CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Annual Financial Report

December 31, 2006 and 2005

(With Independent Accountant's Report Thereon)

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CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Introduction (Unaudited)

December 31, 2006 and 2005

Introduction

The Municipal Airport System (Airport System) is organized as a department of the City and County of Denver, Colorado (the City). The Airport System includes the Denver International Airport (Denver International) and the former Stapleton International Airport (Stapleton). The Airport System is headed by a Manager of Aviation who reports directly to the Mayor. The senior management team is further comprised of a chief deputy manager and five deputy managers. This report was prepared by the Airport System's Finance Section in collaboration with other Airport System personnel to provide a better understanding of the Airport System than the annual financial statements typically provide.

Description of Denver International

Situated approximately 24 miles northeast of downtown Denver, Denver International is the primary air carrier airport serving the Denver region. According to Airport Council International, in 2006, Denver International was the fifth busiest airport in the United States and the tenth busiest in the world, serving 47 million passengers. The Denver International site comprises approximately 33,800 acres (53 square miles) of land, an area larger than the island of Manhattan. The passenger terminal complex is reached via Pẽna Boulevard, a 12-mile dedicated access road from Interstate 70. Denver International has six runways—four oriented north-south and two oriented east-west. Five runways are 12,000 feet long and 150 feet wide. The sixth runway is 16,000 feet long and 200 feet wide, providing unrestricted global access for any airline using the airport along with the ability to accommodate the new generation of massive airliners, including the Airbus A-380.

The passenger terminal complex includes a landside terminal and three airside concourses. The landside terminal accommodates passenger ticketing, baggage claim, concessions, and other facilities and is served by terminal curbside roads for public and private vehicles. Automobile parking facilities are provided in two public parking structures adjacent to the landside terminal and in surface parking lots. Spaces are also provided for employee parking.

Passengers travel between the landside terminal and three airside concourses (Concourses A, B, and C) via an underground Automated Guideway Transit System (AGTS). In addition, there is a pedestrian passenger bridge to Concourse A. The airside concourses provide 95 full service jet gates for large jet aircraft and up to 55 parking positions for regional/commuter airline aircraft.

Air Traffic

Located close to the geographic center of the United States mainland, Denver has long been a major air transportation hub. Airline service within the United States is provided nonstop between Denver and more than 100 cities. Denver's natural geographic advantage as a connecting hub location has been enhanced by the capabilities of Denver International to accommodate aircraft landings and takeoffs in virtually all weather conditions. In 2006, 47 million passengers traveled through Denver International, of which approximately 55.8% originated or terminated their air journeys in Denver and 44.2% connected between flights. The Denver Metropolitan Area, with a population of more than 2.4 million, is the primary region served by Denver International. The Denver Metropolitan Area is comprised of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties. As shown in Table 1, currently 29 airlines provide scheduled passenger service at Denver International: 12 major/national airlines, 13 regional/commuter airlines, and four foreign-flag airlines.

In addition, several passenger charter and all-cargo airlines, including Airborne Express, DHL Worldwide Express, Emery Worldwide, FedEx, and United Parcel Service provide service at Denver International.

Table 1

Scheduled Passenger Airlines Serving Denver

February 2007

Major/national	Regional/commuter
AirTran Airways	Big Sky Airlines
Alaska Airlines	Comair/Delta Connection (1)
America West Airlines/US Airways (2)	Continental Express
American Airlines	GoJet/UAX
Continental Airlines	Great Lakes Aviation
Delta Air Lines (1)	Horizon Air
Frontier Airlines	Horizon/Frontier Jet Express
JetBlue Airways	Mesa Airlines/America West Express
Midwest Express Airlines	Mesa Airlines/UAX
Northwest Airlines (1)	Pinnacle Airlines/NW
Southwest Airlines	Skywest (UAX)/Delta
United Airlines	Shuttle America/UAX
	Transtate Airlines
	(Foreign-flag)
	Air Canada
	British Airways
	Lufthansa German Airlines
	Mexicana de Aviacion

(1) Delta, Comair (a Delta subsidiary) and Northwest Airlines currently are under bankruptcy protection. Delta emerged from bankruptcy on April 30, 2007 and Northwest Airlines emerged from bankruptcy on May 31, 2007.

(2) Parent companies of America West Airlines and US Airways merged in September 2005.

Source: Airport management records, February 2007.

Airlines' Rates, Fees, and Charges

The Airport System has a hybrid rate structure. Rates charged to the airlines for landing fees are residual in nature, i.e., the Airport System recovers its costs of operating the airfield. Airline space rentals are compensatory wherein any unrecovered costs serve to reduce the airline revenue credit described below. Concessionaires and nonairline tenants operate under agreements with the Airport System that provide for the payment of a minimum annual guarantee, which was set by the Airport System to recover the cost of the space occupied by nonairline tenants, or a percentage of gross revenues, whichever is higher. Under the airline use and lease agreements, 2006 net revenue as defined, has been shared between the Airport System and airlines, with the airlines receiving 50 % of the net (up to a $40 million cap per year). The 50% that the Airport System received was deposited in the capital improvement account and can be used by the Airport System for any lawful airport purpose. The net revenue available for sharing since Denver International opened is reflected in Table 2 below.

Table 2
Net Revenue Available for Sharing
(In thousands)

Year	Available for sharing	Airport share
1996	$ 34,771	$ 6,954
1997	26,555	5,311
1998	58,551	18,551
1999	55,058	15,058
2000	65,534	25,534
2001	43,811	10,953
2002	35,698	8,924
2003	59,026	19,026
2004	70,387	30,387
2005	79,062	39,062
2006	97,421	57,421

Source: Airport Management

CITY AND COUNTY OF DENVER, COLORADO
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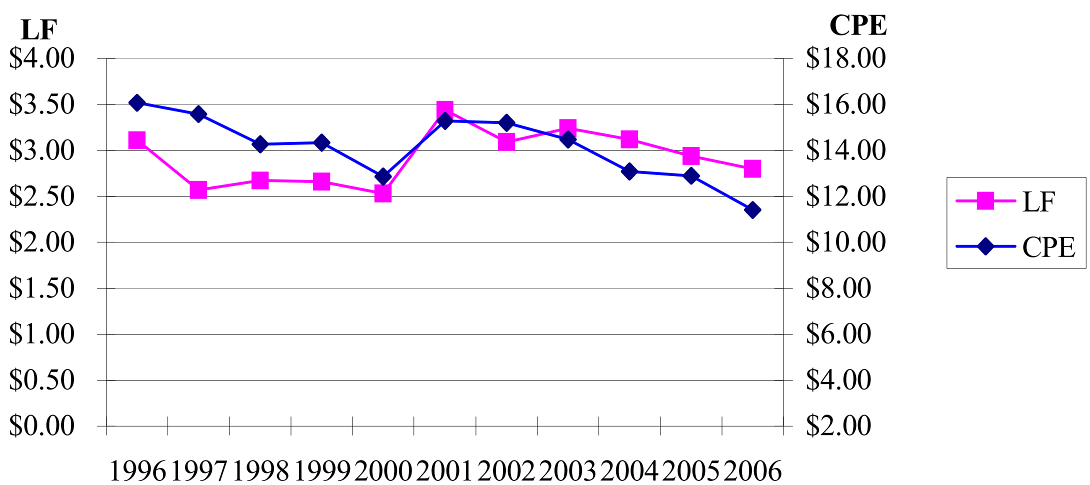
Through 2000, the airline rates, fees, and charges to passengers at Denver International showed a steady decline. As a result of the September 11, 2001 terrorist attacks (September 11 Events) and the resulting decline in flight activity and enplaned passengers, Airport costs for 2001 and 2002 showed increases as depicted in the graph below. Overall costs for 2003, 2004, 2005 and 2006 showed a decline due to positive factors such as increased passenger traffic, flat debt service payments, and containing operating and maintenance expense within budget.



LF = Landing Fee – Cost per 1000 lbs. landed weight
CPE = Cost per enplaned passenger

Cash Management

The Airport System's cash is under the control of the City's Manager of Revenue who invests the funds pursuant to the City's investment policy. As of December 31, 2006 and 2005, cash and investments totaled approximately $1,127.4 million and $1,098.5 million, respectively. Current investment vehicles include U.S. government securities, high-grade commercial paper, and repurchase agreements. In 2006 and 2005, the City charged a fee of $449,028 and $419,759, respectively, to the Airport System for performing the cash management function.

Events and Other Factors Affecting the Airport System

Passenger traffic was up 9.1% in 2006 compared with a national average increase of 5.1% as reported by the Airport Council International (ACI), an airline industry trade association. This trend continued in January and March of 2007, again setting passenger traffic records. Year-to-date through March 2007, passenger traffic was up 4.7% over March of 2006.

Activity-based revenues at Denver International (e.g., landing fees, Passenger Facility Charges (PFCs), concession, car rental, and parking revenues) increased 7.5% in 2006 compared to 2005, largely as the result of increases in passenger traffic.

Increased Security Measures

The Aviation and Transportation Security Act (the Aviation Security Act) was enacted by Congress in November 2001, and, in part, formed the Transportation Security Administration (TSA), which has taken over responsibility from the airlines for passenger screening. TSA requires security awareness programs for airport employees and, since December 31, 2002, screening of all checked baggage by explosive detection systems (EDS). It also requires operation of a system to screen, inspect or, otherwise, to ensure the security of all cargo. Denver International, like most of the nation's airports, was not supplied with a sufficient number of explosive detection systems by TSA by the December 31, 2002, congressionally mandated deadline. As a result, interim measures to screen all checked baggage were put in place and approved by the TSA.

In May 2003, the Airport System signed an agreement to have an EDS integrated into the existing baggage system for an estimated cost of $95 million. Construction was put on hold until the TSA agreed to fund a significant portion of the cost. In September 2003, the TSA signed a letter of intent to fund 75% of the $95 million over a four-year period. Based on these assurances, a sixteen-month construction process commenced, and all of Denver International's six terminal modules and customs recheck area had 100% fully automated EDS operations, installed and operational, in May 2005.

Physical security was increased in August 2006, following the liquids scare emanating from the United Kingdom and the resulting elevation of national terror alert level to "orange".

United Airlines (United)

United, one of the world's largest airlines, is the principal air carrier operating at Denver International. United Airlines operates a major connecting hub at Denver International under a use and lease agreement with the City that expires in 2025. United, together with its TED low fare unit and its United Express commuter affiliates, accounted for approximately 56.4% and 56.0% of passenger enplanements at Denver International in 2006 and the first three months of 2007, respectively.

Denver International has been the second busiest airport in the route structure of United in terms of enplaned passengers for at least the last five years.

United discontinued use of the automated baggage system and reverted to the traditional tug and cart system on September 6, 2005. In 2005, the Airport System removed all but approximately $7.0 million of the automated baggage system from its assets, with a net book value of $3.2 million, which resulted in a loss of $43.0 million. The remaining $7.0 million was identified by the Airport System's consultant to potentially support a new system in the future. United continues to use a portion of the Concourse B sortation system, which remains on the Airport System's books with a net book value of approximately $8.7 million. The Airport System removed the unused portion of approximately $47.0 million from its books, which resulted in an impairment loss of $21.5 million. In December 2005, the Airport System reached an agreement to mitigate a portion of the baggage equipment debt and the associated rates and charges (the 2005-2 Amendatory Agreement), through the use of excess Passenger Facility Charges (PFCs) and other available funds to defease associated debt. In exchange for United increasing the number of its connecting passengers through Denver, the Airport System reduced United's rates and charges \$4.9 million in 2006, \$8.0 million in 2007, and \$11.0 million in 2008 and thereafter.

In a 2006 Amendment, the Airport System agreed to further mitigate United's baggage system charges by defeasing certain outstanding Airport System Revenue Bonds and reducing amortization charges allocated to the automated baggage system in stated amounts not to exceed \$10 million per year, using available Capital Fund moneys and other legally available Airport funds to defease associated debt. The Airport System also agreed to improve the existing commuter facilities on the east end of Concourse B in order to accommodate larger regional jet aircraft and provide new and enhanced passenger amenities. These improvements, referred to herein as the Concourse B Commuter Facility Project, are estimated to cost approximately \$41.5 million. The facility opened April 24, 2007.

Under the 2006 Amendment, United will gradually relinquish its six leased gates on Concourse A. The Airport System expects that Frontier or other airlines will lease, or use on a nonpreferential basis, the gates relinquished by United as they become available. United relinquished one of the Concourse A gates on July 1, 2006, relinquished a second Concourse A gate effective November 30, 2006, and has agreed to relinquish the remaining four Concourse A gates upon the completion of the Concourse B Commuter Facility Project. The full relinquishment occurred May 1, 2007. See Bonds Payable (Footnote 8) relating to Economic Defeasance of the ABS baggage system.

Accounting and Internal Control

The Airport System follows accounting principles generally accepted in the United States of America applicable to governmental unit enterprise funds. Accordingly, the financial statements are prepared on the accrual basis of accounting in accordance with these accounting principles. In developing and evaluating the Airport System's accounting system, consideration has been given to the adequacy of internal controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits require estimates and judgments by management.

We believe that the Airport System's process of internal control adequately safeguards assets and provides reasonable assurance that financial transactions are recorded properly.

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December 31, 2006 and 2005

Acknowledgments

The preparation of this report in a timely and efficient manner is due to the dedicated service and professionalism of the Department's finance staff. We also thank all members of the Department who contributed to the preparation of the report.

Respectfully Submitted,

Turner West	Stan Koniz
Manager of Aviation	Deputy Manager of Aviation and
	Chief Financial Officer

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable John W. Hickenlooper, Mayor
Members of the City Council
The Honorable Dennis J. Gallagher, Auditor
Members of the Audit Committee
City and County of Denver
Denver, Colorado

We have audited the accompanying basic financial statements of City and County of Denver, Colorado Municipal Airport System (the Airport System), an enterprise fund of the City and County of Denver, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the City and County of Denver's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Airport System as of and for the year ended December 31, 2005, were audited by other accountants whose report dated May 5, 2006, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements of the Airport System are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of City and County of Denver that is attributable to the transactions of the Airport System. They do not purport to, and do not, present fairly the financial position of the City and County of Denver as of December 31, 2006 and 2005, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the Airport System as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The Honorable John W. Hickenlooper, Mayor
Members of the City Council
The Honorable Dennis J. Gallagher, Auditor
Members of the Audit Committee
City and County of Denver

The accompanying management's discussion and analysis as listed in the table of contents 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section; the Schedule of Compliance with Rate Maintenance Covenant as Defined in the 1984 Airport System General Bond Ordinance Airport Revenue Account; the Schedule of Required Deposits to the Bond Account, Bond Reserve Account, and the Operation and Maintenance Reserve Account as Defined in the 1984 Airport System General Bond Ordinance; the Summary of Insurance Coverage; and the Annual Financial Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section; the Schedule of Compliance with Rate Maintenance Covenant as Defined in the 1984 Airport System General Bond Ordinance Airport Revenue Account; the Schedule of Required Deposits to the Bond Account, Bond Reserve Account, and the Operation and Maintenance Reserve Account as Defined in the 1984 Airport System General Bond Ordinance; the Summary of Insurance Coverage; and the Annual Financial Information 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.

BKD, LLP

July 2, 2007

Management's Discussion and Analysis

The following discussion and analysis of the financial position of and activity of the Municipal Airport System (Airport System) of the City and County of Denver, Colorado (the City) provides an introduction and understanding of the basic financial statements of the Airport System as of and for the years ended December 31, 2006 and 2005. The Airport System includes the Denver International Airport (the Airport) and the former Stapleton International Airport (Stapleton). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

Operating revenues at the Airport were $500.8 million for the year ended December 31, 2006, an increase of $6.3 million (1.3%), as compared to December 31, 2005. The increase in revenue was primarily related to the increase in passenger traffic, which led to an increase in concession, parking, and car rental revenues. Passenger traffic increased 9.1% for the year ended December 31, 2006.

Operating expenses, exclusive of depreciation, were $256.1 million for the year ended December 31, 2006, an increase of $25.0 million (10.8%) as compared to December 31, 2005. The increase was attributable to an increase in personnel costs, snow removal (due to December 2006 blizzards), guard services, janitorial services and repair and maintenance costs.

Overview of the Financial Statements

The Airport System is an enterprise fund of the City. An enterprise fund is established to account for operations that are financed and operated in a manner similar to business-type activities, where fees are charged to external parties to cover the costs of providing goods and services. An enterprise fund uses the accrual basis of accounting, and accordingly, revenues are recognized when earned and expenses are recognized as incurred.

