

Comprehensive Annual Financial Report

For the
Sacramento County Airport System

A Department of the County of Sacramento, California

For the Fiscal Years Ended
June 30, 2006 and 2005

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Sacramento County Airport System

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Introductory Section

This section contains the following subsections:

Airport Locations and Service Area

Certificate of Achievement

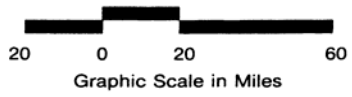
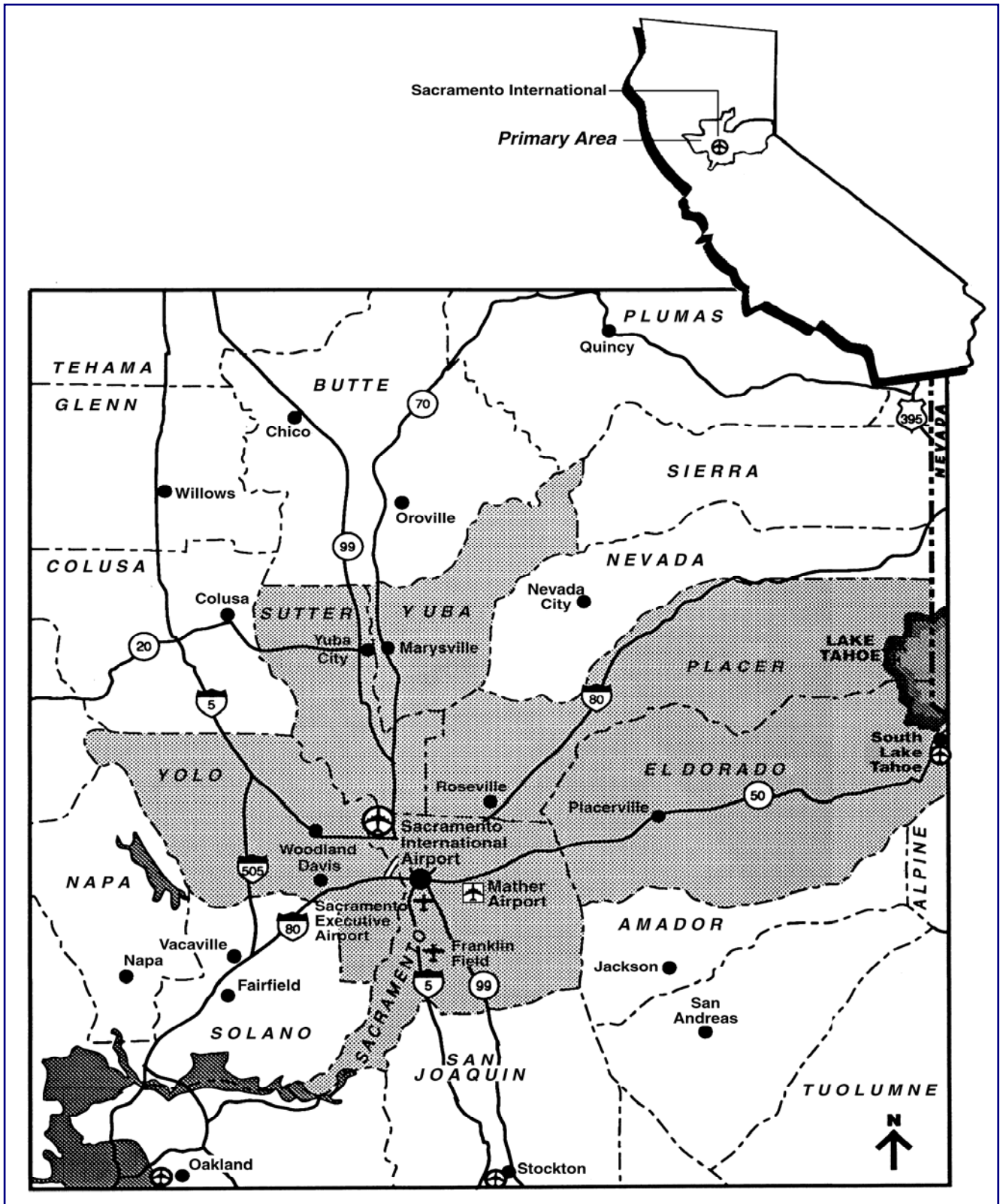
Transmittal Letter

Organizational Chart

List of Principal Officials

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Airport Locations and Service Area



- Primary area
- County boundary
- ⊕ Air carrier airport
- + General aviation airport
- ⊞ Cargo carrier airport

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County Airport System, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

County Executive
Terry Schutten



Sacramento International Airport
Mather Airport
Executive Airport
Franklin Field

**Sacramento County
Airport System**

G. Hardy Acree, Director of Airports

County of Sacramento

November 20, 2006

To The Public:

The Comprehensive Annual Financial Report for the Sacramento County Airport System (Airport System), for the fiscal years ended June 30, 2006 and 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the funds of the Airport System. All disclosures necessary to enable the reader to gain an understanding of the Airport System's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and bond disclosure. The introductory section includes this transmittal letter, the Airport System's organizational chart and a list of principal officials. The financial section includes the independent auditor's report, the Management's Discussion and Analysis and the basic financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The bond disclosure section includes disclosures required by Securities and Exchange Commission Rule 15c2-12(b)(5).

The Government Finance Officers Association (GFOA), under its certificate program, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Airport System's MD&A can be found prior to the report of the independent auditor.

The County of Sacramento is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The Airport System, as a department of the County, is included in the scope of the County's audit. Information related to this single audit, including the schedule of expenditures of federal awards, findings and questioned costs, and independent auditor's report on internal controls and tests of compliance with applicable laws, regulations, and contracts and grants is included in the County's Comprehensive Annual Financial Report.

PROFILE OF THE GOVERNMENT

The Airport System was created by Sacramento County Code in 1963 as a department within the County of Sacramento. The purpose of the Airport System is to provide for the efficient planning, development and operation of public air transportation facilities in Sacramento County and adjoining areas. The Airport System serves the Sacramento Area, a six-county primary area consisting of Sacramento, El Dorado, Placer, Yuba, Sutter, and Yolo counties, as well as a large secondary area surrounding the primary area. In addition to promoting the efficient use and development of air transportation, the Airport System is responsible for assuring residents of Sacramento and the immediate surrounding areas of minimal environmental impact from air navigation and transportation.

The Airport System consists of Sacramento International Airport (International), Executive Airport, Mather Airport, and Franklin Field. International is the principal air carrier airport serving the County of Sacramento and a wide region surrounding the County. Executive Airport is a general aviation reliever airport with no scheduled airline service. Mather Airport, which became a part of the Airport System in fiscal year 1995, serves as an air cargo and general aviation facility. Franklin Field is a general aviation reliever airstrip used primarily for training.

ECONOMIC CONDITIONS AND OUTLOOK

The nationwide demand for aviation is a function of domestic and foreign population and economic growth, airline industry developments, and airport and airspace capacity. Airline traffic at airports that principally service origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination medium-hub airport, International is dependant upon the regional economy and population for the travelers who produce its revenue base.

Population

Continued expansion of passenger traffic at International is a result of the growing number of businesses and people relocating to the Greater Sacramento Region (El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba counties) along with the ongoing increase in air service being offered. Almost 2.2 million people resided in the Greater Sacramento Region in 2005, an increase of approximately 265,000 residents since 2000.

The Greater Sacramento Region's population is expected to grow to 2.3 million by 2010 and is expected to surpass the growth rate of nearly all other metropolitan areas in California as well as the State in general.

Employment

Employment opportunities continue to help stimulate population growth in the Greater Sacramento Region. Despite statewide and national economic instability over the past four years, non-farm employment opportunities in the Greater Sacramento Region increased by over 32 percent since 1994 to almost 900,000 jobs according to the Sacramento Area Commerce and Trade Organization (SACTO). The stability is partially attributed to the available labor force and the location of the California State Capitol in the heart of the region.

Government employment, the largest single employment sector in the Greater Sacramento Region, comprises over 26 percent of the region's employment (232,000 jobs in 2004). Federal, State, and local agencies all require a wide variety of skills to keep the region and State running.

According to SACTO, Transportation and Utilities is the second largest sector (17 percent) of employment in the Greater Sacramento Region. It is followed by the Professional and Business Services sector (11 percent).

Growth in the Professional and Business sector (43 percent) is second only to growth in the Construction sector (132 percent). Construction employment is at an all-time high in the Greater Sacramento Region, driven by the region's rapid population growth since 1993.

Housing

Affordable housing is a major attraction for businesses and the workers they employ. According to the California Association of Realtors, the median price for a single-family home in Sacramento County in August 2006 was \$370,000, a decrease of approximately 1.3 percent from the previous year. The California median price for a single family-home was \$575,800 during the same month, demonstrating the County's affordability in comparison to the State as a whole.

Business Growth

The Greater Sacramento Region is one of the most attractive locations in which to do business in the western United States. Few inland metropolitan areas can boast a major airport, an airport specializing primarily in air cargo, a deep-water port, a transcontinental rail line and several interstate freeways. Comparatively inexpensive business costs, plentiful skilled labor, abundant water supply, quality of life and proximity to the San Francisco Bay Area create an outstanding business climate.

The Greater Sacramento Region also continues to benefit from business relocation and expansion. Many large computer and electronics companies relocated to the area. These companies include: Intel Corporation (6,500 employees), Hewlett-Packard (4,000 employees), and Electronic Data Systems (2,015 employees). Biotechnology and healthcare companies are also beginning to develop in the area.

According to SACTO, over 100 companies that have some or all of their business activities involved in the biotech industry are presently located in the Greater Sacramento Region. These companies include Affymetrix, Lipomics, Calgene LLC, Novozymes Biotech inc., and Volcano Therapeutics. One of the region's advantages in this sector is the proximity to the University of California, Davis and UC Davis Medical Center, which have respected and successful biotech, agricultural, and medical programs including research and development.

Air Service

An integral component in a region's economic growth is the availability of accessible, affordable, and convenient air transportation service. International Airport, as the chief point of entry for many of the Greater Sacramento Region's business, government, and leisure travelers, as well as some air cargo shipments, is well suited to meet these demands for economic activity.

Passenger Traffic

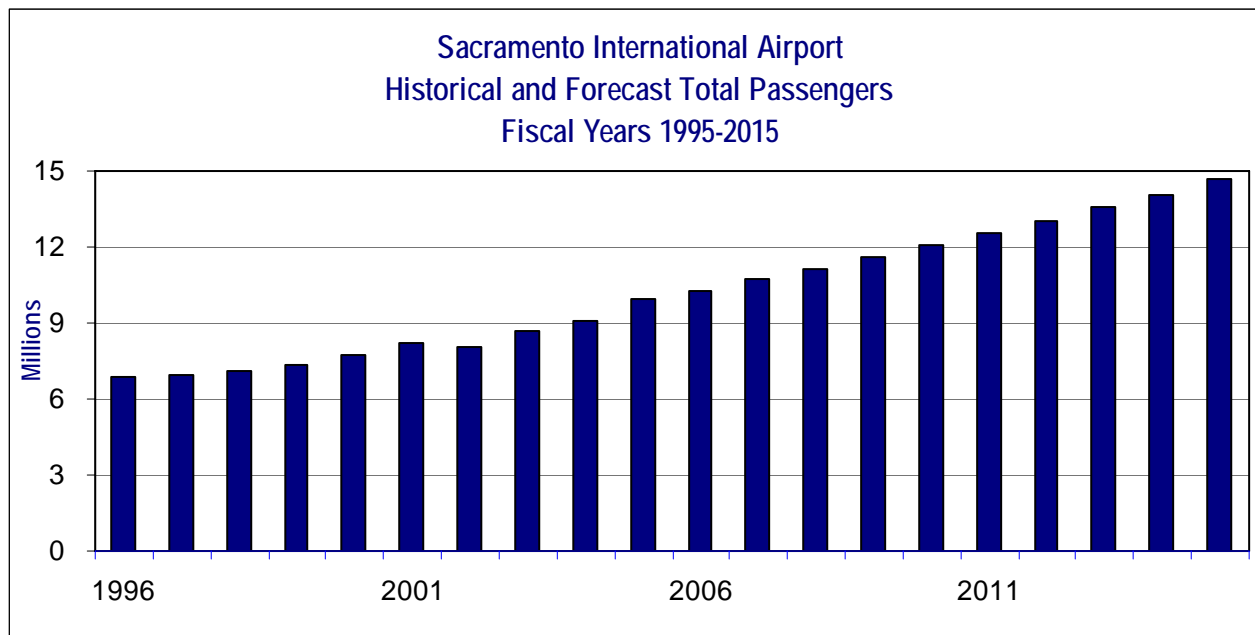
During fiscal year 2006, total passengers increased 3.4 percent at International, assisted in part by the addition of nonstop service to key markets. Almost 10.3 million total passengers (enplaning and deplaning) chose International during fiscal year 2006. Over the past three years, International has performed well and experienced more growth than other major airports in the nation. Unlike International, some airports have only recently recovered from passenger declines experienced as a result of the events of September 11, 2001 and the subsequent sluggish national economy.

Fourteen major carriers serving Sacramento had over 156 daily departures in June 2006, with United Express – a regional carrier – adding 13 flights to that number. The busiest carrier at International is Southwest Airlines (81 daily nonstop flights), followed by United Airlines (13 daily nonstop flights), United Express (13 daily nonstop flights) and America West (11 daily nonstop flights). Approximately 129,000 operations (takeoffs and landings) occurred at International during fiscal year 2006 on parallel runways that can accommodate up to 400,000 operations per year.

Approximately two-thirds of the passenger traffic at International is concentrated in the 12-gate Terminal A. The terminal has an ultimate build-out potential of 22 gates. Southwest Airlines, serving over five million passengers in fiscal year 2006, comprises the majority of passenger traffic in Terminal A. America West Airlines, the airport's third-largest carrier, served over 608,000 passengers in fiscal year 2006. Other airline tenants in Terminal A include Continental, Delta and Hawaiian Airlines.

The 14-gate Terminal B complex houses United Airlines, the second largest carrier at International (more than 1.5 million passengers) and American Airlines, the fourth-largest carrier (almost 500,000 passengers). Other airline tenants in Terminal B include Alaska, Horizon, Jetblue, Aloha, Frontier, and Mexicana.

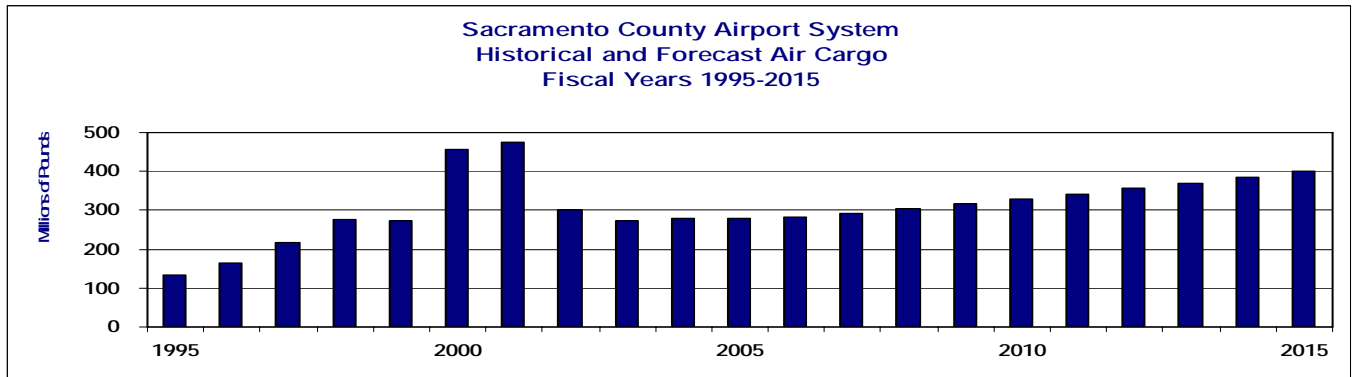
Passenger traffic at International is expected to increase over the coming years with the addition of new carriers, additional flights, and the execution of the Sacramento International Airport Master Plan and Terminal Modernization Program that will enable International to be positioned to handle growth effectively. The following graph provides historical and forecast passenger trends.



Air Cargo Traffic

Airfreight services facilitate business activity for many sectors in the Sacramento area including the following: banking, computer, entertainment, health care, high-technology, and telecommunications. Local companies that are supported by airfreight activity include American Express, Bank of America, Corporate Express, Hewlett-Packard, IBM, Intel, Lucent NEC Electronics, Oracle, Tower Records, and the U.S. Postal Service. In addition, growth of on-line purchasing has increased the number of customers who utilize airfreight on a regular basis. Such activities are driving the demand for shipments of just-in-time airfreight, a business strategy that has helped companies decrease inventory-to-sales ratios and improve customer service.

During fiscal year 2006, airlines and freight-only carriers transported over 281 million pounds of air cargo (airfreight and airmail combined) through both Mather Airport and International, compared to 278 million pounds the previous year. The following graph provides historical and forecast air cargo growth trends.



Master Plan 2020

On February 17 and 24, 2004 the Sacramento County Board of Supervisors directed the County's Department of Environmental Review and Assessment to initiate the environmental review process on the drafts of the Mather Airport Master Plan and Sacramento International Airport Master Plan and Terminal Concept E2 for the recommended Terminal Modernization Program, respectively. Upon completion of the environmental review process, the Board of Supervisors will take formal action to approve the master plans for each airport. Sacramento County Airport System staff and consultants worked with the community through an extensive series of public workshops and meetings during the master planning process. In the initial part of both studies, the future demands of service areas of each airport were assessed and alternatives for new and expanded facilities were developed and evaluated.

The Sacramento International Airport Master Plan work effort was temporarily suspended following September 11, 2001 and resumed December 2002. The completed draft of the master plan entered the design phase mid fiscal year 2003 and awaits final environmental review before the plan can enter the final phase which is construction. The draft plan prepares International for the future with a three-phased Capital Improvement Program (CIP) that has an anticipated completion date of 2020. Near-term and immediate-term plans include airfield improvements and the construction of the new terminal complex with expected completion in 2011.

The Mather Airport Master Plan began June 2001 and also was affected by the events of September 11, 2001, but has entered the environmental review phase. The draft plan includes extension of the north runway.

Future Construction

The Airport System's \$85 million CIP for fiscal year 2007 is anticipated to be financed by retained earnings, airport revenue bonds, Passenger Facility Charge revenues, and federal and State grants. The program's priorities are based on public safety, regulatory requirements, customer service and operational enhancements. Major CIP projects currently underway are terminal modification for security enhancements, integrated electronic aviation system, metal building package for terminal B1 and B2, terminal B cooling tower, roadway signage master plan implementation, City water connection, and runway rehabilitation.

A new CIP for fiscal years 2007-2011 has been developed, with an estimated cost of approximately \$1.1 billion. The largest component of the CIP, the new terminal development program, is currently being reviewed for environmental impact. Future bond issues together with other funding sources such as Passenger Facility Charge proceeds, federal grants and Airport System cash flows from operations will be used for the new terminal program.

MAJOR INITIATIVES

During fiscal year 2006, certain facility expansion and upgrade projects at International proceeded to a limited degree pending completion of environmental review of the airport's Draft Master Plan and Terminal Concept E2 for the recommended Terminal Modernization Program. However, the Airport System did undertake certain projects including: satellite irrigation improvements, perimeter fencing and intrusion detection system, conceptual design of certain elements of the terminal modernization program, I-5 Airport Boulevard landscape design, and Prichard Lake restoration and mitigation plan.

