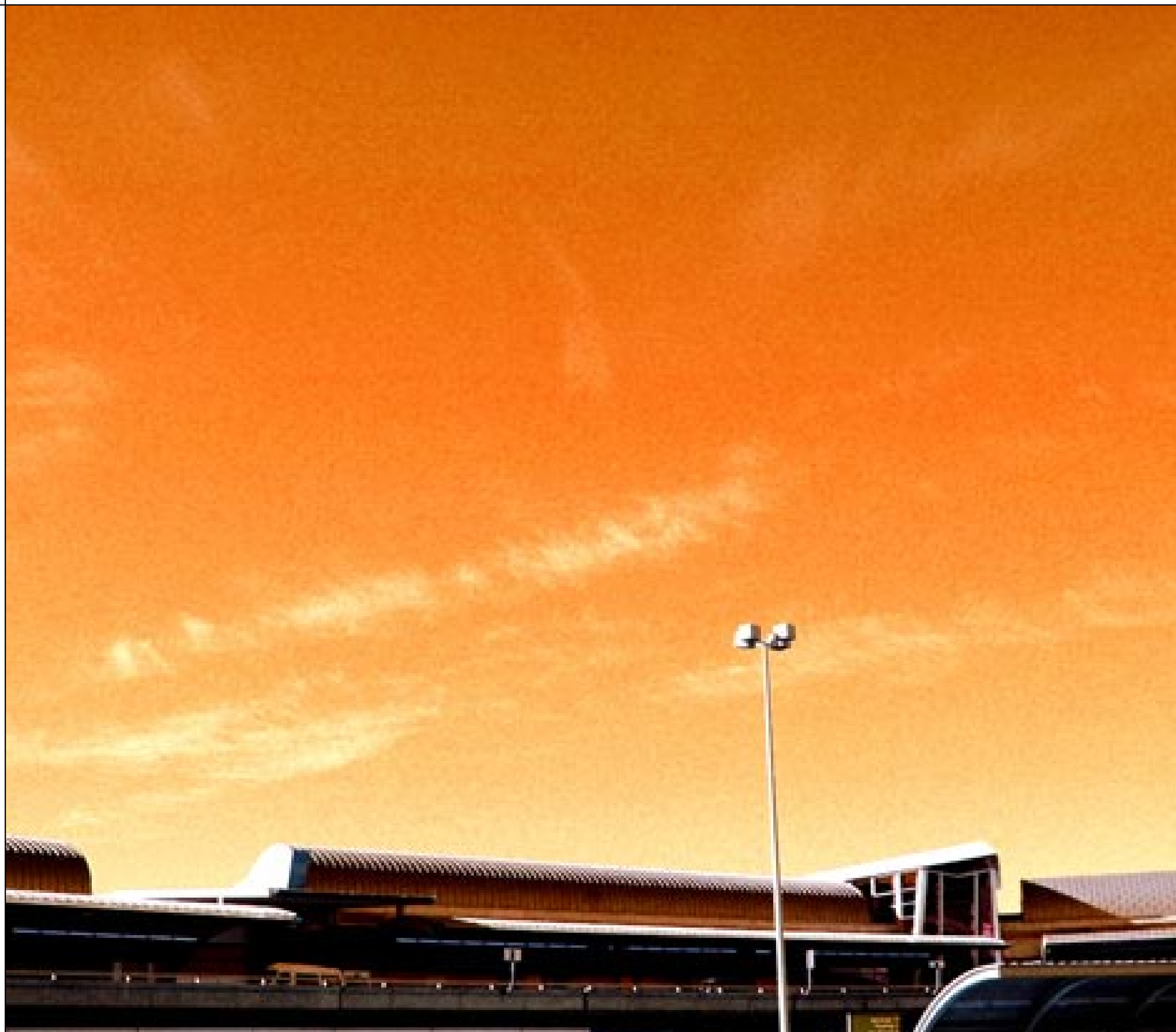

TUCSON AIRPORT AUTHORITY

2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended September 30, 2004, Tucson, Arizona

2004 TUCSON AIRPORT AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Prepared by the Finance Department

Year Ended September 30, 2004

Tucson, Arizona

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Mission Statement

The development and promotion of transportation and commerce by air in the State of Arizona and all parts of the Western Hemisphere in any way related to air transportation and commerce in Arizona.

The promotion, development and encouragement of all forms of air transportation into and out of the City of Tucson and other communities in southern Arizona.

The operation and maintenance of airports, air depots, landing fields, hangars, beacons, and all kind and character of devices incidental to the operation, development and maintenance of aircraft fields and strips for landing and operation facilities in southern Arizona.

The advocacy and support of all projects, activities and legislation for the benefit of commerce by air.

The leasing, purchasing, holding, operation, possession and enjoyment in fee simple or otherwise of any personal or real property, and the sale, lease, release, conveyance, reconveyance, mortgaging, hypothecating or disposal of any such personal or real property.

This corporation is one where pecuniary profit is not an objective and all profits and gains of this corporation shall be held and used solely for the development, promotion and improvement of air commerce.*

* *Articles of Incorporation of Tucson Airport Authority, Inc., March 25, 1948*

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Table of Contents

INTRODUCTION SECTION

FINANCIAL SECTION

STATISTICAL SECTION

TUCSON AIRPORT AUTHORITY

INTRO

March 21, 2005

Board of Directors
Tucson Airport Authority
7005 S. Plumer Ave.
Tucson, Arizona 85706

Ladies and Gentlemen:

It is our pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Tucson Airport Authority for the fiscal year ended September 30, 2004. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Airport. To the best of our knowledge and belief the enclosed information is accurate and complete in all material respects and reported in a manner designed to present fairly the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles.

The CAFR is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter, the Authority's organizational chart, a list of the Airport's tenants and a copy of the Certificate of Achievement for Excellence in Financial Reporting awarded to the Authority by the Government Finance Officers Association of the United States and Canada for the fiscal year ended September 30, 2003. The financial section includes the independent auditor's report, Management's Discussion and Analysis, the Authority's financial statements and required supplementary information. The statistical section, which is unaudited, includes selected financial and operational information presented on a multi-year basis.

Generally accepted accounting principles require that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors in the financial section of the CAFR.

Tucson Airport Authority

The Tucson Airport Authority (TAA) was established April 12, 1948, as a civic, non-profit corporation as provided for in Arizona law. Its stated purposes are to develop and promote air transportation and commerce in the State of Arizona (State) and to operate and maintain airports with particular interest in the development, promotion, and operation of air transport facilities adjacent to the City of Tucson (City) and in Pima County (County), Arizona.

TAA leased the property making up the Tucson International Airport (TIA) in 1948. That action effectively declared it to be a validly organized and existing body politic and corporation, performing an essential governmental function as an instrumentality of the City and the State. Residents of the County are eligible for membership in TAA. TAA had 110 active members as of September 30, 2004. To fill vacancies, men and women of TAA elect new members who hold these positions for life or until they cease to reside in the County.

A Board of Directors (Board) consisting of nine voting persons governs TAA. The membership of the Authority elects directors annually for three-year staggered terms. Directors may serve a maximum of two successive terms. Directors serve as volunteers and do not receive a salary or other compensation for their services. By Board resolution, actual expenses incurred while rendering services for the benefit of TAA are eligible for reimbursement.

The Board appoints the President/CEO (Chief Executive Officer) who serves at its pleasure. The President/CEO appoints various senior management and staff positions that report directly to her. In FY 2004, positions reporting to the President/CEO were the Vice President Finance and Administration; Vice President, Operations; Vice President, Planning and Development; Director of Information/Government Affairs; and, Executive Assistant to the President/CEO. The organizational chart that follows this letter reflects the current operational structure.

Arizona law authorizes the City to acquire, own, control, equip, improve, maintain, operate and regulate airports, and to enter into agreements with corporations engaged in the air transportation industry for the operation and maintenance of airports.

The TAA airport system consists of Tucson International Airport (TIA) and Ryan Airfield (Ryan). TIA is a full commercial service airport serving the Tucson metropolitan area, Southern Arizona, and northern Sonora Mexico. Ryan, a general aviation airport, serves as a reliever airport for TIA.

TIA encompasses approximately 7,938 acres of land. It is located eight miles south of the City's central business district. There are approximately 130 separate buildings on the airport property providing approximately 2.5 million square feet of floor space. TAA progressively looks for opportunities to protect its boundaries and expand, and purchases additional contiguous property as it becomes available.

On October 14, 1948, the City and the Authority entered into a 25-year lease for TIA. A March 15, 1971 amendment extended the term of the lease to October 14, 2023 and provided TAA with an option to extend the term of the lease to October 14, 2048. TAA exercised this extension option in 1986.

The airport lease obligates TAA to make payments to the City, which are calculated by taking gross operating revenues and deducting operating expenses and certain other requirements. The Arizona Superior Court (Court), in and for the County, approved the validity of the airport lease. The Court ruled that, in calculating rents due the City, TAA may deduct a sum equal to the total amount required to pay all of its outstanding obligations, regardless of what amount may be due in any year. TAA has not been required to make any payment to the City under this formula and does not expect an obligation to do so while its revenue bonds are outstanding.

Ryan, located 12 miles southwest of downtown Tucson, encompasses approximately 1,804 acres of land. The airfield accommodates a wide variety of general aviation activity. The Federal Aviation Administration (FAA) classifies it as a general aviation reliever airport. For Ryan, TAA holds a separate lease from the City that expires in 2053.

Economic Conditions and Outlook

Tucson Airport Authority

TAA focuses its strategic air service development effort on achievable goals that are consistent with the dynamics of the airline industry, and is therefore subject to both competition with other airports and the availability of airline resources. Its competitive position is strengthened economically through its relationships with key air service stakeholders, which include the City of Tucson, the Metropolitan Tucson Convention and Visitors Bureau, and the Greater Tucson Economic Council.

The Authority's primary objectives are to increase nonstop service to the central and eastern U.S. through continued placement of new carriers; expand the services of incumbent airlines; and to restore capacity along key routes that were downgraded to regional jets after 9/11.

The Airline Industry

In late 2003, airline industry analysts forecast that the rate of domestic airline industry recovery would accelerate in 2004 with most legacy carriers posting profits or minor losses. Michael Boyd, President of the Boyd Group/ASRC commented:

"By the end of this year (2004), we're going to have a very healthy and very vibrant airline industry… the empires are striking back. The mainline carriers are getting their costs down. They're trying to leverage their strengths and brand loyalty. I think by the end of the year these so called dinosaurs will no longer be dinosaurs and everyone will have to adjust to that."

Delta Air Lines CEO Jerry Grinstein quotes an old Chinese proverb to explain the challenges facing the major U.S. airlines:

"Unless we change our direction, we are likely to end up where we are headed."

U.S. Department of Transportation statistics indicate that domestic airline traffic rose 7.5% during the first nine months of 2004 compared to the same period last year.

"Traffic is coming back. But the sad thing is, yields and revenue per seat seem to be weaker than last year," said airline analyst Ray Neidl of Calyon Securities.

Most airlines have changed direction to avoid repeating the losses caused by a decade of overgrowth, inefficiency, and the growth of low-cost competition. Continued measures designed to replicate the economies of low-cost competitors brought new rounds of labor disputes, wage and benefit reductions. While dealing with difficult labor issues, capacity adjustments, resource re-allocation, and restructuring networks, legacy airlines created opportunities for both established and emerging low-cost carriers to increase penetration of lucrative major markets. With 25% of total domestic capacity, low-cost carriers now influence pricing in approximately 70% of the domestic commercial air transportation system. The resulting loss of pricing power for legacy carriers weakened earnings as the unexpected rise in fuel prices emerged. 2004 will end as another year of multi-billion dollar losses for the industry.

With pricing and customer service now driving the industry, innovation accompanies cost-cutting strategies as a means to attract and maintain customers. Online bookings, paperless ticketing and automated check-in kiosks have cut down on labor and space at terminals. Self-service baggage check-in stations using automated check-in technology and ATM-like terminals are under development. Radio Frequency ID (RFID) tags will make tracking and handling of baggage more efficient and reliable. Retrofitting aircraft with blended winglets and ferrying fuel from low to high cost markets allows airlines to offset some of the high cost of fuel. Carriers with complicated fare structures are simplifying fares, cutting out Saturday night stay-over rules and reducing prices on walk-up and first-class fares.

United Airlines enters its third year of bankruptcy facing stiff competition from Frontier for market share at its Denver hub. U.S. Airways (also operating in bankruptcy) and Delta Airlines (which narrowly avoided bankruptcy in 2004) announced cessation of hub operations at the Pittsburgh and Dallas-Fort Worth airports, respectively. As a result of Delta's move, Southwest Airlines, which did not contest the Wright Amendment when originally proposed, is now aggressively pursuing its repeal in order to further develop its operation at Dallas Love Field. ATA Airlines' (American Trans Air) bankruptcy in late 2004 left valuable gate positions at Chicago-Midway available to several interested bidders. Many of these gate positions have already been acquired by Southwest Airlines. Rocked by the increase in fuel costs, startup low-fare/high frequency regional carrier Independence Air (formerly Atlantic Coast Airlines), deferred delivery of new Airbus A-319 and A-320 aircraft until 2007 and may be headed for Chapter 11 as soon as the first quarter of CY 2005. Despite these and other events, Tucson remained relatively clear of the fallout.

Tucson

The fourteen airlines that provide service to Tucson include major network carriers, their wholly owned subsidiaries, and contract regional carriers. As no single carrier holds a dominant market position, competition remains robust along Tucson's top origin and destination routes that are served by both network and point-to-point carriers. Incremental increases in frequency along key routes and moderate relief in traditionally high fares stimulated passenger enplanement growth in 2004. A sustained increase in the price of fuel may have helped attract more passengers to TIA as the cost of accessing Phoenix Sky Harbor by personal vehicle nearly doubled. The net result in FY 2004 was an 8.3% increase in seat occupancy over the preceding twelve months.

Outsourcing service at medium and small markets to small jet providers on a "fee per departure" basis continues to be a means by which airlines can maintain market presence and contain costs. On average, there are now approximately 30 fewer seats per commercial departure at TIA than prior to 9/11. Between 2002 and early 2004 approximately 40% of Tucson's daily arrivals and departures had been downsized from mainline to regional jets with the majority of these in the 50 seat configuration. Average daily commercial operations gained momentum at TIA throughout 2004. A noticeable trend is toward larger regional jets with 70 to 80 seat capacity along key routes. Post 9/11 reductions in landed weight due to the increased use of RJs have been somewhat offset by increases in frequency.

Population and Employment

Tucson International Airport (TIA) is the principal air carrier airport serving metropolitan Tucson, Southern Arizona and northern Sonora Mexico. TAA considers Pima County as its primary airport service area. The U.S. Bureau of the Census defines Pima County as the Tucson Metropolitan Statistical Area (MSA). The County covers an area of approximately 9,240 square miles and had an estimated population of 931,210 in 2004 – an increase of 2.2% over 2003, for a total of 4.6% during the past two years. The Tucson metro area consists of about 495 square miles that contain more than 95% of the County's population. The metro area is the origin or destination of most airport users.

According to the University of Arizona's *"Economic Outlook for 2005-2006"* (Economic Outlook), *"Two-thousand and four will go into the record books as the best year for business conditions in a decade. It may not have felt like it at times, given gasoline prices, hurricanes in the southeastern U.S., the distraction of a divisive presidential campaign, and the ever-present threat of terrorism. In fact, both consumer and business confidence trended downward nationwide during 2004.*

The economy grew robustly, however, with real GDP expanding by a preliminary 4.4% during 2004. Consumers spent freely, housing markets soared to record highs, interest rates remained near recent lows, inflation remained in check, corporate profits soured to all-time highs relative to GDP, and state revenue collections surged across the country. All things considered, it just doesn't get much better."

At the end of October 2004, metro Tucson's unemployment rate stood at 3.7% compared to 3.9% one year earlier, but well below the nationwide rate of 5.5%. Financial activities, construction, and educational and health services employment figures made strong gains of 7.8%, 4.7% and 3.7% respectively. Non-farm employment figures rose by 2.1%; while retail showed a gain of 7.5% and government employment remained relatively flat. According to the University of Arizona's *"Economic Outlook for 2005-2006"*, *"Our forecast for Arizona calls for much stronger job growth during 2005 – over 115,000 new jobs added as a result of the growing population which is anticipated to swell by 185,000 next year (a 3.2% gain)."* The outlook also remains bright for Tucson with a predicted 15,000 jobs added.

Tourism and recreation are important components of the Tucson economy. The area has a sunny climate with a high temperature averaging 82 degrees and a low of 55. The average annual precipitation is approximately 11 inches. Tucson averages 350 days of sunshine a year that support the approximately 50 golf courses located in the environs of greater Tucson. These and other visitor benefits are aggressively marketed by the Metropolitan Tucson Convention and Visitors Bureau.

Outlook

The airline industry remains highly unstable in the wake of airline bankruptcies, labor disputes, the price of jet fuel, and generally poor credit positions for most carriers. Having already made dramatic cuts, airlines continue to explore every additional means of containing expenses. In late 2003 airline and financial analysts forecast the gradual reintroduction of up to 7% capacity industry-wide in 2004 and that industry recovery (to profitability) could occur in late 2004 or early 2005. Legacy carriers matched increasing pressure from low-cost carriers by concentrating mainline resources in high volume markets. Analysts now estimate that the airline industry may reach profitability in late 2005 only if oil prices stabilize at $36 a barrel.

With several carriers planning to shrink their flying capacity in 2005 the industry may regain some pricing power even if fares remain low by historical standards. Capacity that was added in 2004 may come out of the market, as bankrupt carriers such as UAL Corp.'s United Airlines, US Airways Group Inc. and ATA Holdings Corp. restructure. At the same time, demand for air travel should increase again in 2005 as the global economy grows, albeit at a slower pace than in 2004. Consolidations in the form of mergers, asset sales and purchases may yet provide the means to restore operating efficiency to some of the more beleaguered carriers.

Increased pressure from low-cost, low-fare airlines will make it necessary for legacy carriers such as Delta, Continental, Northwest and American to increase their pursuit of more lucrative international routes and underserved domestic markets in order to hold their ground amid the onslaught of low-fare carriers such as Southwest, AirTran, Jet Blue, and Frontier.

Tucson represents an economical choice for airlines as its operating costs remain at or below the median for the medium hub airport category. This aspect enhances TIA's competitive position for new service in FY 2005.

Continued airline competition will ultimately benefit Tucson. Public support for the repeal of the Wright Amendment appears to be growing. Tucson's air service will grow steadily in FY 2005 with the majority of new frequency and capacity occurring along existing routes to the Chicago, Denver, Los Angeles, and Houston hubs. Forecast frequency and capacity increases for the year are expected to be 15% and 12%, respectively, over FY 2004.

Should Southwest gain the ability to increase operations at Dallas Love Field, low-fare service between Tucson and Dallas will be added to Houston Hobby as TAA's targeted routes for Southwest service.

Delta will complete the closure of its DFW hub on January 31st. As a result, Tucson will lose three daily Delta Connection CRJ departures to DFW, but will gain one additional departure to Atlanta (MD-80) and one (CRJ) to Salt Lake City, a net gain of 50 seats daily. TAA will continue its effort to restore the daily nonstop Delta service to Cincinnati that discontinued in early 2003.

American Airlines has increased its daily frequency to Chicago by one departure and United has added two daily departures. These services are normally seasonal between February and April but are currently in place through the June 2005 schedules.

Continental will continue its daily service to Newark and gradual increases in capacity are expected between Tucson and Houston.

Nonstop service between Tucson and Detroit was successfully operated by Northwest Airlines during a trial period in December 2003. Although there was no diversion of traffic from the TUS-MSP flight, economic conditions prevented this service from returning in 2004. Detroit will remain a target route for daily service in FY 2005. Northwest will offer Saturday CRJ service between Tucson and Memphis between February and April.

Air cargo continues to improve at TIA largely as a result of all-cargo carrier activity. Significant reductions in passenger carrier cargo capacity were the result of downsizing mainline operations to regional jets in large markets such as Los Angeles, Denver, and Houston. As additional mainline service is added, passenger carrier cargo activity should increase proportionally.

Major Initiatives

CAPITAL IMPROVEMENT PROGRAM

TAA's Board of Directors (Board) and management are responsible for the development of TIA and Ryan Airfield. As such, the Board approved a Master Plan in June 2004 that sets out an overall development plan to handle anticipated growth. Additionally, the Master Plan includes a land use plan which identifies the highest and best use of property owned by TAA and identifies land which should be acquired by TAA in the future for expansion.

TAA anticipates and responds to changing air travel needs through its Capital Improvement Program (CIP), which is updated and adopted annually. The Board defines long-term goals through updates of the Master Plan.

Capital improvement projects require funding apart from routine operating expenses. Such projects entail the purchase, construction, or replacement of the physical assets of TAA. The purpose of the CIP process is to evaluate, prioritize, and coordinate proposed projects for a five-year period through a program reflecting TAA's goals.

The compilation of the CIP has as its primary goal, the development of a detailed capital budget for the current fiscal year and a plan for capital development during the four subsequent years. The Board, by approving the CIP, sets a strategy and schedule for budgeting and constructing facilities at Tucson International Airport and Ryan.

FY 2004 Completed CIP Construction and Projects at TIA (greater than $100,000)

Preparation of a development plan and design for new general aviation development. Includes fencing, pavement, new roadways and parking. Cost $1,104,000. Funding: State grants. Architect: Tetra Tech, Inc. Contractor: Pavex Corp.

New 50' wide asphaltic concrete Taxiway T from Runway 11L to Taxiway A. Includes lighting, striping, erosion control, signage, drainage pipes and appurtenances; replacement of barbed wire fencing; replacement of gates at old airfreight facility. Cost $562,000. Funding: Federal, state grants. Architect: Stantec Consulting, Inc. Contractor: Granite Construction Co.

Improvements to Quick Turn Around rental car facility. Includes drainage improvements and relocation of the access roadway and expansion of the queuing to improve traffic flow and additional rental car storage. Cost: $831,000. Funding: TAA reserves. Architect: Earl Kai Chann & Associates. Contractor: Meridian Engineering Co.

Expansion of new airfreight apron by 19,600 sq. yards. Accommodates an additional three airfreight aircraft. Also included new apron area lighting, drainage improvements for Airport Drive, and upgraded security fencing. This completed the multi-phased expansion of the airfreight apron. Cost: $2,470,900. Funding: Federal, state grants. Architect: Kimley-Horn & Assoc. Contractor: Granite Construction.

FY 2004 Completed CIP Construction and Projects at Ryan

Debris removal to eliminate numerous dumpsites located along the eastern side of Ryan Airfield. The materials removed include debris from WWII hangars, concrete, asphalt, scrap steel, woodpiles, and illegal dumping. This project made way for general aviation facility development in Area D, which is now under design. Approximate Value: $53,200. Funding: TAA funds. Contractor: AGE Contracting.

Lightning protection for Ryan Airfield Tower. Supports new FAA installation of STARS (Standard Terminal Automation Replacement System), and other electronic equipment at the Ryan Airfield Tower. Cost $31,500. Funding: TAA funds. Architect: Monrad Engineering, Inc. Contractor: Sun Western.

FY 2005 CIP at TIA – Ongoing and New Projects (greater than $100,000)

Terminal Expansion and Rental Car Improvement Project. $66 million. Work began late in fiscal year 2000 on the first phase of the Terminal Expansion Project scheduled for completion in early 2005. The first phase consisted of the construction of a new commercial roadway, new upper and lower level terminal entrance roadways, rental car customer service facilities, and a three-level parking structure for rental car operations. Much of the work is being conducted at night to minimize passenger inconvenience. This phase of the project, which cost approximately $20 million, was completed in summer 2002. Phase two consists of the addition of approximately 82,000 sq. ft. to expand the ticketing and baggage claim areas of the terminal. To accomplish the alteration, the terminal building front is being bumped forward, necessitating a new roadway. Work started on the terminal building expansion in June 2002 and is anticipated to be completed by March 2005.

Signage Runway/Taxiway. $462,100. Replace sun damaged airfield taxiway and runway lighted signs.

Land Acquisition (Noise). $5,800,000. Two land purchases: approximately 200 acres to accommodate the relocation and widening of the near parallel runway 11R-29L and noise protection; approximately 769 acres to achieve land use compatibility with aircraft noise exposure.

Aero Park Blvd. Reconstruction (Phase II). $763,000. Phase II provides for rebuilding the pavement on Aero Park Boulevard from the drainage crossing to the east cul-de-sac at Raytheon.

TIA General Aviation Site A Improvement (Phase II). $1,800,000. Construction of an access road, parking, and taxiways for T-hangar and corporate hangar development.

Terminal Blast Analysis/Security Master Plan. $200,000. Project provides for determination of blast effects from possible terrorist attacks within the terminal along with the landside area surrounding the passenger terminal, parking lots and rental car area and a comprehensive vulnerability site study for airport safety/security and security technology master plan.

Interactive Employee Training System. $218,675. Purchase of computer workstations and programs for training employees on security issues such as SIDA, Basic Airport Awareness, Driver Training, Runway Incursion and Aircraft Familiarization.

Rapid Intervention Vehicle. $604,000. Replace Airport 46 with a new state-of-the-art Index D vehicle to comply with Part 139F.

Upgrade Computer Access Security System and Security Enhancements. $3,070,400. Design and install new card access security system at all security checkpoints. Upgraded system will encompass new computer software, hardware, communication wiring, card reader equipment, staff badging, and appurtenances. Additional security upgrades to include purchase of fingerprint machine, upgrade of the Emergency Notification System, Digital Video Management System, replacement of SIDA gate installations and expansion of the Lost and Found office to contain much of the upgraded equipment. Project also includes CCTV at Ramp Access Doors and fiber optics within conduit provided by the FAA from the Main Terminal to the Tucson Industrial Center for security cameras, card access control, fire alarms and communications.

Upgrade Airfield Generator. $302,600. Upgrade the generator at the Tower to supply emergency power for current loading requirements as well as to support airfield runway and taxiway lighting demands.

Firehouse Generator. $196,300. Upgrade and replace the current generator to supply emergency power to manage the entire fire house electrical demand under casualty conditions.

Sound Insulation. Continuation of acoustical treatment to homes within the 65 Ldn noise contour to the northwest of Tucson International Airport. As of the end of fiscal year 2004, 603 homes had been treated acoustically since the inception of the program. One hundred forty homes are scheduled for treatment in fiscal year 2005.

FY 2005 CIP at Ryan – Ongoing and New Projects (greater than $100,000)

Pilot Briefing Facility. $350,000. Design and construction of a building for pilot planning/briefing, 24-hour restroom facility, user's meeting room and offices. Construction of facility began in April of 2004.

