

Jacksonville Aviation Authority
Annual Report 2007

The Power Within.



Board of Directors & Executive Team



Cyrus Jollivette
Chairman



Jim McCollum
Vice-Chairman



Ron Weaver
Treasurer



Mary Burnett
Secretary



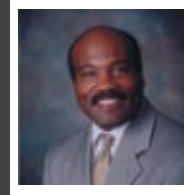
Dr. Chester Aikens
Member



Jack Demetree
Member



John Falconetti
Member



John D. Clark
Executive Director / CEO



Ernestine Moody-Robinson
Deputy Executive Director / COO



Richard Rossi
Chief Financial Officer

We invite you to meet the Jacksonville Aviation Authority (JAA) Executive Team & Board of Directors. This group will see to it that the customer comes first at all of the Jacksonville Aviation Authority airports; Jacksonville International Airport, Craig Airport, Herlong Airport, and Cecil Field.

Letter from Executive Director /CEO

The Jacksonville Aviation Authority is a significant contributor to the region's economy. We support our economy and hometown businesses in many ways. We provide good employment opportunities. We provide excellent transportation solutions for area businesses and leisure travelers. Yet, if you were to ask me to name our top strategic priority, what really drives us, I would, in all honesty, have to tell you that is safety and security.

The JAA spends a great deal of time and energy on safety and security issues and measures. We are absolutely focused on making sure our airports – Jacksonville International Airport (JAX), Cecil Field (VQQ), Craig (CRG) and Herlong (HEG) – are among the safest and securest aviation facilities in the country. In the aftermath of 9-11, instead of waiting to see what the rest of the commercial aviation industry would do, we stepped out and became the first airport in the country to install the most advanced baggage screening equipment available.

And instead of buckling to opposition to the lengthening of the main runway at Craig Airport we have aggressively pursued the project because, as our Board of Directors unanimously agreed, it will make Craig a safer facility for everyone.

Whether it is passengers traveling through JAX, recreational pilots taking off and landing at Herlong, Coast Guard flight training at Cecil Field or student pilots operating at Craig, we will not compromise on safety and security initiatives. I am proud to report that our focus on safety and security has been rewarded. In the past year, the JAA has been recognized for its emphasis on safety and security with the awarding of two safety pilot programs.

The Federal Aviation Administration selected JAX to participate in a six-month initiative aimed at improving airport safety in the U.S. The FAA's Safety Management System (SMS) Pilot Program will develop a set of safety requirements for air-side operations at U.S. commercial airports.

Craig Airport, meanwhile, was selected as one of four Florida general aviation airports to participate in a Florida Department of Transportation pilot program that is testing and evaluating new technologies that are intended to make the aviation system more safe and efficient.

I am just as pleased to report that while we have focused on providing the traveling public with safe and secure aviation facilities, our talented staff has been able yet again to turn in impressive financial results for the fiscal year ended September 30, 2007. The JAA posted record operating revenues of \$63.8 million, up from operating revenues of \$58.4 million in the previous year. And for the first time since the JAA split from the Jacksonville Port Authority in 2001, we posted net income – or income after depreciation and amortization – of \$2.5 million – surely a major milestone for us. Our strong financial position allowed us to pay off \$5.9 million in bank loans and revenue bonds used to finance the construction of the JAA Administration Building in 2002 and road improvements at JAX. Paying off the loans resulted in interest payment savings of \$2.7 million.

Another important milestone last year was the continued growth at JAX. For the first time ever total passenger count at JAX exceeded the six-million mark.

None of these significant accomplishments would have been achieved if it had not been for our dedicated employees who are constantly seeking efficient and effective ways of doing their job and running the business. Our employees are what make JAA one of the best aviation systems in the nation.

sincerely



JOHN CLARK

EXECUTIVE DIRECTOR / CEO
JACKSONVILLE AVIATION AUTHORITY

Management's Condensed Discussion and Analysis

September 30, 2007 and 2006

Introduction

The following is management's condensed discussion and analysis of the financial performance and activity of the Jacksonville Aviation Authority (the Authority) for the fiscal years ended September 30, 2007 and 2006. The discussion has been prepared by management and is unaudited.

