

SUPPLEMENT TO OFFICIAL STATEMENT

DATED DECEMBER 5, 2006

with respect to

\$12,715,000

CITY OF LITTLE ROCK, ARKANSAS

AIRPORT REVENUE REFUNDING AND IMPROVEMENT BONDS

\$3,600,000

**Refunding and Improvement Bonds
Series 2007A (AMT)**

\$9,115,000

**Improvement Bonds
Series 2007B (Non-AMT)**

The captioned Official Statement is amended by substituting the following page for page number 12 of Appendix D. The replacement page changes the Series 2007B Debt Service Reserve Requirement to mean an amount equal to the lesser of 10% of the issue price of the Series 2007B Bonds or the Maximum Annual Debt Service (recognizing the transfer of funds in the Debt Service Reserve Subaccount as a credit to the City's payment due November 1, 2024) on the Series 2007B Bonds. The Series 2007B Debt Service Reserve Requirement originally was defined to mean an amount equal to the lesser of 10% of the issue price of the Series 2007B Bonds or the Maximum Annual Debt Service on the Series 2007B Bonds.

“Series 2007A Project Account” means the Series 2007A Project Account in the Construction Fund established in the Series 2007A Supplemental Indenture.

“Series 2007A Supplemental Indenture” means the Series 2007A Supplemental Indenture dated as of January 1, 2007 pursuant to which the Series 2007A Bonds are issued.

“Series 2007A Tax Regulatory Agreement” means (a) the Series 2007A Tax Regulatory Agreement, dated the Closing Date, between the Issuer, Commission and the Trustee and (b) any other agreement or certificate of the Issuer executed and delivered in connection with the Series 2007A Bonds in order to assure the tax-exempt status of interest received on the Series 2007A Bonds.

“Series 2007B Bond Subaccount” means the Series Subaccount in the Bond Account established in the Series 2007B Supplemental Indenture for payment of the Series 2007B Bonds.

“Series 2007B Bonds” means the City’s Airport Revenue Improvement Bonds, Series 2007B, authorized by the Series 2007B Supplemental Indenture.

“Series 2007B Debt Service Reserve Requirement” means an amount equal to the lesser of 10% of the issue price of the Series 2007B Bonds or the Maximum Annual Debt Service (recognizing the transfer of funds in the Debt Service Reserve Subaccount as a credit to the City’s payment due November 1, 2024) on the Series 2007B Bonds.

“Series 2007B Debt Service Reserve Subaccount” means the Series Subaccount in the Debt Service Reserve Account established in the Series 2007B Supplemental Indenture for the Series 2007B Bonds.

“Series 2007B Project” means the acquisition of approximately 12 acres of land and the construction of a concrete public aircraft parking apron and site work on newly acquired land, construction of extensions of the existing aircraft taxiway to serve the new facilities, as well as costs for clearing and preparation of the construction site and related engineering and similar costs and the installation of the utility infrastructure required to provide services to the site.

“Series 2007B Project Account” means the Series 2007B Project Account in the Construction Fund established in the Series 2007B Supplemental Indenture.

“Series 2007B Supplemental Indenture” means the Series 2007B Supplemental Indenture dated as of January 1, 2007 pursuant to which the Series 2007B Bonds are issued.

“Series 2007B Tax Regulatory Agreement” means (a) the Series 2007B Tax Regulatory Agreement, dated the Closing Date, between the Issuer, Commission and the Trustee, (b) the Project Certificate of the Issuer addressed to Bond Counsel and dated the Closing Date, and (c) any other agreement or certificate of the Issuer executed and delivered in connection with the Series 2007B Bonds in order to assure the tax-exempt status of interest received on the Series 2007B Bonds.

**TWO NEW ISSUES
BOOK-ENTRY-ONLY**

**RATINGS: S & P “AAA” (Underlying “A-”)
Moody’s: “Aaa” (Underlying: “A2”)
Insured by: Ambac
(See “RATINGS” herein)**

In the opinion of Co-Bond Counsel, assuming the accuracy of certain representations and compliance with certain covenants, under existing laws, regulations, rulings and judicial decisions, (i) interest on the Series 2007A Bonds and the Series 2007B Bonds is excluded from gross income for federal income tax purposes, except interest on a Series 2007A Bond for any period during which such Series 2007A Bond is held by a “substantial user” or a “related person” as those terms are defined in Section 147(a) of the Code, (ii) interest on the Series 2007B Bonds is not an item of tax preference for purposes of the computation of the federal alternative minimum tax imposed on individuals and corporations, (iii) with respect to corporations, interest on the Series 2007B Bonds will be taken into account in determining adjusted current earnings and profits for purposes of computing the alternative minimum tax and (iv) interest on the Series 2007A Bonds is a separate tax preference item for purposes of computing the alternative minimum tax imposed on individuals and corporations. In Co-Bond Counsel’s further opinion, the Series 2007A Bonds and the Series 2007B Bonds and interest thereon are exempt from all present Arkansas state, county and municipal taxes, including income, inheritance and property taxes. See “LEGAL MATTERS -Tax Exemption” herein.

\$12,715,000
CITY OF LITTLE ROCK, ARKANSAS
AIRPORT REVENUE REFUNDING AND IMPROVEMENT BONDS

\$3,600,000
Refunding and Improvement Bonds
Series 2007A (AMT)

\$9,115,000
Improvement Bonds
Series 2007B (Non-AMT)

Dated: January 1, 2007

Due: As described on the inside front cover

The Bonds will be issued as fully registered bonds without coupons by means of a book-entry system evidencing ownership and transfer thereof in the records of The Depository Trust Company, New York, New York (“DTC”) and its participants. Purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest at the rates set forth on the inside cover payable on each May 1 and November 1, commencing May 1, 2007. Principal of and interest on the Bonds will be paid by Regions Bank, as Trustee (the “Trustee”) directly to DTC, as registered owner thereof.

SEE MATURITY SCHEDULE ON INSIDE FRONT COVER

The Bonds are being issued by the City of Little Rock, Arkansas (the “Issuer”). The Bonds do not constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory limitation, and are special obligations of the Issuer, secured by and payable solely from the revenues of Little Rock National Airport (the “Airport”) and from amounts on deposit in certain funds and accounts established under a Master Indenture dated as of October 1, 1994 between the Issuer and the Trustee, and two Supplemental Trust Indentures dated as of January 1, 2007 between the Issuer and the Trustee. The Bonds are being secured by revenues of the Airport on a parity with the certain outstanding bonds described herein. No owner of the Bonds shall ever have the right to compel any exercise of taxing power by the Issuer to pay the Bonds. The proceeds of the Bonds are being used to acquire real and personal property and construct improvements for the Airport, to currently refund certain outstanding bonds, to fund a debt service reserve and to pay certain other costs relating to the issuance.

Payment of the principal of and interest on the Bonds when due will be guaranteed by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

THE BONDS ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN. See “THE SERIES 2007 Bonds-Redemption Provisions.”

The Bonds are being offered when, as and if issued by the Issuer, subject to prior sale and withdrawal of such offer without notice and subject to the approval of certain legal matters by Wright, Lindsey & Jennings, LLP, Little Rock, Arkansas, and Ivory Law Firm, P.A., Little Rock, Arkansas, Co-Bond Counsel. Certain other legal matters will be passed upon by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, as Counsel to the Underwriters and by Thomas M. Carpenter, as City Attorney. It is expected that the Bonds will be available for delivery in New York, New York, on or about January 9, 2007.

MORGAN KEEGAN & COMPANY, INC.
EDWARD JONES

BANC OF AMERICA SECURITIES LLC
M. R. BEAL & COMPANY

Dated: December 5, 2006.

\$12,715,000
CITY OF LITTLE ROCK, ARKANSAS
AIRPORT REVENUE REFUNDING AND IMPROVEMENT BONDS

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

\$3,600,000 Series 2007A (AMT)

\$1,485,000 4.00% Term Bonds Due November 1, 2016; Yield - 4.050%

\$2,115,000 4.20% Term Bonds Due November 1, 2026; Yield - 4.351%

(Accrued Interest to be Added)

\$9,115,000 Series 2007B (Non-AMT)

\$4,070,000 Serial Bonds

<u>Maturity</u> <u>(November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2007	\$405,000	4.00%	3.52%
2008	345,000	4.00	3.53
2009	360,000	4.00	3.54
2010	375,000	4.00	3.55
2011	390,000	4.00	3.57
2012	405,000	4.00	3.59
2013	420,000	4.00	3.61
2014	440,000	4.00	3.67
2015	455,000	4.00	3.71
2016	475,000	4.00	3.75

\$2,125,000 5.00% Term Bonds Due November 1, 2020; Yield - 3.90%*

\$2,920,000 5.00% Term Bonds Due November 1, 2024; Yield - 4.00%*

(Accrued Interest to be Added)

*Priced to first optional call date.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE TRUSTEE ASSUMES NO RESPONSIBILITY FOR THIS OFFICIAL STATEMENT AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED HEREIN.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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CITY OF LITTLE ROCK, ARKANSAS

500 West Markham Street
Little Rock, AR 72201
(501) 371-4500

BOARD OF DIRECTORS

Jim Dailey, Mayor
Joan Adcock
Brad A. Cazort, Vice Mayor
D. Eugene Fortson
Willie Hinton
Stacy Hurst
Michael Keck
D. Dean Kumpuris, M.D.
Johnnie Pugh
Genevieve Stewart
B.J. Wyrick

LITTLE ROCK NATIONAL AIRPORT

One Airport Drive
Little Rock, AR 72202
(501) 372-3439

AIRPORT COMMISSION

Larry Lichty, Chairperson
Kay Kelley Arnold
Robert East
Carl L. Johnson, M.D.
Virgil Miller
Jimmy Moses
Thomas Schueck
D. Eugene Fortson (ex-officio)
Johnnie Pugh (ex-officio)

City Manager

Bruce T. Moore

Assistant City Manager

Bryan Day

Director of Finance and Treasurer

Robert K. "Bob" Biles

City Attorney

Thomas M. Carpenter

Executive Director

Deborah H. Schwartz, A.A.E.

Deputy Executive Director

Ronald F. Mathieu

Controller

Carol Snay, C.P.A.

General Counsel

Catlett & Stodola, PLC

Certified Public Accountants

L. Cotton Thomas & Company

CONSULTANTS AND ADVISORS TO THE AIRPORT

CO-BOND COUNSEL

Wright, Lindsey & Jennings, LLP

Ivory Law Firm, P.A.

FINANCIAL ADVISOR

Stephens Inc.

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OFFICIAL STATEMENT

\$12,715,000

CITY OF LITTLE ROCK, ARKANSAS AIRPORT REVENUE REFUNDING AND IMPROVEMENT BONDS

\$3,600,000

**Refunding and Improvement Bonds
Series 2007A (AMT)**

\$9,115,000

**Improvement Bonds
Series 2007B (Non-AMT)**

INTRODUCTION

This Official Statement, which includes the cover page, inside cover page, prefatory information and the appendices, furnishes information in connection with the issuance and sale by the City of Little Rock, Arkansas (the “Issuer”), of its Airport Revenue Refunding and Improvement Bonds, Series 2007A (the “Series 2007A Bonds”) in the aggregate principal amount of \$3,600,000 and Airport Revenue Improvement Bonds, Series 2007B (the “Series 2007B Bonds”), in the aggregate principal amount of \$9,115,000. Unless otherwise defined herein, capitalized terms used herein are defined in “**APPENDIX D, GLOSSARY OF TERMS**” herein.

The Issuer is a political subdivision of the State of Arkansas (the “State”) and was organized under the laws of the State as a city of the first class. It is the State Capitol of Arkansas and was chartered in 1835. In this financing, the Issuer is acting on behalf of the Little Rock Municipal Airport Commission (the “Commission”), an agency and instrumentality of the Issuer. See “**THE ISSUER**” herein.

Little Rock National Airport (the “Airport”) serves as the primary air carrier airport for the Issuer and the majority of the State. For a description of the Airport, see “**THE AIRPORT AND THE COMMISSION**” herein.

The Series 2007A Bonds and the Series 2007B Bonds (the “Series 2007 Bonds”) are being issued pursuant to Ordinance No. 19,562, adopted by the Board of Directors of the Issuer on December 5, 2006, a Supplemental Trust Indenture for each series dated as of January 1, 2007 between the Issuer and Regions Bank, as Trustee (collectively, the “Series 2007 Supplemental Indentures”) and a Master Indenture dated as of October 1, 1994 between the Issuer and Regions Bank (formerly, First Commercial Trust Company, National Association), as Trustee (the “Master Indenture”). See “**APPENDIX A, SUMMARY OF THE SERIES 2007 SUPPLEMENTAL TRUST INDENTURES**” and “**APPENDIX B, SUMMARY OF THE MASTER INDENTURE**” herein.

The proceeds of the Series 2007 Bonds will be used to finance the acquisition of real and personal property and constructing improvements for the Airport, to currently refund the 2016 maturity of the Issuer’s Airport Revenue Bonds, Series 1999A (the “Bonds Refunded”), to fund a debt service reserve and certain other costs relating to the issuance of the Series 2007 Bonds. See “**THE PROJECT AND THE REFUNDING**” herein.

The Bonds are being secured by revenues of the Airport on a parity with the Series 1999 Bonds that are not being refunded and Series 2003 Bonds described herein. The Bonds do not

constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory limitation. See “**SECURITY FOR THE SERIES 2007 BONDS**” herein.

THE SERIES 2007 BONDS

General Description

The Series 2007 Bonds shall be dated as of January 1, 2007. The Series 2007 Bonds shall constitute Current Interest Bonds under the Master Indenture, shall bear interest from January 1, 2007, payable May 1, 2007, and semi-annually thereafter on May 1 and November 1 in each year until maturity, and shall mature on the dates and in the principal amounts shown on the inside front cover of this Official Statement.

Each Series 2007 Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless it is registered as of an Interest Payment Date, in which event it shall bear interest from the date thereof, or unless it is registered prior to the first Interest Payment Date, in which event it shall bear interest from its date, or unless, as shown by the records of the Trustee, interest on the Series 2007 Bonds shall be in default, in which event it shall bear interest from the date to which interest has been paid in full.

Redemption

The Series 2007 Bonds are subject to redemption prior to maturity as follows:

(1) **Optional Redemption.** The Series 2007 Bonds are subject to redemption at the option of the Issuer, in whole at any time or in part on any interest payment date, on and after November 1, 2016 at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the Series 2007 Bonds shall be called for redemption, the particular maturities and series of the Series 2007 Bonds to be redeemed shall be selected by the Issuer in its discretion. If fewer than all of the Series 2007 Bonds of any one maturity and series shall be called for redemption, the particular Series 2007 Bonds or portions thereof to be redeemed from such maturity and series shall be selected by lot by the Trustee.

(2) **Mandatory Sinking Fund Redemption.** The Series 2007A Bonds and the Series 2007B Bonds maturing on November 1 in the years 2020 and 2024 (collectively, the “Term Bonds”) are subject to mandatory redemption prior to maturity at a redemption price of the principal amount thereof plus accrued interest to the date of redemption from required sinking fund payments sufficient to redeem on November 1 of each year specified below the respective principal amounts of such Term Bonds indicated for each year, all in the manner provided in the Supplemental Indentures related to the Series 2007 Bonds:

\$1,485,000 Series 2007A Term Bonds Due November 1, 2016

<u>Year</u> <u>(November 1)</u>	<u>Principal Amount</u>
2015	\$725,000
2016 (maturity)	760,000

\$2,115,000 Series 2007A Term Bonds Due November 1, 2026

<u>Year</u> <u>(November 1)</u>	<u>Principal Amount</u>
2024	\$415,000
2025	730,000
2026 (maturity)	970,000

\$2,125,000 Series 2007B Term Bonds Due November 1, 2020

<u>Year</u> <u>(November 1)</u>	<u>Principal Amount</u>
2017	\$495,000
2018	515,000
2019	545,000
2020 (maturity)	570,000

\$2,920,000 Series 2007B Term Bonds Due November 1, 2024

<u>Year</u> <u>(November 1)</u>	<u>Principal Amount</u>
2021	\$600,000
2022	630,000
2023	660,000
2024 (maturity)	1,030,000

At its option, to be exercised on or before the 30th day next preceding any mandatory sinking fund redemption date, the Issuer (provided that no Event of Default shall have occurred and be continuing) may (i) deliver to the Trustee for cancellation, Term Bonds of the applicable maturity or portion thereof (in authorized denominations) in any aggregate principal amount desired and (ii) receive a credit in respect of its mandatory sinking fund redemption obligation for any Term Bonds of the same maturity (in authorized denominations) which prior to said date have been purchased or

redeemed (otherwise than through mandatory sinking fund redemption pursuant to the applicable Indenture) and cancelled by the Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation for the same maturity. Each such Term Bond or portion thereof so delivered or previously purchased or redeemed and cancelled by the Trustee shall be credited by the Trustee at 100% of the principal amount thereof against the obligation to redeem the Term Bonds of the same maturity on such mandatory sinking fund redemption date, and any excess over such amount shall be credited against future mandatory sinking fund redemption obligations for the same maturity in chronological order, and the principal amount of Term Bonds of said maturity so to be reduced shall be accordingly reduced.

The Issuer will furnish the Trustee 30 days before each mandatory sinking fund redemption date its certificate indicating whether and to what extent it will deliver Term Bonds for cancellation and credit against its mandatory sinking fund redemption obligations.

(3) **Extraordinary Redemption.** The Series 2007 Bonds shall be redeemed prior to maturity as a whole or in part from proceeds of insurance received in connection with loss, damage or destruction to buildings, parking decks, terminals or structures of the Airport or any portion thereof in an aggregate amount in excess of \$250,000 in any Fiscal Year and not used for restoration or repair of such property of the Airport.

If less than all of the Series 2007 Bonds shall be called for extraordinary redemption, the Series 2007 Bonds shall be redeemed in inverse order of maturity. If fewer than all of the Series 2007 Bonds of any one maturity (so called for extraordinary redemption) shall be called for extraordinary redemption, the Issuer shall select the principal amount to be redeemed from each series and the Trustee shall select the particular Series 2007 Bonds or portions of each series to be redeemed from such maturity by lot or in such other manner as the Trustee in its discretion may deem proper.

The portion of any Series 2007 Bonds to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof; provided that, in selecting Series 2007 Bonds for redemption, the Trustee shall treat each Series 2007 Bond as representing that number of Series 2007 Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

Notice of redemption shall be given by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, to the registered owner of such Bond, at owner's address as it appears on the bond registration books of the Trustee or at such address as the owner may have filed with the Trustee for that purpose, but neither failure to mail any such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Series 2007 Bonds. Each notice of redemption shall state the redemption date, the place of redemption, the source of the funds to be used for such redemption, the principal amount and, if less than all of the Series 2007 Bonds of any like series and maturity are to be redeemed, the distinctive numbers of the Series 2007 Bonds to be redeemed, and shall also state that the interest on the Series 2007 Bonds or portions thereof in such notice designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the redemption price thereof and interest accrued thereon to the redemption date.

Notwithstanding the above, so long as the Series 2007 Bonds are issued in book-entry only form, if fewer than all the Series 2007 Bonds of an issue are called for redemption, the particular Series 2007 Bonds to be redeemed will be selected pursuant to the procedures established by Depository Trust Company (“DTC”). So long as the Series 2007 Bonds are issued in book-entry only form, notice of redemption will be given only to Cede & Co., as nominee for DTC. **The Trustee will not give any notice of redemption to the Beneficial Owners of the Series 2007 Bonds.**

Book-Entry-Only System

The information under this heading has been furnished by DTC. Neither the Issuer nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, New York, New York, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity and series of the Series 2007 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the Book-Entry-Only System for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption

proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

So long as Cede & Co., as nominee for DTC, is the registered Owner of the Bonds, beneficial ownership interests in the Series 2007 Bonds may be transferred only through a DTC Participant or Indirect Participant and recorded on the Book-Entry-Only System operated by DTC. In the event the Book-Entry-Only System is discontinued, the Series 2007 Bonds may be transferred in accordance with the provisions set forth under “Certificated Bonds” below.

NEITHER THE ISSUER, THE PAYING AGENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, OR INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2007 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2007 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the Issuer and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered. In addition, the Issuer may terminate the services of DTC if the Issuer determines that, and the Issuer shall terminate the services of DTC with respect to the Series 2007 Bonds upon receipt of written notice from DTC, that DTC has received written notice from Direct Participants or Indirect Participants having interests in an aggregate amount of not less than fifty percent (50%) of the aggregate principal amount of the then outstanding Series 2007 Bonds to the effect that, continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners or that DTC is unable to discharge its responsibilities with respect to the Series 2007 Bonds. If for either reason the Book-Entry-Only System is discontinued, bond certificates will be delivered as described in the Master Indenture and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner’s name, will become the Bondholder.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

SECURITY FOR THE SERIES 2007 BONDS

The Series 2007 Bonds are special obligations of the Issuer payable from and secured by the Revenues and moneys, securities and funds pledged therefor in the Series 2007 Supplemental

Indentures and the Master Indenture. There are pledged for the payment of principal and redemption price of and interest on the Series 2007 Bonds, subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, (1) the proceeds of the sale of the Series 2007 Bonds, (2) the Revenues, and (3) all Funds established or confirmed by the Master Indenture (except for the Rebate Fund), including the investments, if any, thereof, subject to any required rebate of all or a portion of the earnings on such investments to the United States of America pursuant to the requirements of section 148(f) of the Code.