The Airport System's financial statements consist of statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and notes to those financial statements. The statements of net assets present information on the Airport System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Airport System is improving or deteriorating. The statements of revenues, expenses, and changes in net assets present information showing how the Airport System's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Summary of Revenues, Expenses, and Changes in Net Assets

The following is a summary of the revenues, expenses, and changes in net assets for the years ended December 31, 2006, 2005, and 2004 (in thousands):

	2006	2005	2004
Operating revenues	$ 500,810	$ 494,491	$ 477,665
Operating expenses before depreciation, amortization and impairment losses	(256,147)	(231,129)	(221,214)
Operating income before depreciation, amortization and impairment losses	244,663	263,362	256,451
Depreciation and amortization	(143,506)	(146,922)	(130,379)
Impairment losses	—	(85,286)	(18,007)
Operating income	101,157	31,154	108,065
Nonoperating revenues	150,223	120,063	84,766
Nonoperating expenses	(217,995)	(227,328)	(223,346)
Capital contributions	29,188	31,547	62,205
Increase (decrease) in net assets	62,573	(44,564)	31,690
Net assets, beginning of year	640,196	684,760	653,070
Net assets, end of year	$ 702,769	$ 640,196	$ 684,760

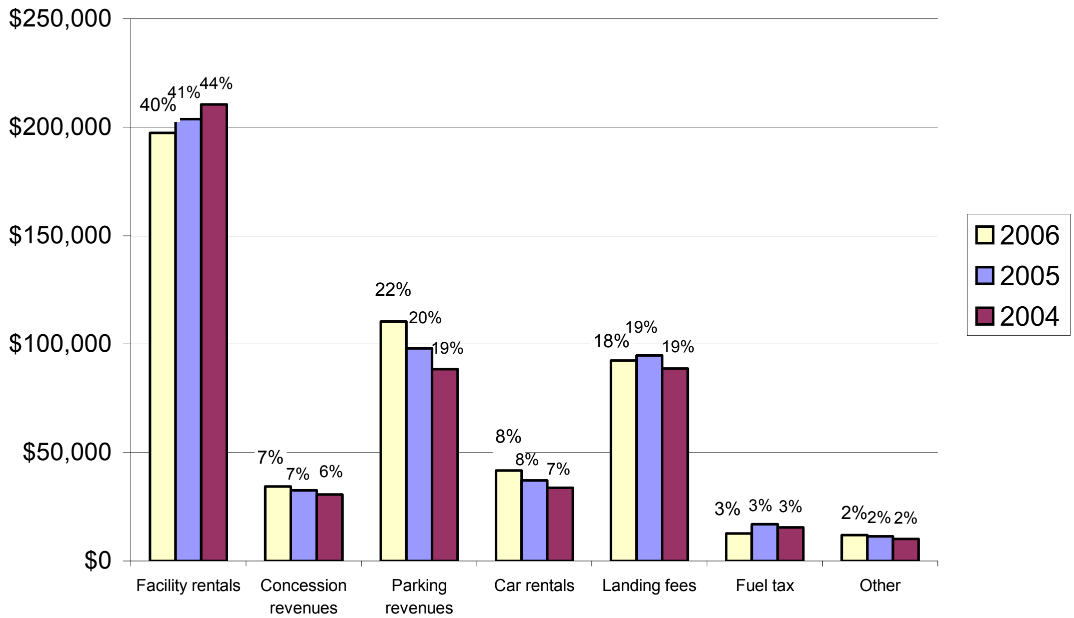
Operating Revenues

(In thousands)

	2006	2005	2004
Operating revenues:			
Facility rentals	$ 197,353	$ 203,800	$ 210,461
Concession revenues	34,305	32,566	30,638
Parking revenues	110,535	97,919	88,411
Car rental revenues	41,641	37,175	33,780
Landing fees	92,390	94,695	88,741
Aviation fuel tax	12,714	16,995	15,402
Other sales and charges	11,872	11,341	10,232
Total operating revenues	$ 500,810	$ 494,491	$ 477,665

Operating Revenues

% of Total Operating Revenues



In order to understand some of the variances in the Airport System financial statement changes, the analysis below explains the increase in revenues.

The Airport System's activities increased in four areas as described below and decreased in cargo for the year ended December 31, 2006 as compared to 2005 (in thousands):

	2006	2005	Percentage Change
Enplanements	23,665	21,702	9.0%
Passengers	47,325	43,388	9.1%
Aircraft operations (1)	610	568	7.4%
Cargo (in pounds)	621,655	683,237	(9.0)%
Landed weight (in tons)	31,848	29,636	7.5%

(1) Aircraft operations are takeoffs, landings, or other communications with the control tower.

The Airport System's activities increased in three areas as described below and decreased slightly in landed weight and cargo for the year ended December 31, 2005 as compared to 2004 (in thousands):

	2005	**2004**	**Percentage Change**
Enplanements	21,702	21,144	2.6%
Passengers	43,388	42,276	2.6%
Aircraft operations (1)	568	567	0.2%
Cargo (in pounds)	683,237	699,827	(2.4)%
Landed weight (in tons)	29,636	29,651	(0.1)%

(1) Aircraft operations are takeoffs, landings, or other communications with the control tower.

Operating revenues increased by 1.3%, from $494.5 million in 2005 to $500.8 million in 2006, primarily due to increases in parking, concession revenues, and car rentals. The parking revenue increase of $12.6 million, or 12.9%, is attributable to an increase in originating and deplaning (O&D) passenger traffic and an increase in parking rates, discussed below. Concession revenues between 2006 and 2005 increased $1.7 million, or 5.3%. The concession revenue increase was attributable to food and beverage service and retail concession revenue growth due to an increase in passenger traffic and an increase in the spend rate per passenger. Car rental revenues increased by $4.5 million, or 12.0%, to $41.6 million due to an increase in O&D passenger traffic and increased usage charges.

Facility Rentals and Landing Fees decreased in 2006 compared to 2005 by $6.4 million (3.2%) and $2.3 million (2.4%) respectively. Charges to airlines are based on the costs of providing the facilities and services. In 2006 these costs decreased because of a reduction in the debt service allocated to airline cost centers, thereby reducing the airline revenues.

Aviation fuel tax revenue in 2006 decreased $4.3 million, or 25.2%, primarily due to a decrease in aviation fuel usage related to aircraft tanker fueling outside of the Airport.

Operating revenues increased by 3.5%, from $477.7 million in 2004 to $494.5 million in 2005, primarily due to increases in parking, landing fees, concession revenues, and car rentals. The parking revenue increase of $9.5 million, or 10.8%, is attributable to an increase in originating and deplaning (O&D) passenger traffic and a rate increase effective June 15, 2005. The Airport System increased maximum daily parking rates in the garage and valet by $3, from $15 to $18 and $21 to $24 per day, respectively. Also, there was a $2 increase in the economy parking lot, from $7 to $9 per day. The landing fees increase of $6.0 million, or 6.7%, is attributable to reductions in the year-end settlement in the landing fee rate calculation for signatory airlines. Concession revenues between 2004 and 2005 increased $1.9 million, or 6.3%. The concession revenue increase was attributable to food and beverage service and retail concession revenue growth due to an increase in passenger traffic and an increase in the spend rate per passenger. Car rental revenues increased by $3.4 million, or 10.1%, to $37.2 million due to an increase in O&D passenger traffic and increased usage charges.

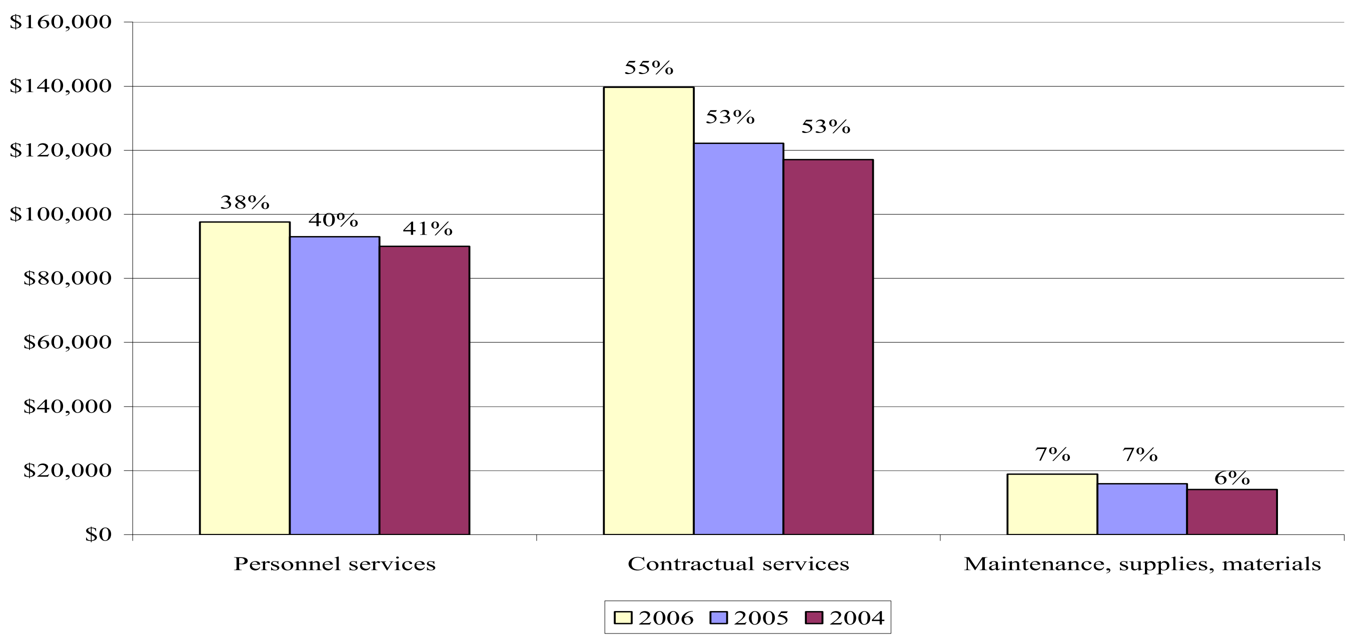
Aviation fuel tax in 2005 increased $1.6 million, or 10.3%, primarily due to an increase in aviation fuel usage and prices.

Operating Expenses Before Depreciation, Amortization and Impairment Losses

(In thousands)

	2006	2005	2004
Operating expenses before depreciation, amortization and impairment losses			
Personnel services	$ 97,592	$ 92,980	$ 90,006
Contractual services	139,652	122,193	117,091
Maintenance, supplies, and materials	18,903	15,956	14,117
Total operating expenses before depreciation, amortization, and impairment losses	$ 256,147	$ 231,129	$ 221,214

% Total Operating Expenses Before Depreciation, Amortization and Impairment Losses



2006/2005

Operating expenses before depreciation, amortization and impairment lossees increased by 10.8%, from $231.1 million in 2005 to $256.1 million in 2006. The increase in contractual services in 2006 compared to 2005 of $17.5 million was due to an increase in snow removal costs due to blizzards that occurred in December 2006, as well as an increase in janitorial services, guard services and repair and maintenance expense.

Contractual services also saw an increase in the repair and maintenance expense for the Automated Ground Transportation System (AGTS) train due to an increase in the contracted maintenance rates.

Personnel services increased by $4.6 million, or 5.0%, to $97.6 million in 2006 compared to $93.0 million in 2005. The increase in personnel costs was due in part to an increase in permanent salaries of 2.25% granted in 2006. Also, snow overtime costs relating to the December 2006 blizzards and a performance based bonus given to all personnel in December of 2006, contributed to the increase. Maintenance, supplies, and materials increased $2.9 million, or 18.5%, to $18.9 million from $16.0 million in 2005 due to an increase in runway lighting costs and plumbing supplies costs. An increase in commercial chemical solvents used during the December 2006 blizzards, heating plant repair parts and jet bridges, also contributed to the increase in 2006.

2005/2004

Operating expenses before depreciation, amortization and impairment losses increased by 4.5%, from $221.2 million in 2004 to $231.1 million in 2005. The increase in contractual services in 2005 of $5.1 million was due to an increase in electricity, gas, janitorial services, and repair and maintenance expenses offset by a decrease in aircraft noise penalty cost of $1.5 million.

Contractual services also saw an increase in the repair and maintenance expense for the Automated Ground Transportation System (AGTS) train due to an increase in the contracted maintenance rates. In addition, contract snow removal costs were higher in 2005 due to an April 2005 blizzard.

Personnel services increased by $3.0 million, or 3.3%, to $93.0 million in 2005 compared to $90.0 million in 2004. The increase in personnel and other city personnel (fire and police) costs was due in part to an increase in permanent salaries of 2.25% granted in 2005. Also, snow overtime costs relating to the April 2005 blizzard contributed to the increase.

Maintenance, supplies, and materials increased $1.8 million, or 13.0%, to $16.0 million from $14.1 million in 2004 due to the increase in runway lighting and janitorial supplies. In addition, an increase in natural gas rates, diesel fuel, and gasoline rates, as a result of increasing oil costs, also contributed to the increase in 2005.

Impairment Losses

In 2005, the Airport System concluded that sections of the automated baggage system were permanently impaired. As a result, the Airport System removed these sections of the automated baggage system, from its books, resulting in an impairment loss of $85.3 million in 2005. See further discussion regarding the write-off of the automated baggage system in the Capital Assets section below.

Nonoperating Revenues and Expenses

2006

Total nonoperating expenses, net of nonoperating revenues, decreased by $39.5 million to $67.8 million in 2006. This decrease was due to an increase in investment income of $20.3 million, or 56.7%, which was due to an increase in yields and additional investment of cash received related to notes payable. In addition, PFC revenues increased $9.5 million, or 11.3%, due to an increase in passenger traffic. Lastly, there was a decrease in other expense due to the completion of environmental costs associated with remediation of Stapleton, offset by an increase of $2.2 million of interest expense due to an increase in notes payable.

In 2006 and 2005, capital grants totaled $29.2 million and $31.5 million, respectively. The decrease in 2006 capital grants was due to the completion of the Explosive Detection System (EDS) in 2005, which was federally funded. All PFCs were reallocated to the payment of debt service related to the automated baggage system and the original cost of the Airport.

2005

Total nonoperating expenses, net of nonoperating revenues, decreased by $31.3 million to $107.2 million in 2005. This decrease was due to the increase in investment income of $13.3 million, or 59.3%, which was due to an increase in yields and more cash being invested long term. In addition, PFC revenues increased $22.0 million, or 35.4%, due to an increase in passenger traffic. Lastly, there was decrease in interest expense of $16.2 million from the refunding of debt. These factors were offset by an increase in other expense due to an additional $16.2 million in environmental costs associated with the remediation of Stapleton.

In 2005 and 2004, capital grants totaled $31.5 million and $42.1 million, respectively. The decrease in 2005 capital grants was due to the completion of the Explosive Detection System (EDS), which was federally funded. Also, in 2005, there was no capital PFC revenue while in 2004, capital PFC revenues totaled $20.1 million. The decrease in capital PFCs was due to reallocation of PFCs revenues from capital projects to the payment of debt service related to the automated baggage system.

Summary of Net Assets

The following is a summary of assets, liabilities, and net assets as of December 31, 2006, 2005, and 2004 (in thousands):

	2006	2005	2004
Assets:			
Current assets	$ 242,971	$ 222,323	$ 267,237
Restricted assets, current	404,650	487,169	473,364
Noncurrent investments	187,081	197,877	136,289
Capital assets	3,342,913	3,365,021	3,490,129
Bond issue costs, net	61,331	76,112	88,743
Investments restricted	352,704	245,207	309,582
Assets held for disposition	18,807	22,724	24,500
Total assets	4,610,457	4,616,433	4,789,844
Liabilities:			
Current liabilities	119,152	124,503	120,147
Current liabilities payable from restricted assets	221,113	189,904	198,058
Bonds payable, noncurrent	3,500,817	3,619,827	3,723,510
Notes payable, noncurrent	61,488	36,646	56,763
Compensated absences payable, noncurrent	5,118	5,357	5,548
Capital lease, noncurrent	—	—	1,058
Total liabilities	3,907,688	3,976,237	4,105,084
Net assets(deficit):			
Invested in capital assets, net of related debt	(212,179)	(236,200)	(168,315)
Restricted	543,978	488,337	547,526
Unrestricted	370,970	388,059	305,549
Total net assets	$ 702,769	$ 640,196	$ 684,760

2006

Assets decreased by $.6 million in 2006 as compared to 2005. This was principally due to the decrease in capital assets of $22.1 million. The decline in capital assets was due to normal annual depreciation of approximately $143.5 million and retirements of $9.2 million**.** The decrease in capital assets was offset by purchases of machinery, equipment and additions to construction in progress of approximately $130.6 million for improvements.

Cash, cash equivalents and investments increased by $28.9 million in 2006 as compared to 2005 resulting in part from operating activities, passenger facility charges and note proceeds. This was offset by payments of debt of $123.1 million and purchases of capital assets. See the statement of cash flows for more information regarding the change in cash and investments.

Grants receivable increased by $10.4 million. Grants receivable of $9.5 million were outstanding at the end of 2006 relating to the bomb detection system project and final reimbursements due from TSA.

Lastly, deferred bond issue costs declined by $14.8 million due to the removal of costs related to the 1996 bonds that were refunded totaling $17.4 million, the addition of costs related to the 2006 bonds that were issued totaling $6.4 million and the annual amortization of the costs totaling $3.8 million.

Total liabilities decreased by $68.5 million in 2006, compared to 2005, primarily due to the decrease in bonds (which was attributable to principal payments paid during 2006) and deferred rent, offset by an increase in notes payable.

Of the Airport System's 2006 total net assets, 77.4% are restricted for future debt service. The bond reserve account and bond accounts that are externally restricted for debt service represent $544.0 million.

At December 31, 2006, the remaining net assets include unrestricted net assets of $371.0 million, which may be used to meet any of the Airport System's ongoing operations. Management of the Airport System has internally designated $67.3 million of its unrestricted net asset amounts, as allowed in the 1984 Airport System General Bond Ordinance as supplemented and amended, to help meet debt covenant coverage requirements. In addition, ($212.2) million represents the Airport's investment in capital assets, net of related debt. A negative investment results because the outstanding indebtedness exceeds the assets' net book value.

2005

Assets decreased by $173.4 million in 2005 as compared to 2004. This was largely due to a decrease in capital assets of $125.1 million. The decline in capital assets was due to two factors: 1) the write-off of portions of the automatic baggage system and sortation systems with a net book value of approximately $43.0 million and $33.5 million, respectively, and 2) normal annual depreciation of approximately $146.9 million. These decreases in capital assets were offset by purchases of machinery, equipment, and additions to construction in progress of approximately $107.1 million.