The Authority is a body corporate and politic, established by the state of Florida on June 5, 2001, pursuant to the provisions of Chapter 2001-319 of the Laws of Florida, to own and operate aviation facilities in Duval County, Florida. Prior to October 1, 2001, the Authority operated as a division of the Jacksonville Port Authority. Pursuant to the provisions of Chapter 2005-328 of the Laws of Florida, the Authority changed its name from Jacksonville Airport Authority to Jacksonville Aviation Authority effective June 10, 2005.

The Authority consists of a seven member Board, four members appointed by the Governor of the State of Florida and confirmed by the State Senate and three members appointed by the Mayor of the City of Jacksonville and confirmed by the City Council of the City of Jacksonville.

The Authority operates an Airport System that consists of four airports: Jacksonville International Airport, Craig Airport, Herlong Airport, and Cecil Field. The organization consists of approximately 226 full-time employees in a structure that includes administration, airport management and operations, and police.

The Authority is self-supporting, using aircraft landing fees, fees from terminal and other rentals, and revenues from concessions to fund operating expenses. The Authority is not taxpayer-funded. The Capital Construction Program is funded by bonds issued by the Authority, federal and state grants, Passenger Facility Charges (PFCs) and Authority revenues.

As the Authority's budget is approved by the City of Jacksonville (the City), its financial statements are included in the City's basic financial statements. The Authority does not have any component units and is not involved in any joint ventures.

Authority's Activity Highlights

The demand for air transportation is, to a large degree, dependent upon the demographic and economic characteristics of an airport's air trade area (i.e., the geographical area served by an airport). This relationship is particularly true for origin-destination (O&D) passenger traffic, which has been the primary component of demand at Jacksonville International Airport. The major portion of demand for air travel at the Jacksonville International Airport is largely

influenced more by the local characteristics of the area served than by individual air carrier decisions regarding hub and service patterns in support of connecting activity.

The Jacksonville International Airport is classified by the Federal Aviation Administration (FAA) as a medium hub facility based on its percentage of nationwide enplanements.

Landed weight increased in 2007 by 6.13 % from prior year and enplanement activity increased by 8.31% over 2006. As in 2006, Delta Airlines and Southwest Airlines dominated 2007 in both enplanement activity and landed weight. American Airlines, Continental Airlines, Express Jet, Frontier Airlines, JetBlue, Northwest Airlines, US Airways and AirTran comprise the remainder of the signatory airlines serving Jacksonville International Airport (JIA) and generated the majority of the enplanements.

Passengers, Enplanements and Landed Weights for the fiscal years ending September 30, were as follows:

	2007	2006	2005
Total passengers	6,307,416	5,842,758	5,672,690
% increase	7.95%	3.00%	10.72%
Enplanements	3,167,664	2,924,527	2,848,830
% increase	8.31%	2.66%	10.95%
Landed weight	4,542,233	4,279,841	4,239,674
% increase	6.13%	0.95%	7.56%

For fiscal year 2007, the Jacksonville International Airport daily air carrier departures increased to 113 from 109 and 110 departures in 2006 and 2005, respectively.

Financial Highlights

The Authority's assets exceeded liabilities for fiscal year 2007 by approximately \$412.67 million compared to \$376.00 million and \$353.65 million in fiscal years 2006 and 2005, respectively.

The overall financial position of the Authority has improved as indicated by consecutive increases in Total Net Assets. The improving trend for fiscal years 2007 and 2006 is due primarily to grants-in-aid of construction and earnings from continuing operations.

The Authority's total debt increased \$82.91 million in fiscal year 2007. The debt increased by \$129.19 million due to the issuance of the 2006 revenue bonds. The decreases were the result of \$7.23 million in scheduled debt service payments and early payoff of the 2003B1, 2003B2, 2002A bank loan, 2002B bank loan and the 2002D note payable in the amount of \$39.05 million.

