. agency securities	9,521,617	8.56
Fannie Mae	U.S. agency securities	10,978,493	9.87
		<u>\$ 54,424,962</u>	<u>48.93</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.

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% through December 31, 2005. The note requires monthly interest-only payments through 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. On October 3, 2005, the Board authorized the District to issue an \$8 million promissory note in favor of Carnival Corporation on parity with the \$50 million note. At June 30, 2006 and 2005, the note had a value of \$49,503,573 and \$50,000,000, respectively. The current portion recorded on the note for the year ended June 30, 2006 and 2005 was \$986,049 and \$496,427, respectively.

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, 2006 and 2005, the note receivable is recorded at a value of \$2,356,039 and \$2,652,459, respectively. The current portion for the year ended June 30, 2006 and 2005 was \$312,362 and \$296,420, respectively.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 3. Notes Receivable, Continued

The required principal payments (in thousands) for the notes receivable for fiscal years ending June 30 are as follows:

Years Ending June 30,

2007	\$ 1,298,000
2008	1,363,000
2009	1,447,000
2010	1,528,000
2011	1,613,000
2012-2016	7,861,000
2017-2021	9,540,000
2022-2026	12,554,000
2027-2031	14,655,000
	<u>\$ 51,859,000</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2005	Increases	Decreases	Balance at June 30, 2006
Nondepreciable assets:				
Land	\$ 22,452,007	\$ -	\$ -	\$ 22,452,007
Construction in progress	47,106,955	40,330,299	(47,261,586)	40,175,668
Total nondepreciable assets	69,558,962	40,330,299	(47,261,586)	62,627,675
Depreciable assets:				
Land improvements	1,129,612	-	-	1,129,612
Buildings and structures	335,050,139	31,840,305	(107,526)	366,782,918
Machinery and equipment	11,690,446	12,343,856	-	24,034,302
Runways, roads and parking lots	200,745,194	3,122,427	-	203,867,621
Total capital assets being depreciated	548,615,391	47,306,588	(107,526)	595,814,453
Less accumulated depreciation for:				
Land improvements	(945,223)	(157,498)	-	(1,102,721)
Building and structures	(180,125,862)	(19,498,858)	70,392	(199,554,328)
Machinery and equipment	(8,481,512)	(2,474,836)	-	(10,956,348)
Runaways, roads and parking lots	(117,081,057)	(9,324,790)	-	(126,405,847)
Total accumulated depreciation	(306,633,654)	(31,455,982)	70,392	(338,019,244)
Total capital assets being depreciated, net	241,981,737	15,850,606	(37,134)	257,795,209
Capital assets, net	\$ 311,540,699	\$ 56,180,905	\$ (47,298,720)	\$ 320,422,884

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets, Continued

	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	41,766,482	40,634,279	(12,841,799)	69,558,962
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	541,100,232	11,285,551	(3,770,392)	548,615,391
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)
Runways, roads and parking lots	(107,672,740)	(9,408,317)	-	(117,081,057)
Total accumulated depreciation	(278,311,034)	(29,502,595)	1,179,975	(306,633,654)
Total capital assets being depreciated, net	262,789,198	(18,217,044)	(2,590,417)	241,981,737
Capital assets, net	\$ 304,555,680	\$ 22,417,235	\$ (15,432,216)	\$ 311,540,699

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:

	Balance at June 30, 2005	Additions/ Issuances	Reductions/ Repayments	Balance at June 30, 2006	Due within One Year
Debt obligations:					
Bonds payable:					
Series 1995 Bonds	\$ 60,605,000	\$ -	\$(60,605,000)	\$ -	\$ -
Series 2005 Bonds	-	56,270,000	-	56,270,000	3,515,000
Less deferred amounts:					
Bond premium	-	3,333,301	(151,514)	3,181,787	-
Deferred refunding costs	-	(3,400,808)	154,583	(3,246,225)	-
Total bonds payable	60,605,000	56,202,493	(60,601,931)	56,205,562	3,515,000
Commercial paper	51,694,000	-	-	51,694,000	-
Total debt obligations	112,299,000	56,202,493	(60,601,931)	107,899,562	3,515,000
Compensated absences	1,528,706	1,691,331	(1,397,395)	1,822,642	1,397,395
Long-term liabilities	\$ 113,827,706	\$ 57,893,824	\$ (61,999,326)	\$ 109,722,204	\$ 4,912,395
	Balance at June 30, 2004	Additions/ Issuances	Reductions/ Repayments	Balance at June 30, 2005	Due within One Year
Debt obligations:					
Series 1995 Bonds	\$ 62,960,000	\$ -	\$(2,355,000)	\$ 60,605,000	\$ 2,480,000
Commercial paper	51,694,000	-	-	51,694,000	-
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	\$ 116,187,961	\$ 1,216,153	\$ (3,576,408)	\$ 113,827,706	\$ 3,570,019

Notes to Financial Statements

Note 5. Debt, Continued

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 2005 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, 2006 became due on July 31, 2006, 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, 2006 and 2005 amounted to \$1,548,877 and \$899,417, including accrued interest of \$352,234 and \$181,578, respectively.