Capital projects completed during the year include:

International Airport

Terminal Building Wireless
Remodel Airport Maintenance And Equipment Facilities
Bi-Directional Amplifier Terminal A
Interim International Arrivals Building (IIAB) Artwork
New Compressed Natural Gas (CNG) Facility
Precision Approach Path Indicators (PAPI)
Rehabilitation of Existing Roads
Roadway Landscaping Rehabilitation
Parking And Revenue Control Replacement System
Emergency Terminal B1 & B2 Stair Remodel
Taxiway A Rehabilitation
Microwave Tower
E Power At Water Well # 4
IT&T Modular Trailer

Mather Airport

Fire Sprinkler Supply Water Line Extension
Fire Sprinkler Repair And Upgrade Building 7015 & 7040
Air Traffic Control Tower Equipment Replacement
Replace Instrument Landing System

Executive Airport

Building 333 Re-Roof (Radman Aerial)
Replace Restaurant Deck

Franklin Field Airport

Airfield Pavement Improvement

The Airport System initiated/continued design or construction on the following projects:

International Airport

Terminal A Communication/Telephone - Dedicated Heating Ventilation and Air Conditioning (HVAC)
Concession Space Preparation
Terminal A Emergency Lighting, Power, & Battery Backup
Bi-Directional Amplifiers Terminal B
Terminal B Cooling Tower
Closed Circuit Television (CCTV) Camera and Video Cassette Recorder Replacement
Perimeter Fencing, Intrusion Detection
Airport Rescue and Fire Fighting (ARFF) Building Remodel and Expansion
Prop Works and Network Infrastructure
City Water Connection
Crossfield Taxiway
Relocate New Air Traffic Control Tower
Terminal Modernization Apron
Office Trailer for Construction Management Division Staff
Voice Over Internet Protocol
Roadway Signage Master Plan Implementation Phase I
Terminal B Common Use Ticket Counter and Bag Room
Integrated Electronic Aviation System
Terminal Modification for Security Enhancement
Replace Carpet in Terminals
Automated Vehicle Identification System
Electrical Distribution Improvement – Phase II
Terminal A Fire Proofing
Cargo Area Security Enhancement
Waste Water Facility Connection – Regional Sanitation

Compressed Natural Gas Station Paint and Repavement
Metal Building Package, Terminal B1 & B2
Runway 16R-34L Rehabilitation
Air Cargo Heating & Central Air
Flight Inspection Office Heating And Central
Relocate Refuse Collection Area
Electrical Conduit Installation
Radio Building Replacement
Water Well Conversion For Irrigation
Terminal B Architectural Improvement

Mather Airport

Runway 22L Pavement Rehabilitation Phase 1
Air Traffic Control Tower Equipment Replacement
Air Cargo Access Road Reconstruction
Hanger Buildings Structural Upgrade
Building 4200 Pavement Repair
Building 4260 ADA Restroom Remodel
Building 4475 Parking Lot Construction
Deluge System, Valve, Pump and Control Panel Replacement
Administrative Building Remodel
General Aviation Terminal Roofing And Insulation
Building 7015 & 7040 Hanger Floor Drains
McReady Ave Rehabilitation PH I

Executive Airport

Airport Entrance Feature
Airport Entrance Sign
Terminal Building Heating Ventilation and Air Conditioning (HVAC)
Terminal Building Heating Ventilation and Air Conditioning (HVAC) PH II

Project Financing—The primary funding sources for capital outlay expenses during fiscal year 2006 were the Series 1996 Revenue Bonds and Passenger Facility Charges (PFC) and Subordinated Revenue Bonds, the Series 1992 Revenue Bonds, the Series 2002 Revenue Bonds, Airport System cash flows from operations, Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants and PFC revenues.

The Airport System received \$11.1 million in federal AIP grant funds for projects at International, Executive, Franklin Field, and Mather airports. In addition, the Airport System has received \$0.66 million in State matching grants and other miscellaneous intergovernmental funds. Funding from these grants was used to help finance several cargo area security enhancement projects, apron and runway rehabilitation, the Inherently Low Emission Airport Vehicle pilot program, installation of integrated and non-integrated explosives detection systems and explosives trace detection, preparation of an environmental assessment for the Draft Master Plan and Terminal Concept E2 for the recommended Terminal Modernization Program at International Airport, airfield improvement projects at Executive, preparation of the Executive Airport and Franklin Field Master Plan, Mather Airport taxiway and runway rehabilitation, and Franklin Field runway rehabilitation.

Beginning April 1, 1993, the Airport System was authorized by the FAA to add a \$3.00 Passenger Facility Charge (PFC) to the price of all tickets purchased for travel out of International. PFCs are imposed on enplaned passengers by airport operators—collected by airlines—for the purpose of generating revenue for airport projects that increase capacity, increase safety or mitigate noise impact. On October 31, 2001, as a result of the Airport System's request to increase the fee, the FAA authorized the Airport System to increase the \$3.00 fee to \$4.50 per enplaned passenger, but only for certain eligible projects. This increase was approved through February 1, 2003, at which time the rate returned to \$3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System's request to increase the level to \$4.50 on the remaining eligible projects, effective September 1, 2003.

The Airport System has received approval from the FAA for PFC applications authorizing \$285 million in PFC collections. To maximize PFC financing potential, the Airport System obtained FAA authority to issue PFC-backed bonds, for which PFC receipts could be used for repayment. The Airport System also received FAA authority in March 2000 to use PFC receipts for partial repayment of revenue bond debt service relating to eligible construction costs of Terminal A. In July 1996, the Airport System issued \$57.3 million in PFC and Subordinated Revenue Bonds, the proceeds of which financed the projects approved under PFC application numbers 4 and 5.

During fiscal year 2006, the Airport System received \$24.5 million in PFC receipts, bringing the total PFC receipts and interest received under the approved applications to \$188.5 million. In fiscal year 2006, PFC revenues provided full or partial funding for: Terminal B apron rehabilitation, airfield lighting computerized control system (ALCCS) replacement, runway 16R-34L rehabilitation, Airport Rescue and Firefighting building remodeling and bond debt service payments.

Concession Program—Concession revenues derived from retail and food/beverage operations located in airport terminal facilities have grown to represent a major source of non-airline revenues, contributing to the financing of airport operations. Space in Terminal A was designed to maximize concession services offered to airport customers while maximizing revenue to the Airport System. Terminal A includes approximately 25,000 square feet of space for retail and food/beverage concepts. This includes a 13,000-square-foot, mall-like retail center that contains seven shops: PGA Tour golf shop, Nelson's Books and News, KidZoo, Details women's accessories, Capital Marketplace gifts and souvenirs, Hometown Favorites and InMotion. Also included is a 12,000 square-foot food court with a wide range of food choices. Food court restaurants include Burger King, California Pizza Kitchen, Capitol Brewing Company, Cinnabon, La Salsa, Manchu Wok, Starbuck's Coffee and TCBY Treats. Java City and Home Turf Bar are situated at other locations throughout the terminal. Certain concession agreements expired during fiscal year 2006 resulting in the closure of two retail stores – Sky Shade Sunglasses and Travel Lite Luggage. County Airport System staff expects these locations to be leased for new concepts in fiscal year 2007.

During fiscal year 2006 gross sales for Terminal A retail shops were \$7,687,569, providing \$877,072 in concession revenues to the Airport System. During fiscal year 2006, gross sales for Terminal A food/beverage outlets were \$13,979,297, providing \$2,112,530 in concession revenues to the Airport System.

During fiscal year 2006, gross sales for Terminal B1 and B2 retail shops were \$2,788,793, providing \$338,342 in concession revenues to the Airport System. Gross sales for Terminal B1 and B2 food/beverage outlets were \$6,461,395, providing \$782,242 in concession revenues to the Airport System. The opening of TravelMart during fiscal year 2005 has contributed to the increase in sales over the last year.

To spur concession sales, a "street pricing" policy is in place to keep both food and merchandise prices at International comparable to those at similar stores and restaurants in the Sacramento area. The concession fees received from the concession program are increasing the revenue base of the Airport System, a self-supporting enterprise.

Air Quality Improvements—During fiscal year 2006, the Airport System continued its efforts to reduce emissions through the use of vehicles powered by clean fuels at International. In 2001, the FAA announced that it would fund up to \$2 million for the Inherently Low-Emission Airport Vehicle (ILEAV) program, designed to substantially reduce ozone and carbon monoxide levels at International. This program is ongoing. In addition, a compressed natural gas (CNG) refueling station is on-line at International and 20 CNG buses have been purchased in the last four years.

The ongoing operation of International's consolidated rental car facility reduces roadway congestion and vehicle emissions (before the new rental car facility opened each company provided individual shuttle bus service for its customers to and from the terminal facilities). Two solar photovoltaic arrays—which create emission-free electricity directly from the sun—are now in operation. All of International's jet bridges now feature electric power, eliminating the need for aircraft to utilize polluting auxiliary-powered units.

Executive Airport—The ongoing focus at Executive will continue to be infrastructure improvements in order to ensure the operational and financial viability of the airport.

Mather Airport—Mather Air Force Base closed on September 30, 1993. Following the Air Force's conveyance of vacated property to the County, Mather Airport opened in May 1995 as a civilian aviation facility, with a primary focus on air cargo, but also serving general aviation users. Mather is now a part of the County Airport System, which is responsible for its operation and maintenance.

Cargo carriers shipped over 125 million pounds of freight through Mather in fiscal year 2006. Other tenants at Mather include government agencies, a law firm, a fixed base operator and a general aviation flight school.

Compared to International, Mather offers cargo carriers lower costs and more spacious facilities, including longer runways and more cargo, warehouse and office space. At International, the ramp space utilized by former cargo carriers that have relocated to Mather is providing extra capacity to meet the growing demand for passenger air carrier transportation in the Sacramento area.

Future—Fiscal year 2006 was another year of growth in terms of passengers with a 3.4% increase over 2005. During fiscal year 2007, the Airport System will work to continue development and expansion of airline service to existing and new locations, including the East Coast and Canada. In addition, work will continue on the environmental assessment for the International Draft Master Plan and Terminal Concept E2 for the recommended Terminal Modernization Program. A key goal will also be to maintain the Airport System's commitment to providing excellent service to customers while continuing to be a good neighbor to the surrounding community.

FINANCIAL INFORMATION

Management of the Airport System is responsible for establishing internal controls designed to ensure that the assets of the Airport System are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

For financial accounting purposes and in compliance with Governmental Accounting Standards Board Pronouncements, the Sacramento County Airport System is accounted for as a self-sufficient enterprise fund within the County of Sacramento. The Airport System's accounting records are maintained using the accrual basis of accounting.

Single Audit—As a recipient of federal funds and state financial assistance, the Airport System also is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the internal audit staff of the County.

As part of the County's Single Audit, tests are made to evaluate the effectiveness of certain internal controls, including that portion related to federal award programs, as well as to determine that the Airport System has complied with applicable laws and regulations. The 2004-2005 Single Audit is completed and there were no noted material weaknesses in the Airport System's internal controls or significant violations of applicable laws and regulations. The fiscal year 2005 – 2006 audit is in progress and is anticipated to be completed in the spring of 2007.

The Airport System was authorized to impose a Passenger Facility Charge (PFC) at International effective April 1, 1993. Legislation authorizing the collection of PFCs restricts use of PFC revenue to acquisition of specified assets and prescribes reporting and control requirements. At least annually during the period in which the PFC is collected, held, or used, the Airport System must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport System's internal accounting controls to account for the collection and use of PFCs. The auditor must also issue an opinion on whether the quarterly reports fairly represent the transactions within the PFC accounts. The audit can be performed separately for the PFC account, or as part of the Single Audit. For fiscal year 2006, the audit of the Airport System's PFC accounts was performed as a separate audit. The audit is completed and there were no noted material weaknesses in the Airport System's internal accounting controls or instances of noncompliance with applicable PFC regulations.

Budgetary Controls—The Airport System prepares an annual budget to serve as an approved plan for operational control and performance evaluation. State law does not require the formal adoption of an appropriated budget for government enterprise activities. Each year the Airport System prepares an operations budget and a capital budget, which is presented to the County Board of Supervisors for review and approval. The budget, as approved by the Board, serves as the Airport System's basis for operations.

The Airport System and County impose controls that require the use of requisitions, purchase orders, contracts and specific approval for purchases of goods and services. Procedures have been established which verify expenses and ensure budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses may identify significant variances that would require the Airport System to take corrective action.

Certain Airport System budgetary and reporting procedures are stipulated in the Rate Ordinance adopted September 26, 2000, and the airline agreement. The budgetary and reporting procedures set forth in the Rate Ordinance basically parallel those procedures agreed to in negotiations with the airlines and contained in the airline agreement. The Rate Ordinance defines the cost base and the methodology to be used in the calculation of airline rental rates, fees and charges.

Cash Management—All Airport System cash and investments are maintained in the County Treasurer's pool and fiscal agent pool. The County Treasurer is responsible for managing the investment of pooled cash fund resources.

Cash temporarily idle during the year was invested in certificates of deposit, time certificates, money market funds, commercial paper, repurchase agreements, bankers' acceptances, medium corporate notes and U.S. Treasury investments. The average yield on investments during fiscal year 2006 was 3.91 percent. This is comparable to yield rates of 4.43 percent for one-year U.S. Treasury notes during the same period.

The County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, bank balances were either insured by the federal depository insurance, for accounts less than \$100,000, or collateralized. During the fiscal year, all collateral on deposits was held either by the County, its agent or a financial institution's trust department in the County's name.

Risk Management—The County maintains all-risk blanket property insurance coverage, which provides limits of liability of \$1.365 billion per occurrence annually. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of \$100 million per occurrence annually. The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy, which provides limits of liability coverage for up to \$500 million annually. Current premium charges are expensed in the year incurred.

The Airport System participates in the County's self-insurance program for crime, pollution, workers' compensation and unemployment claims. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense in the year incurred.

AWARDS AND ACKNOWLEDGEMENTS

Independent Audit—The financial statements of the Sacramento County Airport System are audited each year by an independent certified public accountant. The accounting firm of Macias Gini & O'Connell, LLP was selected to perform the fiscal year 2006 audit. The independent auditor's report on the financial statements is included in the financial section of this report.

Awards—The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Sacramento County Airport System for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a 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. The Sacramento County Airport System has received a Certificate of Achievement for the last 17 years (fiscal years ended 1989-2005). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

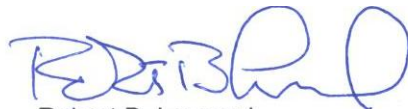
Acknowledgments—The preparation of the Comprehensive Annual Financial Report on a timely and efficient basis was made possible by the dedicated service of staff in the Accounting Section. Each member of the section has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. And in closing, without the leadership and support of the Board of Supervisors, preparation of this report would not have been possible.

Respectfully Submitted,



G. Hardy Acree
Director of Airports

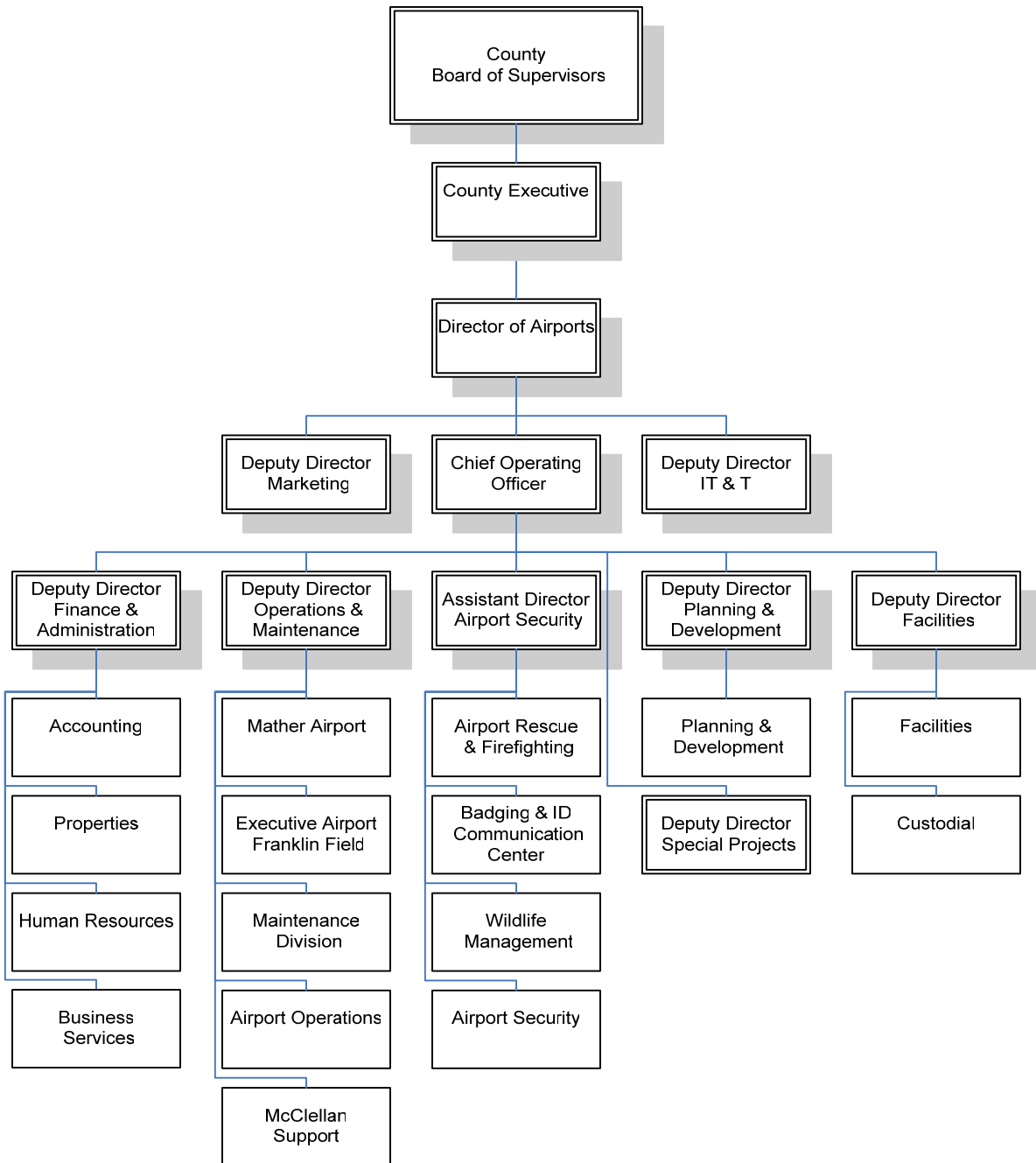


Robert B. Leonard
Airport Chief Operating Officer



Lisa J. Stanton
Deputy Director
Finance and Administration

Sacramento County Airport System Organizational Chart



Sacramento County Airport System

List of Principal Officials At June 30, 2006

ELECTED:

COUNTY BOARD OF SUPERVISORS

Roger Dickinson.....	District 1
Illa Collin	District 2
Susan Peters	District 3
Roberta MacGlashan	District 4
Don Nottoli	District 5

APPOINTED:

Terry Schutten	County Executive
----------------------	------------------

DEPARTMENT OF AIRPORTS:

G. Hardy Acree	Director of Airports
Robert B. Leonard.....	Airport Chief Operating Officer
Frances Sherertz	Assistant Director Airport Security
Lisa Stanton.....	Deputy Director, Finance and Administration
Cheryl Marcell.....	Deputy Director, Marketing
Steven J. Elrod.....	Deputy Director, Information Technology and Telecommunications
Frederick Greco.....	Deputy Director, Maintenance and Operations
Leonard H. Takayama	Deputy Director, Planning and Development
Mark Brown.....	Deputy Director, Facilities
Patrice A. Dutcher, CPA	Chief of Accounting

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Financial Section

This section contains the following subsections:

Independent Auditors Report

Management's Discussion and Analysis

Basic Financial Statements

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MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
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515 S. Figueroa Street, Suite 325
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402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

INDEPENDENT AUDITOR'S REPORT

Honorable Board of Supervisors
County of Sacramento, California

We have audited the accompanying financial statements of the Sacramento County Airport System (Airport System), a Department of the County of Sacramento, California, as of and for the years ended June 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the Airport'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting as it relates to the Airport System. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the financial statements present only the Sacramento County Airport System and do not purport to, and do not, present fairly the financial position of the County of Sacramento, California, as of June 30, 2006 and 2005, and the changes in its financial position and cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport System as of June 30, 2006 and 2005, and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Also discussed in Note 1 to the basic financial statements, effective July 1, 2004, the Airport System implemented Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of the County's internal control over financial reporting as it relates to the Airport System and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



An Independent Member of the BDO Seidman Affiliates

The management's discussion and analysis on pages 21 through 25, 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 audits were conducted for the purpose of forming an opinion on the Airport System 's basic financial statements. The introductory section, statistical and bond disclosure sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

Marina Mini, & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 20, 2006

Management's Discussion and Analysis (Unaudited)

The following Management's Discussion and Analysis (MD&A) of the Sacramento County Airport System's (Airport System) financial performance provides an introduction to the financial statements for the fiscal years ended June 30, 2006 and 2005. The information contained in this MD&A should be considered in conjunction with the information contained in the Airport System's basic financial statements.