THE SERIES 2007 BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER, BUT ARE SPECIAL OBLIGATIONS PAYABLE SOLELY FROM THE REVENUES RECEIVED BY THE ISSUER FROM THE AIRPORT AND FROM FUNDS AND MONEYS PLEDGED TO THE PAYMENT OF THE SERIES 2007 BONDS UNDER THE MASTER INDENTURE. NO OWNER OF THE SERIES 2007 BONDS SHALL EVER HAVE THE RIGHT TO COMPEL ANY EXERCISE OF TAXING POWER BY THE ISSUER TO PAY THE SERIES 2007 BONDS.

Revenues

As defined by the Indenture, the term “Revenues” means all revenues, fees, income, rents, and receipts derived by the Commission from the Airport or any lease or other contractual arrangement with respect to the use of the Airport, including without limitation any use arrangements or lease agreements, or from the sale of any property of the Airport permitted under the Master Indenture, including the proceeds of any insurance covering business interruption loss. Revenues also include all interest, profits, or other income derived from the investment of any moneys held pursuant to the Master Indenture and required to be paid into the Revenue Fund and the proceeds of any interest subsidy with respect to the Bonds paid for or for the account of the Issuer by any governmental body or agency. Revenues shall not include: (1) Grant Aid; (2) proceeds received from insurance resulting from casualty damage to assets of the Airport; (3) rentals or other charges (other than ground rental) derived by the Issuer or the Commission under and pursuant to a lease or leases relating to Special Purpose Facilities; (4) the proceeds of sale of Bonds or other obligations issued for Airport purposes; or (5) Passenger Facility Charge (“PFC”) and PFC interest earnings.

Additional Bonds

The Bonds are issued on a parity of security with the Issuer’s \$24,730,000 original principal amount of Airport Revenue Bonds Series 1999A (the “Series 1999 Bonds”) which will have an outstanding principal balance of \$17,970,000 following the refunding of the Bonds Refunded (the 2016 maturity) and the Issuer’s \$7,060,000 original principal amount of Airport Revenue Refunding Bonds, Series 2003 (the “Series 2003 Bonds”) which has an outstanding principal balance of \$5,370,000. Under certain circumstances, one or more series of additional bonds may be issued on a parity of security with the Series 1999 Bonds, the Series 2003 Bonds and the Series 2007 Bonds. The Series 2007 Bonds, the Series 2003 Bonds, the Series 1999 Bonds not refunded and any additional parity bonds issued under the Master Indenture are referred to collectively as the “Parity Bonds.”

Parity Bonds designated as “Airport Revenue Bonds” are authorized to be issued by the Issuer under the Master Indenture for the purpose of financing improvements or for the purpose of

refunding all or a part of the Outstanding Bonds of one or more series or all or part of any other borrowing of the Issuer payable in whole or in part from Revenues. Parity Bonds may be issued in such series as from time to time shall be established and authorized by the Issuer pursuant to one or more supplemental indentures. See “**APPENDIX A, SUMMARY OF THE MASTER INDENTURE-General Provisions for the Issuance of Bonds; Special Provisions for the Issuance of Refunding Bonds**” and “**Special Provisions for the Issuance of Construction Bonds**” herein.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation (“Ambac Assurance”) for use in this Official Statement. Reference is made to Appendix E for a specimen of the policy.

Payment Pursuant to Financial Guaranty Insurance Policy. Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Series 2007 Bonds effective as of the date of issuance of the Series 2007 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Series 2007 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2007 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2007 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2007 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2007 Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2007 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2007 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of

a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Series 2007 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2007 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2007 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2007 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Corporation. Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. S&P, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the

Official Statement other than the information supplied by Ambac Assurance and presented under this heading.

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. at 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed March 13, 2006;
- (2) The Company’s Current Report on Form 8-K dated and filed on April 26, 2006;
- (3) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
- (4) The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
- (5) The Company's Current Report on Form 8-K dated and filed on July 26, 2006;
- (6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
- (7) The Company’s Current Report on Form 8-K dated and filed on October 25, 2006; and
- (8) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in Available Information.

SOURCES AND USES OF FUNDS

	<u>SERIES 2007A</u>	<u>SERIES 2007B</u>	<u>TOTAL</u>
SOURCES OF FUNDS			
Par Amount of the Series 2007 Bonds	\$3,600,000	\$9,115,000	\$12,715,000
Reoffering Premium	--	493,408	493,408
Original Issue Discount	(48,344)	--	(48,344)
Funds from Series 1999 Indenture	<u>2,445,381</u>	<u>—</u>	<u>2,445,381</u>
TOTAL SOURCES OF FUNDS	\$5,997,037	\$9,608,408	\$15,605,445
USES OF FUNDS			
Project Costs	\$1,814,491	\$8,648,600	\$10,463,091
Refunding Costs	3,741,927	--	3,741,927
Debt Service Reserve	355,166	750,875	1,106,041
Costs of Issuance ⁽¹⁾	59,778	147,968	207,746
Underwriters' Discount	25,156	57,481	82,637
Contingency	<u>519</u>	<u>3,484</u>	<u>4,003</u>
TOTAL USES OF FUNDS	\$5,997,037	\$9,608,408	\$15,605,445

⁽¹⁾ Including bond insurance premium, rating agencies' fees, legal fees and miscellaneous closing costs.

THE PROJECT AND THE REFUNDING

The Series 2007 Bonds are being issued to provide funds to pay all or a portion of the costs of the Project. The Project includes the acquisition of real property and performance of site preparation work for a new fixed base operator at the Airport. The Project includes the acquisition of approximately twelve (12) acres of land. It will include the construction of extensions of the existing aircraft taxiway to the new facilities, and a concrete public aircraft parking apron as well as approximately 84,700 square feet of auto parking. The site preparation work on existing and

newly acquired Airport land and the installation of the utility infrastructure required to provide services to the site are included in the Project.

The Series 2007 Bonds are also being issued to provide a portion of the costs of refunding the Bonds Refunded (e.g., the Series 1999 Bonds maturing in 2016).

The refunding will be accomplished by a redemption of the Bonds Refunded within 60 days of the issue date of the 2007 Bonds. A portion of the proceeds of the Series 2007A Bonds, and other available funds, will be held by the Trustee in uninvested cash, to fully redeem the Bonds Refunded on January 10, 2007.

THE ISSUER

General

The Issuer is organized under the laws of the State of Arkansas as a city of the first class. It is the State Capitol and was chartered in 1835.

The Issuer is the largest city in Arkansas as well as the governmental, economic, cultural, and financial center of the State of Arkansas. It is nearly equidistant from the four corners of the state and is the county seat of Pulaski County. Major cities near the Issuer include St. Louis, 360 miles northeast; Kansas City, 400 miles northwest; Atlanta, 520 miles east; New Orleans, 440 miles south; Oklahoma City, 350 miles northwest; Dallas, 310 miles southwest; and Memphis, 135 miles northeast.

Government

The Issuer operates under the City Manager/City Board form of municipal government. It has an eleven-member Board of Directors, with seven Directors elected by wards and three Directors elected citywide. The Mayor is a voting member of the Board and does not have veto power. The Mayor's position is a citywide elected position and must be elected by at least 40% of the votes cast. If no candidate receives 40% or more of the votes cast, the two mayoral candidates receiving the most votes will face each other in run-off election. All Directors and the Mayor serve four-year terms.

The current Mayor and members of the Board of Directors are as follows:

Name, Office	Term Expires (December 31)	Occupation
Jim Dailey, Mayor	2006	Mayor, City of Little Rock
Johnnie Pugh Ward 1 Director	2006	Licensed Practical Nurse, Retired
Willie Hinton, Ward 2 Director	2006	Certified Vocational Teacher, Arkansas School for the Deaf
Stacy Hurst, Ward 3 Director	2006	Vice President, Tipton & Hurst
Brad Cazort, Vice Mayor and Ward 4 Director	2008	Attorney at Law
Michael Keck, Ward 5 Director	2006	Administrative Director of Medical Staff Development, St. Vincent Infirmiry Medical Center
Genevieve Stewart, Ward 6 Director	2006	Teacher, Butterfly Learning Center
B.J. Wyrick, Ward 7 Director	2006	Account Representative, State of Arkansas
Joan Adcock, At Large Director	2008	Director, The Hope Center, Inc.
D. Eugene Fortson, At Large Director	2008	Real Estate Development and Management
Dr. Dean Kumpuris, At Large Director	2008	Physician, Kumpuris, Davis & Malik

On January 1, 2007, Mark Stodola will replace Jim Dailey as Mayor, Erma Hendrix will replace Johnnie Pugh as the Ward 1 Director, Ken Richardson will replace Willie Hinton as the Ward 2 Director, and Doris Wright will replace Genevieve Stewart as the Ward 6 Director.

The principal executive officers of the Issuer are:

Office	Name	Employment History	Education
City Manager	Bruce Moore	Little Rock City Manager 2002 to present; Little Rock Assistant City Manager 1999 to 2002; Assistant to the City Manager, 1998-1999; Assistant to the Mayor 1995-1998	MPA, 1994, Arkansas State University; BS, 1989, Henderson State University
Assistant City Manager	Bryan Day	Little Rock Assistant City Manager 2005 to present; Director of Little Rock Parks and Recreation 1999 to 2005; Arkansas State Park System, 1988 to 1994	MPA, 1994 University of Arkansas at Little Rock, BA, 1984, University of Arkansas at Little Rock
Director of Finance	Robert K. “Bob” Biles, CPA	Little Rock Director of Finance, 2001 to present; City of Bryan, Director of Support Services, 1995 to 2001; City of Salina, KS Director of Finance, 1987 to 1995	BSBA, 1977, Pittsburg State University
City Attorney	Thomas M. Carpenter	Little Rock City Attorney	JD, 1977, University of Arkansas School of Law, Fayetteville; BA, 1974, Hendrix College

The Board of Directors appoints the City Manager and the City Attorney, and the City Manager employs the Director of Finance.

The Issuer provides a broad range of municipal services under the auspices of the City Manager, including: Police, Fire, Parks and Recreation, Finance, City Clerk, Personnel, Neighborhoods and Planning, Public Works, Fleet and Information Technology. Boards and Commissions have primary responsibility for the operation of the Issuer’s Airport, Wastewater Utility, and Emergency Medical Service.

Demographic Information

Following are selected statistics, indices, and financial information for the Issuer:

Population. The following chart sets out population data for Little Rock and Pulaski County (Source: U.S. Bureau of Census and Arkansas Institute for Economic Advancement):

Year	Little Rock	Pulaski County
2005	184,564*	366,463*
2000	183,133	361,474
1990	175,727	349,660
1980	159,151	340,597
1970	132,483	287,189

* Estimates as of July 1, 2005.

Land Area. In the late 1970's, the Issuer adopted land use policies designed to encourage its orderly growth and development and required that developing areas annex to the Issuer in order to receive its wastewater treatment service. These policies require that, in order to receive the Issuer's sewer services, the individual property owners annex to the Issuer or agree to annex whenever the Issuer desires to annex the property. These policies contributed to the growth of the Issuer as shown below, according to the Little Rock Department of Neighborhoods and Planning:

YEAR	LAND AREA (SQUARE MILES)
2005	119.55
2004	119.48
2003	118.89
2002	118.88
2001	118.88
2000	118.00
1999	117.48
1998	115.56
1997	115.17
1996	113.89
1995	112.80

Land Use. The Issuer’s Planning and Development Department reports the following use of buildings and structures in the City of Little Rock for 2005:

Number	Percentage	Type of Use
58,987	64.19	Single Family
19,267	20.97	Accessory Building
4,103	4.47	Multi-Family
2,681	2.92	Commercial
2,337	2.54	Mobile Homes
1,645	1.79	Public
1,300	1.41	Manufacturing/Industrial
1,029	1.12	Office
541	0.59	Others

Property Tax Levies and Collections. The following table shows the property assessments that are made, tax rates (millages) are established, and taxes are levied in one year for payment by the taxpayer and collection by local governments the following years. Data is not available to show the current level by year of outstanding delinquent taxes. (Source: Finance Department of the City of Little Rock, Arkansas.)

YEAR	TOTAL TAX LEVY	COLLECTION OF CURRENT YEAR'S TAXES DURING CURRENT PERIOD	PERCENTAGE OF LEVY COLLECTED	PRIOR YEAR'S COLLECTIONS	TOTAL COLLECTIONS	PERCENTAGE OF TOTAL COLLECTIONS TO TAX LEVY
1995	\$22,720,938	\$21,175,275	93.20%	\$1,321,567	\$22,496,842	99.01%
1996	24,475,526	22,461,215	91.77%	1,125,487	23,586,702	96.37%
1997	26,963,108	24,787,129	91.93%	1,534,932	26,322,061	97.62%
1998	27,797,124	25,538,110	91.87%	1,391,375	26,929,485	96.88%
1999	28,643,946	26,264,228	91.69%	1,585,989	27,850,217	97.23%
2000	27,569,362	24,545,114	89.03%	1,825,803	26,370,917	95.65%
2001	29,018,683	26,562,458	91.53%	2,173,776	28,736,234	99.03%
2002	30,002,023	27,439,091	91.45%	1,315,458	28,754,549	95.84%
2003	30,429,999	27,897,089	91.68%	1,093,861	28,990,950	95.27%
2004	32,178,180	28,396,113	88.25%	2,479,883	30,875,996	95.95%
2005	33,908,999	29,478,375	86.93%	2,901,113	32,379,488	95.49%

Public Schools. Enrollment in the Little Rock School District is reported as follows (source: Little Rock School District):

Year (October 1)	Enrollment
2005	25,491
2004	25,868
2003	25,491
2002	25,522
2001	25,442

Higher Education. Fall enrollment in institutions of higher education in Little Rock is reported by the Arkansas Department of Higher Education as follows:

Institution	2005	2004	2003	2002	2001
University of Arkansas at Little Rock	11,896	11,806	11,757	11,491	11,318
University of Arkansas for Medical Sciences	2,328	2,226	2,170	2,017	1,936
Arkansas Baptist College	278	245	375	352	235
Philander Smith College	781	935	887	886	859
Pulaski Technical College (2 year)	7,689	7,222	6,128	5,348	4,965

Building Permits. Commercial and residential construction in the City of Little Rock is shown below (source: City of Little Rock):

Year	Number of Permits Issued	Total Construction Value
2005	5,330	\$620,819,782
2004	4,032	475,269,768
2003	4,432	458,553,311
2002	4,561	490,056,756
2001	4,384	300,318,597

Retail Sales. Total retail sales in the City of Little Rock for the years 2001 to 2005 are as follows (source: Sales & Marketing Management):

Year	Amount (in Thousands)
2005	\$3,293,884
2004	3,189,239
2003	3,081,851
2002	3,124,881
2001	3,202,235

Per Capita Personal Income. The following table sets forth total per capita personal income in the Little Rock/North Little Rock MSA for the years 2000 to 2004 (source: United States Bureau of Economic Analysis):

Year	Amount (in Dollars)
2004	\$31,283
2003	29,690
2002	29,157
2001	28,845
2000	27,663

Bank Deposits. The following chart shows commercial bank and savings institution deposits in Pulaski County as of June 30 for the years 2000 to 2004 (Source: FDIC):

Year	Amount (in Thousands)
2004	\$6,496,000
2003	6,322,000
2002	5,527,000
2001	5,201,000
2000	5,032,000

Unemployment Statistics. Unemployment rates in the Little Rock MSA are shown below for the years 2001- 2006 (source: Bureau of Labor Statistics):

Year	Rate
2006*	5.0%
2005	4.8%
2004	5.4%
2003	5.5%
2002	5.1%
2001	4.0%

* Through May 2006.

Principal Employers. The principal employers in the Little Rock area are identified below (source: Greater Little Rock Chamber of Commerce):

Category	Employer	Number of Employees
Government	State of Arkansas	28,100
	Federal Government	9,400
	Little Rock Air Force Base	4,500
Schools and Hospitals	University of Arkansas for Medical Sciences	8,500
	Public School Districts	7,868
	Baptist Health System	7,571
	St. Vincent Infirmary Medical Center	3,500
	Veterans Administration Hospitals	2,785
	Arkansas Children's Hospital	2,503
	University of Arkansas at Little Rock	2,150
Other	Axiom	4,388
	Entergy Arkansas	2,785
	ALLTEL	2,734
	Dillard Department Stores	2,400
	Arkansas Blue Cross Blue Shield	2,163
	Dassault Falcon Jet	1,600
	AT&T (f/k/a Southwestern Bell Telephone)	1,600
	<i>Arkansas Democrat Gazette</i>	1,235
	Union Pacific	1,227

THE AIRPORT AND THE COMMISSION

General

The origin of the Airport dates to 1917. A 40-acre tract bought by the War Department first served as a landing strip for two Army pilots flying Jenny airplanes. Seven years later the federal government bought about 70 acres of adjoining land to be used as a landing area for the newly organized 154th Arkansas National Guard Observation Squadron. In 1927, the Little Rock Commandaire airplane factory began producing as many as 30 aircraft a month. Little Rock residents became interested in acquiring an airport and two years later a bond issue was approved for that purpose. The following year, the Issuer purchased about 116 acres of land at the present airport site, and in 1931 another 115 acres were added.

Before World War II, another 470 acres of land were added to the tract. The Works Projects Administration erected an administration building, built a taxiway and ramps, and began a development program. Following the death on September 4, 1937, of the operations officer of the 154th Observation Squadron, Captain George Adams, who was killed by the whirling blades of a propeller that had broken loose from an airplane, members of Captain Adams' squadron petitioned for the renaming of the Airport in honor of the Captain. Later that month the City Council declared the Airport to be Adams Field.

In 1942, the Airport was taken over by the War Department for the duration of World War II. Control was returned to the Issuer following the war.

Scheduled airline operations began June 15, 1931, when an American Airways (now American Airlines) flight departed with airmail cargo. By 1947, scheduled flights had reached 16 per day. Commercial jet operation into the Airport began July 6, 1965. The Airport is classified as a “small hub” commercial airport by the FAA, defined as an airport which enplanes at least 0.05% but less than 0.25% of U.S. enplanements. In 2005, the last year for which FAA statistics are available, U.S. enplanements were approximately 670,360,000. The Airport’s 2005 enplanements of approximately 1.27 million represent approximately .19% market share of total U.S. enplanements.

Facilities

The present Airport terminal opened in 1972. Currently the terminal has 12 gates and has the capability of being expanded to include additional gates, ticket counters, and other airline facilities. The architectural area of the building is approximately 219,000 square feet. Ticket counters, airline ticketing offices, and baggage makeup and claim areas are on the ground level of the terminal building. The rental car counters have been moved to an adjacent building as part of the 1999-2001 Capital Improvement Program (“CIP”). See the caption “**The Airport and the Commission-Master Plan and Capital Improvements**” herein. Restaurant and concession spaces and the Airport administrative offices are on the second floor. The 765-foot long concourse has passenger security screening, passenger holding rooms with loading bridges, and additional concession spaces on the second level and airline operations space on the ground level.

There are three runways at the Airport: 18-36, which is 5,124 feet long, and two parallel runways, 4L-22R, which is 8,273 feet long, and 4R-22L, which is 7,200 feet long. Runway 18-36 is primarily a general aviation runway and is served by a full-length apron edge taxiway. Runways 4L-22R and 4R-22L primarily serve air carrier and corporate jet aircraft. There is an informal preferential runway use program that has aircraft landing on the left runway and taking off on the right runway. A CAT I instrument landing system is installed for operations on Runways 4L and 4R-22L and a CAT III instrument landing system was installed for operations on Runway 22R. These two carrier runways are each served by parallel taxiways that are 75 feet wide and extend for the full length of the runways. Thirteen other taxiways, each 75 feet wide, connect the terminal and cargo aprons to the runways.

The terminal building air carrier apron can accommodate 12 aircraft at gate positions with jetways. There is an air cargo apron of approximately 35,000 square yards near the air cargo buildings that can simultaneously accommodate up to five cargo aircraft. The FAA has a 130-foot freestanding, self-contained control tower on a site southwest of the terminal building on property leased from the Airport.

Motorists approach the terminal area from the south on Airport Drive. Motorists can drive directly to parking or proceed to the curbside. Additional parking can be found in the short-term lot west of baggage claim. The existing public parking system has approximately 3,626 spaces located in four surface parking lots and one parking deck adjacent to the terminal building. Of the total, the

east hourly lot contains 285 spaces with 8 physically challenged spaces, the west hourly lot contains 337 spaces with 22 physically challenged spaces, the west long-term lot has 548 spaces, the south long-term lot has 1,572 spaces and the parking deck has 884 spaces with 16 physically challenged spaces. The parking deck, which opened for service in late 2001, features access to the terminal via an enclosed skybridge. Free shuttle bus service is available from the long-term parking lots to the terminal and shuttle shelters are also located in these lots where customers can wait for the shuttle bus protected from the elements. The primary short-term parking area is conveniently located east of baggage claim and south of ticketing.

In addition to the passenger terminal, there are approximately 50 aviation and non-aviation related buildings located on the Airport’s premises. The aviation-related buildings include cargo; Airport Services, Inc.; aircraft modification complexes for Dassault Falcon Jet and Raytheon Aircraft Company; general aviation maintenance and modification facilities for Central Flying Service, Supermarine of Little Rock, LLC, and Skytravel Avionics; the Aerospace Education Center containing an IMAX theater, public library, post office and a Pulaski Technical College campus; and rental car service facilities. The 53 companies that operate on Airport property (including the Airport, the Commission and the Airlines) employ approximately 3,500 persons.

