San Diego County Regional Airport Authority

San Diego, California

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2007

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Fiscal Year Ended June 30, 2007

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

Vernon D. Evans
Vice President, Finance/CFO

Kathryn J. Kiefer
Director of Accounting

San Diego County Regional Airport Authority
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

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Airport Authority Overview

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

San Diego International Airport – funded through user fees and not local taxes – is the nation's busiest single-runway commercial-service airport, serving some 17.8 million passengers in fiscal year 2007.

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

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November 14, 2007

To the Public:

The Comprehensive Annual Financial Report (the "CAFR") of the San Diego County Regional Airport Authority ("SDCRAA," or the "Airport Authority") for the fiscal year ended June 30, 2007, is submitted herewith. The Airport Authority's Accounting Department prepared this report. Responsibility for the accuracy, completeness, and fairness of the presented data, including all disclosures, rests with the Airport Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport 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.

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 Airport Authority was established pursuant to California State Act AB 93, which was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2003 as a local agency of regional government with jurisdiction throughout the County of San Diego (the "County"). The Airport 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) to serve as the region's Airport Land Use Commission.

A nine-member Board governs the Airport 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 Airport 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 Airport 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 eighth 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 1.3% over the past 5 years. The majority of the County's population is concentrated in the western portion. The largest cities in the County are San Diego (43%), Chula Vista (7%), Oceanside (6%), Escondido (5%), El Cajon (3%), Carlsbad (3%), and Vista (3%). The combined San Diego/Tijuana metropolitan population exceeds 5 million inhabitants.

San Diego County has enjoyed a stable economic climate during the past six years, with unemployment rates lower than the State of California's. In July 2007, the County's unemployment rate was 4.8%, compared to 5.5% 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 Airport 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 goods 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 2007 was a record year for the Airport Authority. Passenger enplanements reached 8.9 million, a 1.6% increase over fiscal year 2006. This was the third 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

<u>Improved Runway Safety Area</u>– Installation of an Engineered Material Arresting System (EMAS) at the west end of Runway 27 was completed. The EMAS is designed to decelerate and arrest an aircraft that has overrun its landing or aborted its take-off. The EMAS project was selected as one of the Outstanding San Diego Projects of the Year by the American Society of Civil Engineers. This project also included installation of a new improved antenna array and associated localizer equipment for Runway 27, providing an improved signal to arriving aircraft.

<u>Quieter Home Program – Phase 3</u> – The Quieter Home Program is an ongoing program that provides acoustical attenuation to the homes located in SDIA's noise impacted area. To date, the Quieter Home Program has sound-attenuated over 700 homes. In

2007 the Airport Authority accelerated the pace of the program and anticipates sound-insulating over 300 homes a year on a go-forward basis.

Airport Site Selection Program – As mandated by the state law that created the Airport 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. On November 7, 2006, San Diego County voters defeated Proposition A, the county-wide ballot measure proposing that the San Diego County Regional Airport Authority work with elected officials on pursuing a new airport.

Airport Master Plan Program for SDIA – The Airport 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 Airport Authority's financial goals and address stakeholder and community input. The Master Plan that is currently under consideration has identified future improvements needed to provide acceptable levels of service through 2020. Proposed facility improvements include: expanded terminal areas, including adding 10 gates to the existing 41; new aircraft parking apron and aircraft taxi lane; new parking structure; and expanded vehicle circulation roads serving Terminal 2 East and West. If approved by the Board, the current estimated costs of the Master Plan range from $600-700 million. Anticipated funding sources include internal Authority funds, federal grants, PFCs and Senior Lien Revenue Bonds and/or Subordinate Obligations (including the Commercial Paper (CP) program).

Airport Resource Planning Project Phase II – In 2006 the Airport Resource Planning (ARP) Project replaced the financial information system that was inherited from the Port District. The ARP system is an organization-wide system covering accounts receivable, accounts payable, general ledger, contracts, purchasing and payroll. Specific accounting 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. In 2007 the Airport Authority began the ARP Project Phase II and implemented a report writer and query software to assist in developing reports and queries Authority-wide from the ARP system. Additionally, a Business Intelligence Data Warehouse was accessed to develop Key Performance Indicators. This allows management to easily review the latest metrics and performance results.

Airport Land Use Compatibility Plan – The Airport Authority Board serves as the Airport Land Use Commission (ALUC) for San Diego County. By state law, ALUCs have two specific duties:

- To prepare and adopt Airport Land Use Compatibility Plans, also known as ALUCPs
- To review certain land use actions of local agencies and airport plans for consistency with their respective airport compatibility plans

On December 4, 2006, the ALUC adopted new Airport Land Use Compatibility Plans (ALUCPs) for six of the sixteen airports in the county.

SDIA Awarded Recycler of the Year – SDIA was selected as one of the recyclers of the Year by the City of San Diego Environmental Services Department's (ESD) Waste Reduction and Diversion Awards Program. The award was given due to the effort to divert waste from landfills and to conserve natural resources. The Airport Authority's, waste reduction diverted 361 tons and saved over $32,000.

FINANCIAL INFORMATION

The Board is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Airport 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 Airport Authority are audited annually by independent public accountants. McGladrey & Pullen LLP performed the audit for the fiscal years ended June 30, 2007, 2006, 2005, and 2004. Their report on the financial statements is presented in this report.

AWARDS AND ACKNOWLEDGEMENTS

The Airport 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, 2006. This was the fourth year that the Airport 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


SAN DIEGO COUNTY
REGIONAL AIRPORT

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, 2006. This is the fourth consecutive year that the Airport 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, 2006

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.

President

Executive Director

Airport Authority Board Members and Executive Staff

Board Members

Executive Committee

- Alan D. Bersin (Chairman)
- Charlene Zettel
- Robert J. Watkins

General Members

- Bruce R. Boland
- Mayor Jim Desmond
- Ramona Finnila
- Jack Miller
- Jim Panknin
- 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

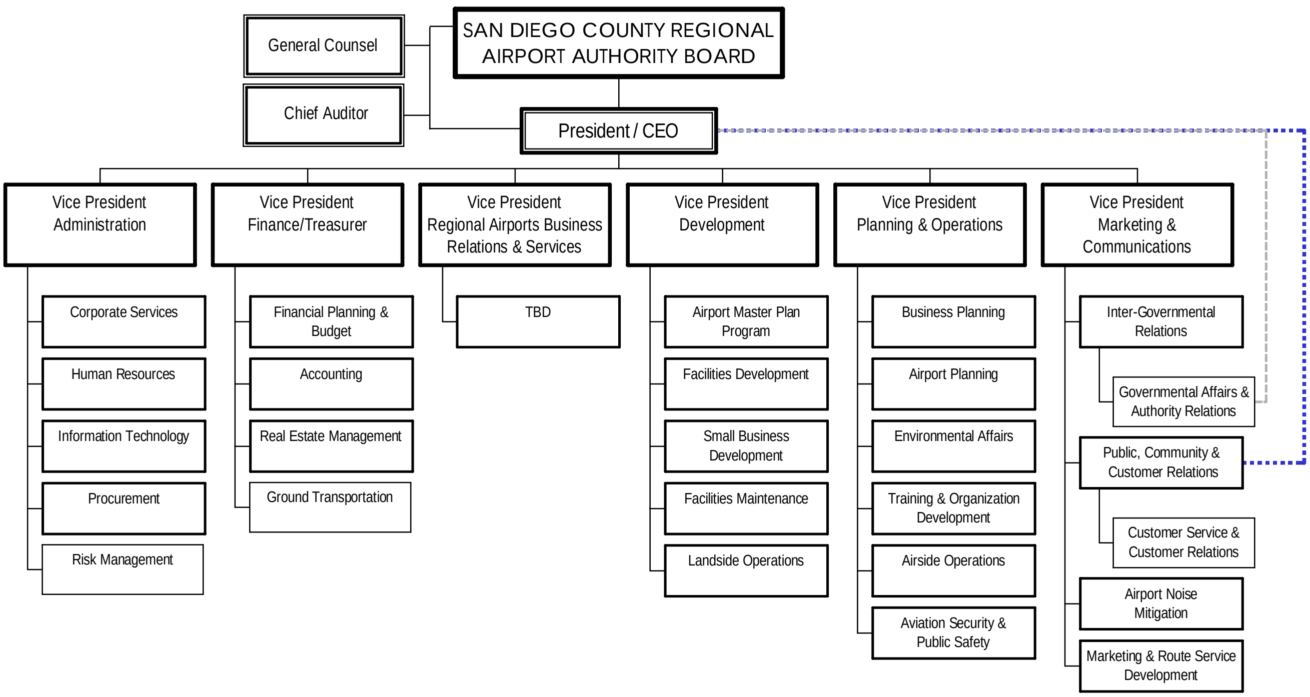
Vernon D. Evans, Vice President, CFO/Treasurer

Angela Shafer-Payne, Vice President, Planning & Operations

Ted Sexton, Vice President, Regional Airports Business Relations & Services

Jeffrey Woodson, Vice President, Administration

Airport Authority Organization Chart



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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, 2007 and 2006, 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 audits provide 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, 2007 and 2006, 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 November 14, 2007, 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 read in conjunction with this report in considering 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
November 14, 2007

INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Airport Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport Authority for the fiscal years ended June 30, 2007 and 2006.

The Airport Authority was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of the San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (District) to the Airport Authority. The Airport 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 sheet, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. The notes are essential to a full understanding of the data contained in the financial statements.

The comparative Balance Sheets depict the Airport Authority's financial position as of a point in time - June 30, 2007 and June 30, 2006 - and include all assets and liabilities of the Airport Authority. The Balance Sheets demonstrate that the Airport Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Airport Authority's assets after liabilities are deducted. Net assets are displayed in three components - invested in capital assets, net of related debt; restricted; and unrestricted.

The comparative Statements of Revenues, Expenses and Change in Net Assets report total operating revenues, operating expenses, nonoperating revenues and expenses, and change in Airport 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 Airport Authority's revenues, including Passenger Facility Charges (PFC), investment income and settlement income, are reported as nonoperating revenues. The Airport 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 Airport 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 Airport 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 Airport 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 Airport 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 Airport 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 Airport Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout the County of San Diego. The Airport 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 conducted 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 as required.

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 Airport 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 Airport 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 Airport Authority's balance sheet as of January 1, 2003. In addition, they prepared an audit report dated October 17, 2003 on the Airport Authority's finances for the first six months of operation ending 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 Airport Authority had no significant impact on SDIA's operations. During the early months of the Airport Authority's existence, both passenger enplanements and SDIA's financial position improved. Increases in airline passenger traffic have reflected increased air service, concerted customer service initiatives and continued economic improvement.

The changes in SDIA's major activities under the Airport Authority's management are as follows:

	2004	**2005**	**2006**	**2007**
Enplaned Passengers	7,947,440	8,449,107	8,749,734	8,861,770
% increase (decrease)	*5.9 %*	*6.3 %*	*3.6 %*	*1.3 %*
Total Passengers	15,880,137	16,875,804	17,483,516	17,753,839
% increase (decrease)	*5.9 %*	*6.3 %*	*3.6 %*	*1.5 %*
Aircraft Operations	206,410	213,478	221,684	220,260
% increase (decrease)	*(0.2)%*	*3.4 %*	*3.8 %*	*(0.6)%*
Freight and Mail (in tons)	151,231	175,749	189,607	191,043
% increase (decrease)	*(4.6)%*	*16.2 %*	*7.9 %*	*0.8 %*
Landed Weight (000)	10,749	11,200	11,527	11,720
% increase (decrease)	*(0.8)%*	*4.2 %*	*2.9 %*	*1.7 %*

SDIA showed positive growth (1.3%) and (3.6%) in passenger enplanements in fiscal 2007 and 2006, respectively, despite continued financial turmoil in the airline industry. The level of enplaned passengers is now 21.8% above pre-9/11 levels of fiscal year 2002. SDIA also experienced positive trends in total passengers (1.5% growth) and (3.6% growth) freight and mail tonnage (0.8% growth) and (7.9% growth) and landed weights (1.7% growth) and (2.9% growth), for fiscal years ended 2007 and 2006, respectively, all reflecting increased services at SDIA. This growth is also a reflection of the increase in both personal household income and increase in industry sectors.

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 FY07 and FY06 to $465 million and $434 million. Following is a summary of the statements of revenues, expenses and change in net assets.