Financial Highlights

- The assets of the Airport System exceeded liabilities for fiscal year ended June 30, 2006 by \$399,419,799 (net assets). Of this amount, \$101,482,119 (unrestricted net assets) may be used to meet the ongoing obligations of the Airport System, \$107,295,195 was restricted for specific purposes (restricted net assets), and \$190,642,485 was invested in capital assets, net of related debt. For fiscal year ended June 30, 2005 the assets of the Airport System exceeded liabilities by \$358,326,355 (net assets). Of this amount, \$104,777,188 was unrestricted, \$88,921,805 was restricted for specific purposes, and \$164,627,362 was invested in capital assets, net of related debt.
- The Airport System's total net assets increased by \$41,093,444 during fiscal year ended June 30, 2006 primarily due to an operating income, \$9,165,688; passenger facility charges, \$24,511,950; interest income, \$6,623,389; capital contributions and intergovernmental revenues, \$11,738,904 and offset by interest expense, \$10,536,254. In fiscal year 2005 the Airport System's net assets increased by \$51,803,742 primarily due to an operating income, \$9,619,105; passenger facility charges, \$24,454,819; interest income, \$4,303,953; capital contributions and intergovernmental revenues, \$25,478,505 and offset by interest expense, \$12,631,716.

Overview of the Basic Financial Statements

The Airport System's financial statements are prepared using the full accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Airport System is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and, with the exception of land and construction in progress, are depreciated over their useful lives. See the notes to the basic financial statements for a summary of the Airport System's significant accounting policies.

Following this MD&A are the basic financial statements of the Airport System together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Airport System's basic financial statements are designed to provide readers with a broad overview of the Airport System's finances.

The Statements of Net Assets present information on all the Airport System's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport System's financial position.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the Airport System's net assets changed during the most recent years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statements of Cash Flows relate to the flow of cash and cash equivalents. Consequently, only transactions that affect the Airport System's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

Financial Analysis

An indicator of the Airport System's financial position is net assets. As shown on the next page, at June 30, 2006 assets exceeded liabilities by \$399.4 million, an increase over the prior year of 11.5%. Restricted net assets are \$107.3 million or 26.9% of total net assets. At June 30, 2005 assets exceeded liabilities by \$358.3 million, an increase over the prior year of 16.9%. Restricted net assets were \$88.9 million or 24.8% of total net assets. Restricted net assets represent resources that are subject to restrictions on how they can be used. Net assets invested in capital assets net of related debt at June 30, 2006 and June 30, 2005 was \$190.6 million or 47.7% and \$164.6 million or 45.9%, respectively, of total net assets and represents investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Airport System uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Airport System's investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining portion of net assets is unrestricted, \$101.5 million or 25.4% and \$104.8 million or 29.2% at June 30, 2006 and June 30, 2005, respectively, and may be used to meet the Airport System's ongoing obligations. Unrestricted net assets decreased during fiscal year 2006, by 3.1%, and increased during 2005, by 0.7%.

Management's Discussion and Analysis (Unaudited) (continued)

Condensed Statements of Net Assets

	2006	2005	FY06 vs. FY05 % change	2004	FY05 vs. FY04 % change
Assets:					
Current, restricted and other assets	\$ 267,079,983	\$ 262,184,531	1.9	\$ 265,058,935	(1.1)
Capital assets, net	407,920,270	381,281,254	7.0	341,597,259	11.6
Total assets	675,000,253	643,465,785	4.9	606,656,194	6.1
Liabilities:					
Current and other liabilities	28,453,333	27,701,244	2.7	36,781,090	(24.7)
Long-term liabilities outstanding	247,127,121	257,438,186	(4.0)	263,352,491	(2.2)
Total liabilities	275,580,454	285,139,430	(3.4)	300,133,581	(5.0)
Net assets:					
Invested in capital assets, net of related debt	190,642,485	164,627,362	15.8	126,762,388	29.9
Restricted net assets	107,295,195	88,921,805	20.7	75,751,001	17.4
Unrestricted net assets	101,482,119	104,777,188	(3.1)	104,009,224	0.7
Total net assets	\$ 399,419,799	\$ 358,326,355	11.5	\$ 306,522,613	16.9

The Airport System's net assets increased during fiscal years ended 2006 and 2005 by \$44.1 million (11.5%) and \$51.8 million (16.9%), respectively. The following is a summary of changes in net assets for fiscal years ended 2006, 2005 and 2004:

Summary of Changes in Net Assets

	Fiscal Years Ended June 30				
	2006	2005	FY06 vs. FY05 % change	2004	FY05 vs. FY04 % change
Operating revenues:					
Concessions	\$ 60,367,151	\$ 54,307,418	11.2	\$ 47,623,267	14.0
Building rents	16,087,912	14,170,114	13.5	13,803,071	2.7
Airfield charges	17,779,295	17,107,966	3.9	12,353,198	38.5
Ground leases	4,403,407	3,607,645	22.1	3,110,659	16.0
Sale of aviation fuel	1,339,214	1,332,966	0.5	2,662,833	(49.9)
Airport services	900,536	636,999	41.4	137,513	363.2
Other	102,681	1,386,070	(92.6)	39,986	3,366.4
Total operating revenues	100,980,196	92,549,178	9.1	79,730,527	16.1
Non-operating revenue:					
Interest income	6,623,389	4,303,953	53.9	2,888,108	49.0
Passenger facility charges revenue	24,511,950	24,454,819	0.2	18,498,324	32.2
Intergovernmental revenue	849,340	880,166	(3.5)	702,098	25.4
Gain on disposal of assets	993	503,692	(99.8)	3,988	n/a
Other nonoperating revenue	223,468	247,124	(9.6)	140,157	76.3
Total revenue	133,189,336	122,938,932	8.3	101,963,202	20.6
Operating expenses:					
Salaries and benefits	28,437,857	27,313,968	4.1	25,280,428	8.0
Services and supplies	41,462,233	37,688,533	10.0	38,792,551	(2.8)
Cost of goods sold	1,081,550	914,185	18.3	712,784	28.3
Depreciation	20,162,706	16,103,705	25.2	15,597,039	3.2
Other	670,162	909,682	(26.3)	1,218,467	(25.3)
Total operating expenses	91,814,508	82,930,073	10.7	81,601,269	1.6
Non-operating expenses:					
Amortization of bond issuance cost	175,358	171,740	2.1	171,740	0.0
Interest expense	10,536,254	12,631,716	(16.6)	10,315,087	22.5
Total expense	102,526,120	95,733,529	7.1	92,088,096	4.0
Net income before capital contributions and transfer	30,663,216	27,205,403	12.7	9,875,106	175.5
Capital contributions	10,889,564	24,598,339	(55.7)	9,808,493	150.8
Transfers out	(459,336)				
Changes in net assets	41,093,444	51,803,742	(20.7)	19,683,599	163.2
Total net assets, beginning of year	358,326,355	306,522,613	16.9	286,839,014	6.9
Total net assets, end of year	\$ 399,419,799	\$ 358,326,355	11.5	\$ 306,522,613	16.9

Management's Discussion and Analysis (Unaudited) (continued)

For fiscal year 2006:

Operating revenue

Operating revenues increased \$8.4 million (9.1%), due to an increase in concession revenue of \$6 million, which was attributable to increases in parking lot revenue of \$4 million (9.9%) and auto rental fees, \$1.7 million (17.9%), and building rent increasing by \$1.9 million (13.5%).

Operating expenses

Operating expenses increased \$8.9 million (10.8%) primarily due to increases in salaries and benefits of \$1.1 million (4.1%), depreciation expense of \$4.1 million (25.2%), and services and supplies increased \$3.7 million (10%) due to increases in fuel and electricity costs, services provided by other county departments and parking services as a result of a change in the parking lot operator.

Non-operating revenues

Interest income increased due to an increase in the average yield on investments from 2.18 percent to 3.91 percent.

Passenger facility charges increased primarily due to an increase in enplaned passengers of 3.4%.

The change in Intergovernmental Revenue is due to decreases in expenses funded by operating grants that have been awarded to the Airport System.

Capital contributions have decreased from the previous year due to a decrease in grant funded projects.

For fiscal year 2005:

Operating revenue

Operating revenues increased \$12.8 million, due to increases in landing fees (airfield charges) of \$4.8 million (39.6%), parking lot revenue of \$5.7 million (16.6%), food, beverage and gift, \$0.7 million (23.8%) and auto rental fees, \$0.7 million, (7.6%). Revenue received this year that was not received in prior years was revenue from a contract to provide airfield management for McClellan Airport, \$0.5 million and a refund of prior year liability insurance, \$1.3 million. Aviation fuel sales decreased by \$1.3 million (48.8%).

Operating expenses

Operating expenses increased \$1.3 million (1.6%) primarily due to increases in salaries and benefits of \$2.0 million (8.0%) and depreciation expense \$0.5 million (3.2%) offset by decreased contracted security services, \$1.0 million (13.3%).

Non-operating revenues

Interest income increased due to an increase in the average yield on investments from 1.43 percent to 2.18 percent.

Passenger facility charges increased primarily due to an increase in enplaned passengers of 9.3%.

The change in Intergovernmental Revenue is due to increases in expenses funded by operating grants that have been awarded to the Airport System.

Capital contributions have increased from the previous year due to an increase in grant funded projects.

Capital Assets

The Airport System's investment in capital assets as of June 30, 2006 amounted to \$600 million before depreciation. This investment in capital assets includes land, buildings and systems, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Airport System's investment in capital assets before depreciation for fiscal year 2006 was 8.4% or \$46.6 million.

Management's Discussion and Analysis (Unaudited) (continued)

Major capital asset events during fiscal year 2006 included the following:

- Major projects completed at International Airport were a replacement of the Parking Monitoring System, \$0.9 million, a new CNG Fueling Facility, \$0.3 million. A major project completed at Executive Airport was the airfield pavement improvements, \$1.2 million, and at Mather an upgrade to the Instrument Landing System. Construction in progress at June 30, 2006 was \$73.6 million which included Connecting to the City of Sacramento Water System, \$21.4 million, roadway signage, \$1.2 million, Terminal modernization phase II, \$2.8 million, Terminal Modification for Security Enhancements, \$3.5 million and Runway Pavement rehabilitation at Mather, \$1.8 million.

The Airport System's investment in capital assets as of June 30, 2005 amounted to \$553.8 million before depreciation. This investment in capital assets includes land, buildings and systems, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Airport System's investment in capital assets before depreciation for fiscal year 2005 was 9.7% or \$49.0 million.

Major capital asset events during fiscal year 2005 included the following:

- Major projects completed at International Airport were a six floor parking garage that opened September 2004, \$84.8 million, Terminal B Apron rehab, \$15.7 million, Terminal A Apron expansion, \$7.4 million, and Terminal B loading bridges, \$1.2 million. A major project completed at Executive Airport was the airfield lighting and electrical, \$3.2 million. Construction in progress at June 30, 2005 was \$49.9 million which included terminal modification for security enhancements, \$8.0 million, integrated electronic aviation system, \$5.2 million, Taxiway A rehabilitation, \$2.8 million, replace jet bridges, \$3.6 million, parking lot revenue and control system replacement, \$5.2 million, and existing roads replacement, \$2.9 million.
- Land purchases totaled \$8.9 million, which included land purchased for Giant Garter Snake habitat mitigation, \$8.8 million.
- Equipment purchases totaled \$3.3 million, which included the acquisition of six low-floor buses, \$1.7 million, and an Aircraft Rescue Fire Fighting fire truck, \$0.6 million.

Capital Assets

	Fiscal Years Ended June 30		
	2006	2005	2004
Land	\$ 40,244,302	\$ 40,174,102	\$ 31,253,273
Structures and improvements	423,560,706	406,622,765	292,571,710
Leasehold improvements	39,184,521	34,781,424	30,617,578
Equipment	23,718,141	22,308,506	25,850,365
Construction in progress	73,661,818	49,883,929	124,501,961
	<u>\$ 600,369,488</u>	<u>\$ 553,770,726</u>	<u>\$ 504,794,887</u>

Additional information on the Airport System's capital assets can be found in Note 5 located on page 36 of this report.

Long-term Debt Administration

As of June 30, 2006, the Airport System had outstanding revenue bonds of \$262,055,000, a decrease compared to prior year due to scheduled bond principal payments of \$6,705,000. In fiscal year 2006 the Airport System refunded the 1996 Series A bonds.

At June 30, 2005, the Airport System had outstanding revenue bonds of \$271,055,000, a decrease compared to prior year due to scheduled bond principal payments of \$6,425,000.

For more detail on the Airport System's long-term debt, see Note 7 on pages 38 through 41 of this report.

Management's Discussion and Analysis (Unaudited) (continued)

Airline Rates and Charges

The Airport System and certain airlines (the signatory airlines) negotiated an agreement effective through June 30, 2003, which was subsequently amended to extend the term through June 30, 2006. This agreement establishes the methodology employed by the Airport System in assessing annual rates and charges to the signatory airlines for their use of the Airport System.

Under the existing agreement, the Airport System has the ability to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions.

The rates and charges billed to the signatory airlines were as follows:

	2006	2005	FY06 vs. FY05 % change	2004	FY05 vs. FY04 % change
Landing Fee (Per 1,000 lbs.)	\$ 2.44	\$ 2.37	3.0	\$ 1.79	32.4
Terminal Rental Rates (Per Sq. Foot)					
Ticket Counter	73.11	64.56	13.2	48.00	34.5
Office and Enclosed	73.11	64.56	13.2	48.00	34.5
Unenclosed	1.00	-	100.0	-	0.0
Holdroom	73.11	64.56	13.2	48.00	34.5
Baggage Makeup/Joint Use	73.11	64.56	13.2	48.00	34.5
Storage	73.11	64.56	13.2	48.00	34.5

Requests for Information

This financial report is designed to provide a general overview of the Airport System's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief of Accounting, Sacramento County Airport System, 6900 Airport Boulevard, Sacramento, California 95837.

Sacramento County Airport System
Statements of Net Assets
June 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and investments	\$ 108,255,662	\$ 111,951,707
Restricted cash and investments	12,510,683	14,910,222
Deposits with others	2,282,659	3,360
Receivables, less allowance for doubtful accounts of \$161,552 in 2006 and \$181,287 in 2005	6,670,627	7,313,805
Due from other governments	6,206,334	5,432,351
Prepaid expenses	505,877	729,809
Inventories	46,677	45,842
Total current assets	<u>136,478,519</u>	<u>140,387,096</u>
Noncurrent assets:		
Restricted assets	126,707,025	118,017,751
Deferred charges	<u>3,894,439</u>	<u>3,779,684</u>
Capital assets:		
Land	40,244,302	40,174,102
Structures and improvements	423,560,706	406,622,765
Leasehold improvements	39,184,521	34,781,424
Equipment	23,718,141	22,308,506
Construction in progress	73,661,818	49,883,929
Total capital assets	600,369,488	553,770,726
Less accumulated depreciation	<u>(192,449,218)</u>	<u>(172,489,472)</u>
Net capital assets	<u>407,920,270</u>	<u>381,281,254</u>
Total noncurrent assets	<u>538,521,734</u>	<u>503,078,689</u>
Total assets	<u>675,000,253</u>	<u>643,465,785</u>
LIABILITIES		
Current liabilities:		
Warrants payable	470,433	1,633,546
Accounts payable and accrued expenses	14,659,506	9,953,003
Deferred revenue	812,711	1,204,473
Current liabilities payable from restricted assets	12,510,683	14,910,222
Total current liabilities	<u>28,453,333</u>	<u>27,701,244</u>
Noncurrent liabilities:		
Revenue bonds payable	244,300,292	254,873,571
Compensated absences	2,729,312	2,467,098
Estimated arbitrage taxes payable	97,517	97,517
Total noncurrent liabilities	<u>247,127,121</u>	<u>257,438,186</u>
Total liabilities	<u>275,580,454</u>	<u>285,139,430</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>190,642,485</u>	<u>164,627,362</u>
Restricted:		
Revenue bond maintenance and operation account	19,393,000	17,175,000
Revenue bond renewal and replacement account	1,000,000	1,000,000
Capital construction	4,982,064	4,356,237
Passenger facility charges	81,920,131	66,390,568
Total restricted	<u>107,295,195</u>	<u>88,921,805</u>
Unrestricted	<u>101,482,119</u>	<u>104,777,188</u>
Total net assets	<u>\$ 399,419,799</u>	<u>\$ 358,326,355</u>

See accompanying notes to the basic financial statements.

Sacramento County Airport System
 Statements of Revenues, Expenses and Changes in Net Assets
 For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Concessions	\$ 60,367,151	\$ 54,307,418
Building rents	16,087,912	14,170,114
Airfield charges	17,779,295	17,107,966
Ground leases	4,403,407	3,607,645
Sale of aviation fuel	1,339,214	1,332,966
Airport services	900,536	636,999
Other	102,681	1,386,070
Total operating revenues	<u>100,980,196</u>	<u>92,549,178</u>
Operating expenses:		
Salaries and benefits	28,437,857	27,313,968
Services and supplies	41,462,233	37,688,533
Cost of goods sold	1,081,550	914,185
Depreciation	20,162,706	16,103,705
Other	670,162	909,682
Total operating expenses	<u>91,814,508</u>	<u>82,930,073</u>
Operating income	<u>9,165,688</u>	<u>9,619,105</u>
Nonoperating revenues (expenses):		
Interest income	6,623,389	4,303,953
Passenger Facility Charges revenue	24,511,950	24,454,819
Intergovernmental revenue	849,340	880,166
Gain on disposal of assets	993	503,692
Other nonoperating revenue	223,468	247,124
Amortization of bond issuance cost	(175,358)	(171,740)
Interest expense	(10,536,254)	(12,631,716)
Net nonoperating revenues	<u>21,497,528</u>	<u>17,586,298</u>
Income before capital contributions and transfers	30,663,216	27,205,403
Capital contributions	10,889,564	24,598,339
Transfers out	(459,336)	
Changes in net assets	41,093,444	51,803,742
Total net assets, beginning of year	<u>358,326,355</u>	<u>306,522,613</u>
Total net assets, end of year	<u>\$ 399,419,799</u>	<u>\$ 358,326,355</u>

See accompanying notes to the basic financial statements.