The Authority's total debt decreased \$5.97 million in fiscal year 2006, as a result of normal scheduled debt service payments.

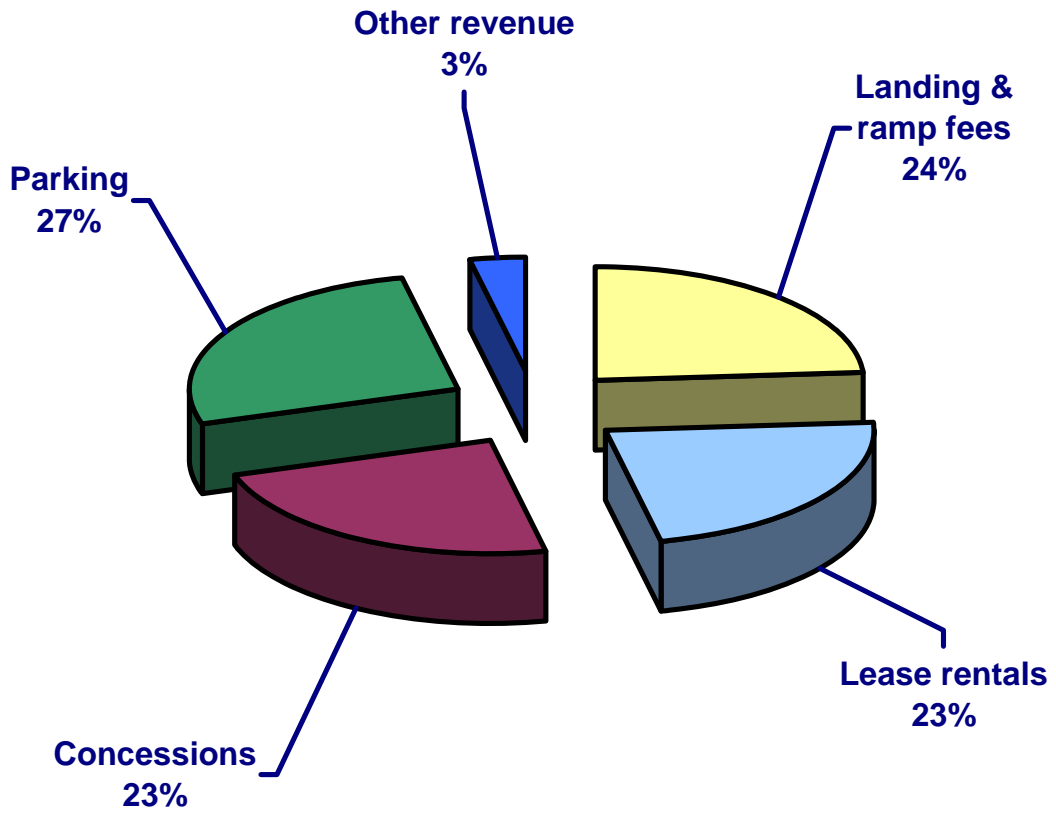
Operating Revenues

Total operating revenues increased 9.4% from 2007 to 2006. The increase in other revenue from 2007 to 2006 of 16.6% is primarily attributable to an adjustment to bad debt allowance for the collections received from bankruptcies. The increase in parking revenue of 15.94% from the prior year is due to an increase in parking rates. In 2007 concession revenue increased by 14.79% over 2006 due to increases in concession gross revenues.

Operating Revenues by Major Source

	2007	2006	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
	<i>(dollar amounts in thousands)</i>			
Landing and ramp fees	\$ 15,176	\$ 13,943	\$ 1,233	8.84
Lease rentals	14,692	14,993	(301)	(2.01)
Parking	17,058	14,713	2,345	15.94
Concessions	14,740	12,841	1,899	14.79
Other revenue	2,177	1,867	310	16.60
Total operating revenues	<u>\$ 63,843</u>	<u>\$ 58,357</u>	<u>\$ 5,486</u>	<u>9.40</u>