Increase in Net Assets	**2005**	**2006**	**2007**
Operating revenues	$ 108,123	$ 119,495	$ 125,366
Operating expenses	(121,068)	(132,915)	(138,019)
Nonoperating revenues, net	33,959	38,846	37,245
Capital grant contributions	7,522	12,145	7,150
Increase in net assets	28,536	37,571	31,742
Net assets, beginning of year	367,684	396,220	433,791
Net assets, end of year	$ 396,220	$ 433,791	$ 465,533

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)

	2006	2007	From 2006 to 2007 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 22,243	$ 24,006	$ 1,763	7.9 %
Building rentals	21,137	22,495	1,358	6.4 %
Security surcharge	7,759	8,441	682	8.8 %
Other aviation revenue	1,868	1,757	(111)	(5.9)%
Total airline revenue	53,007	56,699	3,692	7.0 %
Concession revenue	29,362	34,201	4,839	16.5 %
Parking and ground transportation revenue	26,904	28,392	1,488	5.5 %
Ground rentals	5,505	4,994	(511)	(9.3)%
Other operating revenue	4,717	1,080	(3,636)	(77.1)%
Total operating revenue	$ 119,495	$ 125,366	$ 5,872	4.9 %

	2005	2006	From 2005 to 2006 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 22,607	$ 22,243	$ (364)	(1.6)%
Building rentals	18,041	21,137	3,096	17.2 %
Security surcharge	7,800	7,759	(41)	(0.5)%
Other aviation revenue	1,757	1,868	111	6.3 %
Total airline revenue	50,205	53,007	2,802	5.6 %
Concession revenue	26,552	29,362	2,810	10.6 %
Parking and ground transportation revenue	23,723	26,904	3,181	13.4 %
Ground rentals	5,294	5,505	211	4.0 %
Other operating revenue	2,349	4,717	2,368	100.8 %
Total operating revenue	$ 108,123	$ 119,495	$ 11,372	10.5 %

Operating Revenues, Continued

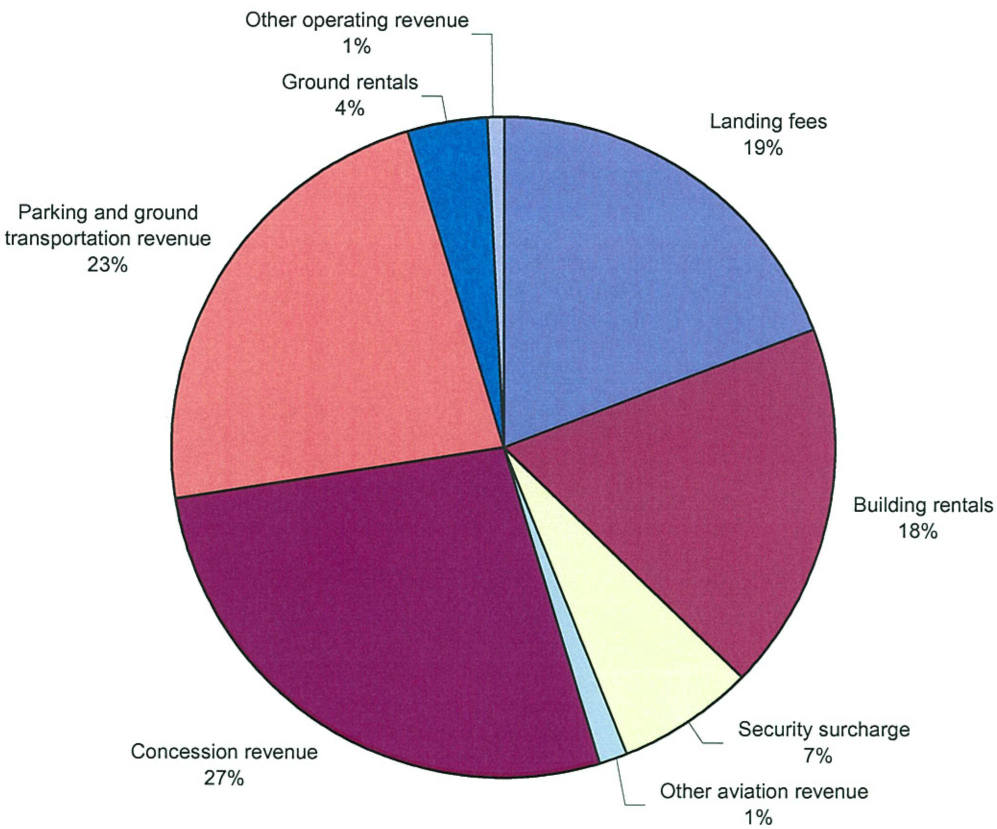
Fiscal year 2007 compared to 2006.

Fiscal year 2007 operating revenues increased $5.9 million (4.9%) from $119.5 million to $125.4 million, due primarily to airline revenues. This is due to the increase in passengers and landed weights, adding $3.7 million (7%). Additionally, concession revenues, which included terminal retail, food and beverage, advertising, baggage carts, license percentage rents from off-airport tenants, and rental car revenues were up $4.8 million (16.5%). This again was due to the increase in passengers and the elevated security level with the restriction of liquids in carry-on baggage. Offsetting the increase is the other operating revenue decrease of $3.6 million (77.1%) reflecting the completion of the site selection planning grant revenues in 2006.

Fiscal year 2006 compared to 2005.

Fiscal year 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%) in 2006 due primarily to higher airline landed weights; concession revenues, which included terminal retail, food and beverage, advertising, baggage carts, license percentage rents from off-airport tenants, also rental car revenues, increased $2.8 million (10.6%) due primarily to greater passenger activity at SDIA and increased car rental volume and fee increases. 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 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 that went before the voters in November 2006.

San Diego County Regional Airport Authority FY 2007 Operating Revenues



Operating Expenses (in thousands)

	2006	2007	From 2006 to 2007 Increase (Decrease)	From 2006 to 2007 % Change
Salaries and benefits	$ 26,847	$ 28,333	$ 1,486	5.5 %
Contractual services	30,970	26,391	(4,579)	(14.8)%
Safety and security	14,777	15,946	1,169	7.9 %
Space rental	11,354	10,843	(511)	(4.5)%
Utilities	5,416	6,421	1,005	18.6 %
Maintenance	5,390	8,393	3,003	55.7 %
Equipment and systems	736	980	244	33.2 %
Materials and supplies	591	761	170	28.8 %
Insurance	1,162	1,999	837	72.0 %
Employee development and support	906	909	3	0.4 %
Business development	2,325	2,096	(229)	(9.8)%
Equipment rentals and repairs	882	1,479	597	67.7 %
Total operating expenses before depreciation and amortization	101,356	104,551	3,195	3.2 %
Depreciation and amortization	31,559	33,468	1,909	6.0 %
Total operating expenses	$ 132,915	$ 138,019	$ 5,104	3.8 %

	2005	2006	From 2005 to 2006 Increase (Decrease)	From 2005 to 2006 % Change
Salaries and benefits	$ 23,623	$ 26,847	$ 3,224	13.6 %
Contractual services	25,210	30,970	5,760	22.8 %
Safety and security	16,191	14,777	(1,414)	(8.7)%
Space rental	10,174	11,354	1,180	11.6 %
Utilities	5,121	5,416	295	5.8 %
Maintenance	4,050	5,390	1,340	33.1 %
Equipment and systems	710	736	26	3.7 %
Materials and supplies	461	591	130	28.2 %
Insurance	2,425	1,162	(1,263)	(52.1)%
Employee development and support	1,050	906	(144)	(13.7)%
Business development	1,646	2,325	679	41.3 %
Equipment rentals and repairs	708	882	174	24.6 %
Total operating expenses before depreciation and amortization	91,369	101,356	9,987	10.9 %
Depreciation and amortization	29,699	31,559	1,860	6.3 %
Total operating expenses	$ 121,068	$ 132,915	$ 11,847	9.8 %

Operating Expenses, Continued

Fiscal year 2007 compared to 2006

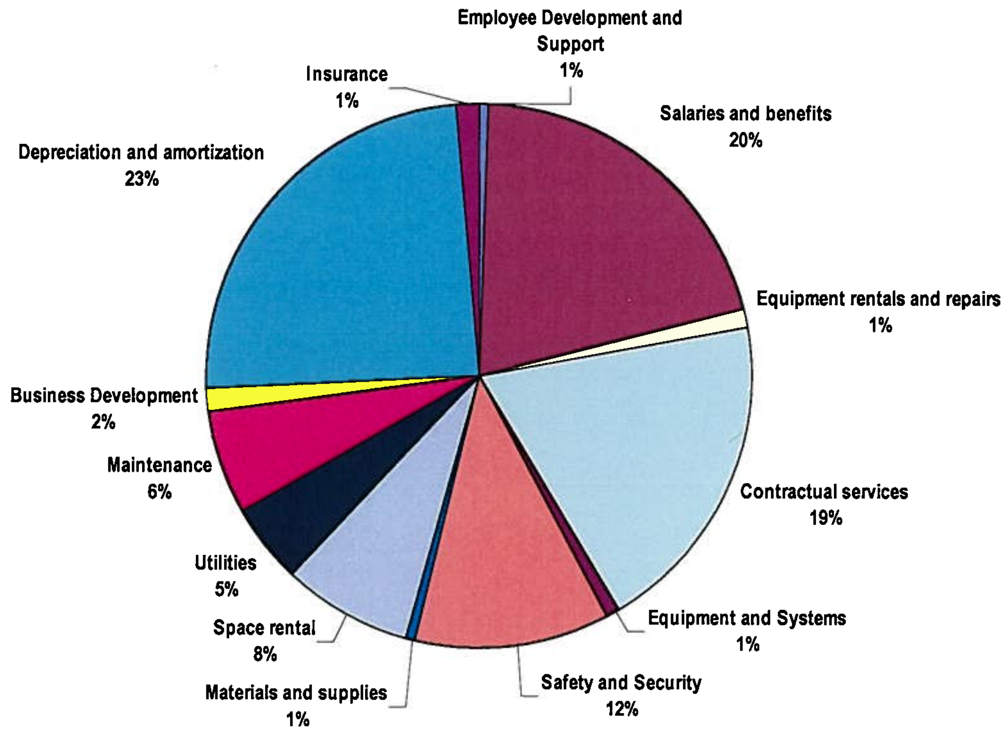
In FY 2007, operating expenses increased $5.1 million (3.8%) from $132.9 million to $138.0 million, due primarily to increased maintenance and safety and security. Maintenance expenses reflect the painting and repair of a pedestrian bridge, increased hazardous waste disposal costs and the restriping of the runway pavement. The increased security expenses reflect the increased security status to code orange. Additionally, salaries and benefits increased $1.5 million (5.5%) due to the annual raises and additional headcount. Utilities have also increased by $1.0 million (18.6%) due to rate and usage increases. Space rental consists of lease payments for various properties contiguous to the airport, including the former General Dynamics, Teledyne Ryan and Harbor Island properties. A reduced space rental of $511 thousand ($4.5%) was due to a renegotiated Teledyne Ryan lease agreement in late 2006. In FY 2007 contractual services were less by $4.6 million or (14.8%) due to the increased amount of capitalized labor performed. Depreciation expense increased $1.9 million or (6.0%) due to placing over $42.8 million of capital assets in service. The most significant capital project was the improved runway safety area project, at $11.0 million.

Fiscal year 2006 compared to 2005

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 $5.8 million. This is offset 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 $295 thousand (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. Insurance decreased $1.2 million (52.1%) due to a higher deductible amount. Depreciation and amortization expenses increased $1.9 million (6.3%) due to a $47.3 million increase in fixed assets, the most significant of which was the implementation of our $9.0 million ERP system.

Operating Expenses, Continued

San Diego County Regional Airport Authority FY 2007 Operating Expenses



Nonoperating Revenues and Expenses (in thousands)

	2006	2007	From 2006 to 2007 Increase (Decrease)	% Change
PFCs	$ 34,981	$ 36,452	$ 1,471	4.2 %
Quieter Home Program, net	(908)	(3,092)	(2,184)	(240.6)%
Joint Studies Program	(688)	(120)	568	82.5 %
Interest income	9,306	11,969	2,663	28.6 %
Interest expense	(4,809)	(4,683)	126	2.6 %
Other nonoperating income (expenses)	964	(3,281)	(4,245)	(440.2)%
Nonoperating revenues, net	$ 38,846	$ 37,245	$ (1,603)	(4.1)%

	2005	2006	From 2005 to 2006 Increase (Decrease)	% Change
PFCs	$ 33,710	$ 34,981	$ 1,271	3.8 %
Quieter Home Program, net	(1,582)	(908)	674	42.6 %
Joint Studies Program	-	(688)	(688)	(100.0)%
Interest income	6,413	9,306	2,893	45.1 %
Interest expense	(4,387)	(4,809)	(422)	(9.6)%
Other nonoperating income (expenses)	(195)	964	1,159	594.5 %
Nonoperating revenues, net	$ 33,959	$ 38,846	$ 4,887	14.4 %

Passenger Facility Charges (PFCs) were established by Congress 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

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, 2007, the Authority has spent $47,204,874 and received reimbursement for $33,639,466.

Nonoperating Revenues and Expenses, Continued

Interest income is derived from interest earned by the Authority on investments, commercial paper reserves, bond reserves and notes receivable from the District.

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

Other nonoperating income (expense) includes proceeds and expenses for legal settlements, gain (loss) on the sale of fixed assets, and other miscellaneous revenue and expenses.

Fiscal year 2007 compared to 2006
Nonoperating revenues (net) decreased by $1.6 million (4.1%). This largest component of this change was Other nonoperating expense of $3.2 million compared to Other nonoperating revenue of $964 thousand in 2006. This was primarily due to various write offs of construction work in progress of $3.1 million after it was determined that the projects were cancelled. Interest income increased by $2.7 million (28.6%), this is primarily due to increase in unused cash collected from PFCs and due to an increased rate of return on invested funds. The Quieter Home Program had a net expenditure increase of $2.2 million (240.6%) due to the increased number of homes completed in the program.

Fiscal year 2006 compared to 2005
PFCs increased $1.3 million in 2006 primarily due to increased enplanements. Interest income increased $2.9 million (45.1%) due primarily to increased funds available for investment and rising interest rates of return. Other nonoperating income increased $1.2 million primarily due to a reversal of a contingent liability.