Sacramento County Airport System
 Statements of Cash Flows
 For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 101,380,635	\$ 92,192,893
Payments to suppliers	(44,625,469)	(45,016,483)
Payments to employees	(28,175,643)	(27,007,830)
Other receipts	223,468	247,124
Net cash provided by operating activities	28,802,991	20,415,704
Cash Flows from Noncapital Financing Activities:		
Intergovernmental revenue	638,151	880,166
Transfers out	(459,336)	-
Net cash provided by noncapital financing activities	178,815	880,166
Cash Flows from Capital and Related Financing Activities:		
Capital contributions	10,461,796	24,704,663
Passenger facility charges	24,227,901	22,274,780
Acquisition and construction of capital assets	(40,718,427)	(54,086,173)
Principal paid on long term debt	(6,705,000)	(6,425,000)
Payment to escrow agent for debt refunding	(2,295,000)	-
Interest paid on long term debt	(17,657,244)	(14,225,133)
Bond issuance costs paid	(290,113)	-
Proceeds from sale of surplus property	7,865	564,141
Net cash used for capital and related financing activities	(32,968,222)	(27,192,722)
Cash Flows from Investing Activities:		
Interest received	6,580,106	5,284,888
Net increase in cash and cash equivalents	2,593,690	(611,964)
Cash and cash equivalents, beginning of year	244,879,680	245,491,644
Cash and cash equivalents, end of year	\$ 247,473,370	\$ 244,879,680
Reconciliation of Cash and Cash Equivalents to Statements of Net Assets:		
Cash and investments	\$ 108,255,662	\$ 111,951,707
Restricted cash and investments	12,510,683	14,910,222
Restricted assets	126,707,025	118,017,751
	\$ 247,473,370	\$ 244,879,680

(Continued on page 29)

See accompanying notes to the basic financial statements.

Sacramento County Airport System
 Statements of Cash Flows (continued)
 For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,165,688	\$ 9,619,105
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,162,706	16,103,705
Provision for uncollectable accounts	(19,736)	35,904
Other nonoperating revenue	223,468	247,124
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	946,963	(1,179,679)
(Increase) decrease in deposits with others	(2,279,299)	5,189,353
(Increase) decrease in prepaid expense	223,932	(729,809)
(Increase) in inventories	(835)	(6,164)
(Decrease) Increase in accounts payable	583,400	(7,608,639)
(Decrease) Increase in warrants payable	61,278	(2,348,823)
Increase (decrease) in deferred revenue	(526,788)	787,490
Increase in compensated absences	262,214	306,137
Total adjustments	19,637,303	10,796,599
Net cash provided by operating activities	\$ 28,802,991	\$ 20,415,704

Non cash capital and related financing activities:

During the fiscal years ended June 30, 2006 and 2005, the Airport System retired assets with a net book value \$50,598 and \$60,449, respectively.

Capital purchases included in accounts payable and warrants payable at June 30, 2006 was \$4,522,669.

On May 2, 2006, the Airport System issued revenue refunding bonds series 2006A to advance refund the 1996A revenue bonds. The proceeds of the refunding bonds paid to escrow agent totaled \$85,067,574 and costs of issuance paid from bond proceeds totaled \$1,246,883 at June 30, 2006.

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

For the Fiscal Years ended June 30, 2006 and 2005

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Sacramento County Airport System (Airport System) is a department within the County of Sacramento, California (County). The Airport System is responsible for the operations, maintenance and development of all four of its airports which include Sacramento International Airport, Sacramento Executive Airport, Mather Airport and Franklin Field. The Airport System is accounted for as a single enterprise fund with no financial accountability for any component units.

The five members of the County's Board of Supervisors serve as the governing body that oversees the operation of the Airport System. The Airport System is operated as a self-sufficient enterprise, and is administered by the Director of Airports who reports to the County Executive and the County Board of Supervisors.

Basis Of Accounting

The Airport System uses the accounting principles applicable to a similar private business enterprise, where the cost of providing services to the public on a continuing basis is recovered through user fees. The Airport System uses the flow of economic resources measurement focus applied on a full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services and delivering goods in connection with Airport operations. The principal operating revenues of the Airport System include charges to customers for landing fees, terminal rents, parking and concession fees. Primary operating expenses include cost of sales and services including employee wages and benefits, purchases of materials, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Airport System's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Under Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airport System has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

Budgetary Process

The Airport System prepares an annual operating and capital budget, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California state law does not require formal adoption of appropriated budgets for enterprise funds.

Cash And Investments

For purposes of the statements of cash flows, the Airport System considers all short-term highly liquid investments, including restricted assets and amounts held in the County's investment pools, to be cash and cash equivalents. Amounts held in the County's investment pools are available on demand; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Due From Other Governments

Federal grant funding for capital projects is accounted for on a reimbursement basis whereby costs are incurred prior to actual cash receipt of the grant. The amounts due from other governments represent claims to federal and state agencies for operating and capital project costs incurred but not reimbursed at year-end.

Inventories

Inventories consist of aviation fuel purchased for resale. Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Deferred Charges

Deferred charges consist of costs incurred for the issuance of the Series 1992 Airport System Revenue Bonds, Series 1996 PFC and Subordinated Revenue Bonds, Series 1998 Airport System Revenue Refunding Bonds, Series 1998 Airport System PFC and Subordinated Revenue Refunding Bonds, Series 2002 Airport System Revenue Bonds, Series 2002 Airport System Revenue Refunding Bonds and Series 2006 Airport System Revenue Refunding Bonds.

Amortization of the bond issuance costs is computed using the straight-line method over the life of the debt. Accumulated amortization was \$1,814,079 and \$1,638,721 at June 30, 2006 and 2005, respectively.

Capital Assets

Capital assets are carried at cost except for capital assets contributed to the Airport System, which are stated at their fair market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues (expenses) for the period. Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Structures and improvements	15 – 40 years
Leasehold improvements	5 – 15 years
Equipment	5 – 15 years

Costs incurred for major improvements are carried in construction in progress until the project is complete, at which time costs related to the project are reclassified in the appropriate capital asset account.

The Airport System's policy is to capitalize all capital assets with a cost greater than \$5,000 and a useful life of more than three years.

Capitalization Of Interest

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of the capital assets. In situations where capital assets are financed with the proceeds of tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Total capitalized interest relating to projects completed or in progress during the fiscal years ended June 30, 2006 and 2005 was \$1,567,498 and \$1,761,976, respectively.

Compensated Absences

Airport System employees accrue vacation in varying amounts based on classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated Absences liability activity for the fiscal years ended June 30, 2006 and June 30, 2005 can be found in Note 7 on long term liabilities.

Passenger Facility Charges Revenue

Passenger Facility Charges (PFCs) are fees charged to enplaned passengers by airport operators for the purpose of generating revenue for airport projects that increase capacity, increase safety or mitigate noise impact.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

On April 1, 1993, the Airport System received approval from the Federal Aviation Administration (FAA) to impose a \$3.00 Passenger Facility Charge at Sacramento International Airport, which along with subsequent approvals, authorized the Airport System to finance projects totaling approximately \$285 million.

On October 31, 2001, as a result of the Airport System's request to increase the fee, the FAA authorized the Airport System to increase the \$3.00 fee to \$4.50 per enplaned passenger but only for certain eligible projects. This increase was approved through February 1, 2003 at which time the rate returned to \$3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System's request to increase the level to \$4.50 on the remaining eligible projects, effective September 1, 2003.

As of June 30, 2006 the Airport System has collected \$188.5 million in PFC revenue.

PFCs, along with related interest income, are recognized and recorded as non-operating revenue in the year collected from the air carriers.

Capital Contributions

Federal and state governments reimburse the Airport System for costs incurred on certain capital asset construction projects under capital grant agreements. Amounts claimed under such grants are recorded as capital contributions revenue. Additionally, the Airport System receives reimbursement from federal and state governments for non capital construction projects and these reimbursements are recorded as intergovernmental revenues with the related program costs are recorded as expenses.

Risk Management

The County maintains all-risk blanket property insurance coverage which provides limits of \$1.365 billion per occurrence annually. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of \$100 million per occurrence annually. The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy which provides limits of liability coverage for up to \$500 million per occurrence. Current premium charges are expensed in the year incurred.

In addition to the above property and airport liability policies, the Airport System participates in the County's self-insurance program for crime, pollution, and workers' compensation. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense when paid.

During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage.

Reclassification

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Government Accounting Standards Board (GASB) Statement No 46

Effective July 1, 2004, the Airport System implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34." GASB Statement No. 46 requires disclosure of the Airport System's net assets at the end of the reporting period that are restricted by enabling legislation. Net assets are considered restricted by enabling legislation when the resources can only be used for purposes specified by the legislation. The disclosure of these financial statements is continued in Note 9.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Note 2 - Cash and Investments

The Airport System maintains specific cash deposits and investments with the County and involuntarily participates in the County Treasurer's pool which is not rated by credit rating agencies. At June 30, 2006 and 2005, the carrying amount of the Airport System's cash held by the County Treasurer's pool was \$210,748,257 and \$195,197,284, respectively, of which \$102,492,595 and \$83,245,577 is classified as restricted assets, respectively. The weighted average maturity of the County Treasurer's Pool was 185 days and 180 days at June 30, 2006 and 2005, respectively. California Government Code authorized the Treasurer of the County to invest excess funds in the following list of eligible securities:

- a) Obligations of the County of any local agency and instrumentality in or of the State of California.
- b) Obligations of the U.S. Treasury, agencies and instrumentalities.
- c) Bankers acceptances eligible for purchase by the Federal Reserve System.
- d) Commercial paper with an A-1 rating by Moody's Investors Service or a P-1 rating by Standard and Poor's Corporation.
- e) Repurchase agreements or reverse repurchase agreements.
- f) Medium-term notes with a five-year maximum maturity from corporations operating within the United States and rated in the top three rating categories by Moody's Investors Service and Standard and Poor's Corporation.
- g) Shares of beneficial interest issued by diversified management companies (money market funds) investing in securities and obligations as outlined in a) through f) above. Certain security rankings and/or organizational requirements apply to this type of investment.

Also, the County Treasurer's pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by California Government Code Section 27134. At June 30, 2006 and 2005, the Airport System's investments are stated at fair value in accordance with GASB Statement No. 31. However, the value of the pool shares in the County Treasurer's pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Airport System's position in the County Treasurer's pool.

The County, acting in a fiduciary capacity, established a separate cash and investments pool (fiscal agent pool) to segregate and invest monies in accordance with long-term obligation covenants. The fiscal agent pool is subject to regulatory oversight by the County Treasurer. At June 30, 2006 and 2005, the Airport System's cash held by the County as part of the fiscal agent pool, which is also not rated by credit rating agencies, was \$36,725,113 and \$49,682,396, respectively. The Airport System does not have a policy relating to interest rate risk. The weighted average maturity of the County fiscal agent was 1.6 years and 6.5 years at June 30, 2006 and 2005, respectively. The cash and investments held in the fiscal agent pool are classified as restricted assets on the comparative statements of net assets and are discussed in more detail in Note 5 to the financial statements.

Because the Airport System is a department of the County and the County acts in a fiduciary capacity, the Airport System's risk disclosures required by GASB 40, *Deposit and Investment Risk Disclosures*, can be found at the County's Comprehensive Annual Financial Report.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Note 3 - Receivables and Payables

Receivables

The following amounts represent receivables due to the Airport System at June 30, 2006 and 2005:

	2006	2005
Receivables:		
Account receivables - trade	\$ 4,358,476	\$ 3,958,327
Account receivables - passenger facility charges	2,464,089	2,180,039
Amounts due from other County funds	9,614	1,356,726
Gross receivables	6,832,179	7,495,092
Less allowance for doubtful accounts	(161,552)	(181,287)
Net receivables	\$ 6,670,627	\$ 7,313,805

Payables

The following represents payables owed by the Airport System at June 30, 2006 and 2005:

	2006	2005
Accounts payable and accrued expenses:		
Vendors	\$ 9,409,311	\$ 4,915,924
Due to other County funds	3,279,516	2,940,970
Deposits from others	1,164,461	414,663
Payroll taxes and payroll related	511,992	1,381,290
Accrued contingencies (Note 12)	200,420	289,612
Due to other governments	64,020	
Taxes payable other	29,786	10,544
Total payables - unrestricted	14,659,506	9,953,003
Payables from restricted assets:		
Bonds interest payable	5,244,107	7,041,211
Bonds payable - current	4,535,000	6,705,000
Vendors	2,696,364	807,834
Due to other County funds	32,343	57,712
Due to other governments	2,869	298,465
Total payables from restricted assets	12,510,683	14,910,222
Total accounts payable and accrued expenses	\$ 27,170,189	\$ 24,863,225

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years ended June 30, 2006 and 2005

Note 4 - Restricted Assets

Restricted assets consist of the following:

	June 30	
	2006	2005
Revenue Bond Maintenance and Operation Reserve Account reflects revenues equal to three months' maintenance and operation costs restricted for contingencies related to operations. This is cash held by the County Treasurer's pool.	\$ 19,393,000	\$ 17,175,000
Revenue Bond Renewal and Replacement Account reflects Airport System revenues which are restricted for unanticipated or emergency repairs and emergency replacements to the Airport System. This is cash held by the County Treasurer's pool.	1,000,000	1,000,000
Revenue Bond Acquisition and Construction Account reflects monies restricted for acquisition and construction of projects under the Series 1992, 1996 and 2002 Revenue Bonds, and the Series 1996 PFC and Subordinated Revenue Bonds. This is cash held by the County as part of fiscal agent pool.	16,356,277	17,570,543
Revenue Bond Interest Account reflects monies restricted for payment of bond interest expense. This is cash held by the County as part of fiscal agent pool.	5,033,780	4,409,652
Revenue Bond Reserve Account reflects monies restricted for the purpose of making up any deficiency in the Revenue Bond Interest Account and Revenue Bond Principal Account to the extent money on deposit in such funds is insufficient to pay interest and principal on the bonds as they become due and payable. This is cash held by the County as part of fiscal agent pool.	10,398,619	17,952,495
Revenue Bond Principal Account reflects monies restricted for the purpose of payment of principal of the Series 1992 and 1996 Revenue Bonds, Series 1998 Revenue Refunding Bonds, 1996 PFC and Subordinated Revenue Bonds, 1998 PFC and Subordinated Revenue Refunding Bonds, the Series 2002 Revenue and Revenue Refunding Bonds and the Series 2006 Revenue Refunding Bonds. This is cash held by the County as part of fiscal agent pool.	4,890,636	9,705,604
Revenue Bond Rebate Account reflects monies that are pledged to make rebate payments to the United States government. This is cash held by the County as part of fiscal agent pool.	45,801	44,102
Passenger Facility Charges reflect PFC fees received which are restricted for specified asset acquisitions. This is cash held by the County as part of the Treasurer's pool.	82,099,595	65,070,577
Total restricted assets	139,217,708	132,927,973
Less: Restricted current assets used to repay maturing debt	(12,510,683)	(14,910,222)
Non-current restricted assets	\$ 126,707,025	\$ 118,017,751

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Note 5 - Capital Assets

Capital asset activity for the fiscal years ended June 30, 2006 and June 30, 2005 were as follows:

	Balance July 1, 2005	Increase	Decrease	Balance June 30, 2006
Capital assets not being depreciated				
Land	\$ 40,174,102	\$ 70,200	\$ -	\$ 40,244,302
Construction in progress	49,883,929	40,750,008	(16,972,119)	73,661,818
Total capital assets, not being depreciated	90,058,031	40,820,208	(16,972,119)	113,906,120
Capital assets being depreciated				
Structures and improvements	406,622,765	16,937,941	-	423,560,706
Leasehold improvements	34,781,424	4,403,097	-	39,184,521
Equipment	22,308,506	1,619,467	(209,832)	23,718,141
Total capital assets, being depreciated	463,712,695	22,960,505	(209,832)	486,463,368
Less accumulated depreciation for:				
Structures and Improvements	(145,980,863)	(15,811,010)	43,726	(161,748,147)
Leasehold improvements	(13,973,346)	(1,880,830)	-	(15,854,176)
Equipment	(12,535,263)	(2,470,866)	159,234	(14,846,895)
Total accumulated depreciation	(172,489,472)	(20,162,706)	202,960	(192,449,218)
Total capital assets, being depreciated, net	291,223,223	2,797,799	(6,872)	294,014,150
Net capital assets	\$ 381,281,254	\$ 43,618,007	\$ (16,978,991)	\$ 407,920,270

	Balance July 1, 2004	Increase	Decrease	Balance June 30, 2005
Capital assets not being depreciated				
Land	\$ 31,253,273	\$ 8,920,829	\$ -	\$ 40,174,102
Construction in progress	124,501,961	19,907,218	94,525,250	49,883,929
Total capital assets, not being depreciated	155,755,234	28,828,047	94,525,250	90,058,031
Capital assets being depreciated				
Structures and improvements	292,571,710	114,051,055	-	406,622,765
Leasehold improvements	30,617,578	4,163,846	-	34,781,424
Equipment	25,850,365	3,330,451	6,872,310	22,308,506
Total capital assets, being depreciated	349,039,653	121,545,352	6,872,310	463,712,695
Less accumulated depreciation for:				
Structures and Improvements	(133,383,298)	(12,597,565)	-	(145,980,863)
Leasehold improvements	(12,732,758)	(1,240,588)	-	(13,973,346)
Equipment	(17,081,572)	(2,265,552)	(6,811,861)	(12,535,263)
Total accumulated depreciation	(163,197,628)	(16,103,705)	(6,811,861)	(172,489,472)
Total capital assets, being depreciated, net	185,842,025	105,441,647	60,449	291,223,223
Net capital assets	\$ 341,597,259	\$ 134,269,694	\$ 94,585,699	\$ 381,281,254

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Note 6 – Derivatives – Interest Rate Swap

OBJECTIVE OF THE INTEREST RATE SWAP:

In 1996 the Sacramento County Airport System (Airport System) issued four series A, B, C, and D of revenue bonds totaling \$168,280,000. Series B and D were advance refunded; however, A and C were subject to Alternative Minimum Tax and consequently could not be advance refunded. In order to take advantage of low interest rates, reduce exposure to the possibility of higher interest rates in 2006 when the bonds first became callable and reduce its overall cost of borrowing, the Airport System entered into a forward fixed rate trigger swap with Morgan Stanley, the Counterparty, on September 8, 2004. Under the terms of the swap, the Airport System pays a fixed rate of 3.785% to the Counterparty and the Counterparty pays a variable rate tied to the LIBOR rate, adjusted depending on whether the LIBOR rate either exceeds or is less than 3%.

TERMS: The swap was entered into on September 8, 2004, with an effective date of May 2, 2006. On May 2, 2006, the Airport System issued \$79,450,000 of series 2006A revenue bonds. The series 2006A bonds were issued as auction rate securities, in two separate sub series with staggered 35-day auction periods. The bonds, and the related swap agreement mature on July 1, 2024. The original notional amount of the swap was \$83,475,000. As of July 1, 2006, the notional amount will be \$79,450,000, equal to the outstanding principal of the 2006A bonds. Under the swap, the Airport System pays the Counterparty a fixed payment of 3.785% and receives a variable payment computed on 68% of the 1-month LIBOR if the LIBOR rate is above 3% and 58% of the 1-month LIBOR, plus 30 basis points (0.30%) if the LIBOR rate is below 3%. The variable rate payable on the 2006A bonds was initially 3.55%. Subsequent bond interest rates are based on the auction results.

FAIR VALUE: At June 30, 2006, the swap had a fair value of \$487,587. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Because the payments on the Airport System's variable-rate certificates adjust to changing interest rates, the certificates do not have a corresponding fair value increase.

CREDIT RISK: The County is exposed to credit risk resulting from a failure of the counterparty to perform because the swap's fair value is positive, however because the fair value is less than the threshold amount of \$7,000,000, no collateral is required at this time. The swap counterparty was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Services.