At June 30, 2006 and 2005, the principal amount outstanding for Series A was \$22,134,000 with an average annual interest rate of 2.58% and 1.76%, respectively, and the principal amount outstanding for Series B Commercial Paper was \$29,560,000 with an average annual interest rate of 2.34% and 1.73% 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, 2006 and 2005, the amount held by the trustee was \$55,147 and \$59,821, respectively, and the amount reserved by the Authority was \$352,235 and \$187,406, 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 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 2005 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 4.0% to 5.5% and the term bonds bear interest at 5.0% to 5.375%. Interest expense for the year ending June 30, 2005 amounted to \$3,177,796, including accrued interest of \$523,222 at June 30, 2005. Interest expense for the year ending June 30, 2006 amounted to \$1,129,858. At June 30, 2005, the principal amount outstanding was \$60,605,000. These bonds were refunded with the Series 2005 Airport Revenue Refunding Bonds.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt, Continued

Current refunding: The Authority issued \$56,270,000 in Airport Revenue Refunding Bonds, Series 2005 for a current refunding of \$58,125,000 of Airport Revenue Bonds, Series 1995. The reacquisition price exceeded the net carrying amount of the old debt by \$3,400,808. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the old debt, which is the same as the old debt's life. The transactions also resulted in an economic gain of \$2,346,385 and a reduction of \$4,338,082 in future debt service payments. The Series 2005 Bonds issued in the aggregate principal amount of \$56,270,000 were structured as serial bonds that bear interest at rates ranging from 4.5% to 5.25% and mature in fiscal years 2007 to 2021. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the year ending June 30, 2006 amounted to \$1,819,847 including accrued interest of \$1,411,950 at June 30, 2006.

The Series 2005 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 2005 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 2005 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, 2006, the amount held by the trustee was \$5,513,529. An additional amount of \$4,827,992 is being held at June 30, 2006 for the July 1 payment. The amount reserved by the Authority totaled \$47,127,567. 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, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2005 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>
2007	\$ 3,515,000	\$ 2,744,813	\$ 6,259,813
2008	2,670,000	2,598,975	5,268,975
2009	2,805,000	2,462,100	5,267,100
2010	2,950,000	2,318,225	5,268,225
2011	3,105,000	2,166,850	5,271,850
2012-2016	18,080,000	8,291,070	26,371,070
2017-2021	23,145,000	3,164,568	26,309,568
	<u>\$ 56,270,000</u>	<u>\$ 23,746,601</u>	<u>\$ 80,016,601</u>

Compensated absences: 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. 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 15.41%, expressed as a percentage of covered payroll.

Annual pension cost: For the years ended June 30, 2006 and 2005, the annual pension cost was \$4,700,369 and \$4,414,239, 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 4.25%, 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%. On June 21, 2005, the Authority made an additional contribution of \$1,000,000. During the year ended June 30, 2006, the Authority made an additional contribution of \$513,627. As of June 30, 2006, \$791,000 was recorded as designated cash and investments pending Board approval for funding to achieve the desired funding ratio of 90%. At June 30, 2006 and 2005, the total contribution of \$5,413,627 and \$4,900,000, respectively, less amortization of \$493,519 and \$221,296, respectively, is recorded as a net pension asset of \$4,920,108 and \$4,678,704, respectively. The contributions are being amortized over an 18-year period.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 6. Defined Benefit Plan and Subsequent Event, Continued

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	Net Pension Asset
06/30/03 ⁽¹⁾	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	(4,679)
6/30/05	28,551	32,603	4,052	87.6	17,609	23.0	4,700	(4,920)

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

Note 7. 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.

Notes to Financial Statements

Note 8. Risk Management and Subsequent Events

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 million 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.

Insurance coverage for earthquake and all risk property was reduced from fiscal year 2006 coverage due to changes in the insurance marketplace. Significant catastrophic events created problems regarding cost and the availability of limits in the marketplace. In past years, the Authority purchased \$45 million in earthquake coverage on a stand-alone basis. Effective July 1, 2006, due to restrictions in the marketplace, the Authority began participation in a \$50 million shared limit earthquake program with the City of Santa Barbara and the District. The Authority is currently analyzing alternative methods to assess exposure, if any.

The Authority is currently seeking all risk insurance coverage in the range of \$500 million to \$1 billion. Due to the insurance marketplace limitation, the Authority accepted \$350 million in coverage. The Authority is continuing to seek excess coverage above the \$350 million limit.

The Authority has an active loss prevention program, staffed by a full-time risk manager, two risk analysts, 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.

Note 9. 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.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 9. Lease Revenues, Continued

The future rental commitment under the above operating lease receivable agreements as of June 30 are due as follows:

<u>Years Ending June 30,</u>	
2007	\$ 5,201,000
2008	4,559,000
2009	3,970,000
2010	3,640,000
2011	3,640,000
2012-2016	6,079,000
2017-2021	107,000
	<u>\$ 27,196,000</u>

Note 10. Lease Commitments

General Dynamics lease: 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). The amended lease agreement calls for rent payments of \$6,750,000 annually through December 31, 2068. The Authority will receive a credit for \$375,000 in reduced rent based on a previous lease agreement for the property in September 2006. The changes in terms for this lease were approved by the Authority's board on July 25, 2006. 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.

SDIA lease: The Authority is leasing from the District 480 acres of land on North Harbor Drive for \$1 per year, for 66 years, through December 31, 2068.