Cash, cash equivalents, and investments also contributed to the Airport System's decrease in total assets. Cash, cash equivalents, and investments decreased by $22.8 million in 2005 as compared to 2004 due to payments of debt principal of approximately $120 million and purchases of capital assets as discussed above. These payments were offset by increased cash flows received from operating activities, passenger facility charges, and capital grant receipts. See the statement of cash flows for more information regarding the change in cash and investments.

Grants receivable declined by $21.1 million. In 2004, the Airport System was due an outstanding reimbursement from the Transportation Security Administration (TSA) to cover costs relating to the bomb detection system initially paid by the Airport System in 2004. The TSA made the reimbursement in 2005, thus relieving this receivable. Only $1.7 million in grants receivable were outstanding in 2005 related to the bomb detection system project.

Lastly, deferred bond issue costs declined by $12.6 million due to the removal of costs related to the 1995 bonds that were refunded totaling $15.4 million, the addition of costs related to the 2005 bonds that were issued totaling $6.9 million and the annual amortization of the costs totaling $2.2 million.

Liabilities decreased by $128.8 million in 2005, compared to 2004, primarily due to the decrease in bonds and notes payable, which was attributable to principal payments paid during 2005 as discussed above.

Of the Airport System's 2005 total net assets, 76.3% were restricted for future debt service and capital construction. The bond reserve account and bond accounts that are externally restricted for debt service represent $480.0 million. The Stapleton redevelopment and sixth runway totaling $8.3 million, are restricted because the funds were received from other entities and are to be used only for specific capital projects.

At December 31, 2005, the remaining net assets include unrestricted net assets of $388.1 million, which may be used to meet any of the Airport System's ongoing operations. Management of the Airport System has internally designated $67.3 million of its unrestricted net asset amounts, as allowed in the 1984 Airport System General Bond Ordinance as supplemented and amended, to help meet debt covenant coverage requirements. In addition, ($236.2) million represents the Airport's investment in capital assets, net of related debt. A negative investment results because the outstanding indebtedness exceeds the assets' net book value.

Long-Term Debt

As of December 31, 2006 and 2005, the Airport System had approximately $3.6 billion and $3.7 billion, respectively, in outstanding bonded debt, both senior and subordinate, paying fixed and variable interest rates. The total annual debt service (principal and interest) was approximately $295.4 million in 2006. The Airport System has called or refunded over $2.0 billion in higher interest rate debt originally issued in the early 1990s. This has resulted in cumulative present value debt service savings of approximately $737.0 million.

The Airport System's senior lien debt is currently rated by Standard & Poors, Moody's, and Fitch at A+, A1 and A+, respectively, with stable outlooks as of December 2006.

The Airport System's governing bond ordinances (the bond ordinance) require that the Airport System's net revenues plus other available funds, as defined in the bond ordinance, be sufficient to provide debt service coverage of 125% of the annual debt service requirement on senior bonds. The debt service coverage ratio for the years ended December 31, 2006 and 2005 was 174% and 162%, respectively, of total debt service.

The Airport System entered into a $23.0 million and $2.0 million, for a total of $25 million, Master Installment Purchase Agreement with Koch Financial Corporation on October 26, 2006, to finance various capital equipment purchases, for ten-year and five-year terms, respectively. The Airport System also entered into a $9.0 million Master Installment Purchase Agreement with GE Capital Public Finance, Inc., on October 26, 2006, to finance four train cars, for a ten-year term.

On August 17, 2006, the Airport issued $279,585,000 and $170,005,000 of Airport System Revenue Bonds, Series 2006A and 2006B respectively, in a fixed rate mode for the purpose of currently refunding $461,860,000 of the 1996A, 1996B, 1996C and 1996D bonds.

On August 9, 2006, the Airport System amended the 2005A Swap Agreements, described below. The notional amounts of the 2005 Swap Agreements were reduced to $56.0 million, $56.0 million, $112.0 million and $56.0 million, respectively, and the aggregate weighted average fixed rate payable by the Airport System under the 2005 Swap Agreements was reduced to 3.66%.

On August 9, 2006 the Airport System entered into interest rate Swap Agreements (the 2006B Swap Agreements) with four financial institutions in order to synthetically create variable rate debt in association with the refunding of the

Series 1996A and 1996D Bonds on August 17, 2006. The 2006B Swap Agreements have notional amounts of $56.0 million, $56.0 million, $112.0 million and $56 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between a variable rate based on the Bond Market Association Index payable by the Airport System under each Agreement and a fixed rate payable by the respective financial institutions. The aggregate weighted average fixed rate payable by the financial institutions under the 2006B Swap Agreements is 4.09%. The 2006B Swap Agreements have an effective date of November 15, 2006. Payments under these Agreements commenced on December 1, 2006.

The net effect of the 2006B Swap Agreements, when considered together with the fixed rate Series 2006A bonds, is that the Airport System will effectively pay a variable rate based on BMA plus or minus the difference between the fixed rate on the Series 2006A bonds and the fixed rate received under the 2006B Agreements on $280.0 million of obligations.

In November 2006, the 2005 Swap Agreements became effective (see "The 2005 Swap Agreements"). The net effect of the 2005 Swap Agreements, when considered together with the fixed rate Series 2006A bonds and the 2006B Swap Agreements is that the Airport System will pay a fixed rate plus or minus the difference between the BMA index and 70.0% of 1-month London Interbank Offered Rate (LIBOR) minus the difference of the fixed receiver rate on the 2006B Swap and the weighted average fixed payor rate on the 2005 Swap on $280.0 million of obligations.

The Airport System entered into a $20.0 million Master Installment Purchase Agreement with GE Capital Public Finance, Inc. on August 1, 2006 to finance capital equipment purchases based on a five year useful life.

On June 1, 2006 the Airport System entered into interest rate swap agreements (the "2006A Swap Agreements"), constituting Subordinate Hedge Facility Obligations, with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the refunding of the Series 1997E Bonds through the Airport System's issuance of variable rate bonds on or before November 15, 2007. The 2006A Swap Agreements have notional amounts of $181.0 million, $121.0 million and $60.0 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between the fixed rate payable by the Airport System under each Agreement and 70% of LIBOR for one month deposits of U.S. dollars payable for the respective financial institutions. The aggregate weighted average fixed rate payable by the Airport System under the 2006A Swap Agreements is 4.01%. The 2006A Swap Agreements have an effective date of November 15, 2007. Payments under these Agreements have not commenced.

On August 25, 2005, the Airport issued $227,740,000 of Airport System Revenue Bonds, Series 2005A in a fixed mode for the purpose of currently refunding $230,760,000 of the 1995A bonds.

On November 10, 2005, the Airport issued $91,750,000 and $87,700,000 in an auction rate mode and a variable rate mode, respectively, for the purpose of currently refunding $90,510,000 and $87,845,000 of the 1995B and 1995C bonds, respectively.

As previously discussed, on April 14, 2005, the Airport System entered into interest rate swap agreements (the 2005A Swap Agreements), constituting Subordinate Hedge Facility Obligations, with four financial institutions, in order to take advantage of and secure prevailing interest rates in contemplation of the refunding of the Series 1996A Bonds and the Series 1996D Bonds through the Airport System's issuance of variable rate bonds on or before November 15, 2006. The 2005 Swap Agreements originally had notional amounts of $120 million, $60 million, $60 million, and $60 million, respectively, prior to amendment, and provided for certain payments to or from each financial institution equal to the difference between the fixed rate payable by the Airport System under each of the 2005 Swap Agreements and the floating rate equal to 70% of one month LIBOR.

In July 2005, the Airport System and United reached an agreement for United to permanently release two Concourse A gates that had been temporarily released by United under the Stipulated Order. In exchange, the Airport System agreed to allocate $10.0 million in surplus PFC revenues or other available funds to reduce the Debt Service Requirements on the automated baggage system, which is discussed below.

Capital Assets

As of December 31, 2006 and 2005, the Airport System had capital assets of approximately $3.3 billion and $3.4 billion, respectively. These amounts are net of accumulated depreciation of approximately $1.4 billion and $1.2 billion, respectively.

Explosive Detection System: On September 2, 2003, the Airport and TSA entered in to a Memorandum of Agreement (TSA MOA), regarding the implementation of screening of all checked baggage by the EDS. The total cost of the EDS project was estimated to be approximately $92.0 million. With the approval of TSA, as required under the TSA MOA, the Airport entered into a contract with Siemens Dematic Corporation for the implementation of the EDS project, designed by Logplan. The construction of the EDS baggage system commenced in 2003 and each of the Airport's six terminal modules and customs recheck areas were 100% automated in May 2005. Total cost of the project was $170.5 million, of which $71.0 million is being funded by federal grants.

Automated Baggage System: United discontinued use of the automated baggage system and reverted to the traditional tug and cart system on September 6, 2005. At December 31, 2004, the book value of the baggage system equipment was $49.6 million. The rates and charges associated with the system continued to be charged to United as the exclusive user of Concourse B. However, the Airport System began discussions with United and all airlines to explore ways to mitigate automated baggage system costs over time, consistent with the cost reduction goals and sources of funds outlined in the Stipulated Order. These discussions culminated with the 2005-2 Amendatory Agreement whereby the Airport System will reduce United's Rates and Charges up to $11.0 million per year, over three years, in exchange for certain concessions. Airport System management commissioned a study to determine what, if any, of the existing automated baggage system would be usable in a new system. Based upon this study, management concluded that the bulk of the automated baggage system was impaired and, as a result, management wrote off approximately $43.0 million of the baggage system during 2005, with a remaining book value at December 31, 2006 of $3.2 million.

2006 Amendment: In a 2006 Amendment, the Airport System agreed to further mitigate United's baggage system charges by defeasing certain outstanding Airport System Revenue Bonds and reducing amortization charges allocated to the automated baggage system in stated amounts not to exceed $10 million per year, using available Capital Fund moneys and other legally available Airport funds to defease associated debt. The Airport System also agreed to improve the existing commuter facilities on the east end of Concourse B in order to accommodate larger regional jet aircraft and provide new and enhanced passenger amenities. These improvements, referred to herein as the Concourse B Commuter Facility Project, are estimated to cost approximately $41.5 million. The facility opened April 24, 2007.

Under the 2006 Amendment, United will gradually relinquish its six leased gates on Concourse A. The Airport System expects that Frontier or other airlines will lease, or use on a nonpreferential basis, the gates relinquished by United as they become available. United relinquished one of the Concourse A gates on July 1, 2006, relinquished a second Concourse A gate effective November 30, 2006, and has agreed to relinquish the remaining four Concourse A gates upon the completion of the Concourse B Commuter Facility Project. The full relinquishment occurred May 1, 2007.

Baggage Sortation System: The Airport System management commissioned Aviation and Airport Professionals (AvAirPros) to study the future baggage handling system master plan. The master plan states that, at this time, the existing concourses (A, B, and C) are configured with sortation systems that were operable with the automated baggage system discussed above; however, it is not clear whether these existing systems would be capable of being integrated into a new airport-wide baggage system in the future.

Based upon this study, management believed that the sortation systems on concourses A and C were impaired and removed the assets from the books, which resulted in a loss of $11.9 million. United continues to use a portion of the concourse B sortation system, which remains on the Airport System's books with a net book value of approximately $8.7 million. The Airport System removed the unused portion of approximately $47.0 million from its books, resulting in a loss of $21.6 million.

PFC: In 1992, the PFC program authorized the imposition of a fee of $3.00 per enplaned passenger and the use of this funding for approved projects, with certain qualifying airports permitted to charge a maximum PFC of $4.50. In 2000, the Federal Aviation Administration approved the Airport's application for an increase in the rate of PFC from $3.00 to $4.50, the revenues from which are to be used for qualified costs of the Airport, including associated debt service and approved capital projects. The Airport increased the PFC rate from $3.00 to $4.50 effective April 1, 2001. As of December 31, 2006, a total of $832.6 million has been remitted to the Airport, (including interest earned on late payments), of which $105.0 million has been expended on approved projects, $723.9 million has been used to pay debt service on the Airport's general airport revenue bonds, and $3.7 million is unexpended. The Airport System's authorization to impose the PFC expires on the earlier of January 1, 2030 or upon the collection of $3.3 billion authorized maximum amount of PFC revenues.

Construction Commitments: As of December 31, 2006, the Airport System had outstanding contractual commitments of approximately $344.9 million and had made over $98.4 million in contractual payments for the year then ended.

The Airport's current 2007-2012 Capital Program includes approximately $373.4 million of planned projects. The Airport has also identified a number of Demand Responsive Projects that will be undertaken only if there is sufficient need of such projects and they are financially viable. The 2007-2012 Capital Programs are expected to be financed with a combination of Airport Revenue bonds, commercial paper, installment purchase agreements, federal grants, Passenger Facility Charges (PFCs), and Airport System monies.

On April 6, 2006, the Airport announced that CMCB Development Company of Denver was the successful bidder on a 17-acre retail development along Pena Boulevard. The development called "The Landings" is located north of Pena Boulevard just southeast of the Conoco station and is the first phase in what could be a 500-acre retail development along the major highway in and out of Denver International Airport. The City is currently negotiating a development agreement with CMCB Development Company of Denver.

In addition, construction is proceeding on a fourth module of the parking garage on the west side of Jeppesen Terminal. Lastly, the Airport and United have agreed to a 2006 Amendatory Lease Agreement (the Agreement). According to the Agreement, United Airlines will release six Concourse A gates it currently leases over the next

9 months. Frontier Airlines, which now leases 16 gates on Concourse A, will lease all newly available Concourse A gates. United relinquished one of the Concourse A gates on July 1, 2006, and a second one on November 30, 2006. The remaining gates were released May 1, 2007.

Economic Factors

Passenger traffic was up 9.1% in 2006 compared with a national average increase of 5.1% as reported by the Airport Council International (ACI), an airline industry group. Much of this passenger growth is attributed to the increased service of low-cost carriers in the Denver market.

Southwest Airlines (Southwest) announced in October 2005 its intention to commence service to the Airport. Service began in January 2006, with an initial daily schedule of 13 departing flights, utilizing two gates on Concourse C. Effective March 1, 2006, Southwest leased a third gate and increased its schedule to 20 daily departing flights. On August 1, 2006, Southwest Airlines leased an additional gate and that brings their total number of usage to four gates.

The dominant air carrier at Denver International is United. On December 9, 2002, United filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code. The Chapter 11 filing permitted United to continue operations while developing a plan of reorganization to address existing debt, capital, and cost structures. In February 2006, United emerged from bankruptcy. United, together with its TED low-fare unit and its United Express commuter affiliates, accounted for approximately 56.4% and 56.0% of passenger enplanements at the Airport in 2006 and for the first three months of 2007, respectively.

As previously discussed, operating revenue was up 1.3%. Operating income before depreciation and amortization of $244.7 million represented a decrease of $18.7 million. Revenues Available for Sharing, the net revenue that is split 50%/50% with the signatory airlines under the use and lease agreements, was over $97.4 million, its highest level ever. The airlines will receive the maximum allocation of $40.0 million, with the balance flowing to the Airport System's Capital Fund for discretionary purposes.

Request for Information

This financial report is designed to provide a general overview of the Airport System's finances for all those with an interest. Questions concerning any of the information presented in this report or requests for additional information should be addressed to Stan Koniz, Chief Financial Officer, Denver International Airport, Airport Office Building, 8th Floor, 8500 Pena Boulevard, Denver, CO 80249-6340. Copies are available on-line at www.flydenver.com.

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Statements of Net Assets

December 31, 2006 and 2005

Assets	**2006**	**2005**
Current assets:		
Cash and cash equivalents	$ 39,548,675	$ 7,586,793
Investments	176,051,494	189,133,508
Accounts receivable (net of allowance for doubtful accounts $340,941 and $323,486, respectively)	14,519,315	14,451,382
Accrued interest receivable	7,105,769	5,423,676
Other long-term receivables	38,774	103,452
Inventories	5,536,967	5,454,318
Prepaid expenses and other	170,131	170,131
Total current unrestricted assets	242,971,125	222,323,260
Restricted assets:		
Cash and cash equivalents	271,288,130	227,053,440
Investments	100,741,748	231,647,117
Accrued interest receivable	1,899,940	897,577
Prepaid expenses and other	5,472,506	13,223,650
Grants receivable	12,492,788	2,130,831
Passenger facility charges receivable	12,754,737	12,216,716
Total current restricted assets	404,649,849	487,169,331
Total current assets	647,620,974	709,492,591
Noncurrent assets:		
Investments	187,080,957	197,876,686
Capital assets:		
Buildings	1,714,711,598	1,692,775,950
Improvements other than buildings	1,995,739,581	1,926,665,356
Machinery and equipment	557,147,936	530,719,449
	4,267,599,115	4,150,160,755
Less accumulated depreciation and amortization	(1,385,549,501)	(1,243,928,382)
	2,882,049,614	2,906,232,373
Construction in progress	165,558,343	163,483,424
Land, land rights and air rights	295,305,625	295,305,625
Total capital assets	3,342,913,582	3,365,021,422
Bond issue costs, net of accumulated amortization	61,330,980	76,111,450
Total noncurrent unrestricted assets	3,591,325,519	3,639,009,558
Investments – restricted	352,703,957	245,207,135
Assets held for disposition	18,806,825	22,724,103
Total assets	4,610,457,275	4,616,433,387

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Statements of Net Assets

December 31, 2006 and 2005

Liabilities	**2006**	**2005**
Current liabilities:		
Vouchers payable	$ 31,172,356	$ 32,576,135
Due to other City agencies	17,186,337	18,082,646
Compensated absences payable	1,577,340	1,165,067
Other liabilities	22,003,622	8,890,941
Revenue credit payable	40,000,000	40,000,000
Deferred rent	7,212,505	23,788,633
Total current unrestricted liabilities	119,152,160	124,503,422
Current liabilities payable from restricted assets:		
Vouchers payable	35,717,072	18,032,591
Retainages payable	17,689,100	12,875,680
Accrued interest and matured coupons	22,227,738	23,263,861
Notes payable	27,497,017	20,117,026
Capital lease liability	—	1,061,885
Other liabilities	10,896,786	16,747,604
Revenue bonds	107,085,000	97,805,000
Total current liabilities payable from restricted assets	221,112,713	189,903,647
Total current liabilities	340,264,873	314,407,069
Noncurrent liabilities:		
Bonds payable:		
Revenue bonds, net of current portion	3,762,700,000	3,885,555,000
Less:		
Deferred losses on bond refundings	(301,053,878)	(275,304,950)
Net unamortized premiums	39,170,459	9,576,996
Total bonds payable, noncurrent	3,500,816,581	3,619,827,046
Notes payable	61,488,469	36,646,298
Compensated absences payable	5,118,304	5,357,007
Total noncurrent liabilities	3,567,423,354	3,661,830,351
Total liabilities	3,907,688,227	3,976,237,420
Net Assets(Deficit)		
Invested in capital assets, net of related debt	(212,178,928)	(236,200,039)
Restricted for:		
Capital projects	—	8,296,639
Debt service	543,978,207	480,040,793
Unrestricted	370,969,769	388,058,574
Total net assets	$ 702,769,048	$ 640,195,967

See accompanying notes to financial statements.