The Commission

The Commission was created by a referendum in 1951. It consists of seven residents of the City who are appointed by the Issuer’s Board of Directors. Members serve staggered terms of five years and may be reappointed to the Commission for one additional term. Two ex-officio members from the Issuer’s Board of Directors are selected to attend Commission meetings as non-voting members. The members of the Commission are:

Name	Principal Occupation	Terms Expires (December 31)
Larry E. Lichty, Chair	Real Estate Development and Management	2007
Kay Kelley Arnold	Utility Executive	2008
Robert East	Construction	2010
Carl L. Johnson, M.D.	Physician	2009
Virgil Miller	Banking	2011
Jimmy Moses	Real Estate Development and Management	2010
Thomas Schueck	Steel Manufacturing & Construction	2010
D. Eugene Fortson (Ex-Officio)	Real Estate Development and Management	2006
Johnnie Pugh (Ex-Officio)	Licensed Practical Nurse, Retired	2006

The management staff of the Airport includes:

Executive Director. Deborah H. Schwartz, A.A.E., an accredited member of the American Association of Airport Executives, commenced duties at Little Rock National Airport in December 1994. Prior to that time, she served more than two years as Airport Director of Worcester (MA) Regional Airport, and seven years as Assistant Airport Manager at Hobby Airport in Houston, Texas.

An accredited member of the American Association of Airport Executives, Ms. Schwartz earned a Master of Arts degree in Public Management from the University of Houston-Clear Lake, where she was elected to Pi Alpha Alpha and Phi Kappa Phi, national honor societies recognizing superior scholarship and outstanding public service. She also holds a Bachelor of Arts degree, with honors, from Wheaton College in Norton, Massachusetts.

Deputy Executive Director. Ronald F. Mathieu is the Deputy Executive Director, Little Rock National Airport. Prior to joining LRNA Mr. Mathieu was Director of Operations for the Ft. Lauderdale Hollywood International Airport and has over 11 years experience in Airport Management. Mr. Mathieu received his AS in Air Commerce Transportation Management and his BS in Aviation Management from the Florida Institute of Technology. In addition, he has been a licensed private pilot for over 23 years.

Controller. Carol Snay, a Certified Public Accountant, has been with the Airport for 16 years. Before joining the Airport staff, Ms. Snay was a vice president for a savings and loan association. She also worked for a public accounting firm after receiving her degree from the University of Arkansas.

Director-Properties, Planning and Development. Judy M. Ross joined the Airport on May 16, 2006 and is responsible for all property management, planning, and implementation of capital projects. Ms. Ross holds a Masters Degree in Aviation Management from Embry Riddle Aeronautical University and a Bachelors Degree in Business Administration from the University of North Dakota. Before coming to Little Rock National Airport, Ms. Ross served ten years at San Diego International Airport during the last five years of which she was the Manager for Program Controls and was responsible for a \$274 million dollar capital budget. Also, she has worked at Riverside County Economic Development Agency, Riverside County, State of New Jersey, Division of Aeronautics, and Atlantic City Airports.

Director-Public Affairs and Marketing. Philip Launius joined the Airport staff in December 1995, and is responsible for the Airport's internal and external communications programs, public relations and governmental affairs, and the Air Service Development Program. Mr Launius previously served as communications director with the Arkansas State Chamber of Commerce/Associated Industries of Arkansas.

Director-Operations. Tim Doll, A.A.E., an accredited member of the American Association of Airport Executives, graduated with Honors from Arizona State University, and has been with the Airport for five years. Before coming to Little Rock, Mr. Doll was in the administration department at Richmond (VA) International Airport for seven years. He also worked at Phoenix Sky Harbor Airport for two years. In addition, he has been a licensed pilot for over 27 years.

Director-Facilities. Pat Sellars, CM, a certified member of the American Association of Airport Executives, has twenty years of aviation facilities management experience including airfield, building and fleet maintenance activities. Prior to coming to Little Rock five years ago, Mr. Sellars worked for Colorado Springs Airport and also for Jacksonville (Fla.) International Airport.

Manager-Human Resources. Allen Williams, S.P.H.R., is the Manager-Human Resources for the Little Rock National Airport. Mr. Williams joined the Airport in 2005. He received his B.S. degree in Business Administration from Arkansas State University and his professional accreditation as a senior professional in human resources, SPHR, from the Society of Human Resource Management. Mr. Williams also holds an Arkansas Insurance License for life and health insurance. Prior to his current position, Mr. Williams owned and operated a consulting business specializing in human resources, benefits and insurance. Mr. Williams has over 20 years experience working in the human resource management field, serving the insurance and retailing industries. He is a past president and board chair of the Central Arkansas Human Resources Association as well as other civic organizations.

The Airport has 147 employees, none of whom belong to collective bargaining groups. Employee relations are considered good.

Airlines Servicing the Airport

As of July 2006, the Airport was served by the following passenger airlines and air-cargo carriers:

Passenger Airlines

American Eagle
Express Jet
Delta/Delta Connection
Frontier Airlines
Mesa Airgroup d/b/a USAirways (Air Midwest)
Northwest/Northwest Airlink
Southwest Airlines

Air-Cargo Carriers

ABX Air, Inc.
DHL
Federal Express
United Parcel Service
United States Postal Service

Airport Operations

In 2005, actual enplanements were approximately 124,000 more than the total amount for 2004. Table 1 below shows historical total U.S. and Airport enplanements.

The Airport's Audited Financial Statements for the year ended December 31, 2005, attached hereto as Appendix C, indicate that the Airport had an increase in net assets of \$11.1 million or approximately 5.8% from 2004, and a decrease in operating income before depreciation expense of \$7,000 or .12% less than 2004. For 2005, operating expenses before depreciation increased by \$1.3 million or 11%. Total passenger traffic for 2005 increased by 11.1% from the prior year. See Table 1 below. Parking and concession revenues increased by 11.6%, primarily due to passenger volume. Restaurant and lounge revenue increased 9.6% with the additional passenger activity. Terminal and other rentals increased 4.1%. Total operating revenues increased by 7.4% over the prior year.

Table 1
Little Rock National Airport
Total Airport Enplanements vs. Total U.S. Enplanements
Enplanements (000)

Year	LRNA ¹	U.S. Domestic ²	LRNA as % of U.S. Domestic
2005	1,272	670,360	.19
2004	1,148	640,698	.18
2003	1,043	592,412	.18
2002	1,096	560,107	.20
2001	1,191	570,126	.21
2000	1,285	610,200	.21
1999	1,288	582,880	.22
1998	1,273	559,653	.23
1997	1,260	542,001	.23
1996	1,271	530,708	.24
1995	1,262	499,000	.25
1994	1,238	481,755	.26
1993	1,114	443,172	.25
1992	1,043	431,693	.24
1991	975	412,360	.24
1990	978	423,565	.23
1989	962	416,331	.23
1998	891	419,210	.21
Average Annual Growth Rates			
1995-2005	.022789564%	.028248488%	

¹ From Airport Management records; does not include nonsignatory enplanements for the years 1988 through 1993.

² Air Transportation Association Annual Operations, Traffic and Capacity.

The Airport is served by American Eagle, Express Jet, Delta, Delta Connection, Frontier, Northwest, Northwest Airlink, Southwest and US Airways Express. In 2005, Southwest Airlines, American Eagle and Delta Air Lines together handled more than 62.2% of the enplanements at the Airport. None of the airlines serving the Airport operates a hub operation at the Airport. The nearest hub operation is that of Northwest Airlines at the Memphis International Airport, Memphis, Tennessee, approximately 140 miles east of the Airport.

Service Area of the Airport

The Airport's Air Service Area (the "ASA") consists of a primary and a secondary ASA. The primary area served by an airport is generally defined as the immediate vicinity of the Airport and comprises the four counties of the Little Rock Metropolitan Statistical Area ("MSA"), as well as four other major counties. The secondary area served by an airport consists of the remaining communities in the ASA and generally surrounds the primary area.

The Airport's ASA covers a 75 mile radius, with a population of 1.2 million in 35 counties. The Airport draws from a total of 62 counties statewide with a total population of almost 2 million. In addition, the Airport also draws passengers from areas in the neighboring states of Louisiana, Mississippi, Missouri and the Memphis, Tennessee metropolitan area. The Airport captures 99 percent of its market area passengers.

The Airport is located within the City of Little Rock and Pulaski County, and is approximately four miles southeast of the City's central business district. The Airport is accessible from all areas of its ASA through several Interstate Highways (numbered 30, 40, 440, 540 and 630), U.S. Highways (numbered 65, 67, 70, and 167), and State roads (numbered 365 and 367) in the regional highway system.

TABLE 2
Little Rock National Airport
Airline Market Share and Enplanements
Historical 2001 - 2005

AIRLINES	<u>Enplanements</u>				<u>Market Share</u>			
	2002	2003	2004	2005	2002	2003	2004	2005
SIGNATORY								
<u>Major Air Carrier</u>								
American Airlines	208,174	119,254	0	0	18.99%	11.43%	0.00%	0.00%
Delta Air Lines	203,156	133,387	131,813	117,901	18.54%	12.78%	11.48%	9.27%
Northwest Airlines	90,003	79,025	87,916	86,287	8.21%	7.57%	7.66%	6.78%
Southwest Airlines	348,976	349,823	388,394	396,015	31.84%	33.53%	33.84%	31.12%
Total Air Carriers	850,309	681,489	608,123	600,203	77.58%	65.32%	52.98%	47.17%
<u>Regional</u>								
Air Midwest/USAirways Express	14,499	12,445	5,996	4,138	1.32%	1.19%	0.52%	0.33%
Continental Express	51,513	63,363	75,921	101,037	4.7%	6.07%	6.61%	7.94%
Florida Gulf/Mesa	33,699	33,104	37,080	42,530	3.07%	3.17%	3.23%	3.34%
Simmons/American Eagle	67,701	135,263	229,072	277,463	6.18%	12.96%	19.96%	21.81%
Pacific Southwest	0	0	2,694	4,443	0.00%	0.00%	0.23%	0.35%
ComAir	27,342	30,183	35,604	37,762	2.49%	2.89%	3.10%	2.97%
Express One/Pinnacle	19,133	23,046	43,676	61,524	1.75%	2.21%	3.81%	4.84%
Frontier	0	0	8,147	35,982	0.00%	0.00%	0.71%	2.83%
Miami Air International	494	509	471	329	0.05%	0.05%	0.04%	0.03%
Casino Express	328	372	238	405	0.03%	0.04%	0.02%	0.03%
Chautauqua	0	0	36,376	14,359	0.00%	0.00%	3.17%	1.13%
Mesaba	0	0	786	172	0.00%	0.00%	0.07%	0.01%
Atlantic Southeast	17,348	53,580	63,546	90,753	1.58%	5.14%	5.54%	7.13%
Trans State	13,472	9,886	0	0	1.23%	0.95%	0.00%	0.00%
Freedom	0	0	0	1,287	0.00%	0.00%	0.00%	0.10%
Other	135	135	0	0	0.01%	0.01%	0.00%	0.00%
Total Regional	245,664	361,886	539,609	672,184	22.42%	34.68%	47.02%	52.83%
Total Signatory *	1,095,016	1,042,359	1,093,575	1,183,602	99.91%	99.90%	95.28%	93.02%
Non-Signatory	957	1,016	54,157	88,785	0.09%	0.10%	4.72%	6.98%
Total Enplanements	1,095,973	1,043,375	1,147,732	1,272,387	100.00%	100.00%	100.00%	100.00%

* Source: Airport Management Records.

Population of Air Service Area. The population of an area is the primary source of all consumer demand in that area, including air travel demand. The population base of the Airport's ASA has shown moderate increases over the past decades, experiencing a growth rate that closely resembled the rates experienced at the state level. During the period from 1980 to 1990, Arkansas's population grew at an annual rate of 0.3%, while that of the ASA grew at an annual rate of 0.4%. Little Rock and the surrounding area have demonstrated steady population growth from 1990 to 2000. According to U.S. Census data compiled by the Institute for Economic Advancement (IEA) at the University of Arkansas, Little Rock (UALR), the population of Pulaski County was 350,060 in 1990 and has grown to approximately 364,567 by 2003, an increase of over 4%. The IEA projects that the population of Pulaski County will increase to 384,809 by the year 2023, which is an increase of 5.6% from 2003 and translates to an annual growth rate of 0.3%. By comparison, the State of Arkansas is projected to increase from 2,356,586 (1990 population) to 3,081,403 in 2023. This

represents an increase of 12.9% and an annual growth rate of 0.6%. The U.S. Census Bureau estimates that the national population will increase from 249,439,545 in 2003 to some 335,805,000 by the year 2020. This is an approximate increase of 15.5% and an annual growth rate of 0.8%.

Operations and Landed Weight

General aviation comprises the largest share of non-air carrier operations, decreasing from 118,354 in 2001 to 85,355 in 2005. Commuter operations have increased from 25,586 in 2001 to 33,820 in 2005.

Cargo weight and landed weight at the Airport decreased from 15,555,778 cargo pounds and 1,762,105,000 landed weight pounds in 2001 to 9,374,530 cargo pounds and 1,666,881,000 landed weight pounds in 2005. Table 3 below reflects actual Airport results with respect to operations, enplaned cargo pounds and the total landed weight in pounds.

TABLE 3
LITTLE ROCK NATIONAL AIRPORT
Operations, Cargo Pounds, and Landed Weight
Historical 2001-2005

	2001	2002	2003	2004	2005
OPERATIONS					
Air Carrier	26,426	23,284	18,822	15,286	14,272
Commuter	25,586	23,634	23,586	27,800	33,820
Military	29,910	30,964	32,991	47,306	32,478
General Aviation	118,354	119,953	120,346	83,029	85,355
Other	5,798	4,012	5,718	10,258	2,066
Total Operations	206,074	201,847	201,463	183,679	167,991
ENPLANED CARGO POUNDS					
Freight	9,353,125	8,511,200	8,766,955	10,163,789	9,106,591
Mail	6,202,603	2,303,435	1,548,141	678,204	267,939
Total Cargo Pounds	15,555,778	10,814,635	10,315,096	10,841,993	9,374,530
TOTAL LANDED WEIGHT					
TOTAL POUNDS	1,762,105,000	1,799,992,000	1,601,440,000	1,520,498,000	1,666,881,000

Master Plan and Capital Improvements

Airport Master Plan

A new Master Plan Study is being conducted under the direction of the Little Rock Municipal Airport Commission with financial assistance from the Federal Aviation Administration (FAA). Like any long-term development plan, the long term development plan for the airport reserves room for potential industrial developments and associated facilities. Those potential future facilities for which a site has been reserved are only constructed when the actual demand occurs. Thus, the Airport Master Plan Update is not a decision document on whether or not an improvement will be built; it is a planning tool that indicates how the land at the Airport might best be used in consideration of anticipated future demand. The Airport Commission reviewed and approved the recommended development plan during its August 2006 regular meeting. The Master Plan is proceeding to the environmental stage of the study.

The Commission has developed a long term capital program and special projects which was reviewed during their March 2006 meeting. The highlights of the near term projects from the long term development plan are identified below.

Land Acquisition:

The Commission has embarked on an aggressive land acquisition program. The projects are as follows:

- Acquisition of 195 parcels to enable the construction of the Runway 18/36 extension is nearing completion.
- Acquisition of 211 parcels in the FAR Part 150 noise sensitive area.
- Acquisition of 232 parcels in Area 1 (north side of airport)
- Acquisition of four commercial properties to enable the development of the Supermarine Fixed Base Operator site.

Capital Projects:

The near term capital projects are closely reviewed with the proposed Master Plan and compliment the proposed Master Plan recommendations. Projects include safety, security, capacity, and customer service related enhancements. The following identifies the near term projects:

- Completion of the construction of the 1,050 foot extension of Runway 4R/22L
- Construction of the 1,100 foot extension for Runway 18/36
- Acquisition of three new Aircraft Rescue and Fire Fighting (ARFF) vehicles
- Construction of the cargo apron expansion and ramp reconstruction
- Improvements to the airfield drainage system
- Rehabilitation of the ticket lobby and curbside check in
- Modification to the baggage area including the installation of an electronic detection system
- Installation of an airport perimeter detection system

- Addition to taxiway and public aircraft parking areas
- Relocation of the airport communication center

The Commission's Financial Relationship with the Issuer

The Commission's financial statements are accounted for by the Issuer as a component unit of the Issuer. The Master Indenture provides that the Issuer will not charge the Commission any amounts for services or facilities provided by the Issuer in excess of the costs incurred in providing such services or facilities. The Issuer currently charges the Commission for water, wastewater, worker's compensation insurance, fire protection, police protection and miscellaneous services. In 2005, the charge for all such services and fees totaled \$2,643,402.

Although the Airport's aircraft rescue and firefighting personnel and police personnel are part of the Issuer's Fire and Police Departments, they are under the day-to-day operations guidance of the Commission.

Financial Statements

The Airport's audited financial statements for the years ended 2005 and 2004 are attached hereto as Appendix C.

Airport Insurance Coverage

The Commission, as a public entity, is covered by the State's immunity from tort liability and therefore does not maintain comprehensive liability insurance covering loss or damage to the passenger terminal and other Airport facilities and personal property owned and operated by the Commission for Airport purposes. Property damage insurance for the actual cash value of the covered property is provided for an aggregate coverage of \$173,000 less a \$10,000 deductible per occurrence for all categories of coverage except losses to contractors' equipment, earth movement and flood, which have deductibles of \$100,000 per occurrence, respectively.

Airline Revenues and Airport Use Agreements

Each of American Airlines, Inc., Continental Express, Inc., Delta Air Lines, Inc., Northwest Airlines, and Southwest Airlines (the "Airlines"), entered into an Amended and Restated Airport Use and Lease Agreement (collectively, the "Airport Use Agreements") whose initial terms expired on June 30, 2006, but were extended when each of the Airlines exercised a two-year option extending the Airport Use Agreements to June 30, 2008. Currently, negotiations are proceeding to renew the Airport Use Agreements and the Airport expects new Airport Use Agreements will be in place before June 30, 2008. The Airport Use Agreements establish a residual payment, which includes signatory and non-signatory airlines, for the Airlines, taking into account the capital costs plus annual estimated costs of maintenance and operation of the Airport minus the estimated concession revenue and other aviation revenue to yield the collective Airline payment. This collective Airline payment is allocated among the Airlines based upon formulae contained in the Airport Use Agreements. During 2005, an aggregate of \$5,147,920 (approximately 25.4% of the total Airport

operating revenues for 2005) was paid by the Airlines to the Commission pursuant to the Airport Use Agreements. See also, “**BONDHOLDERS’ RISKS**” below.

Dominance of Southwest Airlines

Southwest Airlines (“Southwest”) is the dominant air carrier operating at the Airport. Southwest uses three of the Airport’s 12 gates and accounts for approximately 32% of all enplaned and deplaned passengers at the Airport. Southwest, based in Dallas, Texas, is the 4th largest commercial carrier in the United States. Considered a discount airline, Southwest has not suffered the same financial strains as other major airlines. Southwest posted its 33rd consecutive profitable year for the year ending December 31, 2005. Southwest’s net income was \$484 million in 2005 as compared to \$313 million in 2004. Southwest’s second quarter earnings for 2006 were \$273 million, and were an increase of 87% over the year-ago period. It is impossible to predict whether Southwest can continue to post profits in the face of the general decline in the financial strength and stability of the airline industry in the United States. In the event Southwest significantly reduced its operations at the Airport, it could have a material adverse affect on the Airport until the service offered by Southwest could be replaced by another carrier.

Concession and Rental Revenues

Car Rentals. The Commission has entered into lease agreements with seven car rental agencies (Alamo, Avis, Budget, Enterprise, Hertz, National and Thrifty) to conduct their operations at the Airport. Payments received from car rental agencies operating at the Airport in 2005 were \$3,243,728 or approximately 17.5% of the total Airport operating revenues for 2005. The Commission has entered into lease agreements with these car rental agencies which provide for payments based upon 10% of gross receipts of the respective car rental. These leases provide for counter space and ready/return spaces, with the latter subject to reallocation from time to time based upon market share.

Alamo, Avis, Hertz, Budget, Enterprise, National and Thrifty car rental agencies have entered into leases with the Commission which expire on September 30, 2010.

Food/Beverage and Merchandise. The Commission awarded the food/beverage and merchandise concession at the Airport to Host International, a Marriott Corporation subsidiary, d/b/a HMS Host, under an exclusive agreement that continues through December 31, 2011. This concession produced revenues of \$817,577 in 2005.

The space devoted to food/beverage and merchandise concessions at the Airport was expanded from approximately 8,000 square feet to 16,000 square feet in 1998. The Airport funded the building as “shell space” along the concourse and Host International paid to equip and complete the spaces. The first of the new facilities opened in March 1999 along the concourse. As part of the concession expansion, local vendors were brought, prices were capped and customer service was enhanced. The concession expansion gave the Airport customers a wider choice from more locations. The percentage of gross revenues paid to the Airport after the expansion by the concessionaire increased in a range from 4.0% to 7.5% and the minimum annual guarantee quadrupled to more than \$500,000 annually.

Advertising Concession. The Airport's current display advertising concession program was established to better link the Airport with the City and State it serves while providing an ongoing source of revenue to the Airport. The Airport is paid 37% to 42% of gross revenues received by the advertising agency that sells the ads. In 2005, this concession produced \$231,649 in gross revenues.