Taxiway B Lighting. $716,800. Purchase and install medium intensity taxiway lighting (MITL) and lighted taxiway guidance and hold line signs on taxiway B and all cross taxiways adjoining runway 6R/24L. Project is currently under design.

Land Acquisition. $1,231,000. Consists of the acquisition of several land parcels. Two parcels consist of approximately 190 acres of land to accommodate the ultimate runway protection zone. One of these parcels (110 acres) has been purchased. There are six parcels containing approximately 125 acres of land to achieve land use compatibility with aircraft noise exposure. Two of the six parcels totaling 85 acres have been purchased.

Airfield Drainage Improvements. $227,300. Improve entrances and exits of airfield culverts, drainage ways, and other drainage facilities to eliminate erosion in taxiway and runway drainage areas. Project currently under design.

FY 2004 Completed Environmental Projects

In June, TAA awarded contracts for the sound insulation of 106 homes located to the north and west of Tucson International Airport. The construction company was awarded two contracts of approximately $1,827,113 combined. The project is voluntary and is being funded primarily through federal grants.

At no cost to eligible homeowners, houses are retrofitted with acoustic windows and doors, new ductwork, and other improvements to reduce interior noise levels created by aircraft flying overhead. In 1993, a demonstration group of 27 homes and one school were treated. From 1996 through 2004, TAA acoustically treated 576 homes of the approximately 1,600 homes in the eligible area.

Since the approval of the Comprehensive Environmental Settlement in March 2000, TAA has been proceeding with the design and installation of an extraction well system and treatment facility to address the containment and cleanup of a volatile organic compound (VOC)-contaminated shallow groundwater zone along the west side of TIA. This work is being performed under the oversight of the Environmental Protection Agency (EPA) and Arizona Department of Environmental Quality (ADEQ).

The installation of the extraction well system was completed in early 2003, and the Final Design Report for the extraction well system and treatment facilities was submitted to the EPA in July 2003 for review and approval. The EPA approved construction of the treatment facilities in January 2004. The plans and specifications for the treatment facilities are being finalized in preparation for public bidding for construction.

AIRLINE OPERATIONS

TIA total passenger counts equaled 3,674,830 in FY 2004, an increase of 4.25% compared to FY 2003. Aircraft operations at TIA decreased from 262,769 in FY 2003 to 244,882 or -6.33%. An aircraft operation is defined as a takeoff or a landing. The air carrier component of operations numbered 37,991 for FY 2004 compared to 37,766 in FY 2003. Military, air taxi, and general aviation comprise the balance of operations at TIA. Ryan tallied 153,551 operations in FY 2004 compared to 125,096 operations in FY 2003.

Eleven airlines served Tucson during FY 2004 compared to thirteen in the prior fiscal year. This year, contracted airlines (Horizon, SkyWest and Mesa) were combined with major operating affiliates. Those airlines serving Tucson included Aero California, Aerolitoral, Alaska, America West, American, Continental, Delta, Frontier, Northwest/KLM, Southwest, and United/Lufthansa. Two airlines – Aero California and Aerolitoral – provided three times and seven times weekly service, respectively, to Mexico.

During the fiscal year, Tucson lost two daily departures (San Francisco and San Jose) with the withdrawal of Horizon Air. Continental Airlines added a daily departure to Newark in September. At fiscal year-end, Tucson travelers could fly to the following 15 destinations nonstop compared to 16 one year ago: Albuquerque, Atlanta, Chicago, Dallas, Denver, Houston, Las Vegas, Los Angeles, Minneapolis, Newark, Phoenix, Salt Lake City, San Diego, Seattle, and Hermosillo, Mexico.

A total of 66 daily departures were available in September 2004, compared to 62 in September 2003. American, Delta, Frontier and United Airlines added flights to Dallas (2), Denver (2), Los Angeles (2) and Salt Lake City (1), while the loss of Horizon Air eliminated flights to San Francisco (1) and San Jose (2).

From TIA, travelers can fly to 90 U.S. cities and 44 international destinations (including 18 cities in Mexico) with a connection time of 90 minutes or less.

LEASING ACTIVITY

TAA completed its leasing and development guidelines and TAA's Board of Directors adopted a Leasing and Development Policy. The guidelines and policy establish leasing methodology to be used by staff in the negotiation and execution of airport leases.

Nextel and TAA executed a lease and announced the installation of a sixty-foot monolithic pole to support antennas for a newly installed cellular phone site at Tucson International Airport. The site will improve reception for the Southern part of the Tucson community.

After twenty-six years operating at the Tucson International Airport, Commander Investments, dba Ratliff Aviation announced the sale of this Fixed Base Operation to New Timberline Aviation LLC headed up by the former manager of Trajen Flight Support.

In May, Trajen Flight Support opened its newly constructed 12,000 square foot Fixed Based Operation hangar to house its offices and store high-end corporate jets. In the upcoming year, Trajen hopes to construct up to six additional bays in a sixty thousand square foot hangar.

In the summer of 2004, Timberline Aviation LLC dba Ratliff Aviation announced that it was giving its facilities a make over and also said it was constructing a new 12,000 square foot hangar for high-end aircraft storage. TAA assisted with the renovation by providing financing through a $160,000 loan.

TAA negotiated an amendment to the LSG Skychefs flight kitchen agreement. Airlines effectively discontinued providing food on their flights in the wake of 9/11. This had a debilitating impact on their Tucson flight kitchen revenues, and there were discussions about the kitchen closing. The amendment enables LSG Skychefs to continue operating.

In July, Silverstate Helicopters announced the opening of its helicopter flight training school at Tucson International Airport. Its first class numbered about 70 students. Silverstate is also licensed to provide helicopter maintenance and repair and is considering diversifying to provide such services from its Tucson based operation.

After many years supporting the Tucson Industrial Center complex, the property management agreement with Tucson Industrial Realty was not renewed. This was a very difficult decision; however, TAA decided it was prudent to reduce its operating costs and manage the operation in-house.

The infrastructure for seventeen acres of general aviation land was constructed and is nearing completion. The site was formerly known as the Hudgin site and is now known as the Valencia GA Development. TAA held a request for proposal process that resulted in five developers being selected to construct hangars for the support of charter and aircraft management and storage of general aviation aircraft and high-end corporate jets. When fully constructed, TAA will receive about $197,000 in annual revenue.

Due to downsizing of its worldwide operations, Bombardier Aerospace announced its local subsidiary Learjet, Inc. would be vacating its 235,000 square foot hangar formerly operated and owned by Lockheed Aeromod. Successful negotiations were conducted, resulting in a three-year facility sublease between Learjet and DunnAir Business Jet Completion Center. DunnAir intends to provide modification and completion services for all types of aircraft and employ about 60 employees by the first part of 2005, and ultimately hopes to acquire the hangar from Learjet. To facilitate the transaction, a new twenty-year land lease was negotiated and executed between Learjet and TAA.

After providing twenty-two years of luggage cart services at Tucson International Airport, Smarte Carte, Inc. successfully competed for a five-year agreement that includes two one-year extensions.

GENERAL REQUIREMENTS

During the current fiscal year, the Authority published two separate documents for tenant use:

Rules and Regulations

Designed to protect public health, safety, interest, and general welfare at Tucson International Airport and to restrict or prevent any activity or action which would interfere with the safe, orderly, and efficient use of the Airport by its passengers, operators, tenants and users.

Minimum Standards for General Aviation

Designed to encourage, promote, and ensure: 1) the delivery of high quality general aviation products, services and facilities to Airport users; 2) the design and development of quality general aviation improvements and facilities at the Airport; 3) safety and security; 4) the economic health of general aviation Airport businesses; and 5) the orderly development of Airport property.

FEDERAL AND STATE FUNDING

TAA participates in the FAA's Airport Improvement Program (AIP), which provides Airport and Airway Trust Fund dollars for airport development, airport planning, and noise compatibility programs. The FAA offers both entitlement and discretionary grants for eligible projects. In FY 2004 TAA received grants totaling $13.6 million. The FAA has awarded $56.7 million in grants to TAA during the past 10 years.

The State also provides grant assistance to airports. These may cover up to half of the required match for AIP projects or total funding for projects of a smaller size and scope. In FY 2004 the State granted $880,000 to TAA and has granted $16.1 million over the past 10 years.

PASSENGER FACILITY CHARGES

The Aviation Safety and Capacity Expansion Act of 1990 authorizes domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. Public agencies controlling commercial service airports may charge a $1, $2, $3, $4, or $4.50 fee. Enplaning passengers can be charged up to $4.50 per segment, up to a maximum of two segments per one-way trip and four segments per round trip. Public agencies planning to impose PFCs must apply to the FAA and meet specific requirements set forth in the enabling legislation. Airport operators may impose PFCs after receiving written approval and authorization from the FAA. In accordance with FAA regulations, medium hub airports with an approved PFC program at $3.00 must forego 50% of federal AIP entitlement grants.

In February 1998, TAA implemented a $3.00 PFC as an additional source of funding for major capital improvements. During the fiscal years ended September 30, 2004, 2003 and 2002, the Authority collected PFCs of $5,039,403, $4,907,636, and $4,762,910, respectively. The total amount of PFCs approved to date by the FAA for collection at TIA is $101,234,420. The FAA's approval included authorization to utilize PFCs for the payment of principal and interest on general airport revenue bonds issued to pay construction costs related to terminal expansion and for land acquisition. The general airport revenue bonds were issued in July 2001.

The $3.00 charge on passengers using TIA is expected to generate approximately $5 million annually. Ongoing or future projects being funded by PFCs include land acquisition and the terminal expansion and improvement project that includes expansion of baggage claim and ticketing and the construction of a new upper and lower entrance and commercial roadways.

Financial Policies and Practices

INTERNAL CONTROL ENVIRONMENT

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

As a recipient of Federal, State and local financial assistance, the Authority is also responsible for ensuring that adequate internal controls are in place and documenting compliance with applicable laws and regulations related to these programs. This internal control is subject to periodic evaluation by management and internal audit staff of the Airport.

In addition, the Airport maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Authority. Activities of the Proprietary and Fiduciary Funds are included in the annual appropriated budget. The Airport also maintains an encumbrance accounting system as one method of maintaining budgetary control.

BUDGETARY CONTROLS

An annual budget is prepared on the basis established by Section 5.03(a) of the Airport Use Agreement dated April 27, 1977 for all accounts and funds established by the agreement and is prepared on a residual cost basis. The annual budget serves as a foundation for the Authority's financial planning and control. All appropriations except open project account appropriations lapse at the end of each fiscal year and must be re-appropriated. Since there is no legal requirement to report on a budgetary basis, no additional budget information is presented in the accompanying financial statements.

Section 4 of the City of Tucson Agreement (Lease) dated October 14, 1948 requires the Authority present a biennial version of the budget to the Mayor and City Council for information purposes.

The annual budget is approved by the TAA Board prior to its implementation, and in accordance with the Airport Use Agreement the budget is presented to the Airline Affairs Committee for review.

The "residual cost" approach forms the basis of the contractual relationship with signatory airlines. This approach is common among U.S. airport operators. It is a methodology that, for TAA and its signatory airlines, encompasses the following:

Residual Cost – a method of determining which costs are the responsibility of the airlines as payment to TAA for providing, operating and managing the airport system (TIA and Ryan). The result is coverage of all TAA expenses and a break-even situation.

Majority-In-Interest – a voting formula used by the signatory airlines in considering approval of significant capital expenditures and use of Airline Reserve Fund monies.

Exclusive Rights – rights provided to individual airlines through the Airport Use Agreement for the use of exclusive space to accommodate their operations and paid for in the form of rents.

Joint Rights – rights provided to individual airlines for use of space in common with other users to provide baggage claim facilities and paid for in the form of rents.

Long-Term Agreements – a common feature of residual cost contracts. TAA's agreement began in 1977 and continues until September 30, 2006.

To provide financial resources adequate to meet TAA's needs, the Airport Use Agreement includes a formula for the calculation of rates and charges including landing fees. This formula, the "Airport System Income Requirement," serves as a template in creating TAA's annual budget. This formula is frequently referred to simply as the "Airport System."

The formula consists of four elements:

Debt Service Requirements – includes 125% of the principal and interest payments due in accordance with respective revenue bond resolutions and debt amortization schedules. The 25% excess is called "coverage." Collecting it fulfills a covenant in the bond resolution requiring this surplus as a guarantee to bond holders that adequate funds will be available to pay all debt service requirements on a timely basis. In the normal course of business, the coverage is not needed and it flows through the airport system.

Operation and Maintenance Expenses – in addition to day-to-day operating requirements, this item provides for capital needs, short-term debt obligations, and any other requirements not included elsewhere in the formula.

Fund Replenishments – provides for the funding and refunding of the various reserve funds required by the bond resolutions and/or the Airport Use Agreement.

Adjustments – 100% of TAA's Operating Income flows through the airport system. At year-end, certain revenues are transferred out of the airport system into the Special Reserve Fund. These become restricted funds and include:

1) 52% of the net income generated from designated "industrial area" developments, which are geographic locations at TIA.

2) Interest income earned from the investment of monies already in the Special Reserve Fund.

Together, these four elements (Debt Service, Operations & Maintenance, Fund Replenishment, and Adjustments) comprise the "Total Gross Requirement." This requirement is then reduced by all of the available resources that include:

- Operating Income.
- Proceeds of junior lien and other short-term borrowings.
- Beginning cash balance that is the coverage from the prior year adjusted by any overage or shortfall from operations.

The net amount resulting from this calculation is the amount of landing fees required to be paid by the signatory airlines.

LONG TERM FINANCIAL PLANNING

Master Plan/Strategic Plan

One of the tools the Authority uses for long term planning is the Master Plan, which was updated during the current fiscal year. This document is prepared with the input of TAA staff, the signatory airlines and other key tenants of the Airport. The master plan specifies the physical improvements that are needed to meet projections of future demand. It consists of a technical report that specifies the logic and reasoning for the proposed capital improvements as well as large scale drawings that illustrate the physical layout of the improvements. The financial implications of a master plan are very important because it serves as the basis for requesting federal funds for the construction of capital improvements proposed in the plan. The Authority's most recent update of the Master Plan provides a flexible and cost-effective guide for the future development of Tucson International Airport through the year 2015. Capital improvements recommended by the plan are demand-driven. This means that although there are a large number of projects proposed by the plan, only those that are needed as a result of actual increase in demand will be constructed.

The Authority is also in the process of developing a comprehensive Strategic Plan, which will identify and inventory strengths and weaknesses and guide the Authority's operating, capital and financial planning for the next 5-7 years.

Multi-Year Financial Plan

The Authority has begun preparation of a Multi-Year Financial Plan, which will be updated annually. The plan will contain the first year of the proposed annual Operating Budget and the Capital Improvements Budget, with the subsequent three years reflecting fiscal projects developed through a combination of historical trends, contractual and other known commitments, anticipated changes to future revenues and expenditures and other reasonable assumptions. The Capital Improvements Budget will contain not only the current fiscal year, but also comprehensive information for the ensuing five fiscal years.

CASH MANAGEMENT AND INVESTMENTS

Federal depository insurance covers the first $100,000 of the bank balance. Amounts exceeding that limit are collateralized by the bank in compliance with all pertinent state statutes.

As cash flow needs permit, TAA invests cash in investment vehicles permitted under the 1990 Airport Revenue Bond Resolution, as amended, and applicable TAA policies. The Authority's single most important objective under these policies is to preserve the principal of those funds within the portfolio. The portfolio is managed to insure that funds are available as needed to meet immediate and/or future operating requirements and to maximize the return of investments within the constraints of the policies.

The Authority invests cash in direct obligations of, or obligations guaranteed by the United States of America, obligations of specific agencies of the United States of America, and secured negotiable certificates of deposit. Investments are insured, registered or held by a trustee in the Authority's name.

At September 30, 2004, the investments held by the Authority yielded interest ranging from 1.09% to 2.73% and mature on various dates through February 16, 2006. TAA's average month-end operating portfolio balance was $51 million with an average yield on investments of 1.73% in FY 2004. On money market and other overnight investments, the average rate of return was 0.54%.

As needed, TAA and other parties transfer monies into separate and distinct trust funds for remediation projects. Interest income continues to accrue on these deposits and is returned to TAA as long as monies remain there.

RISK MANAGEMENT

It is the policy of the Authority to eliminate or transfer risk where possible. TAA reduces its costs associated with risk through the ongoing development and implementation of an effective safety program. TAA manages its program through a safety committee with representatives from the major work areas. The committee identifies unsafe conditions, recommends remedial actions, monitors progress, plans and implements safety programs, and creates and maintains a library of materials that is available to departments for use in safety meetings.

TAA limits its risk exposure through insurance coverage. Schedules of insurance can be found in the statistical section of this report.

CAPITAL FINANCING AND DEBT MANAGEMENT

Moody's Investors Service, Standard & Poor's Corporation (S & P), and Fitch rate TAA's revenue bond obligations Aaa, AAA, and AAA, respectively. These firms base their ratings upon insurance policies in force from Financial Security Assurance, Inc. for the currently outstanding 2003 bonds and from Ambac Assurance Corporation for the 2001 Senior Lien and Subordinate Lien Revenue Bonds. The Series 2003 Senior Lien Bonds received underlying ratings of A2, A and A from Moody's, S & P and Fitch respectively. In September 2004, Fitch Ratings affirmed its A rating on the $55.5 million Series 2001 and $40.9 million 2001 Subordinate Revenue Bonds. Detailed information on Long-Term Debt can be found in the financial section (Note 6) of this report.

Capital expenses for FY 2004 were financed through a combination of the proceeds of the 2001 Subordinate Lien Revenue Bonds, FAA grants, State grants, internal loans from reserve funds, passenger facility charges, and funds generated through the Airport System Income Requirement formula.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The Authority participates in the Arizona State Retirement System (ASRS), which is a pension system for public employees in the State of Arizona. The state administers the plan in accordance with Title 38, Chapter 5 of the Arizona Revised Statutes and is overseen by a nine member board. Participation in ASRS is mandatory and automatic for all regular full-time employees (excluding fire and police personnel) at employment. The plan provides retirement benefits as well as long-term disability and death benefits. The Authority is required to contribute at an actuarially determined rate. See Note 7 in the financial section for more information.

The Authority also provides retirement benefits to all full time fire and police employees through the Arizona Public Safety Personnel Retirement System (ASPRS). It is a defined contribution plan where members are required to contribute 7.65% of covered compensation. The Authority contributes at actuarially determined rates of 10.48% and 14.7% of covered compensation of fire and police employees, respectively. See Note 8 in the financial section for more information.

In addition to the pension benefits, the Authority pays 75% of the cost of certain healthcare, short-term disability and life insurance coverage to active full time employees.

Other Information

COMMUNITY INVOLVEMENT

TAA's community outreach effort is extensive and consists of multiple components. A small sampling of the fiscal year's activity is described below:

Airport Sound Insulation Program Targets 106 Homes

In 2004, 142 homes received sound insulation treatment which included installing new windows, doors and cooling systems, ranging from $11,000-$22,000 per residence. Staff conducted 12 homeowner information sessions, representing 180 homes, in preparation for the 2005 design and construction program. Funding for the program comes from federal grants.

START

Energy conservation efforts continued to evolve at TIA. In September 2003, the decision was made to set the temperature standard inside the terminal at 75 degrees. We have had a measurable decrease in consumption as a result. The terminal accounts for about 80% of TIA's total annual electric consumption.

TAA Recognized For Support of Clean Energy

The Metropolitan Energy Commission awarded TAA its "*2003 Annual Transportation Award*" this past year for TAA's efforts on behalf of the metropolitan area to facilitate the opening and operation of Tucson's first publicly accessible Compressed Natural Gas (CNG) fueling facility. This award was in recognition of efforts to support the use of alternate fuels in a wide variety of vehicles. In September 2003 Clean Energy dedicated a compressed natural gas station on Corona, east of the Park 'N Save lot.

TAA Board Adopts Avigation Easement Policy

The Tucson Airport Authority approved a policy that would request avigation easement and disclosure statements for any proposed change in plan designation or zoning in a defined area around Tucson International Airport and Ryan Airfield. The area is defined by the Federal Aviation Administration (FAA) as Traffic Pattern Airspace and includes consideration for future planned runways.

The policy is a dual effort: 1) to protect the long-term viability of TIA and Ryan Airfield by promoting compatible development in the vicinity of the airports by educating property owners that they may experience over flights; and 2) formalize TAA's long history of seeking protections around the airfields to encourage compatibility and quality of life for residents and businesses adjacent to the airports.

Flight Information/Air Service Info Debuts Online

TAA added real time flight information available from its website, www.tucsonairport.org, in 2004 making it possible to check the status of arriving and departing flights. The same information displayed on the Multi-Use Flight Information Display System monitors throughout the terminal can be viewed anywhere on a computer. Changes to flight times are made directly by the airlines.

Local Culture

Several exhibits by local groups rotated through The Gallery at Tucson International during the year. A collection of work by Tucson Artist Group, included artists Tom Bergin, Wayne Crandell, Leslie Ann Epperson, Jason W. Falk, Charles Hedgcock, Rhod Lauffer, Ken Matesich, Cynthia Miller, Paul Mirocha, Lynn O'Brien, Linda Rosenfield, Julie Sasse, Richard Schaffer, Marvin Shaver, and Doug Shelton.

Tucson Rocks opened in The Gallery in September. One of a series of exhibits planned around the 2004/2005 theme, en.vir.on.ment, the show featured work by sculptor Fred Borcherdt, painters Barbara Strelke, Charlotte Bender and Alicia Cervantes and collage artist Rand Carlson.

Aviation Day

TAA's annual celebration of Aviation at Ryan Airfield attracted big crowds in spite of a blustery windy day on March 13. Besides dime a pound airplane rides by the Ninety-Nines International Organization of Women Pilots, as well as helicopter rides, attendees witnessed a skydiving exhibition, flybys from an assortment of aircraft, tours of the airfield and the six-story air traffic control tower, and a great assortment of aircraft on display.

Bicycle Patrols Debut

TAA Police and Public Service Officers began bicycle patrols around TIA in June. The bicycle squad patrols the terminal area complex as well as Ryan Airfield. Initially five police officers and two Public Safety Officers are sharing this detail until the remaining members of the police force complete the required 40-hour training course. Designed to allow enforcement personnel quick access to congested areas, the bicycles are also transported to emergency scenes on airport police vehicles outfitted with carriers. The $500 cost of each Specialized Pro bicycle was funded by RICO monies, seized drug dollars recovered at TIA.

Airport Employees Give Back

TAA employees continue to actively give back to the community through the Airport Employee Community Effort (AECE) program. During the year employees organized four blood drives, a Halloween themed diaper drive, a firewood raffle benefiting the food bank, adopted a family and made several one-time charitable donations as well as organized payroll deductions to United Way and other selected agencies.

Several TAA police and communications/dispatch team members along with a few of their family members participated in the Annual Special Olympics Torch Run on May 5, and several other TAA employees participated in the Susan G. Komen "Race for the Cure" in April.

TAA's Safety & Wellness Committee held three major events during the year: a Safety Fair in March, a Health and Safety Awareness Week in June, and a Wellness Fair in October. These events, open to the entire airport community, attracted a wide audience. Other activities throughout the year included wellness walks, guest speakers, and a weight loss group.

The TAA board of directors acknowledged the TAA employee Safety and Wellness Committee for their efforts in raising employee awareness about the importance of safety and maintaining a healthy lifestyle. As a result of fewer workers compensation claims, a dividend check for $102,602 was received from the State Compensation Fund of Arizona and the Chamber of Commerce. The dividend check helped cover the cost of TAA's annual premium of $230,000.

REQUESTS FOR INFORMATION

This financial report, along with the audited financial statements, is designed to provide a general overview of the Tucson Airport Authority. Questions concerning the information contained in this report should be addressed to the Tucson Airport Authority Finance and Administration Department, 7005 S. Plumer Avenue, Tucson, Arizona 85706.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TAA for its CAFR for the fiscal year ended September 30, 2003. This was the tenth consecutive year that TAA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR 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. For a second time, this report will be offered in a PDF format. This will allow the user to download the report or view it online at the airport website, www.tucsonairport.org.

The publication of this CAFR is a reflection of the level of excellence and professionalism of TAA's Finance Department. We wish to express our appreciation to all members of the Finance and Administration Division, who contributed not only to the preparation of this CAFR, but also to the accomplishments that we are privileged to report.

We also wish to thank each of you for your continuing interest and support of the staff's efforts to conduct the financial operations of TAA in a responsible and progressive manner.

