# 06

**Minneapolis/St. Paul, Minnesota • Metropolitan Airports Commission**
**Comprehensive Annual Financial Report • Year Ended December 31, 2006**

# 06

Prepared by **The Finance Department**
Stephen L. Busch
Director of Finance

Minneapolis/St. Paul, Minnesota • Metropolitan Airports Commission
Comprehensive Annual Financial Report • Year Ended December 31, 2006

**MINNEAPOLIS-ST. PAUL, MINNESOTA**

**METROPOLITAN AIRPORTS COMMISSION-2006**

| | |
|---|---|
| ***Chair*:** | John Lanners |
| | |
| ***Commissioners*:** | |
| District A | Tammy McGee |
| District B | Molly Sigel |
| District C | Open |
| District D | John Williams |
| District E | Sherry Stenerson |
| District F | Open |
| District G | Tom Foley |
| District H | Bert McKasy |
| City of Minneapolis | Daniel Boivin |
| City of Saint Paul | Pat Harris |
| | |
| Representing Greater Minnesota Area: | Mike Landy |
| | Robert Mars |
| | Paul Rehkamp |
| | Greg Warner |
| | |
| Executive Director: | Jeffrey Hamiel |

**MINNEAPOLIS-ST. PAUL, MINNESOTA**

**METROPOLITAN AIRPORTS COMMISSION-2006**

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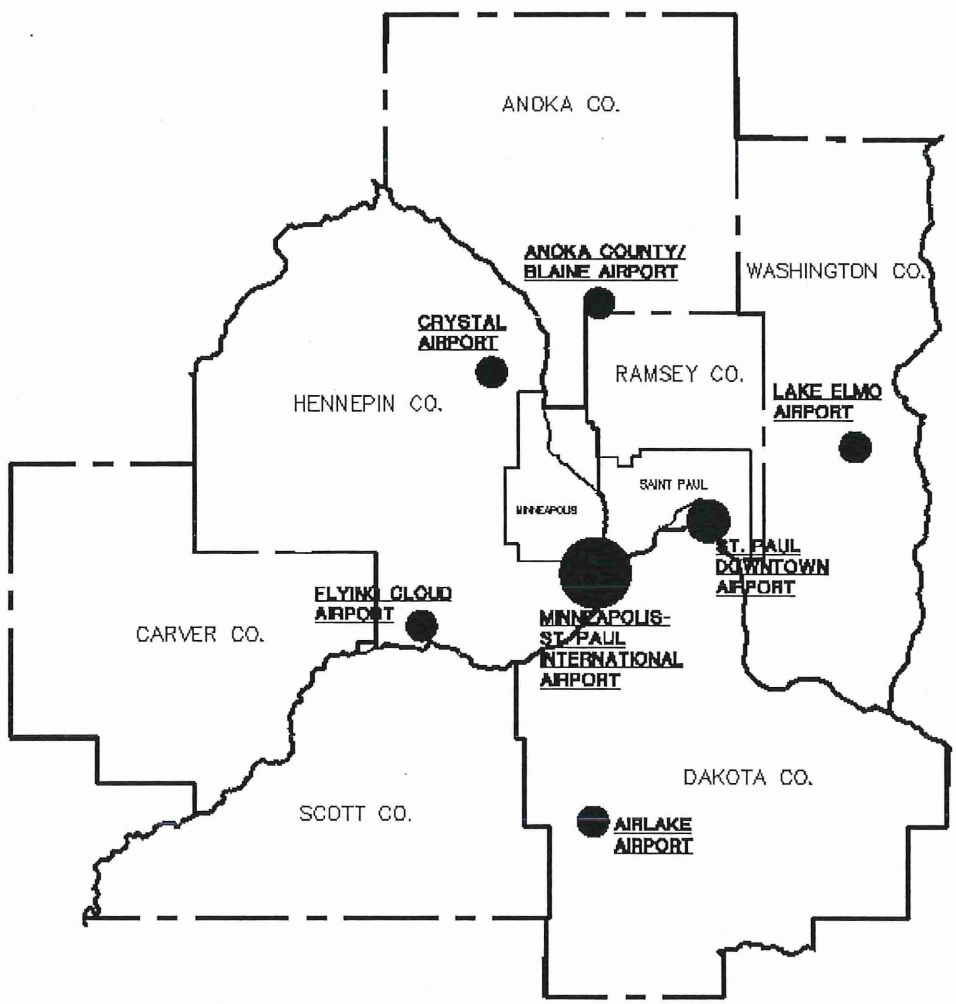
# INTRODUCTORY SECTION

Minneapolis/St. Paul, Minnesota • Metropolitan Airports Commission
Comprehensive Annual Financial Report • Year Ended December 31, 2006

**AIRPORT LOCATIONS**




## Commission Jurisdiction 35 Mile Radius

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Minneapolis-St. Paul Metropolitan Airports Commission

## Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 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.

President

Executive Director

**METROPOLITAN AIRPORTS COMMISSION**
Minneapolis–Saint Paul International Airport
6040 - 28th Avenue South • Minneapolis, MN 55450-2799
Phone (612) 726-8100 • Fax (612) 725-6353

OFFICE OF EXECUTIVE DIRECTOR

May 23, 2007

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 2006, 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 Metropolitan Airports Commission (Commission or MAC). To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations and changes in net assets and cash flows of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections - Introductory, Financial and Statistical. The Introductory Section includes this Transmittal Letter, the Commission's organization chart, and a list of principal officials. The Financial Section begins with the Independent Auditors' Report and is followed by Management's Discussion and Analysis (MD&A) and ending with the Minneapolis-St. Paul Metropolitan Airports Commission's Financial Statements and the Notes to the Financial Statements. The Statistical Section includes selected financial and activity information generally presented on a multi-year basis.

The Commission is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget, Circular A-133, *Audits of States and Local Governments*. Information related to this single audit includes the Schedule of Expenditures of Federal Awards, schedule of findings and questioned costs, and independent auditors' reports on the internal control structure, compliance with applicable laws and regulations and on the schedule of expenditures of federal awards. The Commission is also required to undergo an audit on the Commission's compliance with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility Charge revenues and expenses. These reports are issued separately.

The Commission was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potential of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, to promote the overall goals of the state's environmental policies and to minimize the public's exposure to noise and safety hazards around airports.

Metropolitan Airports Commission jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area radiating 35 miles from the Minneapolis and St. Paul city halls, and including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

The Commission owns and operates seven airports in the Metropolitan Area including Minneapolis-St. Paul International Airport (MSP) serving as the primary air carrier facility and the following reliever airports serving general aviation:

St. Paul Downtown Airport
Flying Cloud Airport
Crystal Airport

Anoka County/Blaine Airport
Lake Elmo Airport
Airlake Airport

The facilities at Airlake, Anoka County/Blaine, Crystal, Flying Cloud, and Lake Elmo are classified as minor use airports. Control towers are operational at Crystal, Anoka County/Blaine and Flying Cloud airports. The St. Paul Downtown airport serves as the primary corporate reliever and is classified as an intermediate airport.

The Commission may, under the Airport Law (Minn. Stat. §473.667), borrow money and issue General Obligation Bonds for the purpose of acquiring property, constructing and equipping new airports, acquiring and equipping existing airports and making capital improvements to any airport constructed or acquired by the Commission. The Commission may also issue, under the Airport Law (Minn. Stat. §473.608), Airport Revenue Bonds. The Airport Revenue Bonds are not general obligations, but are limited obligations of the MAC payable solely from and secured by a pledge of net revenues on parity with the General Obligation Revenue Bonds. Other powers delegated to the Commission include power to levy taxes against property of the Metropolitan Area in order to pay debt service on bonds issued by the Commission. In addition, the Commission can levy taxes, not in excess of .00806 percent in each year, upon the valuation of all taxable property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The Commission is governed by fifteen Commissioners. Eight Commissioners are appointed by the Governor of the State of Minnesota from designated districts within the Metropolitan Area. The mayors of St. Paul and Minneapolis also have seats on the Commission with the option to appoint a surrogate to serve in their place. The Governor also appoints four Commissioners representing the Greater Minnesota Area (i.e., outside the Metropolitan Area). The Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. Only the Chairperson can be removed before their term expires. In applying Governmental Accounting Standards Board (GASB) No.14 (as amended by GASB No. 39), the MAC and the State of Minnesota have agreed that the MAC is not financially accountable to any other organization and is considered a stand-alone government unit.

The Commission provides a variety of services at each of its airports. At MSP, the Commission is responsible for providing buildings and facilities for air carrier activity as well as police, fire protection, maintenance, administrative, and planning services, and other related services and facilities that are deemed to be necessary.

## Runways

MSP maintains four air-transport-type runways of concrete and bituminous concrete construction, including two northwest-southeast runways, a north-south runway and a northeast-southwest runway. The runways provide operational facilities to cover varying wind conditions and are connected by a system of taxiways and aprons. In addition, the runways are equipped with high intensity runway lighting and instrument landing systems which permit continuous operation under almost all weather conditions. The northerly northwest-southeast runway is 8,200 feet long and 150 feet wide. The parallel northwest-southeast runway is 10,000 feet long and 200 feet wide. The northeast-southwest runway, which is provided to cover other wind conditions, is 11,000 feet long and 150 feet wide. The runways, in the opinion of the Commission engineers, have sufficient capacity and are of sufficient strength to permit the operation of the largest existing commercial aircraft. The boundaries of the airport provide sufficient clear area for runway approaches to meet the requirements of the FAA. In October 2005, the Commission opened a new 8,000 foot long north/south runway known as Runway 17/35. Runway 17/35 was constructed in order to meet future growth in passenger and aircraft activity at MSP.

## Terminal Facilities

Passenger terminal facilities at MSP are located in two separate buildings: the Lindbergh Terminal and the Humphrey Terminal. International arrival facilities (IAF) at MSP are located in both of the passenger terminal facilities. As part of the recently completed Light Rail System, passengers may take the light rail free of charge between the Lindbergh Terminal and the Humphrey Terminal. During peak travel times during the year, a shuttle bus also provides transportation between the Lindbergh Terminal and Humphrey Terminal, which are approximately 3.5 miles apart. The Humphrey Terminal light rail station is currently closed in connection with the expansion of the Humphrey Terminal parking facilities, and passengers are being transported between the Lindbergh Terminal and Humphrey Terminal via the shuttle buses.

The Lindbergh Terminal is a three-story structure consisting of approximately 2.7 million square feet of space, of which approximately 1.3 million square feet are considered rentable. The Lindbergh Terminal currently consists of one terminal and seven concourses designated as the A, B, C, D, E, F and G Concourses. The Lindbergh Terminal also includes the principal IAF; the ground transportation center; and a parking garage, which is located beneath the Lindbergh Terminal. As of December 31, 2006, the seven concourses provided a total of 117 aircraft loading positions. These aircraft loading positions consist of passenger loading bridges and immediately adjacent ramp areas which are utilized by regional airline aircraft that may or may not utilize the passenger loading bridges. Concourses A and B are comprised of 14 and 16 gates, respectively, and are leased to Northwest Airlines which utilizes them for regional airline operations.

Within the Lindbergh Terminal are ticketing facilities on the second level; security checkpoints locations on the second level and at the entrance to the G Concourse from the parking ramp skyway; passenger boarding facilities on the second level in each of the seven courses; baggage claim and international arrivals waiting area on the ground or first level; and the ground transportation center, which contains covered space for shuttle and taxi pickup on the ground level. Concessions are located throughout the Lindbergh Terminal, the majority of which are located past the security checkpoints. The Commission is currently constructing limited concessions and is reviewing plans to construct a full-service restaurant that will be located outside the secured areas of the Lindbergh Terminal and will be available to all visitors to MSP, ticketed passengers and non-ticketed passengers.

The majority of international arrivals and departures at MSP are conducted from the IAF on the G Concourse. The facility contains dual purpose domestic-international gates that provide ten aircraft loading positions (at nine gates) with international arrival capability. The total processing capacity of this IAF is estimated to be approximately 800 passengers per hour.

The Humphrey Terminal is a two-story structure opened in May 2001 consisting of approximately 388,000 square feet of space, providing 10 gates. Four of the ten gates consist of international arrival facility gates. The Commission has designated the Humphrey Terminal as a common use facility. The two main carriers operating out of the Humphrey Terminal are Air Tran and Sun Country. Air Tran and Sun Country have priority use of two and five gates, respectively. Because these two air carriers are the largest users of the facility and operate year-round, the priority gates allow them to operate more efficiently. In the past the Humphrey Terminal was being utilized only six months of the year; and as a result, the Commission closed the non-utilized portions for the six months of each year they were not being fully used. With Air Tran and Sun Country utilizing seven gates at the Humphrey Terminal throughout the year, the Commission no longer closes any part of the terminal during the year. Champion Air and Midwest Airlines also operate from the Humphrey Terminal.

**Parking Facilities**

Parking facilities located at MSP provide approximately 17,196 public automobile parking spaces. The on-airport parking options include a valet garage, short-term and long-term parking located adjacent to and below the Lindbergh Terminal, and short-term and long-term parking located adjacent to the Humphrey Terminal.

The public parking facilities located at the Lindbergh Terminal provide 12,773 of the 17,196 public parking spaces. The valet garage located beneath the Lindbergh Terminal provides 389 parking spaces, with the remaining 12,384 parking spaces contained in two seven-level parking garages and two nine-level parking garages that are connected to the Lindbergh Terminal and the G Concourse via an enclosed skyway. These parking garages can also be accessed via the ground transportation center. Thirty percent of the two nine-level parking garages are utilized by the six on-airport rental car companies and the remaining 70% is utilized for public parking.

As a result of the FAA security restrictions imposed at MSP following the terrorist attacks on September 11, 2001, the Commission was required to restrict the use of approximately 7,500 parking spaces located adjacent to and below the Lindbergh Terminal. Subsequently, the FAA gave the Commission clearance to use all parking spaces previously restricted. In the event the Department of Homeland Security raises the threat level to "Level Red", the Commission will be required to perform searches on all vehicles entering the parking ramp adjacent to the Humphrey Terminal and the valet garage located beneath the Lindbergh Terminal.

The public parking facilities located adjacent to the Humphrey Terminal provide the remaining 4,423 public parking spaces which are contained in an eight-level parking ramp and surface lots. The Commission is currently constructing a 4,300 parking space expansion to the Humphrey Terminal parking facilities, which is expected to be completed in late 2007. The Commission also provided approximately 1,772 employee parking spaces at several surface lots near the Humphrey Terminal.

**Strategic Plan**

In 2006, the organization strategic planning process continued to evolve. Three of the 2005 strategies were dropped: Ensure a Safe and Secure System of Airports, Address On-going Development and Increased Maintenance and Operations Needs and Lead the Aviation Industry in Environmental Stewardship. These were removed because they are really part of our overall purpose and statements of philosophy. The five-year strategies listed below are designed to focus the organization on the future by increasing our capabilities and capitalizing on our strengths.

## 2006-2010 Organizational Strategies

1. Ensure Long Term Financial Viability
2. Match Employee Talent with Changing Business Needs
3. Enhance Customer Service
4. Leverage Technology
5. Strengthen Partnerships & Alliances

| *Strategy* | *Goal* | *2006 Key Initiatives* | **Results** |
|---|---|---|---|
| **Ensure Long Term Financial Viability** | Ensure MAC has the financial resources necessary to operate our airport system and meet all debt service obligations and maintain our AA- bond rating. | Develop financial contingency plans. | • Contingency plans in place for best case, worst case, and most likely financial scenarios. |
| | | Maintain appropriate financial reserves. | • Six-month cash reserve maintained.<br>• Exceeded 1.4x debt service ratio.<br>• Maintained AA- bond rating. |
| | | Transition from 2010 Plan to 2020 MSP Development Plan. | • Annual Capital Improvement Plan developed and approved by the Commission.<br>• Design/planning meetings for capital projects included maintenance and operation staff. |
| | | Implement cost saving measures:<br>• Energy conservation<br>• Process improvement<br>• Cost/Benefit analysis<br>• Service levels | • Departmental level costs saving measures were identified and implemented, as feasible. |

| Strategy | Goal | 2006 Key Initiatives | Results |
|---|---|---|---|
| **Match Employee Talent with Changing Business Needs** | Ensure that MAC has the right people with the right skills and experience to fulfill its mission | Document transition plan for executive leadership. | • Potential retirements have been identified with emphasis on recruitment strategies as turnover occurs. |
| | | Ensure knowledge transfer for key technical and professional positions. | • Workforce planning sessions conducted with upper management for general and position specific transition planning.<br>• Strategies in place to ensure transfer of knowledge. |
| | | Implement first phase of leadership development. | • Based on organizational readiness, emphasis was shifted from leadership development to management development.<br>• Three formal leadership development events delivered. |
| | | Ensure employee wages and benefits remain competitive. | • Workforce remains stable, due in part to maintaining a competitive wage/salary structure and employee benefits package. Combined package remains an effective tool for attracting talent and skill to meet organizational needs. |

**LETTER OF TRANSMITTAL**



| *Strategy* | *Goal* | *2006 Key Initiatives* | Results |
|---|---|---|---|
| **Enhance Customer Service** | Ensure that MAC provides and champions excellent customer service. | Promote MAC's airport system to regional businesses and communities. | • Communication to regional businesses and communities highlighted important changes regarding the MAC's airport system, including construction plans, the opening of new restaurants and retail shops, parking ramp construction, movement of AirTran to the Humphrey Terminal, and efforts to safeguard MSP's air service and the MAC's long-term financial future |
| | | Aggressively market MSP to the traveling public. | • Service changes were added to the airport's Web site along with new releases. Ads touted the convenience of airport parking and the conference center.<br>• Updating of brochures is nearly complete. |
| | | Promote reliever airport system to corporate customers. | • Reliever Long-Term Comprehensive Plan near completion, which will be the basis of the promotion to corporate customers. |
| **Leverage Technology** | Improve performance, increase productivity and deliver cost effective services. | Take full advantage of existing technology to maximize productivity by:<br>• Enhancing employee knowledge of current capabilities.<br>• Investing in skills training.<br>• Strengthening technical support capabilities. | • Training was conducted to enhance employee knowledge and skill levels with existing technologies.<br>• Recommendations were developed for strengthening technical support capabilities. |
| | | Benchmark innovative uses of technology in:<br>• Airports<br>• Private industry<br>• Municipalities<br>• Government agencies | • Various benchmark studies completed and recommendations developed for future implementation. |
| | | Work with our partners and customers to identify technology needs | • Request for Qualifications (RFQ)/ Request for Proposals (RFP) for various system upgrades were completed and awarded. |

| Strategy | Goal | 2006 Key Initiatives | Results |
|---|---|---|---|
| **Strengthen Partnerships and Alliances** | Strengthen our effectiveness through interdepartmental relationships and alliances with regional businesses, public agencies and governmental units. | Strengthen partnerships with Federal and State agencies. | • Actions were taken to improve communications and coordination of efforts with the FAA, Transportation Security Administration (TSA), and local governmental units. |
| | | Strengthen existing and form new partnerships with regional business community. | • MAC representative met regularly with area Chambers of Commerce, Convention and Visitors Bureaus, and the Cargo Association. |
| | | Create mutually beneficial alliances with airline. | • Negotiation initiated on a new financial business model for MSP. |
| | | Enhanced internal partnering. | • Numerous departmental partnering efforts were initiated and maintained. |

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## 2007-2011 Organizational Strategies

1. Ensure Long Term Financial Viability
2. Match Employee Talent with Changing Business Needs
3. Enhance Customer Service
4. Leverage Technology
5. Strengthen Partnerships & Alliances

| *Strategy* | *Goal* | *2007 Key Initiatives* | *Measurable Outcome* |
|---|---|---|---|
| **Ensure Long Term Financial Viability** | Ensure MAC has the financial resources necessary to operate our airport system and meet all debt service obligations and maintain our AA- bond rating. | Revise financial and operational contingency plans. | • Plans developed for potentially revised airline agreement and NWA restructuring. Operating expense management plan implemented. |
| | | Maintain appropriate financial reserves. | • Maintain six-month cash reserve.<br>• Maintain 1.4X debt coverage.<br>• Maintain AA- Bond rating. |
| | | Implement cost saving measures – process improvement, cost/benefit analysis, assessment and negotiate service levels. | • Savings identified and plans implemented. |
| | | Expand three-year business planning tied directly to the strategic plan throughout the organization. | • Seventy-five percent of business units have three-year integrated business plans in place. |
| | | Increase non-aeronautical revenue as a percent of total revenue. | • Non-aeronautical revenue as a percent of total revenue increased and new revenue streams identified. |
| **Match Employee Talent with Changing Business Needs** | Ensure that MAC has the right people with the right skills and experience to fulfill its mission | Design and integrate next phase of leadership development process. | • Leadership development process in place that supports organizational goals. |
| | | Expand transition planning to mid-level positions. | • Process in place to preserve organizational knowledge and prepare potential mid-level managers. |
| | | Ensure employee wages and benefits remain competitive | • MAC is competitive in the marketplace and able to attract and retain quality talent. |
| | | Expand employee training programs. | • Every department has training opportunities available to enhance employee knowledge and skill development. |

| Strategy | Goal | 2007 Key Initiatives | Measurable Outcome |
|---|---|---|---|
| **Enhance Customer Service** | Ensure that MAC provides and champions excellent customer service. | Promote MSP to international and domestic airlines in order to increase service levels. | • Increased number of international and domestic airlines serving this market. |
| | | Leverage the MSP customer service culture along with completion of the 2010 plan and the concessions development program to market MSP domestically and internationally. | • Increased passenger activity attributable to marketing plan through surveys. |
| | | Review roles and responsibilities for customer service between the airlines and MAC as the airline business model continues to evolve. | • Plan created in concert with tenants identifying respective service responsibilities. |

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| Strategy | Goal | 2007 Key Initiatives | Measurable Outcome |
|---|---|---|---|
| **Leverage Technology** | Improve performance, increase productivity and deliver cost effective services. | Make strategic investments in new equipment and technology based on current industry standards. | • Upgraded equipment and electronic technology in place that improve productivity. |
| | | Distribute software updates, patches, and new programs electronically. | • Updates and installations completed resulting in greater productivity. |
| | | Develop strategy to replace or upgrade existing financial, HR, payroll, and project accounting systems. | • Decision on direction for various systems completed with choices identified and evaluated. |
| | | Evaluate common use systems and support services at Humphrey Terminal. | • Common use systems upgraded, as required. |
| **Strengthen Partnerships and Alliances** | Strengthen our effectiveness through interdepartmental relationships and alliances with regional businesses, public agencies and governmental units. | Enhance internal partnering. | • Improved effectiveness through cross department communication, coordination, and sharing of resources. |
| | | Partner with state agencies and regional businesses to grow cargo operations. | • Interagency strategy to increase the percent of air cargo moving through MSP. |
| | | Strengthen partnerships with Federal and State agencies. | • Improved communications and coordination of efforts with Federal and State agencies. |
| | | Strengthen partnerships with the regional business communities. | • Greater shared understanding between MAC and the regional business communities. |
| | | Building public support for MAC policies and initiatives through proactive communication and public relations outreach activities. | • Enhanced understanding of MAC's policies and broader public support for MAC positions and activities. |

## CAPITAL PROJECTS

Each year the Commission approves capital projects that are planned to start within the next 12 months and a Capital Improvement Program that covers all projects which are to be started during the second calendar year. In addition, a Capital Improvement Plan, which covers an additional five years, is adopted. These serve as a basis for determining funding requirements and other operational planning decisions. Certain projects which have metropolitan significance are also submitted to the Metropolitan Council for review and approval.

Funds required for the completion of all capital projects come from five sources: a) General Obligation Revenue Bonds, b) Airport Revenue Bonds, c) state or federal grants, d) internally generated funds from operations, and e) Passenger Facility Charges (PFCs).

The Commission may issue revenue bonds to fund airports and airport navigation facilities, other capital improvements at airports managed by the Commission, noise abatement and natural resource protection measures, transportation and parking improvements related to airports and to refund any outstanding obligations of the Commission. These bonds will be secured with available revenue in accordance with generally accepted public finance practices under a resolution of the Commission or trust indenture for the bonds. They will not be secured by the full faith and credit of the Commission or a pledge of the taxing authority of the Commission.

Commission staff has developed a set of project priority categories to use as a guide in determining the projects to be included in the CIP. Commission approval authorizes staff to proceed with plans and specifications and to obtain bids for contract award by the Commission. These priority categories in order of importance include (a) projects which the Commission has made a commitment to complete; (b) projects that enhance or ensure continued safety at each of the airports; (c) projects that cannot be accomplished by Commission maintenance crews, but are essential for reasons of economics or continued operation; (d) projects that are necessitated by regulatory requirements, such as FAA regulations and local, state or federal laws; (e) projects which address various environmental issues ranging from asbestos abatement to wetland mitigation; (f) projects constituting preventative maintenance; (g) projects which improve customer service and/or convenience; and (h) projects which have been identified as improving various operational aspects of the airport system, whether applicable to aircraft, tenants, Commission staff or off-airport service providers.

Anticipated projects planned for 2007, 2008 and 2009, as well as the extended period 2010-2013, are summarized as follows. (The amounts shown represent the estimated total cost for projects planned to be initiated, but not necessarily completed during that period.)

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**CAPITAL IMPROVEMENT PLAN SUMMARY (CIP)**
**($ = 000)**

| | 2007 | 2008 | 2009 | 2010-2013 | Total 2007-2013 |
|---|---|---|---|---|---|
| Minneapolis/St. Paul International - 2010 Plan | | | | | |
| Runway Deicing/Holding Pad Program | $1,700 | $ - | $ - | $ - | $1,700 |
| Runway 4/22 Development | - | - | 4,300 | - | 4,300 |
| Noise Mitigation | - | 3,200 | 13,900 | 34,000 | 51,100 |
| Taxiway C/D Complex Construction | 8,200 | 2,000 | 11,300 | - | 21,500 |
| Airfield Rehabilitation | 3,600 | 1,000 | 1,000 | 3,000 | 8,600 |
| Runway Rehabilitation | 17,500 | 23,000 | - | - | 40,500 |
| Lindbergh Terminal Rehabilitation & Development | 200 | - | - | - | 200 |
| Landside Rehabilitation | 3,900 | 3,900 | 4,400 | 17,600 | 29,800 |
| Miscellaneous Field & Runway | 400 | 400 | 400 | 1,200 | 2,400 |
| Miscellaneous Landside | 4,850 | - | 5,500 | - | 10,350 |
| New Projects | 20,950 | 35,070 | 20,200 | 75,000 | 151,220 |
| Total Minneapolis/St. Paul International - 2010 Plan | 61,300 | 68,570 | 61,000 | 130,800 | 321,670 |
| Minneaplis/St. Paul International - 2020 Plan | | | | | |
| 2010 Projects Deferred to 2020 Program | | 5,500 | 1,900 | 76,000 | 83,400 |
| Humphrey Terminal | - | 99,300 | 119,000 | 18,000 | 236,300 |
| Lindbergh Terminal Phase 1 | - | - | - | 24,400 | 24,400 |
| Lindbergh Terminal Phase 2 | - | - | - | 250,800 | 250,800 |
| Total Minneapolis/St. Paul International - 2020 Plan | - | 104,800 | 120,900 | 369,200 | 594,900 |
| Reliever Airports | | | | | |
| Reliever Airports | 32,370 | 21,220 | 18,950 | 15,680 | 88,220 |
| Reliever Airports Utility Extension | - | 3,600 | 3,000 | - | 6,600 |
| Total Reliever Airports | 32,370 | 24,820 | 21,950 | 15,680 | 94,820 |
| Total All Facilities | $93,670 | $198,190 | $203,850 | $515,680 | $1,011,390 |

The CIP itself is only "firm" for the first year of the program. The 2008-2013 project work scopes/costs will be developed further through additional studies and plans and specifications will be prepared for consideration in the 2008 CIP process.