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 fiscal year 2005.

Other district leases: The Authority leases from the District three additional properties adjacent to SDIA. These properties require monthly rentals of \$86,083, \$12,521 and \$4,589 and expire in December 2013, December 2013 and April 2012, respectively. The Authority received credits of \$106,452 in reduced rent based on previous lease agreements for the properties during fiscal year 2006.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 10. Lease Commitments, Continued

On July 24, 2006, the Authority's Board approved a lease with the San Diego Unified Port District for the property located at 2415 Winship Lane known as the Sky Chef property. The term of the lease is 60 years with \$350,000 annual rent and commenced September 1, 2006.

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

Building lease: The Authority leases modular buildings from an unrelated third party that requires monthly rentals of \$17,105 through July 2007 and \$15,205 through October 2008.

Deferred rent (benefit) liability: The Authority accrues rent expense for their 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 leases is recorded as a deferred rent liability of \$2,250,365 and \$2,823,181 as of June 30, 2006 and 2005, respectively. The accumulated benefit (accrued liability) is expected to decrease gradually over the remaining 62 years. The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

Years Ending June 30,

2007	\$ 11,483,000
2008	11,523,000
2009	11,414,000
2010	11,338,000
2011	11,338,000
2012-2016	53,504,000
2017-2021	50,500,000
2022-2026	50,500,000
2027-2031	50,500,000
2032-2036	50,500,000
2037-2041	50,500,000
2042-2046	50,500,000
2047-2051	50,500,000
2052-2056	50,500,000
2057-2061	50,500,000
2062-2066	50,500,000
2067-2069	25,250,000
	<u>\$ 640,850,000</u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 10. Lease Commitments, Continued

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

	<u>2006</u>	<u>2005</u>
Rental payments made	\$ 11,926,302	\$ 10,173,580
(Decrease) in accumulated benefit of reduced rents	(572,816)	(529,835)
	<u>\$ 11,353,486</u>	<u>\$ 9,643,745</u>

Note 11. Commitments and Contingencies and Subsequent Events

Commitments: As of June 30, 2006 and 2005, 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 primarily 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, 2006 and 2005, these noncurrent funds totaled \$8,218,225 and \$10,362,547, 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, 2006 and 2005, the Authority expensed \$11,351,476 and \$11,729,940, respectively, for these services.

Notes to Financial Statements

Note 11. Commitments and Contingencies and Subsequent Events, Continued

- iii. Major contracts—During 2006 the Authority board approved a contract with DMJM Aviation for \$37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. At June 30, 2006, approximately \$2.4 million had been spent and the remaining contract is due to be completed during fiscal year 2011. 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. Ricondo & Associates were also approved for the Site Selection project for \$13.4 million of which \$7.7 million remained at June 30, 2006. At June 30, 2006, approximately \$3.1 million had been spent and the remaining contract is due to be completed during fiscal year 2007. Additionally, at July 9, 2006, the Authority board approved contracts with FCI for \$12.6 million for resurfacing taxiways.
- iv. Postretirement Healthcare Benefits—In addition to the pension benefits described in Note 6, 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 is in the process of analyzing the financial effect of implementing this Statement to its financial statements. As of June 30, 2006, the Authority has recorded \$2.7 million in designated cash and investments in anticipation to prefund this potential liability.
- 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.

Contingencies: As of June 30, 2006, 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.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

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, 2006, the program had cumulatively expended \$38,879,734.

The term of the Eighth Variance Agreement was due to expire on August 27, 2004; however, pursuant to state regulation, the term was automatically continued because the Authority submitted a timely 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 the State. A hearing date has been set for December 12, 2006.

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.

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, 2006.

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 \$.5 million and received \$3.6 million. As of June 30, 2006, a total of approximately \$3.4 million was paid out from settlement funds. In August 2006, a final retention payment in the amount of \$81,586 was paid out from settlement funds.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

Tenant bankruptcies: Delta Air Lines, Inc. and Northwest Airlines filed bankruptcy September 14, 2005. These two airlines combined represent 14% and 16% of the total airline revenues for fiscal years ended 2006 and 2005, respectively. The Authority currently has letters of credit on both of the airlines totaling \$1.8 million, which are available for drawing down for either prepetition or postpetition debt. The outstanding tenant lease receivable balance as of June 30, 2006 and 2005 totaled \$293,000 and \$148,700, respectively, for Delta Air Lines, Inc. and \$246,000 and \$157,000, respectively, for Northwest Airlines. The letters of credit expire in November 2006 and includes a provision to be automatically extended for one year through November 2007. 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.

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. On January 5, 2006, TDY Industries, Inc. lost an appeal for this judgment, and paid the District the full amount of \$9,770,393 plus interest in the amount of \$171,629 for a total of \$9,942,022. Under the Settlement Agreement between the Authority and the District, the award for demolition and environmental abatement costs plus the interest received is required to be used for demolition on cleanup of the Property. Through a mediator hired by the litigants in the second action described below, proposals for demolition of the improvements on the property have been received from three qualified companies with proposed contract costs ranging from a low of \$9.75 million to \$10.24 million to a high of \$13.56 million, reflecting that the amount on deposit with the Port District from the state court judgment may be sufficient to cover the costs of demolition of the improvements and abatement on the site if the low proposer is selected to perform the work.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

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.