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Facility rentals	$ 197,353,089	$ 203,800,286
Concession revenues	34,304,468	32,565,648
Parking revenues	110,534,937	97,918,928
Car rental revenues	41,641,365	37,175,320
Landing fees	92,389,849	94,694,946
Aviation fuel tax	12,714,401	16,995,501
Other sales and charges	11,871,715	11,340,736
Total operating revenues	500,809,824	494,491,365
Operating expenses:		
Personnel services	97,592,363	92,979,459
Contractual services	139,652,041	122,193,155
Maintenance, supplies, and materials	18,903,028	15,956,243
Total operating expenses before depreciation, amortization and impairment losses	256,147,432	231,128,857
Operating income before depreciation, amortization and impairment losses	244,662,392	263,362,508
Depreciation and amortization	143,505,675	146,922,302
Impairment losses	—	85,286,382
Operating income	101,156,717	31,153,824
Nonoperating revenues (expenses):		
Passenger facility charges	93,509,920	83,999,814
Investment income	56,146,884	35,823,022
Interest expense	(207,385,378)	(205,141,929)
Grants	565,853	240,500
Other expense	(10,609,244)	(22,186,773)
Total nonoperating revenues (expenses), net	(67,771,965)	(107,265,366)
Income (loss) before capital contributions	33,384,752	(76,111,542)
Capital contributions:		
Capital grants	29,188,329	31,547,273
Increase (decrease) in net assets	62,573,081	(44,564,269)
Net assets, beginning of year	640,195,967	684,760,236
Net assets, end of year	$ 702,769,048	$ 640,195,967

See accompanying notes to financial statements.

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts from customers	$ 499,604,612	$ 481,817,118
Payments to suppliers	(145,688,172)	(100,028,981)
Interfund activity payments to other funds	(12,181,634)	(12,239,690)
Payments to employees	(96,338,970)	(92,729,306)
Net cash provided by operating activities	245,395,836	276,819,141
Cash flows from noncapital financing activities:		
Operating grants received	313,814	240,500
Net cash provided by noncapital financing activities	313,814	240,500
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	—	2,376,840
Proceeds from note payable	54,000,000	—
Principal paid on notes payable	(21,777,838)	(19,449,588)
Principal paid on revenue bonds	(101,305,000)	(101,370,000)
Interest paid on revenue bonds	(190,453,776)	(220,329,010)
Principal paid on capital lease	(1,061,885)	(2,052,794)
Bond issuance costs paid	(2,074,724)	(6,834,114)
Interest paid on notes payable	(2,487,809)	—
Capital grant receipts	19,078,411	52,664,919
Passenger Facility Charges	92,971,899	82,754,169
Purchases of capital assets	(81,945,591)	(107,112,083)
Payments from accrued expenses for capital assets	(22,497,901)	(266,506)
Payments to escrow for current refunding of debt	(8,331,179)	(10,378,589)
Proceeds from sale of capital assets	487,822	582,523
Net cash used in capital and related financing activities	(265,397,571)	(329,414,233)
Cash flows from investing activities:		
Purchases of investments	(6,492,915,029)	(8,162,358,749)
Proceeds from sales and maturities of investments	6,542,146,541	8,006,414,109
Proceeds from sales of assets held for disposition	3,917,278	1,776,126
Payments to maintain assets held for disposal	(8,933,727)	(12,156,812)
Interest and dividends on investments and cash equivalents	51,669,430	39,975,086
Net cash provided by (used) in investing activities	95,884,493	(126,350,240)
Net increase (decrease) in cash and cash equivalents	76,196,572	(178,704,832)
Cash and cash equivalents, beginning of year	234,640,233	413,345,065
Cash and cash equivalents, end of year	$ 310,836,805	$ 234,640,233

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Statements of Cash Flows

Years ended December 31, 2006 and 2005

		2006		2005
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	101,156,717	$	31,153,824
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		143,505,675		146,922,302
Miscellaneous income		1,924,205		1,845,549
Impairment losses		—		85,286,382
Changes in assets and liabilities:				
Receivables, net of allowance		(3,255)		545,904
Inventories		(82,649)		50,451
Prepaid expenses and other		517,166		(347,035)
Vouchers and other payables		3,855,982		8,069,434
Deferred rent		(16,576,128)		(1,102,460)
Due to other City agencies		(896,309)		10,988,361
Compensated absences		173,570		163,553
Other operating liabilities		11,820,862		(6,757,124)
Net cash provided by operating activities	$	245,395,836	$	276,819,141

Noncash activities:

The Airport System issued bonds in the amount of $449,590,000 and $407,190,000 in 2006 and 2005, respectively, in order to refund debt. Net bond proceeds of $465,989,377 and $415,715,139 for 2006 and 2005, respectively, were deposited immediately into an irrevocable trust for the defeasance of outstanding revenue bond principal, payment of a redemption premium and accrued interest amounts. Original issue premiums on bonds of $20,731,149 and $10,901,979 were realized on the issuance of bonds in 2006 and 2005, respectively.

See accompanying notes to financial statements.

(1) Organization and Reporting Entity

(a) Nature of Operations

Pursuant to Article XX of the State of Colorado Constitution and the City and County of Denver, Colorado (the City) Charter, the City acquired, owns, operates, and maintains certain airport facilities. These facilities include Denver International Airport (Denver International) and certain assets of Stapleton International Airport (Stapleton) and are referred to herein as the City and County of Denver Municipal Airport System (the Airport System). The Airport System is operated as the Department of Aviation, with a Manager of Aviation appointed by and reporting to the Mayor.

Denver International consists of a landside terminal building, three airside concourses, six runways, roadways, and ancillary facilities on a 53-square mile site. Stapleton was closed to all air traffic on February 27, 1995. See note 6 for further discussion.

(b) Reporting Entity

The accompanying financial statements present only the Airport System enterprise fund and are not intended to present fairly the financial position of the City, and the changes in its financial position and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Airport System is an enterprise fund of the City and, as such, is an integral part of the City. An enterprise fund is established to account for an activity that is financed with debt secured solely by a pledge of net revenues from fees and charges of the activity or when laws and regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges rather than with taxes or similar revenues. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. As an enterprise fund, the Airport System uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as incurred (flow of economic resources measurement focus).

The Airport System has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements, including National Council on Governmental Accounting Statements and Interpretations in effect at December 31, 2006. In implementing GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Airport System elected not to adopt Financial Accounting Standards Board pronouncements issued after November 30, 1989.

During the year ended December 31, 2006, the Airport System adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. The impact of this standard on the Airport System was immaterial.

During the year ended December 31, 2005, the Airport System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* This Statement addresses common deposit and investment risks and requires governmental entities to provide disclosures related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This information is designed to inform financial statement users about deposit and investment risks that could affect the Airport System's ability to provide services and meet its obligations as they become due.

(b) Cash and Cash Equivalents

Cash and cash equivalents, which the City manages, consist principally of U.S. Treasury Securities, U.S. agency securities, and commercial paper with original maturities of less than 90 days.

(c) Investments

Investments, which the City manages, are reported at fair value, which is primarily determined based on quoted market prices at December 31, 2006 and 2005. The Airport System's investments are maintained in segregated pools at the City and include U.S. Treasury securities, U.S. Agency securities, commercial paper, and repurchase agreements.

(d) Inventories

Inventories consist of materials and supplies which have been valued at the lower of cost (weighted average cost method) or market.

(e) Capital Assets

Capital assets are recorded at cost and consist of buildings, roadways, airfield improvements, machinery and equipment, land, and land rights at Denver International. Costs associated with ongoing construction activities of Denver International are included in construction in progress. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. The capitalized interest incurred for 2006 and 2005 was $4,547,332 and $4,696,585, respectively. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life.

Depreciation is recorded using the straight-line method over the following estimated useful lives:

Buildings	20 – 40 years
Roadways	30 – 40 years
Runways/taxiways	35 – 40 years
Other improvements	15 – 40 years
Major system equipment	15 – 25 years
Vehicles and other equipment	5 – 10 years

(f) Bond Issue Costs, Deferred Losses on Bond Refundings, and Unamortized Premiums (Discounts)

Bond issue costs, deferred losses on bond refundings, and unamortized premiums (discounts) are deferred and amortized over the life of the old bonds, or the remaining life of the refunding bonds, whichever is shorter, using the effective interest rate method. Bond issue costs are recorded as deferred charges. Unamortized premiums on bond refundings are recorded as an addition to the face amount of the bonds payable. Unamortized discounts and deferred losses on bond refundings are recorded as a reduction of the face amount of the bonds payable.

(g) Assets Held for Disposition

Assets held for disposition consist of the Stapleton assets. Depreciation is not recorded on those assets held for sale. Ongoing maintenance and redevelopment costs are expensed as incurred. See note 6 for further discussion.

(h) Compensated Absences Payable

Accumulated vested sick and vacation benefits are recorded as an expense and a liability as benefits accrue to employees. The Airport System uses the vesting method for estimating sick leave compensated absences payable.

(i) Deferred Rent

Deferred rent is recorded when rental payments are received by the Airport System prior to a legal claim to them. Included in deferred rent are customer credits and deposits.

(j) Net Assets

2006

The Airport System's assets exceeded liabilities by $702,769,048 as of December 31, 2006, a $62,573,081 increase in net assets from the prior year-end. Of the Airport System's 2006 net assets, 77.4% are restricted for future debt service. The bond reserve account and bond accounts represent $543,978,207 which is externally restricted for debt service. The net assets restricted for the Stapleton and sixth runway capital projects represent $0.

The remaining net assets include unrestricted net assets of $370,969,769 which may be used to meet any of the Airport System's ongoing operations. Management of the Airport System has internally designated $67,267,320 of its unrestricted net asset amounts, as allowed in the 1984 Airport System General Bond Ordinance as supplemented and amended, to help meet debt covenant coverage requirements. In addition, ($212,178,928) represents the Airport System's investment in capital assets, less the related indebtedness outstanding used to acquire those capital assets.

2005

The Airport System's assets exceeded liabilities by $640,195,967 as of December 31, 2005, a $44,564,269 decrease in net assets from the prior year-end. Of the Airport System's 2005 net assets, 76.3% were restricted for future debt service and capital construction. The bond reserve account and bond accounts represented $480,040,793 that was externally restricted for debt service. The net assets restricted for the Stapleton and sixth runway capital projects represented $8,296,639.

The remaining net assets included unrestricted net assets of $388,058,574 which may be used to meet any of the Airport System's ongoing operations. Management of the Airport System has internally designated $67,267,320 of its unrestricted net asset amounts, as allowed in the 1984 Airport System General Bond Ordinance as supplemented and amended, to help meet debt covenant coverage requirements. In addition, ($236,200,039) represented the Airport System's investment in capital assets, less the related indebtedness outstanding used to acquire those capital assets.

(k) Restricted and Unrestricted Resources

Use of restricted and unrestricted resources are made on a case-by-case basis by management depending on overall requirements. Generally, management applies restricted resources and then unrestricted resources when both restricted and unrestricted resources are available to pay an expense.

(l) Operating Revenues and Expenses

The statement of revenues, expenses, and changes in net assets distinguish operating revenues and expenses from nonoperating activity and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denver International's principal ongoing operations. The principal operating revenues of the Airport System are charges to airline tenants for facility rentals, landing fees and parking. Operating expenses include the cost of providing services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions. Such items include Passenger Facility Charges (PFCs), interest expense, interest income, and grants from the federal government and Stapleton demolition and remediation expenses.

(m) Governmental Grants

The Airport System periodically receives grant revenues from federal agencies which are either for capital projects or operating purposes. Revenue is considered earned as the related approved capital outlays or expenses are incurred by the Airport System. Revenues from capital grants are reported as capital contributions on the statements of revenue, expenses and changes in net assets and revenues from operating grants are reported as nonoperating revenues.

(n) Rates and Charges

The Airport System establishes annually, as adjusted semi-annually, airline facility rentals, landing fees, and other charges sufficient to recover the costs of operations (excluding certain debt service payments), maintenance, and debt service related to the airfield and the space rented by the airlines. Any differences between amounts collected from and actual costs allocated to the airlines' leased space are credited or billed to the airlines. As of December 31, 2006 and 2005, the Airport System had accrued a liability, included in current other liabilities, of $14,799,763 and $3,259,726, respectively.

For the years ended December 31, 2000 through 2005, 75% of Net Revenues (as defined by the bond ordinance) remaining at the end of each year were to be credited in the following year to the passenger airlines signatory to use and lease agreements; and thereafter it is 50%, capped at $40,000,000 for all years. The Net Revenues credited to the airlines totaled $40,000,000 for both 2006 and 2005. Liabilities for these amounts were accrued as of December 31, 2006 and 2005, respectively, and are reported in the statement of net assets as revenue credit payable.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

(p) Reclassifications

Certain 2005 balances have been reclassified to conform with the 2006 financial statements presentation.

(3) Cash, Cash Equivalents, and Investments

(a) Deposits

The Airport System's deposits are commingled with the City's and are subject to, and are in accordance with, the State of Colorado's Public Deposit Protection Act (the PDPA). In addition, the City's investment policy requires that Certificates of Deposit be purchased from institutions that are certified as eligible public depositories. Under the PDPA, all uninsured deposits exceeding the amount insured by the FDIC, are to be fully collateralized with specific approved securities identified in the PDPA. The eligible collateral pledged must be held in custody by any Federal Reserve Bank, or branch thereof, or held in escrow by some other bank in a manner as the banking commissioner shall prescribe by rule and regulation, or may be segregated from the other assets of the eligible public depository and held in its own trust department. All collateral so held must be clearly identified as being security maintained or pledged for the aggregate amount of public deposits accepted and held on deposit by the eligible public depository. Deposits collateralized under the PDPA are considered collateralized with securities held by the pledging financial institution's trust department or agent in the "City's name."

At December 31, 2006, the carrying amount of the Airport System's deposits, excluding certificates of deposit, was $0 and the bank balance was $0. At December 31, 2006, the Airport System owned $11,354,644 of certificates of deposit issued by Colorado Business Bank, a certified eligible public depository.

Custodial credit risk is the risk that in the event of a failure of a financial institution or counterparty, the Airport System would not be able to recover its deposits, investments, or collateral securities.

St. Paul/Travelers Insurance (St. Paul) manages an owner-controlled insurance plan on behalf of the Airport System. St. Paul pays claims from an escrow account held in the Airport System's name that is uninsured, uncollateralized, and subject to custodial credit risk. The balance of the account at December 31, 2006 was $236,881. All other deposits are not subject to custodial credit risk since they are deposited in certified eligible public depositories under the PDPA.

(b) Investments

The Airport System's investments are managed by the City and are subject to the Investment Policy of the City. It is the policy of the City to invest its funds in a manner which will provide for the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. The City's Investment Policy applies to all investment activity of the City under the control of the Manager of Revenue (the Manager), including investments of certain monies related to business-type activities, and trust and agency funds. The City's investment policy does not apply to the investments of the deferred compensation plan or component units. Other monies that may from time to time be deposited with the Manager for investment shall also be administered in accordance with the Investment Policy. The City does not currently invest with external investment pools.

The City Charter, Section 2.5.3(c), and Denver Revised Municipal Code, Section 20-21, authorizes the type of investments that the City can hold. The investment policy generally requires that investments shall be managed in accordance with portfolio theory management principles to compensate for actual or anticipated changes in market interest rates. To the extent possible, investment maturity will be matched with anticipated cash flow requirements of each investment pool. Additionally, to the extent possible, investments will be diversified by security type and institution. This diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Deviations from expectations shall be reported in a timely fashion and appropriate action taken to control adverse developments.