**CASH MANAGEMENT**

Cash temporarily idle during the year is invested according to legal requirements established by the Legislature of the State of Minnesota. In accordance with state law, investments are restricted to various United States government securities, certificates of deposits, commercial paper and repurchase agreements. All securities must mature within three years from the date of purchase. In addition to the legal requirements, the MAC has an investment policy to further enhance the safety of its investments. In accordance with this policy, securities are safekept at one institution and purchases can be made only from broker/dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy requires bids to be taken from several different broker/dealers. State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian serves as an agent in lending the Commission's securities for cash collateral of 100 percent plus accrued interest. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan. Also see Note B to the financial statements.

## RISK MANAGEMENT

The MAC Risk Department is responsible for administrating the purchase and maintenance of all insurance coverages and related programs. Coverages included are: Airport Liability, including automobile and equipment; Property; Health and Dental; Workers' Compensation; and other miscellaneous coverages.

The Risk Department coordinates claims payment, major claims management, and early intervention where needed in order to promote cost containment and overall claims handling efficiency. The MAC or its tenants, within limits and with deductibles approved by the MAC, maintain fire insurance coverage on all buildings at the airport. Contractors and lessees are required to carry certain amounts of insurance. A schedule of insurance in force as of December 31, 2006, can be found in the Statistical Section of this report. Loss Prevention and Wellness Committees, composed of MAC staff and airport community representatives with the Risk Department advisor, endeavor to identify exposures, make recommendations to MAC management and promote wellness and awareness among employees and all MAC facilities. Also, the Risk Department maintains open communication and positive relationships with other departments, brokers, and insurance companies to ensure good working relationships and access to competent professional advice. The Risk Department serves as an advisor to public needs, airport tenants, other MAC departments and special action committees.

## INDEPENDENT AUDIT

The financial statements of the MAC are audited annually by a firm of independent certified public accountants. The audits for the years ended December 31, 2006 and 2005 were performed by Deloitte & Touche LLP. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte & Touche LLP performs procedures consistent with the Single Audit Act of 1996 (The Act), OMB Circular A-133 and guidelines in relation to grant award agreements between the MAC and FAA in progress during the year.

Deloitte & Touche LLP also performs procedures for the purposes of the MAC's compliance with the regulations issued by the FAA to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to PFC revenues and expenses. The reports issued are intended for the use of MAC and the FAA, and have not been included in this report.

In accordance with Minnesota State Law, the Legislative Auditor may conduct a financial audit of the MAC or allow this service to be contracted. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures.

Further financial information can be found in Management's Discussion and Analysis found in the Financial Section of this report.

**AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the MAC for its Comprehensive Annual Financial Report for the year ended December 31, 2005. For the twenty-first consecutive year, the Commission has received the prestigious award.

In order to be awarded a Certificate, which is valid for one year, a governmental unit must publish an easily readable and efficiently organized report, the contents of which conform to the program's standards. Such report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

The Commission also received for the nineteenth consecutive year the GFOA Award for Distinguished Budget Presentation for its Annual Operating Budget for 2006. In order to qualify for the Distinguished Budget Presentation, the Commission's budget document was judged to be proficient in several categories, including policy documentation, financial planning and organization.

**ACKNOWLEDGEMENTS**

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contribution made in preparation of this report.

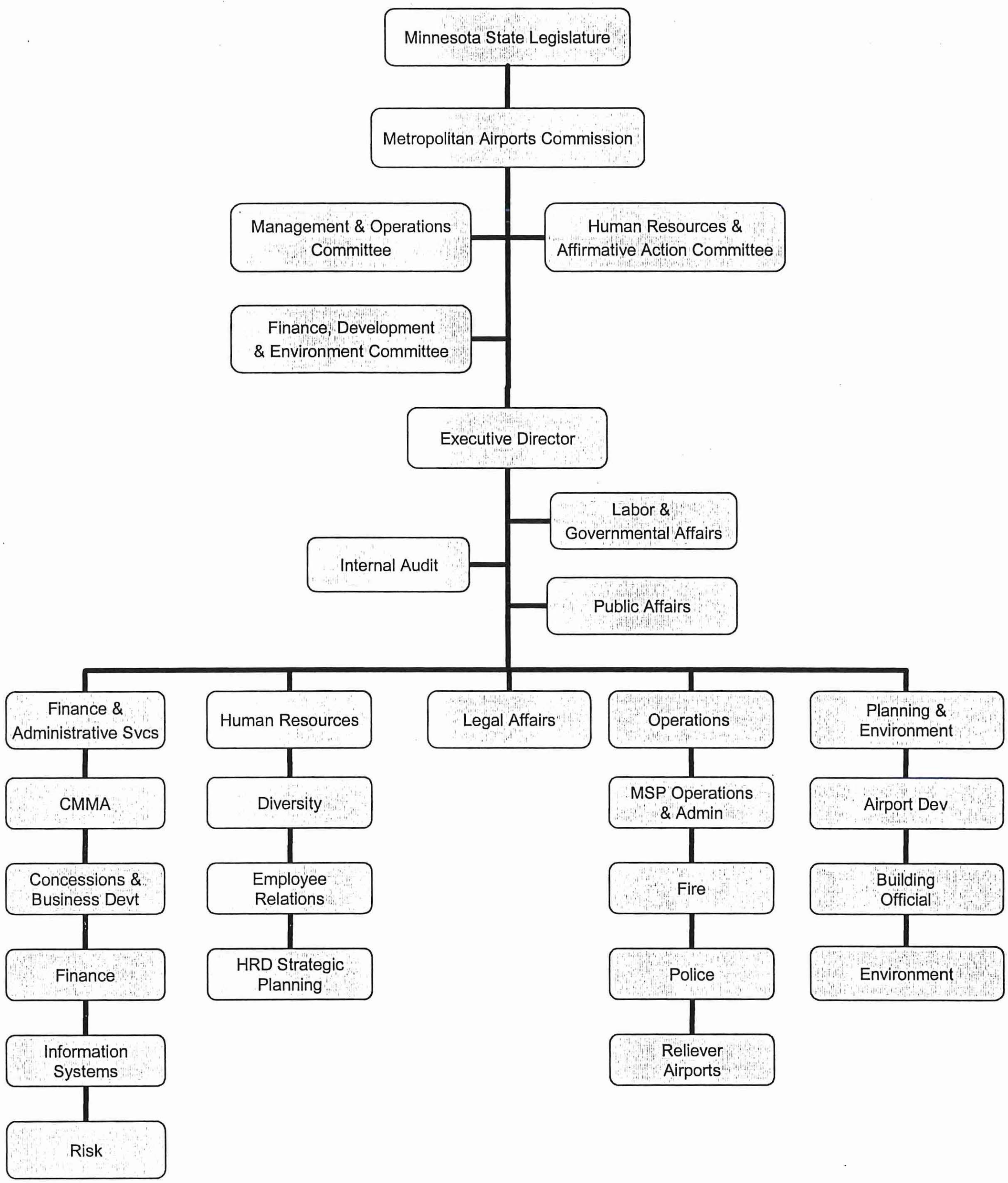
In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

Respectfully submitted,

| Jeffrey W. Hamiel<br>Executive Director | Susan Warner-Dooley<br>Deputy Executive Director-<br>Finance & Administration | Stephen L. Busch<br>Director of Finance |
|---|---|---|

## ORGANIZATION CHART





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# FINANCIAL SECTION

Minneapolis/St. Paul, Minnesota • Metropolitan Airports Commission
Comprehensive Annual Financial Report • Year Ended December 31, 2006

Deloitte.

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## INDEPENDENT AUDITORS' REPORT

Members of the Commission
Minneapolis-Saint Paul Metropolitan
Airports Commission

We have audited the accompanying balance sheets of the Minneapolis-Saint Paul Metropolitan Airports Commission (the "Commission") as of December 31, 2006 and 2005, and the related statements of revenues and expenses and changes in net assets and cash flows for the years then ended, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the respective 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 respective 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 Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note L to the financial statements, in 2006 the Commission changed its method of accounting for postemployment benefits to conform to Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Member of
**Deloitte Touche Tohmatsu**

Our audits were conducted for the purpose of forming an opinion on the Commission's respective financial statements that collectively comprise the Commission's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of Commission's management. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2007, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte + Touche LLP

May 22, 2007

The following discussion and analysis of the financial performance and activity of the Minneapolis-St. Paul Metropolitan Airports Commission (the Commission or MAC) is to provide an introduction and understanding of the basic financial statements of the Commission for the year ended December 31, 2006 with selected comparative information for the years ended December 31, 2005 and 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

## USING THE FINANCIAL STATEMENTS

The MAC's financial report includes three financial statements: the Balance Sheets, the Statements of Revenues and Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the *Governmental Accounting Standards Board* (GASB) principles. The MAC has also adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statements Note Disclosures.* The objective of the GASB in developing these new reporting standards is to enhance the understandability and usefulness of the basic external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors.

## ACTIVITY HIGHLIGHTS

Minneapolis-St. Paul International Airport (the airport or MSP) is classified by the FAA to be one of the large hub airports in the United States. According to Airports Council International statistics, in calendar year 2005, MSP was the 10th busiest airport in the United States in terms of passenger volume and 10th in terms of takeoffs and landings.

### Passengers

In 2006, MSP carried approximately 34.6 million passengers, which represented an decrease of 5.7% over 2005 levels. The majority of the decrease was for passengers carried by major airlines and charter carriers. However, regional carrier passengers increased over 2005 levels. The top five carriers in 2006 by enplaned passengers serving MSP are shown below. The total enplaned passengers for 2006, including connecting, was 17,178,307. The figures may differ from the passengers statistics reported by the air carriers to the Department of Transportation.

| Carrier | Enplaned Passengers | % of Total Enplaned Passengers |
|---|---|---|
| Northwest | 11,794,709 | 68.7% |
| Pinnacle | 1,223,597 | 7.1 |
| Sun Country | 726,359 | 4.2 |
| United | 559,618 | 3.2 |
| American | 476,228 | 2.8 |
| | 14,780,511 | 86.0% |

### Operations

Aircraft operations represent the total number of takeoffs and landings at the airport. Aircraft operations at MSP decreased in 2006 to 475,668 from 532,239 the previous year, down 10.6%. This is a result primarily of Northwest Airlines reducing its domestic capacity as a result of its bankruptcy filing in 2005. Operations at the reliever airports decreased 7.1% from 2005 levels.

## FACTORS AFFECTING FINANCIAL CONDITION

Over the last several years, several incidents and general trends, some of which are continuing, have had an adverse impact on air travel and the airline industry which, in turn, have had an adverse effect on the airport.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability or losses of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks on September 11, 2001.

Since the terrorist attacks of September 11, 2001, most airlines have reported substantial operating losses, including Northwest Airlines ("Northwest Airlines or Northwest"), the dominant Air Carrier at the airport, which was 74% of 2006 total revenues from major carriers (see Note Q). Several airlines, including seven airlines operating at the airport (US Airways, ATA, Air Canada, Delta, Mesaba Airlines ("Mesaba"), Northwest and United Air Lines ("United")), filed for bankruptcy protection and are in various stages of their workouts. On September 14, 2005, Northwest Airlines, filed for protection under Chapter 11 of the Bankruptcy Code. In an effort to stem mounting financial losses, most major airlines reduced flight schedules and instituted significant employee layoffs. Most airlines, including Northwest, have also retired old, less efficient aircraft and replaced larger aircraft with small, regional jet aircraft on selected routes, resulting in an additional reduction in scheduled seat capacity. The Commission cannot predict how long any airline in bankruptcy protection will continue operations at the airport or whether any of these airlines will liquidate in the future. Further, the Commission cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Commission or the airlines operating at the airport from such incidents or disruptions.

The future levels of aviation activity and enplaned passenger traffic at the airport will depend upon several factors, many of which cannot be controlled by the Commission, including, among others, the financial condition of individual airlines and the viability of continued service, as well as local, regional, national and international economic and political conditions, international hostilities, world health concerns, airline service and route networks, availability and price of aviation fuel, airline economics (including labor relations), airline bankruptcies, competition, airfares, airline industry consolidation and capacity of both the national air traffic control system and the airport, among others.

The Commission cannot predict the duration or extent of the reduction in air travel revenues or the extent of the adverse impact on net revenues, Passenger Facility Charges (PFC) revenues, passenger enplanements, operations or the financial condition of the airport. However, in the event that the Commission's tenants would default on their lease obligations, the Commission has the authority to levy property taxes to support its general obligation revenue debt. As a result of the current environment, the Commission continues to actively pursue opportunities to achieve greater cost effectiveness in the deliveries of its services while meeting the mandates for greater security.

*Effect of Airline Bankruptcy*

On September 14, 2005 both Delta, including its subsidiary Comair and Northwest Airlines filed for protection under Chapter 11 of the Bankruptcy Code. Further, on October 13, 2005, Mesaba, a related party to Northwest Airlines, filed for protection under Chapter 11 of the Bankruptcy Code. These three airlines accounted for 72.1% of enplaned passenger activity during 2006. Also see Note Q in the notes to the financial statements for more information. Pinnacle Airlines, a related party to Northwest Airlines, has not filed for bankruptcy.

*Assumption or Rejection of Agreements*

In the event an airline that has executed an airline lease agreement or other agreement with the Commission seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee, must determine whether to assume or reject its agreements with the Commission (a) within 60 days (or later if ordered by the court) with respect to its airline lease agreement or leases of non-residential real property, or (b) prior to confirmation of a plan of reorganization with respect to any other agreement. However, bankruptcy courts are courts of equity and can, and often do, grant exceptions to these statutory limitations. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable airline lease agreement or other agreements.

Rejection of an airline lease agreement or other agreement or executory contract will give rise to an unsecured claim of the Commission for damages, the amount of which in the case of an airline lease agreement or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (i) one year of rent or (ii) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an airline lease agreement or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Certain amounts unpaid as a result of a rejection of an airline lease agreement or other agreement in connection with an airline in bankruptcy, such as airfield, terminal, concourse and ramp costs, would be passed on to the remaining airlines under their respective airline lease agreements, thereby increasing such airlines' cost per enplanement, although there can be no assurance that such other airlines would be financially able to absorb the additional costs.

TWA, Sun Country, US Airways, Delta, Comair, Mesaba, Northwest, United, Air Canada and ATA were each operating at the airport under an airline lease agreement at the time of their respective filings for bankruptcy protection. TWA's Airline Lease Agreement was assigned over and assumed by American. While Sun Country rejected its airline lease agreement, the new airline, also known as Sun Country, which was created by an investor group that purchased the assets of the defunct Sun Country, has signed an airline lease agreement. US Airways, which emerged from its first bankruptcy filing on March 31, 2003, assumed its airline lease agreement, however, it has neither assumed nor rejected its airline lease agreement as part of its current and second bankruptcy filing. Air Canada assumed its airline lease agreement. United, which emerged from bankruptcy protection on February 1, 2006, assumed its airline lease agreement. ATA rejected its airline lease agreement. Neither Delta, Comair, Mesaba, nor Northwest has assumed or rejected their respective airline lease agreements as of the date of this report.

On February 22, 2007, Mesaba notified the Commission that it intends to reject an aircraft hangar facility lease on May 1, 2007. The Commission will take possession of the hangar on that date and will pursue other tenants to occupy that facility.

With respect to an airline in bankruptcy proceedings in a foreign country, the Commission is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

*Pre-Petition Obligations*

During the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Commission on account of goods and services provided prior to the bankruptcy. Thus, the Commission's stream of payments from a debtor airline would be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees. All of the pre-petition obligations of TWA, United, Air Canada and ATA have been paid. Sun Country owed the Commission approximately $570,000 in pre-petition obligations at the time of its liquidation; approximately $72,000 of such obligations was recovered from the other Air Carriers operating at the airport through increased landing fees, approximately $46,000 of such obligations was recovered from an Air Carrier which leased a hangar previously leased by Sun Country, and $451,392 of such obligations was written off in 2001 as bad debt and was not recoverable. For the airlines who filed for bankruptcy protection during 2005, their pre-petition obligations are as follows: Northwest Airlines--$4,144,000; Delta Airlines--$35,000; Mesaba Airlines--$208,000. There were no allowances recorded against the pre-petition obligations since these obligations are related to the airline agreement. In addition, the carriers are current in their post-petition obligations.

*PFCs*

Pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the "1990 PFC Act"), the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) ("AIR 21") and the Vision 100 – Century of Aviation Reauthorization Act (P.L. 108-176) ("Vision 100," and collectively with the 1990 PFC Act and AIR 21, the "PFC Acts"), the FAA has approved the Commission's applications to require the airlines to collect and remit to the Commission a $4.50 PFC on each enplaning revenue passenger at the airport.

The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Commission) imposing the PFCs, except for any handling fee (which as of May 1, 2004 was increased from $0.08 to $0.11 per PFC) or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds in their respective financial statements. However, the airlines, provided they are not under bankruptcy protection, are permitted to commingle PFC collections with other revenues. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Commission cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at the airport. The PFC Acts, as amended by Vision 100, require an airline in bankruptcy protection (except airlines which filed for bankruptcy protection prior to the effective date of Vision 100, including United) to segregate PFC collections from all of its other revenues. United, Northwest Airlines, Mesaba, Delta, US Airways and ATA are current in the payment of PFCs owed to the Commission.

It is possible that the Commission could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Commission cannot predict whether an airline operating at the airport that files for bankruptcy protection would have properly accounted for the PFCs owed to the Commission or whether the bankruptcy estate would have sufficient moneys to pay the Commission in full for the PFCs owed by such airline.

*Proposed Amendments to Airline Lease Agreement*

In February 2007, the Commission agreed to a memorandum of understanding (MOU) on certain proposed amendments to the airline lease agreements. The Commission, Northwest Airlines and the other Signatory Airlines are currently drafting amendments to the Airline Lease Agreement that will incorporate the terms of the MOU. Certain of the proposed amendments include the following changes to the airline rates and charges methodology set forth in the Airline Lease Agreements:

(a) Recoverable Costs allocated to each of the costs centers will include annual debt service costs, plus reasonable amortization of commercial paper for rate-based related projects (including capital equipment), rather than direct and indirect depreciation and imputed interest (the "Rate Changes").

(b) PFCs will be applied, to the fullest extent of eligibility, to the debt service on Senior Bonds and Subordinate Obligations issued to finance airfield projects, including Runway 17/35 (the Commission will be required to amend certain of its PFC applications in order to implement this provision of the MOU).

(c) Eliminate certain deferred charges previously agreed to in the airline lease agreement.

(d) Prorate annually among the cost centers $15 million (escalated by 3% per year) to be deposited to a repair and replacement subaccount within the Commission Construction Fund for major maintenance and minor capital projects.

(e) Food and beverage, merchandise and auto-rental annual gross concession revenues ("Selected Concession Revenues") will be shared with the Passenger Signatory Airlines (allocated among the Passenger

Signatory Airlines based upon their proportionate share of enplanements at the Airport for the applicable fiscal year) under the following schedule (all dollar amounts are for 2006 and will be escalated for future years at an approximate annual average of 4.2%) (the "Shared Concession Revenues"):

| Selected Concession Revenues[1] | Percent Shared with Passenger Signatory Airlines |
|---|---|
| Greater than $32,299,999 | 25% up to $32,299,999 and 50% for amounts above $32,299,999 |
| $25,000,000 to $32,299,999 | 25 |
| $24,000,000 to $24,299,999 | 20 |
| $23,000,000 to $23,299,999 | 15 |
| $22,000,000 to $22,299,999 | 10 |
| $21,000,000 to $21,299,999 | 5 |

[1] Selected Concession Revenues were $34,290,046 for fiscal year 2006, resulting in shared concession revenues of $9,070,023.

The total amount of Shared Concession Revenues will be structured as a credit against the rates and charges in the current year, payable to the Passenger Signatory Airlines in the subsequent fiscal year. Notwithstanding the above schedule, the amount of Shared Selected Concession Revenues will be reduced to the extent necessary so that Net Revenues, after subtracting the Shared Concession Revenues, will not be less than 1.25 times the total annual debt service on Senior Parity Bonds, Subordinate Obligations and other debt obligations of the Commission. In the event that the Shared Concession Revenues are reduced in any year, such reduction will be deferred until the next fiscal year and will be credited against the rates and charges payable by the Passenger Signatory Airlines in the next fiscal year to the extent that Net Revenues, after subtracting the applicable Shared Concession Revenues, are not less than 1.25 times the total annual debt service on Senior Parity Bonds, Subordinate Obligations and other debt obligations of the Commission.

The amendments to the Signatory Airline's rates and charges methodology as described above will be effective commencing January 1, 2006 and continue through the term of each Signatory Airline's Airline Lease Agreement. However, the receipt of any credits due the Signatory Airlines as a result of the Rate Changes and the Shared Concession Revenues is expressly conditioned upon the entry of an order by the Northwest Bankruptcy Court (which must include an order confirming Northwest Airlines' plan of reorganization and the provisions of the MOU) (the "Northwest Assumption Order") not later than September 30, 2007 approving the assumption by Northwest Airlines of the executory agreements relating to the Commission's General Obligation Revenue Bonds Series 13 and Series 15, the Northwest Airline Lease Agreement, as amended, and the other leases and executory agreements between Northwest Airlines and the Commission described in the MOU (which include, among others, certain leases for Buildings B, C and F between the Commission and Northwest Airlines, and certain deicing and glycol reclamation operating agreements between the Commission and Northwest Airlines); but do not include any agreements relating to the Northwest Special Facilities Bonds) (collectively, the "Assumed Agreements"). Within 30 days after the later to occur of (i) the entry of the Assumption Order and (ii) approval by all of the Signatory Airlines of the amendments to the Airline Lease Agreements and any other related documents implementing the Rate Changes and the Shared Concession Revenues (the "Effective Date"), the Commission will (A) issue a credit to (1) each Signatory Airline in an amount equal to the difference between the rates and charges calculated under the existing Airline Lease Agreements ("Existing Rate Structure") and such rates and charges calculated taking into account the Rate Changes (such difference referred to herein as the "Rate Differential") for the period commencing January 1, 2006 through the Effective Date, (2) each Passenger Signatory Airline for the amount of the Shared Concession Revenues for 2006 and any succeeding calendar year ending prior to the Effective Date with such credit issued upon the completion of Commission's comprehensive annual financial report for such year, and (3) each airline for interest on the credit amounts referenced in (A)(1) and (A)(2) above at the Commission's actual earned overnight interest rate (the "Applicable Interest Rate") from February 19, 2007 through the date of the issuance of such credits, and (B) implement the other amendments to the Airline Lease Amendment.

Notwithstanding the foregoing, such credits will not be issued to Northwest Airlines. Northwest Airlines will continue to pay under the Existing Rate Structure and will not receive any credits relating to the Shared Concession Revenues, until the 30th day after the date the Northwest Assumption Order becomes final and only if no impairment of the terms of the Assumed Agreements has occurred as a result of any action taken by Northwest Airlines in its bankruptcy case or in its reorganization plan approved by the Northwest Bankruptcy Court (the "Northwest Airlines Effective Date"). From the Effective Date to the Northwest Airlines Effective Date, Northwest Airlines' Rate Differential and any credits relating to the Shared Concession Revenues will continue to accrue during such period and will earn interest at the Applicable Rate commencing from the Interest Commencement Date. Upon the Northwest Airlines Effective Date, the Commission will issue to Northwest Airlines a credit for the amounts accrued together with the accrued interest on such amounts. In the event that the Assumption Order is not entered by the Northwest Bankruptcy Court by September 30, 2007, the Commission has the right to withdraw the proposed changes to the Airline Lease Agreement, retain all of the credits and interest, and continue to calculate rates and charges in accordance with the Existing Rate Structure. The Assumption Order must provide that the effectiveness of the assumption of the Assumed Agreements is conditioned upon the approval by all of the Signatory Airlines of the amendments to the Airline Lease Agreements.

The amendments to the Airline Lease Agreements will provide that, in the event any Signatory Airline is not in compliance with its payment obligations under any agreement with the Commission, during the period following any applicable notice and cure period under such agreement and continuing until payment of any such amounts (the "Payment Default Period"), the Commission will have the right, upon written notice to such Signatory Airline (provided that if such Signatory Airline is in bankruptcy, no notice will be required for the effectiveness of the following although invoices will reference the additional amounts due and the applicable rate that applies), to: (i) have such Signatory Airline's payment obligations under their applicable Airline Lease Agreement during the Payment Default Period revert to the Existing Rate Structure, and (ii) apply the amount of any Rate Differential for such Signatory Airline during such period and the amount of any accrued and unpaid Shared Concession Revenues credits, if any, due to such Signatory Airline for such period (collectively, "Application") against any amounts owed by such Signatory Airline to the Commission to the extent necessary to cure such payment defaults. Notwithstanding the previous sentence, the amendments to the Northwest Airline Lease Agreement will provide that the Commission will not have the rights set forth in the previous sentence with respect to (1) any obligations of Northwest Airlines under any existing agreements that are rejected by Northwest Airlines in its current bankruptcy case, which will not include any of the Assumed Agreements, (2) any obligations of Northwest Airlines relating to the Northwest Special Facilities Bonds or the related Northwest Special Facilities Lease (as defined herein), and (3) any obligations of Northwest Airlines under any agreement between Northwest Airlines and a party other than the Commission.

In addition to the proposed amendments to the Airline Lease Agreements discussed above, the Northwest Airline Lease Agreement would be further amended to include the following terms:

(i) Northwest Airlines will covenant to maintain its headquarters in the Minneapolis-St. Paul metropolitan area (the "Headquarters Covenant"). Headquarters will be defined as the office which constitutes (A) the principal office of Northwest Airlines or any assignee holding substantially (90% or more) all of the assets of Northwest Airlines from which its business is conducted and (B) the principal office of Northwest Airlines' or such other entity's chief executive officer, chief financial officer and a majority of its other senior management team members.

(ii) Northwest Airlines would covenant that an aggregate annual average of 227 daily departing flights from the airport would be maintained by Northwest Airlines and its regional affiliate airlines (a scheduled flight of jet aircraft with 76 or less passenger seats) and that at least 30% of Northwest Airlines" and its regional affiliate airlines' enplaned passengers at the Airport would be connecting passengers (the "Hubbing Covenant"). The part of the Hubbing Covenant that would require at least 30% of Northwest Airlines' and its regional affiliate airlines enplaned passengers at the Airport to be connecting passengers is currently in the agreements entered into with respect to Series 15 Bonds, but the Commission would also require such covenant to be included in the Northwest Airlines Lease Agreement.

(iii) In the event Northwest Airlines breaches either the Headquarters Covenant or the Hubbing Covenant (subject to the force majeure exception set forth below), Northwest Airlines' credit from the Shared Concession Revenues will be eliminated for such year it violates either of the covenants and if violation continues for three consecutive years, or if either of the covenants is determined to be unenforceable, Northwest Airlines' credit from the Shared Concession Revenues will be eliminated permanently.

Force majeure: Northwest Airlines will not be deemed to be in default of the Hubbing Covenant if it is prevented from performing any of its obligations contained in the Hubbing Covenant by reason of strikes, boycotts, labor disputes, embargoes, shortages of energy or materials, acts of the public enemy, prolonged unseasonable weather conditions and results of acts of nature, riots, rebellion, or sabotage, despite Northwest Airlines' best efforts to comply. No force majeure provision will apply to the Headquarters Covenant.