Capital Grant Contributions

The Airport 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 Airport Authority at June 30, 2007 compared to June 30, 2006. The statements include all assets, and net assets of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net assets at June 30, 2005 through June 30, 2007 is as follows:

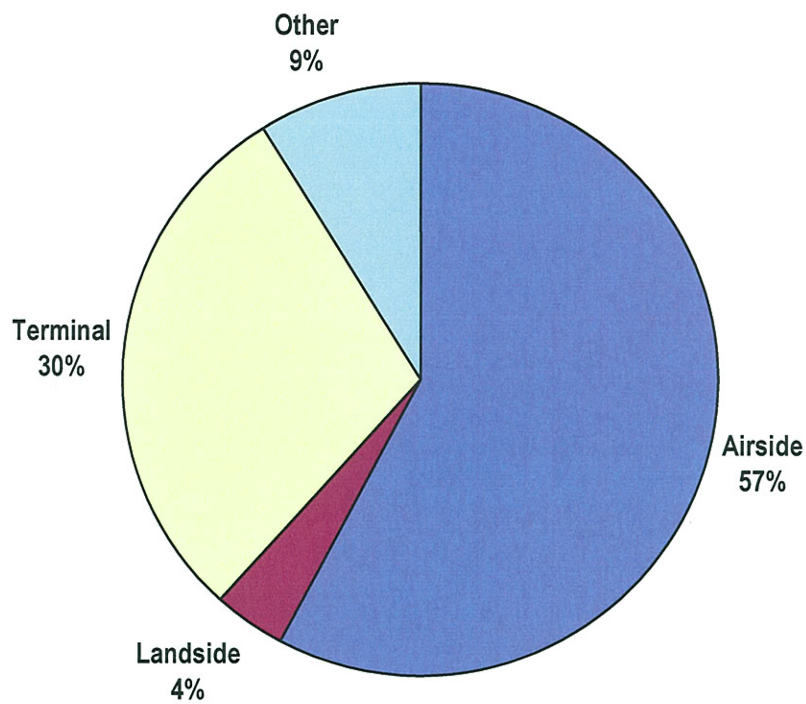
(in thousands)	2005	2006	2007
Assets			
Current assets	$ 50,551	$ 93,720	$ 84,144
Capital assets, net	311,541	320,423	334,826
Noncurrent assets	172,406	158,195	180,263
Total assets	$ 534,498	$ 572,338	$ 599,233
Liabilities			
Current liabilities	$ 25,051	$ 31,144	$ 31,598
Long-term liabilities	113,227	107,403	102,102
Total liabilities	$ 138,278	$ 138,547	$ 133,700
Net Assets			
Invested in capital assets, net of related debt	$ 209,714	$ 219,218	$ 236,762
Other reserve	83,854	96,633	103,787
Unrestricted	102,652	117,940	124,984
Total net assets	396,220	433,791	465,533
Total liabilities and net assets	$ 534,498	$ 572,338	$ 599,233

As of June 30, 2007, the Airport Authority's assets exceeded liabilities by $465.5 million, a $31.7 million increase over June 30, 2006. The largest portion of the Airport Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Airport 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 Airport 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 $124.9 million as of 2007 and $117.9 million as of 2006 may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2007 and 2006, management has designated unrestricted funds in the amount of $20.8 million and $8.2 million, respectively, for capital commitments and retirement contributions. In addition, as of June 30, 2007 and 2006, 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 $301.6 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 $174.2 million for airside projects, $11.5 million for landside projects, $89 million for terminal projects, and $26.9 million for various other projects. The current SDIA CIP does not include the master plan, noise reduction, and related projects.

Capital Improvement Program (CIP) Projects by Type



Among the larger projects undertaken during fiscal year 2007 were runway resurfacing, a variety of parking lot improvements, electrical system upgrades to Terminal 1, baggage screening enhancements, an engineered material arresting system for runway 27 to comply with FAA safety requirements, and security enhancements.

Additional information on the Authority's capital assets can be found in Note 4 on pages 37 and 38 of this report.

Capital Financing and Debt Management

As of June 30, 2007, $52.76 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 on the Authority's long-term debt can be found in Note 5 on pages 39–41 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 $110.0 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 $10 million in grant awards for the federal fiscal year ended September 30, 2007 and $14.1 million in 2006. The 2007 awards consisted of no entitlement funds and $10 million in discretionary funds, and the 2006 awards consisted of $1.3 million in entitlements and $12.7 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 Airport Authority'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, 2007 and 2006

Assets	**2007**	2006
Unrestricted Current Assets		
Cash and cash equivalents (Note 2)	**$ 33,119,617**	$ 46,938,090
Investments (Note 2)	**16,717,785**	15,737,202
Tenant lease receivables, net of allowance of 2007 $144,059 and 2006 $109,063	**6,144,307**	6,144,231
Grants receivable	**2,923,299**	7,497,765
Notes receivable, current portion (Note 3)	**1,363,475**	1,298,411
Inventory	**265,870**	224,892
Other current assets	**3,452,578**	2,833,304
Total unrestricted current assets	**63,986,931**	80,673,895
Cash and Cash Equivalents Designated for Specific Capital Projects and Other Commitments (Notes 2, 6 and 11)	**16,154,187**	8,218,225
Restricted Cash and Cash Equivalents with Trustee (Note 2 and 5)	**4,002,863**	4,827,992
Total current assets	**84,143,981**	93,720,112
Capital Assets (Note 4)		
Land and land improvements	**23,581,619**	23,581,619
Buildings and structures	**371,437,179**	366,782,918
Machinery and equipment	**26,616,498**	24,034,302
Runways, roads and parking lots	**239,449,229**	203,867,621
Construction in progress	**45,154,051**	40,175,668
	706,238,576	658,442,128
Less accumulated depreciation	**(371,412,657)**	(338,019,244)
Capital assets, net	**334,825,919**	320,422,884
Restricted Assets (Notes 2 and 5)		
Restricted cash, cash equivalents and investments, not with Trustee	**94,255,079**	87,103,308
Restricted investments with Trustee	**5,448,351**	5,568,676
Passenger facility charges receivable	**5,886,229**	5,588,921
Other restricted assets	**1,134,000**	876,960
Total restricted assets	**106,723,659**	99,137,865
Investments, noncurrent (Note 2)	**19,003,477**	2,801,717
Notes Receivable, long-term portion (Note 3)	**49,197,725**	50,561,201
Deferred Costs, Series 2005 Bonds, net	**718,790**	774,036
Net Pension Asset (Note 6)	**4,619,351**	4,920,108
Total noncurrent assets	**515,088,921**	478,617,811
Total assets	**$ 599,232,902**	$ 572,337,923

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Balance Sheets, Continued
June 30, 2007 and 2006

Liabilities and Authority Net Assets	2007	2006
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	**$ 3,062,295**	$ 3,598,251
Accrued liabilities	**20,248,205**	20,763,617
Deposits	**161,258**	106,005
Compensated absences, current portion (Note 5)	**1,435,908**	1,397,395
Total current liabilities payable from unrestricted assets	**24,907,666**	25,865,268
Current Liabilities Payable from Restricted Assets		
Current portion of Series 2005 Bonds and commercial paper (Note 5)	**5,198,572**	3,515,000
Accrued interest on bonds and commercial paper	**1,491,441**	1,764,184
Total current liabilities payable from restricted assets	**6,690,013**	5,279,184
Total current liabilities	**31,597,679**	31,144,452
Noncurrent Liabilities Payable from Unrestricted Assets		
Deferred rent liability (Note 11)	**1,836,009**	2,250,365
Compensated absences, net of current portion (Note 5)	**663,690**	425,247
Tenant security deposits	**411,727**	342,362
Total noncurrent liabilities payable from unrestricted assets	**2,911,426**	3,017,974
Noncurrent Liabilities Payable from Restricted Assets		
Commercial paper notes payable (Note 5)	**49,165,428**	51,694,000
Series 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	**50,025,165**	52,690,562
Total noncurrent liabilities payable from restricted assets	**99,190,593**	104,384,562
Total noncurrent liabilities	**102,102,019**	107,402,536
Total liabilities	**133,699,698**	138,546,988
Commitments and Contingencies (Notes 6–11)		
Authority Net Assets		
Invested in capital assets, net of related debt (Note 1)	**236,762,474**	219,218,270
Other restricted (Note 1)	**103,786,729**	96,632,996
Unrestricted (Note 1)	**124,984,001**	117,939,669
Total Authority net assets	**465,533,204**	433,790,935
Total liabilities and Authority net assets	**$ 599,232,902**	$ 572,337,923

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, 2007 and 2006

	2007	2006
Operating revenues:		
Airline revenue:		
Landing fees	$ 24,006,493	$ 22,242,806
Building rentals (Note 9)	22,494,964	21,137,448
Security surcharge	8,440,960	7,758,983
Other aviation revenue	1,756,782	1,867,678
Concession revenue	34,201,100	29,361,976
Parking revenue	28,391,558	26,904,459
Ground rentals (Note 9)	4,994,278	5,505,219
Other operating revenue	1,080,425	4,716,845
Total operating revenues	125,366,560	119,495,414
Operating expenses:		
Salaries and benefits	28,333,171	26,847,316
Contractual services (Note 11)	26,390,838	30,970,024
Safety and Security	15,946,171	14,776,834
Space rental (Note 10)	10,842,484	11,353,486
Utilities	6,421,076	5,416,165
Maintenance	8,392,780	5,389,936
Equipment and systems	979,960	735,585
Materials and supplies	761,484	591,144
Insurance	1,998,783	1,162,484
Employee development and support	909,237	906,041
Business development	2,096,147	2,325,321
Equipment rentals and repairs	1,478,870	882,113
Total operating expenses before depreciation and amortization	104,551,001	101,356,449
Income from operations before depreciation and amortization	20,815,559	18,138,965

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Revenues, Expenses and Change in Authority Net Assets, Continued
Years Ended June 30, 2007 and 2006

	2007	2006
Income from operations before depreciation and amortization, carryforward	**$ 20,815,559**	$ 18,138,965
Depreciation and amortization	**33,467,522**	31,559,237
Operating (loss)	**(12,651,963)**	(13,420,272)
Nonoperating revenues (expenses):		
Passenger facility charges	**36,452,013**	34,981,343
Quieter Home Program, net	**(3,091,877)**	(907,897)
Joint Studies Program	**(119,669)**	(688,239)
Interest income	**11,968,962**	9,305,828
Interest expense (Note 5)	**(4,683,252)**	(4,809,144)
Other revenues (expenses), net	**(3,281,604)**	964,331
Nonoperating revenue, net	**37,244,573**	38,846,222
Income before capital grant contributions	**24,592,610**	25,425,950
Capital grant contributions	**7,149,659**	12,145,461
Change in Authority net assets	**31,742,269**	37,571,411
Authority net assets, beginning of year	**433,790,935**	396,219,524
Authority net assets, end of year	**$ 465,533,204**	$ 433,790,935

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Receipts from customers	**$ 124,748,955**	$ 119,076,903
Payments to suppliers	**(73,091,193)**	(72,576,509)
Payments to employees	**(27,728,864)**	(26,051,600)
Net cash provided by operating activities	**23,928,898**	20,448,794
Cash Flows from Noncapital Financing Activities		
Settlement (payments)	**(254,772)**	-
Pension contribution	**-**	(513,627)
Quieter Home Program receipts	**5,758,151**	2,984,717
Quieter Home Program payments	**(8,565,042)**	(3,337,234)
Joint Studies Program payments	**(147,044)**	(24,635)
Net cash (used in) noncapital financing activities	**(3,208,707)**	(890,779)
Cash Flows from Capital and Related Financing Activities		
Capital expenditures	**(54,981,742)**	(39,562,547)
Federal grants received (excluding Quieter Home Program)	**11,199,237**	9,455,292
Proceeds from passenger facility charges	**36,154,705**	33,476,656
Proceeds from capital debt	**-**	65,575,243
Proceeds to defease 1995 capital debt	**-**	(65,575,243)
Payment to Trustee for debt service	**825,129**	(4,827,992)
Payment of Series 2005 and 1995 Bond principal	**(3,515,000)**	(2,480,000)
Interest and debt fees paid	**(4,955,995)**	(3,899,276)
Net cash (used in) capital and related financing activities	**(15,273,666)**	(7,837,867)
Cash Flows from Investing Activities		
Sales (purchases) of investments, net	**(23,850,476)**	3,905,268
Interest received from investments	**8,396,771**	4,165,118
Principal payments received on notes receivable	**1,334,129**	792,847
Interest received from notes receivable, commercial paper and bonds	**2,790,540**	4,829,984
Net cash (used in) provided by investing activities	**(11,329,036)**	13,693,217
Net increase (decrease) in cash and cash equivalents	**(5,882,511)**	25,413,365
Cash and Cash Equivalents, beginning of year	**55,156,315**	29,742,950
Cash and Cash Equivalents, end of year	**$ 49,273,804**	$ 55,156,315
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	**$ 33,119,617**	$ 46,938,090
Designated cash and cash equivalents	**16,154,187**	8,218,225
	$ 49,273,804	$ 55,156,315

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows, Continued
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (loss)	**$ (12,651,963)**	$ (13,420,272)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	**33,467,522**	31,559,237
Amortization of pension contribution	**300,757**	272,221
Bad debt (recovery) expense	**54,953**	(16,268)
Construction-in-progress write-off	**-**	461,623
Changes in assets and liabilities:		
Tenant lease receivables	**(35,072)**	(873,606)
Other current assets	**(401,004)**	(218,553)
Accounts payable (on noncapital items)	**(535,956)**	1,244,512
Accrued liabilities (on noncapital items)	**3,147,916**	1,523,706
Deposits	**55,253**	(641)
Deferred rent liability	**(450,073)**	(572,816)
Tenant security deposits	**35,919**	195,715
Compensated absences	**940,646**	293,936
Net cash provided by operating activities	**$ 23,928,898**	$ 20,448,794
Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	**$ 3,577,772**	$ 1,535,171

See 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 Airport 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 Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

As of June 1, 2004, the District and the Airport 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 Airport 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 Airport 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 Airport Authority include, among other things, the operation, maintenance, development, management and regulation of the SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan and locate a site for a new international airport or to expand the existing SDIA. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In November 2006, a required countywide public vote occurred based on the Airport Authority's recommended airport site relocation. The Airport Authority's recommended site was voted down in the general election. The Airport Authority is currently working on a master plan to expand the existing SDIA.