Respectfully submitted,

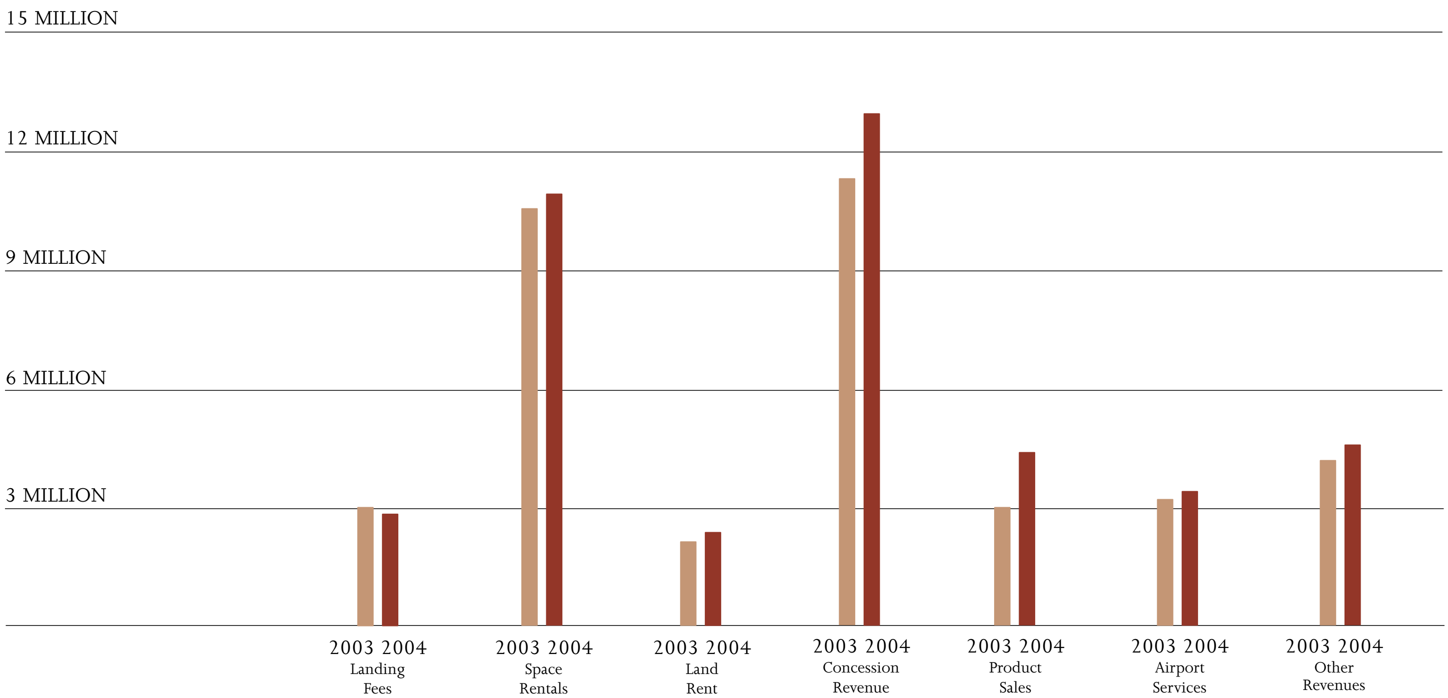
Bonnie A. Allin, A.A.E.
President and Chief Executive Officer

Sylvia P. Ambrogio
Senior Director, Finance and Administration

Richard J. Gruentzel, CPA
Controller

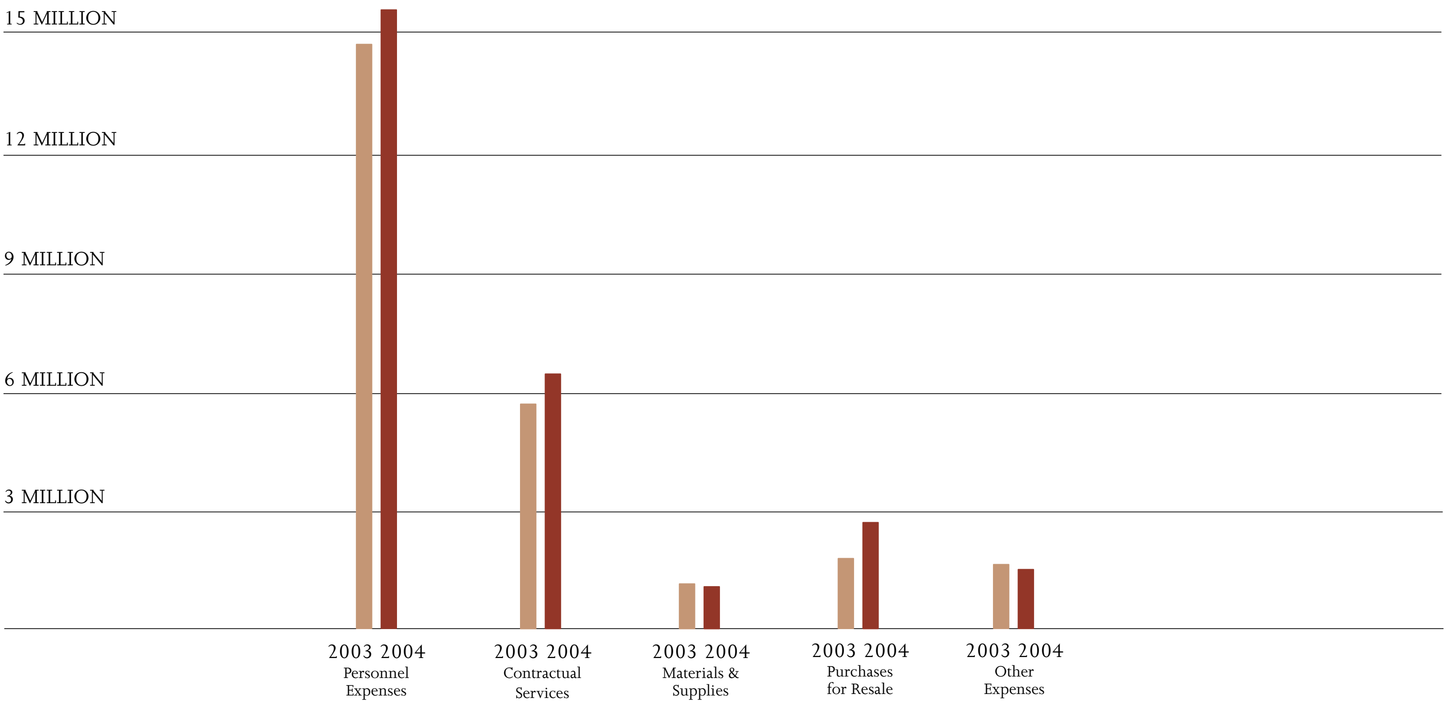
Operating Revenues

Figure 1



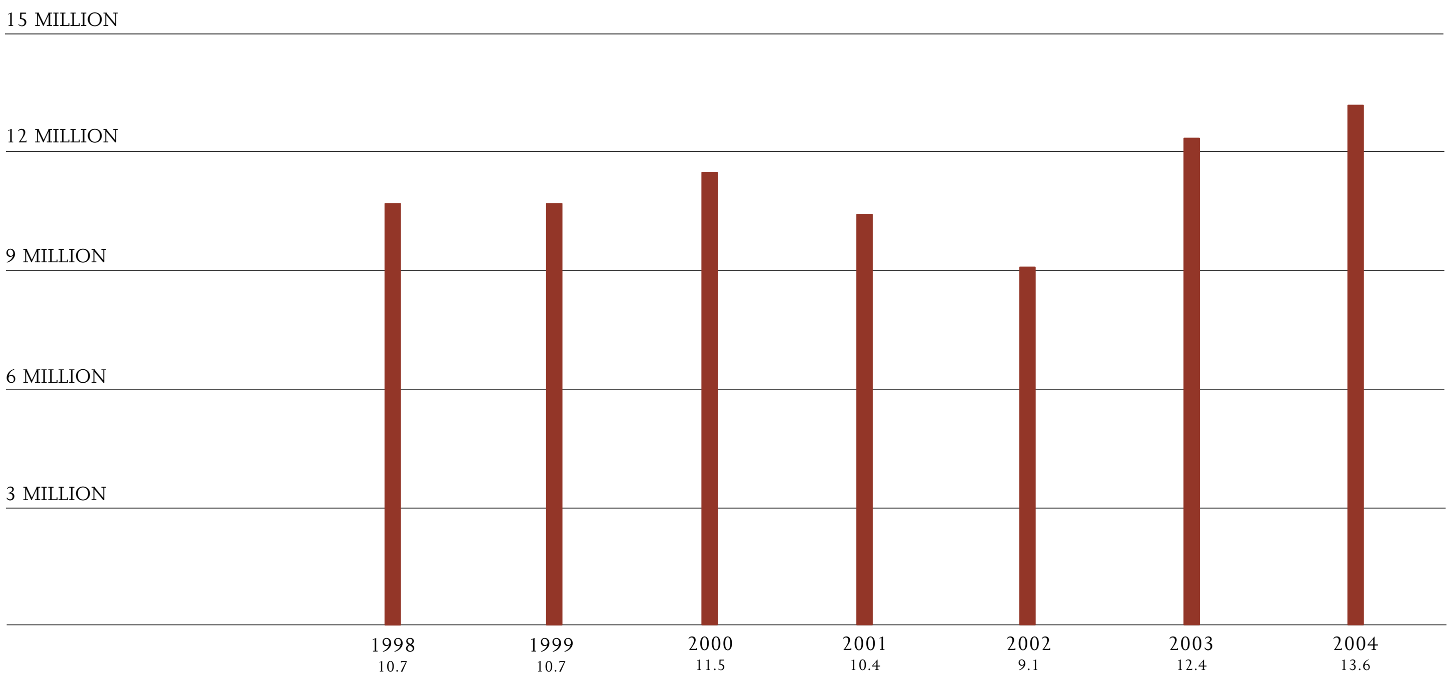
Operating Expenses

Figure 2



Operating Income Before Environmental Revenue and Depreciation

Figure 3



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Tucson Airport Authority, Inc., Arizona

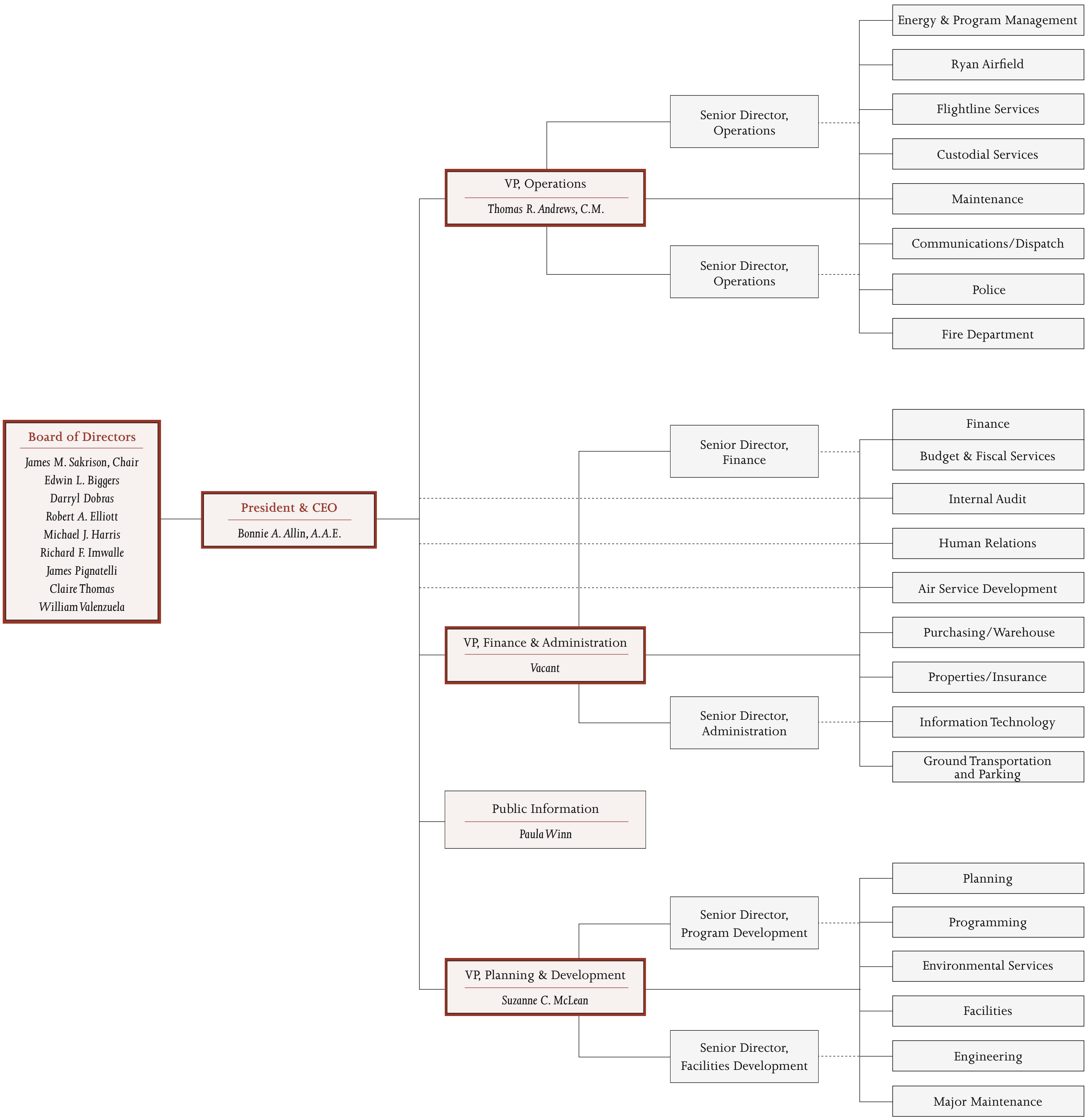
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

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

Administrative Structure



Airlines and Tenants

AIRLINES

Aero California

Aerolitoral

Alaska

America West

American

Continental

Delta

Frontier

Horizon

Mesa dba America West Express

Northwest

SkyWest

Southwest

United

CAR RENTALS

Alamo

Avis

Budget

Dollar

Enterprise

Hertz

National

RYAN AIRFIELD

Air Center West

Air Crafters

Air Ventures Ltd.

Airborne Research

Aircrafters Paint Shop

Alpha Air Inc.

ARDCO Inc.

B&M Aircraft

Cherokee Cabañas

E&R Aero

International Airline Training Academy (IATA)

Jim's Aircraft

Mobile Aire

Serco Management Services, Inc.

Southwest Avionics Inc.

Todd's at Ryan

Tyconic Inc.

Venture Light Aircraft

VistaWest Hangars

Windwalker

Winsor Aviation

TIA

Ace Parking

Aerospace Hangars, LLC

Air Cargo Transit

Airborne Express

Airport Information Centres

AM Trading

Aviation Services

AZ Air National Guard

AZ Stagecoach Co.

Bank of America

Bank One

Bombardier Aerospace

CA One Services – El Charro Café

City of Tucson

Custom Aviation Maintenance

Dangle Aviation

Danza AEI

Delta Global Logistics

Double Eagle Aviation

Durodyne Inc.

Eagle Global Logistics, LP

Emery Air Freight

Federal Aviation Administration

FedEx

Flight Test Associates

FlightSafety International

Great American Shoe Shine

Hamilton Aerospace Technologies

HIDTA-AZ

Hotton Aviation

Hughes Federal Credit Union

Lan-Dale Co.

Leading Edge Aviation Inc.

Lourdes Industries

LSG Sky Chefs

Med-Trans

Military Lounge

National Weather Service

Paradies Desert House

Pima Community College

Premier Aviation

Ratliff Aviation

Raytheon Systems Company

SkyWest Airlines

Smarte Carte Inc.

Southwest Helicopters Inc.

Suarez International Inc.

Sun Devil/Wildcat

Tower Grill

Trajen Flight Support

Treasure Valley Airfreight

Tucson Aero Hangars, LLC

Tucson Industrial Realty

UA Environmental Research Laboratory

Universal Avionics

US Border Patrol

US Customs Service

US Department of Agriculture

US Forest Service

US Immigration & Naturalization Service

US Postal Service

Velocity Air

Victor II Ltd.

Voyager Helicopter

WorldWide Security Assoc., Inc.

Wright Flight Inc.

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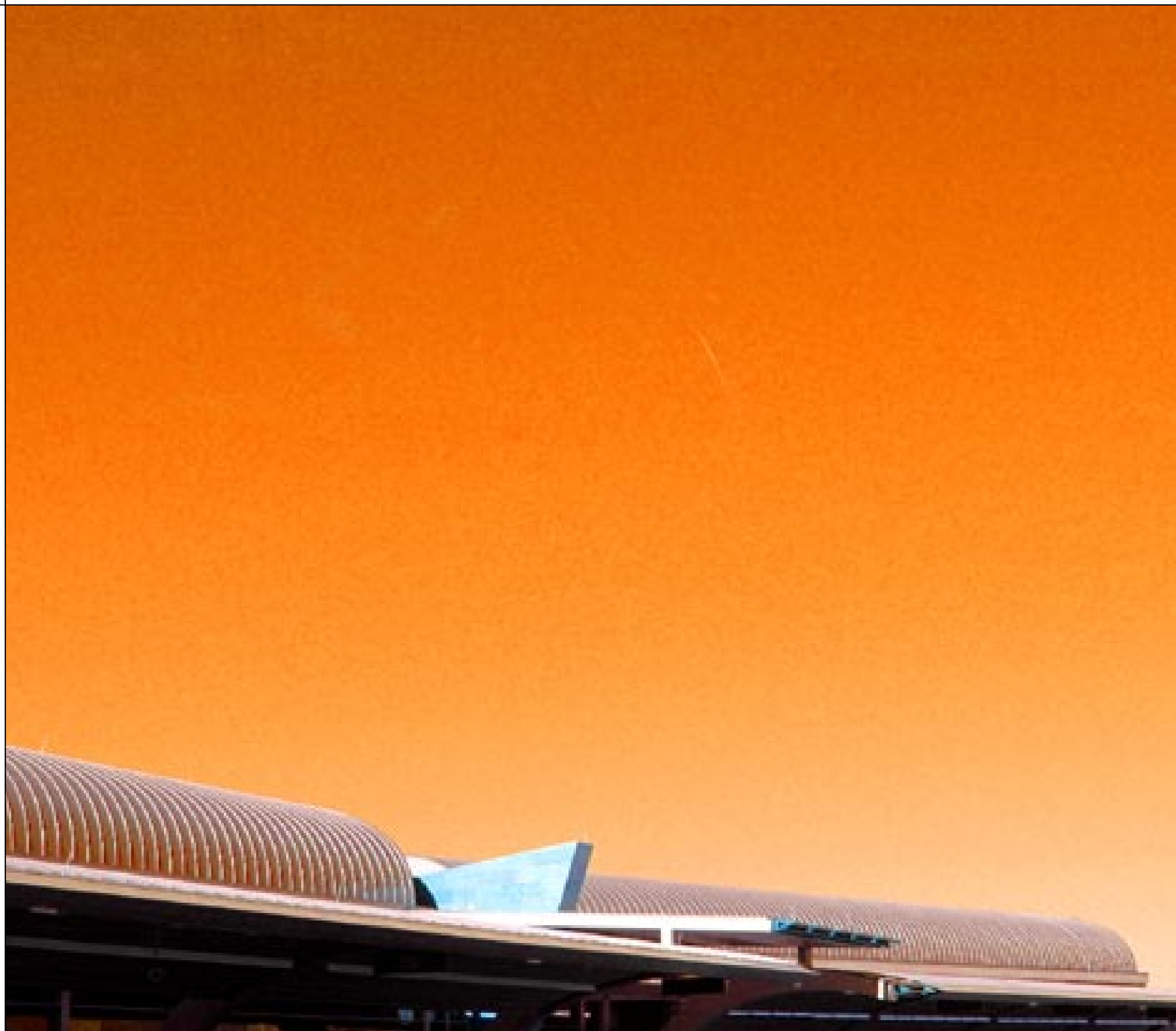


TUCSON AIRPORT AUTHORITY

FINANCIAL

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Board of Directors
Tucson Airport Authority, Inc.
Tucson, Arizona

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Tucson Airport Authority, Inc. (Authority) as of and for the years ended September 30, 2004 and 2003, as listed in the financial section of the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tucson Airport Authority, Inc. as of September 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Tucson Airport Authority, Inc. adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;* 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 Statement Disclosures*, effective October 1, 2002.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 23, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 20 through 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The introductory section and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP
Tucson, Arizona
November 23, 2004

Management's Discussion and Analysis

September 30, 2004

The following discussion and analysis of the financial performance and activity of the Tucson Airport Authority (Airport) provides an introduction and understanding of the basic financial statements of the Airport for the fiscal year ended September 30, 2004. Two preceding fiscal years ended September 30, 2003 and 2002 have been included to provide a better insight to the overall financial position of the Airport.

The Airport is a business-type activity and as such the Basic Financial Statements and Required Supplementary Information (RSI) of the Airport consist of Management's Discussion and Analysis (MD&A), the Statement of Net Assets, the Statement of Revenues and Expenses and Change in Net Assets and the Statement of Cash Flows, Significant Accounting Policies and Notes to Financial Statements. The MD&A has been prepared by management and should be read in conjunction with the basic financial statements and notes thereto.

AIRPORT ACTIVITIES AND HIGHLIGHTS

In fiscal year 2004, the Airport continued to operate in a challenging environment. The negative effects of September 11 have been overtaken by other major disruptions such as airline bankruptcies, high fuel prices, labor disputes, system-wide overcapacity and the proliferation of low-cost service. These are now the key elements that suppress legacy carriers' earning power. Fiscal year 2004 provided some hope for the future as the industry experienced increased passenger counts and cargo operations with the improving economy. Tucson mirrored the domestic enplanement trend which began to show early in fiscal year 2004 that demand for passenger travel was making a strong recovery. The airport has maintained a solid growth rate in excess of previous forecasts and the national average because of this increase in demand and corresponding growth of local frequency and capacity.

Over the three reporting periods, Southwest Airlines and American Airlines have dominated in both passenger activity and landed weight. This still holds true as other major carriers such as Delta and United contract operations out to smaller operating affiliates.

Total Aircraft Operations declined over the three-year period. The air carrier component of operations numbered 37,991 for fiscal year 2004, compared to 37,405 and 38,779 in 2003 and 2002, respectively. Military, air taxi, and general aviation comprise the balance of operations at the Airport. The majority of reduced operations are in the general aviation area, which includes Ryan Airfield.

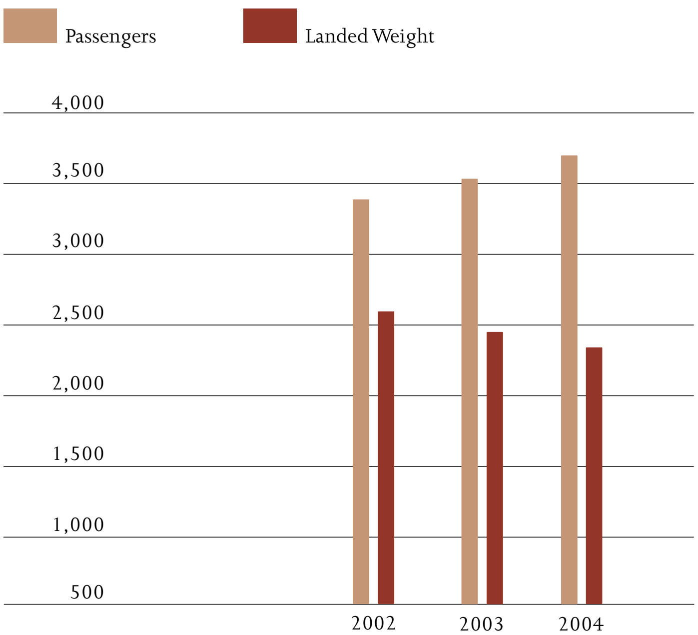
ACTIVITIES AND HIGHLIGHTS

	2004	2003	2002
Total Passengers	3,674,820	3,525,072	3,437,689
% increase/decrease"-"	4.25%	2.54%	
Aircraft Operations	244,882	261,440	265,815
% increase/decrease"-"	-6.33%	-1.65%	
Landed Weight	2,347,898	2,443,082	2,557,413
% increase/decrease"-"	-3.90%	-4.47%	
Mail & Express Cargo (pounds)	66,955,571	65,359,792	57,856,831
% increase/decrease"-"	2.44%	12.97%	

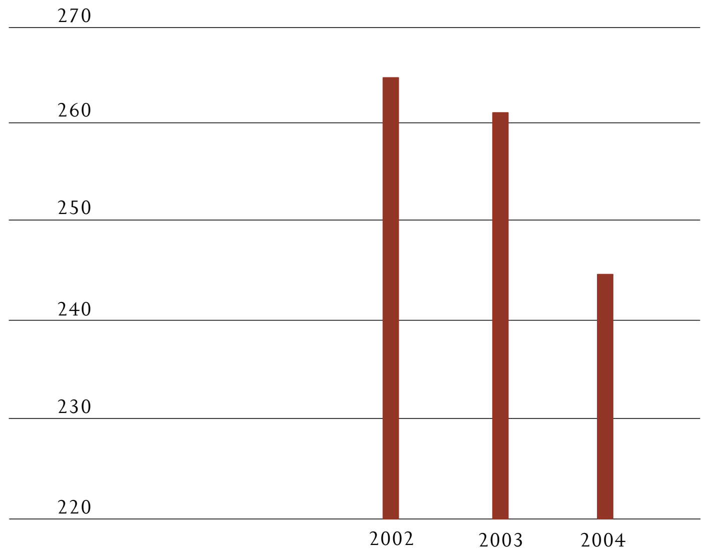
Management's Discussion and Analysis

September 30, 2004

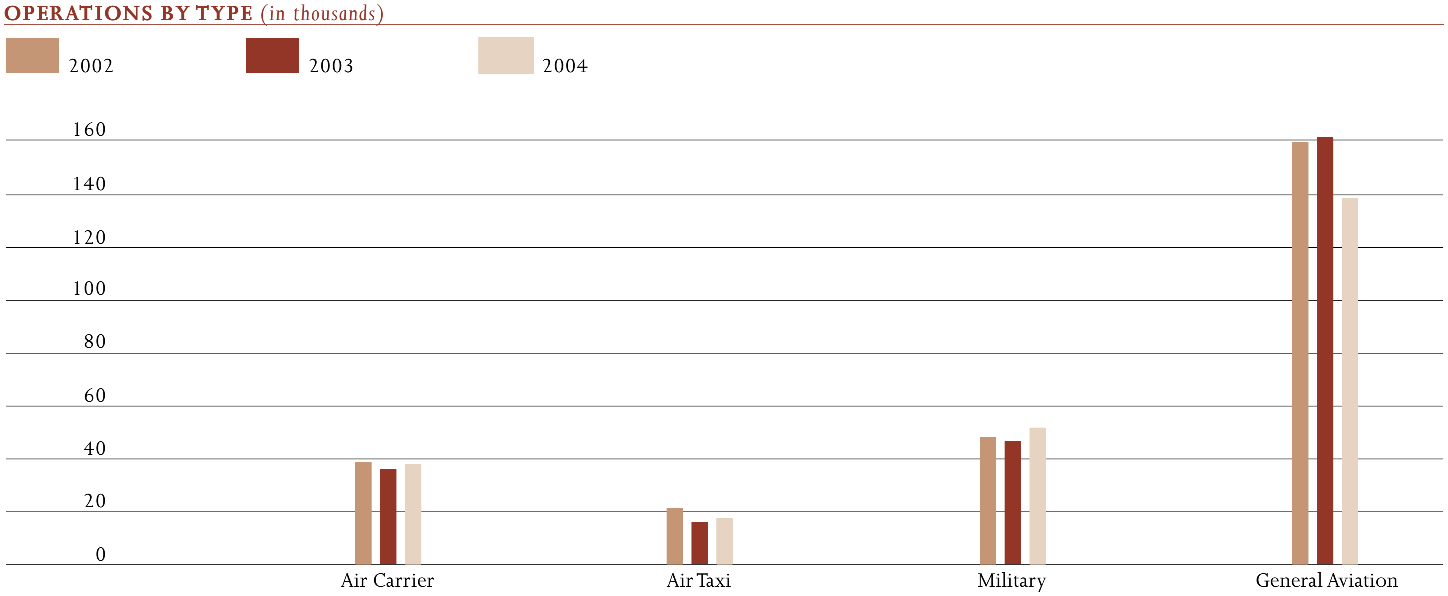
TOTAL PASSENGERS AND LANDED WEIGHT *(in thousands)*