(iv) The term of the Northwest Airline Lease Agreement would be extended to 2020. (The other Signatory Airlines will also be given the opportunity to extend their respective Airline Lease Agreements to 2020. The offer to the other Signatory Airlines to extend their respective Airline Lease Agreements will expire 60 days after the date the Northwest Assumption Order is issued by the Northwest Bankruptcy Court. Acceptance by the other Signatory Airlines of the other proposed amendments to the Airline Lease Agreements is not conditioned on such Signatory Airlines approving an extension of their respective Airline Lease Agreements.)

(v) The provision of the Northwest Airline Lease Agreement which allows the Commission to establish a Contingency Fund in the amount of $50 million per year beginning in 2010 to be funded from excess revenues and used for capital projects, including projects in the airfield cost center, to be determined by the Commission, would be extended to 2020.

(vi) Northwest Airlines will agree to move its short-term gates to Concourse D.

The Commission prepared its 2006 financial statements based upon the elements of the MOU. (See Note R in the notes to the financial statements).

**FINANCIAL HIGHLIGHTS**

<u>General</u>

The Commission has entered into, and receives payment under, different agreements with various air carriers and other parties, including the airline lease agreement relating to landing fees and the leasing of space in terminal buildings, other building leases regarding the leasing of cargo and miscellaneous hangar facilities, concession agreements relating to sale of goods and services at the airport and specific project leases relating to the construction of buildings and facilities for specific tenants. Below is a brief description of each agreement along with the revenue generated in 2006.

*<u>Airline Lease Agreement</u>*

The airline lease agreement relates to the use of the airport for air carrier operations, the leasing of space within the terminal buildings of the airport and the establishment of landing fees. Except for rental amounts based primarily upon the square feet rented, the terms, conditions and provisions of each airline lease agreement are substantially the same. (Also see proposed amendments to airline lease agreement)

In the airline lease agreement, the Commission has leased to each particular air carrier a certain specified square footage portion of the terminal area in the airport. Annual rents are computed on the basis of various charges per square foot for various types of space within the existing terminal area and, in certain cases, the costs of certain improvements of the existing terminal area. The airline lease agreement also provides that each air carrier is required to pay a basic landing fee. The landing fee is calculated by dividing the cost of operations, maintenance and improvements at the airfield by total landed weight of aircraft utilizing the airport. The airline lease agreement also requires each air carrier leasing gate space at Lindbergh Terminal to pay an aircraft parking ramp fee that is computed on a lineal foot basis. The ramp fee includes the cost of operations, maintenance and improvements to the ramp area surrounding the terminal building gates.

For the year ended December 31, 2006, the aggregate rentals earned by the Commission pursuant to the airline lease agreement were approximately $68,954,000. The annual rentals due under each lease may be adjusted each year to reflect actual costs of the airport.

*Other Building and Miscellaneous Leases*

The other building and miscellaneous leases relate to rentals and other fees associated with the Hubert H. Humphrey Terminal (Humphrey Terminal), miscellaneous hangar facilities, and office rentals for non-airline tenants in the Lindbergh Terminal. For the year ended December 31, 2006, the aggregate annual rentals under these leases were approximately $22,597,000.

*Specific Project Leases*

The Commission has constructed various buildings and facilities for specific tenants including a fueling facility for Signature Flight Services, and hangars and office buildings for Northwest, Federal Express, Champion and Mesaba Airlines. The specific project leases relate to the use of these buildings and facilities by Signature Flight Services, Northwest, Federal Express, Champion and Mesaba. Mesaba notified the Commission that it intends to reject an aircraft hangar facility lease on May 1, 2007. The Commission recognized an impairment charge of $813,000 for the fiscal year ending December 31, 2006 associated with the Mesaba hangar. The Commission will take possession of the hangar on that date and will pursue other tenants to occupy that facility. (See Note J in the notes to the financial statements).

If bonds were issued by the Commission to finance the construction of a facility, the lessee is required to pay annual lease payments equal to the debt service requirements on the bonds issued to construct the facility, due in the following year. The lease remains in effect until the total debt service on the bonds has been paid. Bond funds were used to finance certain facilities for Northwest Airlines, Mesaba and Federal Express.

If the construction of a facility is financed from funds the Commission has on hand, the lessee is required to make lease payments equal to the debt service requirements, which would have been required, if bond funds were used. Commission funds were used to finance facilities for Signature Flight Services, Champion Airlines and certain facilities for Northwest Airlines including the extension of the "G" Concourse.

For the year ended December 31, 2006, the aggregate lease rentals paid to the Commission under specific project leases was approximately $37,014,000.

*Concession Agreements*

The Commission has entered into separate concession agreements with various firms to operate concessions inside the terminal building at the airport including, among others, food and beverage services, newsstands, advertising, amusements/games, insurance, personal service shops, and telephones. For the year ended December 31, 2006, the aggregate fees earned by the Commission under the existing concession agreements were approximately $22,698,000. Such fees are computed on the basis of different percentages of gross sales for the various types of concessions, with the larger concessions guaranteeing a minimum payment each year.

Concession agreements for rental car agencies require such concessionaires to pay fees based on a percentage of their gross revenues and special charges such as parking fees and a per-square-foot land rental. The Commission also has a management contract with a firm for the operation of the airport parking lot and garage facilities. For the year ended December 31, 2006, the aggregate fees earned by the Commission under the existing rental car agreements and parking lot management contract was approximately $87,006,000. Of this amount, parking revenue was approximately $64,266,000 and auto rental revenue for both on and off airport auto rentals was approximately $22,740,000.

*Reliever Airports*

The Commission has entered into various other leases and agreements with tenants at its reliever airport system. These reliever airport tenant leases include fuel flowage fees, hangar rentals, storage lots, commercial fees and other miscellaneous amounts. For the year ended December 31, 2006, revenues from these agreements were approximately $4,823,000.

*Miscellaneous Off-Airport Concession Leases and Ground Transportation Fees*

The Commission has entered into certain leases with off-airport concessionaires that provide off-airport advertising and auto services. Additionally, the Commission charges fees for permits and licenses to operate shuttles, vans, buses and taxis at the airport. Such fees are set by Commission ordinances. For the year ended December 31, 2006, the Commission earned $4,918,000.

*Miscellaneous Revenues*

In addition to the above agreements, the Commission enters into various other leases and agreements. These include utility charges, ground space rentals, office rentals for commuter airlines and concessionaires, commuter and general aviation fees, employee parking/shuttle bus fees, and other miscellaneous amounts. For the year ended December 31, 2006, the revenues from these agreements were approximately $13,131,000.

Operating Revenues

Operating revenues for the MAC are derived entirely from user fees that are established for various services and facilities that are provided at Commission airports. While the Commission has the power to levy taxes to support its operations, it has adopted policies to provide adequate revenues for the system to operate since 1969 without general tax support. Revenue sources have been grouped into the following categories in the Statement of Revenues and Expenses:

| | |
|---|---|
| Airline Rates & Charges | - Revenue from landing & ramp fees and terminal building rates |
| Concessions | - Revenue from food & beverage sales, merchandise sales, auto parking, etc. |
| Other Revenues: | |
| Other Building Rentals | - Fees for building rentals |
| Utilities | - Charges for tenants use of ground power, water and sewer |
| Other | - Charges for other services provided by MAC |

For the fiscal years ended December 31, 2006 and 2005, the top ten operating revenue sources for the MAC are as follows:

**Top Ten Operating Revenue Sources:**

| **Source** | **2006 Revenue** |
|---|---|
| 1. Parking | $ 64,266,000 |
| 2. Landing Fees | 38,245,000 |
| 3. Terminal Rent-Airlines | 33,920,000 |
| 4. Auto Rental (Off and on-Airport) | 16,499,000* |
| 5. Other Building Rent | 13,677,000 |
| 6. Food and Beverage | 11,552,000 |
| 7. Merchandise | 8,515,000 |
| 8. Ground Rent | 7,184,000 |
| 9. Ramp Fees | 4,611,000 |
| 10. Ground Transportation Fee | 3,757,000 |

*Excludes Customer Facility charge

| Source | 2005 Revenue |
|---|---|
| 1. Parking | $60,213,000 |
| 2. Landing Fees | 45,683,000 |
| 3. Terminal Rent-Airlines | 28,834,000 |
| 4. Other Building Rent | 16,934,000 |
| 5. Auto Rental (Off and on-Airport) | 15,449,000* |
| 6. Food and Beverage | 9,790,000 |
| 7. Ramp Fees | 6,120,000 |
| 8. Merchandise | 6,105,000 |
| 9. Ground Rent | 5,737,000 |
| 10. Ground Transportation Fee | 3,564,000 |

*Excludes Customer Facility charge

The top ten revenue providers for 2006 for the MAC are as follows:

**Top Ten Operating Revenue Providers:**
1. Northwest Airlines
2. Host International
3. Hertz
4. Vanguard (formerly National and Alamo Rent-A-Car)
5. Minnesota Retail Partners
6. Sun Country Airlines
7. Avis
8. Anton Airfoods Inc.
9. United Airlines
10. American Airlines

During 2006, MAC revenues increased by 4.0% to $378,871,000 from $364,203,000 in 2005. Changes in major categories are summarized below (dollars in thousands):

| Operating Revenues | 2006 | % of Total | 2005 | % of Total | Dollar Change | Percent Change |
|---|---|---|---|---|---|---|
| Airline Rates & Charges | $71,181 | 18.8% | $83,856 | 23.0% | $(12,675) | -15.1% |
| Concessions | 108,381 | 28.6% | 99,582 | 27.3% | 8,799 | 8.8% |
| Utilities | 2,350 | 0.6% | 2,515 | 0.7% | (165) | -6.6% |
| Other | 42,215 | 11.2% | 42,523 | 11.7% | (308) | -.7% |
| | 224,127 | | 228,476 | | (4,349) | |
| **Non Operating Revenues** | | | | | | |
| Investment Income | 52,895 | 14.0% | 40,646 | 11.2% | 12,249 | 30.1% |
| Passenger Facility Charges (PFC) | 67,573 | 17.8% | 69,944 | 19.2% | (2,371) | -3.4% |
| Total Non Operating Revenues | 120,468 | | 110,590 | | 9,878 | |
| **Capital Contributions** | 34,276 | 9.0% | 25,137 | 6.9% | 9,139 | 36.4% |
| **Total Revenues** | $378,871 | 100.0% | $364,203 | 100.0% | $14,668 | 4.0% |

Airline rates and charges decreased $12,675,000 or 15.1%. As discussed previously in this section, the

Commission amended the airline lease agreement with the air carriers serving MSP. The three largest components of the decrease is the sharing of selected concession revenues, elimination of deferred airfield costs along with using debt service rather than depreciation and imputed interest in determining rates and charges. These three reductions are partially offset by the establishment of a $15 million repair and replacement account.

Concessions increased $8,799,000 or 8.8%. $4.0 million of this increase came in the area of public parking. In May 2005, the Commission increased parking rates. The increase recognizes a full years' impact of the 2005 rate increase. The remaining increase in the concession area was in the food, beverage and merchandise concessions, which was a result of the implementation of a new concessions agreement that gave the Commission additional revenue.

Utilities decreased $165,000 or 6.6%. The main decrease in this category is the lower rates charged for sewer in 2006.

Other revenues decreased by .7%. Increases occurred in the Humphrey Terminal, which had increases in both activity (primarily Sun Country Airlines) as well as a general rental rate increase. This increase was offset by rental decreases for Northwest Airlines' leasing of Buildings B and C.

Investment income increased due to larger cash balances in construction and operating funds along with higher interest rates earned on investments.

PFC revenue decreased slightly from 2005 levels as a result of a decrease in passenger levels.

Capital contributions represent grants received from both federal and state governments for various construction projects at both MSP and the reliever airports. The increase in 2006 comes primarily from a increase in federal grants for a checked baggage screening construction project.

During 2005, MAC revenues increased by 11.8% to $364,203,000 from $325,790,000 in 2004. Changes in major categories are summarized below (dollars in thousands):

| Operating Revenues | 2005 | % of Total | 2004 | % of Total | Dollar Change | Percent Change |
|---|---|---|---|---|---|---|
| Airline Rates & Charges | $83,856 | 23.0% | $73,206 | 22.5% | $10,650 | 14.5% |
| Concessions | 99,582 | 27.3% | 85,971 | 26.3% | 13,611 | 15.8% |
| Utilities | 2,515 | 0.7% | 1,705 | 0.5% | 810 | 47.5% |
| Other | 42,523 | 11.7% | 35,259 | 10.8% | 7,264 | 20.6% |
| | 228,476 | | 196,141 | | 32,335 | |
| **Non Operating Revenues** | | | | | | |
| Investment Income | 40,646 | 11.2% | 32,257 | 9.9% | 8,389 | 26.0% |
| Passenger Facility Charges (PFC) | 69,944 | 19.2% | 69,557 | 21.4% | 387 | 0.6% |
| Total Non Operating Revenues | 110,590 | | 101,814 | | 8,776 | |
| **Capital Contributions** | 25,137 | 6.9% | 27,835 | 8.6% | (2,698) | -9.7% |
| **Total Revenues** | $364,203 | 100.0% | $325,790 | 100.0% | $38,413 | 11.8% |

Airline rates and charges increased $10,650,000 or 14.5%. As a result of the slow economy and the lack of a recovery in the airline industry, airline rates and charges were held constant in 2002, 2003 and 2004. The actual amount for 2005 incorporates the actual rates and charges formula in the airline agreement.

Concessions increased $13,611,000 or 15.8%. $9.7 million of this increase came in the area of public parking. Increases in passenger activity and advertising, coupled with a rate increase in May 2005, resulted in increased revenues. The remaining increase in the concession area was in the food, beverage and merchandise concessions, which was a result of the implementation of a new concessions agreement.

Utilities increased $810,000 or 47.5%. In 2005, the Commission began to charge the airlines for the use of ground power. Ground power enables aircraft to connect to a power source to provide air-conditioning without the need to have the jet engines running. The remaining increase is a result of rate increases for water, steam and chilled water. Other revenues increased by 20.6%. The majority of the increase occurred in four areas. The first area is in the Humphrey Terminal, which had increases in both activity (primarily Sun Country Airlines) as well as a general rental rate increase. The second area is for ground rents in the southwest cargo area. In late 2004, new facilities for Champion Air, Mesaba and Sun Country were operational. In 2005, the Commission received a full year's revenue from these facilities. The third area of increase is in the loading dock. In early 2005, the Commission issued a Request for Proposals for operating the loading dock at the airport. In the past, there was no revenue to the Commission from the loading dock. In May 2005, the loading dock became operational resulting in additional revenue to the Commission. Finally, in 2005 the Commission adopted a new ordinance that increased the revenue the Commission receives from its reliever airports.

Investment income increased due to larger cash balances in construction funds along with higher interest rates earned on investments.

PFC revenue increased slightly from 2004 levels as a result of an increase in passenger levels.

Capital contributions represent grants received from both federal and state governments for various construction projects at both MSP and the reliever airports. The decrease in 2005 comes primarily from a decrease in construction activity in the MAC's Part 150 Program.

Expenses

In 2006, MAC total expenses increased by 10.7% to $323,355,000 from $292,196,000 in 2005. Changes in major categories are summarized below (dollars in thousands):

| Operating Expenses | 2006 | % of Total | 2005 | % of Total | Dollar Change | Percent Change |
|---|---|---|---|---|---|---|
| Personnel | $54,258 | 16.8% | $59,049 | 20.2% | $(4,791) | -8.1% |
| Administrative | 1,240 | 0.4% | 1,179 | 0.4% | 61 | 5.2% |
| Professional services | 4,091 | 1.3% | 3,359 | 1.2% | 732 | 21.8% |
| Utilities | 14,820 | 4.6% | 14,444 | 4.9% | 376 | 2.6% |
| Operating services | 14,485 | 4.5% | 12,492 | 4.3% | 1,993 | 16.0% |
| Maintenance | 19,417 | 6.0% | 18,944 | 6.4% | 473 | 2.5% |
| Depreciation | 111,429 | 34.4% | 93,566 | 32.0% | 17,863 | 19.1% |
| Other | 3,323 | 1.0% | 3,758 | 1.3% | (435) | -11.6% |
| Operating Expenses | 223,063 | | 206,791 | | 16,272 | |
| **Non Operating Expense** | | | | | | |
| Interest Expense | 94,069 | 29.1% | 76,777 | 26.3% | 17,292 | 22.5% |
| Part 150 Program Expenses | 5,395 | 1.7% | 8,419 | 2.9% | (3,024) | -35.9% |
| Loss on disposal of assets | 828 | 0.2% | 209 | 0.1% | 619 | 296.2% |
| Total Non Operating Expense | 100,292 | | 85,405 | | 14,887 | |
| **Total Expense** | $323,355 | 100.0% | $292,196 | 100.0% | $31,159 | 10.7% |

Personnel expenses decreased $4,791,000 or 8.1%. The largest decrease ($6.6 million) represented a decrease in employee pension, primarily employees who are covered by the Minneapolis Employees Retirement Fund (MERF). In 2005, the Commission had a greater number of the Commission's employees retiring sooner than what the pension plan estimated as a result, expenses incurred in 2005 were extraordinarily higher than in 2006. Currently there are only eight employees remaining in the MERF pension plan. The decrease in employee pensions were partially offset by salaries, wages and employee insurance areas. For salaries and wages, the increases can be attributed to a general wage adjustment for MAC employees plus additional headcount that was added in 2005 in anticipation of the opening of Runway 17/35. For employee insurance the increase is attributed to additional head count added in 2005 and an increase in claims paid during 2006.

Administrative expenses increased by $61,000. This increase can be attributed to an increase in the ordering of security badge supplies.

Professional services increased $732,000 from 2005 levels. Areas specifically increased are legal fees associated with the filing of bankruptcy of Northwest Airlines and other litigation that arose during the year and airport planning fees at the reliever airports.

Utilities increased 2.6% from 2005 levels. The result of this increase is attributed to an increase in rates in electricity coupled with an increase in consumption as a result of new facilities that were put into service during 2005-2006.

Operating services increased $1,993,000 or 16.0%. The increases in this area were in the concessions marketing and loading dock operations. In 2006, with the new terminal concessions agreement, the Commission started to expense the advertising and promoting of terminal concessions and services. In the past, these expenses were borne by the individual concessionaires. The Commission started a loading dock management program that became operational in May 2005, and with 2006 being the first full years' expense to the Commission.

Maintenance increased 2.5%, primarily in the area of building maintenance-cleaning. During 2006, the Commission opened some additional areas that needed to be cleaned as a result of new construction activity as well as a general rate increase for cleaning.

Depreciation increased by 19.1% as a result of approximately $871 million of airports and facilities completed in 2005-2006 with the largest project being the new Runway 17/35 that opened in October 2005.

Other expenses decreased as a result of savings on property insurance as well as a recovery of some bad debts that were previously written off.

Interest expense increased by 22.5% primarily as a result of a decrease in capitalized interest on capital improvement program projects in progress throughout the year and additional interest expense as a result of additional debt that was issued in 2005.

Part 150 expenses decreased as a result of lower levels of spending from the previous year.

In 2006, the Commission was notified by Mesaba Airlines that they were rejecting an aircraft hangar lease. As a result Mesaba Airlines will no longer occupy the hangar as of May 1, 2007. The Commission determined that the asset had been partially impaired and recognized an impairment charge of $813,000.

In 2005, MAC total expenses increased by 9.4% to $292,196,000 from $266,981,000 in 2004. Changes in major categories are summarized below (dollars in thousands):

| Operating Expenses | 2005 | % of Total | 2004 | % of Total | Dollar Change | Percent Change |
|---|---|---|---|---|---|---|
| Personnel | $59,049 | 20.2% | $50,429 | 18.9% | $8,620 | 17.1% |
| Administrative | 1,179 | 0.4% | 1,089 | 0.4% | 90 | 8.3% |
| Professional services | 3,359 | 1.2% | 3,745 | 1.4% | (386) | -10.3% |
| Utilities | 14,444 | 4.9% | 12,684 | 4.7% | 1,760 | 13.9% |
| Operating services | 12,492 | 4.3% | 13,394 | 5.0% | (902) | -6.7% |
| Maintenance | 18,944 | 6.4% | 17,249 | 6.5% | 1,695 | 9.8% |
| Depreciation | 93,566 | 32.0% | 83,273 | 31.2% | 10,293 | 12.4% |
| Other | 3,758 | 1.3% | 3,206 | 1.2% | 552 | 17.2% |
| Operating Expenses | 206,791 | | 185,069 | | 21,722 | |
| **Non Operating Expense** | | | | | | |
| Interest Expense | 76,777 | 26.3% | 67,247 | 25.2% | 9,530 | 14.2% |
| Part 150 Program Expenses | 8,419 | 2.9% | 13,134 | 4.9% | (4,715) | -35.9% |
| Loss on disposal of assets | 209 | .1% | 1,531 | .6% | (1,322) | -86.3% |
| Total Non Operating Expense | 85,405 | | 81,912 | | 3,493 | |
| **Total Expense** | $292,196 | 100.0% | $266,981 | 100.0% | $25,215 | 9.4% |

Personnel expenses increased $8,620,000 or 17.1%. The increases in this area were in the salaries, wages and employee pension areas. For salaries and wages, the increases can be attributed to a general wage adjustment for MAC employees plus additional headcount in anticipation of the opening of Runway 17/35. The remaining increase represented an increase in employee pension, primarily employees who are covered by the Minneapolis Employees Retirement Fund (MERF). The increase in the pension is a result of a greater number of the Commission's employees retiring sooner than what the pension plan estimated. Currently there are only eight employees remaining in the MERF pension plan.

Administrative expenses increased by $90,000. These increases can be attributed to an increase in the ordering of security badge, office and computer supplies.
Professional services decreased $386,000 from 2004 levels. Areas specifically decreased in professional services are the use of consultants in airport planning, engineering fees and RFP/lease evaluations.

Utilities increased 13.9% from 2004 levels. The result of this increase is attributed to an increase in rates in electricity and natural gas coupled with an increase in consumption as a result of new facilities that were put into service during 2004-2005.

Operating services decreased $902,000 or 6.7%. The majority of the decrease is in parking management fees, shuttle bus fees and miscellaneous. During 2004, the MAC implemented an automatic payment function that makes exiting the parking ramp easier without the need of a cashier. In addition, the MAC awarded a new parking management agreement that realized savings over the previous contract. Also contributing to the decrease was a reduction in the use of shuttle buses. In June 2004, the Commission opened a people mover running along Concourses A-D. This reduced the need of continuously running a shuttle bus along these concourses. Finally in 2004, a payment was made to a concessionaire whose contract was cancelled as a result of delaying a construction project by the Commission. These decreases in expense were partially off set by the increase in expense of running a new loading dock operation in May 2005.

Maintenance increased 9.8%, primarily in the area of building maintenance. During 2004, the MAC opened an automated people mover running along Concourses A-D. In 2005, the Commission realized a full year's cost of maintaining this people mover. Also contributing to the increase in maintenance costs were the increase in the cost of snow removal materials and the increase in the cost of gasoline.

Depreciation increased by 12.4% as a result of approximately $888 million of airports and facilities completed in 2004-2005 with the largest project being the new Runway 17/35.

Other expenses increased as a result of higher premiums for airport liability and property insurance and an increase in bad debt expense as a result of airline bankruptcies.

Interest expense increased by 14.2% primarily as a result of a decrease in capitalized interest on capital improvement program projects in progress throughout the year and additional interest expense as a result of additional debt that was issued in 2005.

Part 150 expenses decreased as a result of lower levels of spending from the previous year.

In May 2003, the MAC closed a building in the West Terminal Area. The building has been demolished and $1.5 million was expensed in 2004, however, there were a few projects requiring the relocation of utilities costing approximately $209,000 from the West Terminal Area that was completed in 2005.

In order to promote and encourage the efficient use of facilities at all MAC airports, as well as attempting to minimize the environmental impact of MSP on the surrounding community, MAC has implemented a policy of subsidizing its reliever airports by establishing relatively low user charges as an incentive for pilots to use these facilities rather than MSP. In order to maintain this subsidy, MAC sets its rates and charges to assure that total system revenues will be sufficient to pay total system expenses.

Net revenues generated by the Commission are designated for construction and debt service payments. These net revenues provide the Commission with a portion of the money to meet the funding requirements of its capital improvement program. This reduces the need to issue bonds and, therefore, allows the Commission to avoid the interest expense of additional debt.

The following is a summary of the Statements of Revenues and Expenses and Changes in Net Assets:

| (in thousands) | 2006 | 2005 | 2004 |
|---|---|---|---|
| Operating revenues | $ 224,127 | $ 228,476 | $ 196,141 |
| Operating expenses | (223,063) | (206,791) | (185,069) |
| Operating income | 1,064 | 21,685 | 11,072 |
| Non-operating revenues | 120,468 | 110,590 | 101,814 |
| Non-operating expenses | (100,292) | (85,405) | (81,912) |
| Capital contributions | 34,276 | 25,137 | 27,835 |
| Increase in Net Assets | $ 55,516 | $ 72,007 | $ 58,809 |

The Commission showed a decrease in the change in its net assets in 2006 from 2004-2005 levels. The primary cause for the fiscal year 2006 decrease is the changes in the airline lease agreement. While the Commission experienced this decrease in the change in its net assets, we believe we will continue to increase the long-term financial stability and air service competitiveness of MSP. In addition, our 10 year history of airline rates and charges as shown in the statistical section is very competitive.

## BALANCE SHEETS

The Balance Sheets present the financial position of the MAC at the end of the fiscal year. The Statements include all assets and liabilities of the MAC. Net assets are the difference between total assets and total liabilities and are an indicator of the current financial health of the MAC. A summarized comparison of the MAC's assets, liabilities and net assets at December 31, 2006, 2005 and 2004 is as follows. (in thousands) (Also see Note C in the notes to the financial statements.)

| | 12/31/06 | 12/31/05 | 12/31/04 |
|---|---|---|---|
| **Assets** | | | |
| Current assets-unrestricted | $ 337,749 | $ 246,854 | $ 172,897 |
| Restricted assets-current | 918,621 | 882,071 | 724,885 |
| Non-current assets: | | | |
| Other non-current assets | 294,454 | 316,959 | 327,257 |
| Capital assets-net | 2,394,832 | 2,369,992 | 2,283,016 |
| Total assets | $ 3,945,656 | $ 3,815,876 | $ 3,508,055 |
| **Liabilities** | | | |
| Current liabilities-unrestricted | $ 199,712 | $ 134,656 | $ 90,265 |
| Payable from restricted current assets | 430,584 | 383,777 | 423,410 |
| Non-current liabilities: | | | |
| Bonds payable | 1,909,161 | 1,948,797 | 1,722,092 |
| Other non-current liabilities | 54,021 | 51,984 | 47,633 |
| Total liabilities | 2,593,478 | 2,519,214 | 2,283,400 |
| **Net Assets** | | | |
| Invested in capital assets, net of debt | 1,077,822 | 1,078,276 | 1,050,058 |
| Restricted | 146,742 | 109,022 | 92,723 |
| Unrestricted | 127,614 | 109,364 | 81,874 |
| Total net assets | 1,352,178 | 1,296,662 | 1,224,655 |
| Total liabilities and net assets | $ 3,945,656 | $ 3,815,876 | $ 3,508,055 |

## CASH AND INVESTMENT MANAGEMENT

The following summary shows the major sources and uses of cash: (in thousands)

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash received from operations | $ 226,572 | $ 222,100 | $ 203,909 |
| Cash expended from operations | (89,588) | (94,941) | (103,908) |
| Net cash provided by operations | 136,984 | 127,159 | 100,001 |
| Net cash provided by (used in) capital and related financing activities | (149,797) | 16,101 | (2,369) |
| Net cash (used in) provided by investing activities | 12,978 | (141,669) | (94,912) |
| Net increase (decrease) in cash and cash equivalents | 165 | 1,591 | 2,720 |
| Cash and cash equivalents, beginning of year | 13,026 | 11,435 | 8,715 |
| Cash and cash equivalents, end of year | $ 13,191 | $ 13,026 | $ 11,435 |

Cash temporarily idle during the year is invested according to legal requirements established by the Legislature of the State of Minnesota. In accordance with state law, investments are restricted to various United States government securities, certificates of deposits, commercial paper and repurchase agreements. All securities must mature within three years from the date of purchase. During 2006, the MAC's average portfolio balance was $727,365,000 and total investment earnings were $30,080,000 for an average yield on investments during the year of 4.14%. This compares to an average portfolio balance of $637,254,000; investment earnings of $17,826,000 and average yield of 2.80% in fiscal year 2005.