BASIS RISK: The swap can expose the County to basis risk, but did not as of June 30, 2006. The basis risk is the difference between the 35-day Auction Rate paid on the variable rate bonds and the floating amount received from the interest rate swap of 68% of 1-Month LIBOR. For the 2006 A-1 bonds, the Auction Rate was 3.30%, whereas 68% of the 1-Month LIBOR was 3.554%, a difference of 0.254%. As of June 30, 2006, the effect of this difference decreased the intended synthetic rate to 3.531% for the 2006A-1 bonds. For the 2006 A-2 bonds, the Auction Rate was 3.55%, whereas 68% of the 1-Month LIBOR was 3.554%, a difference of 0.004%. As of June 30, 2006, the effect of this difference decreased the intended synthetic rate to 3.781% for the 2006 A-2 bonds.

TERMINATION RISK: The County or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate certificates would no longer carry a synthetic interest rate. If the swap is terminated, other than by the Counterparty exercising its option under the agreement, and at the time of termination the swap has negative fair value, the Airport System would be liable to the Counterparty for a payment equal to the swap's fair value.

ASSOCIATED DEBT: The net cash flow as of June 30, 2006, which included debt service payments of \$329,055, fees of \$19,310, and swap receipts of \$236,837, was (\$201,604).

2006 A Series Variable Rate Revenue Bonds Interest Rate Swap. Using the rates as of June 30, 2006, debt service requirements of the variable rate debt and the net swap payments, assuming current interest rates remain the same for the term were as follows. As rates vary variable-rate bond interest payments and net swap payments will vary.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, net	Total
	Principal	Interest		
2007		\$ 1,878,393	\$ 191,077	\$ 2,069,470
2008	3,125,000	2,667,647	374,639	6,167,286
2009	3,225,000	2,558,903	359,367	6,143,270
2010	3,350,000	2,446,306	343,554	6,139,860
2011	3,500,000	2,329,000	327,080	6,156,080
2012 - 2016	19,625,000	9,716,297	1,364,537	30,705,834
2017 - 2021	23,900,000	6,001,456	842,832	30,744,288
2022 - 2026	22,725,000	1,593,909	223,845	24,542,754
Total	\$ 79,450,000	\$ 29,191,911	\$ 4,026,931	\$ 112,668,842

Note 7 – Long Term Liabilities

	June 30	
	2006	2005
Revenue Bonds:		
1992 series, 5.8% to 6.0% due 2006-2024	\$ 6,290,000	\$ 6,290,000
Less unamortized discount	(161,368)	(170,333)
	<u>6,128,632</u>	<u>6,119,667</u>
1996 series A, 5.3% to 6% due 2006 - 2024		84,085,000
Less unamortized discount	-	(2,085,429)
	-	<u>81,999,571</u>
1998 refunding series A, 4.1% to 5.0% due 2006-2026	39,730,000	40,640,000
Less unamortized discount and deferred amount on refunding	(3,355,379)	(3,528,425)
	<u>36,374,621</u>	<u>37,111,575</u>
2002 series A, 3.0% to 5.25% due 2006-2032	71,290,000	72,675,000
Plus unamortized premium	1,054,686	1,095,251
	<u>72,344,686</u>	<u>73,770,251</u>
2002 refunding series B, 3.0% to 5.25 due 2006-2020	14,650,000	15,380,000
Less unamortized premium and deferred amount on refunding	(311,414)	(333,658)
	<u>14,338,586</u>	<u>15,046,342</u>
2006 series A, variable interest rate per auction, due 2007 - 2024	79,450,000	
Less deferred amount on refunding	(6,204,485)	-
	<u>73,245,515</u>	<u>-</u>
PFC and Subordinated Revenue Bonds:		
1996 series C, 5.3% to 5.9% due 2006-2010	6,150,000	7,365,000
Less unamortized discount	(269,822)	(283,314)
	<u>5,880,178</u>	<u>7,081,686</u>
1998 refunding series B, 4.1% to 5.0%, due 2006-2026	44,495,000	44,620,000
Less unamortized discount and deferred amount on refunding	(3,971,926)	(4,170,521)
	<u>40,523,074</u>	<u>40,449,479</u>
Total revenue bonds payable	<u>\$ 248,835,292</u>	<u>\$ 261,578,571</u>

The Series 1992 Revenue Bonds, totaling \$40,915,000, were issued in December 1992 to finance capital improvements at Sacramento International and Executive Airports and to repay certain indebtedness. In September 1998, \$19,070,000 of this amount was refunded and in August 2002, \$10,220,000 was refunded. The bonds are secured by the pledge of net revenues of the Airport System.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

The Series 1996 A&B Revenue Bonds, totaling \$111,005,000, were issued July 1996 to finance a portion of the costs of capital improvements at Sacramento International Airport and the other airports comprising the Airport System. In September 1998, Series 1996 B Revenue Bonds amounting to \$15,040,000 were refunded in total. The Series 1996 Revenue Bonds are issued on parity with the Series 1992, 1998 and 2002 Revenue Bonds and are secured by the pledge of future net revenues of the Airport System. In March 2000, the Airport System received FAA authority to use PFC receipts for partial repayment of Series 1996 Revenue Bond debt service relating to eligible construction costs of Terminal A. In May 2006, the Airport System fully advance refunded the 1996A Revenue Bonds. See Revenue Refunding Bonds Series 2006 A on page 39 for more details.

The Series 1996 C&D PFC and Subordinated Revenue Bonds, totaling \$57,275,000, were issued July 1996 to finance a portion of the costs of capital improvements at Sacramento International Airport and the other airports comprising the Airport System. In September 1998, Series D PFC and Subordinated Revenue Bonds, totaling \$43,760,000 were refunded in total. The Series 1996 PFC and Subordinated Revenue Bonds are payable from and secured by the net proceeds of a Passenger Facility Charge approved by the FAA and imposed by the Airport System on and after July 1, 1996. The bonds are additionally payable from, and secured by, the net revenues of the Airport System subordinate and junior to the lien of the Series 1992, 1996, 2002 and 2006 Revenue Bonds, and any additional parity revenue bonds that may be issued in the future.

The Series 1998 Revenue Refunding Bonds, totaling \$42,510,000, were issued September 1998 to advance refund all or portions of certain prior issues of the County's Airport System Revenue Bonds. The bonds advance refunded were originally issued to finance a portion of the costs of certain capital improvements at Sacramento International Airport and other airports comprising the Airport System.

The Series 1998 Revenue Refunding Bonds share a parity lien on net revenues with \$123,380,000 principal amount of other Senior Bonds that remained outstanding following the issuance of Series 1998 Senior Bonds.

The Series 1998 PFC and Subordinated Revenue Refunding Bonds, totaling \$45,620,000, were issued September 1998 to advance refund all or portions of certain prior issues of the County's Airport System PFC and Subordinated Revenue Bonds. The Bonds advance refunded were originally issued to finance a portion of the costs of capital improvements at Sacramento International Airport and the other airports comprising the Airport System.

The Series 1998 PFC and Subordinated Revenue Bonds are payable and secured by a pledge of the net proceeds of the PFC imposed by the Airport System. The bonds are additionally payable from, and secured by, the net revenues of the Airport System subordinate and junior to the lien of the Series 1992, 1996, 1998, 2002 and 2006 Revenue Bonds, and any additional parity revenue bonds that may be issued in the future.

On July 26, 2002, the County issued \$74,015,000 of Airport System Revenue Bonds, Series 2002A, and \$17,805,000 of Airport System Revenue Refunding Bonds, Series 2002B (Series 2002 Bonds). The Series 2002A Revenue Bonds were issued to finance primarily a multi-level parking garage at Sacramento International Airport. The Series 2002B Revenue Refunding Bonds were issued to refund all of the outstanding Series 1989 Revenue Bonds and a portion of the outstanding Series 1992A Revenue Bonds. Each Series of Bonds is payable from, and secured by, future Net Revenues of the Airport.

On May 2, 2006, The County issued \$79,450,000 of Airport System Revenue Refunding Bonds, Series 2006A. The Series 2006A Revenue Refunding Bonds were issued to refund all of the outstanding 1996A Revenue Bonds. As a result the 1996A Revenue Bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$6,262,470. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next 18 years by \$4,869,839 and resulted in an economic gain of \$7,613,580. These bonds are payable, and secured by, future Net Revenues of the Airport. The interest rate on these variable rate bonds are set at auction every 35 days.

The bonds are issued under the terms of bond resolutions adopted by the Board and are subject to call and redemption at the option of the Airport System prior to their respective maturity dates. The bonds are redeemable based on the following terms and the redemption may occur from any source other than the Bonds Sinking Fund Account.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Series	Maturing After:	Prices Decreasing From:
1992B	June 30, 2002	100% in FY02 and thereafter
1996C	June 30, 2007	102% in FY07 to 101% in FY08 to 100% in FY09 and thereafter
1998A	June 30, 2009	101% in FY09 to 100.5% in FY10 to 100% in FY11 and thereafter
1998B	June 30, 2009	101% in FY09 to 100.5% in FY10 to 100% in FY11 and thereafter
2002A	July 1, 2012	100% in FY12 and thereafter
2002B	July 1, 2012	100% in FY12 and thereafter
2006A	*	100% in FY07 and thereafter

*The 2006A Bonds are redeemable at the end of each auction period at an equal price to the principal amount plus accrued interest.

Certain revenue bond obligations have been defeased "in-substance" by placement in an irrevocable trust. Their outstanding principal balances at June 30, 2006 are as follows:

Bond Issue:	
Series 1996A Revenue Bonds	\$ 81,745,000
Series 1996B Revenue Bonds	15,040,000
Series 1996D PFC and Subordinated Revenue Bonds	<u>43,760,000</u>
TOTAL	<u>\$ 140,545,000</u>

Future debt service requirements at June 30, 2006 are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 4,535,000	\$ 10,909,035	\$ 15,444,035
2008	7,830,000	11,687,956	19,517,956
2009	8,130,000	11,356,363	19,486,363
2010	8,475,000	10,992,743	19,467,743
2011	8,870,000	10,619,981	19,489,981
2012 - 2016	50,325,000	46,948,794	97,273,794
2017 - 2021	62,865,000	34,250,107	97,115,107
2022 - 2026	71,535,000	18,518,715	90,053,715
2027 - 2031	30,480,000	5,009,500	35,489,500
2032 - 2033	9,010,000	456,000	9,466,000
Total	<u>\$ 262,055,000</u>	<u>\$ 160,749,194</u>	<u>\$ 422,804,194</u>

The General Bond Resolution constitutes a contract between the Airport System and the bondholders, under which the Airport System has irrevocably pledged the Net Revenues of the Airport System for payment of the revenue bonds. Net Revenues, as defined by the bond resolution, are revenues less maintenance and operation expenses. The Airport System has covenanted that it will establish rates and charges for the use of Airport services and facilities which yield Net Revenues equal to at least 1.25 times the debt service to become due on the bonds for each fiscal year.

The PFC and Subordinated Revenue Bonds are payable and secured by the net proceeds from the Passenger Facility Charge (PFC) imposed by the Airport System on and after July 1, 1996, and are additionally payable from and secured by the Net Revenues of the Airport System subordinate and junior to the lien of the Revenue Bonds and certain other obligations. The Airport System has covenanted that for any fiscal year that PFCs collected will not equal at least 1.25 times the subordinated debt service requirement, the Airport System will use Net Revenues from the Airport System to provide for such difference. Pursuant to the Supplemental Bond Resolution the Airport System has irrevocably pledged the Subordinated Revenues, PFCs plus any required transfers from Net Revenues, for payment of the bonds. The Airport System also covenanted to administer its PFC program to maximize PFC collections and comply with the PFC and noise laws.

The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such debt in higher-yielding taxable securities. The federal tax code refers to this practice as arbitrage. In general, with a few exceptions, any excess earnings resulting from arbitrage must be rebated to the federal government. The Airport System has recorded estimated arbitrage taxes payable in the amount of \$97,517.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

The bond resolutions also require that certain funds be established and certain accounting procedures be followed. For fiscal years 2006 and 2005, the Airport System was in compliance with these covenants.

Long-term liability activity for the fiscal years ended June 30, 2006 and June 30, 2005, was as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 219,070,000	\$ 79,450,000	\$ 87,110,000	\$ 211,410,000	\$ 3,125,000
PFC and Subordinated Revenue Bonds	51,985,000	-	1,340,000	50,645,000	1,410,000
Deferred amounts:					
For issuance premiums	1,660,913	-	78,276	1,582,637	-
For issuance discounts	(3,752,039)	-	(2,165,645)	(1,586,394)	-
On refunding	(7,385,303)	(6,262,470)	(431,822)	(13,215,951)	-
Total bonds payable	<u>261,578,571</u>	<u>73,187,530</u>	<u>85,930,809</u>	<u>248,835,292</u>	<u>4,535,000</u>
Compensated Absences	2,467,098	2,193,693	1,931,479	2,729,312	-
Estimated arbitrage taxes payable	97,517	-	-	97,517	-
Total long term liabilities	<u>\$ 264,143,186</u>	<u>\$ 75,381,223</u>	<u>\$ 87,862,288</u>	<u>\$ 251,662,121</u>	<u>\$ 4,535,000</u>

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 224,220,000	\$ -	\$ 5,150,000	\$ 219,070,000	\$ 5,365,000
PFC and Subordinated Revenue Bonds	53,260,000	-	1,275,000	51,985,000	1,340,000
Deferred amounts:					
For issuance premiums	1,739,188	-	78,275	1,660,913	-
For issuance discounts	(3,931,561)	-	(179,522)	(3,752,039)	-
On refunding	(7,768,614)	-	(383,311)	(7,385,303)	-
Total bonds payable	<u>267,519,013</u>	<u>-</u>	<u>5,940,442</u>	<u>261,578,571</u>	<u>6,705,000</u>
Compensated Absences	2,326,275	1,991,560	1,850,737	2,467,098	-
Estimated arbitrage taxes payable	97,517	-	-	97,517	-
Total long term liabilities	<u>\$ 269,942,805</u>	<u>\$ 1,991,560</u>	<u>\$ 7,791,179</u>	<u>\$ 264,143,186</u>	<u>\$ 6,705,000</u>

Note 8 - Rentals and Operating Leases

The Airport System derives a substantial portion of its revenues from charges to air carriers and concessionaires. Substantially all of the assets classified under capital assets in the Statements of Net Assets are held by the Airport System for the purpose of rental or related use.

The Airport System, as lessor, leases land, buildings and terminal space to air carriers and concessionaires on a fixed fee as well as a contingent basis. All leases of the Airport System are treated as operating leases for accounting purposes. Most of the leases provide for an annual review and re-determination of the rental amounts.

In fiscal years 2006 and 2005, the Airport System received approximately \$5,638,313 and \$4,045,634, respectively, for contingent rental payments in excess of stated minimums. The following is a schedule of future minimum rentals receivable on non-cancelable operating leases as of June 30, 2006.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Fiscal years ending June 30		
2007	\$	13,148,810
2008		11,741,396
2009		9,039,554
2010		8,496,894
2011		7,870,295
2012-2016		26,677,266
2017-2021		2,872,505
2022-2026		1,860,044
2027-2031		403,856
2032-2036		121,169
		121,169
Total future minimum rentals receivable	\$	82,231,789

Note 9 – Restricted Net Assets

Restricted net assets are assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provision or enabling legislation.

Net assets restricted by enabling legislation totaling \$81,920,131 and \$66,390,568 are included in statements of net assets at June 30, 2006 and 2005, respectively.

Note 10 - Related Party Transactions

The Airport System reimburses the County for the cost of providing the Airport System with security, engineering, administrative and certain maintenance services. Amounts charged by other County departments are reported as operating expenses during the period incurred or capitalized as capital assets. Accrued expenses for County services were \$3,311,859 and \$2,998,682 at June 30, 2006 and 2005, respectively.

Amounts charged by other County departments for fiscal years 2006 and 2005 are as follows:

	2006	2005
Charged to operations	\$ 15,563,796	\$ 14,680,347
Capitalized as capital assets	1,857,301	3,158,196
Total charged by other County departments	\$ 17,421,097	\$ 17,838,543

Note 11 - Defined Benefit Pension Plan

All permanent full-time or part time employees of the Airport System participate in the Sacramento County Employees' Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system. A stand alone report is issued for the System and may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for Airport System employees covered by the System for the fiscal years ended June 30, 2006 and 2005 was \$18,305,000 and \$17,622,000, respectively. The Airport System's total payroll for the fiscal years ended June 30, 2006 and 2005 was \$19,031,000 and \$18,192,000, respectively. Retirement benefits are based on members' years of service and compensation. Additionally, the System provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members have earned the right to receive a retirement benefit. Members are eligible for retirement at age 50 or after 30 years of service for miscellaneous members and 20 years of service for safety members.

Notes to the Basic Financial Statements (Continued) For the Fiscal Years ended June 30, 2006 and 2005

Under the actuarial funding method used by the System, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur rather than upon disposition of the Investment.

Member contributions are required by law and are based on age of entry into the System. County contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937. The contribution requirement for the year ended June 30, 2006 was \$4,264,000 which consisted of \$3,201,000 from the Sacramento County Airport System and \$1,063,000 from employees; these contributions represented 17.5 percent and 5.8 percent, respectively, of covered payroll. The contribution requirement for the year ended June 30, 2005 was \$3,464,000 which consisted of \$2,644,000 from the Sacramento County Airport System and \$820,000 from employees; these contributions represented 15.0 percent and 4.7 percent, respectively, of covered payroll.

For fiscal years 2006, 2005 and 2004, the Airport System's annual pension cost of \$3,201,000, \$2,644,000 and \$2,989,000, respectively, was equal to its required contributions.

Note 12 - Commitments and Contingencies

Construction Projects: The Airport System had approximately \$7,166,426 in outstanding construction contract commitments at June 30, 2006.

Federal Grant Awards: As of June 30, 2006, the Airport System had outstanding federal grant awards totaling approximately \$19 million for various construction projects at Sacramento International Airport. Such funds are not available to the Airport System until related approved expenses are incurred and, until such time, are not accrued as receivables.

Federal grant funds received or receivable are subject to audit and adjustment by the funding agency or their representative. If grant funds are received for expenses which are subsequently disallowed, the Airport System may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenses, if any, will not be material to the accompanying financial statements at June 30, 2006.

Environmental Mitigation: Due to various activities occurring on Sacramento International Airport property, habitat for the Giant Garter Snake (GGS) was destroyed. As a result of negotiations with state and federal resource agencies, including US Fish and Wildlife Service, it was agreed that the situation would be ameliorated through the Airport System's purchase of acreage appropriate for mitigation purposes. It was also agreed that the land would be developed as a GGS habitat and would be managed by The Natomas Basin Conservancy (TNBC). In addition the Airport System will pay TNBC to manage the site in perpetuity with management and endowment fees. The Airport System will retain title to the property, all of which was purchased during fiscal year 2005. The Airport System is now negotiating the final conservation habitat plan with TNBC and the US Fish and Wildlife Service. Once the plan has been finalized and documentation has been created to support that plan, the County will enter into a settlement with the US Fish and Wildlife Service. This is expected to be completed in early 2007.

Special Facilities Revenue Bonds: Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (Special Facility Bonds) totaling \$9,900,000 were issued on November 3, 1998 to finance the demolition of an existing facility and construction and installation of a replacement aircraft maintenance hanger and associated facilities at Sacramento International Airport for The Cessna Aircraft Company (Cessna). Although taking the legal form of a financing lease between the County and Cessna, the substance of these arrangements is that the Special Facility Bonds constitute a special obligation of the Airport System payable from and secured by certain revenues under its lease with Cessna and certain proceeds pledged therefore under the Indenture. The bonds do not constitute a debt, liability or general obligation of the Airport System or a pledge of the faith and credit of the Airport System. The Airport System will not be obligated to levy any taxes or expend any funds for the repayment of the bonds. As of June 30, 2006 and 2005, the outstanding balance of the debt was \$8,800,000.