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 from the judgment, originally totaling \$9,942,022, for abatement costs to the Authority to remediate the Property, on a reimbursement basis. 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) have completed lay discovery and the court has stayed all expert discovery while the parties participate in mediation. A trial date was set for late May 2006. However, that date has been vacated by the trial court while the parties participate in mediation. The original trial date for late May 2006 was vacated by the court early in 2006. However, the court has reset the trial date for May 1, 2007 while continuing to order the parties to participate in mediation. If the mediation is unsuccessful, the trial will go forward as scheduled. If the case goes to trial and should the net amount awarded to the District and the Authority be insufficient to cover the costs associated with demolition of the buildings and remediation of the site, the District and the Authority shall equally pay any remaining expenses.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

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. There is no evidence that the Authority is responsible for contamination on the site or in the Convair Lagoon. The General Counsel does not anticipate that the Water Quality Board would grant a request to add the Authority as a party to the administrative case.

Jimsair Aviation Services v. San Diego County Regional Airport Authority: (FAA Docket No. 16-06-08):

Jimsair filed a complaint with the Federal Aviation Administration (FAA) alleging that the Authority violated certain provisions of its grant assurances. Jimsair alleges that the Authority violated grant assurances by (1) unreasonably refusing to conduct good faith negotiations of its lease with Jimsair, (2) refusing to make a good faith effort to allow an additional FBO on the airport, (3) inverting the airport master planning process in contravention of established procedures, (4) imposing on Jimsair unreasonable and irrelevant requirements as conditions of airport use and (5) allowing other commercial activates making the same or similar use of the Airport as Jimsair to operate on demonstrably different terms and conditions. Jimsair asks that the FAA withhold all federal funding from the Authority, the Authority be ordered to conduct good faith negotiations with Jimsair to improve and expand its facility at SDIA, the Authority cease imposing unreasonable conditions of airport use on Jimsair and the Authority enter into a lease or operating agreement with all entities providing ground handling and related services at the Airport on terms comparable to those imposed on Jimsair. The Authority has filed a motion to strike and asked the FAA to dismiss the complaint on the basis that it is in full compliance with all applicable grant assurances. 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 this case.

Jimsair Aviation Services v. San Diego County Regional Airport Authority: (San Diego County Superior Court Case No. GIC 865099): Jimsair filed a complaint in state court against the Authority alleging (1) inverse condemnation, (2) breach of contract, (3) breach of implied covenant of good faith and fair dealing and (4) breach of covenant of quiet enjoyment. In the action, Jimsair seeks the following: (1) permanent and preliminary injunction enjoining the Authority from (a) competing out the FBO lease through an RFQ process, (b) competing out the FBO lease prior to the adoption of the Master Plan, (c) excluding Jimsair from participating in the RFQ, (d) refusing to negotiate the terms of Jimsair's lease; (2) a peremptory writ of mandate to set aside the Authority's decision to undertake an RFQ process for an FBO at SDIA; (3) declaration that the lease between the Authority and Jimsair cannot be terminated to replace Jimsair with another FBO and that the Authority is obligated to negotiate with Jimsair for a lease extension; (4) order the Authority to pay just compensation for the inverse condemnation of Jimsair leasehold interest; and (5) monetary damages and attorneys fees. The Authority categorically denies each and every allegation and has filed a demurrer and motion to strike, and in the alternative, a motion to stay the proceedings until the FAA has made a finding on the Part 16 complaint on the ground that the issues raised in the state court case are inextricably intertwined with the issues that must be resolved by the FAA in the Part 16 case. 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 this case.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Commitments and Contingencies and Subsequent Events, Continued

Former employee v. San Diego County Regional Airport Authority: (San Diego Superior Court Case No. GIC 871979): A former employee filed a complaint against the Authority alleging violation of (1) California Labor Code Section 1102.5; San Diego County Regional Airport Authority Code of Ethics section 1.01 et seq., (3) right to privacy and (4) wrongful discharge. The plaintiff seeks monetary damages “according to proof” and attorneys fees. The Authority will file a demurrer and motion to strike. 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 this case.

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.

Statistical Section

(unaudited)



- Authority Operating Revenues and Expenses
- Authority Net Assets by Component
- Authority Change in Net Assets
- Authority Landing Fee Rate
- Authority Largest Sources of Revenues
- Authority Employee Strength
- Population and Economic Metrics
- Principal Employers in San Diego County
- Aircraft Operations (Takeoffs and Landings)
 - Landed Weights
 - Passenger Enplanements
- Year over Year Percent Growth in Passenger Enplanements
- Enplanement Market Share by Airline by Fiscal Year
- Revenue Bond Debt Service Coverage
- Revenue Bond Debt per Enplaned Passenger

Exhibit S-1

Authority Operating Revenues and Expenses (\$000)

Operating Revenues	2004	2005	2006	% Change
Airline Revenue				
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	(1.6%)
Building rentals	19,511	18,041	21,137	17.2%
Security surcharge	-	7,800	7,759	(0.5%)
Other aviation revenue	1,812	1,757	1,868	6.3%
Concession revenue	24,571	26,552	29,362	10.6%
Parking and ground transportation revenue	21,986	23,723	26,904	13.4%
Ground rentals	4,269	5,294	5,505	4.0%
Other operating revenue	1,549	2,349	4,717	100.8%
Total Operating Revenues	\$ 96,572	\$ 108,123	\$ 119,495	10.5%