On December 4, 2006, Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was introduced in the California Legislature. This was signed into law as of October 5, 2007. This legislation will require the Airport Authority to prepare a Regional Aviation Strategic Plan by June 30, 2011. The Airport Authority will also be required to prepare and adopt, by San Diego Association of Governments, (SANDAG) an Airport Multimodal Accessibility Plan by December 31, 2013. Senate Bill 10 will also establish an equal compensation level for all Airport Authority board members. This bill will become effective January 1, 2008.

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 Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport 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 Airport 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 Airport Authority. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

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

Measurement focus and basis of accounting: The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, the Airport 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 Airport Authority net assets. The Airport 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.

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,* and related GASB pronouncements.

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 Airport Authority for year ended June 30, 2006. This Statement established accounting and financial reporting standards for impairment of capital assets. The Airport 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 Airport 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 restoration 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 Airport Authority to report the effects of capital asset impairment in their 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 Airport Authority's management has determined that no impairment of capital assets currently exists.

Use of estimates: The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America 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.

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

Investments: Investments in the state and county investment pools are recorded on an amortized cost basis. Guaranteed investment contracts are recorded at contract value. All other investments are stated at fair market value, on a portfolio basis, based on quoted market prices.

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.

The Airport Authority's policy is to use restricted assets before unrestricted assets.

Designated assets: The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2007 and 2006, management had designated funds for specific approved capital projects and other commitments totaling $16,154,187 and $8,218,225 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 Airport 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.

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

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 Airport 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 Airport Authority believes that no significant liabilities to the Airport 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 Airport 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 Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2007 and 2006, accrued PFC receivables totaled $5,886,229 and $5,588,921 respectively, and there were $49,299,042 and $44,550,456 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2007 and 2006, respectively.

On May 20, 2003, the FAA approved the Airport 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 have been collected and applied toward eligible capital projects from each approved FAA application. There are currently four applications. The first application was effective October 1995, under the District responsibility, and the final fourth application expires April 2009. 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 Airport 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 Airport Authority. The Airport Authority's policy is to record the retention payable only after completion and acceptance have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying balance sheets. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

Compensated absences: All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation.

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

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. Airport Authority net assets are reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

	2007	2006
Invested in capital assets, net	**$ 231,155,546**	$ 213,297,359
Bond reserve	**5,396,384**	5,513,529
Commercial paper reserve	**158,578**	352,235
Commercial paper held by Trustee	**51,966**	55,147
Total invested in capital assets, net of related debt	**$ 236,762,474**	$ 219,218,270

Other restricted net assets as of June 30:

	2007	2006
Bond reserves:		
Operations and maintenance reserve	**$ 29,548,094**	$ 27,600,463
Operations and maintenance subaccount reserve	**9,849,365**	9,200,154
Revenue and replacement reserve	**5,400,000**	5,400,000
Debt service principal and interest	**2,669,999**	3,416,042
Passenger facility charges unapplied	**49,299,042**	44,550,456
Passenger facility charges receivable	**5,886,229**	5,588,921
Owner Controlled Insurance Program (OCIP) loss reserve	**1,134,000**	876,960
Total other restricted net assets	**$ 103,786,729**	$ 96,632,996

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

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

	2007	2006
Operating contingency	$ 2,000,000	$ 2,000,000
Insurance contingency (Note 8)	2,000,000	2,000,000
Net pension asset (Note 6)	4,619,351	4,920,108
Capital projects and other commitments (Note 6)	16,154,187	8,218,225
	$ 24,773,538	$ 17,138,333

Revenue classifications: Revenue is recognized when earned. The Airport 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 Airport Authority's operations. The major components of the Airport 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. Ground rentals consist mainly of rent received for leased cargo facilities. Concession fees are determined as a percentage of gross monthly revenues generated by concession lessee's monthly operations. Parking fees are generated from the airport parking lots.

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Airport 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 Airport 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 Airport Authority's operations. The major components of the Airport Authority's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, equipment and systems, materials and supplies, insurance, employee development and support, business development and equipment rentals and repairs.

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 Airport 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.

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

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 revenue bond original discount and the revenue bond original issue premium, along with the issuance costs, are deferred and amortized over the term of the bonds, using the straight-line method, which approximates the effective interest method.

Inventories: Inventories are stated at lower of cost or market 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 weighted average basis.

Pronouncements issued, not yet effective: The GASB issued pronouncements prior to June 30, 2007 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of the Authority:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*;
- GASB Statement No. 50, *Pension Disclosures—an Amendment of GASB Statements No. 25 and No. 27*; and
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Management is currently in the process of determining what the 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 Airport Authority. The Airport Authority has cash and investments designated for specific capital projects and other commitments of $5.1 million in preparation for prefunding and implementation of GASB Statement No. 45 by fiscal year 2008.

Reclassifications: Certain reclassifications have been made to the 2006 financial information in order to conform to the 2007 presentation. These reclassifications had no impact on net income or Airport Authority net assets.

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:

	2007	2006
Unrestricted and undesignated, cash and cash equivalents	**$ 33,119,617**	$ 5,998,363
Unrestricted and undesignated, current investments	**16,717,785**	14,476,312
Unrestricted and undesignated, noncurrent investments	**19,003,477**	45,002,334
	68,840,879	65,477,009
Designated for specific capital projects and other commitments	**16,154,187**	8,218,225
Restricted:		
Bonds reserves:		
Operations and maintenance reserve	**29,548,094**	27,600,463
Operations and maintenance subaccount reserve	**9,849,365**	9,200,154
Renewal and replacement reserve	**5,400,000**	5,400,000
	44,797,459	42,200,617
Passenger facility charges unapplied	**49,299,042**	44,550,456
Commercial paper reserve	**158,578**	352,235
Total restricted	**94,255,079**	87,103,308
Total cash and investments, not with Trustee	**179,250,145**	160,798,542
Investments held by Trustee:		
Debt service payment held by Trustee	**4,002,863**	4,827,992
Bond guaranteed investment contract held by Trustee	**5,396,384**	5,513,529
Commercial paper interest held by Trustee	**51,967**	55,147
Total held by Trustee	**9,451,214**	10,396,668
Total cash and investments	**$ 188,701,359**	$ 171,195,210

Note 2. Cash and Investments, Continued

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

	2007	2006
Unrestricted cash on deposit:		
Cash on hand	$ 54,600	$ 54,100
Cash in banks	14	19,606
Total cash on deposit	54,614	73,706
Unrestricted cash equivalents:		
Union Bank of California, Money Market	3,504,717	418,512
Zions First National Bank, Money Market	941,172	1,142,484
Union Bank of California, U.S. Agency Securities	9,728,087	14,888,500
Union Bank of California, Commercial Paper	-	20,464,938
Zions First National Bank, Commercial Paper	-	4,363,661
U.S. Bank Repurchase Agreements	35,045,215	13,804,514
Total unrestricted cash equivalents	49,219,191	55,082,609
Unrestricted and restricted investments:		
San Diego County Investment Pool (SDCIP)	23,333,735	22,185,332
Local Agency Investment Fund (LAIF)	12,001,284	11,412,249
Union Bank of California, Investment Portfolio	67,900,390	51,134,327
Zions First National Bank, Liquid Asset Management	26,740,931	20,910,319
Total unrestricted and restricted investments not with Trustee	129,976,340	105,642,227
Total cash equivalents and investments not with Trustee	179,195,531	160,724,836
Investments held by Trustee:		
Debt service payment held by Trustee	4,002,863	4,827,992
Bond guaranteed investment contract held by Trustee	5,396,384	5,513,529
Commercial paper interest	51,967	55,147
Total investments held by Trustee	9,451,214	10,396,668
Total cash equivalents and investments	188,646,745	171,121,504
Total cash and investments	$ 188,701,359	$ 171,195,210

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 Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport 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 Airport Authority, rather than general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Banker's acceptances	180 days	AAA/Aaa	40%	10%
Commercial paper	270 days	A-1; P-1; F-1	25%	5%
Negotiable certificates of deposit	< 25 months	A	30%	None
	25 - 36 months	AA		
Medium-term notes	< 25 months	A	15%	5%
	25 - 36 months	AA		
Repurchase agreements	1 year	102% collateral	None	None
Mortgage-backed securities	5 years	AAA	20%	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	$40 million
San Diego County Investment Pool (SDCIP)	N/A	N/A	None	$40 million
Nonnegotiable certificates of deposit	1 year	N/A	30%	None
Money market mutual funds	N/A	AAA/Aaa	None	None
California agency indebtedness	N/A	N/A	None	None
Active deposits	N/A	N/A	10%	None
Investment agreements/Guaranteed investment contracts	N/A	N/A	None	None

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 Airport 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	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
Banker's acceptances	360 days	AAA/Aaa	None	None
Commercial paper	270 days	A-1; P-1; F-1	None	None
Repurchase agreements	None	N/A	None	None
Money market portfolio	None	Two highest rating	None	None
Cash	None	N/A	None	None
Deposit accounts	None	N/A	None	None
Municipal bonds	None	Two highest rating	None	None
Local Agency Investment Fund (LAIF)	None	N/A	None	None
San Diego County Investment Pool (SDCIP)	None	N/A	None	None
Certificates of deposit	None	Two highest rating	None	None
Investment agreements	None	N/A	None	None

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policies:

- Bankers acceptances which are eligible for purchase by the Federal Reserve System and are rated in the highest category by a nationally recognized statistical organization (NRSRO).

- Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO.

Note 2. Cash and Investments, Continued

- Negotiated certificates of deposit issued by state or chartered bank or a state or federal savings institution. Shall be rated "A" or better by a NRSRO.

- Medium term notes issued by corporations organized and operating within the United States shall be rated "A" or better by a NRSRO.

- Money market mutual funds with management companies that are money market funds registered with the SEC, investing in the securities and obligations as authorized by the California Government Code 53601. These companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) retain an investment advisor registered with the SEC with not less than five years experience investing in the securities and obligation market as authorized by California Government Code 53601, subdivision (a) to (m) inclusive, and with assets under management in excess of $500 million.

- U.S. Government-sponsored agencies rated "AAA" issued mortgage-backed security with a maximum of five years maturity.

The Airport 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. At June 30, 2007 and 2006, the Series 2005 collateralized investment contract held by Trustee was $9,399,247 and $10,341,521, respectively, and commercial paper interest held by Trustee was $51,967 and $55,147, respectively. The Series 2005 Bond guaranteed investment contract earns interest at 5.162% and matures on July 1, 2020.

A cumulative rebate liability relating to arbitrage of the Series 2005 Bonds was recorded for $33,445 for the fiscal year ended June 30, 2007. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2010. Additionally, should the bonds be retired prior to July 1, 2010, 100% of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

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 is to changes in market interest rates. One of the ways the Airport 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. This combination of shorter and longer term investments and the timing also provides managed cash flow and liquidity needs for the operations. The Airport Authority monitors interest rate risk inherent in its portfolio by measuring the segmented time of its portfolio. The Airport Authority has no specific limitations with respect to this metric.

Note 2. Cash and Investments, Continued

Information about the sensitivity of the fair values of the Airport Authority's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that show the distribution of the entities investments by maturity as of June 30, 2007:

Investment type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money market fund	$ 8,500,719	$ 8,500,719	$ -	$ -	$ -
Commercial paper	9,056,450	9,056,450	-	-	-
Corporate notes	7,272,063	7,272,063	-	-	-
U.S. Treasury notes	16,783,373	-	9,292,980	7,490,393	-
U.S. agency securities	71,257,522	24,239,959	26,376,448	20,641,115	-
SDCIP	23,333,735	23,333,735	-	-	-
LAIF	12,001,284	12,001,284	-	-	-
Repurchase agreement	35,045,215	35,045,215	-	-	-
Guaranteed investment contract	5,396,384	-	-	-	5,396,384
	$ 188,646,745	$ 119,449,425	$ 35,669,428	$ 28,131,508	$ 5,396,384

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 Airport 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 Airport Authority's investment policy authorize these types of investments.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport 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 Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

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, 2007 for each investment type:

Investment Type	Total	Unrated	AAA/Aaa	A-1	AA/Aa	A2	A1
Money market fund	$ 8,500,719	$ 8,500,719	$ -	$ -	$ -	$ -	$ -
Commercial paper	9,056,450	-	-	9,056,450			
Corporate notes	7,272,063	-	-	-	5,279,253	1,000,520	992,290
U.S. Treasury notes	16,783,373	16,783,373	-	-	-	-	-
U.S. agency securities	71,257,522	-	56,596,522	14,661,000	-	-	-
SDCIP	23,333,735	23,333,735	-	-	-	-	-
LAIF	12,001,284	12,001,284	-	-	-	-	-
Repurchase agreement	35,045,215	-	35,045,215	-	-	-	-
Guaranteed investment contract	5,396,384	5,396,384	-	-	-	-	-
	$ 188,646,745	$ 66,015,495	$ 91,641,737	$ 23,717,450	$ 5,279,253	$ 1,000,520	$ 992,290

Source: Standard and Poor's and Moody's Investors Service

Concentration of credit risk: The investment policy of the Airport 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 Airport Authority's investments are as follows:

Issuer	Type	Fair Value	% of Portfolio
U.S. Bank	Repurchase agreements	$ 35,762,806	19.9 %
U.S. Treasury	U.S. Treasury notes	16,783,373	9.3 %
Federal Farm Credit Banks Bond	U.S. agency securities	12,139,386	6.7 %
Federal Home Loan Bank	U.S. agency securities	27,191,925	15.1 %
Federal Home Loan Mortgage Corp.	U.S. agency securities	20,564,895	11.4 %
Federal National Mortgage Assoc.	U.S. agency securities	11,361,317	6.3 %
		$123,803,702	68.8 %

Investment in state investment pool: The Airport 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 Airport Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Airport Authority's pro rata share of the amortized cost basis 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.

Note 2. Cash and Investments, Continued

Investment in county investment pool: The Airport 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 Airport Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Airport Authority's pro rata share of the amortized cost basis 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.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a $50 million unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on 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, 2007 and 2006, the note had a value of $48,517,524 and $49,503,573, respectively. The current portion recorded on the note for the years ended June 30, 2007 and 2006 was $1,034,314 and $986,049, respectively.