The Commission currently has a policy of keeping a six-month working capital reserve in its operating fund. At the end of 2006, the Commission has in its operating fund approximately $46 million over and above its 2006 six-month working capital requirement. The Commission is currently considering how to apply or use some or all of these excess-operating funds.

**CAPITAL CONSTRUCTION**

During 2006, the MAC expended $120 million in its on-going capital improvement program. Major projects that were completed in 2006 were projects associated with Runway 17/35, an addition to the north end of the Lindbergh Terminal and the reconstruction of Taxiway C-D. Projects that began or continued construction during 2006 were the construction of an additional parking ramp adjacent to the Humphrey Terminal, construction of an in-line baggage screening system in the Lindbergh Terminal and a dike at St. Paul Downtown Airport. Average monthly capital construction spending in 2006 was approximately $10 million.

During 2005, the MAC expended $164 million in its on-going capital improvement program. Major projects that were completed in 2005 were the opening of a new Runway 17/35, a new Fire station and the reconstruction of Taxiway C-D. Projects that began or continued construction during 2005 were the construction of an addition to the north end of the Lindbergh Terminal, an addition to the field maintenance facility and a tunnel under Runway 4/22. Average monthly capital construction spending in 2005 was approximately $13.6 million. In April 2006, the Commission voted to defer the Humphrey Terminal phase of the 2020 development to a start date of 2008 with projected completion and facility availability in late 2010/early 2011. This action will also defer phase 2 implementation by an additional 2 years. Further information can be found in the letter of transmittal. Further information can be found in the letter of transmittal.

**CAPITAL FINANCING AND DEBT MANAGEMENT**

The MAC has issued three forms of indebtedness: Notes Payable, General Airport Revenue Bonds and General Obligation Revenue Bonds. General Obligation Revenue Bonds are backed by Commission revenues and the authority to levy any required taxes on the assessed valuation of the seven county Metropolitan Area. In 1998-2005, the MAC issued General Airport Revenue Bonds, which are not backed by the MAC's taxing authority.

The MAC is required by law to maintain Debt Service funds sufficient to bring the balance on hand in the Debt Service Account on October 10 of each year to an amount equal to all principal and interest to become due on all General Obligation Revenue Bonds payable from October 10 to the end of the second following year. The required balance as of October 10 in the Debt Service Account for the General Obligation Revenue Bonds for the next five years is as follows (in thousands):

| | |
|---|---|
| October 10, 2007 | $64,440 |
| October 10, 2008 | $64,820 |
| October 10, 2009 | $64,342 |
| October 10, 2010 | $65,330 |
| October 10, 2011 | $59,444 |

Statutory authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 2006 permits the issuance of an additional $55 million of General Obligation Revenue Bonds.

The following table summarizes the Commission's capital financing activity from December 31, 2005 to December 31, 2006:

| (in thousands)<br>**Capital Financing Activity** | **Balance 12/31/2005** | **Issued** | **Retired** | **Balance 12/31/2006** |
|---|---|---|---|---|
| Notes Payable | $51,077 | $6,900 | ($7,603) | $50,374 |
| General Obligation Revenue Bonds | 317,150 | - | (13,810) | 303,340 |
| General Airport Revenue Bonds | 1,665,105 | - | (23,905) | 1,641,200 |
| | $2,033,332 | $6,900 | ($45,318) | $1,994,914 |

In 2006, the Commission issued commercial paper totaling $6,900,000. The project financed with these proceeds funded the relocation of Trinity School in Bloomington, Minnesota. Trinity School was located in an area that was eligible for sound insulation, however the school chose to relocate to Inver Grove Heights, Minnesota. Also in 2006, the Commission retired $7.0 million in commercial paper upon the receipt of federal aid on the construction of runway 17/35.

In 2005, the Commission issued commercial paper totaling $9,500,000. The project financed with these proceeds funded a deicing pad for Runway 17. In addition, the Commission retired $64,689,000 of commercial paper using some of the proceeds from the Commission's 2005 General Airport Revenue Bond issue.

In May 2005, the MAC issued $373,015,000 Series 2005A-C General Airport Revenue Bonds. The net proceeds are to be used for construction financing totaling $165 million, retiring $65 million of commercial paper, and to refund and defease $124 million of General Airport Revenue Bond Series 2000A, with the balance to be used to pay for cost of issuance and the reserve fund. As a result of the refunding, the Commission reduced its total debt service requirements by $13,719,934, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $9,175,650.The Series A-C bonds were issued on a subordinated basis. Subordinated bonds have a secondary lien on revenues and have lower coverage ratio. One reserve fund was established for the Series A-C bonds. The reserve requirement is the maximum annual aggregate debt service of the Series A-C bonds. These bonds were rated AAA/AAA by Standard & Poor's and Fitch, respectively, based on the Municipal Bond Insurance Policy. Without taking into account the Municipal Bond Insurance Policy, the bonds were rated A by Standard & Poor's and A by Fitch.

The MAC is financing its construction program through a combination of the MAC's revenues, entitlement and discretionary grants received from the FAA, state grants, PFCs and revenue bonds. Long-term debt is the principal source of funding of the capital improvement program. The MAC, through its Master Indenture, has covenanted to maintain a debt service coverage ratio of 1.25. Debt service coverage is calculated based on a formula included in the Master Indenture and the airport use agreement. (See Note E in the notes to the financial statements for more information.)

## CONTACTING THE MAC'S FINANCIAL MANAGEMENT

The financial report is designed to provide the MAC's Commissioners, management, investors, creditors and customers with a general view of the MAC's finances and to demonstrate the MAC's accountability for the funds it receives and expends. For further information about this report, or if you need additional financial information, please contact Director of Finance, 6040 28th Avenue South, Minneapolis, MN 55450 or access the Commission's website – www.mspairport.com/mac/organization/financial/default.aspx.

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## BALANCE SHEETS

(Dollars in Thousands)

| | December 31 2006 | 2005 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 13,183 | $ 13,018 |
| Investments | 159,572 | 111,069 |
| Security lending agreement-Note B | 146,018 | 100,665 |
| Accounts receivable (net of allowances for uncollectibles of $256 and $469, respectively) | 9,692 | 13,520 |
| Leases receivable | 7,644 | 7,240 |
| Other | 1,640 | 1,342 |
| Restricted Assets: | | |
| Cash and cash equivalents | 8 | 8 |
| Investments: | | |
| Debt service | 283,876 | 291,602 |
| Construction and other | 343,709 | 344,569 |
| Securities lending agreement-Note B | 251,785 | 204,921 |
| Government grants in aid of construction receivable-Note A | 2,662 | 6,692 |
| Leases receivable | 28,841 | 28,537 |
| Other receivables | 2,473 | 513 |
| Passenger facility charge receivable-Note A | 5,267 | 5,229 |
| Total Current Assets | 1,256,370 | 1,128,925 |
| Non-Current Assets: | | |
| Leases receivable-restricted Notes A, J and Q | 266,115 | 277,275 |
| Leases receivable-unrestricted Notes A, J and Q | 25,589 | 36,595 |
| Other receivable-restricted | 2,750 | 2,750 |
| Other-unrestricted | - | 339 |
| Capital Assets:--Notes A, D and E | | |
| Land | 116,557 | 110,649 |
| Airport improvements and buildings | 3,043,615 | 2,858,844 |
| Moveable equipment | 77,406 | 69,290 |
| Construction in progress | 120,715 | 183,388 |
| Less accumulated depreciation | (963,461) | (852,179) |
| Total Capital Assets (net of accumulated depreciation) | 2,394,832 | 2,369,992 |
| Total non-current assets | 2,689,286 | 2,686,951 |
| **TOTAL ASSETS** | **$ 3,945,656** | **$ 3,815,876** |

See notes to the financial statements

Financial Section BALANCE SHEETS

(Dollars in Thousands)

| | December 31 2006 | 2005 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 45,390 | $ 21,430 |
| Notes payable-Note E | 624 | 603 |
| Security lending agreement-Note B | 146,018 | 100,665 |
| Deferred revenue-Note A | 1,085 | 976 |
| Employee compensation and payroll taxes | 6,595 | 10,982 |
| Payable from restricted current assets: | | |
| Current portion long-term debt-Note E | 38,690 | 37,715 |
| Construction | 25,748 | 22,551 |
| Interest payable | 49,615 | 52,023 |
| Deferred revenue-Note A | 17,731 | 18,267 |
| Notes payable-Note E | 45,887 | 45,987 |
| Other | 1,128 | 2,313 |
| Security lending agreement-Note B | 251,785 | 204,921 |
| Total Current Liabilities | 630,296 | 518,433 |
| Non-Current Liabilities: | | |
| Deferred revenue-unrestricted-Note A | 3,403 | 3,776 |
| Deferred revenue-restricted-Note A | 13,870 | 14,453 |
| Notes payable-Notes E | 3,863 | 4,487 |
| Post retirement medical | 32,885 | 29,268 |
| Bonds payable-Note E | 1,909,161 | 1,948,797 |
| Total non-current liabilities | 1,963,182 | 2,000,781 |
| **TOTAL LIABILITIES** | **2,593,478** | **2,519,214** |
| Commitments and contingencies-Notes P and Q | | |
| **NET ASSETS-Note A and C** | | |
| Invested in capital assets, net of related debt | 1,077,822 | 1,078,276 |
| Restricted for debt service and other | 146,742 | 109,022 |
| Unrestricted | 127,614 | 109,364 |
| **TOTAL NET ASSETS** | **1,352,178** | **1,296,662** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 3,945,656** | **$ 3,815,876** |

See notes to the financial statements

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

| (Dollars in Thousands) | Fiscal Years Ended December 31 2006 | 2005 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Airline rates and charges | $ 71,181 | $ 83,856 |
| Concessions | 108,381 | 99,582 |
| Other revenues: | | |
| Utilities | 2,350 | 2,515 |
| Other building rentals | 11,526 | 15,255 |
| Other | 30,689 | 27,268 |
| **TOTAL OPERATING REVENUES** | **224,127** | **228,476** |
| **OPERATING EXPENSES** | | |
| Personnel | 54,258 | 59,049 |
| Administrative | 1,240 | 1,179 |
| Professional services | 4,091 | 3,359 |
| Utilities | 14,820 | 14,444 |
| Operating services | 14,485 | 12,492 |
| Maintenance | 19,417 | 18,944 |
| Depreciation | 111,429 | 93,566 |
| Other | 3,323 | 3,758 |
| **TOTAL OPERATING EXPENSES** | **223,063** | **206,791** |
| **OPERATING INCOME** | **1,064** | **21,685** |
| **NON OPERATING REVENUES (EXPENSES)** | | |
| Investment income | 52,895 | 40,646 |
| Passenger facility charges | 67,573 | 69,944 |
| Loss on disposal of assets | (828) | (209) |
| Bond interest expense | (94,069) | (76,777) |
| Part 150 home insulation expense | (5,395) | (8,419) |
| **TOTAL NON OPERATING REVENUES-NET** | **20,176** | **25,185** |
| **INCOME BEFORE CONTRIBUTIONS** | **21,240** | **46,870** |
| Capital contributions | 34,276 | 25,137 |
| **CHANGE IN NET ASSETS** | **55,516** | **72,007** |
| Net assets-Beginning of year | 1,296,662 | 1,224,655 |
| **NET ASSETS-END OF YEAR** | **$ 1,352,178** | **$ 1,296,662** |

See notes to the financial statements

Financial Section

## STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

| | Fiscal Years Ended December 31 2006 | 2005 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers and users | $ 226,572 | $ 222,100 |
| Cash paid to employees and benefit providers | (55,028) | (49,693) |
| Cash paid to suppliers | (34,560) | (45,248) |
| **NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES** | **136,984** | **127,159** |
| Cash flows provided by (used in) capital and related financing activities: | | |
| Payments for airports and facilities | (119,993) | (163,698) |
| Payments for Part 150 home insulation program | (5,395) | (8,419) |
| Proceeds from bond/note issuance | 6,900 | 402,366 |
| Receipt of lease payments | 15,040 | 12,677 |
| Receipt of passenger facility charges | 67,535 | 69,796 |
| Payment on bonds/notes | (45,318) | (227,692) |
| Interest paid on bonds | (106,872) | (93,810) |
| Receipt of government grants | 38,306 | 24,881 |
| **NET CASH FLOWS (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES** | **(149,797)** | **16,101** |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of investment securities | (1,169,298) | (1,438,916) |
| Proceeds from maturities of investment securities | 1,130,285 | 1,256,601 |
| Investment income | 51,991 | 40,646 |
| **NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES** | **12,978** | **(141,669)** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **165** | **1,591** |
| Cash and cash equivalents-Beginning of year | 13,026 | 11,435 |
| **CASH AND CASH EQUIVALENTS-END OF YEAR** | **$ 13,191** | **$ 13,026** |

**Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:**

| | 2006 | 2005 |
|---|---|---|
| Operating Income | $ 1,064 | $ 21,685 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 111,429 | 93,566 |
| Changes in assets and liabilities | | |
| Accounts receivable | 3,828 | (7,447) |
| Other assets | 41 | 12 |
| Accounts payable and accrued expenses | 23,960 | 7,650 |
| Post retirement medical and other | 3,617 | 3,652 |
| Other restricted liabilities | (1,185) | 1,266 |
| Employee compensation and payroll taxes | (4,387) | 5,704 |
| Deferred revenue | (1,383) | 1,071 |
| **NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES** | **$ 136,984** | **$ 127,159** |
| Noncash investing, capital and financing activities: | | |
| Changes in fair value of investments | $ 1,492 | $ (848) |
| Transfer of capital lease to airport improvements and buildings | 8,890 | - |
| Additions to capital assets included in construction payables | 25,748 | 22,551 |

See notes to financial statements.

Fiscal years ended December 31, 2006 and 2005

## NOTE A
## SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (the Commission) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies, and minimize the public's exposure to noise and safety hazards around airports.

The area over which the Commission exercises its jurisdiction is the Minneapolis-Saint Paul metropolitan area, which includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The Commission controls and operates seven airports within the metropolitan area, including the Minneapolis-Saint Paul International Airport, which services scheduled air carriers and six reliever airports, serving general aviation.

The Commission is governed independently by a 15-member Board of Commissioners. The governor of the State of Minnesota appoints 13 commissioners. The mayors of Minneapolis and Saint Paul also have seats on the Commission with the option to appoint a surrogate to serve in their place. Certain large capital improvement projects having metropolitan significance must be reviewed by the Metropolitan Council, which is a public agency established by law with powers of regulation over the development of the metropolitan area.

In applying Governmental Accounting Standards Board (GASB) Statement No. 14-*The Financial Reporting Entity* (as amended by GASB No. 39-*Determining Whether Certain Organizations Are Component Units*), the State of Minnesota and the Commission have agreed that the Commission is not financially accountable to any other organization and is considered a stand-alone governmental unit.

### Basis of Accounting

Under GASB Statement No. 34-*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Commission is considered to be a special purpose government engaged primarily in business type activities (BTA). As a BTA, the Commission prepares its financial statements using the accrual basis of accounting and the economic resources measurement focus. Under the accrual basis of accounting revenues are recognized when they are earned or when services are provided, and expenses are recognized when they are incurred. Grants are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met. Passenger Facility Charges (PFC's) are recorded as revenue at the time of ticket sale as reported to the Commission by the airlines. The Commission has applied GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* Under GASB Statement No. 20, the Commission applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

The Commission considers revenues and expenses carried out in the operation and the maintenance of the Commission's systems of airports to be operating in nature. Investment income, interest expense, PFC's, Part 150 sound insulation program and financing costs are reported as non operating.

### Budgeting Process

As required by Minnesota Statutes, the Commission adopts an annual operating and capital expenditures budget for purposes of determining required taxes, if any, to be levied by counties in its jurisdiction. Budgets are established on a departmental basis using the accrual method of accounting.

The process to amend the budget is set forth in the Commission bylaws, Article III, Section 8(a), and presented below:

"8(a) Establishment of the annual budget setting out anticipated expenditures by type of expenditure and/or upward or downward revision of that budget in the course of the corporation's fiscal year shall constitute prior approval of each type of expenditure. Authorization by vote of the Commission is required for transfer of budgeted amounts between or among line items or to appropriate additional funds for each line item. The Executive Director is directed to provide for the daily operation and management of the Commission within the expenditure guidelines of the annual budget. Commission approval of a contract shall constitute prior approval of disbursements made pursuant to terms of the contract within the constraints of the budget for all contract payments, except final construction contract payments, which shall require commission approval.

The Executive Director shall have the responsibility of securing adequate quantities of office, janitorial, maintenance and repair materials and supplies, and the rent of sufficient equipment necessary for the smooth, continuous operation of the Commission's system of airports and all facilities associated with the system of airports. The Executive Director's authority to secure these items shall be subject to the Commission's purchasing procedures and be subject to the line-item budget constraints of the annual budget.

At any time during the fiscal year, the Executive Director may recommend to the full Commission that all or any unencumbered appropriation balances of individual line-items be transferred to those line-items that require additional budgeted funds. In addition, the Executive Director may recommend to the full Commission the appropriation of additional funds above and beyond those approved at the time of budget adoption."

The Commission is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data are not included in the basic financial statements. All budgets are prepared in accordance with airport lease and use agreements. Unexpended appropriations lapse at year-end.

### Compensated Absences

Substantially all employees receive compensation for vacations, holidays, illness and certain other qualifying absences. Liabilities relating to these absences are recognized as incurred and included as employee compensation and payroll taxes.

### Cash

In accordance with Minnesota Statutes, the Commission maintains deposits at those depository banks which are members of the Federal Reserve System, as authorized by the Commission.

### Cash Equivalents

The Commission considers cash on hand plus overnight investments to be cash equivalents.

### Deferred Revenue

Deferred revenue primarily represents advance interest payments received from the airlines, which will be recognized as interest income over the term of the lease agreement.

### Government Grants in Aid of Construction

Government grants in aid of construction represent the estimated portion of construction costs incurred for which airport aid grants are expected to be paid to the Commission by the United States Government and the State of Minnesota. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Commission records government grants in aid of construction as capital contributions.

### Investments

The Commission's investments are reported at fair value as determined by quoted market prices in the balance sheets and changes in the fair value of investments are reported as investment income in the statements of revenues and expenses and changes in net assets.

### Airports and Facilities

As required under Chapter 500, Laws of Minnesota 1943—the law under which the Commission was created—certain properties, classified as airports and facilities, were contributed by the cities of Minneapolis and Saint Paul. Fee title to the land and improvements remain with the two cities.

Land contributed to the Commission from the cities has been recorded at the cost reported by the cities. The fair market value of the land when it was contributed was not determined. However, it is the Commission's belief that the difference between the cost and the fair market value in 1943 is immaterial. Additions to the property accounts have been recorded at cost since 1943.

It is the Commission's policy to amortize the carrying amount of the properties, including those acquired using government grants in aid of construction, over their estimated useful lives on a straight-line basis by annual depreciation charges to income. Estimated useful lives on depreciable assets are as follows:

| | |
|---|---|
| Airport improvements and buildings | 10-40 years |
| Moveable equipment | 3-15 years |

Costs incurred for major improvements are carried in construction in progress until disposition or completion of the related projects. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as properties. The capitalization threshold for capital assets is $5,000.

### Passenger Facility Charges

In June 1992, the Commission began collecting Passenger Facility Charges (PFCs). PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts.

The following table sets forth a summary of the Commission's approved PFC applications.

| PFC Application | Approval Date | Initial Approval Amount | Amended Approval Amount |
|---|---|---|---|
| 1 | June 1992 | $ 66,356,000 | $ 92,714,000 |
| 2 | August 1994 | 113,064,000 | 140,779,000 |
| 3 | December 1995 | 32,700,000 | 36,377,000 |
| 4 | December 1998 | 55,460,000 | 55,472,000 |
| 5 | January 2000 | 106,874,000 | 122,874,000 |
| 6 | January 2003 | 1,161,479,000 | 1,161,479,000 |
| 8 | May 2005 | 191,380,000 | 191,380,000 |
| 9 | November 2005 | 7,316,000 | 7,316,000 |
| | | $ 1,734,629,000 | $ 1,808,391,000 |

Applications one through five were originally approved for the collection of a $3.00 PFC on each enplaning passenger. However, as a result of the AIR 21, the Commission amended its fifth PFC application, which was subsequently approved by the FAA, authorizing the Commission to collect an additional $1.50 PFC per enplaning passenger. The collection of a $4.50 PFC was approved by the FAA for PFC applications six, eight and nine. PFC applications one through five are fully funded.

Effective January 1997, the Commission began to expense costs associated with the Part 150 Sound Insulation Program that are funded by PFCs.

PFCs are recorded as non operating revenue at the time of ticket sale as reported to the Commission by the airlines.

### Leases

Substantially all airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual payments equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. Other facilities at Minneapolis-Saint Paul International Airport are charged to user airlines under lease agreements which provide for compensatory rental rates designed to recover agreed-upon portions of costs incurred, including depreciation and interest, in the terminal building, ramp, and runway areas. Other facilities, to the extent they are leased, are leased under conventional agreements, primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining reliever airports and public areas at Minneapolis-Saint Paul International Airport. See Note Q for additional information regarding transactions with Northwest Airlines, Inc.

### Capitalized Interest

Interest capitalized on projects funded by internally generated funds is based on the weighted average borrowing rate of the Commission and actual project expenditures during the period of construction. Interest capitalized on projects funded from bond proceeds is the interest cost of the borrowing less interest earned on undisbursed invested funds during the construction period. Interest is not capitalized on project costs that are reimbursed by government grants in aid of construction or Passenger Facility Charges.

### Deferred Loss on Refundings

The Commission defers recognition of losses incurred with refundings according to GASB Statement No. 23- *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The losses incurred in refundings are amortized on a straight-line basis over the lesser of the remaining life of the original bonds or the life of the new bonds.

### Net Assets

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, certain leases and outstanding principal balances of debt attributable to the acquisition, construction or improvements of those assets. The Commission includes certain leases in the calculation of net assets invested in capital assets, net of related debt since the possibility exists that the Commission may take possession of the asset upon default or bankruptcy of the lessee. Upon this occurrence the Commission reclassifies the lease from a lease receivable to a fixed asset. (See Note J).

- Restricted:
  - Nonexpendable-Net assets subject to externally imposed stipulations that the Commission maintain them permanently. For the fiscal year ended December 31, 2006 and 2005, the Commission does not have nonexpendable net assets.
  - Expendable-Net assets whose use by the Commission is subject to externally imposed stipulations that can be fulfilled by actions of the Commission pursuant to those stipulations or that expire by the passage of time. Such assets include the Commission's bond construction funds on hand which are designated as restricted for construction by resolution by the Commission's governing board.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the management or the governing board of the Commission or may otherwise be limited by contractual agreements with outside parties.

### Part 150 Sound Insulation Program Expenses

The Commission only expenses costs associated with the Part 150 Sound Insulation program that are reimbursable through federal/state grants and/or PFC's. For Part 150 Sound Insulation program costs that are not reimbursable through federal/state grants and/or PFC's are capitalized and depreciated per the terms of the airline agreement.

### New Accounting Prouncements

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This statement, which the Commission will be required to adopt in fiscal 2007 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The Commission does not have any transactions that meet the criteria of this prouncement.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement, which the Commission will be required to adopt in fiscal 2008 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The Commission has not yet determined the impact of GASB No. 49 on its financial statements.

## NOTE B
## DEPOSITS AND INVESTMENTS

### Cash Deposits

Cash deposits which are insured or collateralized by securities held in the Commission's name by a financial institution (Commission's agent) other than that furnishing the collateral are as follows (in thousands):

| | 12/31/06 | 12/31/05 |
|---|---|---|
| Cash on hand | $ 63 | $94 |
| Bank balances | $119 | $414 |

Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% for mortgage notes pledged). Authorized collateral includes allowable investments as discussed below, certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

### Securities Lending Transactions

State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian acts as the Commission's agent in lending the Commission's securities for cash collateral of 100% plus accrued interest. At year-end, the Commission has no credit risk exposure to borrowers because the amounts the Commission owes the borrowers exceed the amounts the borrowers owe the Commission. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Commission or the borrower, although the average term of the loans is one week. The Commission does not have the authority to pledge or sell collateral without borrower default. In lending securities, cash collateral is invested in securities authorized by Minnesota Statutes with a weighted average maturity of six days. At December 31, 2006, the fair value of collateral pledged was $397,803,000.

### Investments

In accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Commission's investments are reported at fair value in the balance sheets and changes in the fair value of investments are reported in the statements of revenues and expenses and changes in net assets.

Investment income for the year ended December 31, consists of the following:

| | 2006 | 2005 |
|---|---|---|
| Investment income from leases | $22,815,000 | $22,820,000 |
| Investment income from investments | 28,588,000 | 18,674,000 |
| Net increase (decrease) in fair value of investments | 1,492,000 | (848,000) |
| | $52,895,000 | $40,646,000 |

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any other state or any of its municipalities, commercial paper rated in the highest category by at least two nationally recognized rating agencies, bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System, certificates of deposit issued by official depositories of the Commission, shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in direct obligations or obligations guaranteed by the United States or its agencies, and repurchase agreements with financial institutions.

The Commission addresses certain risks to which it is currently exposed as follows:

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commission manages its exposure to declines in fair value by maintaining sufficient liquidity to enable the Commission to meet anticipated cash requirements without the occurrence of significant investment losses.