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Statistical Section

This section contains the following subsections:

Net Assets

Changes in Net Assets

Debt Service Coverage

Ratio of Annual Debt Service To Total Expenses

Debt Per Enplaned Passenger

Outstanding Debt

Total Annual Revenues and Total Annual Expenses

Scheduled Airlines – Rates and Charges

Scheduled Airlines Cost Per Enplaned Passenger

Service Area Population

Demographics and Economic Indicators

Activity Statistics

Major Carrier/Commuter Airline Service

Principal Customers

Net Assets

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Invested in capital assets, net of related debt	102,097,452	102,971,937	\$ 105,508,679
Restricted:			
Revenue bond maintenance and operation reserve account	14,473,000	16,274,000	17,358,000
Revenue bond renewal and replacement account	1,000,000	1,000,000	1,000,000
Capital construction	2,150,610	1,859,419	4,416,225
Passenger facility charges	37,445,391	44,350,274	48,136,050
Total restricted	<u>55,069,001</u>	<u>63,483,693</u>	<u>70,910,275</u>
Unrestricted	<u>95,345,034</u>	<u>99,911,642</u>	<u>110,420,060</u>
Total net assets	<u>\$ 252,511,487</u>	<u>\$ 266,367,272</u>	<u>\$ 286,839,014¹</u>

¹ Fiscal year 2003 net assets were restated due to change in accounting principles.

<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 126,762,388	\$ 164,627,362	\$ 190,642,485
17,953,000	17,175,000	19,393,000
1,000,000	1,000,000	1,000,000
4,399,696	4,356,237	4,982,064
<u>52,398,305</u>	<u>66,390,568</u>	<u>81,920,131</u>
<u>75,751,001</u>	<u>88,921,805</u>	<u>107,295,195</u>
<u>104,009,224</u>	<u>104,777,188</u>	<u>101,482,119</u>
<u>\$ 306,522,613</u>	<u>\$ 358,326,355</u>	<u>\$ 399,419,799</u>

Changes in Net Assets

	2001	2002	2003
Operating revenues:			
Concessions	\$ 40,453,352	\$ 40,548,385	\$ 46,383,456
Building rents	14,225,198	14,699,640	14,397,965
Airfield charges	11,720,569	10,138,281	8,341,447
Ground leases	2,881,251	2,722,470	2,768,994
Sale of aviation fuel	3,337,937	3,304,813	3,615,979
Airport services	118,087	161,499	184,562
Other	34,252	103,327	52,570
Total operating revenues	<u>72,770,646</u>	<u>71,678,415</u>	<u>75,744,973</u>
Operating expenses:			
Salaries and benefits	19,838,553	20,819,372	22,883,432
Services and supplies	26,474,417	33,026,722	36,247,504
Cost of goods sold	685,067	638,850	626,644
Depreciation	14,206,060	14,689,534	15,145,180
Other	605,547	641,388	1,046,455
Total operating expenses	<u>61,809,644</u>	<u>69,815,866</u>	<u>75,949,215</u>
Operating income (loss)	<u>10,961,002</u>	<u>1,862,549</u>	<u>(204,242)</u>
Nonoperating revenues (expenses):			
Interest income	9,705,073	6,263,408	4,164,015
Passenger Facility Charges revenue	13,660,759	15,259,334	17,621,861
Intergovernmental revenue	27,321	1,313,322	2,831,833
Gain on disposal of assets	(69,863)	28,233	(1,878)
Other nonoperating revenue	57,207	56,375	93,133
Amortization of bond issuance cost	(128,151)	(128,151)	(171,740)
Interest expense	(11,947,001)	(11,614,976)	(11,023,165)
Net nonoperating revenues	<u>11,305,345</u>	<u>11,177,545</u>	<u>13,514,059</u>
Income before capital contribution and transfers	22,266,347	13,040,094	13,309,817
Capital contributions - grants	2,409,737	815,691	4,520,415
Transfers out			
Changes in net assets	24,676,084	13,855,785	17,830,232
Total net assets, beginning of year	<u>227,835,403</u>	<u>252,511,487</u>	<u>269,008,782</u> ¹
Total net assets, end of year	<u>\$ 252,511,487</u>	<u>\$ 266,367,272</u>	<u>\$ 286,839,014</u>

¹

Fiscal year 2003 net assets were restated due to change in accounting principles.

2004	2005	2006
\$ 47,623,267	\$ 54,307,418	\$ 60,367,151
13,803,071	14,170,114	16,087,912
12,353,198	17,107,966	17,779,295
3,110,659	3,607,645	4,403,407
2,662,833	1,332,966	1,339,214
137,513	636,999	900,536
39,986	1,386,070	102,681
<u>79,730,527</u>	<u>92,549,178</u>	<u>100,980,196</u>
25,280,428	27,313,968	28,437,857
38,792,551	37,688,533	41,462,233
712,784	914,185	1,081,550
15,597,039	16,103,705	20,162,706
1,218,467	909,682	670,162
<u>81,601,269</u>	<u>82,930,073</u>	<u>91,814,508</u>
<u>(1,870,742)</u>	<u>9,619,105</u>	<u>9,165,688</u>
2,888,108	4,303,953	6,623,389
18,498,324	24,454,819	24,511,950
702,098	880,166	849,340
3,988	503,692	993
140,157	247,124	223,468
(171,740)	(171,740)	(175,358)
<u>(10,315,087)</u>	<u>(12,631,716)</u>	<u>(10,536,254)</u>
<u>11,745,848</u>	<u>17,586,298</u>	<u>21,497,528</u>
9,875,106	27,205,403	30,663,216
9,808,493	24,598,339	10,889,564
		<u>(459,336)</u>
19,683,599	51,803,742	41,093,444
<u>286,839,014</u>	<u>306,522,613</u>	<u>358,326,355</u>
<u>\$ 306,522,613</u>	<u>\$ 358,326,355</u>	<u>\$ 399,419,799</u>

Debt Service/Debt Per Enplaned Passenger

DEBT SERVICE COVERAGE

	1997	1998	1999	2000
REVENUE BONDS				
Revenues ¹	\$ 52,295,830	\$ 53,905,388	\$ 64,281,322	\$ 78,480,010
Maintenance and operation Expenses ²	(35,314,572)	(35,201,553)	(41,887,297)	(45,103,600)
Net revenues	\$ 16,981,258	\$ 18,703,835	\$ 22,394,025	\$ 33,376,410
Debt service requirement	\$ 4,966,880	\$ 5,685,763	\$ 11,035,929	\$ 12,105,681
DEBT SERVICE COVERAGE	3.4	3.3	2.0	2.8

PFC AND SUBORDINATED REVENUE BONDS ³

PFC and subordinated revenues ⁴	\$ 11,514,249	\$ 11,747,670	\$ 12,315,525	\$ 12,807,547
Debt service requirement	1,766,760	2,509,591	3,843,777	3,945,652
DEBT SERVICE COVERAGE	6.5	4.7	3.2	3.2

Source: Debt service compliance audit.

The Airport System issued Revenue Bonds, PFC and Subordinated Revenue bonds for the first time in fiscal years 1989-90 and 1996-97, respectively.

¹Per bond resolution, revenues include all Airport System revenues excluding certain interest earnings and restricted revenues.

²Per bond resolution, Maintenance and Operation Expenses include all Airport System operating costs and certain capital and other non operating expenses. Maintenance and Operation Expenses exclude depreciation, amortization and debt service.

³Per Supplemental bond resolution, PFC and Subordinate Revenue Bonds are payable from net proceeds from PFC's imposed by the Airport System on and after July 1, 1996, and Net Revenues subordinate and junior to the lien on Senior Revenue bonds.

⁴PFC and Subordinated Revenues represent PFC collections and interest earned during the year.

RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES

	1997	1998	1999	2000
Principal	\$ 855,000	\$ 900,000	\$ 950,000	\$ 4,565,000
Interest ¹	5,833,640	7,245,353	10,314,706	11,996,333
Total debt service	\$ 6,688,640	\$ 8,145,353	\$ 11,264,706	\$ 16,561,333
Total expenses	\$ 49,924,228	\$ 50,609,299	\$ 62,738,007	\$ 70,029,818
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	13.5%	16.2%	23.7%	22.9%

Source: Derived from audited financial statements.

The Airport System issued bonds for the first time in fiscal year 1989-90.

¹Does not include capitalized interest or interest paid from bond proceeds.

DEBT PER ENPLANED PASSENGER

	1997	1998	1999	2000
Bonds payable	\$ 216,847,785	\$ 216,120,347	\$ 206,840,553	\$ 203,302,998
Enplaned passengers	3,476,147	3,528,513	3,678,125	3,837,471
DEBT PER ENPLANED PASSENGER	\$ 62.38	\$ 61.25	\$ 56.24	\$ 52.98

Source: Audited financial statements and Airport System statistics reports.

The Airport System issued bonds for the first time in FY 1989-90.

2001	2002	2003	2004	2005	2006
\$ 84,936,877	\$ 83,865,381	\$ 89,255,168	\$ 90,323,829	\$ 104,769,369	111,466,818
(49,297,268)	(56,134,649)	(63,338,095)	(66,842,925)	(67,524,525)	(72,668,987)
\$ 35,639,609	\$ 27,730,732	\$ 25,917,073	\$ 23,480,904	\$ 37,244,844	\$ 38,797,831
\$ 12,099,721	\$ 12,106,987	\$ 15,062,285	\$ 16,840,105	\$ 16,835,805	14,721,391
2.9	2.3	1.7	1.4	2.2	2.6

\$ 13,706,418	\$ 15,259,334	\$ 17,621,861	\$ 18,498,324	\$ 24,454,819	24,511,950
3,946,527	3,948,571	3,946,921	3,951,476	3,951,616	3,882,096
3.5	3.9	4.5	4.7	6.2	6.3

2001	2002	2003	2004	2005	2006
\$ 4,055,000	\$ 4,250,000	\$ 4,470,000	\$ 4,845,000	\$ 6,425,000	6,705,000
11,796,248	11,585,558	14,164,206	14,366,581	14,082,421	11,881,872
\$ 15,851,248	\$ 15,835,558	\$ 18,634,206	\$ 19,211,581	\$ 20,507,421	\$ 18,586,872
\$ 73,954,659	\$ 81,767,250	\$ 87,145,998	\$ 92,084,108	\$ 95,188,366	\$ 102,984,463
21.7%	19.6%	21.8%	22.6%	21.8%	18.1%

2001	2002	2003	2004	2005	2006
\$ 199,570,443	\$ 195,617,887	\$ 271,879,455	\$ 267,519,013	\$ 261,578,571	248,835,292
4,104,096	4,042,585	4,314,273	4,563,607	4,986,171	5,150,229
\$ 48.63	\$ 48.39	\$ 63.02	\$ 58.62	\$ 52.46	\$ 48.32

Outstanding Debt

Revenue Bonds	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
1989 series, 6.97% to 7.0% due 2003-2020	15,680,000	15,375,000	7,670,000	7,330,000
1992 series, 5.8% to 6.0% due 2006-2024	39,140,000	38,495,000	18,750,000	18,040,000
1996 series A, 5.3% to 6% due 2006 - 2024	111,005,000	111,005,000	94,210,000	92,375,000
1998 refunding series A, 4.1% to 5.0% due 2006-2026			42,055,000	41,935,000
2002 series A, 3.0% to 5.25% due 2006-2032				
2002 refunding series B, 3.0% to 5.25 due 2006-2020				
2006 series A, variable interest rate per auction, due 2007 - 2024				
Total revenue bonds	<u>165,825,000</u>	<u>164,875,000</u>	<u>162,685,000</u>	<u>159,680,000</u>
PFC and Subordinated Revenue Bonds				
1996 series C, 5.3% to 5.9% due 2006-2010	57,275,000	57,275,000	12,605,000	11,655,000
1998 refunding series B, 4.1% to 5.0%, due 2006-2026			45,170,000	45,070,000
Total PFC and subordinated revenue bonds	<u>57,275,000</u>	<u>57,275,000</u>	<u>57,775,000</u>	<u>56,725,000</u>
Total bonds payable	<u>223,100,000</u>	<u>222,150,000</u>	<u>220,460,000</u>	<u>216,405,000</u>

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
7,155,000	\$ 6,960,000	-	-	-	-
17,295,000	16,510,000	6,290,000	\$ 6,290,000	\$ 6,290,000	\$ 6,290,000
90,450,000	88,430,000	88,430,000	86,310,000	84,085,000	-
41,630,000	41,315,000	41,315,000	40,985,000	40,640,000	39,730,000
		74,015,000	74,015,000	72,675,000	71,290,000
		17,805,000	16,620,000	15,380,000	14,650,000
					79,450,000
<u>156,530,000</u>	<u>153,215,000</u>	<u>227,855,000</u>	<u>224,220,000</u>	<u>219,070,000</u>	<u>211,410,000</u>
10,660,000	9,615,000	9,615,000	8,520,000	7,365,000	6,150,000
44,965,000	44,855,000	44,855,000	44,740,000	44,620,000	44,495,000
<u>55,625,000</u>	<u>54,470,000</u>	<u>54,470,000</u>	<u>53,260,000</u>	<u>51,985,000</u>	<u>50,645,000</u>
<u>212,155,000</u>	<u>207,685,000</u>	<u>282,325,000</u>	<u>277,480,000</u>	<u>271,055,000</u>	<u>262,055,000</u>

Total Annual Revenues and Total Annual Expenses

LAST TEN FISCAL YEARS	1997 ¹	1998	1999	2000 ²
OPERATING REVENUES				
Concessions	\$ 26,059,845	\$ 27,545,592	\$ 32,621,831	\$ 36,536,264
Building rents	8,735,069	9,115,845	12,577,593	14,554,287
Airfield charges	7,623,653	7,817,681	9,327,491	10,955,265
Ground leases	2,237,717	2,032,124	2,151,717	2,391,685
Sale of aviation fuel	2,943,216	2,947,030	2,734,312	3,064,533
Airport services	132,460	95,986	96,695	111,701
Other	3,817	8,496	38,197	6,372
TOTAL OPERATING REVENUES	\$ 47,735,777	\$ 49,562,754	\$ 59,547,836	\$ 67,620,107
NONOPERATING REVENUES				
Interest income	7,938,925	6,152,634	6,366,838	7,762,871
PFC revenue	7,125,346	5,576,227	12,380,526	44,961,050
Capital contributions				2,526,129
Intergovernmental revenue	46,315	10,019		45,318
Other nonoperating revenue	463,991	152,216	114,759	38,918
TOTAL REVENUES	\$ 63,310,354	\$ 61,453,850	\$ 78,409,959	\$ 122,954,393

Source: Airport System's audited financial statements.

¹ Passenger Facility Charges revenue for FY 1996/97 restated.

² Passenger Facility Charges & Intergovernmental Revenue restated to reflect the implementation of GASB 33.

TOTAL ANNUAL EXPENSES

LAST TEN FISCAL YEARS	1997	1998	1999	2000
OPERATING EXPENSES				
Salaries and benefits	\$ 13,753,609	\$ 14,002,280	\$ 16,153,834	\$ 17,706,356
Services and supplies	17,961,102	19,352,772	23,031,988	24,955,201
Cost of goods sold	464,321	524,770	393,145	638,127
Depreciation and amortization	8,415,136	9,142,829	12,769,067	13,750,108
Other	340,388	294,818	439,169	655,371
TOTAL OPERATING EXPENSES	40,934,556	43,317,469	52,787,203	57,705,163
NONOPERATING EXPENSES				
Interest expense	8,832,072	7,124,894	9,684,130	12,196,504
Loss (gain) on disposal of assets		15,589	35,773	
Rebate tax expense	13,705	7,452	102,750	
Amortization of bond issuance cost	143,895	143,895	128,151	128,151
Transfers out				
TOTAL EXPENSES	\$ 49,924,228	\$ 50,609,299	\$ 62,738,007	\$ 70,029,818

2001	2002	2003	2004	2005	2006
\$ 40,453,352	\$ 40,548,385	\$ 46,383,456	\$ 47,623,267	\$ 54,307,418	\$ 60,367,151
14,225,198	14,699,640	14,397,965	13,803,071	14,170,114	16,087,912
11,720,569	10,138,281	8,341,447	12,353,198	17,107,966	17,779,295
2,881,251	2,722,470	2,768,994	3,110,659	3,607,645	4,403,407
3,337,937	3,304,813	3,615,979	2,662,833	1,332,966	1,339,214
118,087	161,499	184,562	137,513	636,999	900,536
34,252	103,327	52,570	39,986	1,386,070	102,681
<u>\$ 72,770,646</u>	<u>\$ 71,678,415</u>	<u>\$ 75,744,973</u>	<u>\$ 79,730,527</u>	<u>\$ 92,549,178</u>	<u>\$ 100,980,196</u>
9,705,073	6,263,408	4,164,015	2,888,108	4,303,953	6,623,389
13,660,759	15,259,334	17,621,861	18,498,324	24,454,819	24,511,950
2,409,737	815,691	4,520,415	9,808,493	24,598,339	10,889,564
27,321	1,313,322	2,831,833	702,098	880,166	849,340
57,207	56,375	93,133	140,157	205,563	223,468
<u>\$ 98,630,743</u>	<u>\$ 95,386,545</u>	<u>\$ 104,976,230</u>	<u>\$ 111,767,707</u>	<u>\$ 146,992,018</u>	<u>\$ 144,077,908</u>

2001	2002	2003	2004	2005	2006
\$ 19,838,553	\$ 21,194,906	\$ 22,883,432	\$ 25,280,428	\$ 27,313,968	\$ 28,437,857
26,474,417	32,887,678	36,247,504	38,792,551	37,688,533	41,462,233
685,067	638,850	626,644	712,784	914,185	1,081,550
14,206,060	14,689,534	15,145,180	15,597,039	16,103,705	20,162,706
605,547	641,388	1,046,455	1,218,467	868,211	670,162
<u>61,809,644</u>	<u>70,052,356</u>	<u>75,949,215</u>	<u>81,601,269</u>	<u>82,888,602</u>	<u>91,814,508</u>
11,947,001	11,614,976	11,023,165	10,315,087	12,631,716	10,536,254
69,863	(28,233)	1,878	(3,988)	(503,692)	(993)
128,151	128,151	171,740	171,740	171,740	175,358
<u>\$ 73,954,659</u>	<u>\$ 81,767,250</u>	<u>\$ 87,145,998</u>	<u>\$ 92,084,108</u>	<u>\$ 95,188,366</u>	<u>\$ 102,984,463</u>

Scheduled Airlines Rates and Charges/ Cost Per Enplaned Passenger

SCHEDULED AIRLINES RATES AND CHARGES

LAST TEN FISCAL YEARS	1997	1998	1999	2000
Landing fee (Per 1,000 lbs.)	\$ 1.33	\$ 1.34	\$ 1.61	\$ 1.72
Terminal rental rates (Per Sq. Foot)				
Ticket counter	54.48	58.20	54.60	57.60
Office and enclosed	54.48	58.20	54.60	57.60
Unenclosed				
Holdroom	54.48	58.20	54.60	57.60
Baggage makeup/joint use	54.48	58.20	54.60	57.60

Source: Airport System records.

The Airport System negotiated the first airline agreement which governed the calculation of rates and fees charged to scheduled airlines effective January 1, 1982. This agreement was terminated July 1, 1989 when the County adopted a new Rate Ordinance relating to airline rates and fees. In October, 2000 a new airline agreement was executed and since that time, rates and fees have been calculated in accordance with the Agreement.

¹Average used for presentation purposes. Due to the imposition of a mid-year adjustment, the landing fee was decreased from \$1.39 (July – December 2002) to \$1.03 (January – July 2003).