As part of the transfer of airport operations, pursuant to the Act, the District reimbursed the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at an interest rate of prime plus 1.0%. A receivable for the Pond 20 property was recorded by the Airport 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 was $3,329,000. Repayment terms remain unchanged. At June 30, 2007 and 2006, the note receivable was recorded at a value of $2,043,676 and $2,356,039, respectively. The current portion for the years ended June 30, 2007 and 2006 was $329,161 and $312,362, respectively.

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

Years Ending June 30,	
2008	$ 1,363,000
2009	1,447,000
2010	1,528,000
2011	1,613,000
2012	1,696,000
2013-2017	7,871,000
2018-2022	10,079,000
2023-2027	13,262,000
2028-2031	11,702,000
	$ 50,561,000

Note 4. Capital Assets

Capital asset activity was as follows:

	Balance at June 30, 2006	Increases	Decreases	**Balance at June 30, 2007**
Nondepreciable assets:				
Land	$ 22,452,007	$ -	$ -	**$ 22,452,007**
Construction in progress	40,175,668	50,958,155	(45,979,772)	**45,154,051**
Total nondepreciable assets	62,627,675	50,958,155	(45,979,772)	**67,606,058**
Depreciable assets:				
Land improvements	1,129,612	-	-	**1,129,612**
Buildings and structures	366,782,918	4,654,261	-	**371,437,179**
Machinery and equipment	24,034,302	2,596,457	(14,261)	**26,616,498**
Runways, roads and parking lots	203,867,621	35,581,608	-	**239,449,229**
Total capital assets being depreciated	595,814,453	42,832,326	(14,261)	**638,632,518**
Less accumulated depreciation for:				
Land improvements	(1,102,721)	(8,537)	-	**(1,111,258)**
Building and structures	(199,554,328)	(17,573,438)	-	**(217,127,766)**
Machinery and equipment	(10,956,348)	(3,466,885)	14,261	**(14,408,972)**
Runaways, roads and parking lots	(126,405,847)	(12,358,814)	-	**(138,764,661)**
Total accumulated depreciation	(338,019,244)	(33,407,674)	14,261	**(371,412,657)**
Total capital assets being depreciated, net	257,795,209	9,424,652	-	**267,219,861**
Capital assets, net	$ 320,422,884	$ 60,382,807	$ (45,979,772)	**$ 334,825,919**

Note 4. Capital Assets, Continued

	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

Note 5. Debt and Subsequent Event

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

	Principal Balance at June 30, 2006	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2007**	Due within One Year
Debt obligations:					
Commercial paper	$ 51,694,000	$ -	$ -	**$ 51,694,000**	$2,528,572
Bonds payable:					
Series 1995 Bonds	-	-	-	**-**	-
Series 2005 Bonds	56,270,000	-	(3,515,000)	**52,755,000**	2,670,000
Bond premium	3,181,787	-	(227,270)	**2,954,517**	-
Deferred amounts on	(3,246,225)		231,873	**(3,014,352)**	-
Total bonds payable	56,205,562	-	(3,510,397)	**52,695,165**	2,670,000
Total debt obligations	107,899,562	-	(3,510,397)	**104,389,165**	5,198,572
Compensated absences	1,822,642	1,712,864	(1,435,908)	**2,099,598**	1,435,908
Long-term liabilities	$ 109,722,204	$ 1,712,864	$ (4,946,305)	**$ 106,488,763**	$ 6,634,480

	Principal Balance at June 30, 2005	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2006**	Due within One Year
Debt obligations:					
Commercial paper	$ 51,694,000	$ -	$ -	**$ 51,694,000**	$ -
Bonds payable:					
Series 1995 Bonds	60,605,000	-	(60,605,000)	**-**	-
Series 2005 Bonds	-	56,270,000	-	**56,270,000**	3,515,000
Bond premium		3,333,301	(151,514)	**3,181,787**	-
Deferred amounts on refunding		(3,400,808)	154,583	**(3,246,225)**	-
Total bonds payable	60,605,000	56,202,493	(60,601,931)	**56,205,562**	-
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

Note 5. Debt and Subsequent Event, 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 million through September 2007. Proceeds from the issuances are to be used to finance further improvements to the airport. Effective September 27, 2002, each series of notes became secured by an irrevocable letter of credit. The letter of credit expired 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, 2007 of $51,694,000 became due on August 15, 2007, and the notes were rolled into another issue of Series A and B commercial paper. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank. Interest expense for the years ended June 30, 2007 and 2006 amounted to $1,835,626 and $1,548,877, including accrued interest of $158,578 and $352,234, respectively.

At June 30, 2007 and 2006, the principal amount outstanding for Series A was $22,134,000 with an average annual interest rate of 3.60% and 2.58%, respectively, and the principal amount outstanding for Series B Commercial Paper was $29,560,000 with an average annual interest rate of 3.52% and 2.34% 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 Airport Authority to maintain an interest reserve account with the note trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2007 and 2006, the amount held by the trustee was $51,966 and $55,147, respectively, and the amount reserved by the Airport Authority was $158,578 and $352,235, 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.

On September 6, 2007, the Board authorized issuance of $250 million of subordinate commercial paper. The Airport Authority entered into an agreement with Lloyds TSB Bank as the letter-of-credit provider. This has replaced the letter of credit for $100 million that expired on September 26, 2007. This new letter of credit has been established for seven years. Each commercial paper note matures at the end of a period not to exceed 270 days. The commercial paper offering is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 2005 Bonds. The Airport Authority used a portion of the $250 million to refinance the current $52 million expiring commercial paper. Approximately $125 million will be used as interim funding of capital improvement projects and the remaining $75 million will be used as a revolving credit line. Lloyd's has agreed to charge 17.25 basis points on utilized commercial paper and 8 basis points on unutilized commercial paper.

Airport Revenue Bonds, Series 2005 and Refunded 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 Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport 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%.

Note 5. Debt and Subsequent Event, Continued

The Airport 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. The transaction 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 were issued in the aggregate principal amount of $56,270,000 and 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 years ended June 30, 2007 and 2006 amounted to $2,665,725 and $1,819,847, respectively, including accrued interest of $1,332,863 and $1,411,950, respectively. The principle balance on the Series 2005 Bonds as of June 30, 2007 and 2006 was $52,755,000 and $56,270,000 respectively.

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 Airport 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 Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Authority's books. At the years ended June 30, 2007 and 2006, the amount held by the trustee was $5,396,384 and $5,513,529, respectively. An additional amount of $4,002,863 and $4,827,992 was held at June 30, 2007 and 2006, respectively, for the July 1 payments. The total amount reserved by the Airport Authority for 2007 and 2006 was $44,797,459 and $42,200,617, respectively. The debt is insured by the American Municipal Bond Assurance Corporation (AMBAC) and the underlying public ratings of the Series 2005 Bonds as of June 30, 2007 and 2006, 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:

	Principal	Interest	Total
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	3,265,000	2,007,600	5,272,600
2013–2017	18,975,000	7,389,383	26,364,383
2018–2021	18,985,000	2,058,656	21,043,656
	$ 52,755,000	$ 21,001,789	$ 73,756,789

Note 5. Debt and Subsequent Event, Continued

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 Airport Authority's defined benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The San Diego County Regional Airport Authority Retirement Plan and Trust 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 Airport 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 Airport 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 Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate as determined through actuarial valuation, was 13.76% for 2007, 15.41% for 2006 and 2005, and is expressed as a percentage of covered payroll.

Note 6. Defined Benefit Plan and Subsequent Event, Continued

Annual pension cost: For the years ended June 30, 2007, 2006 and 2005, the annual pension cost was $2,941,640, $4,700,369 and $4,414,239, respectively, for the CERS pension. The reduction in the annual required contribution from 2006 to 2007 was primarily due to the change in valuing the assets from a book smoothing methodology to a market value methodology. The return on investments for 2006 was 11.28% and for 2005 it was 10.21%. This is compared to an assumed return of 8%. The annual pension costs are equal to the Airport 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%. As of September 2006, the actuarial value of assets is equal to the market value of assets. Then for the following year, the actuarial value will be calculated by accepting 100% of the expected asset value plus 25% of the difference between the actual market value next year and the expected asset value. 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 Airport 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 Airport Authority made an additional contribution of $1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of $513,627. As of the June 30, 2006 valuation date, the funding ratio was 111.7%. At June 30, 2007 and 2006, the total contribution of $5,413,627 less amortization of $794,276 and $493,519, respectively, is recorded as a net pension asset of $4,619,351 and $4,920,108, respectively. As of June 30, 2005 the total contribution was $4,900,000 less amortization of $221,296 and was recorded as a net pension asset of $4,678,704. The contributions are being amortized over an 18-year period.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Pension Cost	% ARC Funded	(NPO) Net Pension Obligation Balance	(Increase) Decrease NPO	Amortization of NPO	ARC Annual Required Contribution	Interest on the Net Pension Obligation at 8%	ARC Adjustment
6/30/04	16,225	23,579	7,354	68.8	15,606	47.1	4,414	100	(4,679)	(4,900)	221	4,414	—	4,900
6/30/05	28,551	32,603	4,052	87.6	17,609	23.0	4,700	100	(4,920)	(514)	494	4,700	392	514
06/30/06[1]	41,222	36,905	(4,317)	111.7	19,116	(22.6)	2,942	100	(4,619)	-	301	2,942	433	—

[1] *Reflects revised actuarial asset valuation methodology effective September, 2006.*

Note 7. Employees' Deferred Compensation Plan

The Airport 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 Airport 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 Airport 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 Airport Authority and are not subject to the claims of the Airport 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 Airport Authority's financial statements.

Note 8. Risk Management and Subsequent Events

The Airport Authority has developed a comprehensive Risk Management Program including workers' compensation, which includes risk transfer, loss prevention, loss control and claims administration. The Airport Authority maintains \$50 million in limits for primary owners and operators general liability insurance with a "War, Hijacking and Other Perils Endorsement." The war 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 Airport Authority maintains \$450 million of general liability insurance in excess of the \$50 million primary liability coverage. The Airport Authority's coverage includes a variety of retentions or deductibles.

The cost of earthquake coverage remains exorbitant and is not available in significant amounts. The Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75% of a loss and CDDA will pay at a minimum 25%of the balance for nationally declared disasters. In addition, the California legislature has paid any remaining loss costs for all declared disasters since 1989. The Airport Authority in the past relied on these laws to pay loss costs beneath the attachment point for insurance coverage and above the coverage limit purchased. Effective July 1, 2007, based on the status of these laws and the condition of the insurance market place, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management program and increased reliance on the laws designed to assist public entities.

Note 8. Risk Management and Subsequent Events, Continued

A $2 million contingency reserve has been established, within unrestricted net assets, by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no other requirement that it be maintained. Management considers this contingency reserve to be designated to cover the cost of future retentions, deductibles and uninsured claims.

The Airport Authority participates in an insurance purchasing program, with a $1 billion limit to provide all risk and flood coverage on physical assets.

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

Note 9. Lease Revenues

The Airport 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.

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

Years Ending June 30,	
2008	$ 4,559,000
2009	3,970,000
2010	3,640,000
2011	3,640,000
2012	3,575,000
2013-2017	2,611,000
	$ 21,995,000

Note 10. Lease Commitments

General Dynamics lease: The Airport 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 Airport Authority received 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 Airport 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 Airport Authority.

SDIA lease: The Airport 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 Airport 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.

Other district leases: The Airport 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 Airport Authority received credits of $106,452 in reduced rent based on previous lease agreements for the properties during fiscal year 2006.

On July 24, 2006, the Airport 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 Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.

Building lease: The Airport 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.

Note 10. Lease Commitments, Continued

Deferred rent (benefit) liability: The Airport 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 $1,800,292 and $2,250,365 as of June 30, 2007 and 2006, 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,	
2008	$ 11,523,000
2009	11,414,000
2010	11,338,000
2011	11,338,000
2012	11,329,000
2013-2017	52,275,000
2018-2022	50,500,000
2023-2027	50,500,000
2028-2032	50,500,000
2033-2037	50,500,000
2038-2042	50,500,000
2043-2047	50,500,000
2048-2052	50,500,000
2053-2057	50,500,000
2058-2062	50,500,000
2063-2067	50,500,000
2068-2069	15,150,000
	$ 629,367,000

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

	2007	2006
Rental payments made	**$ 11,292,557**	$ 11,926,302
(Decrease) in accumulated benefit of reduced rents	**(450,073)**	(572,816)
	$ 10,842,484	$ 11,353,486

Note 11. Commitments and Contingencies and Subsequent Events

Commitments: As of June 30, 2007 and 2006, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

i. The Airport Authority has funds which have been classified as current 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, 2007 and 2006, these funds totaled $16,154,187 and $8,218,225, 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, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as the SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport 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 Airport 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 Airport 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, 2007 and 2006, the Airport Authority expensed $11,954,799 and $11,351,476, respectively, for these services.

iii. Major contracts—During 2007 the Airport Authority board approved a contract with The Jones Payne Group for $30 million for on-call architectural and engineering consultant services and support services associated with the capital improvement and airport master plan programs. At June 30, 2007, approximately $705 thousand had been spent and the remaining contract is due to be completed during fiscal year 2011. The Airport Authority board approved a contract with C & S Engineers for $30 million for on-call architectural and engineering consultant services. At June 30, 2007, approximately $87 thousand had been spent and the remaining contract is due to be completed during fiscal year 2011. These major contracts are associated with the capital improvement and airport master plan programs. During 2006, the Airport 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, 2007, approximately $17.9 million had been spent to date and the remaining contract is due to be completed during fiscal year 2011.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

iv. Postretirement Healthcare Benefits—In addition to the pension benefits described in Note 6, the Airport Authority will provide postretirement healthcare benefits to retirees hired before May 1, 2006. Currently, expenditures for postretirement healthcare benefits, which include medical and dental coverage and life insurance coverage, will be recognized as they are incurred. 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, 2008. As of June 30, 2007, the Airport Authority has recorded $5.1 million in designated cash in anticipation to prefund this potential liability.

v. In addition, the Airport 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. Airport Authority contributions are immediately vested by the participants.