Parking and Roadway. The Commission operates the auto parking deck and surface lots serving the airline passenger terminal at the Airport and provides ground transportation. In 2005, revenues for parking and roadway were \$6,521,031 (approximately 35.2% of total Airport operating revenues) and direct operating expenses were \$1,849,285, excluding associated debt service, depreciation expense and insurance.

Other Major Building Leases and Rentals. The Commission has entered into leases with Central Flying Service, Supermarine of Little Rock, LLC, Skytravel Avionics, Inc. and Airport Services, Inc., for the provision of general aviation services. General aviation facilities are located west of Runway 18-36, which is used for general aviation purposes. The lease with Central Flying Service expires October 31, 2022.

In addition, Raytheon Aircraft Company leases industrial facilities at the Airport to manufacture Beech Hawker jet aircraft and components, as well as the Beech Horizon Aircraft. The Airport also serves as the worldwide finishing center for Falcon Jet aircraft manufactured by Dassault in France. The Airport receives ground rental payments from the industries but rents on the industrial facilities have been assigned to one or more trustees for the retirement of industrial revenue bonds issued to finance the facilities, which bonds are not secured by the Revenues. Airfield industrial revenue, including general aviation revenue for 2005 was \$2,007,884.

Alexander, L.L.C., Aeronautical Radio, Inc., Delta Air Lines, DHL, Inc., Federal Aviation Administration, Southwest Airlines, United Parcel Service, U.S. Customs Office and U.S. Postal Service currently lease cargo building space.

Airline Information

The major Airlines serving the Airport or their respective parent corporations are subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, concerning such Airlines or their respective parent corporations as of particular dates is disclosed in certain reports and statements filed with the Securities and Exchange Commission. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, DC 20549, or by contacting the SEC at 1-800-732-0330 for more information about the public reference room and how to request documents. Filings are also available to the public on the Internet at the SEC's home page located at (<http://www.sec.gov>). In addition, each Airline is required to file periodic reports of financial and operating statistics with the DOT. Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs, Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, DC 20590, and copies of such reports can be obtained from the DOT at prescribed rates.

Environmental Matters

The Commission is subject to various environmental requirements in connection with the operation of the Airport. At the present time, the Commission believes it is in compliance with such requirements.

Timex. Preliminary environmental assessment of the Timex building indicated the need for remedial environmental clean-up. The Commission and Timex have agreed to share the expense of the preliminary environmental investigation, with each party reserving its respective rights regarding the responsibility for any future work that may be conducted or required. As of December 31, 2005, the Airport's costs incurred, excluding building demolition, totaled approximately \$145,383.

If additional environmental remedial action is needed to address the conditions that have been identified, state and federal environmental statutes establish a legal basis for seeking to have Timex and any other responsible parties pay the costs of such work. Airport management is unable to reasonably estimate any future possible costs. However, in the opinion of the Commission's counsel, the possible additional expense incurred by the Commission will not materially affect its financial condition.

Noise Abatement. In 1994, the Commission retained Coffman Associates, Inc., to perform an Airport Noise Compatibility Study in compliance with Federal Aviation Regulation Part 150 ("FAR Part 150"). The FAR Part 150 study was undertaken to develop a noise compatibility plan over a 20-year planning period to develop procedural and land use measures to abate aircraft noise, control land development, mitigate the impact of noise on non-compatible land uses and implement and update the noise abatement program. The study was conducted with the assistance of a 32-member Airport Planning Committee to review and comment on the Noise Exposure Maps (the "NEM") and Noise Compatibility Program (the "NCP"). The NEM and NCP were developed and submitted to the FAA for review. The FAA has approved the NEM. The Commission has included certain noise abatement measures in the 1999-2001 CIP, including the acquisition of residences and the provision of noise insulation for residences located within certain day-night sound level contours on the NEM.

In 2001, the Commission retained Ricondo & Associates to perform an additional Part 150 Study, which was also undertaken to develop a noise compatibility plan over a 20-year planning period, to develop procedural and land use measures, to abate aircraft noise, control land development, mitigate the impact of noise on non-compatible land uses and implement and update the noise abatement program. The study was conducted with the assistance of a 32-member Airport Planning committee to review and comment on the NEM and NCP. The NEM and NCP were developed and submitted to the FAA Southwest Region for review. The FAA Southwest Region has approved the NEM.

Wetlands. In 1998, the Airport extended a portion of Runway 4L-22R north toward the Arkansas River into an area designated as "wetlands" as defined in the Clean Water Act. The U.S. Army Corps of Engineers issued a draft permit for the extension of Runway 4L-22R. The Commission conducted an environmental assessment of the proposed expansion plans followed by

a full analysis of the environmental effects of such plans in an environmental impact statement approved by the FAA in 1995.

Storm Water Discharge. The Airport is subject to the provisions of the U.S. Environmental Protection Agency storm water discharge regulations (40 CFR Part 122) which requires any person who discharges pollutants into waters of the United States to apply for a permit for such storm water discharge. A consultant employed by the Airport prepared a storm water pollution prevention plan approved by the Commission and the Environmental Protection Agency. The Commission has also adopted a storm water discharge policy, which requires that leases between the Airport and businesses operating on Airport property shall contain clauses consistent with the implementation of the plan.

Debt Structure

The following tables set forth for each year the amounts required to be made available for the payment of principal of and interest on the Series 2007 Bonds, the Series 2003 Bonds and the Series 1999 Bonds that will remain outstanding after the refunding.

<u>Series 2007A</u>				<u>Series 2007B</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	--	\$123,525	\$123,525	2007	\$405,000	\$345,875	\$750,875
2008	--	148,230	148,230	2008	345,000	398,850	743,850
2009	--	148,230	148,230	2009	360,000	385,050	745,050
2010	--	148,230	148,230	2010	375,000	370,650	745,650
2011	--	148,230	148,230	2011	390,000	355,650	745,650
2012	--	148,230	148,230	2012	405,000	340,050	745,050
2013	--	148,230	148,230	2013	420,000	323,850	743,850
2014	--	148,230	148,230	2014	440,000	307,050	747,050
2015	\$725,000	148,230	873,230	2015	455,000	289,450	744,450
2016	760,000	119,230	879,230	2016	475,000	271,250	746,250
2017	--	88,830	88,830	2017	495,000	252,250	747,250
2018	--	88,830	88,830	2018	515,000	227,500	742,500
2019	--	88,830	88,830	2019	545,000	201,750	746,750
2020	--	88,830	88,830	2020	570,000	174,500	744,500
2021	--	88,830	88,830	2021	600,000	146,000	746,000
2022	--	88,830	88,830	2022	630,000	116,000	746,000
2023	--	88,830	88,830	2023	660,000	84,500	744,500
2024	415,000	88,830	503,830	2024	1,030,000	51,500	1,081,500
2025	730,000	71,400	801,400	2025	--	--	--
2026	970,000	40,740	1,010,740	2026	--	--	--
	\$3,600,000	\$2,251,375	\$5,851,375		\$9,115,000	\$4,641,725	\$13,756,725

<u>Year (Ending November 1)</u>	<u>Series 2007 Debt Service</u>	<u>Series 2003 Debt Service</u>	<u>Series 1999 Debt Service</u>	<u>Total Debt Service</u>
2007	\$874,400	\$761,007.50	\$2,138,488.76	\$3,773,896.26
2008	892,080	762,282.50	2,140,301.26	3,794,663.76
2009	893,280	762,857.50	2,138,621.26	3,794,758.76
2010	893,880	769,107.50	2,138,052.50	3,801,040.00
2011	893,880	773,607.50	2,137,552.50	3,805,040.00
2012	893,280	762,967.50	2,137,812.50	3,794,060.00
2013	892,080	765,217.50	2,138,507.50	3,795,805.00
2014	895,280	760,717.50	2,135,122.50	3,791,120.00
2015	1,617,680	399,437.50	331,800.00	2,348,917.50
2016	1,625,480	--	331,800.00	1,957,280.00
2017	836,080	--	2,331,800.00	3,167,880.00
2018	831,330	--	2,331,800.00	3,163,130.00
2019	835,580	--	2,331,287.50	3,166,867.50
2020	833,330	--	--	833,330.00
2021	834,830	--	--	834,830.00
2022	834,830	--	--	834,830.00
2023	833,330	--	--	833,330.00
2024	1,585,330	--	--	1,585,330.00
2025	801,400	--	--	801,400.00
2026	1,010,740	--	--	1,010,740.00

Debt Service Coverage

The following table shows the cash flow and coverage from 2001 to 2005 excluding PFC Revenues, costs and related debt service.

AIRPORT CASH FLOW/ COVERAGE 2001 2002 2003 2004 2005

AIRPORT CASH FLOW

TOTAL OPERATING REVENUES

Airline Revenues					
Signatory Airline Payments	\$4,340,457	\$5,228,489	4,997,227	\$5,192,489	\$4,854,609
Non-Signatory Airline Payments	73,593	27,197	34,788	35,632	293,312
Total Airline Payments	4,414,050	5,255,686	5,032,015	5,228,121	5,147,921
All Other Revenues					
Terminal - Concessions	8,589,785	9,115,037	9,231,073	9,746,661	10,912,984
Cargo Landing Fees	135,061	198,768	235,063	368,815	434,280
General Aviation	1,097,900	1,095,245	1,094,827	1,099,364	1,288,589
Land Leases	252,593	260,665	260,877	371,743	266,017
Building Leases	691,993	549,458	395,393	417,937	453,278
Other Miscellaneous Revenue	13,247	103,986	43,860	3,638	5,741
Total Other Revenues	10,780,579	11,323,159	11,261,093	12,008,158	13,360,889
Total Airport Operating Revenues	15,194,629	16,578,845	16,293,108	17,236,279	18,508,810

LESS: Airport Operating Expenses:

Salaries, Wages, & Benefits	4,498,934	4,899,873	5,199,131	5,238,571	5,311,714
Materials, Supplies, & Repairs	718,585	798,276	631,919	674,663	847,977
Security	930,473	1,479,373	1,535,418	1,677,336	2,059,375
Utilities	935,406	933,199	914,691	1,020,784	1,137,166
Other	2,447,363	2,019,792	2,716,480	2,993,071	3,524,780
Total Airport Operating Expenses	9,530,761	10,130,513	10,997,639	11,604,425	12,881,012

ADD: INTEREST INCOME

992,120	371,889	232,445	397,933	915,940
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LESS: DEBT SERVICE PAYMENTS

94 & 95 Series Debt Service Payments	864,008	864,828	299,954	0	0
99 Series A&B Debt Service Payments	2,331,192	2,332,792	2,329,674	2,325,674	2,332,074
2003 Series Debt Service Payments	0	0	270,053	764,033	767,058

Net Discretionary Cash Flow

3,460,788	3,622,601	2,628,233	2,940,080	3,444,607
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COVERAGE- SPECIAL SINKING FUND

Airport Operating Revenues	15,194,629	16,578,845	16,293,108	17,236,279	18,508,810
LESS: Airport Operating Expenses	9,530,761	10,130,513	10,997,639	11,604,425	12,881,012
ADD: Interest Income	992,120	371,889	232,445	397,933	915,940
Available for Debt Service	6,655,988	6,820,221	5,527,914	6,029,787	6,543,738
Debt Service	\$3,195,200	\$3,197,620	\$2,899,681	\$3,089,707	\$3,099,131
Coverage	2.08	2.13	1.91	1.95	2.11

PASSENGER FACILITY CHARGES

Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), the FAA may authorize a public agency to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 on each passenger enplaned at any commercial service airport controlled by the public agency, subject to

certain limitations. PFCs are available to airports to finance certain projects that (i) preserve or enhance capacity, safety or security of the national airport transportation system, (ii) reduce noise resulting from an airport, or (iii) furnish opportunities for enhanced competition among air carriers. PFC applications are approved by the FAA for specific projects and for specific amounts for each project. The airport may only impose the designated PFC until it collects the authorized total amount of that application. Interest earnings on collections count against the application total. Under certain circumstances, the FAA grants approval to commence collection of PFCs (“impose only” approval) before approval to spend the PFCs on approved projects (“use” approval) is granted. Approval to both collect and spend PFCs is referred to as an “impose and use” approval. Collected PFCs may be spent on any project in which approved application, regardless of the Charge Effective Date of the Application. ***PFC revenues are not pledged as security for the Bonds and are not available to pay debt service on the Bonds.***

**Summary of PFC Applications
(all amounts in millions)**

Application No.	Approval Date	Project Implementation Date	Impose Authority	Use Authority	Collections + Interest as of 9/30/06	Disbursements as of 9/30/06	Major Project
1	2/23/95	2/28/96	\$24,383,919	--	\$24,383,919	--	--
2	2/23/06	2/28/98	--	\$24,383,919	--	\$24,383,919	Runway Extension 4L/22R
3	6/29/01	6/29/03	20,988,973	16,097,298	16,097,298	7,790,893	Terminal Building Renovation
4	3/29/04	3/29/06	--	4,891,675	4,891,675	3,164,651	Runway Extension 4R/22L
5	1/31/06	1/3/08	7,913,333	7,913,333	5,043,795	--	Part 150 Property Acquisition

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the Airport. The amount of actual PFC revenues collected, and the rate of collection, will vary depending on the actual levels of qualified passenger enplanements at the Airport. In addition, the FAA may terminate the Airport’s ability to impose PFCs, subject to informal and formal procedural safeguards, if (1) the Airport fails to use its PFC revenues for approved projects in accordance with the FAA’s approval, the PFC Act or the regulations promulgated thereunder, or (2) the Airport otherwise violates the PFC Act or regulations. The Airport’s ability to impose a PFC may also be terminated if the Airport violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. Furthermore, no assurance can be given that the Airport’s authority to impose a PFC will not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Airport.

AIRLINES AND AIRLINE INDUSTRY

The following is a general discussion of the airline industry throughout the United States and is not limited to the Airport.

General

Substantially all of the domestic airlines serving the Airport, or their respective parent corporations, are subject to the information filing requirements of the Securities Exchange Act of 1934, and in accordance therewith file reports or other information with the Securities and Exchange Commission (the "Commission"). Certain information, including financial information, concerning such airlines or their respective parent corporations is disclosed in certain reports and statements filed with the Commission. Such reports and statements may be inspected at the public reference room of the Commission at 450 5th Street, N.W., Washington, D.C. and copies of such reports and statements can be obtained from the Commission at prescribed rates. In addition, each airline is required to file periodic reports of financial and operating statistics with the Data Administration Division of the Department of Transportation (the "DOT"). Such reports can be inspected in the Data Requirements and Public Reports Division of the Office of Aviation Information Management, Room 4201, 400 7th Street, S.W., Washington, D.C. 20590 and copies of such reports can be obtained from the Public Reports Division at prescribed rates.

Significant Events

Since the economic deregulation of the airline industry in 1978, the industry has undergone significant changes including a number of airline mergers, acquisitions, bankruptcies and dissolutions. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. According to the Federal Aviation Administration ("FAA"), aviation activity nationwide was already in a weakened state even before the events of September 11 and headed toward one of its worst years in over a decade. Also according to the FAA, passenger demand began to decline in February 2001 and air carrier finances turned negative in the first quarter of calendar year 2001, primarily due to declining high-yield business traffic and rapidly escalating labor costs. In response to weak demand following the terrorist attacks of September 11, 2001, airlines were forced to reduce fares to stimulate demand, creating a further reduction in airline revenues. According to the Air Transport Association ("ATA"), the financial condition of the U.S. airline industry remains poor and must improve significantly before it can be declared healthy. The ATA estimated that in 2005 the industry would add over \$9 billion to the \$32.3 billion in losses incurred between 2001 and 2004; however, those losses are expected to be \$1 billion to \$2 billion in 2006, which could transition the aviation industry into profits in 2007. The airlines have responded to the changing nature of the industry by furloughing employees, negotiating significant wage reductions, deferring aircraft deliveries, streamlining operations, and improving productivity. However, high fuel prices, coupled with intense fare competition, as well as massive debt and large unfunded pension obligations, will make the industry's financial recovery difficult in the short term. See "**BONDHOLDERS' RISKS**" herein.

The U.S. aviation industry has been significantly affected by a number of events that occurred earlier this decade (e.g., September 11, the economic slowdown, the outbreak of SARS in Asia and

Canada, and the Middle East conflicts). These events contributed to substantial financial losses for the aviation industry between 2001 and 2005. At this time, escalating fuel prices and lowered fares continue to prevent U.S. legacy carriers from being profitable on an annual basis.

The Issuer cannot predict the likelihood of future terrorist attacks or the effect on the air transportation system if there are more terrorist attacks or continued, increased or new hostilities. Similarly, the Issuer cannot predict the duration or extent of the reduction in air travel or the extent of the impact on Revenues or the financial condition of the Airport or any of the airlines operating at the Airport as a result of the significant events described above, including the potential that these events may cause any of the airlines to seek bankruptcy protection.

During the past few years, several airlines filed for bankruptcy protection due, in part, to the events described in this section. Notwithstanding the enactment of the Air Transportation Safety and System Stabilization Act and additional federal aid for the airline industry (described below under “Federal Legislation”), it is possible that additional passenger air carriers, including one or more of the Signatory Airlines, will file for protection under federal bankruptcy laws. For further information regarding the financial condition and effect on operations of the airlines, including further information regarding the airlines' reported load and capacity factors since September 11, 2001, potential investors should refer to the statements and reports filed periodically by the airlines with the Commission. See “**BONDHOLDERS' RISKS**” herein.

Federal Legislation

On September 21, 2001, the Air Transportation Safety and System Stabilization Act (the “Stabilization Act”) was enacted into law. The Stabilization Act provided among other things, for (i) \$5 billion in payments to compensate domestic airlines for losses incurred as a result of the September 11, 2001 terrorist attacks, (ii) \$10 billion in federal loan guarantees to domestic airlines, subject to certain conditions and fees, including the potential requirement that the federal government be issued warrants or other equity instruments in connection with such loan guarantees, (iii) limitations on air carrier officer and employee compensation if the air carrier receives federal loan guarantees, (iv) reimbursement to domestic airlines by the federal government of certain increased insurance costs for the operation of aircraft incurred by the airlines, (v) deferral of the payment by domestic airlines of certain taxes and (vi) limitations of liability for domestic airlines. The Stabilization Act also established a federal victim's compensation fund and claims procedure relating to the events of September 11, 2001, and at the discretion of the Secretary of Transportation, limitations of liability for U.S. air carriers for acts of terrorism committed during a 180-day period following enactment of the Stabilization Act.

Airport Security

As a result of the September 11, 2001 terrorist attacks, the Federal Aviation and Transportation Security Act (“ATSA”) was enacted on November 19, 2001. This legislation made airport security the responsibility of the newly created Transportation Security Administration (“TSA”). The measure called for stronger cockpit doors on the planes and an increased presence of armed federal marshals on flights. All security screeners have become federal employees. Security screeners must undergo criminal background checks and must be U.S. citizens. Not later than 2005,

airports that meet increased security guidelines had the option to continue using federal employees or return to private security companies. The airports are permitted to use state or local law enforcement personnel to provide security services. The new federal security screening services will be paid for by collecting from airlines the amount paid for security services prior to September 11, 2001, which was estimated to be approximately \$700 million, and by charging passengers \$2.50 per departure or connection, not to exceed \$5.00 per one way trip. To the extent that such fees are estimated to be insufficient, ATSA also authorizes the imposition of fees on air carriers not to exceed, for 2004, the amount paid by those air carriers in calendar year 2000 for screening of passengers and property and for 2005 and thereafter, amounts that may be determined based upon market share or any other appropriate measure in lieu of actual screening costs in calendar year 2000.

ATSA also mandates that certain security measures be undertaken at airports, including the Airport. Among other things, the following security measures are required: (a) screening or inspecting of all individuals, goods, property, vehicles and equipment before entry into a secured area of the airport, (b) security awareness programs for airport employees, (c) screening all checked baggage (which, prior to deployment of explosive detection systems described in (d) below, must include one or more of (1) a bag-match program ensuring that no checked baggage is placed on an airplane unless the passenger checking such baggage also boards, (2) manual search, (3) search by canine detection units in combination with other means, or (4) other means or technology approved by the Under Secretary of Transportation), (d) deployment of sufficient explosive detection systems for all checked baggage, and (e) operation of a system to screen, inspect or otherwise ensure the security of all cargo to be transported in all-cargo aircraft.

Homeland Security Act

The Homeland Security Act, signed into law by President Bush on November 25, 2002, created the Department of Homeland Security (“DHS”) to accomplish several primary goals, identified by the statute as: preventing terrorist attacks within the United States; reducing the nation's vulnerability to terrorism; minimizing the damage of, and assisting in the recovery from, terrorist attacks that do occur; and monitoring connections between illegal drug trafficking and terrorism and coordinating efforts to sever such connections.

The TSA became a part of DHS and, while the TSA initially was a distinct entity within DHS, that separation ended on November 24, 2004.

The Homeland Security Act extended the federal government's guarantee of war-risk insurance to airlines through at least August 31, 2006 and, at DHS's option, through December 31, 2006. The Homeland Security Act eliminated the deductible to be paid for war-risk coverage, and expanded the scope of such coverage to include aircraft hull loss and injuries to passengers and crew. Finally, the Homeland Security Act capped the total premium paid by any airlines for war-risk insurance at no more than twice the premium the airline was paying the DOT for its third party policy as of June 19, 2002.

The Homeland Security Act requires that carriers include methods of self-defense within their security training programs for flight attendants. Federal law also requires DHS to establish a program for arming pilots, though participation in the program remains voluntary.