At December 31, 2006 and 2005, respectively, the Airport System's cash, cash equivalents, and investment balances were as follows (in thousands):

		December 31, 2006		December 31, 2005
Money Market Funds	$	55,796	$	43,507
Certificate of Deposit		11,355		—
Commercial paper		246,001		305,092
Repurchase agreements		125,706		142,035
U.S. Treasury securities		87,446		190,203
U.S. Agency securities		601,111		417,668
	$	1,127,415	$	1,098,505

A reconciliation of cash, cash equivalents, and investment balances as shown in the basic financial statements as of December 31, 2006, is as follows (amount expressed in thousands).

		December 31, 2006		December 31, 2005
Cash on hand	$	—	$	103
Cash and cash equivalents		39,549		7,587
Investments		363,132		387,010
Restricted cash equivalents		271,288		226,951
Restricted investments		453,446		476,854
	$	1,127,415	$	1,098,505

Interest Rate Risk: Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an investment. The City manages interest rate risk for the investment under the control of the manager by limiting the maximum maturity of investments. Bond reserve proceeds that are invested in U.S. Treasury and U.S. Agency securities can have a maximum maturity of ten years. All other U.S. Treasury and U.S. Agency securities can have a maximum maturity of five years. Repurchase agreements are open repurchase agreements and not exposed to interest rate risk.

At December 31, 2006, the Airport System's investment balances and maturities, in years, for those investments subject to interest rate risk were as follows (amounts are expressed in thousands):

		Investments maturity in years			
Investment type	**Fair value**	**Less than 1**	**1-5**	**6-10**	**Greater than 10****
Discount Commercial Paper	$ 246,001	$ 246,001	$ —	$ —	$ —
U.S. Treasury securities	87,445	—	63,321	24,124	—
U.S. Agency securities	601,111	144,203	255,010	157,533	44,365
Total	$ 934,557	$ 390,204	$ 318,331	$ 181,657	$ 44,365

The Airport System's portfolio of U.S. agency securities includes callable securities with scheduled interest changes. If a callable investment is purchased at a discount, the maturity date is assumed to be the maturity date of the investment. If the investment is bought at a premium, the maturity date is assumed to be the call date. As of December 31, 2006, the Airport System owned callable securities with a fair value of $250,489,681. Of these, securities with scheduled increases to predetermined interest rates had a fair value of $102,772,048.

**The Manager is authorized to waive certain portfolio constraints when such action is deemed to be in the best interest of the City. The Manager has waived the maximum maturity for certain investments in U.S. Agency securities that are part of the Airport System structured pool created to facilitate an economic defeasance of a portion of the future debt service payments due on certain Airport System bonds.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligation to the Airport System. National rating agencies assess this risk and assign a credit quality rating for most investments. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not assigned credit quality ratings. Credit quality ratings are reported on obligations of U.S. Government agencies that are not explicitly guaranteed by the U.S. Government. The City's Investment Policy requires that commercial paper and bankers' acceptances be rated by at least two of the recognized rating agencies and have a minimum rating of A-1, P-1, and F-1 from Standard & Poor's, Moody's, and Fitch, respectively, at the time of purchase.

As of December 31, 2006, the Airport System owned $ 246,000,560 in commercial paper that had minimum ratings of A-1, D-1 and F-1, by two rating agencies.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of failure, the Airport System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the City's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the City's name. None of the Airport System's investments owned at December 31, 2006, were subject to custodial credit risk.

In accordance with the City's Investment Policy, all of the City's repurchase agreements are collateralized at 102% of the market value of the portfolio by U.S. Government agency securities at the time of purchase. Collateral valuation is calculated and adjusted at least once per week and adjusted on an as needed basis. Collateral for all repurchase agreements are held by the City's custodian, J.P. Morgan. None of the Airport System's repurchase agreements owned at December 31, 2006 were subject to custodial risk.

Concentration of Credit Risk: The City's Investment Policy states that a maximum of 5% of the portfolio may be invested in commercial paper or certificates of deposit issued by any one provider. As of December 31, 2006, all investments in commercial paper and certificates of deposit are in compliance with this policy.

(4) Accounts Receivables

Management of the Airport System reviews accounts receivables periodically and an allowance for doubtful accounts has been established based upon management's assessment of the probability of collection. As of December 31, 2006 and 2005, an allowance of $340,941 and $323,486, respectively, had been established. No amount is reserved for United Airlines (United) in 2006. See further discussion regarding United in note 21 of the financial statements.

(5) Capital Assets

Changes in capital assets for the years ended December 31, 2006 and 2005 were as follows (in thousands):

	2006				
	January 1, 2006	Additions	Transfers of completed projects	Retirements and impairments	December 31, 2006
Depreciable:					
Buildings	$ 1,692,776	$ —	$ 26,318	$ (4,382)	$ 1,714,712
Improvements other than buildings	1,926,666	—	73,569	(4,496)	1,995,739
Machinery and equipment	530,719	4,808	23,420	(1,799)	557,148
	4,150,161	4,808	123,307	(10,677)	4,267,599
Less accumulated depreciation and amortization	(1,243,928)	(143,506)	—	1,885	(1,385,549)
	2,906,233	(138,698)	123,307	(8,792)	2,882,050
Nondepreciable:					
Construction in progress	163,483	125,763	(123,307)	(381)	165,558
Land, land rights, and air rights	295,306	—	—	—	295,306
Total capital assets	$ 3,365,022	$ (12,935)	$ —	$ (9,173)	$ 3,342,914

	2005				
	January 1, 2005	Additions	Transfers of completed projects	Retirements and impairments	December 31, 2005
Depreciable:					
Buildings	$ 1,669,551	$ —	$ 23,317	$ (92)	$ 1,692,776
Improvements other than buildings	1,907,899	—	18,767	—	1,926,666
Machinery and equipment	681,753	8,122	29,626	(188,782)	530,719
	4,259,203	8,122	71,710	(188,874)	4,150,161
Less accumulated depreciation and amortization	(1,200,725)	(146,922)	—	103,719	(1,243,928)
	3,058,478	(138,800)	71,710	(85,155)	2,906,233
Nondepreciable:					
Construction in progress	136,214	98,979	(71,710)	—	163,483
Land, land rights, and air rights	295,437	—	—	(131)	295,306
Total capital assets	$ 3,490,129	$ (39,821)	$ —	$ (85,286)	$ 3,365,022

In 2004, the Airport System implemented GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*. GASB No. 42 describes the impairment of a capital asset as “a significant, unexpected decline in the service utility of a capital asset.” The significant and unexpected decline is based on events or changes in circumstances that were not anticipated when the capital asset was placed in service.

For the years ended December 31, 2006 and 2005, the Airport System experienced impairments of capital assets of $0 and $85.3 million, respectively. Capital assets which incurred significant impairment losses, and which comprise a majority of the $85.3 million, included the Automated Baggage System and the Concourse A, B, and C sortation systems.

Automated Baggage System (ABS)

In September 2005, United Airlines discontinued use of the ABS and reverted to the traditional tug and cart system.

No other airlines used the ABS; therefore, this asset was no longer being used by the Airport System. Based on the requirements of GASB No. 42, there had been a significant, unexpected change in the service utility of the ABS. In order to determine if the ABS was temporarily or permanently impaired, the Airport System hired a consultant to identify what portion, if any, of the ABS should remain to support a future baggage system. Based upon the consultant’s findings, management concluded that a small portion (net book value of $3.2 million) of structural steel and electrical infrastructure would be used to support a new system; therefore, this portion was judged temporarily impaired and retained on the books. The remaining net book value of the ABS of $43.0 million was impaired and written off in September 2005.

Sortation Systems

During 2005, the Airport System hired a consultant to determine if the idle sortation systems in Concourses A and C could be used for a future baggage handling system. Based upon the results of this study, management determined that the idle assets would not be used; thus, should be impaired for the remaining net book value.

In addition, United Airlines discontinued use of sections of the sortation system in Concourse B when it discontinued use of the ABS in September 2005. Based upon an investigation performed by management, the Airport System determined that the sections still in use totaled a net book value of $8.7 million. This amount was not impaired and will be depreciated using the original useful life of the sortation system as management's expectation is that the remaining section of the system will continue to be used. The remaining net book value was considered impaired.

As a result, the Airport System recognized impairment losses in 2005 on the three sortation systems for approximately $33.5 million.

(6) Assets Held for Disposition

The City ceased aviation operations at Stapleton upon the opening of Denver International on February 28, 1995, and is continuing to dispose of the Stapleton property. Certain portions of Stapleton were acquired with proceeds from federal grants, which provide for the return of certain federal funds. In addition, certain portions of the property are also subject to deed restrictions, under which the property would revert to the United States government. The City is able to seek releases from the grant assurances and deed restrictions from the Secretary of Transportation as dispositions occur, provided that: 1) the property is sold at fair market value, and 2) the proceeds are used to develop, improve, and construct Denver International. The City intends to continue to seek such releases and, in accordance with certain use and lease agreements, use any net proceeds from sales of Stapleton to retire or defease subordinate debt.

As a result of the long-term nature of the development plan, the timing and ultimate amount of net proceeds from the disposition of Stapleton's existing plant and improvements is not presently determinable. The carrying value of Stapleton was $18,806,825 and $22,724,103 at December 31, 2006 and 2005, respectively. The current accrued environmental liability for Stapleton was $3,474,011 and $8,033,010 at December 31, 2006 and 2005, respectively.

(7) Due to Other City Agencies

The City provides various services to the Airport System, including data processing, investing, financial services, budgeting, and engineering. Billings from the City, both direct and indirect, during 2006 and 2005 totaled $12,181,634 and $12,239,690, respectively, and have been included in operating expenses.

In addition to the above services, the Airport System also pays directly salaries and wages for police, fire and other city personnel which are reflected as Personnel services expenses. The total services paid for City service and personnel are $38,883,126 and $39,213,224 at December 31, 2006 and 2005, respectively. The outstanding liability to the City and its related agencies in connection with these services totaled $17,186,337 and $18,082,646 at December 31, 2006 and 2005, respectively.

(8) Bonds Payable

Changes in long-term debt for the years ended December 31, 2006 and 2005 were as follows (in thousands):

	2006				
	January 1, 2006	Additions	Refunded debt	Retirements	December 31, 2006
Airport System revenue bonds	$ 3,928,480	$ 449,590	$ (539,123)	$ (101,305)	$ 3,737,642
Economic defeasance	54,880	—	—	—	54,880
Baggage defeasance	—	77,263	—	—	77,263
Less deferred loss on bonds	(275,305)	(43,778)	—	18,029	(301,054)
Plus unamortized premiums	9,577	20,731	13,946	(5,084)	39,170
Total bond debt	$ 3,717,632	$ 503,806	$ (525,177)	$ (88,360)	3,607,901
Less current portion					(107,085)
Noncurrent portion					$ 3,500,816

	2005				
	January 1, 2005	Additions	Refunded debt	Retirements	December 31, 2005
Airport System revenue bonds	$ 4,031,775	$ 407,190	$ (409,115)	$ (101,370)	$ 3,928,480
Economic defeasance	54,880	—	—	—	54,880
Less deferred loss on bonds	(244,015)	(44,425)	—	13,135	(275,305)
Plus unamortized premiums	(12,880)	12,766	12,081	(2,390)	9,577
Total bond debt	$ 3,829,760	$ 375,531	$ (397,034)	$ (90,625)	3,717,632
Less current portion					(97,805)
Noncurrent portion					$ 3,619,827

The Airport System has issued bonds, paying fixed and variable interest rates, collateralized by and payable from Airport System Net Revenues, as defined in the 1984 Airport System General Bond Ordinance as supplemented and amended (Bond Ordinance) and the 1990 Airport System General Subordinate Bond Ordinance as supplemented and amended (Subordinate Bond Ordinance). Interest is payable semi-annually. The variable rate bonds are issued in weekly mode. Auction rate bonds carry interest rates that are periodically reset for either 7 or 35-day periods. As such, the actual interest rate on the bonds will vary weekly, based on market conditions in the short-term tax-exempt bond market. The maturity dates, interest rates, and principal amounts outstanding as of December 31, 2006 are as follows:

Bond	Maturity	Interest Rate	Amount Outstanding
Airport system revenue bonds			
Series 1991A			
Term Bonds	November 15, 2008	14.00%	$ 18,795,000
Series 1991D			
Term bonds	November 15, 2013	7.75%	96,708,140
Series 1992F,G*	November 15, 2025	3.95%	48,000,000
Series 1995C			
Term bonds	November 15, 2012	6.50%	10,625,000
Series 1997E			
Serial bonds	Annually November 15, 2011 and 2015	5.125-6.00%	87,882,258
Term bonds	November 15, 2017, 2023 and 2025	5.25-5.50%	310,685,000
Series 1998A			
Term bonds	November 15, 2025	5.00%	202,970,000
Series 1998B			
Term bonds	November 15, 2025	5.00%	103,395,000
Series 2000A			
Serial bonds	Annually November 15, 2006 to 2019	4.80-6.00%	236,240,000
Term bonds	November 15, 2023	5.625%	31,495,000
Series 2000B*	November 15, 2025	4.05%	200,000,000
Series 2000C*	November 15, 2025	3.95%	100,000,000
Series 2001A			
Serial bonds	Annually November 15, 2011 to 2017	5.00-5.625%	248,081,334
Series 2001B			
Serial bonds	Annually November 15, 2013 to 2016	4.70-5.50%	16,675,000
Series 2001D			
Serial bonds	Annually November 15, 2007 to 2024	5.00-5.50%	59,465,000
Series 2002A1 A3*	November 15, 2032	3.65-3.85%	273,975,000
Series 2002C*	November 15, 2024	3.95%	41,100,000
Series 2002E			
Serial bonds	Annually November 15, 2006 to 2023	4.00-5.50%	182,855,000

Bond	Maturity	Interest Rate	Amount Outstanding
Series 2003A			
Term bonds	November 15, 2026 and 2031	5.00%	161,965,000
Series 2003B			
Serial bonds	Annually November 15, 2016 to 2017	5.75%	8,540,000
Term bonds	November 15, 2033	5.00-5.50%	100,460,000
Series 2004A*	November 15, 2024	3.92%	73,300,000
Series 2004B*	November 15, 2024	3.96%	73,300,000
Series 2005A	Annually November 15, 2011 to 2025	4.00-5.00%	227,740,000
Series 2005B1-B2*	November 15, 2017	3.85%	88,800,000
Series 2005C1-C2	November 15, 2025	3.97-4.05%	85,000,000
Series 2006A	Annually November 15, 2015 to 2025	4.00-5.00%	279,585,000
Series 2006B	Annually November 15, 2007 to 2015	5.00%	170,005,000
Airport System subordinate revenue bonds			
Series 2001C1-C4*	November 15, 2022	3.64-3.75%	200,000,000
Economic defeasance LOI 1998/1999	November 15, 2013, 2024 and 2025	6.125-7.75%	54,880,000
ABS baggage defeasance		5.00-7.75%	77,263,268
Total revenue bonds			3,869,785,000
Less current portion			(107,085,000)
Net unamortized discount			39,170,459
Deferred loss on refundings			(301,053,878)
Total bonds payable noncurrent			$3,500,816,581

Most of the Airport term bonds are subject to certain mandatory redemption requirements and most of the Airport System bonds are subject to certain optional redemption provisions. Certain of the Airport System bonds are subject to certain mandatory sinking fund redemption requirements.

*The variable rates are as of December 31, 2006

Economic Defeasance

On November 1, 1999, the Airport System entered into an economic defeasance of $54,880,000 from certain 1998 and 1999 federal grant proceeds from the United States Department of Transportation under the 1990 Letter of Intent. These funds were set aside in special escrow accounts (Escrow A and Escrow B) held by the

City. Escrow A proceeds will be used to defease $40,080,000 of the Series 1992C maturing on November 15, 2025. Escrow B proceeds will be used to defease $14,800,000 of the Series 1991D maturing on November 15, 2013. These bonds are considered defeased for bond ordinance purposes; however, the defeasance was not considered a legal defeasance or an in-substance defeasance under accounting principles generally accepted in the United States of America and, therefore, the bonds remain outstanding in the accompanying financial statements.

On December 27, 2006, the Airport entered into an economic defeasance of $90,000,000 funded by PFC and net revenues. These funds were set aside in a special escrow account ABS Baggage System defeasance held by the City. The proceeds will be used to defease a portion of the Airport System Revenue bonds related to the ABS baggage system.

Bond Issuances

On August 17, 2006, the Airport issued $279,585,000 and $170,005,000 of Airport System Revenue Bond Series 2006A and 2006B, respectively, in a fixed rate mode for the purpose of currently refunding $461,860,000 of the 1996A, 1996B, 1996C and 1996D bonds.

On August 25, 2005, the Airport issued $227,740,000 of Airport System Revenue Bond Series 2005A in a fixed rate mode for the purpose of currently refunding $230,760,000 of the Airport 1995A bonds.

On November 10, 2005, the Airport issued $91,750,000 and $87,700,000 in an auction rate mode and a variable rate mode, for the purpose of currently refunding $90,510,000 and $87,845,000 of the 1995B and 1995C bonds, respectively.

Deferred Refunding

The proceeds of the 2006A-B bonds were used, together with other Airport monies, to currently refund all of the outstanding Series 1996A, 1996D and all but $12,605,000 of the 1996B and 1996C Airport System Revenue Bonds. Series 2006A-B bonds are structured to provide the Airport with maximum interest savings through 2010 which will be applied to meet a portion of the airline rates and cost reduction goals in the United Stipulated Order. Interest savings for refunding is $39,808,609 and debt service savings is $53,303,609 (including principal). The economic gain resulting from the transaction was $32,671,373. The Airport realized a cash flow savings of $985,173 with this transaction in 2006. The current refunding resulted in a defeasance of debt between the reacquisition price of $474,320,556 and the net carrying amount less the unamortized portion of $430,542,581, which resulted in a deferred loss on refunding amount of $43,777,975. The deferred loss on refunding is being amortized over the remaining life of the old debt.