Operating Expenses	2004	2005	2006	% Change
Salaries and benefits	\$ 21,955	\$ 23,623	\$ 26,847	13.6%
Contractual services	32,912	41,401	46,743	12.9%
Space rental	8,826	10,174	11,353	11.6%
Utilities	4,914	5,121	5,416	5.8%
Maintenance	5,343	4,050	5,390	33.1%
Administration	6,230	5,852	4,279	(26.9%)
Materials and supplies	1,453	1,148	1,328	15.7%
Total Operating Expenses	\$ 81,633	\$ 91,369	\$ 101,356	10.9%

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-2

Authority Net Assets By Component (\$000)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Invested in capital assets, net of related debt	\$ 244,889	\$ 257,232	\$ 266,247
Other restricted	16,670	40,886	55,936
Unrestricted	106,125	98,101	111,608
Total Net Assets	<u>\$ 367,684</u>	<u>\$ 396,219</u>	<u>\$ 433,791</u>

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-3

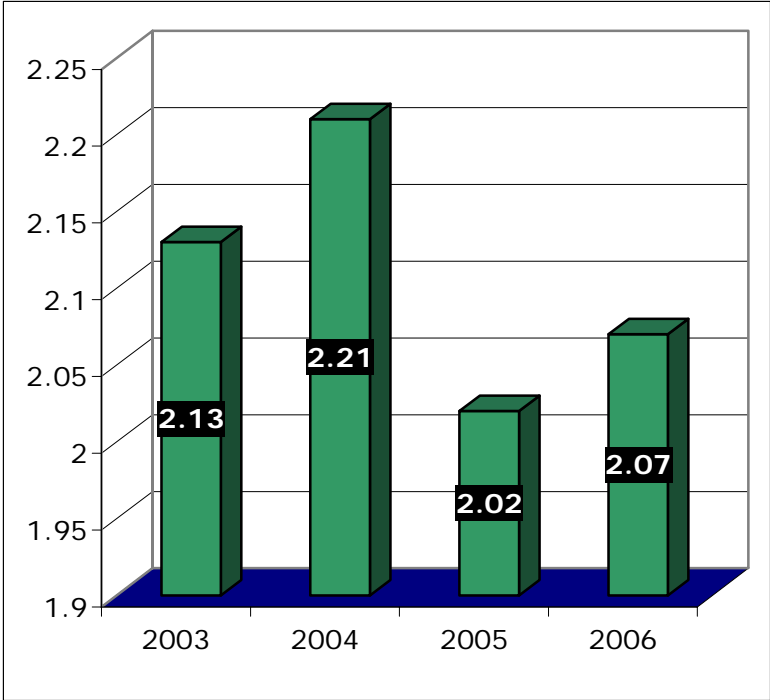
Authority Change in Net Assets (\$000)

	2004	2005	2006	% Change
Operating revenues:				
Airline Revenue:				
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	(1.6%)
Building rentals	19,511	18,041	21,137	17.2%
Security surcharge	-	7,800	7,759	(0.5%)
Other aviation revenue	1,812	1,757	1,868	6.3%
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Utilities	4,914	5,121	5,416	5.8%
Maintenance	5,342	4,050	5,390	33.1%
Administration	6,231	5,852	4,279	(26.9%)
Materials and supplies	1,453	1,148	1,327	15.6%
Total operating expenses before depreciation and amortization	81,633	91,369	101,356	10.9%
Income from operations before depreciation and amortization	14,939	16,754	18,139	8.3%
Depreciation and amortization	32,993	29,699	31,559	6.3%
Operating (loss)	(18,054)	(12,945)	(13,420)	3.7%
Nonoperating revenues (expenses):				
Passenger facility charges	31,241	33,710	34,981	3.8%
Quieter Home Program, net	(1,375)	(1,582)	(908)	(42.6%)
Joint Studies Program	-	-	(688)	100.0%
Interest income	3,831	6,413	9,306	45.1%
Interest expense	(4,294)	(4,387)	(4,809)	9.6%
Other revenues (expenses), net	5,530	(195)	964	(594.4%)
Nonoperating revenue, net	34,933	33,959	38,846	14.4%
Income before capital grant contributions	16,879	21,014	25,426	21.0%
Capital grant contributions	5,033	7,522	12,145	61.5%
Change in Authority net assets	21,912	28,536	37,571	31.7%
Authority net assets, beginning of year	345,772	367,684	396,220	7.8%
Authority net assets, end of year	\$367,684	\$ 396,220	\$ 433,791	9.5%

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-4

Authority Landing Fee Rate (\$ per 1,000 lbs.)



Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Landing fees are the revenues from passenger and cargo carriers for commercial aircraft landings at SDIA.