2007 Operating Revenues

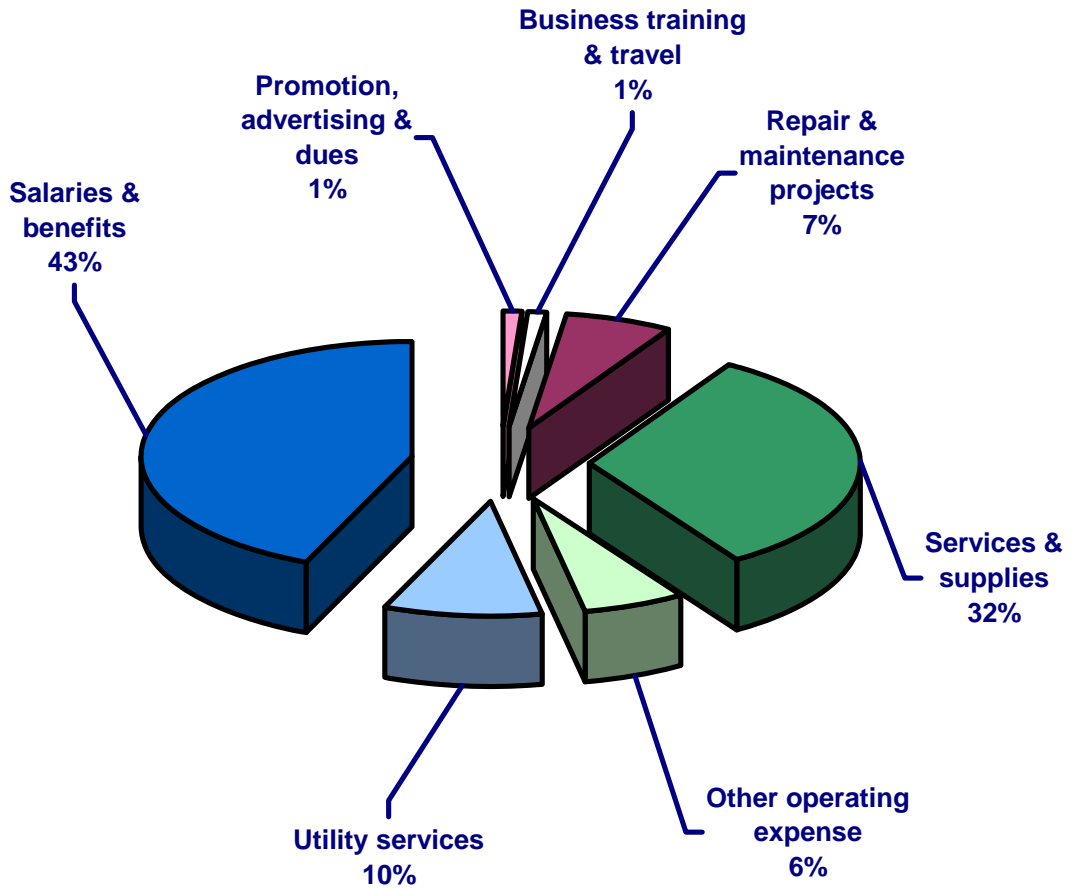


Operating Expenses

Fiscal year 2007 operating expense (before depreciation) increased by .62% over 2006. The primary increase was in maintenance operating expense of 24%, due to additional repair projects. Business training and travel in 2007 decreased by 9.81% over 2006 due to a reduction in business travel.

	2007	2006	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
	<i>(dollar amounts in thousands)</i>			
Salaries and benefits	\$ 16,336	\$ 16,840	\$ (504)	(2.99) %
Services and supplies	12,000	11,641	359	3.08 %
Business training and travel	340	377	(37)	(9.81) %
Promotion, advertising and due	448	477	(29)	(6.08) %
Utilities	3,571	3,646	(75)	(2.06) %
Maintenance	2,454	1,979	475	24.00 %
Other operating expenses	2,287	2,245	42	1.87 %
Total operating expenses	<u>\$ 37,436</u>	<u>\$ 37,205</u>	<u>\$ 231</u>	<u>0.62 %</u>