AIRCRAFT OPERATIONS *(in thousands)*



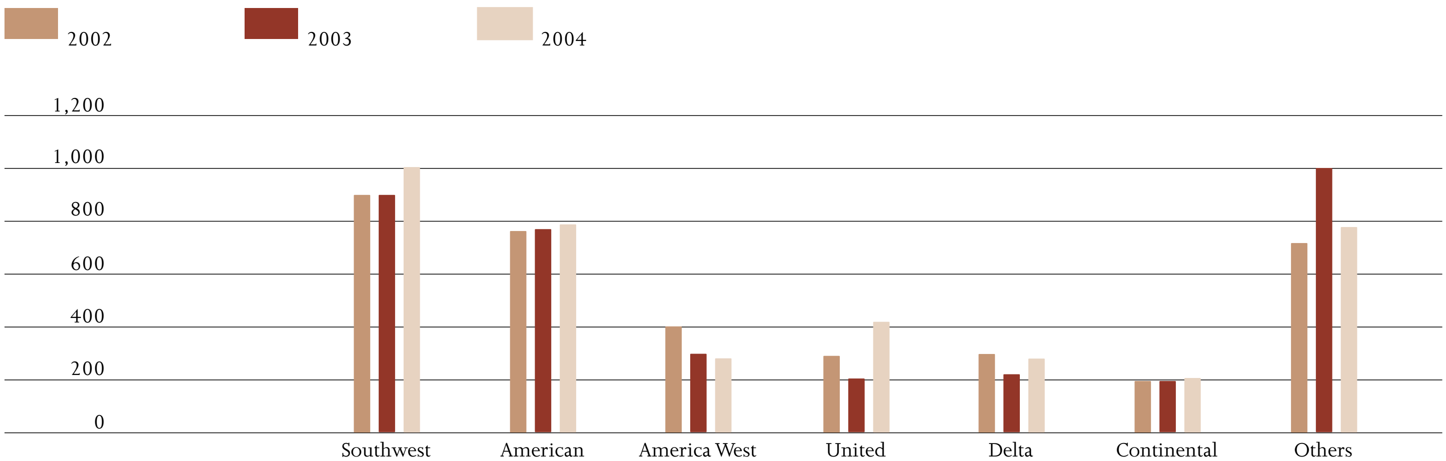
OPERATIONS BY TYPE *(in thousands)*



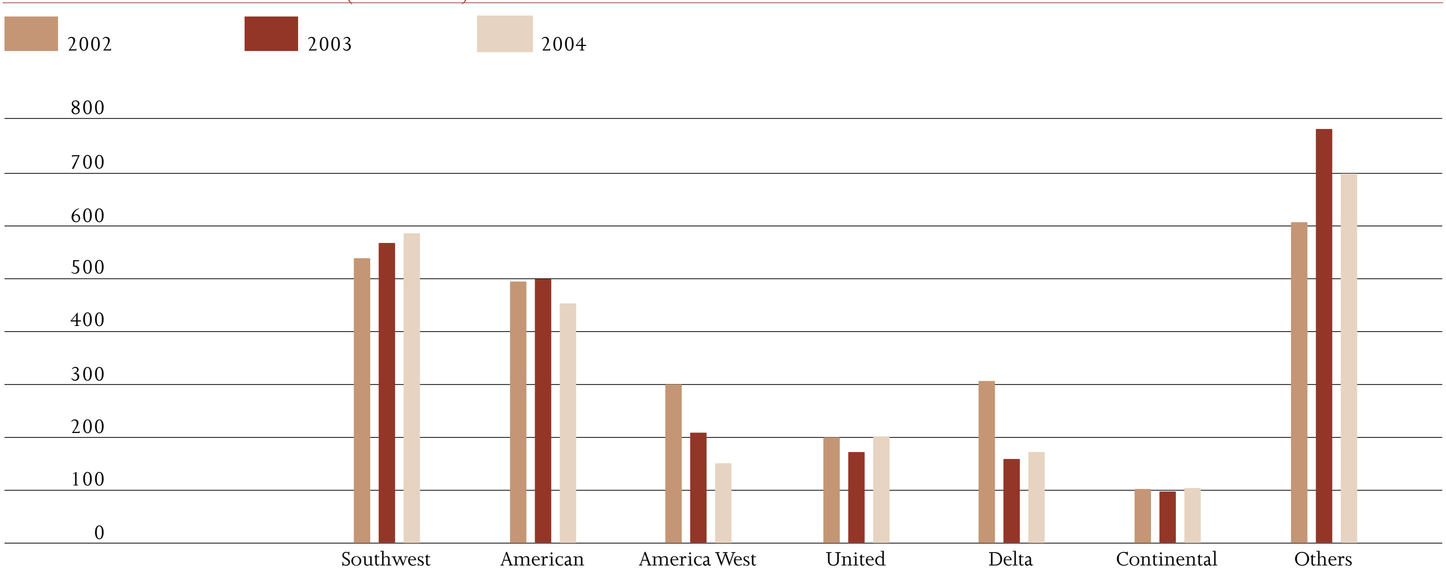
Management's Discussion and Analysis

September 30, 2004

PASSENGERS BY AIRLINE *(in thousands)*



LANDED WEIGHT BY AIRLINE *(in thousands)*



Management's Discussion and Analysis

September 30, 2004

FINANCIAL HIGHLIGHTS

The Airport's assets exceeded liabilities for fiscal year 2004 by approximately $185.5 million compared to $171.0 million and $160.2 million in fiscal years 2003 and 2002, respectively. Unrestricted funds for fiscal years 2004, 2003 and 2002 were approximately $48.2 million, $42.2 million and $39.5 million, respectively. The Authority may use these funds for any lawful purpose.

The overall financial position of the Airport has improved as indicated by consecutive annual increases in *Total Net Assets*. The improving trend for fiscal years 2003 and 2004 is due to earnings, grants-in-aid, and normal debt service.

The Airport's *Total Debt* decrease of $4.5 million in fiscal year 2004 is primarily a result of normal bond debt service. *Total Debt* for fiscal year 2003 increased over fiscal year 2002 as a result of a second letter of credit to finance a land purchase.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

Total *Operating Revenues* increased $3.6 million (9.5%) in fiscal year 2004, in addition to an increase of $3.5 million (10.3%) in fiscal year 2003 over 2002. This trend reflects an improving economy and growing demand for passenger travel.

Fiscal year 2004 *Operating Expenses* (before depreciation), and *Environmental Expenses* increased 8.7% over 2003. Fiscal year 2003 exceeded 2002 by 7.8%. Despite rising costs in insurance premiums and security, the Authority's system-wide spending reduction plan helped maintain a stabilized trend over the three-year period.

Non-Operating Revenue/Expense in fiscal year 2004 increased 65% over 2003 due to the refunding of higher rate Series 1993 bonds with lower rate Series 2003 bonds. Fiscal year 2003 was 31.5% lower than 2002 as a result of weaker interest income, fair value of investments, and PFCs.

Capital Contributions in fiscal year 2004 increased by 14.5% over 2003. Fiscal year 2003 *Capital Contributions* increased by 26.9% from 2002. These variances are governed by factors such as grant availability and project timing.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	2004	2003	2002
Operating revenues	$ 41,475,395	$ 37,889,530	$ 34,361,201
Operating expenses	27,919,230	25,487,441	25,232,234
Operating income before depreciation & amortization	13,556,165	12,402,089	9,128,967
Depreciation & amortization	9,235,438	9,319,630	8,849,288
Environmental revenue (expense)	(321,733)	(491,491)	1,124,369
Operating income	3,998,994	2,590,968	1,404,048
Non-operating income (expenses)	3,392,366	2,055,835	3,002,567
Income before capital contributions	7,391,360	4,646,803	4,406,615
Capital contributions	7,059,210	6,167,149	4,860,150
Increase in Net Assets	$ 14,450,570	$ 10,813,952	$ 9,266,765

Management's Discussion and Analysis

September 30, 2004

FINANCIAL POSITION

Current unrestricted assets increased in fiscal year 2004 due mainly to strong operating income and an increase in Grants Receivable. Federal grants receivable increased $1.3 million (96.6%) due to reimbursement of construction costs related to the terminal expansion. Cash and Cash Equivalents, as well as Investments, are higher than fiscal year 2003 by a combined $4.7 million (10.9%). *Current restricted assets* decreased in 2004 due largely to payments from the Passenger Facility Charge Fund for the terminal expansion project. *Net capital assets* increased $20.7 million (10.4%) in fiscal year 2004 due mainly to higher construction in progress related to the terminal expansion project.

Current liabilities payable from unrestricted assets are higher in fiscal year 2004 compared to fiscal year 2003 due to expenditures related to construction contracts and higher current maturities on long-term debt. *Total noncurrent liabilities* are lower than prior year due primarily to regularly scheduled debt payments.

SUMMARY OF NET ASSETS

	2004	2003	Increase/Decrease from 2003	% Increase/Decrease from 2003
Assets				
Current (unrestricted)	$ 53,764,117	$ 47,436,042	$ 6,328,075	13.3%
Current (restricted)	17,034,132	30,308,838	(13,274,706)	-43.8%
Net capital assets	220,154,298	199,460,226	20,694,072	10.4%
Other noncurrent	19,137,907	24,676,577	(5,538,670)	-22.4%
Total Assets	310,090,454	301,881,683	8,208,771	2.7%
Liabilities				
Current (payable from unrestricted assets)	5,711,928	5,380,067	331,861	6.2%
Current (payable from restricted assets)	9,431,429	10,134,977	(703,548)	-6.9%
Noncurrent	109,467,540	115,337,652	(5,870,112)	-5.1%
Total Liabilities	124,610,897	130,852,696	(6,241,799)	-4.8%
Net Assets				
Invested in capital assets, net of debt	127,670,339	105,450,740	22,219,599	21.1%
Restricted	9,602,092	23,401,918	(13,799,826)	-59.0%
Unrestricted	48,207,126	42,176,329	6,030,797	14.3%
Total Net Assets	$ 185,479,557	$ 171,028,987	$ 14,450,570	8.4%

Management's Discussion and Analysis

September 30, 2004

The largest portion of the Airport's net assets (68.8% for fiscal year 2004, and 61.7% for 2003) represents its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its passengers, visitors and tenants of the airport; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Airport's net assets (5.2% for FY2004 and 13.7% for FY2003) represents resources that are subject to restrictions from contributors, bond resolutions and State and Federal regulations on how they may be used. The remaining balance of unrestricted net assets, $48.2 million for FY2004 and $42.2 million for FY2003, may be used for any lawful purpose of the Airport.

At the end of fiscal years 2004, 2003 and 2002, the Airport reported positive balances in all three categories of net assets.

SUMMARY OF NET ASSETS

	2003	2002	Increase/Decrease from 2002	% Increase/Decrease from 2002
Assets				
Current (unrestricted)	$ 47,436,042	$ 43,914,294	$ 3,521,748	8.0%
Current (restricted)	30,308,838	47,054,951	(16,746,113)	-35.6%
Net capital assets	199,460,226	172,343,919	27,116,307	15.7%
Other noncurrent	24,676,577	25,328,236	(651,659)	-2.6%
Total Assets	301,881,683	288,641,400	13,240,283	4.6%
Liabilities				
Current (payable from unrestricted assets)	5,380,067	4,572,424	807,643	17.7%
Current (payable from restricted assets)	10,134,977	6,932,118	3,202,859	46.2%
Noncurrent	115,337,652	116,921,823	(1,584,171)	-1.4%
Total Liabilities	130,852,696	128,426,365	2,426,331	1.9%
Net Assets				
Invested in capital assets, net of debt	105,450,740	101,681,403	3,769,337	3.7%
Restricted	23,401,918	19,061,467	4,340,451	22.8%
Unrestricted	42,176,329	39,472,165	2,704,164	6.9%
Total Net Assets	$ 171,028,987	$ 160,215,035	$ 10,813,952	6.7%

AIRLINES RATES AND CHARGES

The Tucson Airport Authority has a long-term residual cost use agreement with the major passenger airlines. This agreement provides a method for securing the financial stability of the Airport through a schedule of rates and charges.

SIGNATORY AIRLINE RATES AND CHARGES

	2004	2003	2002
Ticketing/per sq. ft.	$ 61.88	$ 61.88	$ 59.22
Hold room/per sq. ft.	52.58	52.58	50.32
Baggage storage/per sq. ft.	61.88	61.88	59.22
Baggage makeup/per sq. ft.	37.12	37.12	35.53
Airline into plane/per gallon	0.042	0.042	0.038
Landing fee/per 1,000 lbs.	1.20	1.20	1.12

Management's Discussion and Analysis

September 30, 2004

REVENUES

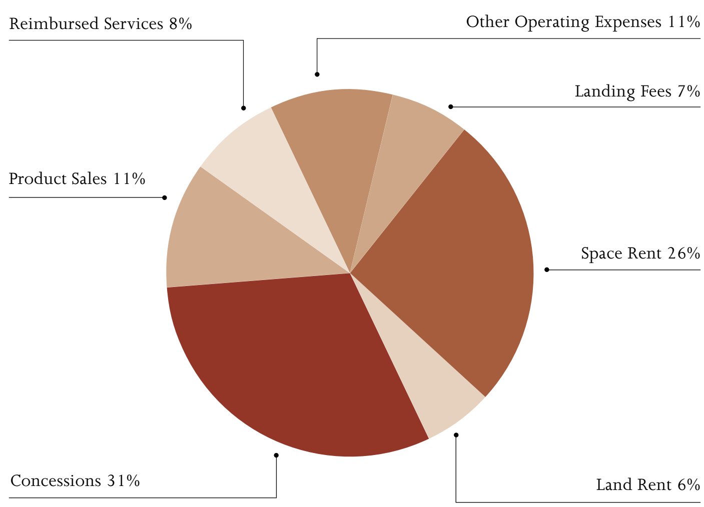
The following charts show the major sources and the percentage of operating revenues for fiscal years 2004, 2003, 2002.

In fiscal year 2004, *Total Revenues* of $55.5 million exceeded the prior fiscal year by 9.8%, whereas fiscal year 2003 revenues of $50.5 million exceeded fiscal year 2002 by 7.3%.

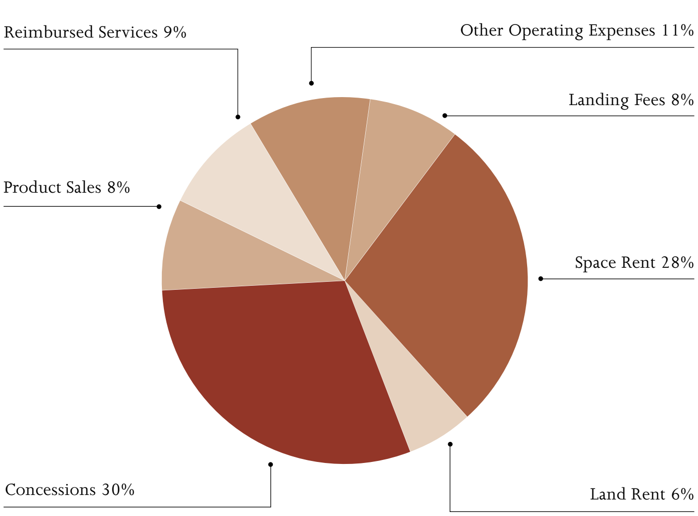
Revenues were up in fiscal year 2004 over 2003 in every category except landing fees. Despite the lower landing fee revenue, fiscal year 2004 airline related revenues were higher than fiscal year 2003 as a result of increased baggage claim area rentals and mandated security costs passed through to the airlines. Land rent was higher due mainly to greater revenue from the Airport's lease with the Air National Guard. Concession revenues exceeded fiscal year 2003 by $1.3 million (11.3%) due primarily to increased parking lot revenues of $1.1 million (21.7%) resulting largely from rate increases implemented in November 2003. In addition, higher passenger counts led to a greater number of parking lot transactions, as well as increased rental car, food and beverage, and news and gifts revenues. Product sales were up $1.4 million (44.9%) primarily as a result of higher jet fuel costs, which are passed through to the Airport's customers in the form of higher selling prices.

Fiscal year 2003 revenue exceeded fiscal year 2002 by $3.4 million (7.3%), increasing in all major categories except Product Sales.

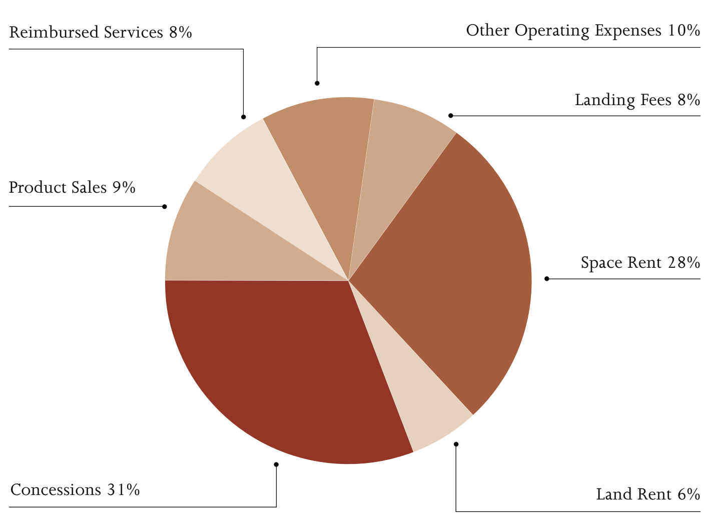
FY 2004 OPERATING REVENUES



FY 2003 OPERATING REVENUES



FY 2002 OPERATING REVENUES



Management's Discussion and Analysis

September 30, 2004

REVENUES BY MAJOR SOURCE (in thousands)

	2004	2003	Variance	% Increase/Decrease from 2003
Landing fees	$ 2,943	$ 3,005	$ (62)	-2.1%
Space rent	10,991	10,740	251	2.3%
Land rent	2,401	2,166	235	10.8%
Concessions	12,619	11,341	1,279	11.3%
Product sales	4,480	3,093	1,387	44.9%
Reimbursed services	3,405	3,239	166	5.1%
Other operating	4,636	4,306	330	7.7%
Total Operating Revenues	41,475	37,890	3,586	9.5%
Interest	1,885	1,566	319	20.4%
PFCs	5,039	4,908	132	2.7%
Other non-operating	42	—	42	—
Capital contribution	7,059	6,167	892	14.5%
Total Non-operating Revenues	14,026	12,641	1,385	11.0%
Total Revenues	**$ 55,501**	**$ 50,531**	**$ 4,971**	**9.8%**

REVENUES BY MAJOR SOURCE (in thousands)

	2003	2002	Variance	% Increase/Decrease from 2002
Landing fees	$ 3,005	$ 2,910	$ 95	3.3%
Space rent	10,740	9,571	1,170	12.2%
Land rent	2,166	1,955	211	10.8%
Concessions	11,341	10,784	557	5.2%
Product sales	3,093	3,149	(57)	-1.8%
Reimbursed services	3,239	2,659	579	21.8%
Other operating	4,306	3,333	973	29.2%
Total Operating Revenues	37,890	34,361	3,528	10.3%
Interest	1,566	3,044	(1,478)	-48.6%
PFCs	4,908	4,763	145	3.0%
Other non-operating	—	75	(75)	-99.8%
Capital contribution	6,167	4,860	1,307	26.9%
Total Non-operating Revenues	12,641	12,742	(101)	-0.8%
Total Revenues	**$ 50,531**	**$ 47,103**	**$ 3,427**	**7.3%**

Management's Discussion and Analysis

September 30, 2004

NON-OPERATING REVENUES

Non-Operating Revenue consists mainly of *Interest Income on Investments, Passenger Facility Charges* (PFCs), and *Capital Contributions*. Fiscal year 2004 *Non-Operating Revenue* increased 11% from 2003 due to higher PFCs and capital contributions. Fiscal year 2003 *Non-Operating Revenue* decreased by .8% from 2002 (see previous tables).

COST PER ENPLANED PASSENGER

Cost Per Enplaned Passenger (CPEP) is a measure used by airlines to show the average cost the airline incurs to enplane one passenger at a given airport. This figure is derived by dividing the total Passenger Airline Revenues by the number of Enplaned Passengers. Fiscal year 2004 increases were the result of higher security costs being allocated to passenger airlines.

COST PER ENPLANED PASSENGER

	2004	2003	2002
Passenger Airline Revenues	$ 11,727,084	$ 10,758,538	$ 10,013,625
Enplaned Passengers	1,841,791	1,766,859	1,729,336
Cost per Enplaned Passenger	$ 6.37	$ 6.09	$ 5.79

Management's Discussion and Analysis

September 30, 2004

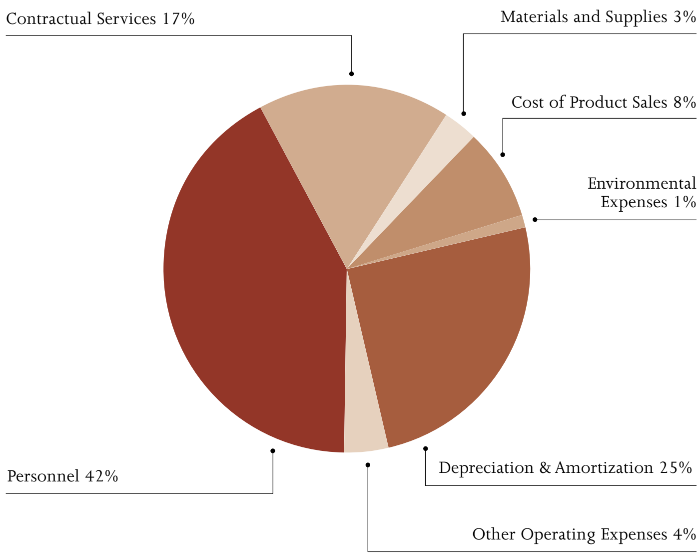
EXPENSES

The following charts show the major operating cost categories for the Tucson Airport Authority for fiscal years 2004, 2003, and 2002.

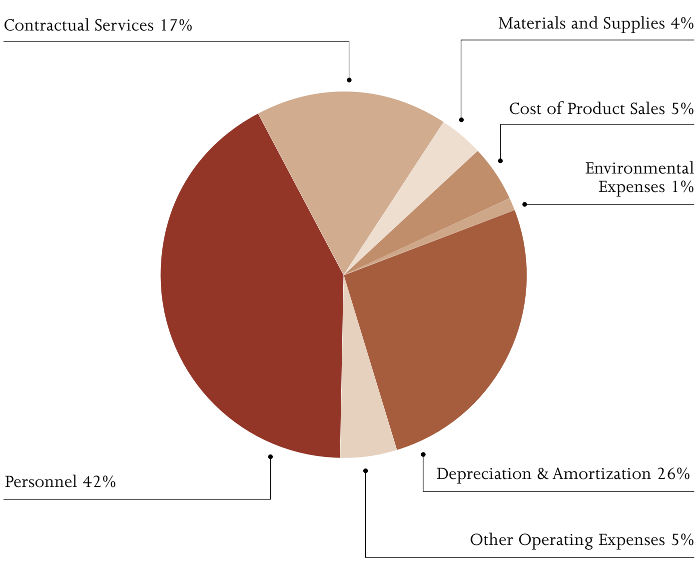
Total Expenses for fiscal year 2004 increased 3.4% over 2003. The 57.6% increase in cost of product sales was driven by higher jet fuel costs. This increase was offset by corresponding higher prices charged to customers.

Total Expenses in fiscal year 2003 increased 5% over fiscal year 2002. The most significant increase occurred in the Environmental Expense category due to changes in projected remediation costs.

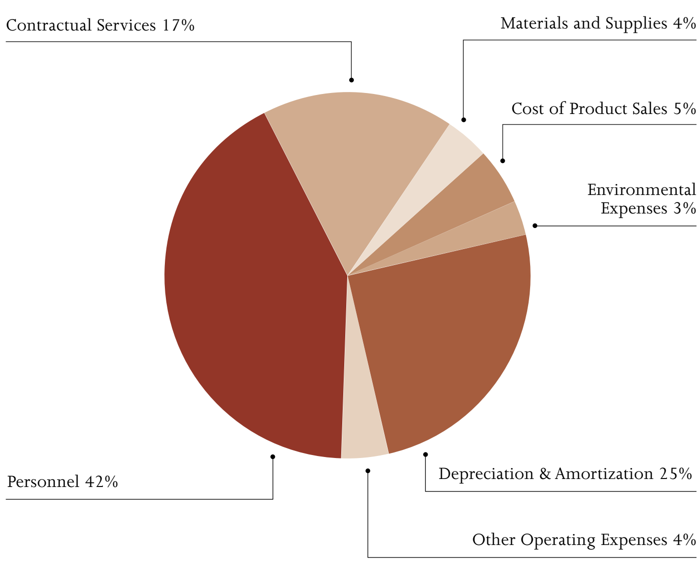
OPERATING EXPENSES FY 2004



OPERATING EXPENSES FY 2003



OPERATING EXPENSES FY 2002



Management's Discussion and Analysis

September 30, 2004

EXPENSES BY MAJOR CATEGORIES (in thousands)

	2004	2003	Increase/Decrease from 2003	% Increase/Decrease from 2003
Personnel	$ 15,574	$ 14,826	$ 748	5.0%
Contractual services	6,501	5,842	658	11.3%
Materials and supplies	1,246	1,277	(31)	-2.4%
Cost of product sales	2,966	1,883	1,084	57.6%
Environmental expenses	322	491	(170)	-34.5%
Depreciation and amortization	9,235	9,320	(84)	-0.9%
Other operating	1,632	1,659	(27)	-1.6%
Total Operating Expenses	37,476	35,299	2,178	6.2%
Net change in fair market value	725	418	306	73.3%
Interest	2,862	3,615	(753)	-20.8%
Other non-operating expenses	(12)	384	(397)	-103.2%
Total Non-operating Expenses	3,547	4,418	(844)	-19.1%
Total Expenses	**$ 41,051**	**$ 39,717**	**$ 1,334**	**3.4%**

EXPENSES BY MAJOR CATEGORIES (in thousands)

	2003	2002	Increase/Decrease from 2002	% Increase/Decrease from 2002
Personnel	$ 14,826	$ 14,730	$ 95	0.6%
Contractual services	5,842	5,904	(61)	-1.0%
Materials and supplies	1,277	1,268	9	0.7%
Cost of product sales	1,883	1,809	74	4.1%
Environmental expenses	491	(1,124)	1,616	-143.7%
Depreciation and amortization	9,320	8,849	470	5.3%
Other operating	1,659	1,521	139	9.1%
Total Operating Expenses	35,299	32,957	2,341	7.1%
Net change in fair market value	418	981	(563)	-57.4%
Interest	3,615	3,537	79	2.2%
Other non-operating expenses	384	362	23	6.3%
Total Non-operating Expenses	4,418	4,879	(461)	-9.5%
Total Expenses	**$ 39,717**	**$ 37,837**	**$ 1,880**	**5.0%**

Management's Discussion and Analysis

September 30, 2004

CAPITAL ASSETS

Net Capital Assets increased 10.4% in fiscal year 2004 over 2003. The increase resulted from construction related to the terminal expansion project.