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Below is a table of segmented time distribution for the Commission's debt investments at December 31, 2006:

(Dollars in thousands)

| Security Type | Rating | 0-6 mths | Maturing in 7-12 mths | 13-18 mths | 18-24 mths | 25-30 mths | Total |
|---|---|---|---|---|---|---|---|
| **U.S. Treasury Securities** | | | | | | | |
| Treasury Note | Aaa/AAA | $28,154 | $ - | $ - | $ - | $ - | $ 28,154 |
| **U.S. Agency Securities** | | | | | | | |
| Federal Home Loan Mtg Corp | Aaa/AAA | 12,748 | 19,292 | 5,269 | 4,495 | 973 | 42,777 |
| Federal National Mtg Assn | Aaa/AAA | 71,579 | 29,233 | 32,113 | 21,437 | 1,958 | 156,320 |
| Federal Home Loan Bank | Aaa/AAA | 83,598 | 64,789 | 26,773 | 57,003 | 14,856 | 247,019 |
| Federal Farm Credit | Aaa/AAA | 14,379 | 6,820 | 2,753 | 17,366 | - | 41,318 |
| **Commercial Paper** | | | | | | | |
| Antilis US Funding | A1+ P1 | 15,610 | - | - | - | - | 15,610 |
| Chesham Finance LLC | A1+ P1 | 19,273 | - | - | - | - | 19,273 |
| Coral Capital | P1 F1 | 4,246 | - | - | - | - | 4,246 |
| Duke Funding High Grade | A1+ P1 | 2,596 | - | - | - | - | 2,596 |
| Eaton Vance Variable | A1+ P1 | 5,954 | - | - | - | - | 5,954 |
| Morgan Stanley | A1 P1 | - | 20,327 | - | - | - | 20,327 |
| Mortgage Interest | A1+ P1 | 19,247 | - | - | - | - | 19,247 |
| New Center Asset | A1 P1 | 1,990 | - | - | - | - | 1,990 |
| Neptune Funding | A1 F1 | 4,498 | - | - | - | - | 4,498 |
| Panterra Funding | P1 F1 | 1,971 | - | - | - | - | 1,971 |
| Park Granada | A1+ P1 | 15,627 | - | - | - | - | 15,627 |
| Rhineland funding | P1 F1 | 1,996 | - | - | - | - | 1,996 |
| Stratford | A1+ P1 | 12,972 | - | - | - | - | 12,972 |
| Whitepoint Funding | A1 P1 F1 | 1,980 | - | - | - | - | 1,980 |
| | **Totals** | **$318,418** | **$140,461** | **$66,908** | **$100,301** | **$17,787** | **$643,875** |

**Ratings: A1 and AAA-Standard & Poors; Aaa and P1-Moody's; F1-Fitch**

The Commission's cash and investments are reported as follows in the balance sheets at December 31:
(dollars in thousands)

| | 2006 | 2005 |
|---|---|---|
| Cash and cash equivalents-unrestricted | $ 13,183 | $ 13,018 |
| Investments-unrestricted | 159,572 | 111,069 |
| Securities lending agreement-unrestricted | 146,018 | 100,665 |
| Cash and cash equivalents-restricted | 8 | 8 |
| Investments-restricted | 627,585 | 636,171 |
| Securities lending agreement-restricted | 251,785 | 204,921 |
| Total cash and investments | $1,198,151 | $1,065,852 |

*Credit risk of debt security investments.* Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Minnesota Statute 118A limits investment instruments purchased by the Commission. The ratings of the

Commission's debt investments are shown in the above table. In the securities lending program, the Commission has no credit risk exposure to borrowers because the amounts the Commission owes borrowers exceed amounts borrowers owe the Commission.

*Concentration of credit risk.* The Commission requires a diversified investment portfolio to avoid risk of losses resulting from an over concentration of assets in a specific maturity, issuer, or class of securities. The Commission diversifies its investment security types as shown below:

| Investment Type | Maximum |
|---|---|
| U.S. Treasury Obligations | 100% |
| U.S. Government Agency Security | 100% |
| Commercial Paper | 30% |

*Custodial credit risk- investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. According to Commission policy, all securities purchased by the Commission are held by a third party safekeeping agent appointed as custodian.

*Foreign currency risk.* The Commission has no foreign currency risk with respect to its deposits or investments.

## NOTE C
## RESTRICTED ASSETS AND RESTRICTED NET ASSETS FOR FUTURE DEBT SERVICE AND CONSTRUCTION

Minnesota Statutes require the Commission to have a balance on hand in a Debt Service Account on October 10 of every year equal to the total amount of principal and interest due on all outstanding bonds to the end of the second following year. Cash and investments to meet this requirement plus interest earned thereon are restricted.

Cash and investments segregated as regular construction funds include amounts received from issuance of commission bonds, government grants in aid of construction, Passenger Facility Charges, rental receipts on assets purchased with grants in aid not utilized for aviation, and cumulative interest earned from the investment of such funds. These amounts are to be used principally for construction at Minneapolis-Saint Paul International Airport.

The Commission also approves certain amounts from operating cash flows which it designates internally as restricted in special construction funds for use at secondary airports or additional Minneapolis-Saint Paul International Airport projects that are not funded by bond issues.

The Commission also restricts externally the amount received from Passenger Facility Charges for the approved airport improvement projects as discussed in Note A.

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Net Assets consists of the following at December 31 (in thousands):

| **Net Assets** | | |
|---|---|---|
| **Invested in capital assets, net of related debt-(a)** | 2006 | 2005 |
| Leases receivable-related to capital assets | $ 57,803 | $ 63,611 |
| Capital Assets: | | |
| Land | 116,557 | 110,649 |
| Airport improvements and buildings | 3,043,615 | 2,858,844 |
| Moveable equipment | 77,406 | 69,290 |
| Construction in progress | 120,715 | 183,388 |
| Less accumulated depreciation | (963,461) | (852,179) |
| Total Capital Assets-Net | 2,452,635 | 2,433,603 |
| Less related liabilities: | | |
| Notes payable-current | 624 | 603 |
| Payable from restricted assets: | | |
| Current portion of long-term debt | 38,690 | 37,715 |
| Interest payable | 49,615 | 52,023 |
| Notes payable | 45,887 | 45,987 |
| Notes payable non-current | 3,863 | 4,487 |
| Bonds payable | 1,236,134 | 1,214,512 |
| Total Liabilities | 1,374,813 | 1,355,327 |
| **Invested in capital assets, net of related debt-(a)** | **$1,077,822** | **$1,078,276** |
| **Restricted Net Assets-(a)** | | |
| Restricted Assets: | | |
| Cash and cash equivalents | $8 | $8 |
| Investments: | | |
| Debt service | 283,876 | 291,602 |
| Construction, other and securities lending | 595,494 | 549,490 |
| Leases receivable | 270,386 | 278,796 |
| Government grants in aid receivable | 2,662 | 6,692 |
| Other receivables-current and non-current | 5,223 | 3,263 |
| Passenger facility charge receivable | 5,267 | 5,229 |
| Total Restricted Assets | 1,162,916 | 1,135,080 |
| Less: | | |
| Payables from restricted assets: | | |
| Construction | 25,748 | 22,551 |
| Deferred revenue-current and non-current | 31,601 | 32,720 |
| Post retirement medical | 32,885 | 29,268 |
| Bonds payable | 673,027 | 734,285 |
| Other | 1,128 | 2,313 |
| Security lending agreement | 251,785 | 204,921 |
| Total Liabilities | 1,016,174 | 1,026,058 |
| **Restricted Net Assets-(a)** | **$146,742** | **$109,022** |

| Unrestricted Net Assets | 2006 | 2005 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 13,183 | $ 13,018 |
| Investments and securities lending agreement | 305,590 | 211,734 |
| Accounts receivable | 9,692 | 13,520 |
| Leases receivable | - | 7,240 |
| Other | 1,640 | 1,342 |
| Other unrestricted non-current | - | 339 |
| Total unrestricted assets | 330,105 | 247,193 |
| Less: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 45,390 | 21,430 |
| Security lending agreement | 146,018 | 100,665 |
| Deferred revenue | 1,085 | 976 |
| Employee compensation and payroll taxes | 6,595 | 10,982 |
| Deferred revenue-non-current | 3,403 | 3,776 |
| Total liabilities | 202,491 | 137,829 |
| **Unrestricted Net Assets** | $127,614 | $109,364 |

**(a)**-The 2005 balances reflect a change in classification adopted in 2006 for lease receivables that are not attributable to capital assets and related debt from "Invested in Capital Assets, Net of Related Debt" to "Restricted Net Assets". The reclassification did not have an effect on the 2005 reported totals for invested in capital assets, net of related debt or restricted net assets.

**NOTE D**
**CAPITAL ASSETS**

Changes in capital assets by major classification are as follows (in thousands):

| Capital Assets | Balance January 1, 2005 | Additions | Transfers In (Out) | Retirements Or Disposals | Balance December 31, 2005 |
|---|---|---|---|---|---|
| Capital Assets-Not Depreciated: | | | | | |
| Land | $ 110,619 | $ - | $ 30 | $ - | $ 110,649 |
| Projects-in-Progress | 703,188 | 175,713 | (695,513) | - | 183,388 |
| Total Capital Assets-Not Depreciated | 813,807 | 175,713 | (695,483) | - | 294,037 |
| Capital Assets-Depreciated: | | | | | |
| Airport Improvements and Buildings | 2,163,778 | - | 695,066 | - | 2,858,844 |
| Less Accumulated Depreciation | (714,742) | (88,413) | - | - | (803,155) |
| Net Airport Improvements and Buildings | 1,449,036 | (88,413) | 695,066 | - | 2,055,689 |
| Moveable Equipment | 64,762 | 4,834 | 417 | (723) | 69,290 |
| Less Accumulated Depreciation | (44,589) | (5,153) | - | 718 | (49,024) |
| Net Moveable Equipment | 20,173 | (319) | 417 | (5) | 20,266 |
| Total Capital Assets-Depreciated | 1,469,209 | (88,732) | 695,483 | (5) | 2,075,955 |
| **Net Capital Assets** | $2,283,016 | $86,981 | $ - | $ (5) | $2,369,992 |

| Capital Assets | Balance January 1, 2006 | Additions | Transfers In (Out) | Retirements or Disposals | Balance December 31, 2006 |
|---|---|---|---|---|---|
| Capital Assets-Not Depreciated: | | | | | |
| Land | $ 110,649 | $ - | $ 5,909 | $ | $ 116,557 |
| Projects-in-Progress | 183,388 | 123,070 | (185,743) | - | 120,715 |
| Total Capital Assets-Not Depreciated | 294,037 | 123,070 | (179,834) | - | 237,272 |
| Capital Assets-Depreciated | | | | | |
| Airport Improvements and Buildings | 2,858,844 | 9,302 | 175,469 | - | 3,043,615 |
| Less Accumulated Depreciation | (803,155) | (105,909) | - | - | (909,064) |
| Net Airport Improvements and Buildings | 2,055,689 | (96,607) | 175,469 | - | 2,134,551 |
| Moveable Equipment | 69,290 | 3,899 | 4,365 | (148) | 77,406 |
| Less Accumulated Depreciation | (49,024) | (5,520) | - | 146 | (54,398) |
| Net Moveable Equipment | 20,266 | (1,621) | 4,365 | (2) | 23,008 |
| Total Capital Assets-Depreciated | 2,075,955 | (98,228) | 179,834 | (2) | 2,157,559 |
| **Net Capital Assets** | $ 2,369,992 | $24,842 | - | $ (2) | $ 2,394,832 |

## NOTE E
## NOTES PAYABLE AND LONG-TERM DEBT

Notes payable consist of commercial paper ranging in maturities up to 270 days and other notes related to equipment financing transactions.

In 2005, the Commission issued commercial paper totaling $9,500,000 net. The proceeds funded a deicing pad for Runway 17. In addition, the Commission retired $64,689,000 of commercial paper using some of the proceeds from the Commission's 2005 General Airport Revenue Bond issue. The remaining retired amount of $679,000 were principal payments made on equipment financing transactions.

In 2006, the Commission issued commercial paper totaling $6,900,000. The project financed with these proceeds funded the relocation of Trinity School in Bloomington, Minnesota. Trinity School was located in an area that was eligible for sound insulation, however, the school chose to relocate to Inver Grove Heights, Minnesota. In addition, the Commission retired $7,000,000 of commercial paper net using excess cash. The remaining retired amount of $603,000 was principal payments made on equipment financing transactions.

The interest rate and maturities for the outstanding notes payable are as follows (dollars in thousands):

| Notes Payable | Maturity Year | Amount |
|---|---|---|
| 3.07% to 3.61% | 2007 | $ 46,511 |
| | 2008 | 943 |
| | 2009 | 2,920 |
| | | $50,374 |

The following are the changes in notes payable during 2006 and 2005 (dollars in thousands):

| | Balance 12/31/2005 | Issued | Retired | Balance 12/31/2006 |
|---|---|---|---|---|
| Notes Payable | $51,077 | $ 6,900 | ($7,603) | $50,374 |

| | Balance 12/31/2004 | Issued | Retired | Balance 12/31/2005 |
|---|---|---|---|---|
| Notes Payable | $106,945 | $9,500 | ($65,368) | $51,077 |

The Commission's long-term bonds issued and outstanding were as follows:

**Long Term Debt (dollars in thousands)**

| Type of issue: | Issue Date | Interest Rates | Maturing On January 1 | Amount | Outstanding December 31, 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Airport Revenue Bonds** | | | | | | |
| Series 1998A | 06/01/1998 | 5.000% | 2016-2022 | $78,310 | | |
| Original amount-$225,885 | | 5.200% | 2023-2024 | 31,610 | | |
| | | 5.000% | 2025-2030 | 115,965 | $225,885 | $225,885 |
| Series 1998B | 06/01/1998 | 5.500% | 2007-2009 | 18,045 | | |
| Original amount-$84,000 | | 5.375% | 2010 | 8,045 | | |
| | | 5.250% | 2011-2015 | 47,070 | | |
| | | 5.000% | 2016 | 10,840 | 84,000 | 84,000 |
| Series 1998C | 06/01/1998 | 6.270% | 2007 | 3,635 | 3,635 | 10,060 |
| Original amount-$37,040 | | | | | | |
| Series 1999A | 07/01/1999 | 5.130% | 2022-2031 | 132,415 | 132,415 | 132,415 |
| Original amount-$132,415 | | | | | | |
| Series 1999B | 07/01/1999 | 5.000% | 2007-2008 | 10,100 | | |
| Original amount-$135,095 | | 5.250% | 2009 | 5,430 | | |
| | | 5.500% | 2010-2011 | 11,750 | | |
| | | 5.630% | 2012-2016 | 35,605 | | |
| | | 5.250% | 2017-2022 | 50,825 | 113,710 | 118,405 |
| Series 2000B | 05/16/2000 | 5.300% | 2007 | 3,360 | | |
| Original amount-$88,745 | | 5.375% | 2008 | 3,540 | | |
| | | 5.400% | 2009 | 3,730 | | |
| | | 5.750% | 2010 | 3,930 | | |
| | | 6.000% | 2011-2014 | 18,180 | | |
| | | 6.125% | 2015-2016 | 10,815 | | |
| | | 6.200% | 2017 | 5,910 | | |
| | | 6.000% | 2018-2021 | 27,450 | 76,915 | 80,110 |

| Type of issue: | Issue Date | Interest Rates | Maturing On January 1 | Amount | Outstanding December 31, 2006 | 2005 |
|---|---|---|---|---|---|---|
| Series 2001A | 05/30/2001 | 5.250% | 2024-2032 | 85,190 | 85,190 | 85,190 |
| Original amount-$85,190 | | | | | | |
| Series 2001B | 05/30/2001 | 5.250% | 2007-2008 | 6,485 | | |
| Original amount-$98,815 | | 5.500% | 2009-2011 | 11,085 | | |
| | | 5.750% | 2012-2017 | 28,485 | | |
| | | 5.625% | 2018 | 5,745 | | |
| | | 5.250% | 2019-2024 | 35,850 | 87,650 | 90,650 |
| Series 2001C | 05/30/2001 | 5.500% | 2016-2019 | $ 30,265 | | |
| Original amount-$196,600 | | 5.125% | 2020 | 9,255 | | |
| | | 5.250% | 2021-2032 | 157,080 | $ 196,600 | $ 196,600 |
| Series 2001D | 05/30/2001 | 5.250% | 2007-2011 | 25,665 | | |
| Original amount-$70,210 | | 5.750% | 2012-2016 | 28,180 | 53,845 | 58,235 |
| Series 2003A | 07/09/2003 | 5.250% | 2016-2017 | 8,845 | | |
| Original amount-$102,690 | | 5.000% | 2018-2028 | 67,825 | | |
| | | 4.500% | 2029-2031 | 26,020 | 102,690 | 102,690 |
| Series 2004A | 05/11/2004 | Variable-(1) | 2007-2031 | 105,650 | 105,650 | 107,850 |
| Original Amount-$109,950 | | | | | | |
| Series 2005A | 05/26/2005 | 5.000% | 2013-2018 | 34,665 | | |
| Original Amount-$136,110 | | 4.250% | 2026 | 2,700 | | |
| | | 5.000% | 2027-2035 | 98,745 | 136,110 | 136,110 |
| Series 2005B | 05/26/2005 | 5.000% | 2008-2026 | 113,155 | 113,155 | 113,155 |
| Original Amount-$113,155 | | | | | | |
| Series 2005C | 05/26/2005 | 3.000% | 2007-2008 | 640 | | |
| Original Amount-$123,750 | | 3.500% | 2009-2011 | 1,040 | | |
| | | 3.625% | 2012 | 370 | | |
| | | 3.750% | 2013 | 385 | | |
| | | 4.000% | 2014-2021 | 3,675 | | |
| | | 5.000% | 2022-2031 | 104,150 | | |
| | | 4.500% | 2032 | 13,490 | 123,750 | 123,750 |
| **Total Airport Revenue Bonds** | | | | | **1,641,200** | **1,665,105** |
| **General Obligation Revenue Bonds** | | | | | | |
| Series 10 | 05/01/1993 | 5.000% | | - | - | 1,515 |
| Original amount-$29,025 | | | | | | |
| Series 13 | 11/01/1998 | 5.000% | 2007-2010 | 10,105 | | |
| Original amount-$38,750 | | 5.250% | 2011-2013 | 8,980 | | |
| | | 4.500% | 2014-2015 | 6,655 | 25,740 | 27,985 |

| Type of issue: | Issue Date | Interest Rates | Maturing On January 1 | Amount | Outstanding December 31, 2006 | 2005 |
|---|---|---|---|---|---|---|
| Series 14 | 10/31/2001 | 5.000% | 2007-2008 | 5,870 | | |
| Original amount-$25,690 | | 5.500% | 2009-2011 | 9,875 | 15,745 | $18,445 |
| Series 15 | 01/29/2002 | 5.250% | 2007 | $ 7,990 | | |
| Original amount-$287,825 | | 5.500% | 2008 | 8,700 | | |
| | | 6.000% | 2009-2011 | 30,780 | | |
| | | 6.050% | 2012 | 12,180 | | |
| | | 6.150% | 2013 | 13,320 | | |
| | | 6.250% | 2014 | 14,520 | | |
| | | 6.350% | 2015 | 15,830 | | |
| | | 6.450% | 2016 | 18,185 | | |
| | | 6.550% | 2017 | 19,770 | | |
| | | 6.850% | 2018-2022 | 120,580 | $ 261,855 | $ 269,205 |
| **Total General Obligation Revenue Bonds** | | | | | 303,340 | 317,150 |
| **Total Long-Term Debt Outstanding** | | | | | **1,944,540** | **1,982,255** |
| Net unamortized premium (discount) | | | | | 17,544 | 19,163 |
| Deferred loss on refundings | | | | | (14,233) | (14,906) |
| Current portion of long-term debt | | | | | (38,690) | (37,715) |
| | | | | **Total Long Term Bonds Payable** | **$ 1,909,161** | **$ 1,948,797** |

(1) The variable rate obligation rate changes every 7 days. The interest rate at December 31, 2006 for the 7 day maturity was 4.05%.

Future debt service requirements as of December 31, 2006 are as follows (in thousands):

| Years | Notes Payable | Airport Revenue Bonds | General Obligation Revenue Bonds | Total Debt Outstanding | Interest -a | Total Principal & Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 46,511 | $ 25,505 | $13,185 | $ 85,201 | $102,449 | $187,650 |
| 2008 | 943 | 30,465 | 14,165 | 45,573 | 99,951 | 145,524 |
| 2009 | 2,920 | 32,020 | 15,085 | 50,025 | 97,540 | 147,565 |
| 2010 | - | 33,735 | 16,250 | 49,985 | 94,782 | 144,767 |
| 2011 | - | 35,545 | 17,475 | 53,020 | 91,990 | 145,010 |
| 2012-2016 | - | 246,660 | 86,830 | 333,490 | 408,837 | 742,327 |
| 2017-2021 | - | 305,550 | 112,985 | 418,535 | 303,931 | 722,466 |
| 2022-2026 | - | 381,370 | 27,365 | 408,735 | 188,933 | 597,668 |
| 2027-2031 | - | 458,720 | - | 458,720 | 80,262 | 538,982 |
| 2032-2035 | - | 91,630 | - | 91,630 | 6,138 | 97,768 |
| | $ 50,374 | $ 1,641,200 | $ 303,340 | $ 2,033,332 | $ 1,474,813 | $ 3,469,727 |

a-The interest is computed using the variable rate percentage at December 31, 2006.

Of the future debt service requirements listed above, $287,595,000 of principal and $175,603,000 of interest are funded under agreements with Northwest Airlines. The General Obligation Revenue Bond Series 15 represents $261,855,000 of principal and $169,551,000 of interest of the Northwest Airlines debt service requirements. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

The Commission's airport revenue bonds were first issued in 1998 and subsequently in 1999-2001 and 2003-2005. The Airport Revenue Bonds are not general obligations, but are limited obligations of the Commission payable solely from and secured by a pledge of net revenues. Neither the full faith and credit nor the taxing power of the Commission, the City of Minneapolis, the City of Saint Paul, the State, or any political subdivision or public agency of the State, other than the Commission, to the extent of net revenues, is pledged to the payment of the Airport Revenue Bonds.

The proceeds of these issues were used to finance a portion of the Commission's long-term capital improvement program. The long-term capital improvement program details the expansion of the airport system including the construction of a new runway at the airport, the construction of two new public/car rental garages at the airport, the expansion and upgrading of the passenger terminal facilities at the airport and certain other projects at the reliever airports.

In May 2005, the MAC issued $373,015,000 Series 2005A-C General Airport Revenue Bonds. The net proceeds are to be used for construction financing totaling $165,000,000, retiring $65,000,000 of commercial paper, and to refund and defease $124,000,000 of General Airport Revenue Bond Series 2000A, with the balance to be used to pay for cost of issuance and the reserve fund. The Series A-C bonds were issued on a subordinated basis. Subordinated bonds have a secondary lien on revenues and have a lower coverage ratio. One reserve fund was established for the Series A-C bonds. The reserve requirement is the maximum annual aggregate debt service of the Series A-C bonds. These bonds were rated AAA/AAA by Standard & Poor's and Fitch, respectively, based on the Municipal Bond Insurance Policy. Without taking into account the Municipal Bond Insurance Policy, the bonds were rated A by Standard & Poors and A by Fitch.

General Obligation Revenue Bonds are general obligations of the Commission, payments of which are secured by the pledge of all operating revenues of the Commission. The Commission has the power to levy property taxes upon all taxable property in the seven-county metropolitan area in order to pay debt service on outstanding General Obligation Revenue Bonds. Also see Note Q. The Commission has not levied taxes for the payment of debt service since 1969. Since then, Commission revenues have been sufficient to pay principal and interest due on General Obligation Revenue Bonds.

The Commission currently has $303,340,000 outstanding in general obligation revenue bonds. The series 10 bonds were used to retire the series 1 and 6 bonds that were issued in 1975 and 1986, respectively. The series 1 and 6 bonds proceeds were used primarily for the construction of a public parking structure and associated improvements. The series 14 bonds were used to retire the series 8 bonds that were issued in 1992. The series 8 bond proceeds were used primarily for the construction of improvements in the terminal building, runways, taxiways and public roadways.

The series 13 and 15 bonds were issued by the Commission for facilities for NWA. The series 13 bonds were used to retire the series 7 bonds that were issued in 1988. The proceeds were used to construct a 747-400 hangar for NWA. The series 15 bonds were used to retire the series 9 bonds that were issued in 1992. Further information on the Series 9/15 bonds can be found in Note Q.

As mentioned in Note Q, in respect to the General Obligation Revenue Bond Series 15, NWA is required to maintain collateral. The value of the collateral is determined by periodic independent appraisals. The value (based upon use of the assets by an airline) of the collateral must be at least 145% (reducible to 135% under certain circumstances) of the principal amount of the General Obligation Revenue Bond Series 15.

The Commission has statutory authority for issuing General Obligation Revenue Bonds. The present statutory general obligation bonding limit as of December 31, 2006, would permit the issuance of an additional $55 million of General Obligation Revenue Bonds.

Rental agreements between the Commission and its tenants, including the compensatory rental agreement, the self-liquidating agreements, and other arrangements, are intended to provide for revenues which allow for the above required principal and interest payments. Other Commission revenue to be received under minimum rental revenue provisions is not significant in the aggregate.

**NOTE F**
**CONDUIT DEBT OBLIGATIONS**

To provide funding to finance the acquisition, construction, expansion, installation and equipping of capital improvements at Minneapolis-Saint Paul International Airport, the Commission has issued two series of Special Facility Revenue Bonds. These bonds are special limited obligations of the Commission, payable solely from and secured by a pledge of rentals to be received from lease agreements between the Commission and NWA. The Commission is not liable to use its own funds to pay the bondholders should NWA fail to make payments. The bonds do not constitute a debt or pledge of the faith and credit of the Commission and accordingly have not been reported in the accompanying financial statements. At December 31, 2006, Special Facility Revenue Bonds outstanding are $136,355,000.

**NOTE G**
**BOND REFUNDING**

On May 26, 2005, the Commission issued $123,750,000 General Airport Revenue Bond Series 2005C to advance refund General Airport Revenue Bond Series 2000A. General Airport Revenue Bond Series 2000A matures on January 1, 2032, and will be called on January 1, 2010. As a result of the refunding, the Commission reduced its total debt service requirements by $13,719,934, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $9,175,650. The Commission also deferred recognition of a $14,623,451 loss in connection with this refunding according to GASB Statement No. 23. As a result, the loss has been deferred and will be amortized to interest expense on a straight-line basis through January 1, 2032. At December 31, 2006, the unamortized deferred loss netted against bonds payable is $13,718,417.

**NOTE H**
**CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2006 and 2005 was as follows (in thousands):

| | Balance 12/31/2005 | Additions | Retirements And other | Balance 12/31/2006 | Amounts recognized /due in one year |
|---|---|---|---|---|---|
| Deferred Revenue | $ 37,472 | $ 28,416 | ($ 29,799) | $ 36,089 | $18,816 |
| Notes Payable-1 | 5,090 | - 0 - | (603) | 4,487 | 624 |
| Bonds Payable-1 | 1,986,512 | -0- | (38,661) | 1,947,851 | 38,690 |
| | $2,029,074 | $ 28,416 | ($69,063) | $1,988,427 | $ 58,130 |

| | Balance 12/31/2004 | Additions | Retirements and other | Balance 12/31/2005 | Amounts recognized /due in one year |
|---|---|---|---|---|---|
| Deferred Revenue | $ 36,401 | $ 30,492 | ($ 29,421) | $ 37,472 | $19,243 |
| Notes Payable-1 | 5,769 | - 0 - | (679) | 5,090 | 603 |
| Bonds Payable-1 | 1,756,502 | 373,015 | (143,005) | 1,986,512 | 37,715 |
| | $1,798,672 | $ 403,507 | ($173,105) | $2,029,074 | $ 57,561 |

1-Bonds/notes payable balances includes current portion of long-term debt and current portion of unrestricted notes payable and excludes short-term commercial paper.

## NOTE I
## CAPITALIZATION OF INTEREST

Total interest expense was $94,069,000 and $76,777,000 in 2006 and 2005, respectively. Interest expense capitalized as part of the costs of constructed assets were $9,448,000 and $22,951,000 in 2006 and 2005, respectively. Total interest paid was $106,872,000 and $93,810,000 in 2006 and 2005, respectively.

## NOTE J
## LEASES

The Commission leases certain facilities to tenants under self-liquidating lease agreements. Self-liquidating lease agreements require the lessee to pay annual rentals equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. These leases are classified as direct financing leases and expire at various intervals until the year 2029. The Commission records the interest portion of the lease payments as investment income. The following lists the components of the Commission's leases as of December 31 (in thousands):

| | 2006 | 2005 |
|---|---|---|
| Total minimum lease payments to be received | $551,263 | $600,272 |
| Less: Unearned income | 211,914 | 240,305 |
| Net investment in leases | 339,349 | 359,967 |
| Less: Prepaid principal | (11,160) | (10,320) |
| **Leases receivable-current and non-current** | **$328,189** | **$349,647** |

As of December 31, 2006, future minimum lease payments are as follows (in thousands):

| Year | Amount |
|---|---|
| 2007 | $ 36,640 |
| 2008 | 36,599 |
| 2009 | 36,982 |
| 2010 | 37,317 |
| 2011 | 37,701 |
| 2012-2016 | 186,497 |
| 2017-2021 | 172,707 |
| 2022-2026 | 5,277 |
| 2027-2030 | 1,543 |
| | $551,263 |

Mesaba Airlines notified the Commission that it intends to reject an aircraft hangar facility lease on May 1, 2007. The Commission recognized an impairment charge of $813,000 for the fiscal year ending December 31, 2006. Also the Commission will take possession of the hangar on that date and as a result transferred $8,900,000 from lease receivable to airports and facilities.