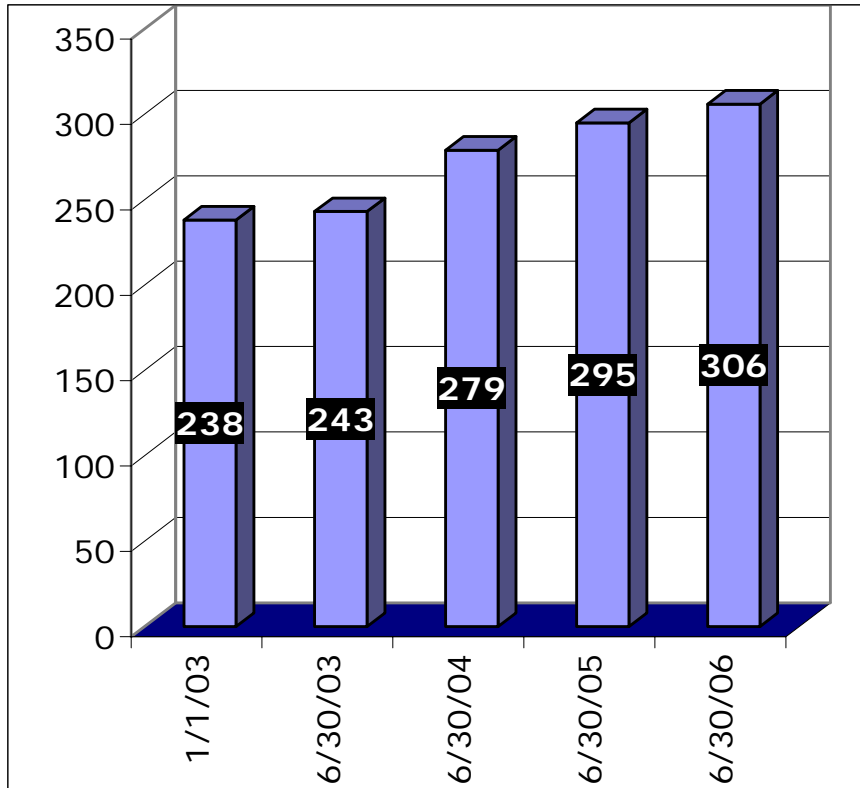
Exhibit S-5
Authority Largest Sources of Revenues (\$)

Tenant	Revenues			% of Total Operating Revenue
	2004	2005	2006	
Southwest Airlines	\$ 10,692,447	\$ 12,767,378	\$ 13,464,404	11.18%
Host International	7,106,523	8,038,435	9,147,356	7.60%
American Airlines	7,772,143	8,472,274	10,191,557	8.46%
United Airlines	4,989,506	5,877,927	5,717,234	4.75%
Hertz Rent-A-Car	4,901,573	5,316,755	5,979,512	4.97%
Delta Airlines	4,774,243	5,010,848	4,876,095	4.05%
Cendant Car Rental Group	3,103,562	4,966,532	6,002,357	4.99%
Alaska Airlines	2,027,193	2,400,679	2,464,162	2.05%
Northwest Airlines	1,944,832	2,116,996	2,185,926	1.82%
Continental Airlines	1,849,721	2,123,291	2,364,096	1.96%
Enterprise Rent-A-Car	858,956	1,084,031	2,888,849	2.40%

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-6

Authority Employee Strength (Full Time Equivalents)



Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-7

Population and Economic Metrics - San Diego County (2000-2006)

Calendar Year	Estimated Population ^[1]	% Change	Per Capita		Labor		Unemployed ^[3]	Unemployment Rate ^[3]
			Personal Income ^[2]	% Change	Force ^[3]	Employed ^[3]		
2000	2,813,833	(1.5%)	\$ 32,803	8.5%	1,376,649	1,322,676	53,973	3.9%
2001	2,864,462	1.8%	\$ 33,933	3.4%	1,408,485	1,349,592	58,893	4.2%
2002	2,921,390	2.0%	\$ 34,915	2.9%	1,447,495	1,373,123	74,372	5.1%
2003	2,972,932	1.8%	\$ 35,841	2.7%	1,467,353	1,391,093	76,260	5.2%
2004	3,011,244	1.3%	\$ 37,965	5.9%	1,490,333	1,420,041	70,292	4.7%
2005	3,039,277	0.9%	n/a	n/a	1,505,285	1,440,541	64,744	4.3%
2006	3,066,820	0.9%	n/a	n/a	n/a	n/a	n/a	n/a

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

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

[3] U.S. Department of Labor, Bureau of Labor Statistics - Labor Force Data by County

Exhibit S-8

Principal Employers in San Diego County - 2006

	Employer	Local Employees	Product or Service
1	U.S. Navy	42,000 Military	Government
1	U.S. Navy	7,000 Civilian	Government
2	U.S. Federal Government	38,700	Government
3	State of California	37,100	Government
4	University of California, San Diego	24,790	Education
5	San Diego Unified School District	21,073	Education
6	City of San Diego	20,700	Government
7	County of San Diego	18,900	Government
8	Sharp Health Care	13,269	Health Care
9	U.S. Postal Service	11,611	Government
10	Scripps Health	10,313	Health Care

Source: San Diego Daily Transcript Source Book 2006

Exhibit S-9

Aircraft Operations (Takeoffs and 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
2006	154,005	53,509	7,628	542	215,684

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

Aircraft operations are the takeoffs and landings at SDIA.
They represent the level of demand for air service by the airlines operating at SDIA.