The Homeland Security Act requires the DOT to consult with the DHS before approving an application for airport development grants concerning security equipment or airport reconfiguration necessary for the installation of that equipment.

Emergency Wartime Supplemental Appropriation Act, 2003

President Bush signed the Emergency Wartime Supplemental Appropriation Act, 2003 (the “Appropriation Act”) into law on April 16, 2003. The Appropriation Act provides \$2,395,750,000 for airline grants, of which the first \$100 million is to reimburse carriers for cockpit door hardening. The remaining funds are to be distributed based upon the proportional share of security fees remitted by the airlines to the TSA.

The Appropriation Act extended the War Risk Insurance Program. As a condition of support for the airlines, the Appropriation Act requires the limitation of compensation for the two highest compensated executives of an airline to 2002 salary levels. It also excludes awards of stock and pre-existing retirement contracts and exempts airlines that serve solely domestic North American U.S. destinations and regional carriers. The latter only applies to recipients of airline grants, not war risk insurance.

Cost of Aviation Fuel

According to the ATA, fuel is the second largest cost component of airline operations after labor and continues to be an important and uncertain detriment of an air carriers' operating economics. There has been no shortage of fuel since the “fuel crisis” of 1974, but any increase in fuel price causes an increase in airline operating costs. According to the ATA, the high price of fuel is preventing the U.S. airline industry from being profitable. As industry fundamentals go, the price of fuel is the most significant force affecting the industry today. With the price of fuel today, compared to the price of fuel in 2000, the airlines are struggling to make a profit. Fuel costs fluctuate in response to market forces and exposure to these fluctuations is largely outside of airline management control except through hedging techniques. The price of aviation fuel increased sharply starting in the second half of 2003, continuing through the majority of 2004 and increased sharply again in 2005 and is expected to remain at high levels.

The price of jet fuel has forced some airlines to find ways of becoming more fuel efficient, and some airlines have found ways to save millions of dollars by taking many steps, including using newer, more fuel-efficient airplanes, using only a single engine for taxiing, lowering cruising speeds, onboard weight reduction, more direct routes, and other measures. In the initial years following the events of September 11, 2001, and the nationwide economic slowdown, some U.S. airlines attempted to pass the higher fuel costs on to consumers by increasing the fuel surcharge; however, some of these attempts were unsuccessful as many airlines, particularly low-cost carriers, refused to match the increase in a number of instances. With the significant increases in fuel prices in recent months, airlines are more consistently matching fuel surcharges by other airlines.

Low Cost Carriers

The airline industry currently is going through a transition prompted by the proliferation of low-cost carriers (“LCCs”) across the country. Published estimates indicate that LCCs accounted for about one-quarter of all domestic air passenger-miles flown in the United States during 2003 and, as a result, pose a rapidly-growing competitive threat to the major network airlines whose unit costs are significantly higher. Because the LCCs can transport passengers profitably at much lower fares, the major network carriers must match those prices or lose passengers to the LCCs. Consequently, the major carriers must drastically reduce their cost base, bring their capacity more in line with traveler demand, and find ways to make their operations more efficient. This process is in its early stages, has involved some experimentation by the major airlines into the LCC concept (e.g., Delta with Song and United Airlines with Ted), and could mean a restructuring of the airline industry over the longer term.

BONDHOLDERS’ RISKS

General

The airline industry is significantly affected by a number of key factors arising from national and international conditions and events. Such factors include (i) economic conditions resulting from the level of national and international economic growth; (ii) international trade; (iii) currency values; (iv) the nature of domestic airline service and the effect of deregulation on competition; (v) the extent to which airline service is impacted by the demand generated by specific airport markets and, in certain instances, the level of connecting passenger activity (hubbing); (vi) the level of airline fares, which has a significant impact on passenger traffic; (vii) airport capacity, which has been affected by significant growth in certain air passenger markets; and (viii) disruption caused by airline incidents, acts of war, and terrorism. Other factors which may adversely impact the revenues of airlines serving the Airport include, without limitation, declining demand; service and cost competition; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; insurance costs; litigation liability; federal government regulation and deregulation; environmental risks and regulations; noise abatement concerns and regulation; and federal and state bankruptcy and insolvency laws. The trend to introduce regional jets will also have an effect on individual markets, the individual air carriers and the aviation industry as a whole. It is not possible to predict what effect, if any, the present industry conditions may have on future air travel and route structures.

Uncertainties of the Airline Industry

The ability of the Issuer to derive Revenues from its operation of the Airport depends on many factors, many of which are not subject to the Issuer's control, including the overall condition of the airline industry. Revenues may be affected by the ability of the Signatory Airlines, individually and collectively, to meet their respective obligations under the Amended and Restated Airport Use and Lease Agreement (the “Airport Use Agreement”).

As a result of the present condition of the airline industry, bankruptcy filings and liquidations or major restructurings by members of the airline industry remain possible. See “**AIRLINES AND AIRLINE INDUSTRY-Significant Events**” herein. The financial strength and stability of airlines serving the Airport may impact future airline traffic. In addition, individual airline decisions regarding level of service, particularly connections to hub airports at the Airport, together with the unwillingness of certain potential passengers to fly in light of actual and potential terrorist attacks, will affect total enplanements. There is no assurance that the Airport, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. Future airline traffic at the Airport will be affected by, among other things, the growth or decline in the population and the economy of the Air Trade Area and by national and international economic conditions, acts of war and terrorism, federal regulatory actions, airline service, air fare levels and the operation of the air traffic control system.

Federal Law Affecting Airport Rates and Charges

In August 1994, President Clinton signed into law the FAA Authorization Act of 1994 (the “1994 Act”), which continued the pre-existing federal requirement that airline rates and charges set by airports be “reasonable” and mandated an expedited administrative process by which the Secretary of the DOT (the “Secretary”) reviews rates and charges complaints, 49 U.S.C. § 47129. Under 49 U.S.C. § 47129 an affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise. In January 1995, pursuant to the 1994 Act, the DOT issued a rule which was amended effective December 16, 1996 (the “Final Rule”), outlining the rules of practice for filing complaints and adjudicating complaint matters involving federally assisted airports. This Final Rule is broader in application and covers matters other than just rates and charges complaints. The initial rule was accompanied by a policy statement setting forth the standards the DOT would apply to resolving airport fee disputes under 49 U.S.C. § 47129. The initial policy statement was supplemented in September of 1995 and replaced on June 14, 1996 by the “Policy Regarding Airport Rates and Charges”. In an August 1, 1997 decision, the U.S. Court of Appeals for the District of Columbia ruled that the proposed policy regarding determining the “reasonableness” of fees was “arbitrary and capricious”. Until the DOT promulgates a new policy regarding rates and charges, the guiding principle for determining whether rates and charges established for use of airport assets is the requirement of federal law that such charges be “reasonable”.

Regulations and Restrictions Affecting the Airport

The operations of the Airport are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the Airport Use Agreements with the airlines; the provisions of the Intergovernmental Agreement with Pulaski County, Arkansas, relating to noise levels at the Airport; the federal acts authorizing the imposition, collection and use of PFCs; and extensive federal legislation and regulations applicable to all airports

in the United States. In the aftermath of September 11, 2001, the Airport also has been required to implement enhanced security measures initially mandated by the FAA, and subsequently by the TSA, including the addition of explosive detection systems to screen all checked baggage. An additional passenger screening station, which required the renovation of its passenger screening area, was installed. Although the cost of such systems is to be borne by the TSA, structural modifications to the terminal complex to facilitate installation and operation of the new systems have been underwritten by the Airport and have been only partially reimbursed to date.

It is not possible to predict whether future restrictions or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFCs collections for capital projects for the Airport or whether such restrictions or legislation or regulations would adversely affect Revenues.

Airline Bankruptcy Filings

The following airlines doing business with the Airport are operating under bankruptcy protection under Chapter 11:

Delta Air Lines filed for bankruptcy court protection under Chapter 11 on September 14, 2005; and

Northwest Airlines Corporation, Inc. filed for bankruptcy court protection under Chapter 11 on September 14, 2005.

The Airport cannot predict the duration or extent of reductions and disruptions in air travel or the extent of any adverse impact on Revenues, PFC collections, passenger enplanements, operations or the financial condition of the Airport. In addition, the Airport cannot predict how these reductions will affect the Airport, or whether these reductions and other factors will result in more airline bankruptcies. The Airport is not able to predict how long any airline in bankruptcy protection will continue operating at the Airport or whether any of these airlines will liquidate or substantially restructure their operations. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. Further, the Airport cannot predict nor can it give any assurance that the airlines serving the Airport will continue to pay or to make timely payment of their obligations under the Airline Use Agreement.

U.S. Airways Group Inc. has recently made an unsolicited acquisition offer for Delta Air Lines. Delta Air Lines, currently operating under bankruptcy protection, has stated its desire to reorganize as an independent entity. It is unknown at this time whether the acquisition, which must be approved by regulators, creditors and other interested parties, will be completed. It is unknown at this time what effect, if any, such transaction would have on the Airport.

For more information on the financial conditions of the airlines, potential investors should refer to the most recent filings of the airlines with the Securities and Exchange Commission. See also “**AIRLINES AND AIRLINE INDUSTRY**, Effect of Airline Bankruptcies” herein.

Effect of Airline Bankruptcies

In the event any airline that has executed an Airport Use Agreement with the Issuer, as discussed under the caption “**THE AIRPORT AND THE COMMISSION-Airline Revenues and Airport Use Agreements**” below, seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Issuer (1) within 60 days or later, if ordered by the court, with respect to its Airport Use Agreement or other leases of real property, or (2) prior to the confirmation of a plan of reorganization with respect to any other agreement. Bankruptcy courts are courts of equity, however, and as such can, and often do, grant exceptions to statutory limitations. In the event of assumption and/or assignment of any agreement to a third party, an airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable Airline Use Agreement or other agreements.

Rejection of an Airport Use Agreement or other agreement or executory contract would give rise to an unsecured claim of the Issuer for damages, the amount of which in the case of an Airport Use Agreement or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments not to exceed three years. However, the amount ultimately received in the event of rejection of a Airport Use Agreement or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Amounts unpaid as a result of a rejection of an Airline Use Agreement by an airline in bankruptcy can be passed on to the remaining Signatory Airlines under the Airline Use Agreement, thereby increasing such airlines' cost per enplanement, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Issuer on account of goods and services provided prior to the bankruptcy. Thus, the Issuer's stream of payments from a debtor airline would be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

US Airways, Delta Air Lines and Northwest Airlines were each operating at the Airport under an Airline Use Agreement at the time of respective filings for bankruptcy protection. During the pendency of a bankruptcy proceeding, a debtor Airline may not, absent a court order, make any payments on account of debts incurred before the filing of the bankruptcy petition. As a result, the Airport's stream of payments from any airline filing bankruptcy is interrupted to the extent of pre-petition amounts owed by the debtor airline. Northwest Airlines Corporation has pre-petition debt of \$57,500.61 and Delta Air Lines, Inc. and Comair have a combined pre-petition debt of \$52,658.01.

Since filing for bankruptcy, Delta/Delta Connection has dropped one flight to Salt Lake City, Utah, as well as, one flight to Orlando, Florida and one flight to Cincinnati, Ohio. Northwest/Northwest Airlines has dropped two flights to Minneapolis/St. Paul, Minnesota and two flights to Detroit, Michigan since filing for bankruptcy.

Geopolitical Risks

The terrorist attacks of September 11, 2001, the conflicts in Iraq and Afghanistan and the threat of more terrorist attacks generally decreased passenger traffic levels locally and nationally. The Airport cannot assess the threat of terrorism and the probability of another attack on American soil or against Americans traveling abroad. Should new attacks occur against the air transportation industry, the travel industry, cities, utilities, infrastructure, office buildings or manufacturing plants, the effects on travel demand could be substantial.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of the threat of additional terrorist attacks, may influence the demand for passenger air travel. Travel behavior may be affected by anxieties over the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the selection of surface travel over air travel. See “**AIRLINES AND AIRLINE INDUSTRY-Airport Security.**”

Intensified security precautions were instituted by government agencies, airlines and airport operators after the events of September 11, 2001. These precautions include the strengthening of aircraft cockpit doors, the federal program to allow and train domestic commercial airline pilots to carry firearms during flights, extensive background checks of airport employees, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed air marshals, federalization of airport security functions under the Transportation Security Administration (the "TSA"), revised procedures and techniques for the screening of baggage for weapons and explosives and technology for the screening of passengers, such as US-VISIT. No assurance can be given that these precautions will be successful. Also, the possibility of international hostilities and/or further terrorists attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Because of the implementation of the Aviation Security Action effective January 1, 2003, to screen all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under “Code Orange” (high) and “Code Red” (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports.

After the events of September 11, 2001, the United States government launched a military offensive against Afghanistan and Iraq, and has warned that these hostilities may continue for years. The Airport cannot predict the duration or the effects of these hostilities on the air transportation system, the likelihood of any retaliation or the likelihood of any future terrorist attacks. Any such action could directly or indirectly reduce passenger traffic and depress airline industry revenues and Airport revenues. The Airport cannot predict the effect of any future government-required security measures on passenger activity at the Airport. Nor can the Airport predict how the government will staff the security screening functions or the effect on passenger activity of government decisions regarding its staffing levels.

Uncertainty Regarding Airport Use Agreements

A significant portion of Revenues is derived from the Airport Use Agreements. Pursuant to the Airport Use Agreement, each signatory airline has agreed to pay the rates and charges for its use of the Airport, but the Agreement may be terminated by the Issuer or by a Signatory Airline in certain circumstances. No assurance can be given regarding whether additional Airport Use Agreements will be executed, with respect to the duration of the existing Airport Use Agreements or with respect to extensions thereof. See “**Effect of Airline Bankruptcies**” above and “**THE AIRPORT AND THE COMMISSION-Airline Revenues and Airport Use Agreements**” below.

Certain Factors Affecting the Airport

Enplanements at the Airport, collections of Passenger Facility Charges and the receipt of Revenues may continue to be negatively affected by security restrictions on the Airport and the financial condition of the air transportation industry. Like many airport operators, the Airport has experienced increased operating costs due to compliance with federally mandated and other security and operating changes. In addition, the FAA or the Department of Homeland Security (the "DHS") may require further enhanced security measures and impose additional restrictions on the Airport, which may affect future Airport results. The Airport cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport or the airlines from such incidents or disruptions.

Regulations and Restrictions Affecting the Airport

The operations of the Airport and its ability to generate revenues are affected by a variety of legislative, legal, contractual and practical restrictions, including extensive federal regulations applicable to all airports.

Airlines Serving the Airport

The Airport derives a substantial portion of its operating revenue from landing, facility rental and concession fees. The financial strength and stability of the airlines using the Airport, together with numerous other factors, influence the level of commercial aviation at the Airport. Total enplanements from the Airport are affected by the decision individual airlines make with regard to destinations, frequency of flights, non-stop service, size of aircraft and fares.

Factors Affecting Airline Activity

The Issuer’s ability to derive Revenues from its operations of the Airport sufficient to pay debt service on the Series 2007 Bonds depends upon many factors, many of which are not subject to the control of the Issuer. These factors include the financial strength of the airline industry in general and of the firms in that industry that operate at the Airport in particular. See the caption “**SECURITY FOR THE SERIES 2007 BONDS**” herein.

Future airline traffic, both nationally and at the Airport, will continue to be substantially affected by increased competition and the impact of general inflationary factors upon the costs of

employment, fuel, goods, and services used. The profitability of an airline may affect its ability to finance capital requirements necessary to remain competitive, including fuel-efficient aircraft. Several airlines, including certain of the airlines serving the Airport, are experiencing severe financial difficulties. It is not possible to predict the future profitability of the airline industry or, particularly, the airlines operating at the Airport. Satisfaction of the demand for air service in particular markets may be affected in the short term if the financial circumstances of individual airlines disrupt their ability to provide air service.

Four existing airports are sufficiently close to the Airport such that they may represent competing influences on the Airport's Air Service Area. Memphis International Airport ("MEM") is 135 miles away and serves as a hub for Northwest Airlines, which provides 85% of Memphis' service. It is larger than the Airport with respect to the number of destinations served and number of flights. Texarkana, Arkansas, Fort Smith, Arkansas and Northwest Arkansas Regional Airport ("XNA") located in Benton County about 15 miles northwest of Springdale, Arkansas are 140, 160 and 200 miles from the Airport, respectively. Neither Texarkana nor Fort Smith has commercial jet service, and both serve as feeders to hub airports. XNA began operations on November 1, 1998 and is currently served by six airlines.

The "primary" Airport Service Region for XNA is the 400 square mile area defined as the Fayetteville-Springdale-Rogers, Arkansas Metropolitan Statistical Area (the "XNA-MSA"). In 2004, the population of the XNA-MSA was approximately 390,944. The XNA-MSA accounts for approximately eighty-five percent of the passengers originating their airline travel at XNA. The "secondary" Airport Service Region for XNA is defined by the location of (and the airline service for XNA provided from) other air carrier airports. The air carrier airports defining the secondary Airport Service Region for XNA are those serving central Arkansas (206 miles to the City of Little Rock), southwest Missouri (115 miles to the City of Springfield), and northeast Oklahoma (100 miles to the City of Tulsa).

FINANCIAL INFORMATION

The financial statements (including schedules incorporated by reference) of the Airport as of December 31, 2005 and 2004, and for the years then ended appearing in Appendix C to this Official Statement have been audited by L. Cotton Thomas & Company, as stated in their report appearing in Appendix C hereto. These financial statements have been included in this Official Statement with the consent of L. Cotton Thomas & Company.

FINANCIAL ADVISOR

Stephens Inc. has served as financial advisor (the "Financial Advisor") to the Commission since 1993 and has advised the Commission with respect to the issuance of the Series 2007 Bonds. The compensation of the Financial Advisor is contingent upon the issuance of the Series 2007 Bonds.

RATINGS

The Series 2007 Bonds have been rated “AAA” by Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc. (“S&P”) and “Aaa” by Moody’s Investors Service (“Moody’s”) based upon the assumption that the Financial Guaranty Insurance Policy will be issued by Ambac Assurance upon delivery of the Series 2007 Bonds, with underlying ratings of “A-” and “A2” respectively. An explanation of the significance of the ratings may be obtained from S&P at 55 Water Street, New York, NY 10041, telephone (212) 438-2124 and from Moody’s at 99 Church Street, New York, New York 10007-2796, telephone (212) 553-0300. S&P and Moody’s are independent of any investment banking firm, bank, or similar institution.

The Issuer and the Commission furnished the rating agencies with certain information and materials relating to the Series 2007 Bonds, the Issuer, the Airport, and the Commission that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered, raised, or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Neither the Issuer, the Underwriters, nor the Commission has undertaken any responsibility to bring to the attention of the holders of the Series 2007 Bonds any proposed revision or withdrawal of a rating of the Series 2007 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such a rating could have an adverse effect on the market price of and marketability of the Series 2007 Bonds.

LEGAL MATTERS

Tax Exemption

Federal Income Taxes. In the opinion of Wright, Lindsey & Jennings LLP and Ivory Law Firm, P.A., Co-Bond Counsel, under existing law, (i) interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes, except interest on a Series 2007A Bond for any period during which such Series 2007A Bond is held by a "substantial user" or a "related person" as those terms are defined in Section 147(a) of the Code and (ii) interest on the Series 2007B Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, with respect to corporations, interest on the Series 2007B Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax (as defined for federal income tax purposes). In the further opinion of Co-Bond Counsel, interest on the Series 2007A Bonds is a separate tax preference item for purposes of computing the alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentences are subject to the condition that the Issuer and Commission comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2007 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer and the Commission have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007 Bonds.

Tax Treatment of Original Issue Discount. When the initial public offering price for any Series 2007 Bond, as reflected on the confirmation of sale received from the Underwriters, is less than the principal payable at maturity for such Series 2007 Bonds (the “OID Bonds”), such difference constitutes original issue discount which is treated as interest and is excluded from gross income for federal income tax purposes subject to the caveats and provisions described above.

In the case of an owner of an OID Bond, the amount of original issue discount which is treated as having accrued with respect to such OID Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such OID Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such OID Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual OID Bond bearing original issue discount, on days which are determined by reference to the maturity of such OID Bond. The amount treated as original issue discount on such OID Bond for a particular semiannual accrual period is equal to (i) the product of (a) the yield to maturity for such OID Bond (determined by compounding at the close of each accrual period) and (b) the amount which would have been the tax basis of such OID Bond at the beginning of the particular accrual period if held by the original purchaser, (ii) less the amount of any payments on such OID Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such OID Bond the sum of the amounts which would have been treated as original issue discount for such purposes during all prior periods. If such OID Bond is sold between semiannual compounding dates, original issue discount which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of OID Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of original issue discount accrued with respect to OID Bonds as of any date, with respect to the accrual of original issue discount for such OID Bonds purchased in the secondary markets and with respect to the state and local tax consequences of owning OID Bonds.

Tax Treatment of Original Issue Premium. When the initial public offering price for any Series 2007 Bond, as reflected on the confirmation of sale received from the Underwriters, is greater than the principal amount thereof, such difference constitutes original issue premium and the Series 2007 Bond is a “Premium Bond”. Under the Code, the difference between the principal amount of a Premium Bond and the cost basis of such Premium Bond to an owner thereof is “bond premium.” Under the Code, bond premium is amortized over the term of a Premium Bond (i.e., the maturity date of a Premium Bond or its earlier call date) for federal income tax purposes. An owner of a Premium Bond is required to decrease his or her basis in such Premium Bond by the amount of the amortizable bond premium attributable to each taxable year (or portion thereof) he or she owns such Premium Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate determined with respect to the yield on a Premium Bond compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

Owners of Premium Bonds (including purchasers of Premium Bonds in the secondary market) should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

No Other Federal Tax Opinion. Co-Bond Counsel express no opinion regarding other federal tax consequences arising with respect to the Series 2007 Bonds.