## NOTE K
## PENSION AND RETIREMENT PLANS

All full-time and certain part-time employees of the Commission participate in the Minneapolis Employees Retirement Fund (MERF) (participation restricted to employees hired prior to July 1, 1978) or the Public Employees Retirement Association (PERA). Both are cost-sharing, multiple-employer retirement plans.

### 1. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

#### A. Plan Description

All full-time and certain part-time employees of the Commission (hired after June 30, 1978) are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to the Coordinated Plan. Coordinated members are covered by Social Security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated members.

The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Using Method 2, the annuity accrual rate is 1.7% of average salary for Coordinated members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For PERF members and for all PEPFF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equals at least 90. Normal retirement age is 55 for PEPFF and 65 for Coordinated members hired prior to July 1,1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement. There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contribution in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained by writing to PERA, 60 Empire Drive #200, Saint Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

### B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Coordinated Plan members are required to contribute 5.50% of their annual covered salary. Contribution rates will increase in the Coordinated Plan to 5.75% in 2007. PEPFF members are required to contribute 7.00% of their annual covered salary. That rate will increase to 7.8% in 2007. The Commission is required to contribute the following percentages of annual covered payroll: 6.00% for Coordinated Plan PERF members and 10.50% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007. The Commission's required contributions to the Public Employees Retirement Fund for the years ended December 31, 2006, 2005, and 2004 were $1,533,000, $1,349,000, and $1,216,000, respectively. The Commission's required contributions to the Public Employees Police and Fire Fund for the years ended December 31, 2006, 2005, and 2004 were $998,000, $813,000, and $722,000, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statute.

## 2. MINNEAPOLIS EMPLOYEES RETIREMENT FUND

### A. Plan Description

All full-time and certain part-time employees of the Commission (hired before July 1, 1978) are covered by a defined benefit pension plan administered by the Minneapolis Employees Retirement Fund (MERF). MERF is a cost-sharing, multiple-employer retirement plan.

MERF provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after ten years of credited service. Members are eligible for service retirement either:

A) With 30 or more years of service at any age; or
B) At age 60 with three or more years of service; or
C) At age 65 with one year of service; or
D) With 20 or more years of service at age 55, if a MERF member prior to June 28, 1973.

The defined retirement benefits are based on the average of the highest five years' salary within the last ten years of employment. The member will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service. The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota public employment retirement funds. The annual increase for MERF is calculated from information supplied by the consulting actuary who determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded, that is, the amount necessary to sustain the increase has been set aside.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members leaving public service any time before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution which is the equivalent of a nonrefundable term insurance premium. Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked less than three years and do not qualify for monthly retirement benefits. The survivor benefits contribution is nonrefundable.

MERF issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MERF, 800 Baker Building, 706 Second Avenue South, Minneapolis, MN 55402 or by calling (612) 335-5950.

**B. Contributions Required and Contributions Made**

Employee Contributions: Minnesota Statute Sections 422A.010 and 422A.25 require members to contribute 9.75% of their earnings to MERF which includes .5% for survivor benefits.

Employer Contributions: Required employer contributions are established by Minnesota Statute Section 422A.101 and include the normal cost, as reported in the annual actuarial valuation, plus an amount to cover administrative costs. Employers also contribute an additional 2.68% of covered employees payroll and an annual total of $3.9 million which is required by Minnesota Statutes to be applied against the unfunded liability. Commencing in 1986, the Commission is required to make additional contributions toward the unfunded liability. This contribution was previously made by the State of Minnesota.

State of Minnesota Contributions: Minnesota Laws of 1991 provide for a maximum $9,000,000 annual contribution to MERF for the purpose of amortizing the unfunded liability by June 30, 2020. The consulting actuary for the fund determines the unfunded liability at the end of the fiscal year. By using a 6% interest assumption rate, an annual contribution to provide full funding by June 30, 2020 is determined. That amount is reduced by the employer's 2.68% of payroll and further reduced by the $3.9 million and the additional contributions made by the Commission and others. If the balance exceeds the amount of the state maximum contribution, the excess is contributed by the employers.

Current required contribution rates are as follows:

| | Employee | Employer | Additional Employer |
|---|---|---|---|
| Retirement Contribution | 9.25% | 12.17% | 2.68% |
| Survivor Benefits | .50% | | |

Total required contributions made by the Commission for the fiscal year ended December 31 are as follows (in thousands):

| Contributions | 2006 | 2005 | 2004 |
|---|---|---|---|
| Employer (100% of required) | $677 | $7,397 | $2,226 |

**NOTE L**
**POST-RETIREMENT BENEFITS**

The Commission implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in 2006. In accordance with this Statement, the Commission recognizes postemployment benefits on the full accrual basis of accounting over a period that approximates an employee's years of service.

The Commission provides health insurance benefits for certain retired employees under a single employer self-insured plan. Active employees who retire from the Commission and who have become vested in either the Minneapolis Employees Retirement Fund (MERF) or the Public Employees Retirement Association (PERA), and who do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the Commission's health benefits program. The contribution requirements of employees and retirees are established and may be amended by the Commission. The required contribution is based upon projected pay-as-you-go financing requirements and funding for future benefits. The Commission will make contributions (as specified in union agreements or the Commission's personnel policy) toward required premiums at the same percentages applicable to active employees and their eligible dependent(s) until becoming eligible for Medicare, Part A or B, or both. The Commission will then pay 100% of the premium for the retired employee, spouse over age 65, and legal dependents, provided that the retired employee is receiving benefits from either MERF or PERA, and is enrolled in Medicare Part A and B as their primary health insurance. As of January 1, 1991, all employees hired by the Commission will only be able to participate in the Commission medical plan up to age 65. During 2004, the Commission approved that non-organized employees hired after October 1, 2004 will be able to participate in the Commission medical plan provided that the retiree pay 100% of the total premium cost plus a 2% administrative fee. During 2006, the Commission was successful in getting language in six of the nine eligible labor groups that provides that employees hired after the date of the signed contract will be able to participate in the Commission medical plan provided that the retiree pay 100% of the total premium cost plus a 2%

administrative fee. As of December 31, 2006 there were 222 retired employees and 518 active employees receiving health benefits from the Commission's health plan. The Commission does not issue a stand-alone financial report for its health plan.

The Commission contributed $2,101,749 to the plan in fiscal year 2006 and $1,780,244 in fiscal year 2005. Plan participants contributed $181,015 for fiscal year 2006 and $158,631 for fiscal year 2005. Monthly contributions for retirees under 65 for 2006 are shown below:

| Plan | Retiree Only | Family |
|---|---|---|
| Plan 1 | $26.00 | $157.00 |
| Plan 2 | $19.50 | $127.00 |
| HRA/HSA | $10.00 | $83.50 |

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Commission's annual OPEB cost for 2006, the amount actually contributed to the plan, and changes in the commission's net OPEB obligation:

| | |
|---|---|
| Annual required contribution (ARC) | $ 6,243,005 |
| Interest on net OPEB obligation | 1,175,234 |
| Adjustment to ARC | (1,699,097) |
| Annual OPEB cost | 5,719,142 |
| Contributions during the year | (2,101,749) |
| Increase in net OPEB obligation | 3,617,393 |
| Net OPEB-beginning of year | 29,267,872 |
| Net OPEB-End of year | $32,885,265 |

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2006 were as follows: (Two year trend information is not available at this time based on an implementation date of January 1, 2006.)

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 12/31/2006 | $5,719,142 | 17.4% | $32,885,265 |

Funding Status

The Commission restricts cash and investments to pay for future health benefits. However, since such restricted cash has not been irrevocably deposited in trust for future health benefits, the actuarial value of assets is zero.

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability- Projected Unit Credit | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1/1/2006 | - | $78,934,932 | $78,934,932 | - | $33,507,127 | 235.6% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2006, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level dollar amount over 30 years on an open basis.

**NOTE M**
**ARBITRAGE**

Every five years, the Commission is required to rebate arbitrage profits earned in relation to certain General Obligation Revenue and Airport Improvement Bond issues. Arbitrage profits are earned when investment income relating to these issues exceeds the yield on the bonds. The Commission has recorded a liability in accrued expenses at December 31, 2006 and 2005 of $2,233,665 and $2,096,852, respectively.

**NOTE N**
**RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to tort, theft of, damage to, or destruction of assets, errors or omissions, and employer obligations. The Commission manages these risks through purchases of commercial insurance under a claims made policy. The Commission had no significant reduction in its insurance coverage for 2006 or 2005. In addition, no settlements exceeded insurance coverage for the last three fiscal years. The Commission is self-insured for workers' compensation and health/dental claims. The liability recorded under employee compensation and payroll taxes by the Commission includes estimated settlements for claims reported but not settled as of December 31, 2006 and 2005, as well as an estimate of claims incurred. Changes in the balances of claim liabilities during the past two years are as follows:

| | 2006 | 2005 |
|---|---|---|
| Unpaid Claims – Beginning of Year | $2,031,436 | $1,784,523 |
| Incurred Claims and Changes in Estimates | 5,811,739 | 5,088,093 |
| Claims Paid | (5,445,056) | (4,841,180) |
| Unpaid Claims – End of Year | $ 2,398,119 | $ 2,031,436 |

## NOTE O
## JOINT VENTURE

The Commission is a participant with the City of Bloomington, the City of Eden Prairie and the City of Edina in a joint venture to construct and operate a facility to be used for the training of law enforcement officers and firefighters. The South Metro Public Safety Training Facility Association (PSTF) is governed by a Board consisting of one representative from each member. On dissolution of the Association, the facility shall revert to the City of Edina, and all remaining assets shall be divided among members based on a cost sharing formula. In accordance with the joint venture agreement, each member of the association will share in the cost of construction and operation based on the cost sharing formula. Complete financial statements for the PSTF can be obtained from the City of Edina, 4801 West 50th Street, Edina, MN 55424.

## NOTE P
## CONTINGENT LIABILITIES AND COMMITMENTS

There are several lawsuits pending in which the Commission is involved. The Commission believes that existing and pending lawsuits and claims are either billable to airport users or would not materially affect the financial statements of the Commission.

The Commission has an agreement with a concessionaire that provides payment to the concessionaire in the event that the concessionaire can not recover its investment for capital expenditures during the term of the lease.

Contractual obligations for construction were approximately $53,091,000 at December 31, 2006.

*Noise Abatement*

In 2004, the Commission proposed a $48 million noise mitigation program for the DNL 60 to 64 Noise Contour, whereby the Commission would spend $28 million (down from $150 million commitment) and the homeowners would spend $20 million of their own money. Three bills have been introduced at the Minnesota State Legislature that address noise mitigation in the 60-64 DNL Noise Contour. Two of the bills, if adopted in their current forms, would require the Commission to provide five-decibel reduction package to all homes within the DNL 62 through 64 Noise Contours and a sound insulation package not to exceed $13,500 to all homes within the DNL 60 and 61 Noise Contours. The cost of such a program would be approximately $132.6 million. If such bills are adopted the Commission would fund such program from one or more of the following sources: PFC's, internally generated funds of the Commission and rates and charges paid by the air carriers operating at the airport. The third bill, if adopted in its current form, would require, among other things, a sales tax to be collected on certain concessions provided at the airport and the use of such sales tax to fund noise mitigation programs for communities surrounding the airport. The Commission cannot predict if any of the current proposed bills will be adopted by the Minnesota State Legislature, what final provisions such bills might contain or if additional bills will be introduced and adopted by the Minnesota State Legislature addressing noise mitigation programs for the DNL 60 Noise Contour.

On April 6, 2005, the City of Minneapolis, the Minneapolis Public Housing Authority in and for the City of Minneapolis, the City of Eagan and the City of Richfield (collectively, the "Noise Plaintiffs") filed a lawsuit in Minnesota State District Court, Fourth Judicial District, requesting the court, among other things, to order the Commission to provide a five decibel reduction package to all homes within the DNL 60 to 64 Noise Contour, at no cost to the homeowners. The cost to the Commission from such a program would be approximately $331.5 million and would be funded from one or more of the following sources: PFC's, internally generated funds of the Commission and rates and charges paid by the air carriers operating at the Airport. On January 25, 2007, the court granted the Noise Plaintiffs' motion for summary judgment, holding that the Commission created an environmental quality standard under the Minnesota Environmental Rights Act (MERA) that required the Commission to provide a five decibel reduction package to all homes in the 60 to 64 DNL Noise Contours and that the Commission violated that standard. In February 2007, the district court held a five-day trial on the issue of whether the Commission's failure to provide a five decibel reduction package violated MERA by materially adversely affecting the environment, and on the issue of an appropriate remedy under MERA. Although the trial has concluded, the district court has not yet rendered its decision. Any appeal of the district court's decision must be filed in the Minnesota Court of Appeals within sixty days of the district's court's final order. The Commission cannot predict the ultimate outcome of this litigation.

On September 1, 2005, an action was filed in Minnesota State District Court, Fourth Judicial District, against the Commission seeking a declaratory judgment and monetary relief for the Commission's failure to implement a five decibel reduction package to all homes in the 60 to 64 DNL Noise Contours. On August 3, 2006, the court issued an order certifying a class action of all individuals owning homes or other buildings within the boundaries of the City of Minneapolis and the City of Richfield within the 60 to 64 DNL Noise Contours. The complaint, as amended, alleges breach of expressed contract, breach of implied contract, and breach on the grounds of promissory estoppel and seeks declaratory relief. Although the legal claims are different than those raised by the Noise Plaintiffs discussed in the previous paragraph, the underlying facts and general claims for relief are substantially similar. The matter is set for trial in June 2007. The Commission cannot predict the ultimate outcome of this litigation. The Commission has not recorded any provision for any potential settlement attributed to noise abatement litigation.

*Construction Litigation*

In connection with the construction of Runway 17/35, the Commission entered into two separate contracts with Lunda Construction Company ("Lunda"). One contract was for the construction of the main maintenance tunnel under Runway 17/35 (the "Runway 17/35 Tunnel Contract") and the other contract was for two vehicle tunnels built at the Airport (the "Vehicle Tunnel Contract"). In connection with the Runway 17/35 Tunnel Contract, Lunda filed a claim against the Commission seeking approximately $4.6 million in damages allegedly caused by a delay in obtaining a dewatering permit and the Commission's assessment of liquidated damages against Lunda for its delays in completing the work. The Commission and Lunda settled this dispute (except for one issue with respect to certain defective work) with the Commission paying Lunda $1,549,354. The Commission has withheld $104,893 from the payment to Lunda in order to fix the defective work. In connection with the Vehicle Tunnel Contract, Lunda filed a claim against the Commission seeking $4.5 million in damages. This claim includes a demand for payment of $3.3 million of liquidated damages withheld by the Commission pursuant to the terms of the Vehicle Tunnel Contract. The Commission and Lunda settled this dispute with the Commission paying Lunda $2,013,469. Lunda subsequently filed a suit in U.S. District Court for the District of Minnesota seeking payment of the $104,893 withheld by the Commission for defective work under the Runway 17/35 Tunnel Contract. The Commission has counterclaimed for damages due to defective work under both the Runway 17/35 Tunnel Contract and the Vehicle Runnel Contract. The Commission cannot predict the ultimate outcome of this litigation.

*Runway 17/35 Land Acquisition*

Certain remaining property acquisitions in association with Runway 17/35 may result in damage awards of an indeterminate amount. Any damage awards associated with these acquisitions would be capitalized as a cost of the project and recovered through airline rates and charges.

*Northwest Special Facility Bonds*
In 2001, the Commission issued $136,355,000 of Special Facility Revenue Bonds ("Conduit Bonds"), the proceeds of which were used to acquire and/or improve certain premises, facilities and equipment located at the airport. Simultaneously, the Commission entered into a Special Facilities Lease pursuant to which those same assets were leased to Northwest. The Commission then pledged all revenue from the lease to secure the obligations under the Conduit Bonds. Under the terms of the Conduit Bonds, the bondholders agreed to look exclusively to Northwest for payment of the debt. The Commission is not liable to use its own funds to pay bondholders should Northwest fail to make payments. Also see Note F.

On March 23, 2006, Northwest petitioned the bankruptcy court to re-characterize the Special Facilities Lease as an unsecured loan, rather than as a lease. If successful, (1) Northwest would not be required to continue to make lease payments arising after the bankruptcy was filed, (2) Northwest would be entitled to recover approximately $427,000 that was paid to the bondholders as post-petition rent and (3) the bondholders' claim under the Lease would only be entitled to the same treatment that is afforded to other unsecured creditors.

The Commission is not liable to use its own funds for payment of the Conduit Bonds regardless of how the financing is characterized. Further, even if Northwest were to prevail on its effort to re-characterize the Special Facilities Lease, the Commission asserts that it is not responsible to repay the $427,000 because such amount was paid directly to the bondholders. It is too early to determine the potential outcome of this adversary proceeding.

**NOTE Q**
**MAJOR CUSTOMER**

Northwest Airlines, Inc. (NAI) is a Minnesota corporation in the business of transporting air passengers, mail, and property. Northwest Aerospace Training Corporation (NATCO) is a Minnesota corporation in the business of pilot training. Both NAI and NATCO are wholly owned by NWA Inc., a Delaware corporation (NWA). In July 1989, NWA was acquired by Wings Holdings Inc., a Delaware corporation (Wings). In December 1993, Wings changed its corporate name to Northwest Airlines Corporation (NWA Corp.). NAI is the fourth largest airline in the United States and one of the largest employers in the State of Minnesota. NAI operates both domestic and international air route systems. Minneapolis-Saint Paul International Airport is one of NAI's three major hubs. Revenues from NAI account for approximately 23% of operating revenues and 74% of total revenues from major airlines.

On September 14, 2005 NWA Corp. filed for protection under Chapter 11 of the Bankruptcy Code. For Northwest Airlines their pre-petition receivables are $4,144,000. There were no allowances recorded against the pre-petition receivables since these receivables are related to the airline agreement and are recoverable according to the terms of the airline agreement. Further, Northwest Airlines is current in their post-petition receivables.

On April 23, 1992, the Commission issued $270,000,000 of taxable General Obligation Revenue Bonds, Series 9 (Bonds). In January 2002, the Commission issued $287,825,000 in General Obligation Revenue Bonds to refund General Obligation Revenue Bonds Series 9. (See Note E) The Bonds were used to acquire and lease back (a) a flight training center in Eagan, Minnesota, owned by NATCO, NAI, and NWA (collectively the Northwest Entities), consisting of land, a building, flight simulators, and related equipment and (b) certain leasehold interests of the Northwest Entities and certain additional properties located at Minneapolis-Saint Paul International Airport (collectively the Leased Facilities). The lease obligations are secured by the Leased Facilities, by guarantees of the Northwest Entities and NWA Corp., and by a pledge of certain additional

collateral consisting of aircraft engine parts and international route authorities. During the term of the Bonds, the Northwest Entities are required to maintain collateral, as determined by periodic independent appraisals, which has a value (based upon use of the assets by an airline) of at least 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding. In May 2005, the Commission and NWA Corp., entered into a forbearance agreement that until April 1, 2008, the required value of the collateral will be reduced to 125% of the sum of the principal amount of outstanding Series 9 (refinanced as Series 15) bonds. These transactions were accounted for as a capital lease. Northwest has made payments on Series 15 obligation subsequent to the filing of bankruptcy in September 2005. The Commission may be ordered by the bankruptcy court to return the payments made by Northwest totaling $28.4 million. The Commission cannot predict the ultimate outcome of the bankruptcy court decision.
The financial condition of NWA Corp. and the Northwest Entities on a consolidated basis is material to the ability to perform their rental and other payment obligations to the Commission under various agreements. Leases and accounts receivable from the Northwest Entities represent 7.5% of the Commission's total assets at December 31, 2006.

For the years ended December 31, 2006, and 2005, the Northwest Entities and NWA Corp. had audited consolidated net losses of approximately $(2,835) million and $(2,555) million, respectively. On December 31, 2006, the Northwest Entities' and NWA Corp.'s audited total consolidated assets were $13,215 billion and their total audited consolidated liabilities were $21,206 billion, resulting in the Northwest Entities' and NWA Corp.'s audited consolidated net deficit of $7,991 billion. These audited numbers were derived from the audited financial statements of NWA. In the event that the Northwest Entities or NWA Corp. are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds

## NOTE R
## SUBSEQUENT EVENTS

*Bond refunding*

On January 9, 2007, the Commission issued $638,345,000 General Airport Revenue Bond Series 2007 A and B to advance refund General Airport Revenue Bond Series 1998A, 1999A, 2001A and 2001C. General Airport Revenue Bond Series 1998A matures on January 1, 2030, and will be called on January 1, 2008. General Airport Revenue Bond Series 1999A matures on January 1, 2031, and will be called on January 1, 2009. General Airport Revenue Bond Series 2001A matures on January 1, 2032, and will be called on January 1, 2011. General Airport Revenue Bond Series 2001C matures on January 1, 2032, and will be called on January 1, 2011.

*Proposed Amendments to Airline Lease Agreement*

In February 2007, the Commission agreed to a memorandum of understanding (MOU) on certain proposed amendments to the airline lease agreements. The Commission, Northwest Airlines and the other Signatory Airlines are currently drafting amendments to the Airline Lease Agreement that will incorporate the terms of the MOU. Certain of the proposed amendments include the following changes to the airline rates and charges methodology set forth in the Airline Lease Agreements:

(a) Recoverable Costs allocated to each of the costs centers will include annual debt service costs, plus reasonable amortization of commercial paper for rate-based related projects (including capital equipment), rather than direct and indirect depreciation and imputed interest (the "Rate Changes").

(b) PFCs will be applied, to the fullest extent of eligibility, to the debt service on Senior Bonds and Subordinate Obligations issued to finance airfield projects, including Runway 17/35 (the Commission will be required to amend certain of its PFC applications in order to implement this provision of the MOU).

(c) Eliminate certain deferred charges previously agreed to in the airline lease agreement.

(d) Prorate annually among the cost centers $15 million (escalated by 3% per year) to be deposited to a repair and replacement subaccount within the Commission Construction Fund for major maintenance and minor capital projects.

(e) Food and beverage, merchandise and auto-rental annual gross concession revenues ("Selected Concession Revenues") will be shared with the Passenger Signatory Airlines (allocated among the Passenger Signatory Airlines based upon their proportionate share of enplanements at the Airport for the applicable fiscal year.

The MOU also sets forth proposed amendments to other leases and agreements between the Commission and Northwest Airlines, including, among other things, Northwest Airlines lease of certain buildings and hangar facilities at the Airport and Northwest Airlines agreements with respect to the Commission's General Obligation Revenue Bonds, Series 15. The Commission prepared its 2006 financial statements based upon the components of the MOU. (See Management's Discussion and Analysis for additional information).

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06

# STATISTICAL SECTION

Minneapolis/St. Paul, Minnesota • Metropolitan Airports Commission
Comprehensive Annual Financial Report • Year Ended December 31, 2006

## MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION



**HISTORICAL OPERATING STATEMENTS 1997-2006**
(Dollars in Thousands)-Unaudited

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating Revenues | | | | | | | | | | |
| Airline Rates and Charges | $41,838 | $46,832 | $55,401 | $68,133 | $72,669 | $71,846 | $60,977 | $73,206 | $83,856 | $71,181 |
| Concessions | 52,279 | 56,832 | 62,131 | 70,760 | 69,707 | 67,416 | 72,337 | 85,971 | 99,582 | 108,381 |
| Other Revenues | | | | | | | | | | |
| Rentals-(Ground and Building) | 8,135 | 8,653 | 15,078 | 17,875 | 20,588 | 21,613 | 22,623 | 25,483 | 29,173 | 26,866 |
| Utilities | 1,516 | 2,077 | 1,716 | 1,852 | 2,440 | 1,732 | 2,151 | 1,705 | 2,515 | 2,350 |
| Other | 2,293 | 2,554 | 3,658 | 4,794 | 6,391 | 8,004 | 10,094 | 9,776 | 13,350 | 15,349 |
| Total Operating Revenues | 106,061 | 116,948 | 137,984 | 163,414 | 171,795 | 170,611 | 168,182 | 196,141 | 228,476 | 224,127 |
| Operating Expenses | | | | | | | | | | |
| Personnel | 30,653 | 32,433 | 34,497 | 39,814 | 42,627 | 43,074 | 48,273 | 50,429 | 59,049 | 54,258 |
| Administrative Expenses | 1,108 | 1,113 | 1,555 | 1,686 | 1,708 | 880 | 844 | 1,089 | 1,179 | 1,240 |
| Professional Services | 4,069 | 4,006 | 5,231 | 6,357 | 5,177 | 3,386 | 2,821 | 3,745 | 3,359 | 4,091 |
| Utilities | 5,889 | 6,466 | 7,318 | 8,678 | 11,208 | 8,882 | 11,779 | 12,684 | 14,444 | 14,820 |
| Operating Services | 9,935 | 10,414 | 11,199 | 11,971 | 14,113 | 12,147 | 13,928 | 13,394 | 12,492 | 14,485 |
| Maintenance | 8,809 | 9,302 | 10,498 | 12,238 | 15,250 | 13,501 | 16,453 | 17,249 | 18,944 | 19,417 |
| Depreciation | 33,304 | 36,756 | 42,875 | 51,028 | 65,647 | 72,871 | 79,399 | 83,273 | 93,566 | 111,429 |
| Other | 170 | 119 | 619 | 278 | 2,250 | 2,455 | 2,743 | 3,206 | 3,758 | 3,323 |
| Total Operating Expenses | 93,937 | 100,609 | 113,792 | 132,050 | 157,980 | 157,196 | 176,240 | 185,069 | 206,791 | 223,063 |
| Operating Income (Loss) | 12,124 | 16,339 | 24,192 | 31,364 | 13,815 | 13,415 | (8,058) | 11,072 | 21,685 | 1,064 |
| Non-Operating Revenues (Expenses) | | | | | | | | | | |
| Investment Income | 43,952 | 47,444 | 50,039 | 55,661 | 57,712 | 45,454 | 29,854 | 32,257 | 40,646 | 52,895 |
| Passenger Facility Charges | 37,162 | 37,389 | 40,474 | 43,567 | 57,191 | 61,492 | 63,681 | 69,557 | 69,944 | 67,573 |
| Gain (Loss) on Sale/Disposal of Assets | 6 | 0 | 2 | 0 | (4,196) | 17 | (2,547) | (1,531) | (209) | (828) |
| Interest Expense | (30,957) | (37,549) | (35,103) | (42,023) | (55,549) | (50,707) | (59,105) | (67,247) | (76,777) | (94,069) |
| Part 150 Home Insulation Expenses | (8,482) | (14,976) | (18,475) | (20,707) | (20,517) | (22,208) | (13,063) | (13,134) | (8,419) | (5,395) |
| Concession Development Expenses | (1,358) | (1,792) | (5,319) | (416) | - | - | - | - | - | - |
| Total Non-Operating Revenues-Net | 40,323 | 30,516 | 31,618 | 36,082 | 34,641 | 34,048 | 18,820 | 19,902 | 25,185 | 20,176 |
| Net Income | 52,447 | 46,855 | 55,810 | 67,446 | | | | | | |
| Capital Contributions-1 | | | | | 38,069 | 42,919 | 36,707 | 27,835 | 25,137 | 34,276 |
| Change in Net Assets | | | | | 86,525 | 90,382 | 47,469 | 58,809 | 72,007 | 55,516 |
| Net Assets,Beginning of Year | | | | | 941,470 | 1,027,995 | 1,118,377 | 1,165,846 | 1,224,655 | 1,296,662 |
| Net Assets,End of Year | | | | | $ 1,027,995 | $ 1,118,377 | $ 1,165,846 | $ 1,224,655 | $ 1,296,662 | $ 1,352,178 |
| Add: Depreciation of Facilities Provided by Government Grants | 8,941 | 9,691 | 10,295 | 12,725 | | | | | | |
| Increase in Retained Earnings | 61,388 | 56,546 | 66,105 | 80,171 | | | | | | |
| Retained Earnings, Beginning of Year | 490,852 | 552,240 | 608,786 | 674,891 | | | | | | |
| Retained Earnings, End of Year | $552,240 | $608,786 | $674,891 | $755,062 | | | | | | |

Source: Audit Reports for the last ten years.