²Effective July 2005, unenclosed space at \$1.00 per square foot added to Terminal Rental Rates.

SCHEDULED AIRLINES COST PER ENPLANED PASSENGER

LAST TEN FISCAL YEARS	1997 ¹	1998	1999	2000 ³
AIRLINE REVENUE:				
Terminal rents-scheduled	\$ 5,540,168	\$ 5,748,716	\$ 7,631,928	\$ 9,159,263
Gate use (apron) fees	473,314	446,353	1,830,231	2,050,080
Landing fees	7,215,245	7,427,734	8,939,631	10,416,215
Total	13,228,727	13,622,803	18,401,790	21,625,558
Percent of total revenues	20.9%	22.2%	23.5%	17.6%
NON-AIRLINE REVENUES	34,507,050	35,939,951	41,146,045	45,994,549
Percent of total revenues	54.5%	58.5%	52.5%	37.4%
NONOPERATING REVENUES	15,574,577	11,891,096	18,862,123	55,334,286
Percent of total revenues	24.6%	19.3%	24.1%	45.0%
TOTAL REVENUES	\$ 63,310,354	\$ 61,453,850	\$ 78,409,958	\$ 122,954,393
Enplaned passengers	3,476,147	3,528,513	3,678,125	3,837,471
REVENUE PER ENPLANED PASSENGER	\$ 18.21	\$ 17.42	\$ 21.32	\$ 32.04
AIRLINE COST PER ENPLANED PASSENGER ²	\$ 3.81	\$ 3.86	\$ 5.00	\$ 5.64

Source: Audited financial statements and Airport System statistics reports.

¹Nonoperating revenues for FY 96/97 restated for Passenger Facility Charges revenue.

²Includes air cargo landing fees as part of cost.

³Nonoperating revenue for FY 99/00 restated to reflect implementation of GASB 33.

<u>2001</u>	<u>2002</u>	<u>2003¹</u>	<u>2004</u>	<u>2005</u>	<u>2006²</u>
\$ 1.72	\$ 1.57	\$ 1.21	\$ 1.79	\$ 2.37	\$ 2.44
54.45	54.60	58.20	48.00	64.56	73.11
54.45	54.60	58.20	48.00	64.56	73.11
					1.00
54.45	54.60	58.20	48.00	64.56	73.11
54.45	54.60	58.20	48.00	64.56	73.11
54.45	54.60	58.20	48.00	64.56	73.11

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 8,773,980	\$ 9,050,197	\$ 10,070,679	\$ 9,438,916	\$ 10,006,224	\$ 11,498,311
1,878,296	2,013,206	1,124,946	924,016	628,401	1,465,139
11,318,609	9,714,846	7,972,534	12,016,265	16,861,922	17,250,215
<u>21,970,885</u>	<u>20,778,249</u>	<u>19,168,159</u>	<u>22,379,197</u>	<u>27,496,547</u>	<u>30,213,665</u>
22.3%	21.8%	18.3%	20.0%	18.7%	21.0%
50,799,761	50,900,166	56,576,814	57,351,330	65,052,631	70,766,531
51.5%	53.4%	53.9%	51.3%	44.3%	49.1%
25,860,097	23,708,130	29,231,257	32,037,180	54,442,840	43,097,712
<u>26.2%</u>	<u>24.9%</u>	<u>27.8%</u>	<u>28.7%</u>	<u>37.0%</u>	<u>29.9%</u>
<u>\$ 98,630,743</u>	<u>\$ 95,386,545</u>	<u>\$ 104,976,230</u>	<u>\$ 111,767,707</u>	<u>\$ 146,992,018</u>	<u>\$ 144,077,908</u>
4,104,096	4,042,585	4,314,273	4,563,607	4,986,171	5,150,229
<u>\$ 24.03</u>	<u>\$ 23.60</u>	<u>\$ 24.33</u>	<u>\$ 24.49</u>	<u>\$ 29.48</u>	<u>\$ 27.98</u>
<u>\$ 5.35</u>	<u>\$ 5.14</u>	<u>\$ 4.44</u>	<u>\$ 4.90</u>	<u>\$ 5.51</u>	<u>\$ 5.87</u>

Service Area Population/ Capital Asset and Activity Statistics

SERVICE AREA POPULATION LAST TEN FISCAL YEARS

	1997	1998	1999	2000
PRIMARY AREA				
Sacramento County	1,140,600	1,159,800	1,177,800	1,209,500
Placer County	209,700	217,900	225,900	234,400
Yolo County	154,500	156,800	158,800	162,900
El Dorado County	142,200	147,600	150,800	152,900
Sutter County	74,700	76,800	76,700	77,900
Yuba County	60,500	61,400	60,400	60,700
TOTAL PRIMARY AREA	1,782,200	1,820,300	1,850,400	1,898,300
SECONDARY AREA	834,332	849,050	856,624	869,721
TOTAL POPULATION	2,616,532	2,669,350	2,707,024	2,768,021

Source: California Department of Finance.

Secondary area population is estimated at 81% of total population for counties included in this category. The largest population counties in the secondary area include Solano, Butte and Napa Counties.

ACTIVITY STATISTICS

LAST TEN FISCAL YEARS

	1997	1998	1999	2000
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>				
Passengers				
Enplanements	3,476,147	3,528,513	3,678,125	3,837,471
Deplanements	3,476,698	3,539,019	3,693,415	3,869,635
Total passengers	6,952,845	7,067,532	7,371,540	7,707,106
Air mail (lbs.)				
Inbound	9,869,355	10,981,434	7,946,822	8,257,440
Outbound	21,697,000	26,668,636	22,755,641	24,699,669
Total airmail	31,566,355	37,650,070	30,702,463	32,957,109
Air freight (lbs.)				
Inbound	52,945,699	74,222,383	50,237,295	52,181,649
Outbound	54,808,760	73,007,628	51,637,495	51,933,150
Total air freight	107,754,459	147,230,011	101,874,790	104,114,799
Aircraft operations	170,107	160,580	151,428	153,157
<u>SACRAMENTO EXECUTIVE AIRPORT</u>				
Aircraft Operations	104,811	110,320	115,040	117,603
<u>SACRAMENTO MATHER AIRPORT</u>				
Air mail (lbs.) ^{2/3}				
Inbound				79,286,702
Outbound				81,863,396
Total air mail				161,150,098
Air freight (lbs.) ¹				
Inbound	35,450,299	42,821,927	69,918,984	83,397,349
Outbound	41,376,794	48,216,622	70,360,317	74,854,739
Total air freight	76,827,093	91,038,549	140,279,301	158,252,088

Source: Sacramento County Airport System activity reports.

¹Air cargo operations began at Mather Airport in April 1996.

²Air mail operations began at Mather Airport in August 1999.

³Air mail operations ceased at Mather Airport in August 2001.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1,258,600	1,279,900	1,309,600	1,335,400	1,369,855	1,385,607
257,500	264,900	275,600	292,100	305,675	316,508
173,500	176,300	181,300	184,500	187,743	190,344
159,700	163,600	166,000	168,100	173,407	176,204
80,900	81,900	83,200	85,500	88,945	91,450
60,800	61,000	62,800	64,800	66,734	69,827
1,991,000	2,027,600	2,078,500	2,130,400	2,192,359	2,229,940
882,722	889,834	901,878	912,425	926,661	935,164
<u>2,873,722</u>	<u>2,917,434</u>	<u>2,980,378</u>	<u>3,042,825</u>	<u>3,119,020</u>	<u>3,165,104</u>

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
4,104,096	4,042,585	4,314,273	4,563,607	4,986,171	5,150,229
4,092,629	4,025,712	4,332,641	4,551,895	4,974,239	5,144,838
<u>8,196,725</u>	<u>8,068,297</u>	<u>8,646,914</u>	<u>9,115,502</u>	<u>9,960,410</u>	<u>10,295,067</u>
10,137,470	7,599,352	7,092,275	8,230,789	10,955,369	8,488,572
22,807,330	17,018,953	14,300,327	14,043,719	10,373,197	7,018,259
<u>32,944,800</u>	<u>24,618,305</u>	<u>21,392,602</u>	<u>22,274,508</u>	<u>21,328,566</u>	<u>15,506,831</u>
49,849,350	66,279,952	74,534,298	71,737,037	76,002,268	75,706,041
47,870,051	56,605,573	60,348,955	58,015,622	55,446,447	61,030,139
<u>97,719,401</u>	<u>122,885,525</u>	<u>134,883,253</u>	<u>129,752,659</u>	<u>131,448,715</u>	<u>136,736,180</u>
150,737	153,846	159,795	162,416	162,397	172,902
125,643	112,153	120,200	140,935	109,765	118,405
100,742,973	13,269,189				
<u>99,645,644</u>	<u>13,527,397</u>				
200,388,617	26,796,586				
73,951,857	61,048,773	59,180,276	67,511,356	67,014,010	68,851,888
71,192,100	67,379,721	56,800,781	60,536,105	58,295,663	60,115,274
<u>145,143,957</u>	<u>128,428,494</u>	<u>115,981,057</u>	<u>128,047,461</u>	<u>125,309,673</u>	<u>128,967,162</u>

Demographics and Economic Indicators

DEMOGRAPHICS AND ECONOMIC INDICATORS FOR THE COUNTY OF SACRAMENTO LAST TEN FISCAL YEARS

POPULATION/ PERSONAL INCOME

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Population	1,140,600	1,159,800	1,177,800	1,209,500
Personal income	\$ 26,560,408	\$ 28,050,979	\$ 30,179,191	\$ 32,018,953
Per capita personal income	\$ 22,983.00	\$ 23,978.00	\$ 25,433.00	\$ 26,535.00
Unemployment rate (%)	5.8	5.2	5.3	4.8

¹ Figures not available

Source: California Department of Finance

PRINCIPAL EMPLOYERS

	<u>2005-06</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Kaiser Permanente	11,729	1	2.31%
Sutter/ California Health Services	11,284	2	2.22%
Raleys Inc./Bel Air	8,203	3	1.61%
University of California, Davis (UCD) Medical Center	8,000	4	1.57%
Intel Corporation	6,500	5	1.28%
SBC Communications (formerly Pacific Bell)	5,753	6	1.13%
CHW/ Mercy Health Care	5,229	7	1.03%
Hewlett-Packard	4,500	8	0.89%
Target Corporation	3,693	9	0.73%
Wal-Mart Stores, Inc.	3,300	10	0.65%
Albertsons, Inc.			
Bank of America			
Packard Bell			
Totals	<u>68,191</u>		<u>13.42%</u>

2001	2002	2003	2004	2005	2006
1,258,600	1,279,900	1,309,600	1,335,400	1,369,855	1,385,607
\$ 35,016,668	\$ 37,225,183	\$ 38,649,539	\$ 40,627,363	\$ 43,228,715	N/A ¹
\$ 28,463.00	\$ 29,398.00	\$ 29,699.00	\$ 30,538.00	\$ 31,987.00	N/A
4.2	4.7	5.2	5.2	4.5	4.7

1996-97		
Employees	Rank	Percentage of Total County Employment
5,156	2	1.01%
9,500	1	1.87%
4,850	4	0.95%
3,800	8	0.75%
4,433	6	0.87%
4,376	7	0.86%
5,000	3	0.98%
3,500	9	0.69%
2,388	10	0.47%
4,500	5	0.89%
<u>47,503</u>		<u>9.34%</u>

Major Carrier/Regional Airline Service

SCHEDULED AIRLINE SERVICE

<u>Carrier</u>	<u>Nonstop Service</u>	<u>One-Stop, Same-Plane Service</u>
Alaska	Seattle, WA (SEA) Portland, OR (PDX)	
Aloha	Kahului, Maui, HA (OGG) Orange County, CA (SNA)	
America West/ US Airways	Las Vegas, NV (LAS) Phoenix, AZ (PHX)	Boston, MA (BOS) Dallas/FT. Worth, TX (DFW) Denver, CO (DEN) Detroit, MI (DTW) Kansas City, MO (MCI) Los Angeles, CA (LAX)
American	Dallas/Ft. Worth, TX (DFW)	Kansas City, MO (MCI)
Continental	Houston, TX (IAH)	Miami, FL (MIA) New Orleans, LA (MSY)
Delta	Atlanta, GA (ATL) Salt Lake City, UT (SLC)	Baltimore, MD (BWI) Dallas/FT. Worth, TX (DFW) Denver, CO (DEN) Washington, D.C. (DCA)
Frontier	Denver, CO (DEN)	
Hawaiian	Honolulu, HI (HNL)	
Jet Blue	Long Beach, CA (LGB) New York, NY (JFK)	Ft. Lauderdale, FL (FLL)
Mexicana	Guadalajara, Mexico (GDL) Los Cabos, Mexico (SJD)	Mexico City, Mexico (MEX) Leon/Guanajuato, Mexico (BJX)
Northwest	Minneapolis, MN (MSP)	Memphis, TN (MEM) Milwaukee, WI (WKE)

Major Carrier/Regional Airline Service (continued)

SCHEDULED AIRLINE SERVICE

<u>Carrier</u>	<u>Nonstop Service</u>	<u>One-Stop, Same-Plane Service</u>
Southwest	Burbank, CA (BUR) Chicago, IL (MDW) Kansas City, MO (MKC) Las Vegas, NV (LAS) Los Angeles, CA (LAX) Ontario, CA (ONT) Orange County, CA (SNA) Phoenix, AZ (PHX) Portland, OR (PDX) San Diego, CA (SAN) Seattle, WA (SEA)	Albuquerque, NM (ABQ) Austin, TX (AUS) Baltimore, MD (BWI) Chicago, IL (MDW) Cleveland, OH (CLE) Detroit, MI (DTW) El Paso, TX (ELP) Fort Lauderdale, FL (FLL) Indianapolis, IN (IND) Kansas City, MO (MCI) Las Vegas, NV (LAS) Nashville, TN (BNA) Phoenix, AZ (PHX) Spokane, WA (GEG) St. Louis, MO (STL) Tucson, AZ (TUS) Washington, D.C. (DCA)
United	Chicago, IL (ORD) Denver, CO (DEN) Los Angeles, CA (LAX) Washington, D.C. (IAD)	Boston, MA (BOS) Baltimore, MD (BWI) Cancun, Mexico (CUN) Cleveland, OH (CLE) Hartford, CT (BDL) Washington, D.C. (DCA)

REGIONAL AIRLINE SERVICE

Horizon	Boise, ID (BOI) Palm Springs, CA (PSP) Portland, OR (PDX)	Spokane, WA (GEG)
United Express	Eureka/Arcata, CA (ACV) Los Angeles, CA (LAX) San Francisco, CA (SFO)	Crescent City, CA (CEC)

Principal Customers/Airport System Employees

PRINCIPAL CUSTOMERS AND AIRPORT SYSTEM EMPLOYEES FOR FISCAL YEARS 2005-06 AND 1996-97

Principal Customers

	2005-06		1996-97	
	Customer Revenue	% Total Customer Revenue	Customer Revenue	% Total Customer Revenue
APCOA/AMPCO Parking ¹	44,157,330	43.73%	18,575,072	38.91%
Southwest Airlines	11,652,106	11.54%	5,266,848	11.03%
United Airlines	3,687,054	3.65%	2,934,573	6.15%
	<u>59,496,490</u>	<u>58.92%</u>	<u>26,776,493</u>	<u>56.09%</u>

¹ APCOA Parking ceased operations at International Airport on December 31, 2005. AMPCO took over operations January 1, 2006.

Airport System Employees

	2005-06	1996-97
Employees	<u>414</u>	<u>270</u>

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Bond Disclosure Section

This section contains the following subsections:

Annual Report

Historical Enplaned Passengers

Airline Market Shares of Enplaned Passengers

Airport System Scheduled Airlines

Maintenance and Operations Expenses

Historical Aircraft Landed Weight

Airline Market Shares of Aircraft Landed Weight

Airline and Nonairline Revenues

Application of Airport Revenues

Authorized PFC Applications

Annual Report

In accordance with the requirements of the Continuing Disclosure Certificate (Certificate) for the Sacramento County Airport System Revenue Bonds, Series 1996 and the Airport System PFC and Subordinated Revenue Bonds, Series 1996 (collectively, the Revenue Bonds and the PFC and Subordinated Revenue Bonds are referred to as the "Series 1996 Bonds"), the Sacramento County Airport System (System) is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5)(the Rule).

Beginning with the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 1996-97, and each CAFR thereafter, the Bond Disclosure Section will provide the required information consistent with Section 4 of the Certificate. The CAFR will be filed with each National and State Repository specified in the Rule, and with any other repository that shall be identified in the future.

ANNUAL REPORT

The following items are required by the Certificate to be included in the Annual Report:

- A. A table showing, for the County's most recently completed Fiscal Year, the number of enplaned passengers for (i) all airlines other than regional airlines, (ii) all regional airlines, and (iii) all airlines, together with a calculation of the percentage increase or decrease in total enplaned passengers for all airlines for such Fiscal Year over the comparable figures for the immediately preceding Fiscal Year, substantially in the format presented at page 46 of the County's Official Statement dated June 12, 1996 relating to the Series 1996 Bonds (the "Official Statement"). **Refer to EXHIBIT 1, pages 70 and 71 of this report.**
- B. A table showing, for the County's most recently completed Fiscal Year, the respective market share of enplaned passengers for (i) each scheduled airline doing business at the Airport which operates aircraft with 60 or more seats, ("Major Airlines"), (ii) each of the regional airlines doing business at the Airport, and (iii) all other airlines, together with the ranking for each such airline among all airlines included in the table, all substantially in the format presented at page 48 of the Official Statement. **Refer to EXHIBIT 2, page 72 of this report.**
- C. A table showing, for the County's most recently completed Fiscal Year, the aggregate aircraft landed weights (in 1,000-pound units) for (i) all airlines except regional airlines, (ii) all regional airlines, (iii) all airlines included in (i) and (ii) above in this paragraph (c), (iv) all-cargo airlines, and (v) all-cargo airlines plus all airlines included in (iii) above in this paragraph (c), together with a calculation of the percentage increase or decrease in the aggregate figure calculated in (v) for such Fiscal Year over the comparable figure for the immediately preceding Fiscal Year. **Refer to EXHIBIT 5, pages 74 and 75 of this report.**
- D. A table showing for the County's most recently completed Fiscal Year, the respective market share of aircraft landed weight for (i) each of the Major Airlines doing business at the Airport, (ii) regional airlines (as a group) doing business within the Airport System, (iii) other passenger airlines (as a group), including nonscheduled, charter, and supplemental airlines, and (iv) cargo airlines (as a group) all substantially in the format presented at page 49 of the Official Statement. **Refer to EXHIBIT 6, pages 74 and 75 of this report.**
- E. A statement of the total weight (in millions of pounds) of enplaned cargo at the Airport System during the County's most recently completed Fiscal Year. **Refer to the Statistical Section, Activity Statistics, pages 58 and 59 of this report.**
- F. A listing of scheduled airlines, including separate listings of the Major Airlines, all-cargo airlines and regional airlines serving the Airport System at the end of the County's most recently completed Fiscal Year. **Refer to EXHIBIT 3, page 73 of this report.**
- G. A statement of the number of daily nonstop flights offered from the Airport by the Major Airlines and regional airlines serving the Airport as of June 1 of the preceding Fiscal Year. At June 30, 2006, nonstop flights offered at the Airport by major and regional airlines were 156 and 13, respectively, for a total of 169 nonstop flights. **See Statistical Section, Major Carrier/Regional Airline Service, page 62 and 63 of this report, for a listing by airline and destination of nonstop service.**
- H. A table, substantially in the format presented as Exhibit D to the Report of the Airport Consultant, showing, for the County's most recently completed Fiscal Year, the Maintenance and Operation Expenses of the Airport System (i) by object type (showing each of the line items presented in the table presented as Exhibit D to the Report of the Airport Consultant), (ii) by cost center (showing each of the line items presented in said Exhibit D), and (iii) in the aggregate for such Fiscal Year. **Refer to EXHIBIT 4, page 73 of this report.**
- I. A table, substantially in the format presented as Exhibit E to the Report of the Airport Consultant, showing, for the County's most recently completed Fiscal Year, the airline and nonairline revenue collected by the Department, including the line items representing the most significant sources of revenue collected by the Department during such Fiscal Year. **Refer to EXHIBIT 7, page 76 of this report.**

- J. A table, in substantially the format presented as Exhibit F-1 to the Report of the Airport Consultant, showing, for the County's most recently completed Fiscal Year, (i) that all transfers required under the Bond Resolution have been made, (ii) a statement of the Net Revenues for the Airport System and the fraction, expressed as a percentage, obtained by dividing such Net Revenues by the Debt Service for such Fiscal Year, and (iii) a statement of the Passenger Facility Charge revenues collected by the County and the fraction, expressed as a percentage, obtained by dividing such Passenger Facility Charge revenues by the Subordinated Debt Service for such Fiscal Year. **(i) Refer to EXHIBIT 8, page 77 of this report which details transfer made pursuant to the Bond Resolution; (ii) Refer to the Statistical Section, Debt Service Coverage, pages 50 and 51 of this report; (iii) Refer to the Statistical Section, PFC and Subordinated Revenue Bonds Debt Service Coverage, pages 50 and 51 of this report.**
- K. A table, in substantially the format presented on page 25 of the Official Statement, showing, for each of the authorizations (as applicable) by the Federal Aviation Administration for the County to collect Passenger Facility Charges from airlines using the Airport System, (i) the amount available for debt service on PFC and Subordinated Airport System Revenue Bonds pursuant to each such authorization as of the end of such Fiscal Year (taking into account the total Passenger Facility Charge Collections pursuant to each such authorization during such Fiscal Year), and (ii) the total amount of Passenger Facility Charges remaining to be collected pursuant to each such authorization as of the end of such Fiscal Year. **Refer to EXHIBIT 9, page 78 of this report.**
- L. The audited financial statements of the County of Sacramento Airport Enterprise Fund for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. **Refer to the Financial Section, pages 19-43 of this report.**
- M. A statement of the value, in dollars, of the System's funds held by or in the Sacramento County Pooled Investment Fund. **Refer to the Financial Section, footnotes 2 and 4, Cash and Investments, and Restricted Assets, pages 33 and 35 of this report.**

REPORTING OF SIGNIFICANT EVENTS

As of June 30, 2006, none of the Events listed in Section 5 of the Certificate have occurred for any of the outstanding bonds issued by the Sacramento County Airport System. As of June 30, 2006, there is no knowledge on the part of the County of any impending Significant Events that would require disclosure under the provisions of the Certificate.