2007 Operating Expenses



Jacksonville Aviation Authority

Total Revenues, Expenses and Changes in Net Assets
Years Ended September 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:	(in thousands)		
Landing and ramp fees	\$ 15,176	\$ 13,943	\$ 13,623
Lease rentals	14,692	14,993	16,042
Parking	17,058	14,713	13,606
Concessions	14,740	12,841	12,844
Other revenue	2,177	1,867	1,686
Total operating revenues	<u>63,843</u>	<u>58,357</u>	<u>57,801</u>
Operating expenses: (including depreciation & amortization):			
Salaries and benefits	16,336	16,840	16,598
Services and supplies	12,000	11,641	11,728
Business training and travel	340	377	332
Promotion, advertising and dues	448	477	1,260
Utility services	3,571	3,646	3,038
Maintenance	2,454	1,979	1,950
Other operating expenses	2,287	2,245	1,658
Depreciation and amortization	23,880	21,922	21,726
Total operating expenses (including depreciation & amortization)	<u>61,316</u>	<u>59,127</u>	<u>58,290</u>
Operating loss	2,527	(770)	(489)
Nonoperating revenues:			
Passenger facility charges	13,130	12,450	12,060
Investment income	10,992	5,639	1,784
Payments from primary government	12	60	79
Payments from federal and state agencies	206	233	239
Other revenues	1	9	63
	<u>24,341</u>	<u>18,391</u>	<u>14,225</u>
Nonoperating expenses:			
Interest expense	13,569	8,012	6,989
Contributions to other governments	0	0	340
Other expenses	226	334	185
Total Nonoperating expenses	<u>13,795</u>	<u>8,346</u>	<u>7,514</u>
Capital contributions	<u>23,600</u>	<u>13,080</u>	<u>17,172</u>
Increases in net assets	<u>\$ 36,673</u>	<u>\$ 22,355</u>	<u>\$ 23,394</u>
Net Assets at End of Year:			
Investments in Capital Assets net of related debt	336,911	302,987	289,098
Restricted	38,323	49,805	37,668
Unrestricted	37,439	23,208	26,879
Total Net Assets	<u>\$ 412,673</u>	<u>\$ 376,000</u>	<u>\$ 353,645</u>

Signatory Airline Rates and Charges

The Authority and certain airlines negotiated an airline use and lease agreement (the agreement) with an effective date of October 1, 2007 for 5 years, which in part establishes how the airlines that signed the agreement will be assessed annual rates and charges for their use of the JIA airport. Landing fees and terminal rental rates for non-signatory airlines are assessed at 125 percent of the signatory rates.

The agreement with the signatory airlines is hybrid in nature, with a residual rate-making methodology for the airfield and a compensatory methodology for the terminal. The Authority also has the ability under the agreement to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions. No such adjustments were made during fiscal years 2007, 2006 and 2005.

The rates and charges for the signatory airlines at September 30 were as follows:

	2007	2006	2005
Landing fees (per 1,000 lbs. MGLW)	\$ 1.53	\$ 1.52	\$ 1.46
Apron fee rental (per linear foot)	361.06	301.45	320.38
Average terminal rental rate (per square foot)	46.73	53.15	65.17
Ticket counter (per square foot)	63.84	72.99	89.59
Bag claim (per square foot)	51.07	58.39	71.67

Note: 2007 rates are estimates

Cash and Investment Management

The Authority's cash and cash equivalents increased by \$66.72 million for fiscal year 2007 from 2006. This was primarily due to proceeds from long term debt. Cash and cash equivalents, unrestricted, increased by \$5.41 million and restricted cash and cash equivalents increased by \$61.31 million.