Exhibit S-10

Landed Weights (Thousand pounds)

Airline ^[1]	FY 2000		FY 2001		FY 2002		FY 2003		FY 2004		FY 2005		FY 2006	
	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share	Landed Weights	Share
Southwest	3,122,576	28.4%	3,211,567	28.5%	3,128,635	29.4%	3,286,030	30.3%	3,418,786	31.9%	3,570,052	31.9%	3,768,374	33.7%
United	1,600,038	14.5%	1,517,050	13.5%	1,294,795	12.2%	1,234,404	11.4%	1,192,898	11.1%	1,278,347	11.4%	1,269,465	11.4%
American	1,275,787	11.6%	1,192,778	10.6%	1,257,128	11.8%	1,231,431	11.4%	1,045,382	9.8%	1,009,498	9.0%	1,089,872	9.7%
Delta	990,825	9.0%	976,869	8.7%	997,061	9.4%	1,051,990	9.7%	963,140	9.0%	927,763	8.3%	850,348	7.6%
America West	520,833	4.7%	598,551	5.3%	504,567	4.7%	500,867	4.6%	587,754	5.5%	628,594	5.6%	619,322	5.5%
Alaska Airlines	571,665	5.2%	587,451	5.2%	570,659	5.4%	568,499	5.2%	574,698	5.4%	605,435	5.4%	616,552	5.5%
Continental	445,770	4.1%	420,365	3.7%	401,283	3.8%	423,145	3.9%	441,702	4.1%	454,189	4.1%	497,929	4.5%
Northwest	328,795	3.0%	405,496	3.6%	350,966	3.3%	385,725	3.6%	352,928	3.3%	363,268	3.2%	315,608	2.8%
American Eagle	247,576	2.3%	318,164	2.8%	252,448	2.4%	271,184	2.5%	341,205	3.2%	335,439	3.0%	338,424	3.0%
US Airways	338,437	3.1%	447,146	4.0%	425,417	4.0%	307,783	2.8%	307,919	2.9%	298,983	2.7%	250,303	2.2%
Skywest	204,558	1.9%	216,685	1.9%	178,431	1.7%	233,991	2.2%	239,521	2.2%	247,215	2.2%	251,902	2.3%
Frontier Airlines	84,024	0.8%	111,024	1.0%	117,535	1.1%	127,679	1.2%	142,867	1.3%	174,583	1.6%	176,455	1.6%
Hawaiian	-	-	6,576	0.1%	128,759	1.2%	117,934	1.1%	135,040	1.3%	145,920	1.3%	145,920	1.3%
Mesa	-	-	-	-	7,191	0.1%	69,207	0.6%	53,856	0.5%	144,353	1.3%	146,126	1.3%
JetBlue	-	-	-	-	-	-	-	-	144,191	1.3%	123,145	1.1%	174,337	1.6%
Others	598,091	5.4%	534,818	4.7%	348,345	3.3%	368,528	3.4%	133,440	1.2%	183,114	1.6%	183,114	1.6%
Subtotal	10,328,975	93.9%	10,544,540	93.5%	9,963,220	93.8%	10,178,397	93.9%	10,075,327	94.0%	10,489,898	93.8%	10,694,051	93.7%
Cargo														
Federal Express	238,982	2.2%	250,906	2.2%	301,457	2.8%	341,374	3.1%	343,931	3.2%	384,702	3.4%	445,744	3.9%
United Parcel	70,400	0.6%	106,004	0.9%	109,033	1.0%	113,867	1.1%	109,421	1.0%	108,463	1.0%	112,412	1.0%
ABX Air	63,433	0.6%	66,552	0.6%	63,021	0.6%	68,544	0.6%	69,360	0.6%	70,140	0.6%	69,734	0.6%
Emery Air Freight (Menlo)	183,760	1.7%	161,187	1.4%	77,802	0.7%	54,740	0.5%	40,972	0.4%	44,219	0.4%	34,634	0.3%
DHL Airways, Inc (ASTAR)	-	-	-	-	37,249	0.4%	40,960	0.4%	40,640	0.4%	41,600	0.4%	16,800	0.1%
Others	117,251	1.1%	146,047	1.3%	74,636	0.7%	43,259	0.4%	36,085	0.3%	41,008	0.4%	41,008	0.4%
Subtotal	673,826	6.1%	730,696	6.5%	663,198	6.2%	662,744	6.1%	640,409	6.0%	690,132	6.2%	720,332	6.3%
Total	11,002,801	100.0%	11,275,236	100.0%	10,626,419	100.0%	10,841,141	100.0%	10,715,735	100.0%	11,180,029	100.0%	11,414,382	100.0%
Annual % Change			2.5%		(5.8%)		2.0%		(1.2%)		4.3%		2.1%	

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

[1] Charter airlines are included in the landed weights of the carriers that service them and represented 0.2% in FY 2006.

Landed weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual.

Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at SDIA.