Net Capital Assets increased 15.7% in fiscal year 2003 over 2002. The increase resulted from the completion of the new rental car facility, a land purchase, and the terminal expansion.

Additional detailed information regarding capital asset activity may be found in Note 4 to the financial statements.

NET CAPITAL ASSETS

	2004	2003	Increase/Decrease from 2003	% Increase/Decrease from 2003
Land	$ 46,277,243	$ 46,277,243	$ 0	0.0%
Land improvements	77,765,163	74,718,142	3,047,021	4.1%
Buildings and improvements	102,300,512	101,056,402	1,244,110	1.2%
Utilities	5,741,318	5,738,798	2,520	0.0%
Furniture/fixtures; machinery/equipment	17,633,937	17,673,411	(39,474)	-0.2%
Artwork	223,798	223,798	0	0.0%
Construction in progress	88,549,239	63,866,078	24,683,161	38.6%
Total	338,491,210	309,553,872	28,937,338	9.3%
Less accumulated depreciation	118,336,912	110,093,646	8,243,266	7.5%
Net Capital Assets	$ 220,154,298	$ 199,460,226	$ 20,694,072	10.4%

NET CAPITAL ASSETS

	2003	2002	Increase/Decrease from 2002	% Increase/Decrease from 2002
Land	$ 46,277,243	$ 44,025,372	$ 2,251,871	5.1%
Land improvements	74,718,142	73,867,816	850,326	1.2%
Buildings and improvements	101,056,402	83,518,802	17,537,600	21.0%
Utilities	5,738,798	5,738,798	0	0.0%
Furniture/fixtures; machinery/equipment	17,673,411	16,648,478	1,024,933	6.2%
Artwork	223,798	223,798	0	0.0%
Construction in progress	63,866,078	49,614,748	14,251,330	28.7%
Total	309,553,872	273,637,812	35,916,060	13.1%
Less accumulated depreciation	110,093,646	101,293,893	8,799,753	8.7%
Net Capital Assets	$ 199,460,226	$ 172,343,919	$ 27,116,307	15.7%

Management's Discussion and Analysis

September 30, 2004

DEBT ACTIVITY

At the end of fiscal year 2004, the Airport had total bonded debt outstanding of $96.4 million. This represents airport revenue bonds secured solely by specified revenue sources. The decrease of $4.5 million from fiscal year 2003 is a result of normal debt service activity.

The 1.4% increase in long-term debt in fiscal year 2003 compared to fiscal year 2002 was due to normal debt service activity offset by refunding of the 1993 Refunding Series Revenue Bonds with the 2003 Refunding Series Revenue Bonds, as well as a second letter of credit issued to finance a land purchase.

Additional detailed information regarding long-term debt activity may be found in Note 6 to the financial statements.

DEBT SERVICE COVERAGE

Debt Service Coverage is a covenant of the bond resolutions requiring that a surplus of funds be available in the amount 125% of principal and interest due in the subsequent year. This coverage serves as an indicator to bond holders that funds are available for timely debt service payments.

OUTSTANDING LONG-TERM DEBT

	2004	2003	Increase/Decrease from 2003	% Increase/Decrease from 2003
Notes	$ 7,028,927	$ 7,065,665	$ (36,738)	-0.5%
Authority Revenue Bonds				
2001 Series A,B,C	13,855,000	14,390,000	(535,000)	-3.7%
2001 Subordinate Lien	40,865,000	41,580,000	(715,000)	-1.7%
2003 Refunding Series	34,665,000	37,830,000	(3,165,000)	-8.4%
Total Long-Term Debt	$ 96,413,927	$ 100,865,665	$ (4,451,738)	-4.4%

OUTSTANDING LONG-TERM DEBT

	2003	2002	Increase/Decrease from 2002	% Increase/Decrease from 2002
Notes	$ 7,065,665	$ 3,465,396	$ 3,600,269	103.9%
Authority Revenue Bonds				
1993 Series	—	39,480,000	(39,480,000)	-100.0%
2001 Series A,B,C	14,390,000	14,905,000	(515,000)	-3.5%
2001 Subordinate Lien	41,580,000	41,580,000	—	—
2003 Refunding Series	37,830,000	—	37,830,000	100.0%
Total Long-Term Debt	$ 100,865,665	$ 99,430,396	$ 1,435,269	1.4%

Management's Discussion and Analysis

September 30, 2004

AIRPORT OUTLOOK

The following events highlight fiscal year 2005 at Tucson International Airport.

The expanded/renovated baggage claim area, along with the ticketing level on the east side of the terminal serving American, Southwest and Frontier opened in October 2004. The ticketing level on the west side of the terminal serving America West, United, Delta, Northwest, Continental and Alaska is scheduled for completion in late December 2004. The moving sidewalk "link" will also begin operation around the first of the calendar year.

Capital Improvement projects include the Rehabilitation of Runway 11L-29R; the expansion of the Main Terminal Apron, Phase I, required for Terminal Expansion; and the Construction of New Taxiway G, Phase I which is required for access to the new aircraft support facilities development site. Total costs of $18.23 million are eligible for both Federal and State Grant reimbursement at 96%.

New construction will continue on facilities for corporate and general aviation aircraft.

Implementation of the Integrated Airport Management System (IAMS) is underway and completion is anticipated for late spring 2005. The IAMS project includes entirely new computer software and hardware to upgrade all financial and other information technology systems airport-wide.

AIR SERVICE OUTLOOK

TIA is served by eleven passenger airlines through their principal carrier (mainline) operations, their wholly owned subsidiaries, and/or contract regional carriers. Twelve of the fifteen airports to which Tucson has nonstop service are hub airports for large carriers. As no single carrier holds a dominant local market position, competition remains robust along Tucson's top origin and destination routes that are served by multiple network and point-to-point carriers. Fares are trending downward, frequency has increased and capacity continues to recover at TUS in the wake of continued low-fare competition, overcapacity, and diminished pricing power that has plagued most domestic legacy carriers.

A reduction in capacity, coupled with a modest recovery in pricing, appear likely for the airline industry next year, according to a projection by Fitch Ratings.

While uncertainty over the future price of jet fuel remains, the ratings firm said, "A slowdown in the destructive multi-year collapse of passenger yields may be possible in 2005." For the full-year 2004, the combined net loss for U.S. airlines should top $5 billion, "and cash flow generation has once again lagged to the point where no significant progress toward balance sheet repair has occurred," Fitch said.

Fitch Ratings, Inc., December 2004

Tucson International Airport (TIA) has maintained steady growth in frequency, capacity and passenger enplanements at a rate above the 2004 domestic average of 6% despite its proximity (110 miles) to the nation's fifth largest hub airport, Phoenix Sky Harbor. The major change at TIA has been the reallocation of aircraft types by United and America West. Over the last four years TIA has seen nearly half of its mainline service downsized to 50, 64, 70 and 80 seat regional jets, with the trend now toward the larger aircraft in the RJ family. The average number of seats per departure decreased to 96.4 from 130 during this period, yet in order to maintain capacity with smaller jets, airlines have steadily increased frequency. In December 2004 daily arrivals and departures averaged 7.92% more than in December 2003 with a resultant 10% increase in seat capacity, the highest level of service since post-9/11 reductions that began in early 2002.

The steady increase of low-cost service and the high costs of labor and fuel will continue to suppress domestic air carrier earnings in 2005. With three (US Airways, United, American Trans Air) of the nation's ten largest airlines operating under bankruptcy protection and a fourth (Delta) precariously close to a Chapter 11 filing, it is yet uncertain as to whether there will be attempts at mergers that would effectively provide the needed relief for industry-wide overcapacity.

Any possible merger or acquisition would still be viewed on its own merits, "but clearly there is a recognition that the industry is going through a restructuring, and mergers and acquisitions could be a part of that restructuring," says Yohe, whose company operates its second-largest hub locally. "There is an inclination politically and philosophically here in Washington right now to let the market play all of this out."

Scott Yohe, Delta Airlines, Sr.V.P. Government Relations, December 2004

Hub pull-downs and closures have already occurred and more are likely for 2005. Delta Airlines will cease hub operations at DFW by the end of January 2005. This will result in the loss of three daily (50 seat) RJ flights between TUS and DFW, but Delta will replace this service by adding an additional daily nonstop (150 seat) flight between Tucson and Atlanta. There is no clear indication as to which (if any) carrier will assume the gate positions vacated by Delta at DFW. On the other hand, contrary to its pull-down at DFW, Delta has announced its intention to increase the number of flights from its Salt Lake City hub. This will give Tucson travelers enhanced connecting flight options from Delta's six current daily flights between Tucson and Salt Lake City.

Currently gaining momentum is Southwest Airlines' campaign to repeal a federal amendment that restricts flights at its home airport in Dallas from flying anywhere but other cities in Texas and contiguous states. Tucson could ultimately be a beneficiary of additional Southwest service should the amendment be repealed. The 1979 federal law (Wright Amendment) designed to protect Dallas-Fort Worth International Airport prohibits all but the smallest passenger planes from flying between Love Field and anywhere beyond Texas and seven contiguous states.

Management's Discussion and Analysis

September 30, 2004

By late 2005, jetBlue Airways will begin to integrate the first of its (ultimately) 200 Embraer 190 aircraft into its fleet. The carrier's current system is centered largely on California and Florida from its New York hub. The company will add cities that will involve an expansion to the Mid-Atlantic, Midwest and Southwest and which have the best revenue earning potential. The ultimate addition of an estimated 150,000 daily low-cost seats into the domestic system is expected to have a substantive impact on legacy carriers.

TIA focuses its strategic air service development effort on achievable goals that are consistent with the dynamics of the airline industry. TIA's primary objectives are to increase nonstop service to the central and eastern U.S. through continued placement of new carriers, and expanding the services of incumbent airlines. With operating costs at or below the median for the medium hub airport category, Tucson represents an economical choice for airlines.

Recent gains for Tucson include:

- a sixth daily Delta Connection RJ frequency between Tucson and Salt Lake City
- once daily nonstop Continental Airlines service between Newark Liberty Airport and Tucson
- three additional daily nonstop departures to Chicago O'Hare (two United Airlines, one American Airlines)
- an upgrade from 50 to 70 seat United Express regional jets on two of six daily departures from Tucson to Los Angeles
- a fifth daily Southwest Airlines departure to Las Vegas
- a third daily nonstop (Delta Airlines) between Tucson and Atlanta beginning February 2005
- an eighth daily (American Airlines) nonstop between Tucson and Dallas-Fort Worth

Due to the fuel related increase in airline operating costs during 2004, the most challenging objectives for air service development in 2005 will be the acquisition of additional longer range (over 1,000 mile segment) nonstop services. Nonstop service to Detroit and Cincinnati will be two primary targets for 2005.

Several key short range routes were discontinued during 2003-2004; Portland, San Francisco, and San Jose. The San Francisco Bay area will be at the forefront for redevelopment of service to either San Jose (SJC) or Oakland (OAK).

Low-fare service to the eastern U.S. will continue to be a priority with Southwest as the most likely carrier to provide service to either Houston or Chicago. Should the Wright Amendment be repealed or the Shelby Amendment be modified to include Arizona, service between Dallas Love Field and Tucson would become a viable objective.

Expectations are that in late 2005 jetBlue will announce one or more cities that will serve as focus points or hubs for its EMB-190 operations connecting New York and California beginning in 2006. Unmet demand, competitive airport costs, and a substantive cooperative marketing investment provided by the Metropolitan Tucson Convention and Visitors Bureau will position Tucson as a strong competitor for this service.

Statements of Net Assets

September 30, 2004 and 2003

ASSETS

	2004	2003
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 9,595,719	$ 6,633,153
Investments	38,088,165	36,433,355
Accounts receivable, net of allowance for doubtful accounts of $350,000 and $250,000 for 2004 and 2003 respectively	2,075,874	1,711,933
Accrued interest receivable	271,917	301,449
Grants receivable	2,702,429	1,374,899
Notes receivable	39,263	38,927
Inventories	536,193	446,684
Prepaid expenses and other assets	454,557	495,642
Total Unrestricted Assets	53,764,117	47,436,042
Restricted Assets		
Airport Senior Lien Revenue Bonds, Series 2001A, B, and C:		
Cash and cash equivalents	51,931	32,232
Investments	383,671	403,988
	435,602	436,220
Airport Subordinate Lien Revenue Bonds, Series 2001:		
Construction Fund:		
Cash and cash equivalents	—	173,965
Investments	—	2,180,395
Accrued interest receivable	—	18,043
	—	2,372,403
Debt Service Fund:		
Cash and cash equivalents	113,567	79,475
Investments	839,049	996,107
	952,616	1,075,582
Airport Revenue Bonds, Refunding Series 2003:		
Cash and cash equivalents	187,149	202,376
Investments	1,382,684	2,536,490
	$ 1,569,833	$ 2,738,866

Statements of Net Assets continued on next page.

Statements of Net Assets

September 30, 2004 and 2003

ASSETS *(continued)*

	2004	2003
Restricted Assets *(continued)*		
Deferred Bond Issuance Costs:		
Series 2001A, B, and C	$ 330,647	$ 366,743
Subordinate Series 2001	1,062,641	1,127,315
Refunding Series 2003	1,677,478	2,038,899
Letter of Credit 2001	45,649	68,473
Letter of Credit 2003	59,956	79,942
	3,176,371	3,681,372
Passenger Facility Charge Fund:		
Cash and cash equivalents	538,372	1,210,660
Investments	3,977,566	15,173,884
Accrued interest receivable	26,578	125,566
Accounts receivable	636,849	630,421
	5,179,365	17,140,531
Land Acquisition Fund:		
Cash and cash equivalents	164,049	99,844
Investments	1,212,016	1,251,401
Accrued interest receivable	8,099	10,355
	1,384,164	1,361,600
Environmental Trust:		
Cash and cash equivalents	4,191,106	1,342,163
Accrued interest receivable	145,075	160,101
	4,336,181	1,502,264
Total Restricted Assets	17,034,132	30,308,838
Total Current Assets	70,798,249	77,744,880
Noncurrent Assets		
Environmental Trust Investments	19,093,218	24,592,960
Notes receivable, Net of Current Portion	44,689	83,617
Capital Assets, Net of Accumulated Depreciation	220,154,298	199,460,226
Total Noncurrent Assets	239,292,205	224,136,803
Total Assets	**$ 310,090,454**	**$ 301,881,683**

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

Statements of Net Assets

September 30, 2004 and 2003

LIABILITIES

	2004	2003
Current Liabilities		
Payable from Unrestricted Assets:		
Accounts payable	$ 902,239	$ 1,068,500
Accrued expenses	1,495,611	1,403,845
Deferred revenues	81,626	111,770
Construction contracts payable	3,193,592	2,759,215
Current portion of notes payable	38,860	36,737
Total Payable from Unrestricted Assets	5,711,928	5,380,067
Payable from Restricted Assets:		
Airport Revenue Bonds, Series 2001A, B, and C:		
Current portion of bonds	565,000	535,000
Accrued interest payable	248,543	257,032
	813,543	792,032
Airport Subordinate Lien Revenue Bonds, Series 2001:		
Current portion of bonds	750,000	715,000
Accrued interest payable	703,400	715,648
	1,453,400	1,430,648
Airport Revenue Bonds, Refunding Series 2003:		
Current portion of bonds	3,275,000	3,165,000
Accrued interest payable	482,456	524,856
	3,757,456	3,689,856
Current portion of environmental payable	3,407,030	4,222,441
Total Payable from Restricted Assets	9,431,429	10,134,977
Total Current Liabilities	$ 15,143,357	$ 15,515,044

Statements of Net Assets continued on next page.

Statements of Net Assets

September 30, 2004 and 2003

LIABILITIES *(continued)*

		2004		2003
Noncurrent Liabilities				
Notes payable, net of current portion	$	6,990,067	$	7,028,928
Airport Revenue Bonds, Series 2001A, B, and C, net of current portion		13,290,000		13,855,000
Original issue discount, Series 2001A, B, and C		(131,231)		(145,557)
Airport Subordinate Lien Revenue Bonds, Series 2001, net of current portion		40,115,000		40,865,000
Original issue discount, Subordinate Series 2001		(201,683)		(213,958)
Airport Revenue Bonds, Refunding Series 2003, net of current portion		31,390,000		34,665,000
Original issue premium, Refunding Series 2003		1,662,564		2,020,773
Deferred loss on bond refundings		(2,083,247)		(2,463,662)
Environmental payable, net of current portion		18,436,070		19,726,128
Total Noncurrent Liabilities		109,467,540		115,337,652
Total Liabilities		**124,610,897**		**130,852,696**
Net Assets				
Invested in capital assets, net of related debt		127,670,339		105,450,740
Restricted for:				
Debt service		1,523,652		2,753,132
Capital projects		5,179,365		17,140,531
Land acquisition		1,384,164		1,361,600
Environmental		1,514,911		2,146,655
Unrestricted		48,207,126		42,176,329
Total Net Assets		185,479,557	$	171,028,987
Total Liabilities and Net Assets	**$**	**310,090,454**	**$**	**301,881,683**

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

Statements of Revenues and Expenses and Changes in Net Assets

Years Ended September 30, 2004 and 2003

	2004	2003
Operating Revenues		
Landing fees	$ 2,942,919	$ 3,005,040
Space rentals	10,991,246	10,740,247
Land rent	2,400,905	2,166,000
Concession revenue	12,619,269	11,340,754
Product sales	4,479,776	3,092,533
Airport services	3,404,943	3,238,587
Other operating revenues	4,636,337	4,306,369
Total Operating Revenues	41,475,395	37,889,530
Operating Expenses		
Personnel expenses	15,574,112	14,825,829
Contractual services	6,500,677	5,842,420
Materials and supplies	1,245,899	1,277,074
Cost of product sales	2,966,217	1,882,699
Other operating expenses	1,632,325	1,659,419
Total Operating Expenses	27,919,230	25,487,441
Environmental Expenses	321,733	491,491
Depreciation and Amortization	9,235,438	9,319,630
Operating income	3,998,994	2,590,968
Non-operating Revenues (Expenses)		
Interest income	1,885,266	1,566,081
Net change in fair value of investments	(724,761)	(418,281)
Interest expense and fiscal charges	(2,862,005)	(3,615,382)
Gain (loss) on disposition of equipment	15,482	(26,368)
Passenger facility charge	5,039,403	4,907,636
Other non-operating revenues	42,072	115
Other non-operating expenses	(3,091)	(357,966)
Total Non-operating Revenues (Expenses)	3,392,366	2,055,835
Net Income Before Capital Contributions	7,391,360	4,646,803
Capital Contributions	7,059,210	6,167,149
Change in Net Assets	14,450,570	10,813,952
Total Net Assets, Beginning of Year	171,028,987	160,215,035
Total Net Assets, End of Year	**$ 185,479,557**	**$ 171,028,987**

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

Statements of Cash Flows

Years Ended September 30, 2004 and 2003

	2004	2003
Cash Flows from Operating Activities		
Receipts from airlines and tenants	$ 41,123,382	$ 37,841,061
Payments to suppliers	(14,895,239)	(12,517,073)
Payments for personnel services	(15,574,112)	(14,825,829)
Net Cash Provided by Operating Activities	10,654,031	10,498,159
Cash Flows from Capital and Related Financing Activities		
Federal/state contributed capital, grants in aid	5,728,589	5,106,921
Acquisition of property, plant, and equipment	(28,996,570)	(35,502,516)
Refinance of long-term debt	—	41,465,000
Principal paid on long-term debt	(4,451,738)	(40,029,731)
Bond issuance costs	—	(1,542,432)
Passenger facility charges receipts	5,032,975	4,953,207
Interest paid on long-term debt	(2,876,335)	(2,210,762)
Net Cash Used in Capital and Related Financing Activities	(25,563,079)	(27,760,313)
Cash Flows from Investing Activities		
Interest on investments	2,049,111	2,011,503
Maturity and calls of investments	63,240,463	129,154,496
Purchase of investments	(45,301,625)	(114,813,638)
Proceeds from sale of fixed assets	21,920	28,100
Collections of notes receivable	38,592	13,394
Net Cash Provided by Investing Activities	20,048,461	16,393,855
Net Increase (Decrease) in Cash and Cash Equivalents	5,139,413	(868,299)
Cash and Cash Equivalents, Beginning of Year	9,773,868	10,642,167
Cash and Cash Equivalents, End of Year	**$ 14,913,281**	**$ 9,773,868**

Statements of Cash Flows continued on next page.

Statements of Cash Flows

Years Ended September 30, 2004 and 2003

(continued)

	2004	2003
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 3,998,994	$ 2,590,968
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	9,235,438	9,319,630
Effects of changes in operating assets and liabilities:		
Receivables	(363,941)	845
Bad debt recovery	42,072	115
Inventories	(89,509)	(2,361)
Prepaid and other assets	41,085	(348,066)
Accounts payable	(166,261)	(79,329)
Accrued expenses	91,766	284,981
Environmental payable	(2,105,469)	(1,219,195)
Deferred revenues	(30,144)	(49,429)
Net Cash Provided by Operating Activities	$ 10,654,031	$ 10,498,159
Noncash Investing, Capital, and Financing Activities		
Net Appreciation (Depreciation) in Fair Market Value of Investments	$ 724,761	$ (418,281)

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

Summary of Significant Accounting Policies

September 30, 2004 and 2003

Tucson Airport Authority, Inc. (Authority), a private, nonprofit corporation chartered under the laws of the State of Arizona, was established April 12, 1948, for the purpose of developing and promoting transportation and commerce in the State through the operation and maintenance of airports and related facilities adjacent to the City of Tucson in Pima County, Arizona. The Authority's membership consists of electors and taxpayers of Pima County. The membership elects a Board of Directors which governs the Authority. The Authority has no taxing power and presently operates two airports – Tucson International Airport and Ryan Airfield.

The land and improvements comprising the Tucson International Airport (Airport) are owned by the City of Tucson, Arizona (City), and are leased by the City to the Authority pursuant to a lease dated October 14, 1948, as amended (Airport Lease). Pursuant to the terms of the Airport Lease, which expires October 14, 2048, the Authority has the obligation to operate, maintain, and develop the Airport as a public facility for the accommodation of air commerce. In addition, the Airport Lease provides for certain other rights, powers, and obligations as specified therein. The Authority, under the terms of the Airport Lease, has been required to make only nominal payments to date. Upon expiration of the Airport Lease, the Airport and all improvements thereon, except as provided for in the Airport Lease, return to the custody of the City.

Substantially all of the major passenger airlines utilizing the Airport have entered into Airport Use Agreements with the Authority and are referred to as Signatory Airlines. In general, the Airport Use Agreements provide that fixed rentals are to be paid monthly by each Signatory Airline for use and occupancy of certain terminal space and other facilities. In addition, the Signatory Airlines will collectively pay landing fees which are determined so that the aggregate landing fees paid in each fiscal year by all Signatory Airlines, after taking into consideration other revenues of the Authority, is an amount which provides sufficient operating funds to cover annual debt service of the bonds, pay annual operating expenses, and satisfy other bond resolution requirements. The Airport Use Agreements terminate on September 30, 2006.

The accompanying financial statements include the accounts of the Authority. There are no potential component units, nor has the Authority been determined to be a component unit of any other entity.

The following is a summary of significant accounting policies.

BASIS OF PRESENTATION

The Authority is accounted for as an enterprise fund. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units; i.e., special districts. Such funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a number of estimates and assumptions, i.e. useful lives of capital assets, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statements of net assets. Net assets are segregated into components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. When both restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first, then unrestricted resources as they are needed.

Summary of Significant Accounting Policies

September 30, 2004 and 2003

On proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

In accordance with Government Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority has elected to apply only those applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

BUDGETS

The Authority utilizes a budget process for planning purposes with adoption by the Board of Directors. The Authority prepares a biennial budget that is presented to the Mayor and Council of the City for informational purposes. An annual budget is also reviewed by representatives of the Signatory Airlines. The budget is prepared in sufficient detail to enable its use by management in monitoring operations.

CASH AND CASH EQUIVALENTS

Investments are categorized as cash equivalents if their original maturity date is 90 days or less when purchased. Those assets having a maturity of more than 90 days are classified as investments for balance sheet presentation. Cash equivalents include checking, savings, money market accounts, and cash equivalent mutual funds. Remediation trust deposits are included in cash equivalents.

DOUBTFUL ACCOUNTS

The Authority uses the allowance method for recording the provision for doubtful accounts.

INVENTORIES

Inventories are recorded at the lower of cost or market with cost determined on a weighted-average basis for warehouse inventory and on a LIFO basis for fuel sales.

INVESTMENTS

Investments are stated at fair value. The Authority's policy is to invest in certificates of deposit, federal government securities, cash equivalent mutual funds, repurchase agreements, and federal agency securities and to hold such investments to maturity. In accordance with this policy, investments are purchased so that maturities will occur as projected cash flow needs arise in connection with construction projects and bond debt service requirements.

BOND ISSUANCE COSTS

Costs of issuing general airport revenue bonds are deferred and amortized over the life of the bonds using the effective interest method.

CAPITAL ASSETS

Capital assets are stated at cost or estimated historical cost if original cost is not available. Gifts or contributions of such assets are stated at estimated fair market value at the date received.

Depreciation has been provided over the estimated useful lives using the straight-line method over the following estimated useful lives:

Land improvements	10 to 33 years
Buildings and improvements	20 to 50 years
Utilities	20 years
Furniture and fixtures, machinery, and equipment	3 to 10 years

Depreciation of assets is recorded as an expense in the statements of revenues, expenses and changes in net assets.

Interest incurred on debt obligations to finance construction projects is capitalized during the construction period. Interest income from funds obtained through municipal bond proceeds that are restricted for construction purposes is netted against interest expense incurred on the bond fund in determining the amount of capitalized interest.

RESTRICTED ASSETS

Certain resources of the Authority are classified as restricted assets on the balance sheets because their use is limited by applicable bond covenants or the Environmental Consent Decree for payment of the respective liabilities.

Summary of Significant Accounting Policies

September 30, 2004 and 2003

COMPENSATED ABSENCES

The Authority's personnel policy provides full-time employees with vacation and administrative leave (for grandfathered employees) in varying amounts, and at termination, an employee is paid for accumulated (vested) vacation and administrative leave. Accordingly, compensation for vacation and administrative leave is charged to expense as earned by the employee, and accumulated, unpaid vacation and administrative leave, which is payable upon an employee's termination, is recorded as a current liability.

DEFERRED LOSS ON BOND REFUNDINGS

The Authority accounts for deferred loss on bond refundings in accordance with Governmental *Accounting Standards Board Statement No. 23, Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities.* The loss on the 2001 Series A, B, and C of Airport Revenue Bonds is being amortized as a component of interest expense using the effective interest method over the remaining life of the 1990 Airport Revenue Bonds.