1. For the years ended December 31, 2001-2006, the amounts shown takes into account the effect of GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".

## HISTORICAL REVENUES 1997-2006
### Pursuant to MAC's Master Trust Indenture
(Dollars in Thousands)-Unaudited

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Airline Rates & Charges | | | | | | | | | | |
| Landing Fees-3 | $ 24,372 | $ 27,358 | $ 29,923 | $ 39,472 | $ 40,378 | $ 41,573 | $ 27,529 | $ 38,365 | $ 45,683 | $ 38,245 |
| Ramp Fees | 4,203 | 4,754 | 5,243 | 6,444 | 6,243 | 5,944 | 5,700 | 5,608 | 6,105 | 4,611 |
| Lindbergh Terminal Building Rents | 10,491 | 11,604 | 17,011 | 19,430 | 22,405 | 21,236 | 24,151 | 26,195 | 28,834 | 33,920 |
| Other Lindbergh Terminal Charges | 2,116 | 2,431 | 2,667 | 2,787 | 3,643 | 3,093 | 3,596 | 3,038 | 3,234 | 3,475 |
| Concessions Rebate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (9,070) |
| Noise Surcharge | 656 | 685 | 557 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Airline Rates & Charges** | **41,838** | **46,832** | **55,401** | **68,133** | **72,669** | **71,846** | **60,976** | **73,206** | **83,856** | **71,181** |
| Concessions | | | | | | | | | | |
| Auto Parking | 31,675 | 35,052 | 36,670 | 42,951 | 39,339 | 36,755 | 41,330 | 50,466 | 60,213 | 64,266 |
| Rental Car | 9,469 | 10,335 | 11,429 | 12,385 | 13,739 | 13,359 | 14,742 | 14,220 | 14,693 | 15,699 |
| Food & Beverage | 2,541 | 2,719 | 3,084 | 3,546 | 4,053 | 4,340 | 4,864 | 7,311 | 9,790 | 11,552 |
| Merchandise | 3,180 | 3,451 | 4,043 | 4,627 | 4,572 | 4,836 | 4,689 | 5,572 | 6,120 | 8,515 |
| Other | 5,405 | 5,273 | 6,894 | 7,263 | 8,004 | 8,126 | 6,712 | 8,402 | 8,766 | 8,349 |
| **Total Concessions Revenue** | **52,270** | **56,830** | **62,120** | **70,772** | **69,707** | **67,416** | **72,337** | **85,971** | **99,582** | **108,381** |
| Other Revenues | | | | | | | | | | |
| Humphrey Building Rentals | 862 | 1,207 | 1,768 | 703 | 857 | 3,377 | 3,522 | 4,162 | 5,684 | 7,089 |
| Utilities | 1,516 | 2,077 | 1,716 | 1,852 | 2,440 | 1,732 | 2,152 | 1,705 | 2,515 | 2,350 |
| Other Building and Land Rent | 5,717 | 5,859 | 11,600 | 15,140 | 18,079 | 16,444 | 17,086 | 20,196 | 22,101 | 18,434 |
| Other | 2,916 | 2,973 | 3,712 | 4,890 | 5,812 | 7,179 | 9,328 | 7,855 | 9,851 | 11,869 |
| **Total Other Revenues** | **11,011** | **12,116** | **18,796** | **22,585** | **27,188** | **28,732** | **32,088** | **33,918** | **40,151** | **39,742** |
| **Total MSP Revenue** | **105,119** | **115,778** | **136,317** | **161,490** | **169,564** | **167,994** | **165,401** | **193,095** | **223,589** | **219,304** |
| **Total Reliever Airports** | **942** | **1,170** | **1,667** | **1,924** | **502** | **2,617** | **2,781** | **3,046** | **4,887** | **4,823** |
| **Total Operating Revenues** | **106,061** | **116,948** | **137,984** | **163,414** | **170,066** | **170,611** | **168,182** | **196,141** | **228,476** | **224,127** |
| Investment Income | | | | | | | | | | |
| Capital Lease Interest | 35,183 | 31,430 | 29,646 | 28,715 | 28,464 | 25,300 | 23,554 | 23,698 | 22,820 | 22,815 |
| Other-2 | 5,542 | 6,579 | 5,933 | 6,875 | 7,569 | 6,220 | 3,976 | 7,512 | 9,532 | 14,509 |
| **Total Investment Income** | **40,725** | **38,009** | **35,579** | **35,590** | **36,033** | **31,520** | **27,530** | **31,210** | **32,352** | **37,324** |
| Capital Lease Principal Payments | **6,582** | **7,181** | **6,057** | **7,300** | **7,476** | **9,321** | **11,345** | **12,046** | **12,475** | **14,199** |
| **Total Revenues-1** | **$ 153,368** | **$ 162,138** | **$ 179,620** | **$ 206,304** | **$ 213,575** | **$ 211,452** | **$ 207,057** | **$ 239,397** | **$ 273,303** | **$ 275,650** |

Source: Audit Reports for the last ten years.

1-Total Revenues do not include any PFC's.

2-Interest income on PFC's and Bond Series 1998-2005 Construction Funds are not included.

3-In 2003, includes a $13 million rent rebate.

# MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Statistical Section

## PERCENTAGE DISTRIBUTION OF OPERATING REVENUES 1997-2006

(Dollars in Thousands)-Unaudited

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Airline Rates & Charges | | | | | | | | | | |
| Landing Fees-1 | 23.0% | 23.4% | 21.7% | 24.2% | 23.7% | 24.4% | 16.4% | 19.6% | 20.0% | 17.1% |
| Ramp Fees | 4.0% | 4.1% | 3.8% | 3.9% | 3.7% | 3.5% | 3.4% | 2.9% | 2.7% | 2.1% |
| Lindbergh Terminal Building Rents | 9.9% | 9.9% | 12.3% | 11.9% | 13.2% | 12.4% | 14.4% | 13.4% | 12.6% | 15.1% |
| Other Lindbergh Terminal Charges | 2.0% | 2.1% | 1.9% | 1.7% | 2.1% | 1.8% | 2.1% | 1.5% | 1.4% | 1.6% |
| Concessions Rebate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | -4.0% |
| Noise Surcharge | 0.6% | 0.6% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Total Airline Rates & Charges** | **39.4%** | **40.0%** | **40.2%** | **41.7%** | **42.7%** | **42.1%** | **36.3%** | **37.3%** | **36.7%** | **31.8%** |
| Concessions | | | | | | | | | | |
| Auto Parking | 29.9% | 30.0% | 26.6% | 26.3% | 23.1% | 21.5% | 24.6% | 25.7% | 26.4% | 28.7% |
| Rental Car | 8.9% | 8.8% | 8.3% | 7.6% | 8.1% | 7.8% | 8.8% | 7.2% | 6.4% | 7.0% |
| Food & Beverage | 2.4% | 2.3% | 2.2% | 2.2% | 2.4% | 2.5% | 2.9% | 3.7% | 4.3% | 5.2% |
| Merchandise | 3.0% | 3.0% | 2.9% | 2.8% | 2.7% | 2.8% | 2.8% | 2.8% | 2.7% | 3.8% |
| Other | 5.1% | 4.5% | 5.0% | 4.4% | 4.7% | 4.8% | 4.0% | 4.3% | 3.8% | 3.7% |
| **Total Concessions Revenue** | **49.3%** | **48.6%** | **45.0%** | **43.3%** | **41.0%** | **39.5%** | **43.0%** | **43.8%** | **43.6%** | **48.4%** |
| Other Revenues | | | | | | | | | | |
| Humphrey Building Rentals | 0.8% | 1.0% | 1.3% | 0.4% | 0.5% | 2.0% | 2.1% | 2.1% | 2.5% | 3.2% |
| Utilities | 1.4% | 1.8% | 1.2% | 1.1% | 1.4% | 1.0% | 1.3% | 0.9% | 1.1% | 1.0% |
| Other Building and Land Rent | 5.4% | 5.0% | 8.4% | 9.3% | 10.6% | 9.6% | 10.2% | 10.3% | 9.7% | 8.2% |
| Other | 2.7% | 2.5% | 2.7% | 3.0% | 3.4% | 4.2% | 5.5% | 4.0% | 4.3% | 5.3% |
| **Total Other Revenues** | **10.4%** | **10.4%** | **13.6%** | **13.8%** | **16.0%** | **16.8%** | **19.1%** | **17.3%** | **17.6%** | **17.7%** |
| **Total MSP Revenues** | **99.1%** | **99.0%** | **98.8%** | **98.8%** | **99.7%** | **98.5%** | **98.3%** | **98.4%** | **97.9%** | **97.8%** |
| **Total Reliever Airports** | **0.9%** | **1.0%** | **1.2%** | **1.2%** | **0.3%** | **1.5%** | **1.7%** | **1.6%** | **2.1%** | **2.2%** |
| **Total Operating Revenues** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

1. Includes in 2003 a one-time rent rebate of $13 million.
Source: Metropolitan Airports Commission
Note: Totals may not add due to rounding.

**Northwest Airlines (NWA) Revenue as a Percentage of Total MAC Operating Revenues**
**1997-2006 (dollars in thousands)-Unaudited**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total MAC Operating Revenues | $ 106,061 | $ 116,948 | $ 137,984 | $ 163,414 | $ 171,795 | $ 170,611 | $168,182 | $196,141 | $228,476 | $224,127 |
| Lease Principal/Interest Payments | 41,650 | 37,368 | 33,769 | 33,823 | 33,567 | 35,290 | 34,899 | 35,744 | 35,319 | 37,014 |
| Interest Income-MAC Funds-1 | 5,542 | 12,569 | 17,083 | 24,572 | 28,958 | 19,589 | 5,524 | 7,116 | 14,426 | 24,474 |
| Total Revenue | 153,253 | 166,885 | 188,836 | 221,809 | 234,320 | 225,490 | 208,605 | 239,001 | 278,221 | 285,615 |
| NWA Portion of Operating Revenues-2 | 30,477 | 32,504 | 38,442 | 47,516 | 52,316 | 51,858 | 44,391 | 52,892 | 60,004 | 52,265 |
| NWA Portion of Lease Payments | 39,708 | 35,856 | 31,812 | 31,865 | 31,608 | 32,692 | 30,477 | 30,760 | 30,890 | 31,301 |
| Total NWA Revenue | $ 70,185 | $ 68,360 | $ 70,254 | $ 79,381 | $ 83,924 | $ 84,550 | $ 74,868 | $ 83,652 | $ 90,894 | $ 83,566 |
| **NWA % of Total Revenue** | **45.80%** | **40.96%** | **37.20%** | **35.79%** | **35.82%** | **37.50%** | **35.89%** | **35.00%** | **32.67%** | **29.26%** |
| Total Revenue | $ 153,253 | $ 166,885 | $ 188,836 | $ 221,809 | $ 234,320 | $ 225,490 | $208,605 | $239,001 | $278,221 | $285,615 |
| Less: NWA GO 9/15 Lease Payments | 23,960 | 23,960 | 23,960 | 23,960 | 23,960 | 26,252 | 24,018 | 24,348 | 24,648 | 24,931 |
| Total Adjusted Revenue | 129,293 | 142,925 | 164,876 | 197,849 | 210,360 | 199,238 | 184,587 | 214,653 | 253,573 | 260,684 |
| Total NWA Revenue | 70,185 | 68,360 | 70,254 | 79,381 | 83,924 | 84,550 | 74,868 | 83,652 | 90,894 | 83,566 |
| Less: NWA GO 9/15 Lease Payments | 23,960 | 23,960 | 23,960 | 23,960 | 23,960 | 26,252 | 24,018 | 24,348 | 24,648 | 24,931 |
| Total Adjusted NWA Revenue | 46,225 | 44,400 | 46,294 | 55,421 | 59,964 | 58,298 | 50,850 | 59,304 | 66,246 | 58,635 |
| **NWA % of Total Revenue** | **35.75%** | **31.07%** | **28.08%** | **28.01%** | **28.51%** | **29.26%** | **27.55%** | **27.63%** | **26.13%** | **22.49%** |

**NWA Revenue as a Percentage of Total Airline Revenues**
**1997-2006 (dollars in thousands)-Unaudited**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Air Carrier Operating Revenue | $ 43,628 | $ 46,060 | $ 53,818 | $ 66,343 | $ 71,225 | $ 69,518 | $ 59,504 | $ 72,122 | $ 82,720 | $ 70,544 |
| Air Carrier Lease Payments | 40,166 | 36,356 | 32,759 | 32,812 | 32,555 | 33,609 | 32,875 | 33,587 | 33,678 | 34,364 |
| Total Air Carrier Revenue | 83,794 | 82,416 | 86,577 | 99,155 | 103,780 | 103,127 | 92,379 | 105,709 | 116,398 | 104,908 |
| Total NWA Revenue | 70,185 | 68,360 | 70,254 | 79,381 | 83,924 | 84,550 | 74,868 | 83,652 | 90,894 | 83,566 |
| **NWA % of Total Air Carrier Revenue** | **83.76%** | **82.95%** | **81.15%** | **80.06%** | **80.87%** | **81.99%** | **81.04%** | **79.13%** | **78.09%** | **79.66%** |
| Total Air Carrier Revenue | 83,794 | 82,416 | 86,577 | 99,155 | 103,780 | 103,127 | 92,379 | 105,709 | 116,398 | 104,908 |
| Less: NWA GO 9/15 Lease Payments | 23,960 | 23,960 | 23,960 | 23,960 | 23,960 | 26,252 | 24,018 | 24,348 | 24,648 | 24,931 |
| Total Adjusted Air Carrier Revenue | 59,834 | 58,456 | 62,617 | 75,195 | 79,820 | 76,875 | 68,361 | 81,361 | 91,750 | 79,977 |
| Total NWA Revenue | 70,185 | 68,360 | 70,254 | 79,381 | 83,924 | 84,550 | 74,868 | 83,652 | 90,894 | 83,566 |
| Less: NWA GO 9/15 Lease Payments | 23,960 | 23,960 | 23,960 | 23,960 | 23,960 | 26,252 | 24,018 | 24,348 | 24,648 | 24,931 |
| Total Adjusted NWA Revenue | 46,225 | 44,400 | 46,294 | 55,421 | 59,964 | 58,298 | 50,850 | 59,304 | 66,246 | 58,635 |
| **NWA % of Total Air Carrier Revenue** | **77.26%** | **75.95%** | **73.93%** | **73.70%** | **75.12%** | **75.83%** | **74.38%** | **72.89%** | **72.20%** | **73.31%** |

1. Does not include interest income earned on PFC's.
2. In 2003, revenues are net of NWA's portion of $13 million rebate.

Source: Metropolitan Airports Commission

**Rate Covenant for Senior Debt-4 1998-2006**
(Dollars in Thousands)-Unaudited

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| Revenues per Master Trust Indenture | $ 162,138 | $ 179,620 | $ 206,304 | $ 213,575 | $ 211,452 | $ 207,057 | $ 239,397 | $ 273,303 | $ 275,650 |
| Expenses: | | | | | | | | | |
| Operating Expenses | (100,609) | (113,792) | (132,050) | (157,980) | (157,196) | (176,240) | (185,069) | (206,791) | (223,063) |
| Add: Depreciation | 36,756 | 42,875 | 51,028 | 65,647 | 72,871 | 79,399 | 83,273 | 93,566 | 111,429 |
| Amount paid from non-revenue sources | - | - | - | - | - | 13,000 | - | - | - |
| Total Operating Expenses-Excluding Depreciation | (63,853) | (70,917) | (81,022) | (92,333) | (84,325) | (83,841) | (101,796) | (113,225) | (111,634) |
| Airport Improvement Bonds-Prior Lien Bonds | (337) | (344) | (660) | - | - | - | - | - | - |
| Net Revenues | 97,948 | 108,359 | 124,622 | 121,242 | 127,127 | 123,216 | 137,601 | 160,078 | 164,016 |
| Annual Debt Service-Senior Airport Revenue Bonds | (1,305) | (8,162) | (26,314) | (46,738) | (59,965) | (56,364) | (54,851) | (50,384) | (48,212) |
| Annual Debt Service-General Obligation Revenue Bonds | (37,650) | (38,082) | (37,766) | (39,673) | (33,867) | (33,901) | (33,211) | (31,899) | (32,165) |
| Principal and Interest on other Indebtedness-1 | - | - | (656) | (2,182) | (4,944) | (16,062) | (15,638) | (20,201) | (25,523) |
| **Must not be Less than Zero** | **58,993** | **62,115** | **59,886** | **32,649** | **28,351** | **16,889** | **33,901** | **57,594** | **58,116** |
| Requirement Section | | | | | | | | | |
| Net Revenues | 97,948 | 108,359 | 124,622 | 121,242 | 127,127 | 123,216 | 137,601 | 160,078 | 164,016 |
| Transfer-Coverage-2 | - | - | - | 4,083 | 6,350 | 14,091 | 13,713 | 12,596 | 12,053 |
| Total Available | 97,948 | 108,359 | 124,622 | 125,325 | 133,477 | 137,307 | 151,314 | 172,674 | 176,069 |
| Senior Debt Service times 125%-3 | (1,631) | (10,203) | (32,893) | (58,423) | (74,956) | (70,455) | (68,564) | (62,980) | (60,265) |
| **Must not be Less than Zero** | **96,317** | **98,157** | **91,730** | **66,903** | **58,521** | **66,852** | **82,750** | **109,694** | **115,804** |
| **Pro Forma Coverage on Senior Lien Debt** | | | | | | | | | |
| Net Revenues | 97,948 | 108,359 | 124,622 | 121,242 | 127,127 | 123,216 | 137,601 | 160,078 | 164,016 |
| Transfer-Coverage-2 | - | - | - | 4,083 | 6,350 | 14,091 | 13,713 | 12,596 | 12,053 |
| Total Available | 97,948 | 108,359 | 124,622 | 125,325 | 133,477 | 137,307 | 151,314 | 172,674 | 176,069 |
| Annual Debt Service-Senior Airport Revenue Bonds | (1,305) | (8,162) | (26,314) | (46,738) | (59,965) | (56,364) | (54,851) | (50,384) | (48,212) |
| Annual Debt Service-General Obligation Revenue Bonds | (37,650) | (38,082) | (37,766) | (39,673) | (33,867) | (33,901) | (33,211) | (31,899) | (32,165) |
| Total Debt Service-Senior Lien Debt | (38,955) | (46,244) | (64,080) | (86,411) | (93,832) | (90,265) | (88,062) | (82,283) | (80,377) |
| **Coverage with Transfer** | **251%** | **234%** | **194%** | **145%** | **142%** | **152%** | **172%** | **210%** | **219%** |
| **Coverage without Transfer** | **251%** | **234%** | **194%** | **140%** | **135%** | **137%** | **156%** | **195%** | **204%** |

Source: Metropolitan Airports Commission
1. Excludes General Obligation Revenue Bonds and Senior Airport Revenue Bonds.
2. Transfer is limited to no more than 25% of Aggregate Annual Debt Service on Outstanding Senior Airport Revenue Bonds.
3. Using Annual Debt Service on Senior Airport Revenue Bonds.
4. The Commission first issued Airport Revenue Bonds in 1998.

**Rate Covenant for Subordinate Lien Debt-3 1998-2006**
(Dollars in Thousands)-Unaudited

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| Revenues per Master Trust Indenture | $ 162,138 | $ 179,620 | $ 206,304 | $ 2,213,575 | $ 211,452 | $ 207,057 | $ 239,397 | $ 273,303 | $ 275,650 |
| Expenses: | | | | | | | | | |
| Operating Expenses | (100,609) | (113,792) | (132,050) | (157,980) | (157,196) | (176,240) | (185,069) | (206,791) | (223,063) |
| Add: Depreciation | 36,756 | 42,875 | 51,028 | 65,647 | 72,871 | 79,399 | 83,273 | 93,566 | 111,429 |
| Amount paid from non-revenue sources | - | - | - | - | - | 13,000 | - | - | - |
| Total Operating Expenses-Excluding Depreciation | (63,853) | (70,917) | (81,022) | (92,333) | (84,325) | (83,841) | (101,796) | (113,225) | (111,634) |
| Annual Debt Service-Senior Airport Revenue Bonds | (1,305) | (8,162) | (26,314) | (46,738) | (59,965) | (56,364) | (54,851) | (50,384) | (48,212) |
| Annual Debt Service-General Obligation Revenue Bonds | (37,650) | (38,082) | (37,766) | (39,673) | (33,867) | (33,901) | (33,211) | (31,899) | (32,165) |
| Airport Improvement Bonds-Prior Lien Bonds | (337) | (344) | (660) | - | - | - | - | - | - |
| Subordinate Revenues | 58,993 | 62,115 | 60,542 | 34,831 | 33,295 | 32,951 | 49,539 | 77,795 | 83,639 |
| Principal and Interest on Subordinate Bonds | - | - | (656) | (2,182) | (4,944) | (16,062) | (15,638) | (20,201) | (25,523) |
| **Must not be Less than Zero** | **58,993** | **62,115** | **59,886** | **32,649** | **28,351** | **16,889** | **33,901** | **57,594** | **58,116** |
| **Requirement Section** | | | | | | | | | |
| Subordinate Revenues | 58,993 | 62,115 | 60,542 | 34,831 | 33,295 | 32,951 | 49,539 | 77,795 | 83,639 |
| Transfer-1 | - | - | 66 | 218 | 494 | 1,606 | 1,564 | 2,020 | 2,552 |
| Total Available | 58,993 | 62,115 | 60,608 | 35,049 | 33,789 | 34,557 | 51,103 | 79,815 | 86,191 |
| Outstanding Subordinate Debt Service Times 110%-2 | - | - | (722) | (2,400) | (5,439) | (17,668) | (17,202) | (22,221) | (28,075) |
| **Must not be Less than Zero** | **58,993** | **62,115** | **59,886** | **32,649** | **28,351** | **16,889** | **33,901** | **57,594** | **58,116** |
| **Pro Forma Coverage on Subordinate Lien Debt** | | | | | | | | | |
| Subordinate Revenues | 58,993 | 62,115 | 60,542 | 34,831 | 33,295 | 32,951 | 49,539 | 77,795 | 83,639 |
| Principal and Interest on Subordinate Bonds-2 | - | - | 656 | 2,182 | 4,944 | 16,062 | 15,638 | 20,201 | 25,523 |
| **Coverage without Transfer** | **0%** | **0%** | **9229%** | **1596%** | **673%** | **205%** | **317%** | **385%** | **328%** |
| **Pro Forma Coverage on Senior and Subordinate Lien Debt** | | | | | | | | | |
| Net Revenues | 97,948 | 108,359 | 124,622 | 121,242 | 127,127 | 123,216 | 137,601 | 160,078 | 164,016 |
| Total Debt Service-Senior and Subordinate Debt | 38,955 | 46,244 | 64,736 | 88,593 | 98,777 | 106,327 | 103,700 | 102,484 | 105,900 |
| **Coverage without Transfer** | **251%** | **234%** | **193%** | **137%** | **129%** | **116%** | **133%** | **156%** | **155%** |

Source: Metropolitan Airports Commission
1. Transfer is limited to no more than 10% of Aggregate Annual Debt Service on Outstanding Subordinate Airport Revnue Bonds.
2. Using Annual Debt Service on Subordinate Airport Revenue Bonds.
3. The Commission first issued Airport Revenue Bonds in 1998.

MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Air Carrier Market Share
Total Revenue Enplaned Passengers [1]
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
Ranked on Year 2006 Results
1997-2006

**Unaudited**

| 2006 Ranking | Air Carrier | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 % of Total [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | NWA | 10,667,527 | 9,813,515 | 11,056,053 | 11,922,408 | 11,938,660 | 11,687,427 | 11,778,861 | 12,560,285 | 12,513,738 | 11,794,709 | 68.66% |
| 2 | Pinnacle [3] | - | - | - | - | 75,105 | 384,480 | 585,202 | 970,567 | 1,187,110 | 1,223,597 | 7.12% |
| 3 | Sun Country | 331,346 | 402,768 | 475,338 | 708,952 | 612,881 | 138,220 | 377,604 | 508,405 | 728,513 | 726,359 | 4.23% |
| 4 | United | 496,159 | 571,032 | 552,721 | 491,166 | 474,913 | 508,578 | 516,389 | 507,724 | 489,899 | 559,618 | 3.26% |
| 5 | American | 363,254 | 425,073 | 384,014 | 365,665 | 369,345 | 463,331 | 410,688 | 347,618 | 462,914 | 476,228 | 2.77% |
| 6 | Mesaba Aviation [3] | 720,975 | 1,010,129 | 1,154,386 | 1,261,971 | 685,843 | 591,396 | 572,557 | 551,521 | 539,388 | 431,668 | 2.51% |
| 7 | America West | 137,246 | 135,066 | 132,456 | 141,591 | 149,416 | 198,307 | 228,452 | 244,176 | 279,965 | 298,126 | 1.74% |
| 8 | Air Tran Airways | | | | | | | | 168,227 | 149,844 | 290,390 | 1.69% |
| 9 | Continental | 138,954 | 158,507 | 162,036 | 193,224 | 198,313 | 253,562 | 235,088 | 222,114 | 240,622 | 250,502 | 1.46% |
| 10 | Delta | 322,649 | 376,461 | 381,779 | 412,283 | 348,369 | 360,029 | 319,889 | 344,078 | 266,959 | 151,669 | 0.88% |
| 11 | Atlantic Southeast | - | - | - | - | - | - | - | - | - | 129,609 | 0.75% |
| 12 | Frontier | | | | | | | | 126,434 | 120,962 | 123,056 | 0.72% |
| 13 | Champion | | | | | | | | | | 113,849 | 0.66% |
| 14 | Ryan Int'l | 32,736 | 93,044 | 131,166 | - | - | - | - | - | - | 32,607 | 0.19% |
| 15 | US Airways | 185,156 | 204,754 | 173,917 | 236,887 | 204,853 | 219,948 | 161,198 | 131,951 | 57,764 | 21,625 | 0.13% |
| | American Trans Air | - | - | - | 179,274 | 153,772 | 198,855 | 217,689 | 238,073 | 207,414 | - | 0.00% |
| | Omni Air Express | - | - | - | 134,894 | 109,446 | 107,222 | - | - | - | - | 0.00% |
| | Trans World [4] | 208,873 | 226,825 | 229,145 | 190,315 | 183,179 | - | - | - | - | - | 0.00% |
| | KLM Royal Dutch [a] | 138,248 | 137,040 | 138,513 | 114,853 | 62,212 | - | - | - | - | - | 0.00% |
| | Other | 712,409 | 617,728 | 682,329 | 530,152 | 452,833 | 653,417 | 698,577 | 676,466 | 739,219 | 554,695 | 3.23% |
| | | 14,455,532 | 14,171,942 | 15,653,853 | 16,883,635 | 16,019,140 | 15,764,772 | 16,102,194 | 17,597,639 | 17,984,311 | 17,178,307 | 100.00% |

[1] The figures may differ from the passenger statistics reported by the Air Carriers to the Airport.
[2] Percentages may not sum to totals due to rounding.
[3] Codeshare with Northwest. Its decrease was picked up by Northwest Airlines (NWA) and NWA-affiliated carrier, Pinnacle Airlines (formerly Express Airlines I), which commenced its operations at MSP International Airport in July 2001.
[a] Codeshare with NWA. No activity at MSP International Airport since 2002.
[4] Filed for bankruptcy protection on January 9, 2001 and merged with American Airlines on December 2, 2001.