Contingencies: As of June 30, 2007, the Airport Authority is subject to contingencies arising from legal matters as described below:

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

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District

The former TDY property consists of approximately 44 acres of property located at 2701 N. Harbor Drive, San Diego, California. During 2004 the Airport Authority initiated litigation against the District. The litigation (State Court Case 779490 and Federal Case 3:03CV1146) has concluded and resulted in a comprehensive settlement agreement between the District and the Authority and TDY. The property is still the subject of a Clean Up and Abatement Order (CAO) that names TDY as the only responsible party for the contamination on the site.

Clean Up and Abatement Order (CAO) No. R9-2004-0258 This action is ongoing and involves 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. This is currently in the planning stages.

Note 11. Commitments and Contingencies and Subsequent Events, Continued

California Noise Standard Variance: Regarding the Application of San Diego County Regional Airport Authority, San Diego International Airport (SDIA) - Office of Administrative Hearings, State of California, Case No. 2004-120097 and OAH Case No. 2004120097

The request by the Authority for a 9th Variance remains pending. Administrative Law Judge Stephen E. Hjelt held the Variance Hearing beginning on September 18, 2007. All evidence has been submitted. The Authority is awaiting the Judge's ruling.

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

Certain claims involving disputes related to compensation for contracted work and general liability claims for alleged injuries on Airport Authority property have arisen in the ordinary course of business. Additionally, the Airport Authority is a defendant in lawsuits. Although the outcome of these matters is not presently determinable, management does not expect that the resolution of these matters will have a material adverse impact on the financial condition of the Airport Authority.


AVIATION FIRSTS

Statistical Section
(unaudited)

The Statistical Section is divided into five areas: financial trend data; revenue capacity data; debt capacity data; demographic and economic information and operating information.
Financial Trend data which shows changes in the Authority's financial position since inception:

Authority operating revenues and expenses
Authority net assets by component
Authority change in net assets
Authority largest sources of revenue

Revenue Capacity data which shows the Authority's major revenue sources and changes in key rates and charges:

Authority landing fee rate
Terminal rates billed to airlines
Airline cost per enplaned passenger

Operating Information shows how the airport has performing on an annual basis and within the airport market sector:

Authority employee strength
Aircraft operations
Aircraft landed weights
Aircraft landed weights by airline
Passenger enplanements
Enplanement market share by airline by fiscal year
Growth in enplaned passengers, SDIA vs. US

Economic Information shows the major drivers of usage and how the airport service area is performing compared to the region and the nation:

Population and per capita personal income
Principal employers in San Diego County
San Diego County employment by industry
Labor force, employment, unemployment and unemployment rates

Debt information shows how the Authority is performing meeting its debt obligations and the relative level of debt:

Revenue bond debt service coverage
Revenue bond debt per enplaned passenger
Capital Assets

Exhibit S-1

Authority Operating Revenues and Expenses ($000)

Fiscal Years Ended June 30,

Operating Revenues	2004	2005	2006	2007
Airline Revenue				
Landing fees	$ 22,874	$ 22,607	$ 22,243	$ 24,006
Building rentals	19,511	18,041	21,137	22,495
Security surcharge	-	7,800	7,759	8,441
Other aviation revenue	1,812	1,757	1,868	1,757
Concession revenue	24,571	26,552	29,362	34,201
Parking and ground transportation revenue	21,986	23,723	26,904	28,392
Ground rentals	4,269	5,294	5,505	4,994
Other operating revenue	1,549	2,349	4,717	1,080
Total Operating Revenues	$ 96,572	$ 108,123	$119,495	$125,367

Operating Expenses	2004	2005	2006	2007
Salaries and benefits	$ 21,955	$ 23,623	$ 26,847	$ 28,333
Contractual services	19,462	25,210	31,967	26,391
Safety and security	13,450	16,191	14,777	15,946
Space rental	8,826	10,174	11,353	10,842
Utilities	4,914	5,121	5,416	6,421
Maintenance	5,343	4,050	5,390	8,393
Equipment and systems	1,019	710	736	980
Materials and supplies	462	461	591	761
Insurance	2,518	2,425	1,162	1,999
Employee development and support	981	1,050	906	909
Business development	2,067	1,646	1,329	2,096
Equipment rentals and repairs	636	708	882	1,479
Total Operating Expenses	$ 81,633	$ 91,369	$101,356	$104,551

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)

Fiscal Years Ended June 30,

	2004	2005	2006	2007
Invested in capital assets, net of related debt	$ 244,889	$ 209,714	$ 219,218	$ 236,762
Other restricted	16,670	83,854	96,633	103,787
Unrestricted	106,125	102,652	117,940	124,984
Total Net Assets	$ 367,684	$ 396,220	$ 433,791	$ 465,533

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)

Fiscal Years Ended June 30,

	2004	2005	2006	2007
Operating revenues:				
Airline Revenue:				
Landing fees	$ 22,874	$ 22,607	$ 22,243	$ 24,006
Building rentals	19,511	18,041	21,137	22,495
Security surcharge	-	7,800	7,759	8,441
Other aviation revenue	1,812	1,757	1,868	1,757
Concession revenue	24,571	26,552	29,362	34,201
Parking and ground transportation revenue	21,986	23,723	26,904	28,392
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Other operating revenue	1,549	2,349	4,717	1,080
Total operating revenues	96,572	108,123	119,495	125,367
Operating expenses:				
Salaries and benefits	21,955	23,623	26,847	$ 28,333
Contractual services	19,462	25,210	31,967	26,391
Safety and security	13,450	16,191	14,777	15,946
Space rental	8,826	10,174	11,353	10,842
Utilities	4,914	5,121	5,416	6,421
Maintenance	5,343	4,050	5,390	8,393
Equipment and systems	1,019	710	736	980
Materials and supplies	462	461	591	761
Insurance	2,518	2,425	1,162	1,999
Employee development and support	981	1,050	906	909
Business develop	2,067	1,646	1,329	2,096
Equipment rentals and repairs	636	708	882	1,479
Total operating expenses before depreciation and amortization	81,633	91,369	101,356	104,551
Income from operations before depreciation and amortization	14,939	16,754	18,139	20,816
Depreciation and amortization	32,993	29,699	31,559	33,468
Operating (loss)	(18,054)	(12,945)	(13,420)	(12,652)
Nonoperating revenues (expenses):				
Passenger facility charges	31,241	33,710	34,981	36,452
Quieter Home Program, net	(1,375)	(1,582)	(908)	(3,092)
Joint Studies Program	-	-	(688)	(120)
Interest income	3,831	6,413	9,306	11,469
Interest expense	(4,294)	(4,387)	(4,809)	(4,683)
Other revenues (expenses), net	5,530	(195)	964	(2,782)
Nonoperating revenue, net	34,933	33,959	38,846	37,244
Income before capital grant contributions	16,879	21,014	25,426	24,592
Capital grant contributions	5,033	7,522	12,145	7,150
Change in Authority net assets	21,912	28,536	37,571	31,742
Authority net assets, beginning of year	345,772	367,684	396,220	433,791
Authority net assets, end of year	$ 367,684	$ 396,220	$ 433,791	$ 465,533

Source: San Diego County Regional Airport Authority

Information presented reflects those years that the Authority was in operation.

Exhibit S-4

Authority Largest Sources of Revenues ($)

Fiscal Years Ended June 30,

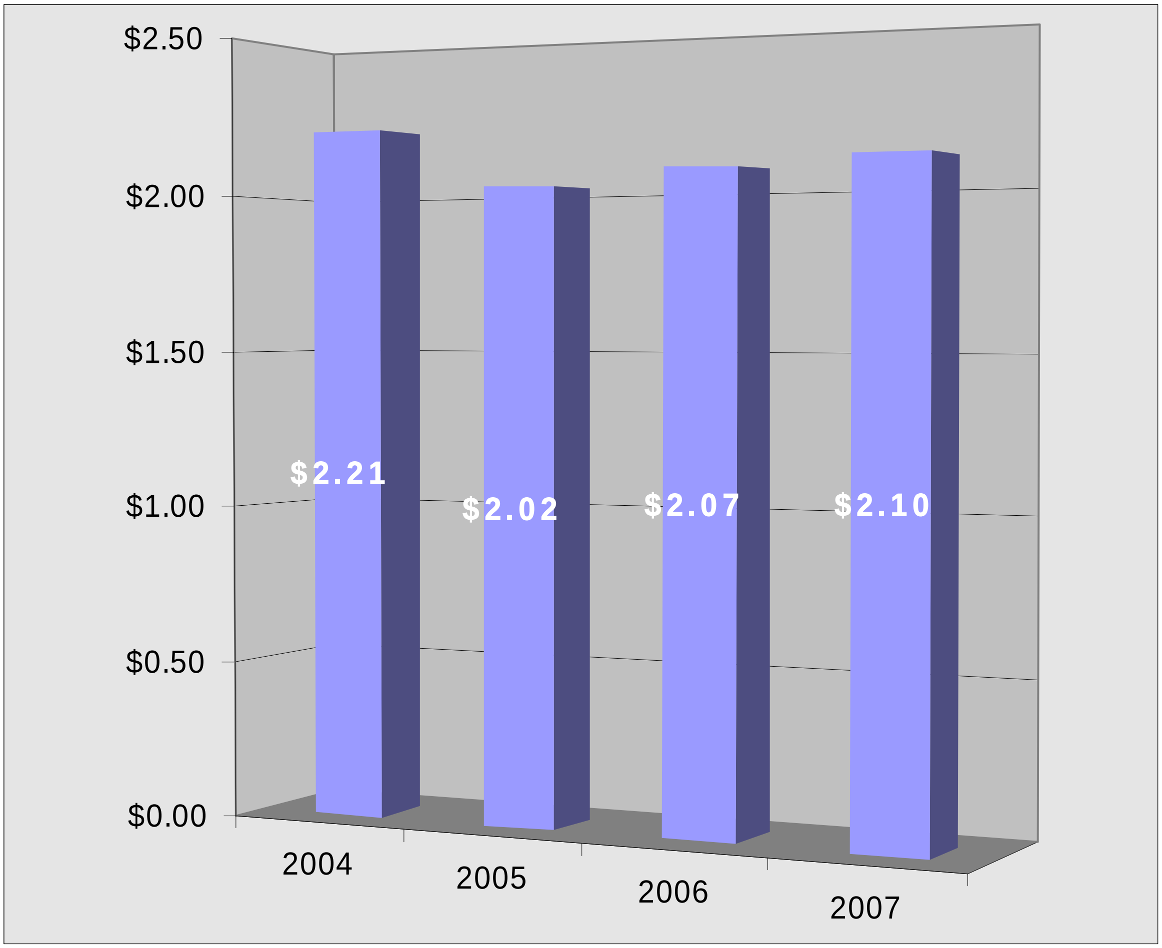
Tenant	2004	2005	2006	2007	% of Total Operating Revenue
Southwest Airlines	$ 10,692,447	$ 12,767,378	$ 13,464,404	$ 15,624,767	12.46%
Host International	7,106,523	8,038,435	9,147,356	9,808,385	7.82%
American Airlines	7,772,143	8,472,274	10,191,557	8,303,616	6.62%
United Airlines	4,989,506	5,877,927	5,717,234	6,623,373	5.28%
Hertz Rent-A-Car	4,901,573	5,316,755	5,979,512	6,728,751	5.37%
Delta Airlines	4,774,243	5,010,848	4,876,095	5,347,415	4.27%
Cendant Car Rental Group	3,103,562	4,966,532	6,002,357	4,465,182	3.56%
Alaska Airlines	2,027,193	2,400,679	2,464,162	2,843,993	2.27%
Northwest Airlines	1,944,832	2,116,996	2,185,926	2,195,324	1.75%
Continental Airlines	1,849,721	2,123,291	2,364,096	2,995,689	2.39%
Enterprise Rent-A-Car	858,956	1,084,031	2,888,849	2,007,684	1.60%

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

Exhibit S-5

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

Fiscal Years Ended June 30,



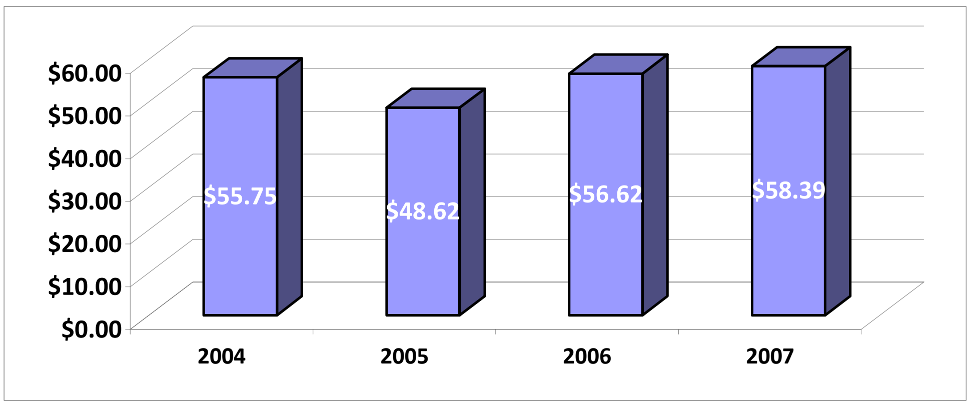
Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

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

Exhibit S-6
Terminal Rates Billed to Airlines
Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates Per Square Foot*	% Change
2004	$55.75	14.2 %
2005	$48.62	(12.8)%
2006	$56.62	16.5 %
2007	$58.39	3.1 %

Terminal Rate Per Square Foot



*Net of janitorial credit

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

Terminal Rates are rates billed to airlines for the rent of terminal space per square foot.
Beginning with FY 2005, the Security Surcharge was excluded from Terminal Rates and charged separately.