Historical Enplaned Passengers

EXHIBIT 1

HISTORICAL ENPLANED PASSENGERS FISCAL YEARS ENDED JUNE 30

ENPLANEMENTS	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Major and Other Airlines (a)	3,303,846	3,367,277	3,525,882	3,707,787
Regional Airlines	<u>172,301</u>	<u>161,236</u>	<u>152,243</u>	<u>129,684</u>
TOTAL	<u><u>3,476,147</u></u>	<u><u>3,528,513</u></u>	<u><u>3,678,125</u></u>	<u><u>3,837,471</u></u>
Percent Change From Prior Year	<u>1.3%</u>	<u>1.5%</u>	<u>4.2%</u>	<u>4.3%</u>

Source: Airport System statistics reports.

(a) Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
3,966,953	3,853,587	4,096,459	4,336,932	4,763,946	4,897,981
<u>137,143</u>	<u>188,998</u>	<u>217,814</u>	<u>226,675</u>	<u>222,225</u>	<u>252,248</u>
<u>4,104,096</u>	<u>4,042,585</u>	<u>4,314,273</u>	<u>4,563,607</u>	<u>4,986,171</u>	<u>5,150,229</u>
<u>6.9%</u>	<u>(1.5%)</u>	<u>6.7%</u>	<u>5.8%</u>	<u>9.3%</u>	<u>3.3%</u>

Airline Market Shares

EXHIBIT 2 AIRLINE MARKET SHARES OF ENPLANED PASSENGERS FISCAL YEARS ENDED JUNE 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PERCENTAGE OF TOTAL ENPLANEMENTS				
Major Airlines (a)				
Southwest Airlines	52.3%	50.6%	49.9%	49.9%
United Airlines	9.7%	10.0%	10.1%	10.1%
America West Airlines	6.0%	6.4%	6.2%	5.8%
American Airlines	6.1%	5.4%	5.5%	4.6%
Delta Airlines	5.7%	5.5%	5.3%	4.9%
Alaska Airlines	4.3%	5.2%	5.0%	4.9%
Continental Airlines	2.1%	2.3%	2.4%	2.7%
Northwest Airlines	2.8%	2.6%	2.4%	2.2%
Jet Blue Airlines		0.5%	1.8%	1.7%
Hawaiian Airlines	1.5%	1.8%	1.7%	1.7%
Frontier Airlines	1.5%	1.7%	1.6%	2.3%
Mexicana Airlines	0.6%	0.5%	0.9%	1.2%
Aloha Airlines	0.1%	0.5%	0.6%	0.8%
Commuter Airlines				
Skywest	5.0%	4.4%	4.1%	4.0%
Horizon Airlines	2.2%	1.9%	2.0%	2.2%
Mesa Airlines		0.6%	0.2%	0.4%
ASA/Delta Connection			0.2%	0.5%
Others	0.0%	0.0%	0.0%	0.0%
All Other Airlines (b)	0.1%	0.1%	0.1%	0.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
RANKING				
Major Airlines (a)				
Southwest Airlines	1	1	1	1
United Airlines	2	2	2	2
America West Airlines	4	3	3	3
Alaska Airlines	7	6	6	4
American Airlines	3	5	4	5
Delta Airlines	5	4	5	5
Continental Airlines	10	9	7	7
Northwest Airlines	8	8	8	9
Jet Blue Airlines		16	10	10
Hawaiian Airlines	12	11	11	11
Frontier Airlines	11	12	12	12
Mexicana Airlines	13	14	13	13
Aloha Airlines	14	15	14	14
Commuter Airlines				
Skywest	6	7	7	6
Horizon Airlines	9	10	9	10
ASA/Delta Connection			16	15
Mesa Airlines		13	15	16

Source: Airport System statistics reports.

Continuing disclosure requirement effective fiscal year 95-96.

(a) Defined for this analysis as scheduled airlines operating with 60 or more seats.

(b) Includes nonscheduled, charter, and supplemental airlines.

Scheduled Airlines/Maintenance and Operation Expenses

EXHIBIT 3 SACRAMENTO COUNTY AIRPORT SYSTEM SCHEDULED AIRLINES AS OF JUNE 30, 2006

<u>Major Airlines</u>	<u>Regional Airlines</u>	<u>All-Cargo Airlines</u>
Alaska	Skywest	Federal Express
Aloha	Mesa Airlines	UPS
America West	ASA/Delta Connection	Airbourne Express
American	Horizon	DHL Airlines
Continental		
Delta		
Frontier		
Hawaiian		
Jet Blue		
Mexicana Airlines		
Northwest		
Southwest		
United		

Source: Airport System records.

EXHIBIT 4 MAINTENANCE AND OPERATION EXPENSES FISCAL YEARS ENDED JUNE 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
By object type				
Salaries and benefits	\$ 22,883,432	\$ 25,280,428	\$ 27,313,968	\$ 28,437,857
Supplies and services	37,215,116	33,681,322	38,442,625	42,543,783
Other charges	1,046,455	1,218,467	909,682	670,162 [▲]
Equipment and projects	1,109,284	834,427	858,250	719,028 [▲]
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	\$ 62,254,287	\$ 61,014,644	\$ 67,524,525	\$ 72,370,830
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
By cost center				
Terminal building	\$ 17,252,481	\$ 17,951,616	\$ 18,455,400	\$ 18,692,935
Apron area	1,006,269	1,121,150	1,176,426	913,941
Loading bridges	112,114	73,896	321,694	42,687
Other (a)	43,883,423	41,867,982	47,571,005	52,721,267
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	\$ 62,254,287	\$ 61,014,644	\$ 67,524,525	\$ 72,370,830
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Source: Airport System audited financial statements.

Continuing disclosure requirements effective fiscal year 95-96.

(a) Includes Airfield Area, Parking and Roadways, Other Buildings and Areas, and Reliever Airports cost centers.

Historical Aircraft Landed Weight/Airline Market Shares

EXHIBIT 5

HISTORICAL AIRCRAFT LANDED WEIGHT (in 1,000 lb. units) FISCAL YEARS ENDED JUNE 30

	1997	1998	1999	2000
Passenger airlines				
All airlines except regionals	4,651,179	4,661,580	4,619,942	4,737,179
Regionals	260,443	228,793	235,457	171,441
SUBTOTAL	4,911,622	4,890,373	4,855,399	4,908,620
All cargo airlines	561,593	749,790	789,570	1,292,104
TOTAL	5,473,215	5,640,163	5,644,969	6,200,724
Percent change from prior year	8.4%	3.1%	0.1%	9.8%

Source: Airport System Records

EXHIBIT 6

AIRLINE MARKET SHARES OF AIRCRAFT LANDED WEIGHT FISCAL YEARS ENDED JUNE 30

	1997	1998	1999	2000
Major passenger airlines (a)				
Southwest	42.3%	40.0%	39.2%	37.4%
United Airlines	13.8%	13.6%	13.8%	13.1%
America West Airlines	7.7%	6.8%	7.2%	6.9%
Alaska Airlines	4.5%	4.2%	4.2%	3.8%
Delta Air Lines	7.4%	6.8%	6.4%	5.5%
American Airlines	5.0%	3.5%	3.4%	3.1%
Frontier Airlines				
Continental Airlines				0.2%
Northwest Airlines	2.4%	2.0%	1.8%	2.0%
Hawaiian Airlines				
Jet Blue Airlines				
Mexicana Airlines				
Aloha Airlines				
TWA	2.0%	1.9%	2.0%	1.7%
SUBTOTAL	85.1%	78.8%	78.0%	73.7%
Regional airlines	6.9%	5.7%	6.5%	4.9%
Other passenger airlines (b)	2.0%	2.2%	1.5%	0.7%
Cargo airlines (c,d)	6.0%	13.3%	14.0%	20.7%
TOTAL	100.0%	100.0%	100.0%	100.0%

Source: Airport System records.

Continuing disclosure requirement effective fiscal year 95-96.

(a) Defined for this analysis as scheduled passenger airlines operating aircraft with 60 or more seats.

(b) Includes Morris Air for fiscal year 1995.

(c) Includes nonscheduled, charter and supplemental airlines.

(d) Includes cargo airlines operating at Mather Airport.

2001	2002	2003	2004	2005	2006
4,977,201	5,077,398	5,419,459	5,661,830	6,037,113	6,185,453
169,319	228,166	264,845	273,734	255,984	288,094
5,146,520	5,305,564	5,684,304	5,935,564	6,293,097	6,473,547
1,277,422	972,391	856,342	764,687	771,423	728,999
6,423,942	6,277,955	6,540,646	6,700,251	7,064,520	7,202,546
3.6%	-2.3%	4.2%	2.4%	5.4%	2.0%

2001	2002	2003	2004	2005	2006
38.7%	42.2%	44.1%	45.4%	45.0%	45.7%
12.2%	9.2%	8.2%	8.6%	9.2%	9.6%
7.5%	7.9%	5.5%	5.6%	4.7%	5.2%
3.6%	3.8%	3.6%	4.6%	4.4%	4.4%
4.8%	4.9%	5.3%	5.0%	4.7%	4.1%
2.9%	4.5%	5.1%	4.4%	4.8%	3.6%
	0.6%	1.6%	1.5%	1.8%	2.1%
1.2%	1.5%	1.6%	1.7%	1.9%	2.0%
2.4%	2.6%	2.3%	2.0%	1.9%	1.7%
	0.1%	1.8%	1.8%	1.7%	1.6%
			0.4%	1.5%	1.5%
		0.6%	0.5%	1.0%	1.3%
		0.1%	0.7%	0.7%	0.8%
1.7%	0.8%	0.0%	0.0%	0.0%	0.0%
75.0%	78.1%	79.8%	82.2%	83.3%	83.6%
4.6%	5.7%	6.4%	6.1%	5.5%	5.9%
0.5%	0.7%	0.7%	0.3%	0.3%	0.4%
19.9%	15.5%	13.1%	11.4%	10.9%	10.1%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Airline and Nonairline Revenues

EXHIBIT 7

AIRLINE AND NONAIRLINE REVENUES FISCAL YEARS ENDED JUNE 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Airline Revenue			
Terminal building rents and fees	\$ 8,478,330	\$ 8,683,987	\$ 10,024,141
Aircraft parking fees	924,016	1,322,237	1,474,170
Loading bridge fees	770,954	628,401	1,465,139
Landing fees	12,016,266	16,861,922	17,250,215
	<u>22,189,566</u>	<u>27,496,547</u>	<u>30,213,665</u>
TOTAL AIRLINE REVENUE	<u>\$ 22,189,566</u>	<u>\$ 27,496,547</u>	<u>\$ 30,213,665</u>
NonAirline Revenue			
Airfield area			
Commerical fees	\$ 11,865	\$ 10,803	\$ 7,555
Other landing fees	112,847	95,087	352,826
Aviation fuel sales	2,917,430	1,613,390	1,656,920
SUBTOTAL	<u>3,042,142</u>	<u>1,719,280</u>	<u>2,017,301</u>
Terminal building			
Food/beverage	1,879,017	2,189,725	2,406,073
Merchandise	1,056,230	1,449,397	1,322,578
Advertising	634,688	570,260	563,938
Telephones	311,211	(12,088)	56,565
Vending	202,921	154,622	234,103
SUBTOTAL	<u>4,084,067</u>	<u>4,351,916</u>	<u>4,583,257</u>
Parking			
Parking	34,431,354	40,150,858	44,157,330
SUBTOTAL	<u>34,431,354</u>	<u>40,150,858</u>	<u>44,157,330</u>
Other areas			
Auto rentals	7,248,965	7,804,787	9,305,538
Auto rental shuttle bus fees	1,741,306	1,875,359	2,107,742
Taxi/shuttle bus fees	106,245	119,692	207,129
Agricultural leases	185,325	198,075	191,033
Tiedown and hangars	742,612	679,450	723,491
FBO rentals	161,412	162,145	163,188
Aviation ground leases	2,667,522	3,129,145	3,894,669
Other rentals/miscellaneous	2,941,181	2,838,855	2,412,638
SUBTOTAL	<u>15,794,568</u>	<u>16,807,508</u>	<u>19,005,428</u>
Other revenue			
Service fees	137,513	637,000	900,536
Miscellaneous revenue ¹	897,559	3,017,052	332,816
SUBTOTAL	<u>1,035,072</u>	<u>3,654,052</u>	<u>1,233,352</u>
TOTAL NONAIRLINE OPERATING REVENUES	58,387,203	66,683,614	70,996,668
Interest income ¹	1,775,579	2,626,114	3,479,254
TOTAL NONAIRLINE REVENUE	<u>\$ 60,162,782</u>	<u>\$ 69,309,728</u>	<u>\$ 74,475,922</u>

Source: Airport System audited financial statements.
Continuing disclosure requirement effective FY 95-96.

¹As defined in the bond resolution.

Application of Airport Revenues

EXHIBIT 8

APPLICATION OF AIRPORT REVENUES FISCAL YEARS ENDED JUNE 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Airport System Revenues			
Airline revenues	\$ 22,189,566	\$ 27,496,547	\$ 30,213,665
Nonairline revenues	60,162,782	69,309,727	74,475,922
Transfers for terminal A debt service			
Qualified for PFC funding	4,205,909	4,088,068	2,490,499
Transfers from prepaid revenue account	3,765,571	3,875,027	4,286,732
TOTAL REVENUES	<u>90,323,828</u>	<u>104,769,369</u>	<u>111,466,818</u>
Rate calculation carry forward adjustment			
From prior year	<u>10,408,000</u>	<u>1,059,000</u>	<u>5,511,084</u>
TOTAL ADJUSTED REVENUE	<u>\$ 100,731,828</u>	<u>\$ 105,828,369</u>	<u>\$ 116,977,902</u>
Application of Airport System Revenues			
Maintenance and operation expenses	61,562,851	68,488,304	72,791,334
Airport System revenue bond debt service	16,840,105	16,835,805	14,721,391
2002 bond principal payment amortized to airlines	(1,340,000)	311,122	311,122
M & O reserve fund deposit	593,000	(776,000)	2,217,857
	<u>77,655,956</u>	<u>84,859,231</u>	<u>90,041,704</u>
Rate calculation carry forward adjustment			
to next year	<u>8,283,565</u>	<u>3,923,297</u>	<u>8,188,092</u>
SUBTOTAL	<u>85,939,521</u>	<u>88,782,528</u>	<u>98,229,796</u>
Deposits to capital improvement fund			
Prepaid revenue account	3,875,027	4,286,732	3,758,128
Capital improvement account	10,917,280	12,759,109	14,989,978
Total deposits to capital improvement fund	<u>14,792,307</u>	<u>17,045,841</u>	<u>18,748,106</u>
TOTAL APPLICATION OF AIRPORT SYSTEM REVENUES	<u>\$ 100,731,828</u>	<u>\$ 105,828,369</u>	<u>\$ 116,977,902</u>
Airline Revenue Per Enplaned Passenger			
Airline revenues	\$ 22,189,566	\$ 27,496,547	\$ 30,213,665
Less: cargo airline landing fees	1,366,776	1,754,807	1,441,411
Passenger airline rents and fees	<u>\$ 20,822,790</u>	<u>\$ 25,741,740</u>	<u>\$ 28,772,254</u>
Enplaned passengers	4,563,607	4,986,171	5,150,229
Passenger airline revenues per enplaned passenger	<u>\$ 4.56</u>	<u>\$ 5.16</u>	<u>\$ 5.59</u>

Authorized PFC Applications

EXHIBIT 9

AUTHORIZED PFC APPLICATIONS FISCAL YEARS ENDED JUNE 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Remaining Authorized Collection			
<u>FAA Authorization</u>			
Application 1 - April 1993	\$ -	\$ -	\$ -
Application 2 - December 1995	-	-	-
Application 4 - April 1996	-	-	-
Application 5 - April 1996	20,162,692	-	-
Application 6 - March 2000	115,700,000	113,587,912	85,923,012
Application 7 - July 2002	<u>11,141,350</u>	<u>11,141,350</u>	<u>11,141,350</u>
TOTAL	<u>\$ 147,004,042</u>	<u>\$ 124,729,262</u>	<u>\$ 97,064,362</u>

Collection Amount Available for PFC and Subordinated Revenue Bond Debt Service

<u>FAA Authorization</u>			
Application 1 - April 1993	N.A. (1)	N.A. (1)	N.A. (1)
Application 2 - December 1995	N.A. (1)	N.A. (1)	N.A. (1)
Application 4 - April 1996	N.A. (1)	N.A. (1)	N.A. (1)
Application 5 - April 1996	\$ 20,162,692	\$ -	\$ -
Application 6 - March 2000	115,700,000	113,587,912	85,923,012
Application 7 - July 2002	<u>11,141,350</u>	<u>11,141,350</u>	<u>11,141,350</u>
TOTAL	<u>\$ 147,004,042</u>	<u>\$ 124,729,262</u>	<u>\$ 97,064,362</u>

Source: Airport System Records.
Continuing disclosure requirement effective fiscal year 95-96.

(1) Amounts collected for the April 1993, December 1995 and April 1996 applications are not used for payment of debt service.

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