Sources: DOT, Schedules T-3, T-100 and 298C T-1; and John F. Brown Company, Inc.

Bankruptcy status

NWA and Delta Air Lines both filed for bankruptcy protection on September 14, 2005.
Mesaba Aviation filed for bankruptcy on October 13, 2005.
ATA filed for bankruptcy on October 26, 2004.
United filed for bankruptcy on December 9, 2002. Expected to emerge from bankruptcy in February 2006.
US Airways filed for bankruptcy on September 12, 2004. Emerged from bankruptcy on September 16, 2005 and merged with America West Airlines on September 27, 2005..

**Employee Counts-1997-2006-[1]**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mpls Employees Retirement Fund | 80 | 64 | 52 | 45 | 40 | 30 | 23 | 21 | 13 | 8 |
| Public Employee Retirement Association | 334 | 380 | 419 | 449 | 505 | 513 | 509 | 521 | 552 | 566 |
| | 414 | 444 | 471 | 494 | 545 | 543 | 532 | 542 | 565 | 574 |

1. Represents employees who were paid on the last payday of the fiscal year and were contributing to a pension plan.

**Metropolitan Area Top 20 Private Employers**

| Company Name | 2006 Number of Employees | Industry |
|---|---|---|
| Target Corporation | 30,555 | General merchandiser: Target |
| Allina Health System | 24,263 | Nonprofit healthcare and hospital services |
| Fairview Health Services | 22,495 | Nonprofit healthcare and hospital services |
| Wells Fargo | 19,196 | Diversified financial services company |
| 3M Corporation | 15,960 | Diversified industrial, consumer products manufacturer |
| US Bancorp | 14,184 | Diversified financial services; bank holding company |
| Northwest Airlines Corporation | 10,996 | Passenger airline; international cargo carrier |
| Honeywell Inc. | 8,690 | Producer of consumer products; engineering services |
| Park Nicollet Health Services | 8,341 | Nonprofit integrated-care system |
| United Parcel Service | 7,664 | Air courier and parcel delivery service |
| ADC Telecommunications | 7,500 | Communications company |
| Ameriprise Financial Inc. | 6,500 | Financial services |
| Supervalu Inc. | 6,486 | Wholesale foods; operating of supermarkets |
| Xcel Energy Inc. | 6,347 | Energy company |
| HealthEast Care System | 6,180 | Multi-unit health care provider |
| West Info. Publishing Group | 6,000 | Business and legal information publishing |
| Best Buy | 6,000 | Retailer of name-brand consumer electronics |
| Carlson Companies Inc. | 5,325 | Owner of travel agencies, |
| CH Robinson | 4,800 | Third-party logistics provider |
| Health Partners | 4,662 | Non-profit healthcare and hospital services |

Sources: Minnesota Department of Employment and Economic Development (www.mnpro.com) website, accessed March 7, 2007; Northwest Airlines employment figure from Northwest Airlines-Bldgs A-J as of 2-15-07

## POPULATION OF MINNEAPOLIS-ST. PAUL-UNAUDITED METROPOLITAN STATISTICAL AREA 1997-2006 (thousands)

| YEAR | TOTAL POPULATION |
|---|---|
| 1997 | 2,792 |
| 1998 | 2,831 |
| 1999 | 2,872 |
| 2000 | 2,969 |
| 2001-[1] | 3,023 |
| 2002-[1] | 3,054 |
| 2003-[1] | 3,083 |
| 2004-[1] | 3,113 |
| 2005-[1] | 3,143 |
| 2006 | N/A |

Source: U.S. Department of Commerce, Bureau of the Census.
N/A=Not Available
1-Estimated

## SCHEDULE OF AIRLINE RATES AND CHARGES-UNAUDITED 1997-2006

| Year | Landing Fee/ 1000 lbs. | Ramp Fees/ Lineal Foot | Common Use/ Square Foot | Finished/ Square Foot | Finished Janitored/ Square Foot | Unfinished/ Square Foot |
|---|---|---|---|---|---|---|
| 1997 | 1.02 | 462.64 | 26.64 | 26.64 | 30.82 | 26.64 |
| 1998 | 1.18 | 517.88 | 26.34 | 26.34 | 31.33 | 26.34 |
| 1999 | 1.10 | 516.00 | 36.32 | 36.32 | 40.58 | 36.32 |
| 2000 | 1.40 | 588.74 | 38.48 | 38.48 | 42.74 | 38.48 |
| 2001 | 1.50 | 581.36 | 41.88 | 41.88 | 47.34 | 41.88 |
| 2002 | 1.59 | 453.95 | 38.06 | 38.06 | 42.27 | 38.06 |
| 2003 | 1.55 | 460.68 | 39.87 | 39.87 | 45.10 | 39.87 |
| 2004 | 1.40 | 457.30 | 43.54 | 43.54 | 49.35 | 43.54 |
| 2005 | 1.71 | 498.26 | 48.20 | 48.20 | 53.85 | 48.20 |
| 2006 | 1.65 | 429.73 | 47.39 | 47.39 | 53.29 | 47.39 |

Source: Compensatory Rental Report

In 1999 and 2006, the schedule of airline rates and charges reflects a new/amended Airline Agreement calculation.

**MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION**



Enplaned Passenger Trends
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

| | Originating | | Connecting | | | % Change |
|---|---|---|---|---|---|---|
| | Enplaned | % of | Enplaned | % of | | from Previous |
| Year | Passengers (1) | Total | Passengers (1) | Total | Total | Year |
| 1997 | 7,107,727 | 49.2 | 7,347,805 | 50.8 | 14,455,532 | 7.5 |
| 1998 | 7,152,712 | 50.5 | 7,019,230 | 49.5 | 14,171,942 | -2.0 |
| 1999 | 7,737,926 | 49.5 | 7,904,750 | 50.5 | 15,642,676 | 10.4 |
| 2000 | 8,388,905 | 49.6 | 8,532,690 | 50.4 | 16,921,595 | 8.2 |
| 2001[1] | 7,992,507 | 47.6 | 8,798,475 | 52.4 | 16,790,982 | -0.8 |
| 2002 | 7,503,690 | 46.0 | 8,808,680 | 54.0 | 16,312,370 | -2.9 |
| 2003 | 7,533,434 | 45.5 | 9,023,564 | 54.5 | 16,556,998 | 1.5 |
| 2004 | 7,954,133 | 45.2 | 9,643,506 | 54.8 | 17,597,639 | 6.3 |
| 2005[2] | 8,193,652 | 45.6 | 9,790,659 | 54.4 | 17,984,311 | 2.2 |
| 2006 | 10,066,488 | 58.6 | 7,111,819 | 41.4 | 17,178,307 | -4.5 |

Average Annual Compound Growth

| | | | |
|---|---|---|---|
| 1997-2006 | 3.54% | -0.33% | 1.74% |

Sources: DOT, Schedules T-100 and T-3, DOT, Air Passenger Origin - Destination Survey, reconciled to Schedules T-100 and 298C T-1; John F. Brown Company, Inc.

Notes: (1) Includes passengers who connected to domestic flights at MSP but who were bound for international destinations via other U.S. gateway airports.
Includes domestic-to domestic, domestic-to-international, and international-to domestic connections.
The above figures may differ from the passenger statistics reported by the airlines to the MSP.

The decline in 1998 is the result of the NWA strike in late August through early September 1998.

[1] 2001 charter enplanement figure was revised downward; as a result, the year-end total is somewhat different from the figure published previously.
[2] Figures are actual, but the split for connecting is based on the historical trend.

Air Carrier Market Share
Total Enplaned Cargo (in tons)
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

| 2006 Ranking | Air Carrier | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 % of Total [1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Federal Express | 45,127.8 | 50,408.9 | 49,393.4 | 50,119.8 | 49,222.6 | 71,564.1 | 87,380.5 | 84,255.1 | 77,531.7 | 74,311.2 | 50.0% |
| 2 | UPS | 27,141.5 | 25,572.4 | 25,378.2 | 26,058.0 | 24,357.7 | 26,373.7 | 26,038.9 | 29,408.3 | 30,884.8 | 31,048.6 | 20.9% |
| 3 | Northwest | 89,255.9 | 65,323.0 | 71,038.9 | 74,331.9 | 67,899.9 | 46,685.1 | 29,275.9 | 18,350.1 | 21,202.3 | 20,047.3 | 13.5% |
| 4 | DHL | 2,544.1 | 2,649.1 | 1,731.6 | 2,430.7 | 2,014.3 | 2,446.2 | 6,117.7 | 4,507.1 | 4,161.6 | 7,654.9 | 5.2% |
| 5 | ATI/BAX Global | - | - | - | - | - | - | - | 4,179.8 | 5,263.9 | 4,994.2 | 3.4% |
| 6 | Kitty Hawk/AIA* | 3,338.9 | 3,782.8 | 173.9 | 1,668.6 | 3,585.6 | 2,265.1 | 2,659.5 | 2,697.4 | 3,665.6 | 2,730.8 | 1.8% |
| 7 | Sun Country | - | - | - | 3,014.0 | 1,692.6 | 134.1 | 465.6 | 415.4 | 2,199.6 | 2,372.9 | 1.6% |
| 8 | Emery Worldwide [3] | 14,244.8 | 26,701.2 | 29,792.5 | 26,133.6 | 17,662.6 | 4,913.2 | 4,886.9 | 4,358.2 | 4,196.5 | 1,757.2 | 1.2% |
| 9 | American | 3,178.0 | 2,906.9 | 3,233.6 | 3,198.2 | 1,518.3 | 1,150.6 | 997.6 | 1,543.9 | 934.9 | 985.1 | 0.7% |
| 10 | Other | 3,883.0 | 4,812.9 | 4,715.8 | 6,053.3 | 4,271.8 | 5,693.3 | 5,956.0 | 1,413.2 | 1,499.0 | 640.0 | 0.4% |
| 11 | United | 5,208.7 | 5,803.1 | 3,285.4 | 2,940.0 | 1,652.8 | 946.9 | 1,198.0 | 1,282.2 | 1,209.1 | 571.5 | 0.4% |
| 12 | Continental | 1,812.9 | 1,824.3 | 1,640.8 | 1,871.1 | 1,512.1 | 677.4 | 469.6 | 662.0 | 373.4 | 431.0 | 0.3% |
| 13 | America West | | | | | | | | | | 411.1 | 0.3% |
| 14 | Delta | 2,808.2 | 2,261.6 | 1,420.7 | 820.4 | 956.4 | 1,296.9 | 1,186.8 | 1,187.3 | 471.4 | 332.6 | 0.2% |
| 15 | Airborne | 7,069.6 | 7,026.0 | 6,651.1 | 6,428.9 | 7,619.4 | 7,427.9 | 7,168.2 | 6,810.0 | 4,915.5 | 114.8 | 0.1% |
| 16 | US Airways | 2,076.3 | 1,432.0 | 1,139.0 | 1,433.8 | 1,643.3 | 1,288.5 | 781.1 | 418.7 | 108.1 | 108.1 | 0.1% |
| 17 | KLM Royal Dutch | 3,267.4 | 2,582.5 | 2,707.3 | 2,455.9 | 1,029.9 | - | - | 480.0 | - | - | 0.0% |
| 18 | Trans World [2] | 1,416.7 | 1,430.3 | 1,406.7 | 1,365.3 | 616.2 | - | - | - | - | - | 0.0% |
| | | 212,373.8 | 204,517.1 | 203,708.9 | 210,323.6 | 187,255.5 | 172,863.2 | 174,582.4 | 161,968.7 | 158,617.5 | 148,511.3 | 100.0% |

*American International Airways.

[1] Percentages may not sum to totals due to rounding.
[2] Filed for bankruptcy protection on January 9, 2001 and merged with American Airlines on December 2, 2001.
[3] New name: UPS Supply Chain Solutions.

Source: Metropolitan Airports Commission.

Enplaned Cargo Trends
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

(Freight and mail in thousands of tons)

| Type of Carrier | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | AAG 1997-06 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Passenger | 111.1 | 85.7 | 89.3 | 93.3 | 79.8 | 53.3 | 35.8 | 25.4 | 28.0 | 25.9 | -13.5% |
| All Cargo | 101.3 | 118.9 | 114.4 | 117.0 | 107.4 | 119.6 | 138.8 | 136.6 | 130.6 | 132.7 | 2.7% |
| Total | 212.37 | 204.52 | 203.71 | 210.32 | 187.26 | 172.86 | 174.58 | 161.97 | 158.62 | 158.62 | -2.5% |

Source: Metropolitan Airports Commission.
Note: AAG=Average annual compound growth

Trends in Enplaned Cargo by Type of Carrier
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

(Freight and mail in tons)

| | Passenger Carriers | | All Cargo Carriers | | |
|---|---|---|---|---|---|
| Year | Tons | % of Total | Tons | % of Total | Total Cargo |
| 1997 | 111,068 | 52.3 | 101,305 | 47.7 | 212,373 |
| 1998 | 85,666 | 41.9 | 118,851 | 58.1 | 204,517 |
| 1999 | 89,289 | 43.8 | 114,420 | 56.2 | 203,709 |
| 2000 | 93,345 | 44.4 | 116,979 | 55.6 | 210,324 |
| 2001 | 79,832 | 42.6 | 107,423 | 57.4 | 187,256 |
| 2002 | 53,292 | 30.8 | 119,571 | 69.2 | 172,863 |
| 2003 | 35,754 | 20.5 | 138,829 | 79.5 | 174,582 |
| 2004 | 25,353 | 15.7 | 136,616 | 84.3 | 161,969 |
| 2005 | 27,992 | 17.6 | 130,625 | 82.4 | 158,618 |
| 2006 | 25,900 | 17.4 | 132,717 | 89.4 | 148,511 |
| Average Annual Compound Growth | | | | | |
| 1997-2006 | -13.5% | | 2.7% | | -3.5% |

Source: Metropolitan Airports Commission.

**MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION**

Statistical Section

Trends in Enplaned Cargo by Freight & Mail
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

(Freight and mail in tons)

| | Freight/Express | | Mail | | |
|---|---|---|---|---|---|
| Year | Tons | % of Total | Tons | % of Total | Total Cargo |
| 1997 | 138,276 | 65.1 | 74,098 | 34.9 | 212,374 |
| 1998 | 130,110 | 63.6 | 74,407 | 36.4 | 204,517 |
| 1999 | 132,840 | 65.2 | 70,869 | 34.8 | 203,709 |
| 2000 | 140,760 | 66.9 | 69,563 | 33.1 | 210,324 |
| 2001 | 123,406 | 65.9 | 63,849 | 34.1 | 187,256 |
| 2002 | 138,515 | 80.1 | 34,348 | 19.9 | 172,863 |
| 2003 | 153,630 | 88.0 | 20,952 | 12.0 | 174,582 |
| 2004 | 156,795 | 96.8 | 5,174 | 3.2 | 161,969 |
| 2005 | 153,548 | 96.8 | 5,070 | 3.2 | 158,618 |
| 2006 | 143,753 | 96.8 | 4,758 | 3.2 | 148,511 |
| Average Annual Compound Growth | | | | | |
| 1997-2006 | 0.4% | | -24.0% | | -3.5% |

Source: Metropolitan Airports Commission.

Historical Aircraft Operations-[2]
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

| Year | Air Carrier Operations | Commuter Operations | Cargo Operations | Total Commercial Operations [1] | Percent Commercial Operations [1] | General Aviation Operations | Military Operations | Total Operations |
|---|---|---|---|---|---|---|---|---|
| 1997 | 306,391 | 102,038 | 15,011 | 423,440 | 86.19% | 64,209 | 3,624 | 491,273 |
| 1998 | 295,468 | 90,421 | 15,323 | 401,212 | 83.06% | 79,757 | 2,044 | 483,013 |
| 1999 | 331,519 | 109,017 | 17,271 | 457,807 | 89.69% | 49,256 | 3,358 | 510,421 |
| 2000 | 355,269 | 89,105 | 18,247 | 462,621 | 88.43% | 58,076 | 2,473 | 523,170 |
| 2001 | 353,661 | 81,661 | 17,077 | 452,399 | 90.21% | 45,943 | 3,180 | 501,522 |
| 2002 | 350,625 | 95,248 | 14,974 | 460,847 | 90.78% | 44,279 | 2,543 | 507,669 |
| 2003 | 349,709 | 104,931 | 16,579 | 471,219 | 92.27% | 37,594 | 1,856 | 510,669 |
| 2004 | 347,605 | 135,785 | 16,709 | 500,099 | 92.42% | 39,018 | 1,976 | 541,093 |
| 2005 | 329,956 | 146,400 | 17,182 | 493,538 | 92.73% | 36,472 | 2,230 | 532,240 |
| 2006 | 285,211 | 134,603 | 16,355 | 436,169 | 91.70% | 37,459 | 2,040 | 475,668 |

[1] Commercial Operations equal Air Carrier, Commuter, and Cargo Operations.
Source: Metropolitan Airports Commission
[2] Aircraft operations represent the total number of takeoffs and landings at the airport.

**MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION**

## Statistical Section

Trends in Aircraft Landed Weight of Signatory Airlines
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
1997-2006

**Unaudited**

Type of Air Carrier

(In thousands of pounds)

| Year | Passengers | All Cargo | Total Landed Weight |
|---|---|---|---|
| 1997 | 22,311,214 | 740,397 | 23,051,611 |
| 1998[1] | 21,900,417 | 703,245 | 22,603,663 |
| 1999 | 25,030,878 | 726,275 | 25,757,153 |
| 2000 | 26,148,148 | 996,062 | 27,144,211 |
| 2001 | 24,997,277 | 1,013,024 | 26,010,301 |
| 2002 | 23,976,903 | 1,142,126 | 25,119,029 |
| 2003 | 24,099,071 | 1,224,669 | 25,323,740 |
| 2004 | 25,532,738 | 1,030,214 | 26,562,952 |
| 2005 | 24,663,179 | 1,217,140 | 25,880,319 |
| 2006-[2] | 22,266,525 | 1,174,305 | 23,440,830 |

[1] 1998 Passenger category is revised to reflect the additional 60,000 lbs. for TWA and 539,452,900 lbs. for RJ's flown by Mesaba Aviation for NWA.

[2] In 2006, NWA's activity represented approximately 66.3% of the total landed weight at the Airport.

Source: Metropolitan Airports Commission

**AIRLINE COST PER ENPLANED PASSENGER-Unaudited**
**1997-2006**

| YEAR | TOTAL COST---1 | ENPLANED PASSENGERS---2 | AIRLINE COST PER ENPLANED PASSENGER |
|---|---|---|---|
| 1997 | $ 47,864 | 14,336 | $ 3.34 |
| 1998 | 53,001 | 14,620 | 3.63 |
| 1999 | 60,559 | 16,457 | 3.68 |
| 2000 | 72,455 | 17,527 | 4.13 |
| 2001 | 77,209 | 16,027 | 4.82 |
| 2002 | 76,983 | 15,765 | 4.88 |
| 2003-3 | 66,741 | 16,102 | 4.15 |
| 2004 | 80,053 | 17,598 | 4.55 |
| 2005 | 92,818 | 17,984 | 5.16 |
| 2006-4 | 82,242 | 17,178 | 4.79 |

1. Cost is defined as airline payments made to the Commission for expenses incurred in the airfield, terminal building and charter terminal.
2. The figures may differ from the passenger statistics reported by the air carriers to the DOT.
3. Includes the one-time rent rebate of $13 million.
4. In 2006, the airline cost per enplaned passenger reflects an amended airline agreement calculation.

Source: Metropolitan Airports Commission

**ACTIVITY STATISTICS FOR MINNEAPOLIS/ST. PAUL INTERNATIONAL AIRPORT 1997-2006**
**(Unaudited)**

| YEAR | TOTAL PASSENGERS---1 | AIRCRAFT OPERATIONS --- 2 | MAIL AND CARGO VOLUMES (METRIC TONS) |
|---|---|---|---|
| 1997 | 28,766,355 | 491,273 | 379,117 |
| 1998 | 28,982,638 | 483,013 | 366,347 |
| 1999 | 33,137,448 | 510,421 | 366,465 |
| 2000 | 35,065,688 | 523,170 | 369,888 |
| 2001 | 32,186,486 | 501,522 | 340,027 |
| 2002 | 31,527,760 | 507,669 | 320,148 |
| 2003 | 32,306,884 | 512,588 | 317,230 |
| 2004 | 35,786,634 | 541,093 | 300,969 |
| 2005 | 36,678,868 | 532,240 | 283,450 |
| 2006 | 34,580,769 | 475,668 | 275,451 |

1. Passengers include on-line connecting. (On-line connecting passengers are passengers that change to another flight on the same carrier.)
2. An aircraft operation represents the total number of takeoffs and landings at the airport.

Source: Metropolitan Airports Commission

## AIRCRAFT OPERATIONS[1] AT THE RELIEVER AIRPORTS METROPOLITAN AREA 1997-2006 (Unaudited)

| YEAR | ST. PAUL DOWNTOWN AIRPORT | FLYING CLOUD AIRPORT | CRYSTAL AIRPORT | ANOKA COUNTY/ BLAINE AIRPORT | LAKE ELMO AIRPORT | AIRLAKE AIRPORT |
|---|---|---|---|---|---|---|
| **1997** | 136,968 | 198,199 | 175,728 | 143,083 | 65,664 | 72,382 |
| **1998** | 158,785 | 210,907 | 179,186 | 143,950 | 69,604 | 76,725 |
| **1999** | 158,835 | 192,737 | 178,342 | 150,014 | 70,996 | 76,725 |
| **2000** | 157,788 | 186,078 | 176,554 | 156,546 | 70,687 | 76,418 |
| **2001** | 142,794 | 185,593 | 156,801 | 136,892 | 64,962 | 70,229 |
| **2002** | 171,628 | 176,408 | 127,095 | 138,935 | 64,529 | 69,176 |
| **2003** | 131,794 | 155,837 | 98,612 | 132,144 | 54,205 | 58,108 |
| **2004** | 127,478 | 163,196 | 75,023 | 109,853 | 49,855 | 53,309 |
| **2005** | 129,814 | 157,710 | 72,205 | 101,267 | 48,329 | 51,678 |
| **2006** | 125,669 | 144,178 | 65,528 | 92,947 | 44,903 | 48,014 |

**1. Aircraft operations represents the total number of takeoffs and landings at the airport.**

**Source: Metropolitan Airports Commission**

## OPERATING RATIO (IN THOUSANDS OF DOLLARS)-1

**1997-2006** **(Unaudited)**

| YEAR | OPERATING EXPENSES-2 | OPERATING REVENUES-3 | OPERATING RATIO |
|---|---|---|---|
| 1997 | $ 60,633 | $ 106,061 | 57% |
| 1998 | 63,853 | 116,948 | 55% |
| 1999 | 70,917 | 137,984 | 51% |
| 2000 | 81,022 | 163,414 | 50% |
| 2001 | 92,333 | 171,795 | 54% |
| 2002 | 84,325 | 170,611 | 49% |
| 2003 | 96,841 | 168,182 | 58% |
| 2004 | 101,796 | 196,141 | 52% |
| 2005 | 113,225 | 228,476 | 50% |
| 2006 | 111,634 | 224,127 | 50% |

1. Operating ratio is operating expenses net of depreciation divided by total operating revenues.
2. Operating expenses exclude depreciation.
3. In 1996, Operating Lease Settlement is not included.

Source: Metropolitan Airports Commission

# AIR CARRIERS SERVING THE AIRPORT[a]
# MINNEAPOLIS-ST. PAUL INTERNATIONAL AIRPORT
# (As of December 31, 2006) (Unaudited)

## U.S. – FLAG CARRIERS

### SCHEDULED SERVICES

| | | |
|---|---|---|
| AirTran* | Continental* | Northwest*[9] |
| Republic Airlines* [5] | Delta* [4] | Pinnacle* [6] |
| American* | Frontier* | Midwest Airlines* |
| Air Wisconsin[1] | Mesa* [5] | Sky West *[1] |
| Comair*[2,3] | Mesaba* [6] | United* [7] |
| Atlantic Southeast*[3] | Chautauqua* | US Airways* [5] |
| | Sun Country* | PSA* [5] |
| | | Shuttle America[1] |

### NON-SCHEDULED (CHARTER) SERVICES

| | | |
|---|---|---|
| Champion Air* | Ryan International* | Omni Air International* |
| ATA* | | |

### ALL-CARGO SERVICES

| | | |
|---|---|---|
| ATI*[11] | Bemidji * | FedEx* |
| ABX Air*[10] | Mountain Air Cargo | UPS* |
| Kitty Hawk | A Star Air Cargo*[10] | |

### FOREIGN-FLAG CARRIERS

| | | |
|---|---|---|
| Air Canada* [8] | Icelandair* | KLM* |

*Denotes those Air Carriers that are Signatory Airlines to the Airline Lease Agreements.
[a] Excludes carriers reporting fewer than 1,000 enplaned passengers.
[1] Flies for United Airlines.
[2] Filed for bankruptcy on 9/14/05 along with its parent company Delta Air Lines.
[3] Codeshare with Delta Air Lines.
[4] Filed for bankruptcy protection on 9/14/05.
[5] Codeshare with US Airways.
[6] Code-share with Northwest Airlines. Filed for bankruptcy protection on October 13, 2005.
[7] United filed for bankruptcy on December 9, 2002. Expected to emerge from bankruptcy in February, 2006.
[8] Air Canada filed for bankruptcy protection on April 1, 2003. Emerged from bankruptcy on September 30, 2004 after 18 months of protection.
[9] Filed for bankruptcy on 9/14/05.
[10] Provides air service to DHL.
[11] Provides air service to BAX Global.

Sources: Metropolitan Airports Commission; DOT, Schedule T-3.

**INSURANCE COVERAGE (Unaudited)**

**MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION**

**Year ended December 31, 2006**

| Insurer | Expiration | Coverage | Policy Limits (Thousands of Dollars) |
|---|---|---|---|
| ACE/INA[1] | 1-1-08 | General aviation liability including personal injury | $500,000 |
| Driver Alliant | 7-1-07 | Blanket fire & extended coverage on building and contents. Boiler, machinery | $1,000,000 |
| Self-Insured[2] | Continuous | Statutory workers' compensation | $100/500/100 |
| | | Workers' Compensation Reinsurance Association | $400 |
| Travelers Casualty and Surety Company of America | 6-1-07 | Comprehensive Crime Employee Bond | $1,000 |
| Minnesota Risk Management Fund | 7-1-07 | Auto Liability (licensed vehicles), physical damage (all vehicles) hired automobiles, valet parking, inland marine and garage keepers | MN Tort Cap Limits |
| Minnesota Risk Management Fund | 7-1-07 | Non-Aviation General Liability | MN Total Cap Limits |
| Evanston | 7-1-07 | Excess Auto Liability | Excess $300 to $1,000 |

[1]Does not include a "War Risk Endorsement."
[2]Funded from current operating revenues of the Commission.
Property, Workers' Compensation Reinsurance Association and Excess Auto Liability does include a "Terrorism Endorsement"