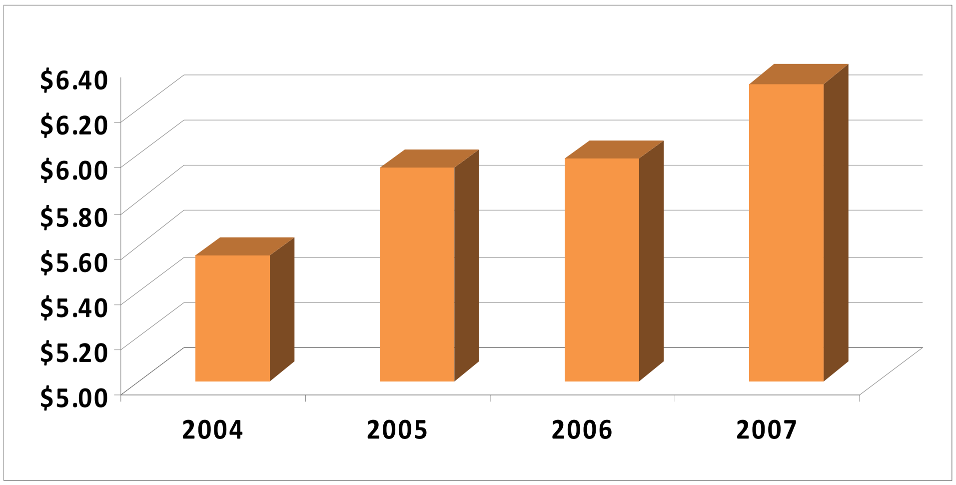
Exhibit S-7

Airline Cost per Enplaned Passenger

Fiscal Years Ended June 30,

Fiscal Year	Enplaned Passengers	Cost per Enplaned Passenger
2004	7,947,734	$5.55
2005	8,449,107	$5.94
2006	8,749,734	$5.98
2007	8,892,009	$6.31

Cost per Enplaned Passenger



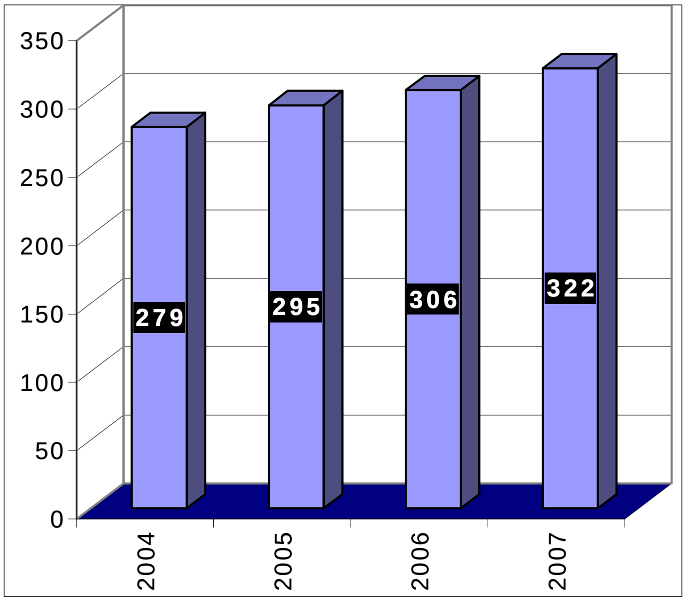
Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Authority was in operation.

Airline Cost per Enplaned Passenger is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.

Exhibit S-8

Authority Employee Strength (Full Time Equivalents)

Fiscal Years Ended June 30,



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

Exhibit S-9
Aircraft Operations (Takeoffs and Landings)
Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Commuters		Civil	Military	Total
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
2007	162,148	35,666	*	21,979	467	220,260

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

* Drop in Air Commuter operations and increase in Air Carriers and Civil operations due to realignment of catagory calculations. Commuter Terminal operations to LAX now calculated as Air Commuters only; air taxi included in Civil operations.

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

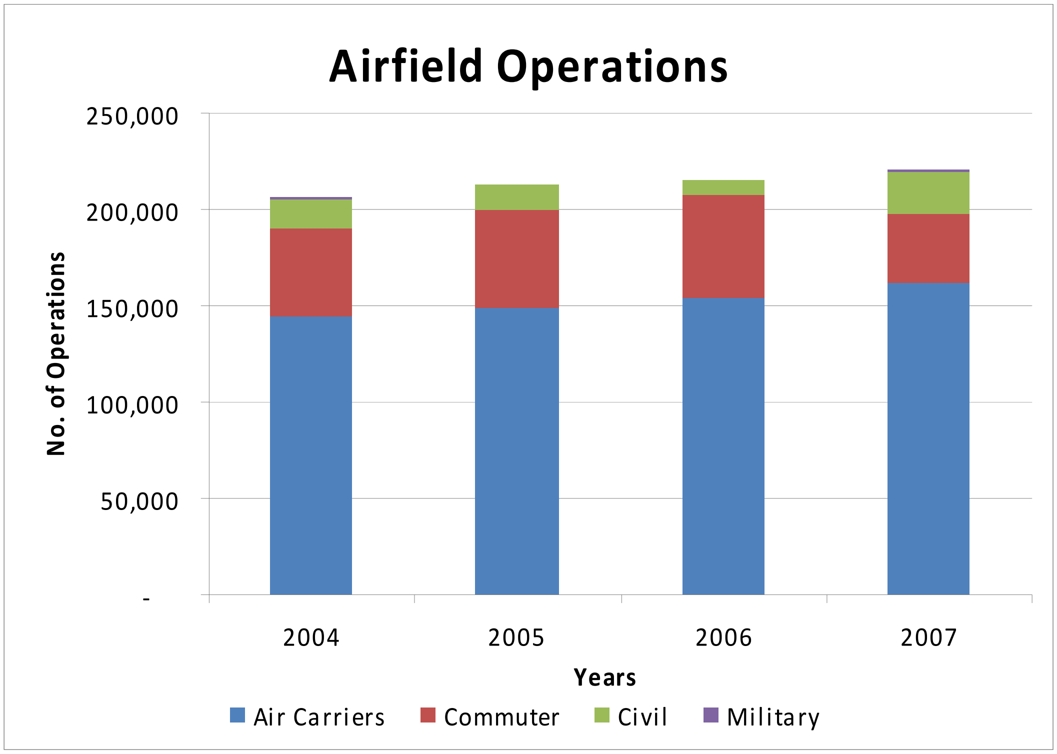


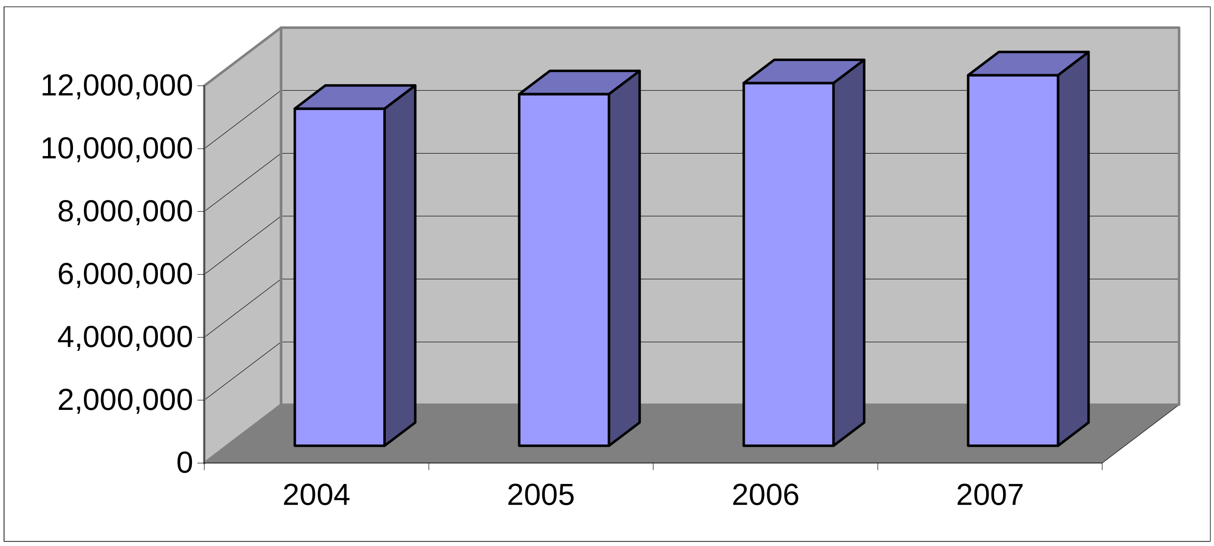
Exhibit S-10

Aircraft Landed Weights (Thousand pounds)

Fiscal Years Ended June 30,

Fiscal Year	Aircraft Landed Weight in 1000lbs	% Change
2004	10,715,735	(1.2)%
2005	11,180,029	4.3 %
2006	11,526,817	3.1 %
2007	11,774,342	2.1 %

Aircraft Landed Weights (000 lbs)



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

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 the airport.

Exhibit S-11
Landed Weights by Airline (Thousand pounds)
Fiscal Years Ended June 30,

	FY 2004		FY 2005		FY 2006		FY 2007	
Airline	**Landed Weights**	**Share**	**Landed Weights**	**Share**	**Landed Weights**	**Share**	**Landed Weights**	**Share**
Southwest	3,418,786	*31.9%*	3,570,052	*31.9%*	3,768,374	*33.7%*	3,956,170	*33.6%*
United	1,192,898	*11.1%*	1,278,347	*11.4%*	1,269,465	*11.4%*	1,270,371	*10.8%*
American	1,045,382	*9.8%*	1,009,498	*9.0%*	1,089,872	*9.7%*	961,143	*8.2%*
Delta	963,140	*9.0%*	927,763	*8.3%*	850,348	*7.6%*	798,104	*6.8%*
America West	587,754	*5.5%*	628,594	*5.6%*	619,322	*5.5%*	521,047	*4.4%*
Alaska Airlines	574,698	*5.4%*	605,435	*5.4%*	616,552	*5.5%*	668,390	*5.7%*
Continental	441,702	*4.1%*	454,189	*4.1%*	497,929	*4.5%*	533,322	*4.5%*
Northwest	352,928	*3.3%*	363,268	*3.2%*	315,608	*2.8%*	326,140	*2.8%*
American Eagle	341,205	*3.2%*	335,439	*3.0%*	338,424	*3.0%*	321,712	*2.7%*
US Airways	307,919	*2.9%*	298,983	*2.7%*	250,303	*2.2%*	391,358	*3.3%*
Skywest	239,521	*2.2%*	247,215	*2.2%*	251,902	*2.3%*	246,559	*2.1%*
Frontier Airlines	142,867	*1.3%*	174,583	*1.6%*	176,455	*1.6%*	283,898	*2.4%*
Hawaiian	135,040	*1.3%*	145,920	*1.3%*	145,920	*1.3%*	211,840	*1.8%*
Mesa	53,856	*0.5%*	144,353	*1.3%*	146,126	*1.3%*	54,004	*0.5%*
JetBlue	144,191	*1.3%*	123,145	*1.1%*	174,337	*1.6%*	159,406	*1.4%*
Others	133,440	*1.2%*	183,114	*1.6%*	183,114	*1.6%*	366,799	*3.1%*
Subtotal	**10,075,327**	***94.0%***	**10,489,898**	***93.8%***	**10,694,051**	***93.7%***	**11,070,263**	***94.0%***
Cargo								
Federal Express	343,931	*3.2%*	384,702	*3.4%*	445,744	*3.9%*	456,152	*3.9%*
United Parcel	109,421	*1.0%*	108,463	*1.0%*	112,412	*1.0%*	125,822	*1.1%*
ABX Air	69,360	*0.6%*	70,140	*0.6%*	69,734	*0.6%*	70,289	*0.6%*
Emery Air Freight (Menlo)	40,972	*0.4%*	44,219	*0.4%*	34,634	*0.3%*	-	*0.0%*
DHL Airways, Inc (ASTAR)	40,640	*0.4%*	41,600	*0.4%*	16,800	*0.1%*	-	*0.0%*
Others	36,085	*0.3%*	41,008	*0.4%*	41,008	*0.4%*	51,816	*0.4%*
Subtotal	**640,409**	***6.0%***	**690,132**	***6.2%***	**720,332**	***6.3%***	**704,079**	***6.0%***
Total	**10,715,735**	***100.0%***	**11,180,029**	***100.0%***	**11,414,382**	***100.0%***	**11,774,342**	***100.0%***
Annual % Change	**(1.2%)**		**4.3%**		**2.1%**		**3.2%**	

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

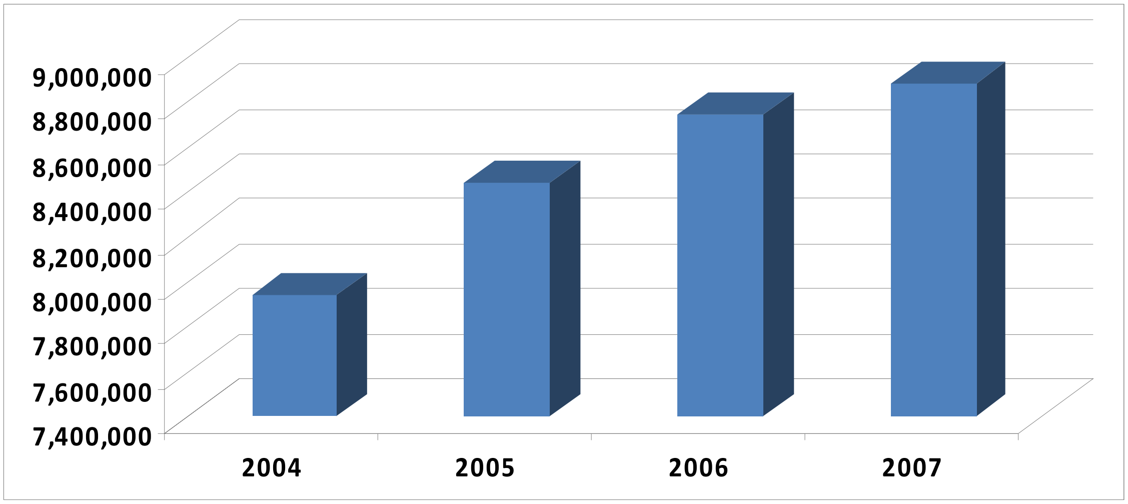
Charter airlines are included in the landed weights of the carriers that service them.
Landed weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual.
Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.