The proceeds of the 2005A, B1-B2 and C1-C2 bonds were used together with other Airport monies, to currently refund all of the outstanding series 1995A, 1995B, and all but $10,625,000 of the 1995C Airport System Revenue Bonds. The Series 2005A bonds interest requirements are based on interest rates of 4.05% to 5.0%. The series 2005B1-B2 and 2005C1-C2 bonds are based on an assumed interest rate of 3.4%. Series 2005A, B1-B2, and C1-C2 bonds are structured to provide the Airport maximum interest savings through 2010 for purposes of the Stipulated Order by matching the principal amortization of the refunding bonds with that of the refunded bonds. The interest savings of $70,425,785 and debt savings of $63,056,480 (including principal), are expected to be achieved based upon the interest rate assumptions. The economic gain resulting from the transaction was $45,502,306. The Airport realized a cash flow savings of $1,176,945 with these transactions in 2005. The current refunding resulted in a defeasance of debt between the reacquisition price of $426,093,727 and the net carrying amount less the unamortized portion of $381,669,202 which resulted in a deferred loss on refunding amount of $44,424,525. The deferred loss on refunding amount is being amortized over the remaining life of the defeased debt, which is shorter than the life of the refunding debt.

Defeased Bonds

The Airport System has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of December 31, 2006 and 2005, respectively, $32,180,000 and $32,180,000 of bonds outstanding are considered defeased.

(9) Bond and Notes Payable Debt Service Requirements

(a) Bonds Payable

Bond debt service requirements of the Airport System for bonds payable to maturity as of December 31, 2006 are as follows:

	Principal	Interest
Year:		
2007	$ 107,085,000	$ 191,059,701
2008	102,979,756	184,558,291
2009	100,158,339	178,314,618
2010	105,629,846	173,093,046
2011	128,981,929	167,449,534
2012 – 2016	768,891,862	726,337,496
2017 – 2021	1,033,520,000	505,916,076
2022 – 2026	1,143,460,000	211,339,097
2027 – 2031	169,495,000	45,786,750
2032 – 2033	77,440,000	6,032,000
Total	$ 3,737,641,732	$ 2,389,886,609

Debt service requirements for the economic defeasance LOI of the Airport System to maturity as of December 31, 2006, are as follows:

	Principal	Interest
Year:		
2007	$ —	$ 3,601,900
2008	—	3,601,900
2009	—	3,601,900
2010	—	3,601,900
2011	—	3,601,900
2012 – 2016	14,800,000	14,568,500
2017 – 2021	—	12,274,500
2022 – 2025	40,080,000	8,345,925
Total	$ 54,880,000	$ 53,198,425

Debt service requirements for the economic defeasance ABS Baggage system of the Airport System to maturity as of December 31, 2006, are as follows:

	Principal	Interest
Year:		
2007	$ —	$ 4,496,304
2008	50,244	4,496,304
2009	3,636,661	4,492,470
2010	6,575,154	4,292,454
2011	7,608,071	3,869,204
2012 – 2016	34,063,138	12,358,992
2017 – 2021	21,635,000	4,034,642
2022 – 2026	3,695,000	568,500
Total	$ 77,263,268	$ 38,608,870

(b) Notes Payable

The Airport System entered into a $60 million Master Installment Purchase Agreement with Siemens Financial Services on November 5, 2003 to fund the reimbursable portion of the construction of the in-line EDS baggage screening system. Payments are due annually in advance beginning December 31, 2006. The interest rate is 3.4% and is based on a 30/360 calculation. The Airport System entered into two Master Installment Purchase Agreements on March 15, 2004, one with Siemens Financial Services for $20 million and one with GE Capital Public Finance Inc. for $13 million, to finance various capital equipment purchases at rates and terms of 3.46% and 3.6448% based on a 30/360 calculation for 2004. Payments are due semiannually to Siemens Financial Services and quarterly to GE Capital Public Finance. The Airport System entered into three Master Installment Purchase Agreements on October 26, 2006, and one on August 1, 2006. Two agreements with Koch Financial Corporation for $23.0

million and $2.0 million for a total of $25.0 million and two agreements with GE Capital Public Finance for $9.0 million and $20.0 million. These transactions will finance capital equipment purchases at rates and terms of 4.34%, 4.22%, 4.16% and 4.67% based on a 30/360 calculation for 2006. Under the Master Installment Purchase Agreements, the financing companies have a security interest in equipment purchased with the proceeds until the loans are repaid.

The payment schedule relating to note requirements as of December 31, 2006 is as follows:

	Principal	Interest
Year:		
2007	$ 27,497,017	$ 3,423,670
2008	12,146,762	2,403,466
2009	11,477,785	1,911,463
2010	11,563,556	1,438,698
2011	9,194,019	949,031
2012 – 2016	17,106,347	1,870,769
	$ 88,985,486	$ 11,997,097

Changes in notes payable for the years ended December 31, 2006 and 2005 were as follows:

	Balance January 1, 2006	Additions	Retirements	Balance December 31, 2006
Notes payable	$ 56,763,324	$ 54,000,000	$ (21,777,838)	$ 88,985,486
Less current portion				(27,497,017)
Noncurrent portion				$ 61,488,469

	Balance January 1, 2005	Additions	Retirements	Balance December 31, 2005
Notes payable	$ 76,212,912	$ —	$ (19,449,588)	$ 56,763,324
Less current portion				(20,117,026)
Noncurrent portion				$ 36,646,298

(10) Demand Bonds

Included in long-term debt are $48,000,000 for Series 1992F,G; $200,000,000 for Series 2000B; $100,000,000 for Series 2000C; $41,100,000 for Series 2002C; $73,300,000 for Series 2004A; $73,300,000 for Series 2004B; $85,000,000 for Series 2005C1-C2 of Airport System Revenue Bonds Series respectively, which bear interest at flexible or weekly rates and are subject to mandatory redemption upon conversion of the interest rate to a different rate type or rate period. If the bonds are in a weekly (or monthly) mode, the bonds are subject to purchase on demand of the holder at a price of par plus accrued interest. Each series has an irrevocable letter of credit or standby bond purchase agreement which the remarketing agent for the bonds can draw upon to purchase the bonds. If the bonds purchased by the remarketing agent could not be resold within a designated period of time, each irrevocable letter of credit and standby bond purchase agreement contains provisions for a take out agreement which would convert the obligation to an installment loan with the provider of that agreement. If the take out agreement were to be exercised, the Airport System would be required to pay interest amounts on the loan that are expected to be higher than the interest amount on the bonds.

Irrevocable letters of credit were issued as collateral for the Series 1992F, 1992G, and 2002C revenue bonds in the amounts as follows:

Bonds	Par amount outstanding	Letter of credit amount	Annual commitment fee	Letter of credit expiration date
Series 1992F	$ 26,200,000	$ 31,059,400	0.370%	September 24, 2009
Series 1992G	21,800,000	25,829,467	0.370%	September 24, 2009
Series 2002C	41,100,000	51,232,000	0.370%	October 8, 2009

As of December 31, 2006 and 2005, no amounts have been drawn under any of the existing agreements.

(11) Bond Ordinance Provisions

Additional Bonds

The Airport System may issue additional parity and subordinate bonds, subject to certain coverage and other provisions, for the purpose of acquiring, improving or equipping facilities related to the Airport System.

Airport System Revenue Bonds

Under the terms of the Bond Ordinance, all bond series, except for the Series 2001 C1-C4 Bonds, (the Senior Bonds) are collateralized by a first lien on the Net Revenues of the Airport System. Under the terms of the Subordinate Bond Ordinance, the Series 2001 C1-C4 Bonds are collateralized by Net Revenues of the Airport System subordinate to the Senior Bonds.

The Airport System is required by the Bond Ordinance to set and collect rates and charges sufficient, together with other available funds, to provide for the payment of all operating and maintenance expenses for the current fiscal year plus 125% of the aggregate principal and interest payments of the Senior Bonds for such fiscal year prior to the issuance of additional bonds. Management believes the Airport System is in compliance with the bond covenants listed in the bond ordinance.

(12) Swap Agreements

The Airport System has entered into interest rate swap agreements in order to protect against rising interest rates. In accordance with GAAP, the fair value of swap agreements is not reported in the financial statements.

Summary of Interest Rate Swap Transactions

Counterparty	Trade date	Effective date	Notional amount (in millions)	Bond/Swap termination date	Associated debt series	Payable swap rate	Variable receivable swap rate	Fair values December 31, 2006
1998 Swap Agreements:								
Goldman Sachs Capital Markets, L.P.	1/22/98	10/4/00	$ 100	11/15/25	2000B	4.7600%	Bond rate	$ (12,400,000)
Lehman Bros. Special Financing Inc.	1/22/98	10/4/00	100	11/15/25	2000B	4.7600	Bond rate	(12,400,000)
Societe Generale, New York, Branch	1/22/98	10/4/00	100	11/15/25	2000C	4.7190	Bond rate	(11,900,000)
1999 Swap Agreements:								
Goldman Sachs Capital Markets, L.P.	7/22/99	10/4/01	100	11/1/22	2001C1-4	5.6179	BMA	(20,150,000)
Merrill Lynch Capital Services, Inc.	7/22/99	10/4/01	50	11/1/22	2001C1-4	5.5529	BMA	(9,760,000)
RFPC, LTD.	7/22/99	10/4/01	50	11/1/22	2001C1-4	5.6229	BMA	(10,100,000)
2002 Swap Agreements:								
Goldman Sachs Capital Markets, L.P.	4/11/02	4/15/02	100	11/01/22	2001C1-4	BMA	76.33% LIBOR	1,500,000
RFPC, LTD.	4/11/02	4/15/02	100	11/01/22	2001C1-4	BMA	76.00% LIBOR	1,330,000
2005 Swap Agreements								
Royal Bank of Canada	4/14/05	11/15/06	55.917	11/15/25	2006A	3.6560	70% LIBOR	(365,000)
JP Morgan Chase Bank, N.A.	4/14/05	11/15/06	55.917	11/15/25	2006A	3.6874	70% LIBOR	(365,000)
Jackson Financial Products, LLC	4/14/05	11/15/06	111.834	11/15/25	2006A	3.6560	70% LIBOR	(1,160,000)
Piper Jaffray Financial Products, Inc.	4/14/05	11/15/06	55.917	11/15/25	2006A	3.6600	70% LIBOR	(365,000)
2006B Swap Agreements								
Royal Bank of Canada	8/9/06	11/15/06	55.917	11/15/25	2006A	BMA	4.0855%	1,140,000
JP Morgan Chase Bank, N.A.	8/9/06	11/15/06	55.917	11/15/25	2006A	BMA	4.0855%	1,140,000
Jackson Financial Products, LLC	8/9/06	11/15/06	111.834	11/15/25	2006A	BMA	4.0855%	2,280,000
Piper Jaffray Financial Products, Inc.	8/9/06	11/15/06	55.917	11/15/25	2006A	BMA	4.0855%	1,140,000
2006A Swap Agreements								
Forward Starting Swap Agreements								
Bear Stearns Capital Markets Inc	6/1/06	11/15/07	180.850	11/15/25	(1)	4.0085	70% LIBOR	(6,928,000)
Lehman Bros. Special Financing	6/1/06	11/15/07	120.567	11/15/25	(1)	4.0085	70% LIBOR	(4,618,000)
GKB Financial Services Corp. II	6/1/06	11/15/07	60.283	11/15/25	(1)	4.0085	70% LIBOR	(2,309,000)

(1) The associated debt series for the 2006 swap agreement are the proposed issuance of Airport System Revenue Refunding Bonds for the 1997E bonds.

Payments by the Airport System to counterparties relating to these swap agreements, including termination payments, are Subordinate Obligations, subordinate to debt service payments on the Airport System's Senior Bonds, and on parity with the Airport System's Subordinate Bonds. The year-end fair values were calculated using the mid-market LIBOR and BMA swap curves as of December 31, 2006. Fair values represent the difference between the present value of the fixed payments and the present value of the floating payments, at forward floating rates as of December 31, 2006. When the present value of payments to be made by the Airport System exceeds the present value of payments to be received, the swap has a negative value to the Airport System. When the present value of payments to be received by the Airport System exceeds that of payments to be made, the swap has a positive value to the Airport System.

Risks Associated with the Swap Agreements

The following risks are generally associated with swap agreements:

Credit Risk – All of the Airport System's swap agreements rely upon the performance of swap counterparties. The Airport System is exposed to the risk of these counterparties being unable to fulfill their financial obligations to the Airport System. The Airport System measures the extent of this risk based upon the credit ratings of the counterparty and the fair value of the swap agreement. If the Airport System delivers a surety policy or other credit support document guaranteeing its obligations under the swap agreement that is rated in the highest rating category of either Standard & Poor's, Moody's Investors Service or Fitch, for any swap agreement, the counterparty to that agreement is obligated to either be rated, or provide credit support securing its obligations under the swap agreement rated, in the highest rating category of either Standard & Poor's, Moody's Investors Service or Fitch; or, under certain circumstances, provide collateral. The Airport System is obligated, under the swap agreements, to provide such surety policy or credit support if the unsecured and unenhanced ratings of the Airport System's Senior Bonds is below any two of BBB by Standard & Poor's, Baa2 by Moody's Investors Service or BBB by Fitch. As of December 31, 2006, the ratings of the Airport System's Senior Bonds were A+ by Standard & Poor's (with a stable outlook), A1 by Moody's Investors Service (with a stable outlook) and A+ by Fitch (with a stable outlook). Therefore, no surety policy or credit has been provided to the counterparties by the Airport System. Failure of either the Airport System or the counterparty to provide credit support or collateral, as described in the swap agreements, is a termination event under the swap agreements (see termination risk below).

The ratings of the counterparties, or their credit support providers, as of December 31, 2006 are as follows:

	Ratings of the counterparty or its credit support provider		
Counterparty (credit support provider)	**S&P**	**Moody's**	**Fitch**
Goldman Sachs Capital Markets, L.P. (Goldman Sachs Group, Inc.)	AA-	Aa3	AA-
Lehman Brothers Special Financing Inc. (Lehman Brothers Holdings Inc.)	A+	A1	A+
Merrill Lynch Capital Services, Inc. (Merrill Lynch & Co., Inc.)	AA-	Aa3	AA-
RFPC, LTD. (Ambac Assurance Corp.)	AAA	Aaa	AAA
Societe Generale, New York Branch	AA	Aa2	AA
Royal Bank of Canada	AA-	Aaa	AA
JP Morgan Chase Bank, N.A.	AA-	Aa2	AA-
Jackson Financial Products, LLC (Merrill Lynch & Co., Inc.)	A+	Aa3	AA-
Piper Jaffray Financial Products, Inc. (Morgan Stanley Capital Services Morgan Stanley)	A+	Aa3	AA-

As of December 31, 2006, there was no risk of loss for the swap agreements that had negative fair values. For the swap agreements that had positive fair values, the risk of loss is the amount of the derivatives fair value.

Termination Risk – Any party to the Airport System's swap agreements may terminate the swap if the other party fails to perform under the terms of the contract. Additionally, the Airport System may terminate any of its swap agreements at any time at its sole discretion. Further, certain credit events can lead to a termination event under the swap agreements (see Credit Risk above). If, at the time of termination, the swap has a negative fair value, the Airport System could be liable to the counterparty for a payment equal to the swap's fair value. If any of the Airport System's swap agreements are terminated, the associated variable rate bonds would either no longer be hedged with a synthetic fixed interest rate or nature of the basis risk associated with the swap agreement which may change. The Airport System is not aware of any existing event that would lead to a termination event with respect to any of its swap agreements.

Basis Risk – Each of the Airport System's swap agreements are associated with certain debt obligations or other swaps. The Airport System pays interest at variable interest rates on some of the associated debt obligations and associated swaps. The Airport System receives variable payments under some of its swap agreements. To the extent the variable rate on the associated debt or the associated swap paid by the Airport System is based on an index different than that used to determine the variable payments received by the Airport System under the swap agreement, there may be an increase or decrease in the synthetic interest rate intended under the swap agreement. The nature of this risk for each of the Airport System's series of swaps is discussed more specifically in the descriptions of these swap agreements below.

Description of the Swap Agreements and Associated Debt

The 1998 Swap Agreements and Associated Debt – On January 1, 1998, the Airport System entered into interest rate swap agreements (the 1998 Swap Agreements) with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the future refunding of certain senior bonds through the Airport System's issuance of variable rate bonds on or before October 4, 2000. Each 1998 Swap Agreement has a notional amount of $100 million and provides for certain payments to or from each financial institution equal to the difference between a fixed rate payable by the Airport System under each Agreement and the prevailing variable rate on certain of the Airport System's variable rate bonds payable by the respective financial institutions. Upon the occurrence of certain events, a counterparty to a 1998 Swap Agreement may elect to apply an alternative variable rate, 70% of the London Interbank Offered Rate for one-month deposits of U.S. dollars (LIBOR) plus 0.10%, instead of the variable rate payable on the associated debt. Events that could trigger the right of the counterparty to apply the alternative rate include, among other things, a downgrade of the short-term ratings of the associated debt to below A-1+ by S&P, VMIG-1 by Moody's or F-1+ by Fitch or the long-term ratings of the bonds are downgraded to below one of the highest two rating categories of any two of S&P, Moody's or Fitch, or an event of taxability. An event of taxability includes, among other things, a change in tax law that causes the relationship between the Bond Markets Association Index (BMA) and LIBOR such that the daily average BMA Index as a percentage of daily average LIBOR exceeds 80% for a period of 90 consecutive days or 75% for a period of 120 consecutive days. The effect of a counterparty applying the alternative rate would be to increase the basis risk for the swap. There would be a greater likelihood of differences between the variable rate paid by the Airport System on the associated debt and variable payments received from the counterparty under the swap. There was no such taxability event nor a downgrade of the short-term ratings for the year ended December 31, 2006.