NET ASSETS

The Authority's policy is to record a reservation of net assets to the extent that assets restricted for bond debt service exceed the applicable debt service liabilities, and these assets are funded from operations rather than bond proceeds. Because these restricted assets do not exceed debt service liabilities at September 30, 2004 and 2003, no reservation of net assets is required. All other restricted assets are either funded from bond proceeds or do not relate to bond debt service.

RISK MANAGEMENT

The Authority is exposed to various risks or losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority's risk management activities consist of purchase of commercial insurance for all insurable risks. The Authority, aside from standard deductibles, does not retain risk of loss for any programs. There have been no significant reductions in insurance coverage. The amounts of settlements have not exceeded insurance coverage for the past four years. The financial statements do not include any liability for claims at September 30, 2004 and 2003.

Losses arising from claims and judgments are expensed when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

ENVIRONMENTAL REMEDIATION COSTS

The Authority accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

PASSENGER FACILITY CHARGES (PFCs)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the Federal Aviation Administration issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects which meet at least one of the following criteria: preserve or enhance safety, security, or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers.

The Authority was granted permission to begin collection of a $3 PFC effective February 1, 1998. The charges, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the Authority.

At the present time, GASB has not released a statement as to the accounting treatment of PFCs. It is the position of the Authority that PFCs should be treated as revenue because: 1) the Authority earns the PFCs due to a passenger's use of the Airport; 2) after receipt, the Authority has clear title to the funds and cannot be required to refund or return them; 3) the Authority is entitled to assess late charges on any payment not received by the deadlines specified in the PFC legislation; and 4) the fee is reserved for specific purposes as defined in the approval letter received from the Federal Aviation Administration's administrator.

Since the Authority's applications for PFCs were approved as Impose and Use, it is the position of the Authority that these receipts should be recognized immediately. Due to their restricted use, PFCs are categorized as non-operating revenues and are accounted for on the accrual basis.

NEW AUTHORITATIVE ACCOUNTING LITERATURE

During March 2003, the Governmental Accounting Standards Board issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and foreign currency risk. The statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The statement is effective for the year ending September 30, 2005. The new statement will require additional disclosures in the notes to the financial statements.

This information is an integral part of the accompanying financial statements.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 1 – ACCOUNTING CHANGES

Effective October 1, 2002, the Authority adopted Governmental Accounting Standards (GASB) Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements significantly changed the reporting model presented in the Authority's Comprehensive Annual Financial Report. The primary impact of adopting the statement included changing selected financial statement captions such as fixed assets to capital assets, changing the category presentation within fund equity to net assets, changing the presentation of the cash flow statement from the indirect method to the direct method, and the presentation of the "*Management's Discussion and Analysis*" section.

NOTE 2 – FINANCIAL INSTITUTIONS AND INVESTMENTS

Pursuant to Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* (GASB Statement 3), the following information is provided for the Authority's deposits with financial institutions and investments at September 30, 2004 and 2003.

A reconciliation between deposits at financial institutions/fiscal agents and fair value of investments, as classified for GASB Statement 3 disclosures, and cash, cash equivalents, and investments on the balance sheets at September 30 follows:

	2004	2003
Deposits at financial institutions	$ (623,669)	$ 417,746
Master Trust – deposits at financial institutions	5,056,454	3,300,770
Cash and cash equivalents held by fiscal agents	10,401,485	6,047,577
Master Trust – cash and cash equivalents held by fiscal agents	71,388	—
Investments, net of unamortized premiums and discounts	64,904,981	83,568,581
Cash on hand	7,623	7,774
Total	**$ 79,818,262**	**$ 93,342,448**

Note 2 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 2 – FINANCIAL INSTITUTIONS AND INVESTMENTS *(continued)*

	2004	2003
Cash and Cash Equivalents:		
Cash and cash equivalents	$ 9,667,107	$ 6,633,153
Airport Revenue Bonds, Series 1993	—	—
Airport Revenue Bonds, Series 2001A, B, and C	51,931	32,232
Subordinate Lien Revenue Bonds, Series 2001, Construction Fund	—	173,965
Subordinate Lien Revenue Bonds, Series 2001, Debt Service Fund	113,567	79,475
Airport Revenue Bonds, Refunding Series 2003	187,149	202,376
Passenger Facility Charge Fund	538,372	1,210,660
Land Acquisition Fund	164,049	99,844
Environmental Trust	4,191,106	1,342,163
Total Cash and Cash Equivalents	14,913,281	9,773,868
Investments:		
Investments – current	38,088,165	36,433,355
Airport Revenue Bonds, Series 1993	—	—
Airport Revenue Bonds, Series 2001A, B, and C	383,671	403,988
Subordinate Lien Revenue Bonds, Series 2001, Construction Fund	—	2,180,395
Subordinate Lien Revenue Bonds, Series 2001, Debt Service Fund	839,049	996,107
Airport Revenue Bonds, Refunding Series 2003	1,382,684	2,536,490
Investments – Passenger Facility Charge Fund	3,977,566	15,173,884
Investments – Land Acquisition Fund	1,212,016	1,251,401
Investments – Environmental Trust	19,021,830	24,592,960
Total Investments	64,904,981	83,568,580
Total	**$ 79,818,262**	**$ 93,342,448**

A categorization of the Authority's deposits which gives an indication of the level of risk assumed by the Authority at year-end follows: Category 1 includes deposits that are insured or collateralized with the securities held by the Authority or its agent in the Authority's name. Category 2 includes deposits that are collateralized with securities held by the bank's trust department or agent in the Authority's name. Category 3 includes deposits for which the bank's trust department or agent holds the securities, but not in the Authority's name.

Financial Institutions – Cash Deposits

	2004	2003
Deposits at Financial Institutions:		
FDIC insured deposits (Category 1)	$ 100,000	$ 100,000
Collateralized by securities held in Authority's name (Category 1)	207,350	448,807
Amount of outstanding checks and deposits, net	(931,019)	(131,061)
Total	**$ (623,669)**	**$ 417,746**

Note 2 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 2 – FINANCIAL INSTITUTIONS AND INVESTMENTS *(continued)*

A categorization of the Authority's investments which gives an indication of the level of risk assumed by the Authority at year-end follows: Category 1 includes investments that are insured or registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments with securities held by the bank's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the bank's trust department or agent, but not in the Authority's name.

The Authority invests in obligations of the U.S. Government and its agencies. Some of those obligations are classified as cash equivalents on the accompanying balance sheets. The amount shown below includes all U.S. Government securities, regardless of classification. The Authority's mutual fund investments are invested exclusively in short-term, U.S. Government Treasury obligations. The fund values the investments at amortized cost, which approximates market. These assets are classified as cash equivalents.

The Authority utilizes a pooling method for all unrestricted cash and cash equivalents for the purposes of cash management and investment. The Authority maintains detailed records sufficient to meet any and all requirements and restrictions on said funds which include Passenger Facility Charges and FAA Land Acquisition Funds. Additionally, the Board, at its discretion, may internally designate certain funds for specific purposes.

Investments

	Category			
	1	2	3	Fair Value
September 30, 2004:				
U.S. Government and agency securities	$ 64,904,981	$ —	$ —	$ 64,904,981
Money Market funds				10,401,485
Total Investments				75,306,466
September 30, 2003:				
U.S. Government and agency securities	$ 83,568,581	$ —	$ —	$ 83,568,581
Money Market funds				6,047,577
Total Investments				89,616,158

NOTE 3 – INVENTORIES

	2004	2003
Inventories at September 30 are comprised of the following:		
Flight line merchandise, including fuel, for resale	$ 176,505	$ 118,835
Operating and maintenance supplies	359,688	327,849
Total Inventories	$ 536,193	$ 446,684

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004, was as follows:

Business-type Activities:

	2003 Balances	Increases and Transfers	Decreases and Transfers	2004 Balances
Capital assets not being depreciated:				
Land	$ 46,277,243	$ —	$ —	$ 46,277,243
Artwork	223,798	—	—	223,798
Construction in progress	63,866,078	29,140,244	(4,457,083)	88,549,239
Total Capital Assets Not Being Depreciated	110,367,119	29,140,244	(4,457,083)	135,050,280
Capital assets being depreciated:				
Utilities	5,738,798	2,520	—	5,741,318
Land improvements	74,718,142	3,047,021	—	77,765,163
Buildings and improvements	101,056,402	1,244,110	—	102,300,512
Furniture/fixtures; machinery/equipment	17,673,411	494,825	(534,299)	17,633,937
Total Capital Assets Being Depreciated	199,186,753	4,788,476	(534,299)	203,440,930
Less accumulated depreciation for:				
Utilities	4,787,451	176,263	—	4,963,714
Land improvements	46,710,552	3,427,955	—	50,138,507
Building and improvements	46,677,318	3,820,848	—	50,498,166
Furniture/fixtures; machinery/equipment	11,918,325	1,305,371	(487,171)	12,736,525
Total Accumulated Depreciation	110,093,646	8,730,437	(487,171)	118,336,912
Total Capital Assets Being Depreciated, Net	89,093,107	(3,941,961)	(47,128)	85,104,018
Business-type Activities Capital Assets, Net	**$ 199,460,226**	**$ 25,198,283**	**$ (4,504,211)**	**$ 220,154,298**

Note 4 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 4 – CAPITAL ASSETS *(continued)*

Capital asset activity for the year ended September 30, 2003, was as follows:

Business-type Activities:

	2002 Balances	Increases and Transfers	Decreases and Transfers	2003 Balances
Capital assets not being depreciated:				
Land	$ 44,025,372	$ 2,251,871	$ —	$ 46,277,243
Artwork	223,798	—	—	223,798
Construction in progress	49,614,748	38,971,407	(24,720,077)	63,866,078
Total Capital Assets Not Being Depreciated	93,863,918	41,223,278	(24,720,077)	110,367,119
Capital assets being depreciated:				
Utilities	5,738,798	—	—	5,738,798
Land Improvements	73,867,816	850,326	—	74,718,142
Buildings and improvements	83,518,802	17,588,540	(50,940)	101,056,402
Furniture/fixtures; machinery, equipment	16,648,478	1,209,863	(184,930)	17,673,411
Total Capital Assets Being Depreciated	179,773,894	19,648,729	(235,870)	199,186,753
Less accumulated depreciation for:				
Utilities	4,611,398	176,053	—	4,787,451
Land Improvements	43,024,094	3,686,458	—	46,710,552
Building and improvements	42,973,994	3,741,455	(38,131)	46,677,318
Furniture/fixtures; machinery, equipment	10,684,407	1,377,191	(143,273)	11,918,325
Total Accumulated Depreciation	101,293,893	8,981,157	(181,404)	110,093,646
Total Capital Assets Being Depreciated, Net	78,480,001	10,667,572	(54,466)	89,093,107
Business-type Activities Capital Assets, Net	**$ 172,343,919**	**$ 51,890,850**	**$ (24,774,543)**	**$ 199,460,226**

The amount of interest capitalized as part of construction in progress in 2004 and 2003 was $2,136,698 and $2,146,945, respectively. These amounts were reduced by the interest earned from bond proceeds restricted for construction in 2004 and 2003 of $7,559 and $101,654, respectively. Depreciation expense was $8,730,437 and $8,981,157 for the years ended September 30, 2004 and 2003, respectively.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 5 – DEFERRED REVENUES

The Authority has been awarded certain amounts by the Court in connection with assets seized by Authority law enforcement officers in narcotics investigations. Such amounts have been recorded as deferred revenues pending approval for expenditure by the Pima County Attorney's Office. Such amounts totaled $81,626 and $111,770 at September 30, 2004 and 2003, respectively. The Authority's Board of Directors has approved the use of 25% of these funds for the Pima County Anti-Drug/Anti-Gang Program, and the remainder for drug enforcement and prevention by the Authority's Police Department.

NOTE 6 – LONG-TERM DEBT

Changes in long-term indebtedness for the years ended September 30, 2004 and 2003 are as follows:

	Sept. 30, 2003	Increases	Decreases	Sept. 30, 2004
Business-type Activities:				
Notes	$ 7,065,665	$ —	$ (36,738)	$ 7,028,927
Authority Revenue Bonds:				
2001 Series A, B, C	14,390,000	—	(535,000)	13,855,000
2001 Subordinate Lien	41,580,000	—	(715,000)	40,865,000
2003 Refunding Series	37,830,000	—	(3,165,000)	34,665,000
Total Notes and Bonds	**$ 100,865,665**	**$ —**	**$ (4,451,738)**	**$ 96,413,927**
Less Current Portion	(4,451,737)			(4,628,860)
Long-term Portion	**$ 96,413,928**			**$ 91,785,067**

	Sept. 30, 2002	Increases	Decreases	Sept. 30, 2003
Business-type Activities:				
Notes	$ 3,465,396	$ 3,635,000	$ (34,731)	$ 7,065,665
Authority Revenue Bonds:				
1993 Series	39,480,000	—	(39,480,000)	—
2001 Series A, B, C	14,905,000	—	(515,000)	14,390,000
2001 Subordinate Lien	41,580,000	—	—	41,580,000
2003 Refunding Series	—	37,830,000	—	37,830,000
Total Notes and Bonds	**$ 99,430,396**	**$ 41,465,000**	**$ (40,029,731)**	**$ 100,865,665**
Less Current Portion	(3,259,731)			(4,451,737)
Long-term Portion	**$ 96,170,665**			**$ 96,413,928**

Note 6 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 6 – LONG-TERM DEBT *(continued)*

Long-term debt at September 30 is comprised of the following:

	2004	2003
$3,180,000 letter of credit, interest payable monthly with an expiration of November 15, 2005, variable commercial paper interest rate of 1.85% at September 30, 2004. The letter of credit may be extended for an additional two one-year periods.	$ 3,180,000	$ 3,180,000
$380,987 purchase agreement to Lucent Technologies for telephone system; payable in monthly installments of $4,159, including interest at 5.63%, maturing August 31, 2009.	213,927	250,665
$15,550,000 Airport Revenue Bonds, Series 2001 A (non-AMT), B (AMT), and C (taxable); Bonds due in annual amounts, ranging from $645,000 to $1,310,000, June 1, 2002 through June 1, 2020; interest payable semiannually at 4.00% to 7.24%.	13,855,000	14,390,000
$41,580,000 Subordinate Lien Revenue Bonds, Series 2001; Bonds due in annual amounts, ranging from $715,000 to $2,720,000, June 1, 2004 through June 1, 2031; interest payable semiannually at 4.30% to 5.35%.	40,865,000	41,580,000
$3,635,000 letter of credit, interest payable monthly with an expiration of July 10, 2006, variable commercial paper interest rate of 1.80% at September 30, 2004.	3,635,000	3,635,000
$41,580,000 Refunding Revenue Bonds, Series 2003; Bonds due in annual amounts, ranging from $3,165,000 to $4,510,000, June 1, 2004 through June 1, 2013; interest payable semiannually at 4.00% to 5.00%.	34,665,000	37,830,000
Total long-term debt	**$ 96,413,927**	**$ 100,865,665**

Note 6 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 6 – LONG-TERM DEBT *(continued)*

In March 1993, the Authority issued Airport Revenue Bonds Refunding Series 1993 (1993 Bonds). The net proceeds from the issuance of the 1993 Bonds were used to purchase government securities, and those securities were deposited in an irrevocable trust with an escrow agent until June 1993 when the trust paid in full the General Revenue Bonds, Series 1977 and 1983. As a result of the 1993 refunding, the Authority originally recognized a deferred loss of $3,844,848 in 1993. In June 2003, the Authority issued Airport Revenue Bonds Refunding Series 2003 (2003 Bonds). The proceeds from the issuance of the 2003 Bonds were used to pay in full the 1993 Bonds. As a result of the 2003 refunding, the Authority recognized a deferred loss of $1,855,855 (inclusive of the remaining unamortized deferred loss of $1,120,455 from the 1993 Bonds), of which $1,749,525 had not been amortized.

In July 2001, the Authority issued Airport Revenue Bonds Refunding Series 2001A, B, and C (2001 Bonds). The net proceeds from the 2001 Bonds were invested in government securities and deposited with a refunding trust until August 2001 when the trust paid in full the Airport Revenue Bonds, Series 1990. As a result of the 2001 refunding, the Authority originally recognized a deferred loss of $875,665, of which $714,136 had not been amortized.

In accordance with Governmental Accounting Standards Board Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported By Proprietary Activities,* losses on bond refundings have been deferred and shown as a reduction of bond liabilities. Amortization of the losses totaled $310,126 and $237,745 for the years ended September 30, 2004 and 2003, respectively.

The purpose of the refundings was to take advantage of lower interest rates, as well as to restructure future debt service payments. This refunding decreased the Authority's total debt requirement and resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $2,206,091.

A summary of long-term debt service requirements to maturity as of September 30, 2004, including required annual principal installments to the bond and note funds of $96,413,927 and interest payments of $52,201,396 totaling $148,615,323 follows:

Debt service requirements on long-term debt after September 30, 2004 are as follows:

Fiscal Years Ending September 30	**Notes**	
	Principal	Interest
2005	$ 38,860	$ 157,504
2006	6,856,105	155,258
2007	43,480	6,431
2008	45,992	3,919
2009	44,490	1,262
Total	**$ 7,028,927**	**$ 324,374**

Note 6 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 6 – LONG-TERM DEBT *(continued)*

	Bonds			
	Airport Revenue Bonds, Series 2001 A, B, & C		Airport Subordinate Lien, Revenue Bonds, Series 2001	
Fiscal Years Ending September 30	Principal	Interest	Principal	Interest
2005	$ 565,000	$ 745,624	$ 750,000	$ 2,116,200
2006	590,000	718,689	780,000	2,083,950
2007	615,000	690,469	815,000	2,050,410
2008	645,000	660,996	850,000	2,015,365
2009	675,000	630,038	885,000	1,978,815
2010	715,000	596,729	935,000	1,930,140
2011-2015	4,170,000	2,384,112	5,480,000	8,838,275
2016-2020	5,880,000	1,036,408	7,010,000	7,305,950
2021-2025			8,985,000	5,331,223
2026-2030			11,655,000	2,663,231
2031			2,720,000	145,520
Total	**$ 13,855,000**	**$ 7,463,065**	**$ 40,865,000**	**$ 36,459,079**

NOTE 6 – LONG-TERM DEBT *(continued)*

	Bonds	
	Airport Revenue Bonds, Refunding Series 2003	
Fiscal Years Ending September 30	Principal	Interest
2005	$ 3,275,000	$ 1,447,363
2006	3,420,000	1,316,363
2007	3,555,000	1,179,563
2008	3,700,000	1,037,363
2009	3,850,000	889,363
2010	3,965,000	773,863
20011-2013	12,900,000	1,311,000
Total	**$ 34,665,000**	**$ 7,954,878**

The Authority's bond resolutions require periodic transfers from gross operating income to bond funds restricted for the payment of principal and interest. Other transfers to certain accounts are required by the bond resolutions after payment of operating and maintenance expenses. At September 30, 2004 and 2003, the Authority was in compliance with these and other bond resolution covenants.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 7 – ARIZONA STATE RETIREMENT SYSTEM

Plan Description

Substantially all full-time employees of the Authority (excluding fire and police personnel) participate in the Arizona State Retirement Plan (ASRP), a multi-employer, cost-sharing, defined benefit pension plan. The plan is authorized under Title 38 of the Arizona Revised Statutes. The State of Arizona designates the management of the system, establishes the contribution rate, and has budgetary control. Arizona State Retirement System (ASRS) administers the Arizona State Retirement Plan and prepares the comprehensive annual financial report, which can be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, Suite 1300, Phoenix, Arizona 85012. The following information is based upon the most recent Comprehensive Annual Financial Report of the ASRS for the fiscal year ended June 30, 2003. Participants in the plan are fully vested after five years of total credited service.

The Plan provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. Employees attaining the earlier of ages 65 or 62 with ten or more years of service or any combination of years of service and age which totals 80 are entitled to retirement benefits. The monthly benefit is the product of the participant's best 36-month average compensation (in last 120 months) multiplied by his or her years of total credited service multiplied by the respective benefit multiplier as defined in the plan. The plan permits early retirement at the age of 50 after the completion of at least five years of service. In addition, active employees who become disabled receive up to two-thirds of their salary reduced by any public disability benefits to which the member is entitled payable commencing six months after date of disability.

Disability benefits are paid until the employee returns to work, ceases to be under a physician's care, or reaches normal retirement age. The minimum disability benefit is $50 per month. If an active employee dies, his designated beneficiary receives two times the amount of contributions made to the retirement plan plus any amounts transferred from other systems together with interest at the valuation rate up until the month of death. The beneficiary receives a benefit, which may be paid in a single sum or, in some cases, in the form of monthly annuity payments as defined in the plan.

If a member's employment is terminated before the member is eligible for any other benefits under the ASRP, the member may receive a refund of all employee contributions made to his or her retirement account, plus interest at the determined rate, or the member may leave his or her contributions in the ASRP subject to normal retirement requirements.

Funding Policy

Arizona Revised Statutes provide statutory authority for determining employees' and employers' contribution amounts. Employers are required to contribute at the same rate as employees. The current contribution rate for employees and the Authority is 5.2% for retirement and .50% for disability. Although the Statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate.

Annual Pension Cost

The Authority's annual pension cost for the fiscal years ended September 30, 2004, 2003 and 2002 was $501,140, $261,498 and $177,493, respectively, and was equal to the required and actual contributions. The contribution rates were actuarially determined using the projected unit credit funding method. The contribution rate consists of a factor to cover normal costs using the same actuarial assumptions used to compute the pension benefit obligation and a factor to amortize the under funded past service liability. The remaining amortization period at June 30, 2001 was 16 years. The actuarial assumptions used include (a) a rate of return on investments of 8% per year, compounded annually; (b) projected salary increases of 4.50% to 9.50% per year; and (c) an inflation rate of 4.25% per year.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 8 – ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

Plan Description

Employees of the Authority who are employed as either police or fire personnel and work at least 20 hours a week for more than six months a year participate in the Arizona Public Safety Personnel Retirement System (APSPRS), an agent multiple-employer defined benefit pension plan. The plan provides retirement and disability benefits to members and death benefits to beneficiaries.

Based on Arizona Revised Statutes, normal retirement benefits commence after 20 years of service or following a participant's 62nd birthday and completion of 15 years of service. The amount of monthly normal pension is based on credited service and average monthly compensation as follows:

•For retirement with 25 or more years of credited service, 50% of average monthly compensation for the first 20 years of credited service, plus 2-1/2% of average monthly compensation for each year of credited service above 20 years.

•For retirement with 20 years of credited service but less than 25 years of credited service, 50% of average monthly compensation for the first 20 years of credited service, plus 2% of average monthly compensation for each year of credited service between 20 and 25 years.

•For retirement with less than 20 years of credited service, the percent of average monthly compensation is reduced at a rate of 4% for each year less than 20 years of credited service.

The maximum amount payable as a normal retirement pension shall be 80% of the average monthly compensation paid to a member during the three years, out of the last twenty years of credited service, in which their compensation was highest.

The APSPRS issues a publicly available financial report, which may be obtained by contacting the APSPRS in Phoenix, Arizona.

Funding Policy

APSPRS members are required to contribute 7.65% of covered compensation. The Authority contributes at actuarially determined rates of 10.48% and 14.70% of covered compensation of fire and police employees, respectively. The contribution requirements are established and can be amended by the APSPRS Board of Trustees.

Annual Pension Cost

The Authority's 2004 expense for fire and police employees was $109,988 and $206,918 respectively. The Authority's 2003 expense for fire and police employees was $82,615 and $198,042, respectively. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) 8.75% investment rate of return, (b) projected salary increases from 6.25% per year compounded annually attributable to inflation and other across-the-board increases, and (c) additional projected salary increases of 0.1% to 3.0% per year attributable to seniority/merit. The actuarial value of APSPRS assets was determined using a smoothed market value approach.

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004 was 20 years.

Shown below is the three-year trend information for each plan:

Fiscal Year Ended		Annual Pension Cost	Percent Contributed	Net Pension Obligation
Fire:				
June 30, 2002	$	117,229	100%	—
June 30, 2003		72,707	100%	—
June 30, 2004		108,108	100%	—
Police:				
June 30, 2002	$	203,030	100%	—
June 30, 2003		186,651	100%	—
June 30, 2004		211,544	100%	—

Note 8 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 8 – ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM *(continued)*

The schedules of funding progress are shown below.

Fire Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a – b) / c)
June 30, 2002	$ 5,566,778	$ 5,202,989	$ (363,789)	107.0%	$ 1,008,010	—
June 30, 2003	5,790,301	5,671,232	(119,069)	102.1%	1,061,420	—
June 30, 2004	5,891,494	6,256,501	365,007	94.2%	1,025,121	35.6%

Police Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a – b) / c)
June 30, 2002	$ 4,261,292	$ 5,417,204	$ 1,155,912	78.7%	$ 1,407,552	82.1%
June 30, 2003	4,390,145	5,766,461	1,376,316	76.1%	1,444,928	95.3%
June 30, 2004	4,425,430	6,288,486	1,863,056	70.4%	1,217,106	153.1%

NOTE 9 – OPERATING LEASES

The Authority is the lessor of various facilities within the Airport System. Lease contracts are generally written with noncancelable terms of up to 30 years. Costs and related accumulated depreciation of property under leases are not practically determinable as the majority of the leases relate only to portions of buildings.

Several of the lease agreements have provisions for contingent rentals calculated on the tenant's gross revenue or other operating criteria. Included in operating revenue are contingent rentals amounting to $4,755,957 and $4,607,424 for the years ended September 30, 2004 and 2003, respectively.

A summary of minimum noncancelable rentals under operating leases at September 30, 2004 follows:

Fiscal Year Ending September 30	
2005	$ 9,970,126
2006	9,616,516
2007	3,285,040
2008	2,331,459
2009	1,900,397
2010-2014	7,107,920
2015-2019	4,411,861
2020-2024	4,107,012
2025-2029	3,500,829
2030-2034	741,916
Total	**$ 46,973,076**

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 10 – OPERATING REVENUES

Concession fees from the airport rental car operations amounted to approximately 11% and 12% of total operating revenues in 2004 and 2003, respectively. Net revenues from the airport parking lot operations amounted to approximately 15% and 13% of total operating revenues in 2004 and 2003, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Authority participates in federal and state grant programs providing aid for airport development. The audits of these grants for or including the year ended September 30, 2004 have not been reviewed and accepted by the granting agencies. Accordingly, the Authority's compliance with applicable grant requirements will be evaluated and ultimately determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although Authority management expects such amounts, if any, to be immaterial.

Commitments for contractual services for federally funded and other construction projects at September 30, 2004 totaled approximately $14,180,536. These commitments will be funded in whole or in part by federal and state grants of $3,225,812 and the Authority's previously issued revenue bonds and Authority funds, as necessary, of $10,954,724.