Major sources & Uses of Cash

The following summary shows the major sources and uses of cash

	2007	2006	2005
	<i>(dollar amounts in thousands)</i>		
Cash flows from operating activities	\$ 29,600	\$ 18,795	\$ 23,375
Cash flows from non-capital financing Activities	(9,782)	301	434
Cash flows from capital and related financing Activities	35,705	(6,638)	(28,870)
Cash flows from investing activities	<u>11,194</u>	<u>3,536</u>	<u>1,024</u>
Net change in cash and cash equivalents	66,717	15,994	(4,037)
Cash and equivalents, beginning of year	<u>65,306</u>	<u>49,312</u>	<u>53,349</u>
Cash and equivalents, end of year	<u><u>132,023</u></u>	<u><u>65,306</u></u>	<u><u>49,312</u></u>
Non-cash investing, capital and financing activities			
Changes in FMV of Investments	\$ (243)	\$ (351)	\$ 157
Capitalized Interest	<u><u>\$ (230)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Financial Position

Summary Statements of Net Assets (amounts in thousands)

The Authority experienced continued growth of its total assets during 2007, with an increase of 24.25%. Total liabilities increased by 56.73% for a resulting increase in net assets of 9.75%.

	2007	2006	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
Assets				
<i>(dollar amounts in thousands)</i>				
Current	\$ 52,277	\$ 33,506	\$ 18,771	56.02 %
Noncurrent (restricted/other)	137,246	74,298	62,948	84.72 %
Capital assets, net	486,244	436,056	50,188	11.51 %
Total assets	<u>675,767</u>	<u>543,860</u>	<u>131,907</u>	<u>24.25 %</u>
Liabilities				
Current	21,829	14,732	7,097	48.17 %
Restricted	13,058	10,105	2,953	29.22 %
Long-term	228,207	143,023	85,184	59.56 %
Total liabilities	<u>263,094</u>	<u>167,860</u>	<u>95,234</u>	<u>56.73 %</u>
Net assets				
Invested in capital assets, net of de	336,911	302,987	33,924	11.20 %
Restricted	38,323	49,805	(11,482)	(23.05) %
Unrestricted	37,439	23,208	14,231	61.32 %
Total net assets	<u>\$ 412,673</u>	<u>\$ 376,000</u>	<u>\$ 36,673</u>	<u>9.75 %</u>

Debt Activity

The Authority issued \$129.19 million of 2006 revenue bonds in October, 2006. In March of 2007 the 2003B1 and B2 series bonds were defeased in the amount of \$33.18 million. The 2002A and B bank notes were paid in full in the amount of \$5.83 million and the line of credit was paid for \$50 thousand. The result of this activity and normal debt service payments of \$7.23 million resulted in an overall increase in debt of \$82.91 million.

Debt Service Coverage

Debt service coverage is a covenant of the bond resolutions requiring that a surplus of funds be available in the amount 125% of principal and interest due in the subsequent year. This coverage serves as an indicator to bond holders that funds are available for timely debt service payments. Historically, the Authority has maintained a coverage ratio higher than its requirement. The actual debt service coverage ratio (principal and interest) for year 2007, 2006 and 2005 was 1.49, 2.27 and 1.86, respectively.

Capital Construction

During 2007 the Authority expended approximately \$70.88 million on capital activities. Major projects in 2007 at JIA continue to be the construction and expansion of concourse A and C, along with the apron and taxiway.

Economic Factors and Next Years' Budgets

The Authority is projecting another increase in enplanements for fiscal year 2008 over the prior year. Revenues for fiscal year 2008 are forecasted to be approximately \$64.27 million or .67% below fiscal year 2007. Expenses (before depreciation) for fiscal year 2008 are forecasted to be approximately \$42.76 million or 14.21% over fiscal year 2007.

The Authority expects to face continued challenges in fiscal year 2008 because of the troubled financial condition of the nation's airlines and reduced federal resources. Costs for security and other operational issues remain on the increase. The Authority continues to seek opportunities to diversify its revenues through new revenue-generating sources such as real estate development and aviation consulting.

Contacting the Authority's Financial Management

The financial report is designed to provide the Authority's Board of Directors, management, investors, creditors and customers with a general view of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact Chief Financial Officer, P.O. Box 18018, Jacksonville, Florida 32229-0018.