In August 2000, the Airport System issued the Series 2000B and the Series 2000C Bonds in order to refund a portion of the Series 1990A Bonds, and treated such 1998 Swap Agreements as relating to the payments due on the Series 2000B Bonds and the Series 2000C Bonds (the associated debt), thereby effectively converting the floating rates of the Series 2000B Bonds and the Series 2000C Bonds to a fixed interest rate. The aggregate weighted average fixed rate payable by the Airport System under the 1998 Swap Agreements is 4.7463%. The 1998 Swap Agreements became effective on October 4, 2000, and payments under these 1998 Swap Agreements commenced on November 1, 2000.

The 1999 Swap Agreements and Associated Debt – On July 28, 1999, the Airport System entered into interest rate Swap Agreements (the 1999 Swap Agreements) with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the future refunding of a portion of the Series 1991A Bonds and Series 1991D Bonds through the Airport System's issuance of variable rate bonds on or before October 4, 2001. The 1999 Swap Agreements have notional amounts of $100 million, $50 million and $50 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between a fixed rate payable by the Airport System under each Agreement and the BMA Index payable by the respective financial institutions. Historically, average BMA Index has been lower than the variable interest rate the Airport System pays on the associated debt. The Airport System attributes this difference to the fact that the associated debt is subject to the alternative minimum tax. This means that, on average, the Airport System pays more in interest on the associated debt than it receives under the 1999 Swap Agreements. This basis risk is modified when the 1999 Swap Agreements and associated debt are considered together with the 2002 Swap Agreements.

On October 4, 2001, the Airport System issued the Series 2001 C1-C4 to refund a portion of the Series 1991A Bonds and Series 1991D Bonds. The net effect of the 1999 Swap Agreements, when considered together with the variable rate Series 2001 C1-C4 Subordinate Bonds, is that the Airport System will effectively pay a fixed rate, plus or minus the difference between the actual rate on the Series 2001 C1-C4 Subordinate Bonds and the Bond Market Association Index, on $200 million of obligations. The aggregate weighted average fixed rate payable by the Airport System under the 1999 Swap Agreements is 5.6029%. The 1999 Swap Agreements became effective on October 4, 2001, and payments under these Agreements commenced on November 1, 2001.

The 2002 Swap Agreements and Associated Debt – On April 11, 2002, the Airport System entered into interest rate Swap Agreements (the 2002 Swap Agreements) with two financial institutions in order to effectively change the amounts it receives under the 1999 Swap Agreements from the Bond Market Association Index (BMA) to a percentage of the London Interbank Offered Rate for one-month deposits of U.S. dollars (LIBOR). The 2002 Swap Agreements have a notional amount of $200 million, relate to the 2001 C1-C4 bonds and provide for certain payments to or from each financial institution equal to the difference between BMA payable by the Airport System and a percentage of LIBOR payable by the respective financial institutions. The net effect of the 2002 Swap Agreements, when considered together with the 1999 Swap Agreements, is that the Airport System will receive 76.165% of LIBOR, rather than BMA, to offset the actual rate paid on the Series 2001 C1-C4 bonds.

The Airport System is exposed to basis risk under the 1999 and 2002 Swap Agreements, due to the differences in indices between the variable interest rate it pays on the associated debt and 76.165% of LIBOR received under the 2002 Swap Agreements. The 2002 Swap Agreements became effective on April 15, 2002 and payments under these Agreements commenced on May 1, 2002.

The 2005 Swap Agreements – In April 2005, the Airport System entered into interest rate Swap Agreements (the 2005 Swap Agreements) with four financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the future refunding of a portion of the Series 1996A Bonds and Series 1996D Bonds through the Airport System's issuance of variable rate bonds on or before November 15, 2006. On August 9, 2006, the Airport System amended the 2005 Swap Agreements. The notional amounts of the 2005 Swap Agreements are approximately $56 million, $56 million, $112 million and $56 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between a fixed rate payable by the Airport System under each Agreement and 70% of the London Interbank Offered Rate for one-month deposits of U.S. dollars (LIBOR) payable by the respective financial institutions.

In August 2006, the Airport System issued the Series 2006A bonds in order to refund the Series 1996A and 1996D bonds, and entered into the 2006B Swap Agreements (described below under *"The 2006B Swap Agreements").* The net effect of the 2005 Swap Agreements, when considered together with the fixed rate Series 2006A bonds and the 2006B Swap Agreements is that the Airport System will pay a fixed rate plus or minus the difference between the BMA index and 70% of 1-month LIBOR on $280 million of obligations.

The aggregate weighted average fixed rate payable by the Airport System under the 2005 Swap Agreements is 3.66%. The Airport System is exposed to basis risk under the 2005A Swap Agreements, due to the difference in indices between BMA paid on the associated 2006B Swap Agreements and 70.0% LIBOR received under the 2005 Swap Agreements. The 2005 Swap Agreements became effective on November 15, 2006 and payments under the Agreements commenced on December 1, 2006.

The 2006A Swap Agreements – On June 1, 2006, the City entered into interest rate swap agreements (the "2006A Swap Agreements") with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the refunding of the Series 1997E bonds through the Airport System's issuance of variable rate bonds on or before November 15, 2007. The 2006A Swap Agreements have notional amounts of approximately $181.0 million, $121.0 million and $60.0 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between the fixed rate payable by the Airport System under each Agreement and 70% of London Interbank Offered Rate (LIBOR) for one month deposits of U.S. dollars payable for the respective financial institutions.

The Airport System is exposed to market-access risk under the 2006A Swap Agreements. Market-access risk is the risk that the Airport System will not be able to enter the credit markets or that costs associated with entering the credit market will increase. If the 2006A Swap Agreements become effective and proposed refunding bonds are not issued, the Airport System would make net swap payments as required under the Swap Agreement. The Airport System would make fixed payments to the counterparties and receive variable payments of 70% of LIBOR. If the proposed variable rate bonds are issued, actual savings ultimately recognized by the transaction will be affected by the terms of the proposed variable rate refunding bonds and the net effect of the variable rate payments received under the swap and the payments on the bonds.

If the proposed variable rate refunding bonds are issued, and the 2006A Swap Agreements become effective, the Airport System will be exposed to basis risk under the 2006A Swap Agreements, due to the differences between the variable interest rate to be paid on the associated debt and 70% of LIBOR to be received under the 2006A Swap Agreements.

If the 2006A Swap Agreements become effective, the net effect, when considered together with the proposed variable rate refunding bonds, is that the Airport System will effectively pay a fixed rate, plus or minus the difference between the actual rate of the variable rate refunding bonds and 70% of LIBOR on $362.0 million of obligations. The aggregate weighted average fixed rate payable by the Airport System under the 2006A Swap Agreements is 4.01%. The 2006A Swap Agreements have an effective date of November 15, 2007. Payments under these Agreements have not commenced.

The 2006B Swap Agreements-On August 9, 2006 the Airport System entered into interest rate swap agreements (the "2006B Swap Agreements") with four financial institutions in order to synthetically create variable rate debt in association with the refunding of the Series 1996A and 1996D bonds on August 17, 2006. The 2006B Swap Agreements have notional amounts of approximately $56.0 million, $56.0 million, $112.0 million and $56.0 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between a variable rate based on the Bond Market Association Index payable by the Airport System under each Agreement and a fixed rate payable by the respective financial institutions.

In August 2006, the Airport System issued the Series 2006A bonds in order to refund the Series 1996A and 1996D bonds. The net effect of the 2006B Swap Agreements, when considered together with the fixed rate Series 2006A bonds, is that the Airport System will effectively pay a variable rate based on BMA plus or minus the difference between the fixed rate on the Series 2006A bonds and the fixed rate received under the 2006B Agreements on \$280.0 million of obligations. In November 2006, the 2005 Swap Agreements became effective (see "The 2005 Swap Agreements"). The net effect of the 2005 Swap Agreements, when considered together with the fixed rate Series 2006A bonds and the 2006B Swap Agreements is that the Airport System will pay a fixed rate plus or minus the difference between the BMA index and 70.0% of 1-month LIBOR, minus the difference of the fixed receiver rate on the 2006B Swap and the weighted average fixed payor rate on the 2005 Swap on \$280.0 million of obligations.

The aggregate weighted average fixed rate payable by the financial institutions under the 2006B Swap Agreements is 4.09%. The 2006B Swap Agreements became effective on November 15, 2006 and payments under these Agreements commenced on December 1, 2006.

Swap Payments and Associated Debt

As rates vary, variable rate bond interest payments and net swap payments will vary. As of December 31, 2006, debt service requirements of the related variable rate debt and net swap payments, assuming current interest rates remain the same, for their terms, were as follows:

	Principal	Interest	Interest rate swaps net	Total
Year:				
2007	$ —	$ 33,230,200	$ 4,621,069	$ 37,851,269
2008	—	33,230,200	4,621,069	37,851,269
2009	—	33,230,200	4,621,069	37,851,269
2010	—	33,230,200	4,621,069	37,851,269
2011	—	33,230,200	4,621,069	37,851,269
2012-2016	31,695,000	165,738,850	23,126,849	220,560,699
2017-2021	385,975,000	135,504,485	19,451,249	540,930,734
2022-2025	361,915,000	39,967,171	2,405,317	404,287,488
Total	$ 779,585,000	$ 507,361,506	$ 68,088,760	$ 1,355,035,266

Variable Rate Bonds and Swap payments are calculated using rates in effect on December 31, 2006.

(13) Denver International Special Facility Revenue Bonds

To finance the acquisition and construction of various facilities at Denver International, the City issued three series of Special Facility Revenue Bonds. These bonds are special limited obligations of the City, payable and secured by a pledge of certain revenues to be received from lease agreements for these facilities. The bonds do not constitute a debt or pledge of the full faith and credit of the City or the Airport System, and accordingly, have not been reported in the accompanying financial statements. As of December 31, 2006 and 2005, Special Facility Revenue Bonds outstanding totaled \$327,610,000 and \$332,320,000, respectively.

(14) Capital Lease

The Airport System entered into a capital lease agreement for runway equipment with GE Capital Public Finance on July 1, 2003. The capital lease was paid off in 2006. Amortization of the capital lease is included in depreciation expense. The related net book value of the equipment as of December 31, 2005 was as follows:

Equipment	$	6,009,746
Less accumulated depreciation		(3,240,972)
Net book value	$	2,768,774

Changes in capital lease for the years ended December 31, 2006 and 2005 were as follows:

	Balance January 1, 2006	Additions	Retirements	Balance December 31, 2006
Capital lease	$ 1,061,885	$ —	$ (1,061,885)	$ —
Less current				—
Noncurrent portion				$ —

	Balance January 1, 2005	Additions	Retirements	Balance December 31, 2005
Capital lease	$ 3,114,679	$ —	$ (2,052,794)	$ 1,061,885
Less current				(1,061,885)
Noncurrent portion				$ —

(15) Compensated Absences

Employees may accumulate earned but unused benefits up to specified maximum. The changes in compensated absences for 2006 and 2005 are as follows:

	Balance January 1, 2006	Additions	Retirements	Balance December 31, 2006
Compensated Absences payable	$ 6,522,074	$ 1,002,609	$ (829,039)	$ 6,695,644
Less current				(1,577,340)
Noncurrent portion				$ 5,118,304

	Balance January 1, 2005	Additions	Retirements	Balance December 31, 2005
Compensated Absences payable	$ 6,358,521	$ 701,537	$ (537,984)	$ 6,522,074
Less current				(1,165,067)
Noncurrent portion				$ 5,357,007

(16) Pension Plan

Plan Description

Employees of the Airport System, as well as substantially all of the general employees of the City, are covered under the Denver Employees Retirement Plan (DERP). The following is a brief description of the retirement plan. Plan participants should refer to the appropriate source documents or publicly available financial reports for more complete information.

The DERP is a cost sharing multiple-employer, defined benefit plan established by the City to provide pension and post-retirement health benefits for its employees. The DERP is administered by the DERP Board of Trustees in accordance with sections 18.401 through 18.433.4 of the City's Revised Municipal Code. Amendments to the plan are made by ordinance. These Code sections establish the plan, provide complete information on the DERP, and vest the authority for the benefit and contribution provision with the City Council. The DERP Board of Trustees acts as the trustee of the plan's assets. As of January 1, 2006, the date of the last actuarial valuation, the plan was underfunded; however, there is no net pension obligation reported because the actuarial valuation adjusts contributions in the ensuing year to fully fund the plan. The Retirement Board monitors the plan continually to ensure an appropriate level of funding.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report is available by contacting:

Denver Employees Retirement Plan
777 Pearl Street
Denver, Colorado 80203

Pension Plan's Funding Policy and Annual Pension Cost

For DERP, The City contributes 8.50% of covered payroll and employees make a pre –tax contribution of 2.50% in accordance with Section 18-407 of the revised Municipal Code of the City. The City's contributions to DERP for the years ended December 31, 2006, 2005 and 2004 were $36,036,000, $35,036,000 and $33,108,000, respectively, which equaled the required contributions each year.

The City's annual pension cost for the current year and related information for the plan is as follows (dollar amounts expressed in thousands):

Actuarially determined	DERP	DERP health benefits
Contribution rates (as a percentage of covered payroll):		
Employer	8.31%	0.82%
Plan members	2.48%	0.25%
Annual pension cost	$53,428	$5,292
Total contributions made	$49,245	$5,264
Actuarial valuation date	1-1-06	1-1-06
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open basis	Level dollar, open basis
Remaining amortization period	28 years	28 years
Asset valuation method	5-year smoothed mkt.	5-year smoothed mkt.
Actuarial assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	3.0-7.7%	3.0-7.7%
*Includes inflation at	3.0%	0.0%
Cost of living adjustments	None	None
Health insurance benefit inflation	—	—

Three-year trend information (dollar amounts expressed in thousands):

	Year beginning 1-Jan	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
DERP Pension Benefits	2004	$ 51,480	86.6 %	—
	2005	48,734	99.7	—
	2006	53,428	92.2	
DERP Health Benefits	2004	4,072	96.5	—
	2005	4,723	96.7	—
	2006	5,292	99.5	

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Underfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll (b-a)/(c)
DERP-Pension Benefits						
1/1/04	$ 1,572,938,437	$ 1,604,530,172	$ 31,591,735	98.0%	$ 501,966,050	6.3%
1/1/05	1,651,090,641	1,665,540,822	14,450,181	99.1%	495,003,210	3.0%
1/1/06	1,735,208,838	1,782,504,943	47,296,105	97.3%	495,285,185	9.5%
DERP-Health Benefits						
1/1/04	87,110,400	105,478,904	18,368,504	82.6%	501,966,050	3.7%
1/1/05	88,527,589	116,567,764	28,040,175	75.9%	485,003,210	5.8%
1/1/06	90,227,891	123,775,074	33,547,183	72.9%	495,285,185	6.8%

(17) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employees or other beneficiary) held in trust by the City for the exclusive benefit of the participants and their beneficiaries.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(18) Commitments and Contingencies

(a) Commitments

At December 31, 2006, the Airport System has the following contractual commitments for construction and professional services:

Construction projects	$ 124,489,128
Construction projects to be funded by bonded debt	208,771,710
Projects related to remediation – Stapleton	11,672,406
Total commitments	$ 344,933,244

(b) Noise Litigation

The City and Adams County entered into an intergovernmental agreement for Denver International dated April 21, 1988 (the Intergovernmental Agreement). The Intergovernmental Agreement establishes maximum levels of noise that should not be exceeded on an average annual basis at various grid points surrounding the Airport. Penalties must be paid to Adams County when these maximums are exceeded.

As of December 31, 2006, the Airport System accrued $.5 million in the accompanying financial statements for noise violations and penalties.

(c) Claims and Litigation

The Airport System is involved in several other claims and lawsuits and is the subject of certain other investigations. The Airport System and its legal counsel estimate that the ultimate resolution of these matters will not materially affect the accompanying financial statements of the Airport System.

(d) Denver International Assets under Operating Leases

The Airport leases portions of its buildings and improvements to airline and concession tenants under noncancelable operating leases. Lease terms vary from 1 to 30 years. The operating leases with the concession tenants require rental payments equal to the greater of a fixed minimum amount per square foot or percentage of gross receipts. Rental income under operating leases for 2006 and 2005 was $61,479,426 and $53,393,400, respectively.

Minimum future rentals due from concession tenants are as follows for the years ending December 31:

2007	$	45,635,800
2008		42,615,500
2009		41,786,300
2010		40,905,500
2011		38,868,900
2012-2016		80,636,200
2017-2021		52,600
Total minimum future rentals	$	290,500,800

The United lease provides that it can be terminated by the airline if the airline's cost per enplaned passenger exceeds $20 in 1990 dollars. Current costs per enplaned passenger did not approach this limit for either 2006 or 2005. Rental rates for airlines are established under a ratemaking methodology whereby a compensatory method is used to set terminal rental rates and a residual method is used to set landing fees. Rentals, fees, and charges must generate gross revenues together with other available funds sufficient to meet the rate maintenance covenant per the Bond Ordinance.