In connection with their law enforcement responsibilities, the Authority's police department confiscates cash from suspected felons. Assets held by the Authority, in the Authority's operating account, totaled $23,952 and $14,236 at September 30, 2004 and 2003, respectively. The Authority has established a bank account to maintain these funds. At September 30, 2004 and 2003, the Authority has recorded an offsetting liability for those assets held in trust and has included this liability in deferred revenue on the accompanying statements of net assets.

NOTE 12 – ENVIRONMENTAL MATTERS, LITIGATION, AND UNCERTAINTIES

Groundwater Cleanup "Consent Decree"

Pursuant to a 1991 Consent Decree, which the U.S. District Court modified in 2001 for the District of Arizona (the Modified Groundwater Consent Decree), the Authority is required to pay certain groundwater "remediation costs." Under the terms of the Modified Groundwater Consent Decree, the Authority is required to deposit funds sufficient to pay the remediation costs into a Trust on an as-needed basis.

Pursuant to the 2000 settlement with U.S. Environmental Protection Agency (EPA) and the other parties to the Modified Groundwater Consent Decree, certain settlement payments from other parties will be used to fund the Authority's obligations under the Modified Groundwater Consent Decree. The 2000 settlement is described in more detail in the Soils/Vadose Zone Remediation (Soils Consent Decree) section below.

In prior years, the Trustee disbursed funds from the Trust to pay costs associated with the construction of a water treatment facility. The total cost of constructing the water treatment facility approximated $8,700,000. The Authority's share of these costs was capitalized. The water treatment facility commenced operation in September 1994, and annual operation and maintenance costs of the facility are projected at approximately $650,000.

Soils/Vadose Zone Remedial Investigation and Feasibility Study (RI/FS)

In 1992, the U.S. EPA issued an Amended Unilateral Administrative Order (RI/FS UAO) directed to the Authority and other respondents alleging that each of those respondents is a potentially responsible party for the investigation and feasibility study (RI/FS) of the soils and vadose zone on and under Tucson International Airport. As a result of the work, in 1997, EPA issued its Record of Decision (ROD) regarding the soils and vadose zone. Authority and other respondents agreed upon the terms of a settlement, which became effective in 2000. As part of the settlement, U.S. EPA determined that the requirements of the UAO had been satisfied. The settlement is described in more detail below.

Soils/Vadose Zone Remediation (Soils Consent Decree)

On October 5, 1998, the EPA served the Authority and several other parties with its "Special Notice Letter" demanding that the parties agree to perform the remediation activities described in the ROD and that the parties negotiate in good faith to agree upon the terms of a Consent Decree that would require the parties to fund and perform the required remediation work.

In 1999, the Authority and several other parties agreed to a settlement that included a final allocation of responsibility for obligations under the Modified Groundwater Consent Decree, the RI/FS UAO, and the work required to be performed pursuant to the Special Notice Letter. The settlement is embodied in a new Consent Decree (referred to as the Soils Consent Decree), the Modified Groundwater Consent Decree, and certain settlement agreements. The agreements became effective in 2000 when the Soils Consent Decree and the Modified Groundwater Consent Decree were approved and entered by the United States District Court.

Pursuant to the terms of the settlement, other parties paid $38,683,630 to the Authority. As required by the terms of the Soils Consent Decree, the Authority deposited $29 million into a Trust that is devoted exclusively to

Note 12 continued on next page.

Notes to Financial Statements

September 30, 2004 and 2003

NOTE 12 – ENVIRONMENTAL MATTERS, LITIGATION, AND UNCERTAINTIES *(continued)*

the funding of the remediation projects as required under the Modified Groundwater Consent Decree and under the Soils Consent Decree. The remaining settlement proceeds constituted reimbursements to the Authority for amounts the Authority previously spent on the remediation projects. Pursuant to the settlement, the Authority is obligated to pay 100% of the ongoing operation and maintenance expenses associated with the water treatment facility and 80% of the costs of the work required under the Soils Consent Decree. General Dynamics Corporation and McDonnell Douglas Corporation are each obligated to pay 10% of the costs of the work required under the Soils Consent Decree, for a combined obligation of 20%.

The Authority's estimate of ongoing costs associated with the water treatment facility and Soils Consent Decree, over the estimated life of the project, ranges from $21,843,100 to $36,552,300 and the recorded liability has been included as a liability on the Statements of Net Assets. Changes in the recorded liability for the last two fiscal years are shown below.

In July 2003, the Authority submitted their Final Design Report to EPA for the work required under the Soils Consent Decree and received agency approval to proceed with construction on September 10, 2004.

On September 13, 2004, the EPA served the Authority and several other parties with its "General Notice Letter for Focused Feasibility Study and Section 104(e) Information Request for the Tucson International Airport Area Site, Tucson, Arizona." The letter requested that the parties provide certain information regarding the activities at the Site and stated that the parties may have additional liability for response activities at the Site. The Authority intends to respond to the information request. Management is unable to determine the probability of an unfavorable outcome, if any, related to this matter.

The Authority is involved in other claims in the ordinary course of business. In the opinion of management, based on consultations with legal counsel, these matters are considered immaterial to the Authority or will be covered by insurance.

	Year Ended September 30	
	2004	2003
Environmental remediation payable, October 1	$ 23,948,569	$ 25,167,764
Current year accruals and change in estimates	321,733	491,491
Current year payments	(2,427,202)	(1,710,686)
Environmental remediation payable, September 30	21,843,100	23,948,569
Less current portion	3,407,030	4,222,441
Environmental remediation payable, long-term	$ 18,436,070	$ 19,726,128

NOTE 13 – PASSENGER FACILITY CHARGES (PFCs)

Passenger Facility Charges are collected in accordance with FAA regulations allowing airports to impose a $3 PFC. As described in the summary of significant accounting policies, the Authority was granted permission to begin collection in February 1998. During the fiscal years ended September 30, 2004 and 2003, the Authority earned PFCs of $5,039,403 and $4,907,636, respectively. The total amount of PFCs to be collected under this FAA approved application is based on the estimated costs of approved PFC projects. The FAA approval letter provided total aggregate collection authority of $101,234,420.

In accordance with FAA regulations, based on the approval date and continuing through the PFC collection period, the Authority's share of entitlement grants will be reduced 50 percent. For the fiscal year 2003, entitlement grants awarded were $2,890,222, and for fiscal year 2004 they were $2,510,341. Entitlement grants awarded for fiscal year 2005 are expected to be approximately $2,500,000.

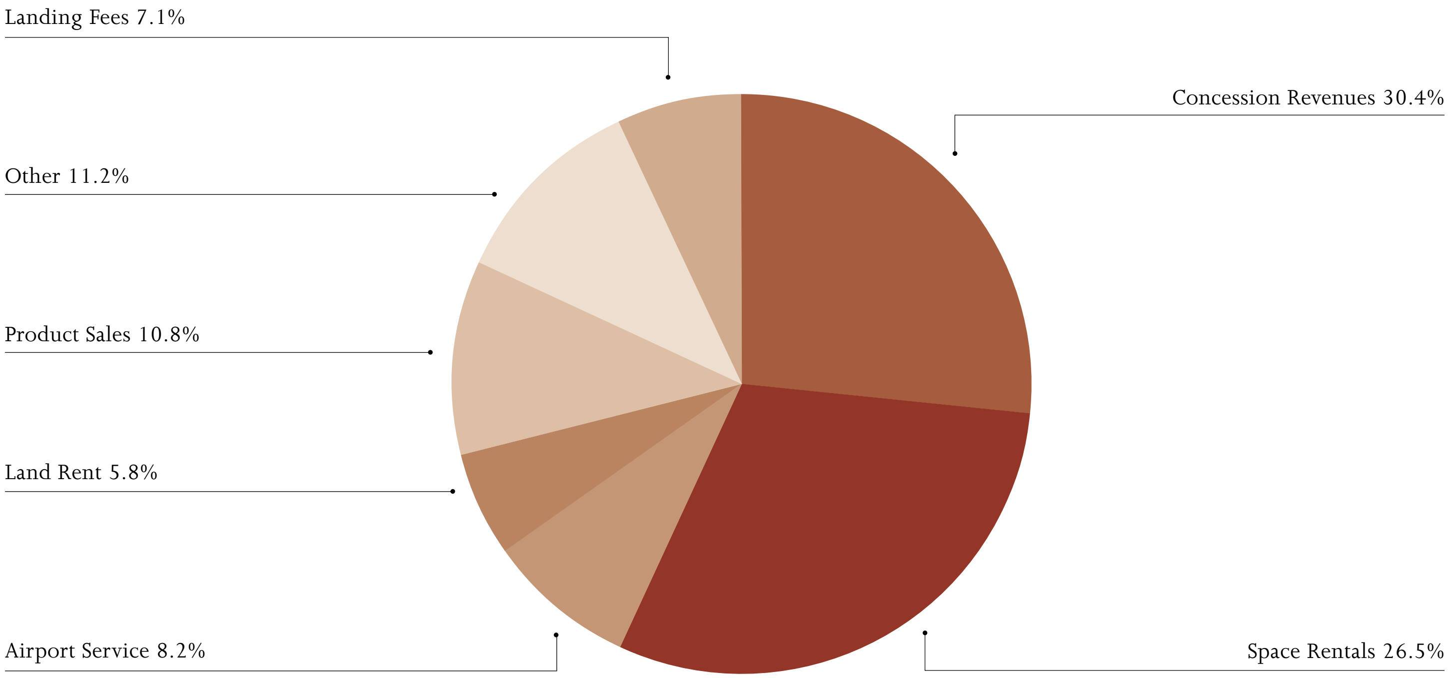
This information is an integral part of the accompanying financial statements.

TUCSON AIRPORT AUTHORITY

STATS

Revenues by Source

Fiscal Year 2004 Operating Revenues



Revenues by Source

Fiscal Year Ended September 30

OPERATING REVENUES

	FY 1995	FY 1996	FY 1997	FY 1998
Landing Fees				
Domestic Carriers	$ 3,237,598	$ 3,590,077	$ 3,599,068	$ 3,542,839
International Carriers	77,491	45,540	81,778	52,315
Total Landing Fees	3,315,089	3,635,617	3,680,846	3,595,154
Space Rentals				
Terminal	5,779,992	5,624,157	6,158,268	6,156,353
Airport Support	463,522	479,429	481,079	323,576
Air Cargo	282,055	298,671	266,446	284,402
Industrial	620,911	646,697	599,226	1,553,630
Other	95,703	55,044	61,894	263,152
Total Space Rentals	7,242,183	7,103,998	7,566,913	8,581,113
Land Rent	1,500,316	1,675,173	1,594,126	1,567,575
Concession Revenue				
Parking Lot	3,260,345	3,731,408	3,903,856	4,513,046
Car Rental	3,673,404	3,690,122	3,787,302	4,421,274
Other Transportation	112,201	131,240	123,790	150,257
Food and Gifts	500,848	659,096	879,126	899,434
Advertising Space	194,778	177,994	187,251	191,102
Telephone	75,088	101,800	84,369	75,330
Other	34,931	61,939	35,935	34,005
Total Concession Revenue	7,851,595	8,553,599	9,001,629	10,284,448
Product Sales				
Jet Fuel	1,541,523	1,611,617	1,774,932	1,638,961
Aviation Fuel	666,030	626,379	598,470	612,126
Gasoline	85,118	90,997	91,276	77,776
Showcase Merchandise	48,364	51,169	51,502	55,440
Oil and "Prist"	10,795	11,653	12,266	13,097
Other	16,662	21,561	35,641	35,378
Total Product Sales	2,368,492	2,413,376	2,564,087	2,432,778
Airport Services	1,401,744	1,658,674	1,519,219	1,293,862
Other Operating Revenue	2,568,227	2,453,779	2,533,921	2,499,017
Total Operating Revenues	**$ 26,247,646**	**$ 27,494,216**	**$ 28,460,741**	**$ 30,253,947**

Source: *Tucson Airport Authority Audited Financial Statements*

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$ 3,199,884	$ 3,275,122	$ 3,180,727	$ 2,885,373	$ 2,984,812	$ 2,921,507
44,583	41,172	38,513	24,980	20,228	21,412
3,244,467	3,316,294	3,219,240	2,910,353	3,005,040	2,942,919
6,350,610	6,267,425	6,507,254	6,317,840	7,118,366	7,279,948
311,882	323,576	445,708	415,033	484,984	480,267
285,704	299,580	324,784	318,312	319,897	328,450
2,279,611	2,135,798	2,202,659	2,462,527	2,742,690	2,801,575
248,354	301,907	153,737	56,919	74,310	101,006
9,476,161	9,328,286	9,634,142	9,570,631	10,740,247	10,991,246
1,586,907	1,802,699	2,112,025	1,954,705	2,166,000	2,400,905
4,652,566	5,109,181	5,154,784	4,761,984	5,074,806	6,174,477
4,388,317	4,598,611	4,615,817	4,335,817	4,607,424	4,755,957
137,445	179,984	175,576	198,062	191,146	195,217
970,809	1,058,909	1,048,508	1,133,462	1,198,435	1,300,569
183,543	156,120	150,933	183,455	128,717	140,011
77,242	60,823	43,737	28,586	23,381	11,934
42,601	46,108	66,989	142,557	116,845	41,103
10,452,523	11,209,736	11,256,344	10,783,923	11,340,754	12,619,269
1,640,327	2,066,237	2,065,322	2,184,875	2,163,344	3,256,666
595,778	703,610	696,348	761,970	721,163	899,531
73,781	100,138	114,398	90,160	102,403	64,662
58,581	55,713	53,332	49,395	50,704	55,743
12,230	13,675	12,133	13,680	12,154	13,006
28,974	40,786	36,604	49,326	42,765	190,169
2,409,671	2,980,159	2,978,137	3,149,406	3,092,533	4,479,776
1,555,374	1,755,308	1,843,664	2,659,286	3,238,587	3,404,943
2,564,126	2,628,520	2,951,495	3,332,897	4,306,369	4,636,337
$ 31,289,229	**$ 33,021,002**	**$ 33,995,047**	**$ 34,361,201**	**$ 37,889,530**	**41,475,395**

Expenses by Function

Fiscal Year Ended September 30

OPERATING EXPENSES

	FY 1995	FY 1996	FY 1997	FY 1998
Personnel Expenses	$ 8,890,012	$ 9,339,588	$ 9,888,801	$ 10,188,079
Contractual Services	4,996,187	4,907,876	5,190,626	5,718,742
Materials and Supplies	1,098,053	1,236,112	1,304,568	1,260,694
Purchases for Resale	1,292,212	1,306,584	1,443,899	1,269,513
Other Operating Expenses	1,292,359	1,114,393	1,061,160	1,078,015
Total Operating Expenses	**$ 17,568,823**	**$ 17,904,553**	**$ 18,889,054**	**$ 19,515,043**

NONOPERATING REVENUES AND (EXPENSES)

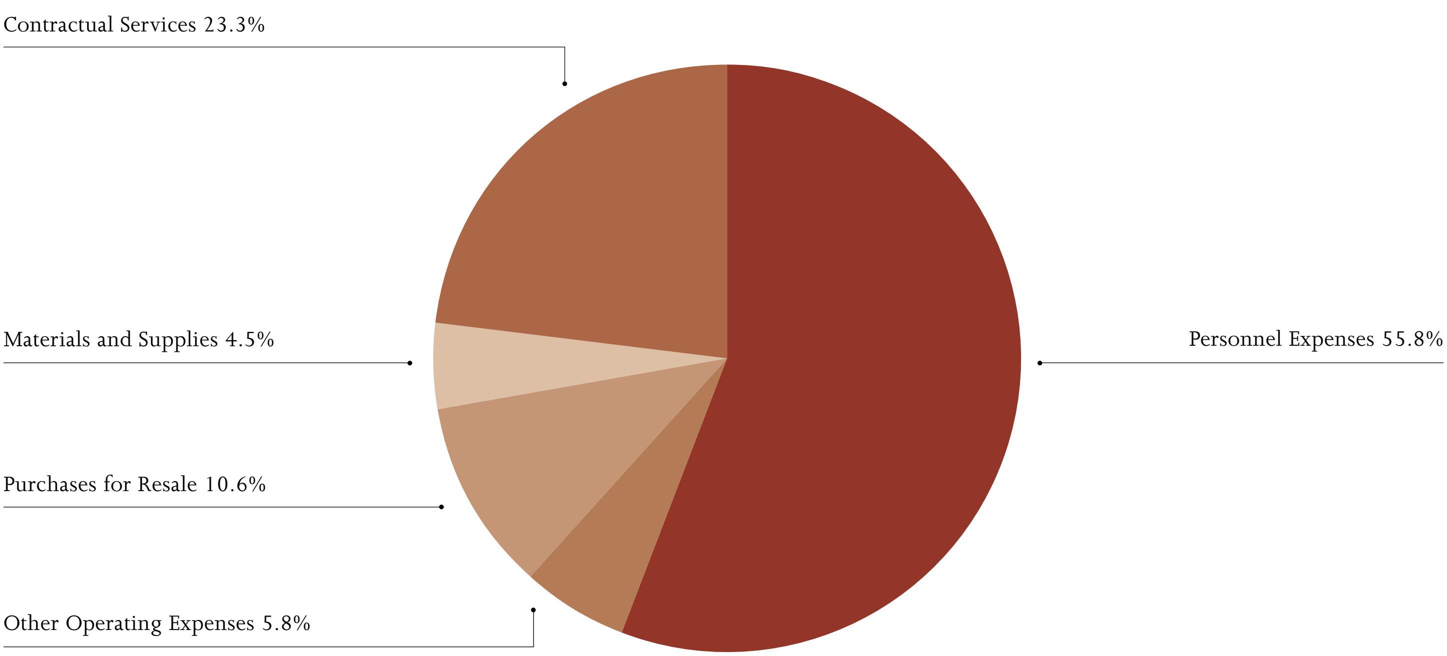
	FY 1995	FY 1996	FY 1997	FY 1998
Passenger Facility Charge	$ —	$ —	$ —	$ 3,285,640
Depreciation	(6,365,064)	(6,449,389)	(6,745,424)	(6,913,693)
Interest Income	910,280	809,402	758,820	1,576,522
Interest Expense	(4,793,364)	(4,794,342)	(4,661,295)	(4,525,224)
Environmental Revenues net of costs (1)	(344,120)	(791,000)	(892,044)	—
Other Revenues and (Expenses)	14,074	24,538	—	131,948
Total	**$ (10,578,194)**	**$ (11,200,791)**	**$ (11,539,943)**	**$ (6,444,807)**

(1) Remediation expenses are funded from restricted assets and are not currently paid from airport system revenues.

Source: *Tucson Airport Authority Audited Financial Statements*

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$ 10,805,873	$ 11,433,929	$ 12,634,016	$ 14,730,355	$ 14,825,829	$ 15,574,112
6,022,052	5,785,017	6,216,718	5,903,745	5,842,420	6,500,677
1,271,188	1,328,971	1,348,153	1,276,415	1,277,074	1,245,899
1,228,283	1,750,420	1,791,303	1,800,817	1,882,699	2,966,217
1,163,599	1,187,531	1,614,734	1,520,902	1,659,419	1,632,325
$ 20,490,995	**$ 21,485,868**	**$ 23,604,924**	**$ 25,232,234**	**$ 25,487,441**	**$ 27,919,230**

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$ 4,564,831	$ 4,753,039	$ 4,783,819	$ 4,762,910	$ 4,907,636	$ 5,039,403
(7,083,534)	(7,065,901)	(8,516,907)	(8,849,288)	(9,319,630)	(9,235,438)
2,365,187	4,197,308	5,190,738	3,044,303	1,566,081	1,885,266
(4,389,600)	(4,340,521)	(4,227,045)	(3,536,602)	(3,615,382)	(2,862,005)
32,284,681	629,661	(1,443,197)	1,124,369	(491,491)	(321,733)
64,833	388,505	806,509	(1,268,044)	(802,500)	(670,298)
$ 27,806,398	**$ (1,437,909)**	**$ (3,406,083)**	**$ (4,722,352)**	**$ (7,755,286)**	**$ (6,164,805)**



General Revenue and Airport Revenue Bond Coverage (1)

Fiscal Year Ended September 30

GROSS OPERATING REVENUES (2)

	FY 1995	FY 1996	FY 1997	FY 1998
Operating Income	$ 26,247,646	$ 27,494,216	$ 28,460,741	$ 30,253,947
Interest Income	887,710	798,537	717,304	860,354
Transfers from Airline Reserve Fund	3,087,329	2,100,972	1,387,222	1,894,954
Total Gross Operating Revenues	**30,222,685**	**30,393,725**	**30,565,267**	**33,009,255**
Operating Expenses (3)	17,568,823	17,904,553	18,889,054	19,515,043
Net Airport System Revenues	**12,653,862**	**12,489,172**	**11,676,213**	**13,494,212**
Debt Service Requirement (4)				
Principal	2,168,333	2,258,333	2,345,000	2,471,667
Interest	4,388,051	4,296,995	4,196,083	4,084,597
Total	**$ 6,556,384**	**$ 6,555,328**	**$ 6,541,083**	**$ 6,556,264**
Debt Coverage	1.93	1.91	1.79	2.06
Required Coverage	1.25	1.25	1.25	1.25

(1) Bonds issued at various times during the periods presented consist of 1977 and 1983 General Revenue Bonds; 1990 and 1993 Airport Revenue Bonds; and 2001 and 2003 Senior Lien and Subordinate Lien Airport Revenue Bonds. All General Revenue Bonds were called in 1993. The proceeds from the 1993 Airport Revenue Bonds were used to refund the 1977 and 1983 General Revenue Bonds. In 2001, the 1990 Airport Revenue Bonds were called and refunded with the 2001 Senior Lien Airport Revenue Bonds. In 2003, the 1993 Airport Revenue Bonds were called and refunded with the 2003 Senior Lien Airport Revenue Bonds. The 2001 Subordinate Lien Airport Revenue Bonds were issued for new monies for the Tucson Airport Authority, and the 2003 Subordinate Lien Airport Revenue Bonds were issued to purchase land.

(2) Gross Operating Revenues, per the Bond Resolutions, include all revenues collected or received, excluding construction interest income, and the amount on deposit in the Airline Reserve Fund. The above calculation computes coverage in accordance with generally accepted accounting principles. Therefore, Gross Operating Revenues, as defined in the Bond Resolutions, will differ slightly. However, the Authority is in compliance with bond coverage requirements for all years presented.

(3) Operating Expenses, per the Bond Resolutions, includes all necessary current expenses paid or accrued in administering, operating, maintaining and repairing the Airport System.

(4) Debt Service includes all Revenue Bond Debt Service requirements per the Bond Resolutions.

Debt service related to the Series 2001 Subordinate Lien Bonds was paid out of the Construction Fund (Capitalized Interest) until December 31, 2003. After this date, all debt service on the Bonds have been paid out of Passenger Facility Charge collections.