Additional Tax Consequences. Prospective purchasers of the Series 2007 Bonds should be aware that ownership of the Series 2007 Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their tax advisors as to collateral federal income tax consequences.

State Taxes. Co-Bond Counsel are of the opinion that, under existing law, interest on all Series 2007 Bonds is exempt from State of Arkansas income taxes and all Series 2007 Bonds are exempt from property taxes in the State of Arkansas.

LEGAL OPINIONS

All matters relating to the legality of the proceedings for the authorization, issuance, and sale of the Series 2007 Bonds have been, or will be, approved on behalf of the Issuer by Wright, Lindsey & Jennings LLP and Ivory Law Firm, P.A., Little Rock, Arkansas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, counsel to the Underwriters. Certain legal matters will be passed upon for the Issuer by Thomas M. Carpenter, as City Attorney. Payment of the fees of Co-Bond Counsel will be made by the Issuer from proceeds of the Series 2007 Bonds and is contingent upon the issuance and delivery of the Series 2007 Bonds.

LEGAL PROCEEDINGS

At closing, the Issuer and the Commission will provide certificates to the effect that there is no litigation pending seeking to restrain or enjoin the issuance of the Series 2007 Bonds, or questioning or affecting the legality of the Series 2007 Bonds or the proceedings and authority under which the Series 2007 Bonds are to be issued, or questioning the right of the Issuer to enter into the Series 2007 Supplemental Indentures or to issue the Series 2007 Bonds, that there is no litigation pending or, to the knowledge of management of the Issuer and the Airport, threatened against the Issuer, the Commission, or their properties in which an unfavorable outcome would have a material adverse effect on the Issuer, the Commission, or their properties.

UNDERWRITING

Under the Bond Purchase Agreement (the “Purchase Agreement”) entered into by and between the Issuer and Morgan Keegan & Company, Inc., on behalf of itself and the other Underwriters listed on the cover page of this Official Statement (the “Underwriters”), the Series 2007A Bonds are being purchased by the Underwriter at a price of \$3,526,500.09 (equal to the par amount of the Series 2007A Bonds, less original issue discount of \$48,343.95 and less an underwriter’s discount of \$25,155.96), plus accrued interest to the date of delivery, for public reoffering by the Underwriters. The Underwriters are also purchasing the Series 2007B Bonds pursuant to the Purchase Agreement at a price of \$9,550,927.21 (equal to the par amount of the Series 2007B Bonds, plus reoffering premium of \$493,408.10 less an underwriter’s discount of \$57,480.89), plus accrued interest to the date of delivery, for public reoffering by the Underwriters. The Purchase Agreement provides that the Underwriters will purchase all of the Series 2007 Bonds if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2007 Bonds is subject to various conditions contained in the Purchase Agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2007 Bonds or any proceedings in connection with the issuance thereof and the absence of material adverse changes in the financial or business condition of the Issuer or the Airport.

The Underwriters intend to offer the Series 2007 Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2007 Bonds to the public. The Underwriters may offer and sell the Series 2007 Bonds to certain dealers (including dealers depositing the Series 2007 Bonds into investment trusts) at prices lower than the initial public offering prices.

CONTINUING DISCLOSURE

The Issuer and the Commission have executed a Continuing Disclosure Agreement for the benefit of the holders of the Series 2007 Bonds pursuant to which it undertakes to send certain financial information and operating data to each person requesting the same and to provide notice to the Municipal Securities Rulemaking Board of certain events, pursuant to the requirements of Securities Exchange Commission Rule 15(c)2-12 (17 C.F.R. Part 240, § 240.15c2-12) (the “Rule”). The Issuer and the Commission have not failed to comply with any prior undertaking under the Rule. A failure by the Issuer or the Commission to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Indenture, although Bondholders will have any remedy available at law or in equity. Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase to sale of the Series 2007 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2007 Bonds and their market price.

MISCELLANEOUS

Additional Information

The references herein to Arkansas statutes and acts, the Indenture, and other materials are brief summaries or outlines of certain provisions thereof. Such summaries or outlines do not purport to be complete and for full and complete statements of such provisions, reference is made to such instruments, documents, and other materials, copies of which are on file at the principal corporate trust office of the Trustee.

All the information contained or incorporated by reference in this Official Statement concerning the Issuer has been furnished by the Issuer. The Underwriters have furnished the information in this Official Statement with respect to the public offering price of the Series 2007 Bonds and the information contained under the caption “**UNDERWRITING;**” The Depository Trust Company has furnished the information in this Official Statement contained under the caption “**THE SERIES 2007 Bonds-Book-Entry Only System;**” and the Insurer has furnished the information in this Official Statement contained under the caption “**BOND INSURANCE.**”

APPROVAL OF OFFICIAL STATEMENT

All projections, estimates, and other statements in this Official Statement involving matters of opinion, whether or not so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Issuer and the purchasers or owners of any of the Series 2007 Bonds.

The Mayor of the Issuer and the Chairperson of the Commission have approved this Official Statement.

City of Little Rock, Arkansas

By: /s/ Jim Dailey
Mayor

Little Rock Municipal Airport Commission

By: /s/ Larry E. Lichty
Chairperson

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APPENDIX A

SUMMARY OF THE SERIES 2007 SUPPLEMENTAL TRUST INDENTURES

In addition to certain other information contained under the caption “**THE SERIES 2007 BONDS**” herein, the following summarizes certain provisions of the Series 2007 Supplemental Trust Indentures, to which the documents in their entirety reference is made for the detailed provision thereof.

Establishment of Accounts

The Series 2007 Supplemental Indentures establish the Series 2007A Project Account and the Series 2007B Project Account in the Construction Fund, the Series 2007A Bond Subaccount and the Series 2007B Bond Subaccount in the Bond Account and the Series 2007A Debt Service Reserve Subaccount and the Series 2007B Debt Service Reserve Account in the Principal and Interest Fund.

Series 2007A Project Account

Moneys in the “Series 2007A Project Account” shall be used to pay the costs necessary to accomplish the Series 2007A Project. Upon receipt by the Trustee of the Written Certificate of the City specifying amounts to pay the costs associates therewith, the Trustee shall transfer the funds in the Series 2007A Project Account to the entities and in the amounts set forth in such Certificates. Any remaining balance in the Series 2007A Project Account, not set forth in the Certificate of the City, shall be deposited into the Series 2007A Bond Subaccount.

Series 2007B Project Account

Moneys in the “Series 2007B Project Account” shall be used to pay the costs necessary to accomplish the Series 2007B Project. Upon receipt by the Trustee of the Written Certificate of the City specifying amounts to pay the costs associates therewith, the Trustee shall transfer the funds in the Series 2007B Project Account to the entities and in the amounts set forth in such Certificates. Any remaining balance in the Series 2007B Project Account, not set forth in the Certificate of the City, shall be deposited into the Series 2007B Bond Subaccount.

Series 2007A Bond Subaccount

Moneys shall be deposited into the Series 2007A Bond Subaccount from the Revenue Fund and used to pay Debt Service on the Series 2007A Bonds.

Series 2007B Bond Subaccount

Moneys shall be deposited into the Series 2007B Bond Subaccount from the Revenue Fund and used to pay Debt Service on the Series 2007B Bonds.

Series 2007A Debt Service Reserve Subaccount

(a) Moneys shall be paid from the Series 2007A Debt Service Reserve Subaccount, if, when and as required by the Master Indenture, to remedy deficiencies in the Series 2007A Bond Subaccount. Moneys from proceeds from sale of the Series 2007A Bonds shall be deposited into the Series 2007A Debt Service Reserve Subaccount in an amount equal to the Series 2007A Debt Service Reserve Requirement. The Trustee shall draw on funds in the Series 2007A Debt Service Reserve Subaccount when needed to pay principal of or interest on the Series 2007A Bonds.

(b) In the event that the Trustee draws funds from the Series 2007A Debt Service Reserve Subaccount to pay principal of or interest on the Series 2007A Bonds, the Issuer shall restore the funds in the Series 2007A Debt Service Reserve Subaccount to the Series 2007A Debt Service Reserve Requirement in twelve consecutive monthly payments.

Series 2007B Debt Service Reserve Subaccount

(a) Moneys shall be paid from the Series 2007B Debt Service Reserve Subaccount, if, when and as required by the Master Indenture, to remedy deficiencies in the Series 2007B Bond Subaccount. Moneys from proceeds from sale of the Series 2007B Bonds shall be deposited into the Series 2007B Debt Service Reserve Subaccount in an amount equal to the Series 2007B Debt Service Reserve Requirement. The Trustee shall draw on funds in the Series 2007B Debt Service Reserve Subaccount when needed to pay principal of or interest on the Series 2007B Bonds.

(b) In the event that the Trustee draws funds from the Series 2007B Debt Service Reserve Subaccount to pay principal of or interest on the Series 2007B Bonds, the Issuer shall restore the funds in the Series 2007B Debt Service Reserve Subaccount to the Series 2007B Debt Service Reserve Requirement in twelve consecutive monthly payments.

Application of Proceeds of Series 2007A Bonds. From the proceeds of the Series 2007A Bonds there shall be paid to the Trustee for deposit or application as follows:

(a) Into the Series 2007A Bond Subaccount, the amount of interest accrued from January 1, 2007 to the date of delivery of the Series 2007A Bonds;

(b) Into the Series 2007A Debt Service Reserve Subaccount, the Series 2007A Debt Service Reserve Requirement; and

(c) To the refunding of the Bonds Refunded, the amount needed to accomplish the refunding.

(d) Into the Series 2007A Project Account in the Construction Fund, the balance of the proceeds of the Series 2007A Bonds.

Application of Proceeds of Series 2007B Bonds. From the proceeds of the Series 2007B Bonds there shall be paid to the Trustee for deposit or application as follows:

(a) Into the Series 2007B Bond Subaccount, the amount of interest accrued from January 1, 2007 to the date of delivery of the Series 2007B Bonds;

(b) Into the Series 2007B Debt Service Reserve Subaccount, the Series 2007B Debt Service Reserve Requirement; and

(c) Into the Series 2007B Project Account in the Construction Fund, the balance of the proceeds of the Series 2007B Bonds.

Provisions Relating to Series 2007 Security Instrument

(a) Any provision of the Series 2007 Supplemental Indentures expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance without the prior written consent of Ambac Assurance. Ambac Assurance reserves the right to charge the Issuer a fee for any consent or amendment to the Series 2007 Supplemental Indentures while the Series 2007 Security Instrument is outstanding.

(b) Ambac Assurance's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any amendment, supplement or change to or modification of the Series 2007 Supplemental Indenture; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or payment agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent.

(c) Notwithstanding anything to the contrary contained in the Master Indenture, upon the occurrence and continuance of an event of default as defined in the Series 2007 Supplemental Indenture, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Series 2007 Supplemental Indenture, including, without limitation: (i) the right to accelerate the principal of the Obligations described in the Series 2007 Supplemental Indenture, and (ii) the right to annul any declaration of acceleration, and Ambac Assurance shall also be entitled to approve all waivers of events of default.

(d) Upon the occurrence of an event of default, the Trustee may, with the consent of Ambac Assurance, and shall, at the direction of Ambac Assurance or 25% of the Holders with the

consent of Ambac Assurance, by written notice to the Obligor and Ambac Assurance, declare the principal of the Obligations to be immediately due and payable, whereupon that portion of the principal of the Obligations thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Series 2007 Supplemental Indenture or in the Obligations to the contrary notwithstanding.

APPENDIX B

SUMMARY OF THE MASTER INDENTURE

The following, in addition to certain other information contained under the caption “**THE SERIES 2007 BONDS**” herein, summarizes certain provisions of the Master Indenture, to which document in its entirety reference is made for the detailed provisions thereof. While the Series 2007 Bonds are issued pursuant to the Series 2007 Supplemental Indentures discussed above, the Series 2007 Supplemental Indentures are entered into pursuant to the Master Indenture.

General Provisions for the Issuance of Bonds

Each Series of Bonds shall be issued under a Supplemental Indenture that shall specify, among other things, the following:

(1) The purpose for which such Series of Bonds is to be issued include refunding of all or a part of the Outstanding Bonds of one or more Series or all or part of any other borrowing of the Issuer payable in whole or in part from the Revenues, including in each case the payment of all expenses in connection with such refunding.

(2) Any Debt Service Reserve Requirement for such Series of Bonds and the amount, if any, to be deposited from the proceeds of such Series of Bonds into any Series Subaccount in the Debt Service Reserve Account established for such Series of Bonds.

One or more Series of Construction Bonds may be issued in such Principal amount as may be determined by the Issuer for the purpose of paying all or a portion of the Cost of Construction of a Project, Principal, Redemption Price, and interest on Bond Anticipation Notes, or any combination of these purposes. Each Series of Construction Bonds and any Bond Anticipation Notes shall be issued only after satisfaction of the Debt Service Coverage tests set forth in the Master Indenture. One or more Series of Bond Anticipation Notes, payable on a parity with all Outstanding Bonds may be issued for the purpose of paying or providing for the payment of all or a portion of the Cost of Construction of a Project, or the refunding of Bond Anticipation Notes, or a combination of such purposes in accordance with the provisions of the Master Indenture.

Special Provisions for the Issuance of Construction Bonds

(a) One or more Series of Construction Bonds may be authenticated and delivered upon original issuance from time to time in such Principal amount for each such Series as may be determined by the City for the purpose of paying or providing for the payment of all or a portion of (i) the Cost of Construction of a Project, (ii) Principal, Redemption Price and interest on Bond Anticipation Notes or (iii) combination of (i) and (ii). Each such Series shall be in such Principal amount which, when taken with other funds legally available for such Project, will provide the City

with sufficient funds to finance estimated Cost of Construction of such Project, as set forth in the Written Certificate of the City given pursuant to subsection (b) below.

(b) Each Series of Construction Bonds shall be issued only upon receipt by the Trustee of the following documents:

(1) A Written Certificate of the City setting forth the then Estimated Completion Date and the then estimated Cost of Construction of the Project being financed by such Series of Bonds.

(2) A Written Certificate of the City to the effect that, upon the authentication and delivery of the Bonds of such Series, no event will have occurred which, with the passage of time or the giving of notice, or both, would give rise to an Event of Default under the Master Indenture.

(3) Either:

(A) An Accountant's Certificate (I) setting forth for any Year within the 24 calendar months next preceding the authentication and delivery of such Series of Bonds, the Net Revenues for such period, and (II) showing that such Net Revenues for such Year, together with any Other Available Funds, would not be less than the Rate Covenant Requirement (for each Fiscal Year to and including the Fiscal Year in which occurs the latest maturity of such Series of Construction Bonds) with respect to all Bonds to be Outstanding at any time during the Year next following the issuance of the proposed Series of Bonds, and to the Repayment Obligations to be outstanding at any time during the Year next following the issuance of the proposed Series of Bonds; or

(B)(I) An Airport Consultant's Certificate setting forth the Estimated Net Revenues (assuming the completion of the Project on its then Estimated Completion Date) for whichever of the following periods shall extend until the latest date:

(i) If the Supplemental Indenture authorizing the Series of Bonds being issued requires that interest on the Series of Bonds be capitalized until a certain date, for each of the three Fiscal Years succeeding such date, or

(ii) If the Supplemental Indenture authorizing the Series of Bonds being issued does not require that interest on the Series of Bonds be capitalized, for the then current Fiscal Year and each succeeding Fiscal Year to and including the fifth Fiscal Year succeeding the date of issuance of such Series of Bonds; and

(II) A Written Certificate of the City showing the Aggregate Debt Service for each of the Fiscal Years set forth in the Airport Consultant's Certificate delivered pursuant to paragraph (I) above and showing that the Estimated Net Revenues as shown in such Airport Consultant's Certificate for each of such Fiscal Years, together with any Other Available Funds (excluding PFC's), are not less than the Rate Covenant Requirement for each of such Fiscal Years

with respect to all Series of Bonds to be Outstanding after the issuance of the proposed Series of Construction Bonds, and to the Repayment Obligations to be outstanding after the issuance of the proposed Series of Construction Bonds.

(c) Notwithstanding any other provision of the Master Indenture, the provisions of subsection (b)(3) above shall not apply:

(1) to any Series of Construction Bonds all of the proceeds of which are to be applied to pay the Cost of Construction of a Project necessary, as expressed in an Airport Consultant's Certificate delivered to the Trustee, to comply with requirements of any governmental agency having jurisdiction over the Airport;

(2) to any Series of Bonds, the aggregate Principal amount of which, together with the aggregate Principal amount of all other Outstanding Bonds issued pursuant to this paragraph (2) during any Fiscal Year, does not exceed 10% of Revenues for the most recent Fiscal Year prior to the issuance of such Series of Bonds for which audited financial statements are available, all as expressed in a Written Certificate of the City; provided that the Trustee shall have received a Written Certificate of the City showing that the Estimated Net Revenues for the next succeeding Fiscal Year, together with any Other Available Funds, are not less than the Rate Covenant Requirement for such Fiscal Year with respect to all Series of Bonds to be Outstanding at any time during such Fiscal Year, and to the Repayment Obligations to be outstanding at any time during such Fiscal Year; or

(3) to any Series of Bonds issued to pay the Cost of Construction necessary to complete any Project for which Construction Bonds have previously been issued, provided that the Trustee shall have received:

(A) A Written Certificate of the City stating that the nature and purpose of such Project has not materially changed since the initial Written Certificate of the City was filed pursuant to subsection (b)(1) above; and

(B) A Written Certificate of the City to the effect that (i) all of the proceeds (including investment earnings) of Construction Bonds previously issued to finance such Project have been or will be used to pay Costs of Construction of the Project, (ii) the then estimated Costs of Construction of the Project as contained in the Written Certificate of the City delivered pursuant to subsection (b)(1) above exceeds the sum of the Costs of Construction already paid plus moneys available in the Project Account established for the Project (including unspent proceeds of Bonds previously issued for such purpose) plus other legally available moneys in the Revenue Fund, (iii) the issuance of such Series of Bonds is necessary to provide funds to pay Costs of Construction necessary for the Project and (iv) the Principal amount of such Series of Bonds does not exceed ten percent of the Principal amount of all Construction Bonds previously issued to finance such Project.

Special Provisions for the Issuance of Refunding Bonds

One or more Series of Refunding Bonds may be issued to accomplish the refunding of all or a part of the Outstanding Bonds of one or more Series or all or part of any other borrowing of the Issuer payable in whole or in part from the Revenues, including in each case the payment of all expenses in connection with such refunding. As used herein, the term "Refunded Debt" shall refer to such Bonds or other debt to be so refunded.

Each Series of Refunding Bonds shall be issued only upon receipt by the Trustee of one of the following:

(a) A Written Certificate of the Issuer demonstrating that the maximum amount of Aggregate Debt Service for any Fiscal Year with respect to the Series of Refunding Bonds is no greater than the maximum amount of Aggregate Debt Service of the Refunded Debt; or

(b) An Accountant's Certificate (i) setting forth for any Year within the 24 calendar months next preceding the authentication and delivery of such Series of Bonds, the Net Revenues for such period, and (ii) showing that such Net Revenues for such Year, together with Other Available Funds, would not be less than the Rate Covenant Requirement with respect to all Bonds to be Outstanding at any time during the Year next following the issuance of the proposed Series of Bonds and to the Repayment Obligations to be outstanding at any time during the Year next following the issuance of the proposed Series of Bonds.

Provisions Regarding Bonds Secured by a Security Instrument

The Issuer may include such provisions in a Supplemental Indenture authorizing the issuance of a Series of Bonds secured by a Security Instrument as the Issuer deems appropriate.

In addition, such Supplemental Indenture may establish such provisions as are necessary to provide relevant information to the Security Instrument Issuer and to provide a mechanism for paying Principal Installments and interest on such Series of Bonds from the Security Instrument.

Registration and Exchange

Transfer of Bonds. Unless otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Master Indenture, by the person in whose name it is registered, in person or by a duly authorized attorney, upon surrender of such Bond for cancellation or, if applicable, notation of the new Holder together with the signature of the Trustee or any applicable Transfer Agent on the back of such Bond or on a form of record attached to such Bond

for such purpose, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any Bond shall be surrendered for transfer, the Trustee or any Transfer Agent shall authenticate and deliver a new fully registered Bond or Bonds duly executed by the Issuer or, if applicable, shall deliver the same Bond, duly annotated with the new Holder and signed by the Trustee or any applicable Transfer Agent on the back of such Bond or on a form of record attached to such Bond for such purpose, for like aggregate principal amount. The Trustee or any Transfer Agent shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

The Issuer, the Trustee, and any Transfer Agent shall not be required (a) to issue, register the transfer of, or exchange any Bond during a period beginning at the opening of business 15 days before the date of the mailing of a notice of redemption of Bonds selected for redemption under the Master Indenture and ending at the close of business on the day of such mailing, or (b) to register the transfer of or exchange any Bond so selected for redemption in whole or in part, except the unredeemed portion of Bonds being redeemed in part.

Exchange of Bonds. Fully registered Bonds may be exchanged at the principal corporate trust office of the Trustee or of any Transfer Agent for a like aggregate Principal amount of fully registered Bonds of the same Series and maturity of authorized denominations. The Trustee or any Transfer Agent shall required the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, no such exchange shall be required to be made subsequent to the Record Date.