Exhibit S-12

Passenger Enplanements

Fiscal Years Ended June 30,

Fiscal Year	Passenger Enplanements	% Change
2004	7,947,440	5.9%
2005	8,449,107	5.9%
2006	8,749,734	3.6%
2007	8,892,069	1.6%



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

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

Exhibit S-13

Enplanement Market Share by Airline by Fiscal Year

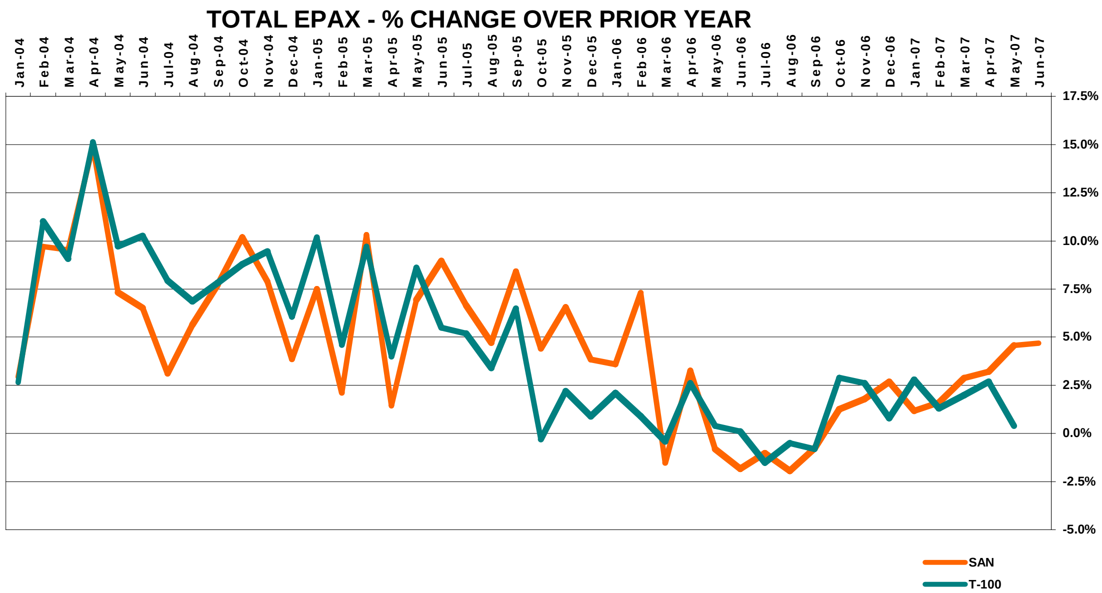
Fiscal Years Ended June 30,

Air Carrier	2004	Share	2005	Share	2006	Share	2007	Share	% Change 2006 vs. 2007
Aeromexico	47,533	0.6%	49,488	0.6%	58,969	0.7%	39,518	0.4%	(33.0)%
Alaska	439,430	5.5%	476,395	5.6%	492,891	5.6%	536,784	6.0%	8.9 %
Aloha	-	-	29,051	0.3%	41,882	0.5%	38,418	0.4%	(8.3)%
America West	450,256	5.7%	466,615	5.5%	451,904	5.2%	374,072	4.2%	(17.2)%
American	831,823	10.5%	879,144	10.4%	968,832	11.1%	873,624	9.8%	(9.8)%
British Airways	16,756	0.2%	-	-	-	-	-	-	-
Continental	354,114	4.5%	401,803	4.8%	454,699	5.2%	503,189	5.7%	10.7 %
Delta	674,570	8.5%	713,872	8.4%	666,101	7.6%	633,772	7.1%	(4.9)%
Frontier	140,846	1.8%	152,917	1.8%	171,544	2.0%	196,598	2.2%	14.6 %
Hawaiian	101,847	1.3%	108,798	1.3%	112,410	1.3%	154,932	1.7%	37.8 %
Jet Blue	119,517	1.5%	118,762	1.4%	161,594	1.8%	151,984	1.7%	(5.9)%
Mesa	42,235	0.5%	114,010	1.3%	117,330	1.3%	42,219	0.5%	(64.0)%
Midwest Airlines	-	-	-	-	18,688	0.2%	34,551	0.4%	84.9 %
Northwest	310,795	3.9%	319,790	3.8%	292,393	3.3%	286,952	3.2%	(1.9)%
Southwest	2,741,470	34.5%	2,866,405	33.9%	2,979,763	34.1%	3,106,431	34.9%	4.3 %
Sun County	21,515	0.3%	27,339	0.3%	41,091	0.5%	45,931	0.5%	11.8 %
United	939,722	11.8%	982,535	11.6%	989,744	11.3%	990,725	11.1%	0.1 %
US Airways	241,167	3.0%	251,629	3.0%	212,622	2.4%	300,568	3.4%	41.4 %
Other	-	-	8,439	0.1%	27,329	0.3%	89,112	1.0%	226.1 %
Total Air Carrier	7,473,596	94.0%	7,966,992	94.3%	8,259,786	94.4%	8,399,380	94.5%	1.7 %
Commuter									
American Eagle	276,485	3.5%	288,843	3.4%	287,136	3.3%	275,087	3.1%	(4.2)%
SkyWest	197,359	2.5%	193,272	2.3%	202,812	2.3%	217,602	2.4%	7.3 %
Other	-	-	-	-	-	-	-	-	-
Total Commuter	473,844	6.0%	482,115	5.7%	489,948	5.6%	492,689	5.5%	0.6 %
Total Enplanements	7,947,440	100.0%	8,449,107	100.0%	8,749,734	100.0%	8,892,069	100.0%	1.6 %

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

Exhibit S-14
Growth in Passenger Enplanements, SDIA vs. US

Percentage change in enplanements by month compared to previous year



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

Source: San Diego County Regional Airport Authority and US Dept of Transportation
Information presented reflects those years that the Authority was in operation.

Note: The US Dept of Transportation began compiling its T-100 enplanement data on a monthly basis beginning in January 2004.

Exhibit S-15

Population & Per Capita Personal Income - San Diego County (2000-2007)

Calendar Year	Estimated Population[1]	% Change	Per Capita Personal Income[2]	% Change
2000	2,813,833	(1.5)%	$ 32,803	8.5%
2001	2,864,462	1.8 %	$ 33,933	3.4%
2002	2,921,390	2.0 %	$ 34,915	2.9%
2003	2,972,932	1.8 %	$ 35,841	2.7%
2004	3,011,244	1.3 %	$ 37,965	5.9%
2005	3,039,277	0.9 %	$ 40,569	6.9%
2006	3,066,820	0.9 %	n/a	n/a
2007	3,098,269	1.0 %	n/a	n/a

Source:

[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

Exhibit S-16

Principal Employers in San Diego County

	Employer	Local Employees	Sector	Percentage of Total Employment
1	U.S. Navy	42,000 Military	Government	**2.8%**
	U.S. Navy	7,000 Civilian	Government	**0.5%**
2	U.S. Federal Government	38,700	Government	**2.5%**
3	State of California	37,100	Government	**2.4%**
4	University of California, San Diego	24,790	Education	**1.6%**
5	San Diego Unified School District	21,073	Education	**1.4%**
6	City of San Diego	20,700	Government	**1.4%**
7	County of San Diego	18,900	Government	**1.2%**
8	Sharp Health Care	13,269	Health Care	**0.9%**
9	U.S. Postal Service	11,611	Government	**0.8%**
10	Scripps Health	10,313	Health Care	**0.7%**

Total Employment in San Diego County (2006) 1,518,000

Source: San Diego Daily Transcript Source Book 2006

Comparable historical information by employer not available for prior years.

Exhibit S-17

San Diego County Employment by Industry Sector

Industry Sectors	2006 Industry Employment	% of Total
Trade, Transportation & Utilities	221,542	16.9%
Government	217,609	16.6%
Professional & Business Services	213,677	16.3%
Leisure & Hospitality	155,997	11.9%
Education and Health Services	124,536	9.50%
Manufacturing	103,561	7.90%
Natural Resources, Mining & Constructio	93,074	7.10%
Financial Activities	83,898	6.40%
Other Services	48,503	3.70%
Information	36,705	2.80%
Agriculture	10,487	0.80%
Total	**1,310,900**	

Source: Labor Market Information Division, Educational Development Department, State of California

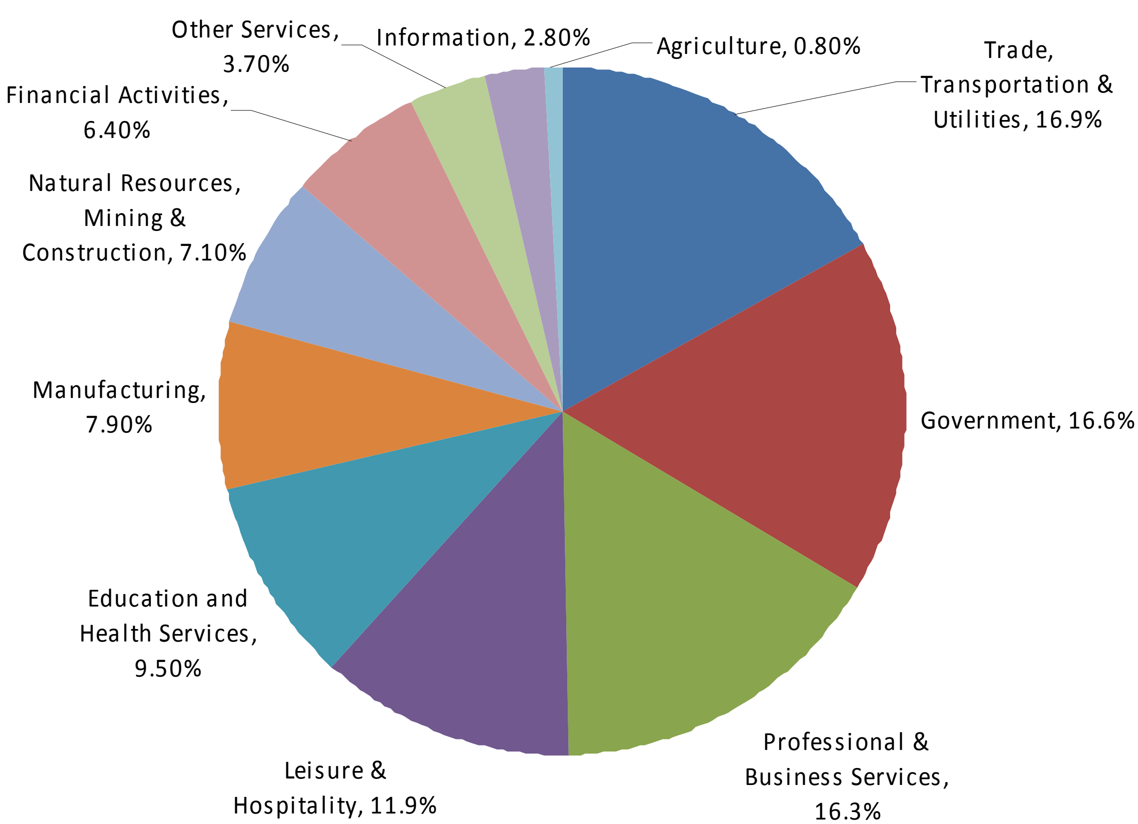


Exhibit S-18

Labor Force, Employment, Unemployment and Unemployment Rates

				Unemployment Rate	
Year	Labor Force	Employment	Unemployment	SD County	State
2002	1,450,500	1,375,800	74,700	5.2%	6.7%
2003	1,469,800	1,393,300	76,500	5.2%	6.8%
2004	1,492,400	1,421,700	70,700	4.7%	6.2%
2005	1,507,800	1,442,700	65,100	4.3%	5.4%
2006	1,518,000	1,457,500	60,500	4.0%	4.9%
2007	n/a	n/a	n/a	n/a	n/a

Source: California Employment Development Dept. 2006 Benchmark (not seasonally adjusted)

Exhibit S-19
Revenue Bond Debt Service Coverage

Fiscal Year	Airport Revenues Per Trust Agreement	O&M Expenses Per Trust Agreement	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage (x)
				Principal	Interest	Total	
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
2007	136,607,062	107,034,089	29,572,973	3,515,000	2,744,813	6,259,813	4.72

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

Exhibit S-20

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
2007	52,755,000	8,892,069	5.93

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

Exhibit S-21
Capital Assets

San Diego International Airport	
Number of runways	1
Length of runway (feet)	9,400 feet
Gates	41
Commuter plane parking postions	10
Terminal Square footage	827,856
Airport Land Area	661 acres
On airport parking spaces	3,166
Off airport parking spaces	3,314

Source: San Diego County Regional Airport Authority