(e) Federal grants

Under the terms of the Federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Airport System management believes disallowances, if any will be immaterial to its financial position and operations of the Airport.

(19) Insurance

The Airport System is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Airport System has purchased commercial insurance for the various risks.

Employees of the City (includes all DIA employees) are covered by the City's insurance policies. Effective October 1, 1989, the City established a workers' compensation self-insurance trust in accordance with State statutes, to be held for the benefit of the City's employees

The City's Workers' Compensation Internal Service Fund compensates City employees, or their eligible dependents, for injuries as authorized by the State Workers' Compensation law or City ordinances. The administrators of the fund provide safety training and enhancement programs, in addition to maintaining in-house records of claims. On August 1, 1991, a separate insurance program was established by the City to insure all contract labor working on-site at Denver International. The program provides medical and indemnity payments as required by law for on-the-job related injuries for all non-City employees and builders' risk, general liability, and professional liability for all applicable construction and consulting firms working on-site at the Denver International Airport. The insurance program covers only incidents incurred prior to September 1994.

Deductibles under this insurance program are: (1) workers' compensation liability of $250,000 per occurrence; and (2) general liability, builders' risk, and professional liability insurance of $25,000, $100,000, and $1,000,000 per occurrence, respectively.

Settled claims for these risks have not exceeded this commercial coverage in any of the past three fiscal years.

(20) Significant Concentration of Credit Risk

The Airport System derives a substantial portion of its operating revenues from airline's landing and facility rental fees (airline operating revenue). For the years ended December 31, 2006 and 2005, United Airlines represented approximately 59% and 59%, respectively, of the Airport System's airline operating revenue. Frontier Airlines represented 13% and 12% of the Airport System's airline operating revenue. No other airline represented more than 10% of the Airport System's airline operating revenues. The Airport System requires performance bonds to support airlines and concession accounts receivables.

(21) United Airlines

The dominant air carrier at Denver International Airport is United Airlines, one of the world's largest airlines. The Airport currently is the second largest connecting hub in United's route system, both in terms of passengers and flight operations. Pursuant to the United Use and Lease Agreement, United currently leases 43 of the 95 full-service gates at the Airport. In addition, United together with its United Express commuter affiliates, accounted for 56.4% and 56.4% of enplaned passengers at the Airport in 2006 and 2005.

In May 2005, the Airport System and United reached an agreement in principle for United to permanently release two Concourse A gates that had been temporarily released by United under the Stipulated Order. In exchange, the Airport System allocated $10.0 million in surplus PFC revenues or other available funds to reduce the Debt Service Requirements on United's automated baggage system.

In the 2005-2 Amendment to the United Use and Lease Agreement, the Airport System agreed to a reduction in United's rates and charges associated with the automated baggage system of $4.9 million in 2006, $8.5 million in 2007 and $11.0 million in 2008 through 2025, the last year of the term of the United Use and Lease Agreement in exchange for United's agreement to grow the Denver hub. This agreed reduction will be achieved by defeasing outstanding debt with available $1.50 PFCs.

In the 2006 Amendment, the Airport System agreed to further mitigate United's baggage system charges by defeasing certain outstanding Airport System Revenue Bonds and reducing amortization charges allocated to the automated baggage system in stated amounts not to exceed $10.0 million per year, using available Capital Fund moneys and other legally available Airport funds. The Airport System also agreed to improve the existing commuter facilities on the east end of Concourse B in order to accommodate larger regional jet aircraft and provide new enhanced passenger amenities. These improvements, referred to herein as the Concourse B Commuter Facility Project, are estimated to cost approximately $41.5 million. The Concourse B Commuter Facility Project was completed April 23, 2007.

Under the 2006 Amendment, United will gradually relinquish its six leased gates on Concourse A. The Airport System expects that Frontier or other airlines will lease, or use on a nonpreferential basis, the gates relinquished by United as they become available. United relinquished one of the Concourse A gates on July 1, 2006, and has relinquished a second Concourse A gate on November 30, 2006 and the remaining four Concourse A gates upon completion of the Concourse B Commuter Facility Project.

United emerged from bankruptcy in February 2006.

(22) Subsequent Events

The Airport System is seeking proposals from qualified participants to own, manage, finance and/or build a 500 room, four star, four diamond hotel to be connected to Jeppesen Terminal.

In April of 2007, the Airport drew on the Airport System Subordinate Commercial Paper 2006A notes with an outstanding principal of $30 million.

The Airport is assisting United in refinancing its Special Facility bond obligations in the amount of $270,000,000.

Delta Airlines emerged from Chapter 11 bankruptcy on April 30, 2007.

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CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Schedule of Compliance with Rate Maintenance Covenant
as Defined in the 1984 Airport System General Bond Ordinance
Airport Revenue Account (Unaudited)

Year ended December 31, 2006

Gross revenue:		
Facility rentals	$	237,394,015
Concession income		34,304,468
Parking income		110,534,937
Car rental income		41,641,365
Landing fees		92,389,849
Aviation fuel tax		12,714,401
Other sales and charges		11,871,715
Interest income		42,519,679
Miscellaneous income		1,242,752
Gross revenues as defined in the ordinance		584,613,181
Operation and maintenance expenses:		
Personnel services		97,592,363
Contractual services		139,652,041
Maintenance, supplies and materials		18,879,094
Miscellaneous expense		1,500,000
Operation and maintenance expenses as defined in the ordinance		257,623,498
Net revenue		326,989,683
Other available funds		49,787,669
Net revenue plus other available funds as defined in the ordinance	$	376,777,352
Debt service requirements as defined in the ordinance (1)	$	215,989,302
Coverage ratio (net revenue plus other available funds as a percentage of debt service requirements)		174%

(1) Net of irrevocably committed Passenger Facility Charges of $74,702,000 applied under Supplemental Bond Ordinance.

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Schedule of Required Deposits to the Bond Account,
Bond Reserve Account, and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance (Unaudited)

Year ended December 31, 2006

(1) Bond Account

There shall be credited to the Bond Account, in the following order of priority:

(a) Interest Account

Required deposit monthly to the Bond Interest Account, commencing on the first day of the month immediately succeeding the issuance of any bonds, an amount which if made in substantially equal installments thereafter would be sufficient to pay the next maturing installment of interest on such series of bonds.

Bond series	Interest payment date	Balance interest due	Required interest account balance at December 31, 2006
Series 1991A	05/15/07	$ 1,315,650	$ 219,275
Series 1991D	05/15/07	3,975,750	662,625
Series 1992F-G	01/01/07	152,918	152,918
Series 1995C	05/15/07	345,313	57,552
Series 1997E	05/15/07	11,168,913	1,861,485
Series 1998A	05/15/07	5,166,625	861,104
Series 1998B	05/15/07	2,584,875	430,813
Series 2000A	05/15/07	7,832,099	1,305,350
Series 2000B	01/01/07	656,603	656,603
Series 2000C	01/01/07	324,822	324,822
Series 2001A	05/15/07	7,778,416	1,296,403
Series 2001B	05/15/07	456,563	76,094
Series 2001D	05/15/07	1,566,113	261,019
Series 2002A1-A3	01/01/07	982,276	982,276
Series 2002C	01/01/07	140,325	140,325
Series 2002E	05/15/07	4,705,688	784,281
Series 2003A	05/15/07	4,049,125	674,854
Series 2003B	05/15/07	3,279,525	546,588
Series 2004A	01/01/07	236,729	236,729
Series 2004B	01/01/07	238,074	238,074
Series 2005A	05/15/07	5,690,975	948,496
Series 2005B1-B2	01/01/07	250,349	250,349
Series 2005C1-C2	01/01/07	255,105	255,105
Series 2006A	05/15/07	6,920,350	1,153,392
Series 2006B	05/15/07	4,250,125	708,354
			$ 15,084,886

(b) Principal Account

Required deposit monthly to the Bond Principal Account, commencing on the first day of the month immediately succeeding the issuance of any Serial Bonds, or commencing one year prior to the first fixed maturity date of such Serial Bonds, whichever date is later, an amount which if made in substantially equal installments thereafter would be sufficient to pay the next maturing installment of principal of such Serial Bonds.

Bond series	Principal payment date		Balance principal due		Required principal account balance at December 31, 2006
Series 1991A	11/15/07	$	8,780,000	$	731,667
Series 1991D	11/15/07		13,260,000		1,105,000
Series 1992 F, G	11/15/07		1,300,000		108,333
Series 2000A	11/15/07		12,520,000		1,043,333
Series 2001A	11/15/07		17,370,000		1,447,500
Series 2001D	11/15/07		2,905,000		242,083
Series 2002A1-A3	11/15/07		6,350,000		529,167
Series 2002C	11/15/07		1,300,000		108,333
Series 2002E	11/15/07		16,650,000		1,387,500
Series 2004A	11/15/07		1,300,000		108,333
Series 2004B	11/15/07		1,300,000		108,333
Series 2005B1-B2	11/15/07		3,525,000		293,750
Series 2005C1-C2	11/15/07		2,800,000		233,333
Series 2006B	11/15/07		17,725,000		1,477,083
Total principal account requirement				$	8,923,748

(c) Sinking Account

Required deposit monthly, to the Bond Sinking Account, commencing on the first day of the twelfth calendar month prior to the date on which the City is required to pay any Term Bonds, one twelfth of the amount necessary to pay the redemption price or principal of such Term Bonds scheduled to be retired in any year by mandatory redemption, at fixed maturity or otherwise, except to the extent any other monies, including without limitation, monies in any escrow account, are available therefore. The 1991A Series and 1991D Series are subject to mandatory sinking fund redemption requirements.

(Continued)

(d) Redemption Account

Required deposit to the Bond Redemption Account, on or prior to any date on which the Airport System exercises its option to call for prior redemption of any Bonds, an amount necessary to pay the redemption price of such bonds on such Redemption Date, except to the extent any other monies, including without limitation, monies in any escrow account, are available therefore.

As of December 31, 2006, the redemption account had a balance of $17.1 million for the sixth runway and baggage system.

(e) Bond Account Summary

The sum of the required bond account balances described in items (a) through (d) above is as follows:

Aggregate required Bond Account balance	$	24,008,634
Bond Account balance at December 31, 2006		24,008,634
Underfunded	$	—

(2) Bond Reserve Account

The City is required, after making required monthly deposits to the Interest, Principal, Sinking Account, and Redemption accounts of the Bond Account, to apply Net Revenues to fund the Bond Reserve Account, in an amount equal to the maximum annual interest and principal payable on all outstanding Senior Bonds of the Airport System, as defined in the General Bond Ordinance. The amount deposited to the Bond Reserve Account at December 31, 2006 is $325,070,055. The minimum Bond Reserve Account requirement is $325,070,055.

(3) Operation and Maintenance Reserve Account

The operation and maintenance reserve account is an amount equal to two times the monthly average operating and maintenance costs of the preceding year. The Airport System is required to make equal monthly transfers sufficient to fully fund the Operations and Maintenance Reserve Account by January 1, 2007.

(Continued)

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Schedule of Required Deposits to the Bond Account,
Bond Reserve Account, and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance (Unaudited)

Year ended December 31, 2006

Computation of minimum operation and maintenance reserve:

2005 Operation and maintenance expenses	$	231,128,857
Minimum operations and maintenance reserve requirement for 2005		38,521,476
Operation and maintenance reserve account balance at December 31, 2006 (1)		59,733,489
Overfunded	$	21,212,013

(1) Under the Supplemental Bond Ordinance effective September 9, 2003, the City may increase the operating and maintenance reserve account balance to an amount equal to three times the prior year's monthly average. The City is in the process of increasing the reserve.

CITY AND COUNTY OF DENVER, COLORADO
MUNICIPAL AIRPORT SYSTEM

Summary of Insurance Coverage (Unaudited)

December 31, 2006

Policy number	Company	Item covered	Expiration date	Annual premium	Coverage
ESP2000-274	Quanta Speciality Lines	Pollution and remediation legal liability	12/23/07	$ 246,465(1)	$ 10,000,000
XSR 310244	Clarendon American	Excess auto	01/01/07	107,896	1,000,000
FL 254	FM Global	Property/boiler and machinery	01/01/07	2,478,342	1,000,000,000
L9900439	Lloyds of London	Excess liability	01/01/07	381,429	450,000,000
AAPN 00981771003	ACE Property and Casualty	Primary liability	01/01/07	572,398	50,000,000
Multi-participation	ACE American/AXA Art Ins./Lloyds Underwriters ACE American/AXA Art	Fine Arts	01/01/07	173,100/8,655(2)	250,000,000

(1) This is a three year prepaid amount. The policy term is 12/23/04 to 12/23/07.
(2) This is a multi-participation policy with coverage shared by DIA.

(1) Condensed Schedule of Revenues and Expenses (in thousands)

	2002	2003	2004	2005	2006
Operating revenues	$ 443,921	$ 457,093	$ 477,665	$ 494,491	$ 500,810
Operating expenses, before depreciation and amortization	238,484	211,913	221,214	231,129	256,147
Operating income before depreciation and amortization	205,437	245,180	256,451	263,362	244,663
Depreciation and amortization	125,692	144,758	130,379	146,922	143,506
Impairment loss	—	—	18,007	85,286	—
Operating income	79,745	100,422	108,065	31,154	101,157
Nonoperating revenues (expenses)	(119,845)	(135,272)	(138,580)	(107,265)	(67,772)
Capital contributions	91,152	40,542	62,205	31,547	29,188
Change in net assets	$ 51,052	$ 5,692	$ 31,690	$ (44,564)	$ 62,573

(2) Passenger Data

(a) Enplaned Passengers by Major Airline Category

Year	Major National Airlines	% Change	Regional Commuter Airlines	% Change	Charter Miscellaneous Airlines	% Change	Total	% Change
2000	18,684,319	1.5%	386,526	14.5%	322,151	12.2%	19,392,996	1.9%
2001	17,248,634	(7.7)	463,677	20.0	333,798	3.6	18,046,109	(6.9)
2002	16,891,218	(2.1)	669,432	44.4	268,914	(19.4)	17,829,564	(1.2)
2003	17,192,825	1.8	1,395,391	108.4	172,719	(35.8)	18,760,935	5.2
2004	18,296,498	6.4	2,623,675	88.0	223,908	29.6	21,144,081	12.7
2005	18,278,079	(0.1)	3,221,623	22.8	202,273	(9.7)	21,701,975	2.6
2006	19,674,467	7.6	3,791,642	17.7	199,203	(1.5)	23,665,312	9.0

(b) Enplaned Passengers by Airline

Airline	2005	% of Total	2006	% of Total
United	7,774,627	35.8%	8,364,574	35.3%
United Express/TED	4,465,911	20.6%	4,982,742	21.1%
Total United	12,240,538	56.4%	13,347,316	56.4%
American	886,533	4.1%	973,233	4.1%
America West	429,538	2.0%	339,203	1.4%
Continental	534,696	2.5%	553,301	2.3%
Delta	806,437	3.7%	663,890	2.8%
Frontier	4,217,059	19.4%	4,904,231	20.7%
Northwest	615,479	2.8%	488,406	2.1%
Southwest	—	0.0%	789,637	3.3%
USAir	391,917	1.8%	315,254	1.3%
Other	1,579,778	7.3%	1,290,841	5.5%
Totals	21,701,975	100.0%	23,665,312	100.0%

(c) Originating and Connecting Enplaned Passengers for the Year ended December 31, 2006

Airline	Originating	Connecting	Total
United	3,613,737	4,750,837	8,364,574
United Express/TED	1,847,635	3,135,107	4,982,742
Other	7,787,914	2,530,082	10,317,996
Totals	13,249,286	10,416,026	23,665,312
Percent of total	56%	44%	100%

(3) Aircraft Operations (a)

Historical Aircraft Operations

Year	Air Carrier	Commuter	Taxi/gen aviation	Military	Total	Percent change
2001	352,033	139,538	14,614	1,551	507,736	(3.9)%
2002	338,049	157,777	12,416	987	509,229	0.3%
2003	323,610	174,092	11,228	1,345	510,275	0.2%
2004	330,674	224,960	9,936	951	566,521	11.0%
2005	384,552	172,352	9,780	874	567,558	0.2%
2006	428,794	167,975	11,415	1,333	609,517	7.4%

(a) Aircraft operations are takeoffs, landings, or other communications with the control tower.

(4) Historical Passenger Facility Charge Revenues (in thousands)

Year		Amount
2002	$	69,742
2003		71,945
2004		82,161
2005		84,000
2006		93,510

(5) Enplaned Cargo Operations (in pounds)

Year	Air Mail	Express	Total	change
2002	44,842,352	283,235,306	328,077,658	(10.6)
2003	55,088,719	271,753,872	326,842,591	(0.4)
2004	40,032,635	281,171,813	321,204,448	(1.7)
2005	34,463,315	278,199,783	312,663,098	(2.7)
2006	22,127,087	258,407,346	280,534,433	(10.3)

(6) Historical Net Revenues and Debt Service Coverage under the Bond Ordinance (in thousands)

	2002	2003	2004	2005	2006
Gross revenue	$ 499,435	$ 527,567	$ 543,044	$ 567,853	$ 584,613
Operation and maintenance expenses	216,791	201,573	220,254	231,733	257,623
Net revenue	282,644	325,994	322,790	336,120	326,990
Other available funds	46,751	50,807	54,849	55,173	49,787
Total amount available for debt service requirements	$ 329,395	$ 376,801	$ 377,639	$ 391,293	$ 376,777
Debt service requirements	$ 225,286	$ 230,547	$ 243,495	$ 241,622	$ 215,989
Debt service coverage	146%	163%	155%	162%	174%