Bond Registration Books. The Trustee will keep or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of Bonds, which shall at all times be open to inspection by the Issuer; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer bonds on said books.

Selection of Bonds for Redemption

Except as otherwise provided in a Supplemental Indenture:

If less than all of the Bonds of any Series are called for redemption and if the Bonds of such Series shall mature on more than one date, the Bonds of such Series shall be redeemed from the Outstanding Bonds of such Series in inverse order of maturities.

If less than all of the Bonds of any Series maturing on any single date are called for redemption, the Trustee shall select the Bonds to be redeemed, from the Outstanding Bonds of such Series maturing on that date not previously called for redemption, in such manner as in the Trustee's sole discretion it shall deem appropriate and fair; provided, however, that subject to other applicable

provisions of the Master Indenture or of any Supplemental Indenture, the portion of any Bond to be redeemed shall be in a Principal amount equal to a denomination in which Bonds of such Series are authorized to be issued. In selecting Bonds for redemption the Trustee shall treat each Bond as representing the number of Bonds which is obtained by dividing the Principal amount of each Bond by the minimum denomination in which such Series of Bonds is authorized to be issued. If part but not all of a Bond shall be selected for redemption, the Holder thereof or the Holder's attorney or legal representative shall present and surrender such Bond to the Trustee for payment of the Principal amount thereof so called for redemption and the redemption premium, if any, on such Principal amount. The Issuer shall execute and the Trustee or any Transfer Agent shall authenticate and deliver to or upon the order of such Holder or the Holder's legal representative, without charge therefor, a Bond or Bonds of the same maturity and bearing interest at the same rate as the Bond so surrendered for the unredeemed portion of the surrendered Bond.

Notice and Effect of Redemption

Notice of Redemption. Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, notice of redemption shall be given by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, to the registered owner of such Bond, at the owner's address as it appears on the bond registration books of the Trustee or at such address as the owner may have filed with the Trustee for that purpose, but neither failure to mail any such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Bonds. Each notice of redemption shall state the redemption date, the place of redemption, the source of the funds to be used for such redemption, the Principal amount, and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the distinctive numbers of the Bonds to be redeemed, and shall also state that the interest on the Bonds or portions thereof in such notice designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds, the Redemption Price thereof and interest accrued thereon to the redemption date.

Deposit of Redemption Price. Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, the Issuer shall deposit with the Trustee the money required for payment of the Redemption Price of and the accrued interest to the redemption date on all Bonds then to be called for redemption at least one day before the date fixed for such redemption.

Partial Redemption of Bonds; Disposition of Redeemed Bonds. Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, upon surrender of any Bond redeemed in part only, the Issuer shall duly execute and the Trustee or any Transfer Agent shall authenticate and deliver to the registered owner thereof, at the expense of the Issuer, a new Bond or Bonds of the same Series and maturity and of authorized denominations equal in aggregate Principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, if notice of redemption has been duly given as described above, and

moneys for payment of the Redemption Price, together with interest to the redemption date on the Bonds so called for redemption, are held by the Trustee, then such Bonds shall, on the redemption date designated in such notice, become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date; and from and after the date so designated interest on the Bonds so called for redemption shall cease to accrue.

Construction Fund

The Master Indenture creates and establishes a Construction Fund, to be held by the Trustee, in which the Trustee shall establish a Project Account for each Project. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Master Indenture or any Supplemental Indenture. Amounts in each Project Account established for a Project shall be applied to pay the Cost of the Project.

All net income earned on any moneys or investments in the Project Account established in the Construction Fund for a Project shall be held in such Project Account and applied to pay Cost of the Project.

Upon completion of the Project, the balance in the applicable Project Account in the Construction Fund in excess of the amount, if any, required for payment of any remaining part of the Cost of such Project shall be (a) used to purchase Bonds (see the caption "Summary of the Master Indenture Purchase of Bonds" herein), (b) deposited into the Debt Service Reserve Account to fund any amounts required to be deposited therein, (c) deposited into the Bond Account, (d) transferred into another Project Account to pay Cost of a Project, or (e) used for any other purpose for which proceeds of Bonds may be used under applicable law and covenants regarding the use of proceeds of Bonds.

Revenues; Revenue Fund; Payment of Operation and Maintenance Costs

All Revenues and Other Available Funds as permitted by law shall be promptly deposited by the Issuer to the credit of the Revenue Fund.

The Issuer shall pay the Operation and Maintenance Costs from time to time as they become due and payable as a first charge on the Revenue Fund.

The Commission shall maintain on file with the Trustee a certificate setting forth the amount of working capital reasonably required for efficient operation and maintenance of the Airport, which amount shall be not less than an amount reasonably estimated to pay the Operation and Maintenance Costs of the Airport for three calendar months. This certificate may be revised from time to time as deemed necessary or desirable by the Commission.

There shall be retained in the Revenue Fund, to the extent such amounts are not otherwise required to be transferred from the Revenue Fund pursuant to the provisions of the Master Indenture

described in the caption “SUMMARY OF THE MASTER INDENTURE-Flow of Funds,” “Principal and Interest Account-Bond Account,” and “Principal and Interest Account-Debt Service Reserve Account” herein:

- (1) The amount estimated to be required as working capital as described above,
- (2) The amount required to be deposited into the Principal and Interest Fund in the next succeeding month, and
- (3) Any amounts designated as Other Available Funds for the current or any future Fiscal Year.

The Issuer may utilize moneys in the Revenue Fund in excess of the amounts in (1), (2), and (3) above for any lawful Airport purpose.

Flow of Funds

On or before the last Business Day of each month and after payment of unpaid Operation and Maintenance Costs then due, the Issuer shall transfer and deposit from the Revenue Fund into the Principal and Interest Fund the amounts set forth below and in the following order:

FIRST: for credit to the Bond Account, the amount, if any, required so that the balance in each of the Series Subaccounts in the Bond Account shall equal the Accrued Debt Service on the Series of Bonds and, to the extent required by a Supplemental Indenture, on any Security Instrument Obligations for which such Series Subaccount was established; provided that if there are not sufficient moneys to satisfy the requirements of this paragraph with respect to all Series Subaccounts in the Bond Account, all moneys available for distribution among such Series Subaccounts shall be deposited into the Bond Account and distributed on a pro rata basis to the deficient Series Subaccounts in the Bond Account, such distribution to be determined by multiplying the amount available for distribution by the proportion that the deficiency for each Series Subaccount bears to the total deficiency for all Series Subaccounts; and provided further, that in the event and to the extent moneys have been deposited in any Project Account as capitalized interest, such moneys shall be transferred from the appropriate Project Account and deposited into the appropriate Series Subaccount in the Bond Account in an amount sufficient to cause the balance in such Series Subaccount to equal the interest component of Accrued Debt Service on the Series of Bonds; and

SECOND: for credit to each Series Subaccount established within the Debt Service Reserve Account, the amount, if any, required to be deposited therein pursuant to a Supplemental Indenture; provided that if there are not sufficient moneys to satisfy the requirements of this paragraph with respect to all Series Subaccounts in the Debt Service Reserve Account, all moneys available for distribution among such Series Subaccounts shall

be deposited into the Debt Service Reserve Account and distributed on a pro rata basis to the deficient Series Subaccounts in the Debt Service Reserve Account, such distribution to be determined by multiplying the excess amount in the Revenue Fund by the proportion that the deficiency for each Series Subaccount bears to the total deficiency for all Series Subaccounts;

provided, however, that so long as there shall be held in the Principal and Interest Fund, excluding any Reserve Instrument Coverage, an amount sufficient to pay in full all Outstanding Bonds and all Repayment Obligations in accordance with their terms (including Principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Principal and Interest Fund.

Principal and Interest Fund

The Master Indenture creates and establishes a Principal and Interest Fund, to be held by the Trustee, consisting of (i) a Bond Account, in which the Trustee shall establish a separate Series Subaccount for each Series of Bonds, and (ii) a Debt Service Reserve Account, in which the Trustee may establish a separate Series Subaccount for each Series of Bonds.

Bond Account. Each Supplemental Indenture providing for the issuance of a Series of Bonds shall establish a separate Series Subaccount in the Bond Account for each related Series of Bonds. There shall be deposited into each Series Subaccount, the amounts required to be so deposited pursuant to the Master Indenture (see the caption “Summary of the Master Indenture—Flow of Funds—FIRST” herein). Any payments made by a Security Instrument Issuer with respect to a Series of Bonds shall be deposited into the Series Subaccount in the Bond Account relating to such Series of Bonds, subject to the provisions of the Supplemental Indenture authorizing the issuance of such Series of Bonds.

The Trustee shall pay out of the appropriate Series Subaccount in the Bond Account to the respective Paying Agent (1) on or before each interest payment date for each Series of Bonds, the amount required for the interest payable on such date; (2) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (3) on or before any redemption date for each Series of Bonds, the amount required for the payment of the Redemption Price of and accrued interest on such Bonds then to be redeemed.

The Trustee shall pay out of the appropriate Series Subaccount in the Bond Account to the Security Instrument Issuer, if any, that has issued a Security Instrument with respect to such Series of Bonds an amount equal to any Security Instrument Repayment Obligation then due and payable to such Security Instrument Issuer. If payment is so made on Pledged Bonds held for the benefit of the Security Instrument Issuer, a corresponding payment on the Security Instrument Repayment Obligation shall be deemed to have been made (without requiring an additional payment by the Issuer) and the Trustee shall keep its records accordingly.

Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, amounts accumulated in any Series Subaccount in the Bond Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) shall, if so directed by the Issuer not less than 30 days before the due date of such Sinking Fund Installment, be applied by the Trustee to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established or the redemption at the applicable sinking fund Redemption Price of such Bonds, if then redeemable by their terms. All purchases of any Bonds as described in this paragraph shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest. As soon as practicable after the 60th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, by giving notice as required by the Master Indenture, Bonds of the Series and maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment.

Debt Service Reserve Account. Each Supplemental Indenture providing for the issuance of a Series of Bonds shall establish in the Debt Service Reserve Account a separate Series Subaccount for such Series of Bonds. The Supplemental Indenture shall specify any Debt Service Reserve Requirement, the manner in which the Debt Service Reserve Account may be funded, and the manner in which any deficiency in the Debt Service Reserve Account may be replenished, provided that the time for replenishing any deficiency in full shall not exceed 12 months.

Subject to any limitations contained in a Supplemental Indenture, the Issuer may satisfy any Debt Service Reserve Requirement by means of a Reserve Instrument (or may substitute one Reserve Instrument for another) if the Issuer has provided to the Trustee written evidence satisfactory to the Trustee from each rating agency then having a rating in effect for any Series of Bonds then Outstanding to the effect that the rating agency has reviewed the proposed Reserve Instrument and that the use of such Reserve Instrument (or the substitution of one Reserve Instrument for another, as appropriate) will not, by itself, result in a reduction or withdrawal of such Rating Agency's rating of such Series of Bonds.

If on the final Business Day of any month, after the deposit of moneys required by the Master Indenture (see the caption "Summary of the Master Indenture—Flow of Funds—SECOND" herein), the amount in any Series Subaccount in the Bond Account shall be less than the amount required to be in such Series Subaccount, the Trustee shall apply amounts from the corresponding Series Subaccount, if any, in the Debt Service Reserve Account to the extent necessary to make good the deficiency; and to the extent those moneys and investments are not sufficient to eliminate the deficiency in the Series Subaccount in the Bond Account and Reserve Instruments are in effect for the corresponding Series of Bonds, immediately make a demand for payment on all such Reserve Instruments in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof in the appropriate Series Subaccount in the Bond Account.

Whenever the moneys on deposit in a Series Subaccount in the Debt Service Reserve Account for a Series of Bonds, including investment earnings and Reserve Instrument Coverage with respect thereto, shall exceed the Debt Service Reserve Requirement for all Outstanding Bonds of such Series and related Repayment Obligations, such excess shall be transferred by the Trustee and deposited into the Reserve Fund.

Whenever the amount in a Series Subaccount in the Debt Service Reserve Account, excluding any Reserve Instrument Coverage, together with the amount in the corresponding Series Subaccount in the Bond Account for a Series of Bonds, is sufficient to pay in full all Outstanding Bonds of such Series and related Repayment Obligations in accordance with their terms (including Principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in such Series Subaccount in the Debt Service Reserve Account shall be transferred to the corresponding Series Subaccount in the Bond Account and no deposits shall be required to be made into such Series Subaccount in the Debt Service Reserve Account.

Unless otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, in calculating the amount on deposit in a Series Subaccount in the Debt Service Reserve Account, the amount of the Reserve Instrument Coverage for the corresponding Series of Bonds will be treated as an amount on deposit in such Series Subaccount in the Debt Service Reserve Account. So long as any Series of Bonds rated by a Rating Agency is Outstanding, the Issuer may not invest moneys held in a Series Subaccount in the Debt Service Reserve Account in a Reserve Instrument without obtaining the prior consent of the Trustee and providing notice of such investment to such Rating Agency.

Unless otherwise specified in the Supplemental Indenture authorizing a Series of Bonds, no Reserve Instrument for such Series of Bonds shall be allowed to expire unless and until cash has been deposited into the appropriate Series Subaccount in the Debt Service Reserve Account, or a new Reserve Instrument has been issued in place of the expiring Reserve Instrument, in an amount or to provide coverage at least equal to the Debt Service Reserve Requirement for the corresponding Series of Bonds.

Purchase of Bonds

The Issuer may purchase Bonds of any Series from any available funds at public or private sale, as and when and at such prices as the Issuer may in its discretion determine, but at a price not exceeding the Principal amount thereof plus accrued interest thereon, or in the case of Bonds which by their terms are subject to redemption prior to maturity, at the then current or first applicable Redemption Price (plus accrued interest), as the case may be. In the case of the purchase of Bonds of a Series and maturity for which Sinking Fund Installments shall have been established, the Issuer shall elect the manner in which the Principal amount of such Bonds shall be credited toward Sinking Fund Installments (see the caption "Summary of the Master Indenture—Principal and Interest Fund—Bond Account" herein).

Covenants of the Issuer

Against Encumbrances. The Issuer will not create, and will use its good faith efforts to prevent the creation of, any mortgage or lien upon the Airport or any property essential to the proper operation of the Airport or to the maintenance of the Revenues. The Issuer will not create, or permit the creation of, any pledge, lien, charge, or encumbrance upon the Revenues except only as provided in or permitted by the Master Indenture.

Limitation on Sale or Other Disposition of Property. The Issuer will not sell or otherwise dispose of all or a substantial part of the Airport except:

(1) The Issuer may sell or otherwise dispose of any facilities, or an interest in facilities, constituting a part of the Airport which have ceased to be necessary for the efficient operations of the Airport.

(2) The Issuer may sell or otherwise dispose of any facilities, or an interest in facilities, constituting a part of the Airport if the Issuer files with the Trustee an Airport Consultant's Certificate demonstrating that, following such sale or disposition and after giving effect both to the proposed sale or disposition of the facilities and the application of the proceeds of such sale, and to any change in Estimated Net Revenues resulting from such sale or other disposition and for the remainder of the Fiscal Year in which such sale is effective and in the next succeeding Fiscal Year, the Estimated Net Revenues will be not less than the Rate Covenant Requirement.

The Issuer will not enter into any lease or other agreement which impairs or impedes the operation of the Airport or which impairs or impedes the rights of the Bondholders with respect to the Revenues.

The proceeds of any sale or other disposition described above shall be deposited into the Revenue Fund.

Operation and Maintenance. The Issuer will operate the Airport continuously in an efficient and economical manner, to the extent practicable under then existing conditions, for the receipt and dispatch of passengers, property, and mail by aircraft and at standards required in order that the Airport may be approved by the proper federal and state authority or authorities for landing and take-off of commercial and passenger aircraft operating in scheduled service. The Issuer will at all times maintain, preserve, and keep the Airport in good repair, working order, and condition so that the operating efficiency thereof will be of high character. The Issuer will cause all necessary and proper repairs and replacements to be made so that the business carried on in connection with the Airport may be properly and advantageously conducted at all times in a manner consistent with prudent management, and that the rights and security of the Holders of the Bonds, Security Instrument Issuers, and Reserve Instrument Issuers may be fully protected and preserved.

Maintenance of Revenues. The Issuer will not sell, convey, mortgage, encumber, or otherwise dispose of any part of the Revenues, including the payments to be made by the Airlines under Airport Use Agreements or leases, except as otherwise permitted by the Master Indenture.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions, the Issuer will procure and maintain insurance on the Airport and public liability insurance in such amounts and against such risks as are usually insurable in connection with similar airports and are usually carried by municipalities operating similar airports and adequate fidelity insurance or bonds on the positions of City Manager, City Treasurer, Airport Manager, and on any other person or persons handling or responsible for funds of the Issuer related to the Airport.

Accounts and Reports. The Issuer will at all times keep proper books of record and accounts, separately identified from all other records and accounts of the Issuer, in which complete and accurate entries shall be made of all transactions relating to the Airport and the Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Holders of not less than five percent of the Bonds then Outstanding, any party specified by a Supplemental Indenture, or their representatives authorized in writing.

So long as any Bonds are outstanding, the Issuer will place on file with the Trustee and with any party specified by a Supplemental Indenture semiannually, within 60 days after the first days of January and July of each Year, an unaudited financial statement in reasonable detail for the preceding six months and the preceding 12 months, respectively, showing the Revenues, all expenditures from the Revenues for Operation and Maintenance Costs, and all other expenditures from the Revenues applicable to the Airport and the resulting Net Revenues available for Debt Service for such periods.

The Issuer will place on file with the Trustee and with any party specified by a Supplemental Indenture annually within 120 days after the close of each Fiscal Year a financial statement in reasonable detail for the preceding Fiscal Year showing the Revenues, all expenditures from the Revenues for Operation and Maintenance Costs, and all other expenditures from the Revenues applicable to the Airport and the resulting Net Revenues available for Debt Service, and a balance sheet in reasonable detail reflecting the financial condition of the Airport, including the balances of all Funds relating to the Airport at the end of the Fiscal Year for which such balance sheet has been prepared. Such financial statement and balance sheet shall each be accompanied by an Accountant's Certificate.

The reports, statements, and other documents required to be furnished to the Trustee pursuant to any provisions of the Master Indenture shall be available for the inspection of Bondholders, Security Instrument Issuers, and Reserve Instrument Issuers at the principal corporate trust office of the Trustee and shall be mailed to each Bondholder, Security Instrument Issuer, Reserve Instrument Issuer, investment banker, security dealer, or other person interested in the Bonds who shall file a written request therefor with the Issuer.

Rates and Charges

In order to assure full and continuous performance of the covenants contained in the Master Indenture relating to the punctual payment of Bonds and the maintenance of Revenues, with a margin for contingencies and temporary unanticipated reduction in Revenues, the Issuer covenants and agrees to establish, fix, prescribe, continue, and collect (directly or through leases, use agreements or other agreements, or licenses or ordinances) rates and charges for the sale or use of Airport services furnished by the Issuer which, together with other income, are reasonably expected to yield available revenues at least equal to the Rate Covenant Requirement for the forthcoming Fiscal Year. The term "Rate Covenant Requirement" shall mean:

(1) Net Revenues at least equal to the sum of 100% of the Aggregate Debt Service excluding amounts payable on Repayment Obligations for the Fiscal Year, plus 100% of the Repayment Obligations, if any, which will be due and payable during the forthcoming Fiscal Year, plus 100% of the amounts, if any, required by the Master Indenture to be deposited into the Debt Service Reserve Account during the forthcoming Fiscal Year, and

(2) Net Revenues which together with Other Available Funds, are (a) 125% of Aggregate Debt Service excluding amounts payable on Repayment Obligations for the Fiscal Year, (b) 100% of the Repayment Obligations, if any, which will be due and payable during the forthcoming Fiscal Year, and (c) 100% of the amounts, if any, required by the Master Indenture to be deposited into the Debt Service Reserve Account during the forthcoming Fiscal Year. In the event that there are no Other Available Funds for purposes of this paragraph (2), Net Revenues must equal 125% of items (a), (b), and (c).

If the annual financial statements relating to Revenues disclose that the Net Revenues were not at least equal to the Rate Covenant Requirement, the Issuer shall not be in default under the Master Indenture if,

(1) Within 60 days after the date of such financial statement the Issuer obtains recommendations from an Airport Consultant as to the revision of the rates, charges, and fees necessary to produce Net Revenues at least equal to the Rate Covenant Requirement; and

(2) On the basis of such recommendations, the Issuer revises the schedule of rates, charges, and fees insofar as is practicable and revises Operation and Maintenance Costs so as to produce Net Revenues at least equal to the Rate Covenant Requirement.

In the event that receipts from PFCs are included in Other Available Funds for purposes of this Rate Covenant computation and such PFCs are canceled or terminated, or the Issuer is prohibited from collecting amounts due from PFCs, the Issuer shall, as soon as reasonably possible, modify, amend, fix, and collect rates and charges which are reasonably expected to yield Net Revenues at least equal to the Rate Covenant Requirement.