Exhibit S-11

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%
2006	8,749,734	3.6%

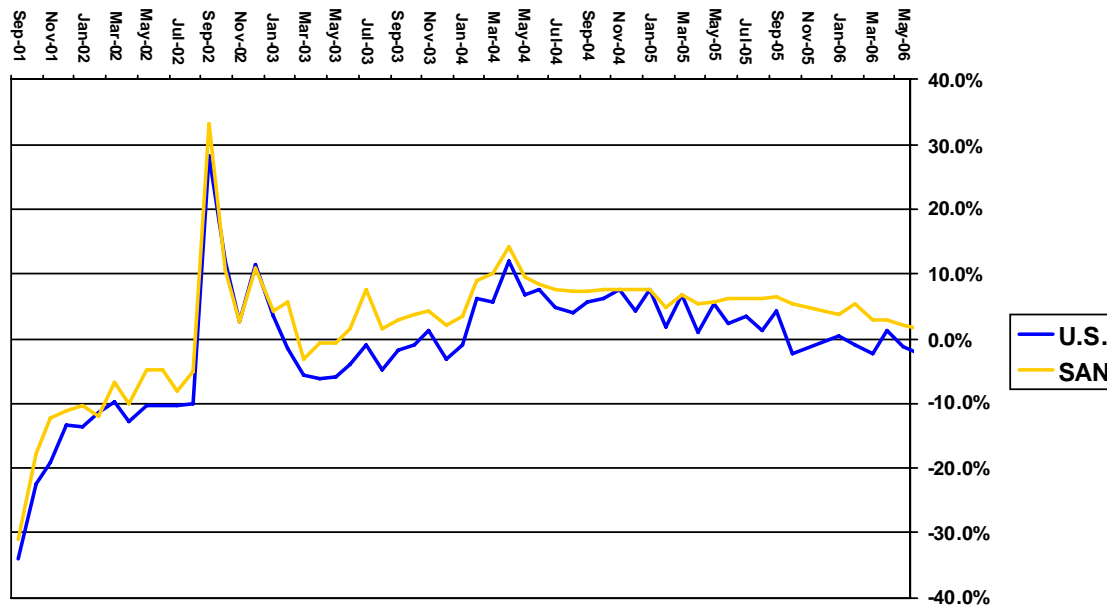
Source: San Diego Unified Port District and the San Diego County Regional Airport Authority

Enplaned passenger is any passenger boarding at the Airport, including any passenger that previously disembarked from another aircraft (i.e. connecting flight passenger).

Enplaned passengers is a way of measuring the level of demand for service at the Airport.

Exhibit S-12

Year over Year Percent Growth in Passenger Enplanements, SDIA vs. US



This compares SDIA's enplanement year over year enplanement growth compared to the U.S. scheduled mainline service.

Exhibit S-13

Enplanement Market Share by Airline by Fiscal Year

Air Carrier	2000		2001		2002		2003		2004		2005		2006		% Change 2005 vs. 2006
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	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%	58,969	0.7%	19.2%
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%	492,891	5.6%	3.5%
Aloha	-	-	-	-	-	-	-	-	-	-	29,051	0.3%	41,882	0.5%	44.2%
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%	451,904	5.2%	(3.2%)
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%	968,832	11.1%	10.2%
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%	454,699	5.2%	13.2%
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%	666,101	7.6%	(6.7%)
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%	171,544	2.0%	12.2%
Hawaiian	-	-	4,414	0.1%	78,610	1.1%	81,393	1.1%	101,847	1.3%	108,798	1.3%	112,410	1.3%	3.3%
Jet Blue	-	-	-	-	-	-	706	0.0%	119,517	1.5%	118,762	1.4%	161,594	1.8%	36.1%
Mesa	-	-	-	-	5,718	0.1%	51,090	0.7%	42,235	0.5%	114,010	1.3%	117,330	1.3%	2.9%
Midwest Airlines	-	-	-	-	-	-	-	-	-	-	-	-	18,688	0.2%	-
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%	292,393	3.3%	(8.6%)
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%	2,979,763	34.1%	4.0%
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%	41,091	0.5%	50.3%
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%	989,744	11.3%	0.7%
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%	212,622	2.4%	(15.5%)
Other	253,650	3.3%	204,840	2.6%	89,371	1.2%	24,555	0.3%	-	-	8,439	0.1%	27,329	0.3%	223.8%
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%	8,259,786	94.4%	3.7%
Commuter															
American Eagle	206,065	2.6%	237,810	3.0%	187,314	2.6%	216,014	2.9%	276,485	3.5%	288,843	3.4%	287,136	3.3%	(0.6%)
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%	202,812	2.3%	4.9%
Other	31,052	0.4%	-	-	3,844	0.1%	8,141	0.1%	-	-	-	-	-	-	-
Total Commuter	405,911	5.2%	409,610	5.1%	330,633	4.5%	406,700	5.4%	473,844	6.0%	482,115	5.7%	489,948	5.6%	1.6%
Total Enplanements	7,768,050	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%	8,749,734	100.0%	3.6%

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

Exhibit S-14

Revenue Bond Debt Service Coverage

Fiscal Year	Airport	O&M	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage (x)
	Revenues Per Trust Agreement	Expenses Per Trust Agreement		Principal	Interest	Total	
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
2006	\$ 124,431,565	\$ 98,582,908	\$ 25,848,657	\$ 5,995,000	\$ 2,949,705	\$ 8,944,705	2.89

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Exhibit S-15

Revenue Bond Debt per Enplaned Passenger

Fiscal Year	Outstanding Revenue Bond Debt	Enplaned Passenger	Debt per Enplaned Passenger
2004	\$ 62,960,000	7,947,440	\$ 7.92
2005	\$ 60,605,000	8,449,107	\$ 7.17
2006	\$ 56,270,000	8,749,734	\$ 6.43

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