Source: Tucson Airport Authority Audited Financial Statements and Bond Resolutions

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
$ 31,289,229	$ 33,021,002	$ 33,995,047	$ 34,361,201	$ 37,889,530	$ 41,475,395
1,113,012	1,657,846	1,491,106	1,286,655	948,175	735,250
2,836,425	2,718,743	3,085,237	3,679,672	1,946,342	1,850,886
35,238,666	**37,397,591**	**38,571,390**	**39,327,528**	**40,784,047**	**44,061,531**
20,490,995	21,485,868	23,604,924	25,232,234	25,487,441	27,919,230
14,747,671	**15,911,723**	**14,966,466**	**14,095,294**	**15,296,606**	**16,142,301**
2,588,333	2,723,333	2,738,333	3,221,667	3,518,333	4,473,333
3,963,420	3,831,858	3,511,386	3,037,777	5,092,244	4,431,461
$ 6,551,753	**$ 6,555,191**	**$ 6,249,719**	**$ 6,259,444**	**$ 8,610,577**	**$ 8,904,795**
2.25	2.43	2.39	2.25	1.78	1.81
1.25	1.25	1.25	1.25	1.25	1.25

Federal Assistance and Grant Expenditures

Fiscal Year Ended September 30

TUCSON INTERNATIONAL AIRPORT

Year of Grant Offer	Category Land	Category Planning	Category Construction	Total	Amount Expended	Balance
1995	$ —	$ —	$ 1,677,204	$ 1,677,204	$ 1,650,570	$ 26,634
1996	—	—	2,919,415	2,919,415	2,919,415	—
1997	—	—	2,438,046	2,438,046	2,389,019	49,027
1998	—	—	2,462,226	2,462,226	2,462,226	—
1999	—	—	3,271,940	3,271,940	3,234,336	37,604
2000	—	—	3,302,770	3,302,770	3,302,584	186
2001	2,731,800	—	8,071,049	10,802,849	5,802,354	5,000,495
2002	—	91,060	8,455,634	8,546,694	2,886,488	5,660,206
2003	—	—	4,890,222	4,890,222	140,522	4,749,700
2004	5,057,176	637,420	6,323,305	12,017,901	—	12,017,901
Total	**$ 7,788,976**	**$ 728,480**	**$ 43,811,811**	**$ 52,329,267**	**$ 24,787,514**	**$ 27,541,753**

RYAN AIRFIELD

Year of Grant Offer	Category Land	Category Planning	Category Construction	Total	Amount Expended	Balance
1995	$ —	$ —	$ —	$ —	$ —	$ —
1996	—	—	—	—	—	—
1997	1,000,000	—	—	1,000,000	973,946	26,054
1998	—	—	—	—	—	—
1999	—	—	—	—	—	—
2000	—	—	—	—	—	—
2001	—	—	1,062,939	1,062,939	823,260	239,679
2002	—	—	859,697	859,697	122,997	736,700
2003	—	—	150,000	150,000	92,196	57,804
2004	—	99,750	1,567,381	1,667,131	—	1,667,131
Total	**$ 1,000,000**	**$ 99,750**	**$ 3,640,017**	**$ 4,739,767**	**$ 2,012,399**	**$ 2,727,368**

Source: Tucson Airport Authority Records

State Assistance and Grant Expenditures

Fiscal Year Ended September 30

TUCSON INTERNATIONAL AIRPORT

Year of Grant Offer	Category Land	Category Planning	Category Construction	Total	Amount Expended	Balance
1995	$ —	$ —	$ 500,000	$ 500,000	$ 463,899	$ 36,101
1996	—	—	965,000	965,000	964,944	56
1997	—	—	980,000	980,000	789,791	190,209
1998	—	—	1,414,866	1,414,866	1,259,825	155,041
1999	—	90,000	1,078,615	1,168,615	1,166,274	2,341
2000	—	180,000	1,187,265	1,367,265	1,354,235	13,030
2001	—	—	982,186	982,186	329,850	652,336
2002	—	550,000	—	550,000	529,819	20,181
2003	—	—	381,953	381,953	104,101	277,852
2004	248,249	31,290	550,456	829,995	6,898	823,097
Total	**$ 248,249**	**$ 851,290**	**$ 8,040,341**	**$ 9,139,880**	**$ 6,969,636**	**$ 2,170,244**

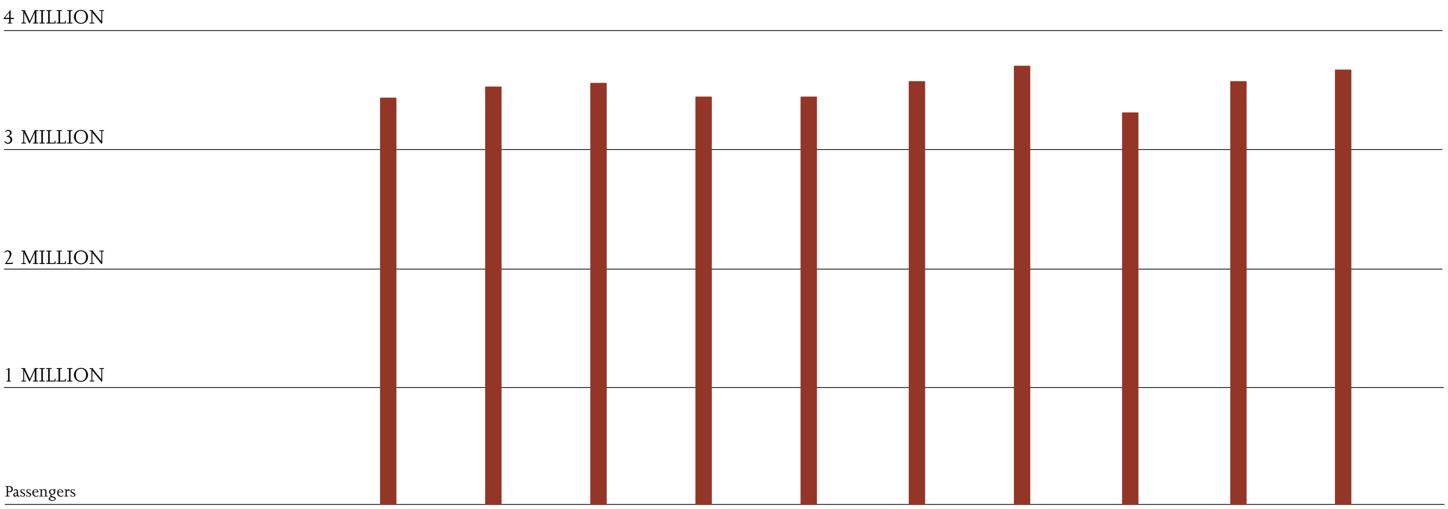
RYAN AIRFIELD

Year of Grant Offer	Category Land	Category Planning	Category Construction	Total	Amount Expended	Balance
1995	$ 500,000	$ —	$ —	$ 500,000	$ 437,234	$ 62,766
1996	965,000	—	—	965,000	847,059	117,941
1997	—	—	911,000	911,000	890,099	20,901
1998	—	150,000	1,125,150	1,275,150	1,275,149	1
1999	—	—	1,077,000	1,077,000	1,075,716	1,284
2000	—	—	1,046,000	1,046,000	550,388	495,612
2001	555,300	—	52,178	607,478	254,305	353,173
2002	—	—	550,000	550,000	385,325	164,675
2003	—	—	42,201	42,201	6,038	36,163
2004	—	2,625	48,611	51,236	4,564	46,672
Total	**$ 2,020,300**	**$ 152,625**	**$ 4,852,140**	**$ 7,025,065**	**$ 5,725,877**	**$ 1,299,188**

Source: *Tucson Airport Authority Records*

Passenger Traffic

Fiscal Year Ended September 30



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Enplaned	1.72	1.76	1.76	1.74	1.75	1.79	1.88	1.73	1.77	1.84
Deplaned	1.72	1.75	1.76	1.74	1.74	1.74	1.88	1.71	1.76	1.83
Total	**3.44**	**3.51**	**3.52**	**3.48**	**3.49**	**3.53**	**3.76**	**3.44**	**3.53**	**3.67**

Passenger Traffic

Fiscal Year Ended September 30

TUCSON INTERNATIONAL AIRPORT

Fiscal Year	Enplaned	Deplaned	Total	Percentage Change
1995	1,723,327	1,714,860	3,438,187	9.60 %
1996	1,758,835	1,755,264	3,514,099	2.21 %
1997	1,762,026	1,754,826	3,516,852	0.08 %
1998	1,738,576	1,745,567	3,484,143	-0.93 %
1999	1,748,473	1,744,064	3,492,537	0.24 %
2000	1,786,164	1,743,930	3,530,094	1.08 %
2001	1,882,278	1,874,816	3,757,094	6.43 %
2002	1,729,336	1,708,353	3,437,689	-8.50 %
2003	1,766,859	1,758,213	3,525,072	2.54 %
2004	1,841,791	1,833,039	3,674,830	4.25 %

Source: *Tucson Airport Authority Monthly Activity Report*

Air Carrier Market Share Enplaned Passengers

Fiscal Year Ended September 30

Air Carrier	1995 No.	1995 % of Total	1996 No.	1996 % of Total	1997 No.	1997 % of Total	1998 No.	1998 % of Total
Aero California	—	—	8,630	0.49	12,531	0.71	18,577	1.07
Aerolitoral	6,240	0.36	8,743	0.50	8,566	0.49	11,552	0.66
Aeromexico	34,564	2.01	21,403	1.22	14,086	0.80	—	—
Alaska	—	—	—	—	—	—	—	—
America West	370,931	21.52	353,814	20.12	344,988	19.58	311,517	17.92
American	316,873	18.39	323,540	18.40	317,857	18.04	337,393	19.41
Continental	101,020	5.86	87,230	4.96	76,288	4.33	73,203	4.21
Delta	250,104	14.51	254,892	14.49	248,563	14.11	188,102	10.82
Frontier	12,060	0.70	—	—	—	—	—	—
Great Lakes	23,741	1.38	14,595	0.83	6,478	0.37	—	—
Horizon	—	—	—	—	—	—	—	—
Mesa	—	—	—		—	—	—	—
Morris Air	1,637	0.09	—	—	—	—	—	—
Northwest	64,228	3.73	63,849	3.63	61,200	3.47	56,840	3.27
Reno Air	112,398	6.52	162,414	9.23	170,933	9.70	128,206	7.37
SkyWest	3,809	0.22	17,932	1.02	14,029	0.80	20,932	1.20
Southwest	293,396	17.02	319,822	18.18	314,884	17.87	322,848	18.57
United	132,326	7.68	121,971	6.93	171,623	9.74	269,406	15.50
Total	**1,723,327**	**100%**	**1,758,835**	**100%**	**1,762,026**	**100%**	**1,738,576**	**100%**

Source: Tucson Airport Authority Records

1999		2000		2001		2002		2003		2004	
No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
17,024	0.97	14,009	0.78	15,144	0.80	9,821	0.57	8,551	0.48	9,047	0.49
7,808	0.45	8,586	0.48	6,156	0.33	5,901	0.34	4,264	0.24	4,416	0.24
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	100,044	5.32	80,479	4.65	59,994	3.40	50,263	2.73
310,482	17.76	317,517	17.78	312,587	16.61	204,359	11.82	144,224	8.16	132,332	7.18
358,431	20.50	349,881	19.59	366,616	19.48	353,494	20.44	363,635	20.58	381,962	20.74
82,656	4.73	85,600	4.79	88,954	4.73	88,358	5.11	86,243	4.88	92,433	5.02
181,598	10.39	187,523	10.50	191,819	10.19	146,482	8.47	115,523	6.54	143,399	7.79
—	—	—	—	—	—	—	—	33,785	1.91	29,240	1.59
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	28,017	1.62	42,238	2.39	28,369	1.54
—	—	8,935	0.50	9,234	0.49	60,842	3.52	123,285	6.98	119,278	6.48
—	—	—	—	—	—	—	—	—	—	—	—
56,012	3.20	56,532	3.16	44,771	2.38	47,652	2.76	53,681	3.04	57,638	3.13
37,501	2.14	—	—	—	—	—	—	—	—	—	—
9,368	0.54	—	—	11,642	0.62	117,855	6.82	165,843	9.39	85,123	4.62
387,542	22.16	448,646	25.12	456,674	24.26	453,224	26.21	454,585	25.73	504,781	27.41
300,051	17.16	308,935	17.30	278,637	14.80	132,852	7.68	111,008	6.28	203,510	11.05
1,748,473	**100%**	**1,786,164**	**100%**	**1,882,278**	**100%**	**1,729,336**	**100%**	**1,766,859**	**100%**	**1,841,791**	**100%**

Air Freight Transport (Pounds)

Fiscal Year Ended September 30

ALL CARGO

Fiscal Year	Enplaned	Deplaned	Total	Percentage Change
1995	21,789,627	22,242,345	44,031,972	72.38 %
1996	17,254,423	21,770,294	39,024,717	-11.37 %
1997	20,012,975	27,268,842	47,281,817	21.16 %
1998	23,095,359	30,264,791	53,360,150	12.86 %
1999	26,079,846	31,691,617	57,771,463	8.27 %
2000	26,122,580	35,613,537	61,736,117	6.86 %
2001	23,263,064	33,089,833	56,352,897	-8.72 %
2002	19,031,510	28,819,933	47,851,443	-15.09 %
2003	19,663,457	36,592,619	56,256,076	17.56 %
2004	20,712,428	38,302,743	59,015,171	4.90 %

AIR CARRIER

Fiscal Year	Enplaned	Deplaned	Total	Percentage Change
1995	2,218,591	4,166,769	6,385,360	-7.03 %
1996	2,377,633	4,402,664	6,780,297	6.19 %
1997	3,302,626	4,584,840	7,887,466	16.33 %
1998	2,445,685	4,111,898	6,557,583	-16.86 %
1999	3,290,825	4,018,638	7,309,463	11.47 %
2000	2,542,640	3,619,622	6,162,262	-15.69 %
2001	2,142,834	2,914,193	5,057,027	-17.94 %
2002	2,349,969	2,716,739	5,066,708	0.19 %
2003	1,780,192	2,714,979	4,495,971	-11.28 %
2004	1,956,317	2,696,079	4,652,396	3.50 %

Source: Tucson *Airport Authority Monthly Activity Report*

Air Carrier Mail Transport (Pounds)

Fiscal Year Ended September 30

Fiscal Year	Enplaned	Deplaned	Total	Percentage Change
1995	7,315,868	8,996,175	16,312,043	12.62 %
1996	7,369,696	9,895,453	17,265,149	5.84 %
1997	7,822,035	11,119,618	18,941,653	9.71 %
1998	8,622,987	11,605,503	20,228,490	6.79 %
1999	7,547,153	10,015,517	17,562,670	-13.18 %
2000	7,714,560	8,834,100	16,548,660	-5.77 %
2001	4,637,975	7,153,974	11,791,949	-28.74 %
2002	2,136,944	2,801,736	4,938,680	-58.12 %
2003	2,323,006	2,284,352	4,607,358	-6.71 %
2004	1,530,979	1,757,025	3,288,004	-28.64 %

Source: Tucson *Airport Authority Monthly Activity Report*

Aircraft Operations

Fiscal Year Ended September 30

TUCSON INTERNATIONAL AIRPORT

Fiscal Year	Air Carrier	Air Taxi	Military	General Aviation	Total	Percentage Change
1995	47,033	16,320	35,344	139,327	238,024	-4.69 %
1996	46,449	14,330	42,871	142,339	245,989	3.35 %
1997	46,210	11,489	42,413	138,188	238,300	-3.13 %
1998	45,687	9,658	42,654	152,541	250,540	5.14 %
1999	45,125	8,760	54,039	178,656	286,580	14.38 %
2000	46,026	12,741	47,835	153,304	259,906	-9.31 %
2001	45,316	13,877	42,985	154,162	256,340	-1.37 %
2002	38,779	20,714	48,236	158,086	265,815	3.70 %
2003	37,766	15,879	46,445	162,679	262,769	-1.15 %
2004	37,991	17,464	47,836	141,591	244,882	-6.81 %

RYAN AIRFIELD

Fiscal Year	Air Taxi	Military	General Aviation	Total	Percentage Change
1995	—	3,634	165,845	169,479	10.11 %
1996	—	3,244	172,090	175,334	3.45 %
1997	—	2,054	170,013	172,067	-1.86 %
1998	—	1,141	156,122	157,263	-8.60 %
1999	—	3,158	138,698	141,856	-9.80 %
2000	12	1,239	172,657	173,908	22.59 %
2001	5	1,133	147,254	148,392	-14.67 %
2002	2	1,433	147,267	148,702	0.21 %
2003	15	2,028	123,053	125,096	-15.87 %
2004	2	3,349	150,200	153,551	22.75 %

Notes: Data collected during Ryan Airfield UNICOM regular hours of operation (0600-1800 hours.)

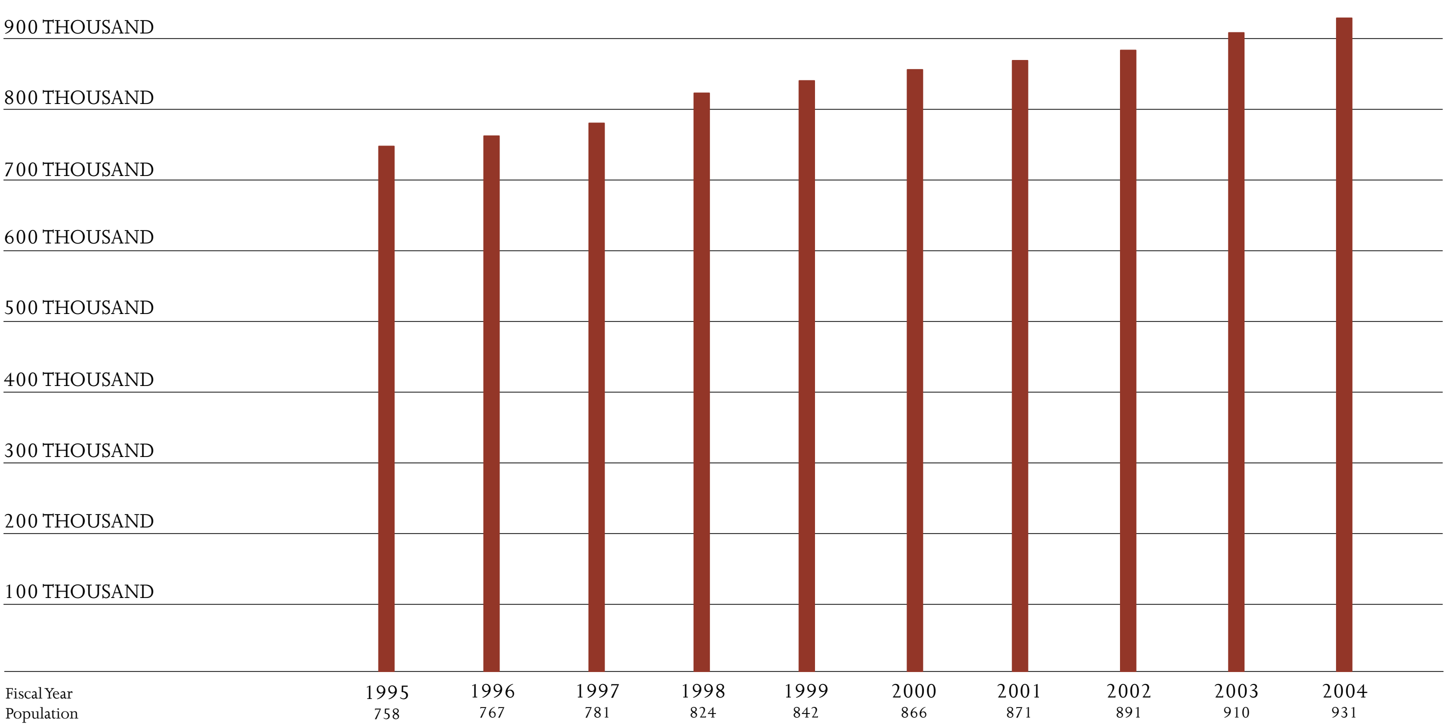
Sources: Federal Aviation Administration, "FAA Air Traffic Activity"; Tucson International Airport, Air Traffic Control Tower Records and Tucson Airport Authority Annual Activity Reports

Population Estimates and Projections

Pima County, Arizona

Fiscal Year	Marana	Oro Valley	South Tucson	Tucson	Sahuarita	Unincorp. Areas	Total	Percentage Change
1995	5,160	15,885	5,570	447,075	1,700	282,660	758,050	3.24 %
1996	6,056	18,084	5,632	452,298	2,159	282,784	767,013	1.18 %
1997	5,958	21,407	5,572	449,637	2,254	296,273	781,101	1.84 %
1998	9,965	25,455	5,705	468,520	2,944	311,310	823,899	5.48 %
1999	12,330	27,280	5,650	475,440	3,290	318,460	842,450	2.25 %
2000	15,185	29,530	5,675	485,790	3,580	326,365	866,125	2.81 %
2001	15,765	32,520	5,490	498,305	4,615	313,915	870,610	0.52 %
2002	17,770	34,050	5,520	507,085	5,455	320,665	890,545	2.29 %
2003	20,600	37,225	5,550	514,725	7,425	325,425	910,950	2.29 %
2004	23,520	38,280	5,580	521,605	9,715	332,510	931,210	2.22 %

Source: Pima County Association of Governments; Department of Economic Security (State of Arizona)



Air Carrier Landed Weights (1,000 lbs. Units)

Fiscal Year Ended September 30

	1995		1996		1997		1998	
Air Carrier	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Aero California	—	—	26,062	0.94	29,820	1.10	29,495	1.14
Aerolitoral	7,116	0.26	11,853	0.43	12,716	0.47	13,829	0.53
Aeromexico	70,280	2.59	48,167	1.74	26,192	0.97	—	—
Air Wisconsin	—	—	—	—	—	—	—	—
Alaska	—	—	—	—	—	—	—	—
America West	500,413	18.47	510,144	18.42	503,272	18.64	490,592	18.94
American	500,723	18.48	463,064	16.72	456,170	16.89	458,120	17.68
Continental	185,283	6.84	113,402	4.10	103,922	3.85	90,142	3.48
Delta	466,518	17.22	579,562	20.93	511,489	18.94	415,466	16.04
Frontier	34,300	1.27	—	—	—	—	—	—
Great Lakes	42,565	1.57	63,085	2.28	46,159	1.71	16,550	0.64
Horizon	—	—	—	—	—	—	—	—
Mesa	63,085	2.33	—	—	—	—	—	—
Morris Air	2,736	0.10	—	—	—	—	—	—
Northwest	101,101	3.73	96,284	3.48	82,912	3.07	70,509	2.72
Reno Air	178,668	6.59	243,484	8.79	258,692	9.58	199,874	7.71
SkyWest	5,593	0.21	27,636	1.00	17,086	0.63	28,435	1.10
Southwest	331,389	12.23	372,880	13.46	373,380	13.83	380,216	14.68
United	219,588	8.10	213,649	7.71	278,643	10.32	397,543	15.34
Total	**2,709,358**	**100%**	**2,769,272**	**100%**	**2,700,453**	**100%**	**2,590,771**	**100%**

Source: Tucson Airport Authority Records

1999		2000		2001		2002		2003		2004	
No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
28,513	1.16	26,553	1.04	26,186	1.02	15,932	0.67	13,399	0.59	14,298	0.66
9,270	0.38	9,249	0.36	6,363	0.25	6,373	0.27	3,458	0.15	3,546	0.16
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	8,084	0.35	—	—
—	—	—	—	145,166	5.66	107,893	4.53	77,108	3.37	54,963	2.53
480,823	19.62	472,849	18.51	486,424	18.96	295,445	12.39	214,158	9.35	155,062	7.15
472,054	19.26	514,626	20.15	473,902	18.47	489,366	20.53	498,766	21.78	449,804	20.73
104,321	4.26	113,831	4.46	100,770	3.93	105,404	4.42	98,066	4.28	104,119	4.80
383,888	15.66	385,141	15.08	379,612	14.80	315,292	13.22	334,275	14.59	225,725	10.40
—	—	—	—	—	—	—	—	56,324	2.46	26,931	1.24
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	41,540	1.74	68,005	2.97	37,319	1.72
—	—	17,017	0.67	18,620	0.73	77,584	3.25	139,019	6.07	140,710	6.48
—	—	—	—	—	—	—	—	—	—	—	—
67,783	2.77	75,170	2.94	54,924	2.14	55,618	2.33	59,095	2.58	63,212	2.91
47,882	1.95	—	—	—	—	—	—	—	—	—	—
17,108	0.70	—	—	15,886	0.62	133,762	5.61	—	—	—	—
438,724	17.90	503,053	19.69	511,834	19.95	541,023	22.69	558,008	24.36	578,854	26.68
400,520	16.34	436,887	17.10	345,684	13.48	198,943	8.34	162,661	7.10	315,370	14.53
2,450,886	**100%**	**2,554,376**	**100%**	**2,565,371**	**100%**	**2,384,175**	**100%**	**2,290,426**	**100%**	**2,169,913**	**100%**

Insurance Coverages

September 30, 2004

TYPE OF INSURANCE

Comprehensive Airport Liability – Bodily injury and property damage, personal injury, advertising liability – premises and operations including hangar keepers liability, product and completed operations and all coverage extensions including $25,000,000 excess employers liability.

Policy Number

PR211503

Insurance Carrier and Expiration Date

Phoenix Aviation Managers, Inc.

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

Limit of liability: $200,000,000 combined single limit per occurrence; limited to respect of personal injury and advertising offenses to $25,000,000 any one offense and annual aggregate personal liability and advertising. Non-owned aircraft and physical damage, $25,000,000 excess automobile liability. No deductible.

TYPE OF INSURANCE

Commercial automobile liability insurance.

Policy Number

P-810-908E9764-TIL-04

Insurance Carrier and Expiration Date

St. Paul Travelers Insurance Co.

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

Limit of liability: $1,000,000 combined single limit bodily injury and property damage liability. Comprehensive and collision, ACV with $1,000 deductible. Automobile medical payments $5,000 each person. Uninsured and underinsured motorist, $500,000 each accident. Deductible amount: $1,000 each accident.

TYPE OF INSURANCE

Commercial Inland Marine – Physical damage.

Policy Number

P-660-126X7797-TIL-03

Insurance Carrier and Expiration Date

St. Paul Travelers Insurance Co.

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

Limits per schedule – $2,234,842; Deductible 2% of total loss, subject to a $2,500 minimum.

TYPE OF INSURANCE

Directors and Officers Liability – Coverage against any claim made against each and every person who was or now is a director or officer of the Authority by reason of any wrongful act in their capacities as directors or officers of the Authority.

Policy Number

NHP614760

Insurance Carrier and Expiration Date

Royal Indemnity Company

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

Limit of liability: $5,000,000 aggregate limit including defense costs. Deductible amount: $50,000 for corporate reimbursement.

Insurance Coverages *(continued)*

September 30, 2004

TYPE OF INSURANCE

Property, Business Interruption, Boiler & Machinery.

Policy Number

KTCMB545D487704

Insurance Carrier and Expiration Date

St. Paul Travelers Insurance Co.

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

$80,190,048 building and structure damage; $10,835,605 personal property; $28,305,549 business interruption; $20,000,000 flood and earth movement; $5,000,000 newly acquired property; $5,000,000 fine arts; $500,000 contractor's equipment; $705,521 EDP equipment. Deductible amounts: $25,000 general policy; including Boiler and Machinery; $2,500 fine arts.

Velocity Air deductible: $5,000 combined property damage, time element and accounts receivable.

TYPE OF INSURANCE

Crime and Fidelity – has been combined with Excess crime in one policy. The limits were raised to $5 million and premium lowered. Commercial blanket bond covering any loss sustained through fraudulent or dishonest acts committed by any of the employees engaged in regular service.

Policy Number

8158-4948

Insurance Carrier and Expiration Date

Chubb Group of Insurance Co.

Expiration date – August 15, 2005.

Policy or Bond Limits and Deductible Amounts

$5,000,000 Employee Theft Coverage, premises coverage, transit coverage, depositor's forgery coverage, computer theft & funds transfer fraud coverage & ERISA. Deductible $20,000.

TYPE OF INSURANCE

Short and Long Term Disability

Policy Number

217938

Insurance Carrier and Expiration Date

The Hartford

Expiration date – September 30, 2004.

Policy or Bond Limits and Deductible Amounts

Short Term Disability – 66 2/3% of weekly covered compensation per week. Maximum $2,100.

Begins 90 days for accident or illness, coverage period of 13 weeks.

Long Term Disability – Police and Fire personnel only – All other employees on State Retirement. LTD 66 2/3% of the covered monthly compensation. Max monthly benefit $6,000.

TYPE OF INSURANCE

Dental Insurance.
Life, Accidental Death & Dismemberment (AD&D), Dependent Life.

Policy Number

G00298591

Insurance Carrier and Expiration Date

Guardian

Expiration date – September 30, 2004.

Policy or Bond Limits and Deductible Amounts

Dental – Amount of insurance coverage based upon services rendered.

Life – 2 1/2 times annual salary. Maximum 200,000.

AD&D – Benefit is equal to Life benefit.

Dependent Life – Spouse $1,000, Children $100 to $1000 varies by age.

Insurance Coverages *(continued)*

September 30, 2004

TYPE OF INSURANCE

Workers' Compensation.

Policy Number

331225-3

Insurance Carrier and Expiration Date

State Compensation Fund of Arizona

Expiration date – August 31, 2005.

Policy or Bond Limits and Deductible Amounts

Limits per schedule – Statutory. $1,000,000 bodily injury each accident, $1,000,000 disease aggregate, $1,000,000 each employee.

TYPE OF INSURANCE

Health Insurance.

Policy Number

702627

Insurance Carrier and Expiration Date

United Healthcare

Expiration date – September 30, 2004.

Policy or Bond Limits and Deductible Amounts

Coverage based on prescribed care.

TYPE OF INSURANCE

Voluntary Life.

Policy Number

16377

Insurance Carrier and Expiration Date

Jefferson Pilot Financial Insurance Company

Expiration date – September 30, 2004.

Policy or Bond Limits and Deductible Amounts

Amount in force is based on amount(s) purchased by employee for self and/or eligible family members.

TYPE OF INSURANCE

Long Term Care (Voluntary).

Policy Number

TAA is not the Administrator

Insurance Carrier and Expiration Date

UNUM Provident Insurance Company

Expiration date – None.

Policy or Bond Limits and Deductible Amounts

Amount of insurance coverage based upon services rendered.

TUCSON
AIRPORT AUTHORITY

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