Eminent Domain

If all or any part of the Airport shall be taken by eminent domain proceedings or conveyance in lieu thereof, the net proceeds realized by the Issuer therefrom shall be deposited with the Trustee in a special fund in trust and shall be applied and disbursed by the Trustee subject to the following conditions:

(1) If such funds are sufficient to provide for the payment of the entire amount of Principal due or to become due upon all of the Outstanding Bonds and outstanding Repayment Obligations, together with all of the interest due or to become due thereon and any redemption premiums thereon, so as to enable the Issuer to retire all of the Bonds then Outstanding, either by call and redemption at the then current Redemption Prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, and to pay all Repayment Obligations, the Trustee shall apply such moneys to such retirement or payment, as appropriate, and to the payment of such interest. Pending the application of such proceeds for such purpose, the Trustee shall invest such moneys in Government Obligations. The balance of such moneys, if any, shall be transferred to the Issuer.

(2) If such proceeds are insufficient to provide the moneys required for the purposes set forth in paragraph (1) above, the Issuer shall request the Trustee to apply such proceeds for one of the following purposes:

(a) To the purchase, redemption, or retirement of Bonds then Outstanding and Repayment Obligations then outstanding. If more than one Series of Bonds is then Outstanding, such proceeds shall be applied pro rata among each such Series to the purchase, redemption, or retirement of the Bonds of each such Series and the payment of Repayment Obligations in the proportion which the Principal amount of Bonds of each such Series then Outstanding and Repayment Obligations then outstanding bears to the aggregate Principal amount of all Bonds then Outstanding and Repayment Obligations then outstanding. Pending the application of such proceeds for such purpose, the Trustee shall invest such moneys in Government Obligations.

(b) To deliver such proceeds to the Issuer to apply to the cost of additions, improvements, or extensions to the Airport. The Issuer shall also file with the Trustee an Airport Consultant's Certificate showing the loss in annual Revenues, if any, suffered or to be suffered by the Issuer by reason of such eminent domain proceedings, together with a general description of the additions, improvements, or extensions to the Airport then proposed to be acquired or constructed by the Issuer from such proceeds. If, in the opinion of the Issuer, which opinion shall be final, the additional Revenues to be derived from such additions or improvements will sufficiently offset the loss of Revenues resulting from such eminent domain proceedings so that the ability of the Issuer to meet its obligations under the Master Indenture will not be substantially impaired, the Trustee shall pay such proceeds to the Issuer. The Issuer, in reaching such determination, may rely upon the Airport

Consultant's Certificate. The Issuer shall hold such proceeds in trust and apply them to the acquisition or construction of the additions, improvements, or extensions substantially in accordance with such Airport Consultant's Certificate. The Issuer shall acquire or construct such additions or improvements in a sound and economic manner and as expeditiously as is practicable. Any balance of such proceeds not required by the Issuer for such additions, improvements, or extensions shall be deposited into the Revenue Fund.

(c) To deposit such proceeds into the Revenue Fund upon the basis that such eminent domain proceedings have had no effect, or at the most a relatively immaterial effect, upon the security of the Bonds. The Issuer shall file with the Trustee an Airport Consultant's Certificate stating that such eminent domain proceedings have not substantially impaired or affected the operation of the Airport or the ability of the Airport to produce Net Revenues at least equal to the Rate Covenant Requirement. The Trustee shall deposit such proceeds into the Revenue Fund.

Reconstruction of Airport; Application of Insurance Proceeds

If any useful portion of the Airport shall be damaged or destroyed, the Issuer shall, as expeditiously as is practicable, continuously and diligently prosecute or cause to be prosecuted the reconstruction or replacement thereof, unless the Issuer shall file with the Trustee an Airport Consultant's Certificate to the effect that such reconstruction or replacement is not in the interests of the Issuer and the Bondholders. The proceeds of any insurance paid on account of such damage or destruction, other than business interruption loss insurance or public liability insurance, shall, if the appropriate Project Account in the Construction Fund has not been closed, be paid into the Construction Fund, or if the Construction Fund has been closed, shall be held by the Trustee in a special account and made available for, and to the extent necessary applied to, the cost of such reconstruction or replacement, if any. Pending such application, such proceeds may be invested by the Issuer in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement. Any balance of such proceeds of insurance not needed to pay such cost of reconstruction or replacement shall be deposited into the Revenue Fund.

Special Purpose Bonds

The Issuer may issue special purpose bonds, notes, or obligations from time to time for the purpose of financing or refinancing the cost of Special Purpose Facilities. The special purpose bonds, notes, or obligations referred to in this paragraph shall be payable as to principal, redemption premium, if any, and interest solely from rentals or other charges derived by the Issuer under and pursuant to a lease or leases relating to the Special Purpose Facilities entered into by and between the Issuer, as lessor, and such person, firm, or corporation, either public or private, as shall lease the Special Purpose Facilities from the Issuer. Bonds to construct or acquire a Special Purpose Facility may only be issued in accordance with the provisions of the Master Indenture.

Operation by Commission

The Issuer recognizes that the Commission is the agency and instrumentality of the Issuer designated by ordinances of the Issuer to operate and manage the Airport and its related properties and facilities, with full and complete authority to manage, operate, improve, extend, and maintain the Airport and its related properties and facilities. Such authority and responsibility of the Commission is confirmed and continued and the Commission is further designated and appointed as the agency and instrumentality of the Issuer to act for and on behalf of the Issuer in connection with the discharge of the duties of the Issuer, and the realization of all rights of the Issuer, under and pursuant to the Master Indenture. The Issuer covenants with the Trustee and the Holders of the Bonds that such authorization and authority will not be rescinded so long as any Bonds are Outstanding.

The Trustee

The Issuer has appointed Regions Bank, Little Rock, Arkansas, as Trustee for the Holders of the Bonds, to act as the legal depository of the Issuer for the purpose of receiving all moneys which the Issuer is required to pay to the Trustee under the Master Indenture and to hold, allocate, use, and apply the same as provided in the Master Indenture. The Trustee shall also act as registrar and Transfer Agent for the Bonds, with the duties provided in the Master Indenture. In acting as registrar and Transfer Agent, the Trustee shall be the agent of the Issuer.

Resignation of the Trustee. The Trustee may at any time resign or be discharged of its duties and obligations created by the Master Indenture by giving not less than 60 days' written notice to the Issuer, specifying the date when such resignation shall take effect, and mailing notice thereof to the Holders of all Bonds then Outstanding, and such resignation shall take effect on the day specified in such notice unless previously a successor shall have been appointed in the manner described below and as provided in the Master Indenture, in which event such resignation shall take effect immediately upon the appointment of such successor; provided, however, that such resignation of the Trustee shall in no event take effect until such successor shall have been appointed and accepted the duties of Trustee.

Removal of the Trustee. The Issuer may at any time remove the Trustee initially appointed or any successor thereto by the adoption by the Issuer of a resolution providing for such removal, for the appointment of a successor, and for the effective date of the change of Trustee; provided, however, that such removal of the Trustee shall in no event take effect until such successor shall have been appointed and accepted the duties of Trustee.

Appointment of Successor Trustee. Notice of the resignation or removal of the Trustee and the appointment of a successor shall be mailed by first class mail to the registered Holders of all Bonds then Outstanding (and by publication in a Financial Newspaper or Journal if any Bonds then Outstanding are not in fully registered form) and to each Security Instrument Issuer and Reserve Instrument Issuer then having a Security Instrument or Reserve Instrument outstanding, within 30

days after adoption by the Board of the resolution providing for such appointment. Any successor Trustee appointed by resolution adopted subsequent to the issuance of the first Series of Bonds issued under the Master Indenture shall be a bank or trust company with a capital stock, undivided profits, and surplus of not less than \$50,000,000 (or in the case of a corporation or trust company included in a bank holding company system, the related bank holding company system shall have a capital stock, undivided profits, and surplus of not less than \$50,000,000).

Terms and Conditions of the Trusts. The Trustee shall perform the trusts contained in the Master Indenture as a corporate trustee ordinarily would perform said trusts under a corporate indenture, only upon and subject to the express terms and conditions of the Master Indenture, including without limitation the following:

(1) The Trustee shall not be required to take notice or be deemed to have notice of any default under the Master Indenture except (a) failure by the Issuer to cause to be made any of the payments to the Trustee required to be made pursuant to Article V of the Master Indenture; (b) failure of the Issuer to file with the Trustee any document required by the Master Indenture to be so filed prior to or subsequent to the issuance of the Bonds; or (c) any default with respect to a Security Instrument Agreement or Reserve Instrument Agreement as to which any of the parties thereto has notified the Trustee in writing; provided that the Trustee shall be required to take notice or be deemed to have notice of any default under the Master Indenture if specifically notified in writing of such default by the Holders of not less than 10% in aggregate Principal amount of Bonds then Outstanding, by any Security Instrument Issuer, or by any Reserve Instrument Issuer, and all notices or other instruments required by the Master Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee and in the absence of such notice, the Trustee may conclusively assume there is not default except as aforesaid;

(2) The Trustee shall be under no obligation to exercise any of the trusts or powers vested in it by the Master Indenture at the request, order, or direction of any of the Bondholders, Security Instrument Issuers, or Reserve Instrument Issuers, pursuant to the provisions of the Master Indenture, unless such Bondholders, Security Instrument Issuers, or Reserve Instrument Issuers, shall have offered to the Trustee reasonable security or indemnity against the costs, expenses, and liabilities which might be incurred therein or thereby;

(3) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, ordinance, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, Bond, or other paper or document, unless requested in writing to do so by (1) the Holders of not less than 25% in aggregate Principal amount of the Bonds then Outstanding, (2) any Security Instrument Issuer of a Security Instrument then in full force and effect and not in default on a payment obligation, or (3) any Reserve Instrument Issuer of a Reserve Instrument then in full force and effect and not in default on a payment obligation; provided that if the timely payment to the Trustee of the

costs, expenses, or liabilities likely to be incurred in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of the Master Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to so proceeding. The reasonable expense of every such inquiry or examination shall be paid by the Issuer or, if paid by the Trustee, shall be repaid by the Issuer.

Intervention by the Trustee. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee has a substantial bearing on the interests of Holders of the Bonds, the Trustee may intervene on behalf of Bondholders and shall do so if requested in writing by the Holders of a majority of the aggregate Principal amount of Bonds then Outstanding or any Security Instrument Issuer of a Security Instrument then in full force and effect and not in default on a payment obligation. The rights and obligations of the Trustee described in this paragraph are subject to the approval of a court of competent jurisdiction.

Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business or assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation, or transfer to which it is a party, shall be and become a successor Trustee under the Master Indenture and vested with all the trusts, powers, discretion, immunities, privileges, and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed, or conveyance on the part of the Trustee or the Issuer.

Compensation of the Trustee and its Lien. The Issuer covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation and, except as otherwise expressly provided, the Issuer covenants and agrees to pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements, and advances incurred or made by the Trustee in accordance with any of the provisions of the Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ including but not limited to any Paying Agent, Transfer Agent, or Depository) except any such expense, disbursement, or advance as may arise from its negligence or bad faith. The Issuer also covenants to indemnify the Trustee for, and to hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of the trust evidenced by the Master Indenture, including the costs and expenses of defending itself against any claim of liability in the premises. The obligations of the Issuer to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements, and advances shall constitute additional indebtedness under the Master Indenture, shall be subject to the same limitations with respect to sources of payment as all other indebtedness of the Issuer thereunder, and shall survive the satisfaction and discharge of the Master Indenture. Such additional indebtedness shall be secured by a lien prior to that of the Bonds upon all property and funds held or collected by the Trustee as such, except funds held in any Rebate Fund and funds held in trust for the benefit of the Holders of particular Bonds.

Modification or Amendment of the Master Indenture and Supplemental Indentures

Amendments Permitted. The Master Indenture or any Supplemental Indenture and the rights and obligations of the Issuer and of the Holders of the Bonds may be modified or amended at any time by a Supplemental Indenture and pursuant to the affirmative vote at a meeting of Bondholders, or with the written consent without a meeting, (1) of the Holders of at least 60% in Principal amount of the Bonds then Outstanding, (2) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least 60% in Principal amount of the Bonds of each Series so affected and then Outstanding, and (3) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of at least 60% in Principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and then Outstanding; provided, however, that if such modification or amendment will not, by its terms, take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of Bonds of such Series shall not be required and Bonds of such Series shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds described in this paragraph.

The Master Indenture or any Supplemental Indenture and the rights and obligations of the Issuer, the Holders of the Bonds, the Security Instrument Issuers, and the Reserve Instrument Issuers may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Bondholders, for any of the following purposes:

- (1) To add to the covenants and agreements of the Issuer contained in the Master Indenture, to add other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the Issuer;
- (2) To make such provisions for the purpose of curing any ambiguity, or of curing or correcting any defective provision contained in the Master Indenture or in regard to questions arising under the Master Indenture, as the Issuer may deem necessary or desirable, and which shall not adversely affect the interests of the Holders of the Bonds;
- (3) To provide for the issuance of a Series of Bonds in accordance with the provisions of the Master Indenture (see the caption "Summary of the Master Indenture General Provisions for the Issuance of Bonds" herein);
- (4) To provide for the issuance of the Bonds pursuant to a book-entry system;
- (5) To make any change which in the judgment of the Trustee shall not materially adversely affect the rights or interests of the Holders of any Outstanding Bonds requested by a Rating Agency in order to obtain or maintain any rating on the Bonds or by a Security Instrument Issuer or Reserve Instrument Issuer in order to insure or provide other security for any Bonds;

(6) To make any change necessary (a) to establish or maintain the exemption from federal income taxation of interest on any Series of Bonds as a result of any modifications or amendments to section 148 of the Code (or any successor provision of law) or interpretations thereof by the Internal Revenue Service, or (b) to comply with the provisions of section 148(f) of the Code (or any successor provision of law), including provisions for the payment of all or a portion of the investment earnings of any of the Funds established under the Master Indenture to the United States of America;

(7) If the Bonds affected by such change are rated by a Rating Agency, to make any change which does not result in a reduction of the rating applicable to any of the Bonds so affected, provided that if any of the Bonds so affected are secured by a Security Instrument, such change must be approved in writing by the related Security Instrument Issuer;

(8) If the Bonds affected by such change are secured by a Security Instrument, to make any change approved in writing by the related Security Instrument Issuer, provided that if any of the Bonds so affected are rated by a Rating Agency, such change shall not result in a reduction of the rating applicable to any of the Bonds so affected; and

(9) To the extent permitted by a Supplemental Indenture authorizing a Series of Construction Bonds (or Bond Anticipation Notes), the designation of additions, improvements, and extensions to the Airport as a Project by such Supplemental Indenture may be modified or amended if the Issuer delivers to the Trustee an Airport Consultant's Certificate to the effect that such modification or amendment will not adversely effect the Issuer's ability to perform the covenants contained in the Master Indenture relating to rates and charges.

No modification or amendment shall be permitted pursuant to paragraph (7), (8), or (9) unless the Issuer delivers to the Trustee an Opinion of Counsel, with nationally recognized standing in the field of law relating to municipal bonds, to the effect that such modification or amendment will not adversely affect the tax-exempt status or validity of any Bonds affected by such modification or amendment.

No modification or amendment permitted as described above shall (1) extend the fixed maturity of any Bond, or reduce the Principal amount or Redemption Price thereof, or reduce the rate or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, (2) reduce the aforesaid percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Master Indenture, without the consent of the Holders of all of the Bonds then Outstanding, or (3) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Each Supplemental Indenture authorized as described above shall become effective as of the date of its adoption or such later date as shall be specified in such Supplemental Indenture.

No amendment shall be permitted pursuant as described above which shall affect (1) the rights or duties of a Security Instrument Issuer or Reserve Instrument Issuer of a Security Instrument or a Reserve Instrument, as the case may be, then in full force and effect and not in default on a payment obligation, or (2) the Series of Bonds for which a Security Instrument Issuer or Reserve Instrument Issuer provides security, without the consent of such Security Instrument Issuer or Reserve Instrument Issuer, as the case may be.

Bondholders' Meetings. The Trustee may, and upon the Written Request of the City shall, at any time, call a meeting of the Holders of Bonds, to be held at such place as may be selected by the Trustee and specified in the notice calling such meeting. Written notice of such meeting, stating the time and place of the meeting and in general terms the business to be submitted, shall be mailed by the Trustee, postage prepaid, not less than 30 nor more than 60 days before such meeting to any Security Instrument Issuer or Reserve Instrument Issuer that is in full force and effect with respect to any Series of Bonds Outstanding and to each registered owner of Bonds then Outstanding at the owner's address, if any, appearing upon the Bond register of the Issuer. The cost and expense of the giving of such notice shall be borne by the Issuer, and the Issuer shall reimburse the Trustee for any expense incurred by it.

Prior to calling any meeting of the Holders of Bonds, the Trustee shall adopt regulations for the holding and conduct of such meeting, and copies of such regulations shall be filed at the principal corporate trust office of the Trustee and at the office of the Issuer and shall be open to the inspection of all Bondholders. The regulations shall include such provisions as the Trustee may deem advisable for evidencing the ownership of Bonds, for voting in person or by proxy, for the selection of temporary and permanent officers to conduct the meeting and inspectors to tabulate and canvass the votes cast at the meeting, the adjournment of any meeting, and the records to be kept of the proceedings of such meeting, including rules of order for the conduct of such meeting and such other regulations as, in the opinion of the Trustee, may be necessary or desirable.

No resolution adopted by such meeting of Bondholders shall be binding unless and until a valid Supplemental Indenture has been passed containing the modifications or amendments authorized by the resolution adopted at such meeting. Such Supplemental Indenture shall become effective upon the filing with the Trustee of the resolution adopted at such meeting and such Supplemental Indenture.

Amendment by Written Consent. The Issuer may at any time adopt a valid Supplemental Indenture amending the provisions of the Bonds or of the Master Indenture or any Supplemental Indenture, to the extent that such an amendment is permitted by the Master Indenture, to become effective when and as approved by written consent of the Bondholders, and any necessary Security Instrument Issuers and Reserve Instrument Issuers, and as provided in the Master Indenture. Such Supplemental Indenture shall not be effective unless there shall have been filed with the Issuer or the Trustee the written consents of the necessary number of Holders of the Bonds then Outstanding and the consents of any necessary Security Instrument Issuers and Reserve Instrument Issuers and a notice shall have been published as described below. It shall not be necessary for any consent to

approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Each consent of a Bondholder shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given. Any such consent shall be binding upon the Holder of the Bonds giving such consent and on any subsequent Holder thereof (whether or not such subsequent Holder has notice thereof) unless such consent is revoked in writing by the Holder of the Bonds giving such consent or a subsequent Holder thereof by filing such revocation with the Issuer prior to the date when the notice described below has been mailed. Notice of the fact of the adoption of such Supplemental Indenture shall be mailed by the Issuer to Bondholders (but failure to mail copies of such notice shall not affect the validity of the Supplemental Indenture when assented to by the requisite percentage of the Holders of the Bonds as aforesaid) and to each Security Instrument Issuer and Reserve Instrument Issuer of a Security Instrument or a Reserve Instrument, as the case may be, then in full force and effect and not in default in a payment obligation.

Disqualified Bonds. Bonds owned or held by or for the account of the Issuer shall not be deemed Outstanding for the purpose of any vote, consent, or other action or any calculation of Outstanding Bonds for the purpose of approving Supplemental Indentures, and neither the Issuer nor any owner or Holder of such Bonds shall be entitled to vote or consent to, or to take, any other such action. Any Pledged Bonds shall be deemed Outstanding and, for the purposes of any vote, shall be considered to be owned by the appropriate Security Instrument Issuer.

Events of Default and Remedies

Events of Default. The occurrence of one or more of the following events shall constitute an "Event of Default":

- (1) Failure by the Issuer to make the due and punctual payment of the Principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration, or otherwise;
- (2) Failure by the Issuer to make the due and punctual payment of any installment of interest on any Bond or any Sinking Fund Installment when and as such interest installment or Sinking Fund Installment shall become due and payable;
- (3) Failure by the Issuer to observe any of the covenants, agreements, or conditions on its part contained in the Master Indenture or the Bonds, and failure to remedy the same for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Issuer by the Trustee, or to the Issuer and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding;

(4) Bankruptcy, reorganization, arrangement, insolvency, or liquidation proceedings, including without limitation proceedings under Chapter 9 of Title 11, United States Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Issuer and, if instituted against the Issuer, said proceedings are consented to or are not dismissed within 30 days after such institution; or

(5) Any event specified in a Supplemental Indenture as constituting an Event of Default under the Master Indenture;

provided that any failure by the Issuer to make payment as described in subparagraph (1) or (2) above shall not constitute an Event of Default with respect to any Bond if the Supplemental Indenture authorizing the issuance of such Bond provides that due and punctual payment by a Security Instrument Issuer or a Reserve Instrument Issuer shall not give rise to an Event of Default and such payment is, in fact, duly and punctually made.

The Trustee shall give notice to any Security Instrument Issuer or Reserve Instrument Issuer of any Event of Default known to the Trustee within 30 days after it has knowledge thereof.

Acceleration. Upon the occurrence of an Event of Default, unless the principal of all the Bonds shall have already become due and payable:

(1) The Trustee may, or

(2) Upon receipt of the written request of (a) the Holders of not less than 25% of the aggregate Principal amount of the Bonds at the time Outstanding (subject to any limitations specified in a Supplemental Indenture authorizing a Series of Bonds with respect to the rights of the Holders of such Bonds), (b) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure not less than 25% in aggregate Principal amount of the Bonds at the time Outstanding, or (c) any combination of Bondholders and Security Instrument Issuers described in clauses (a) and (b) representing not less than 25% in aggregate Principal amount of the Bonds at the time Outstanding, the Trustee shall, or

(3) The Trustee shall, if an Event of Default specified to be such in a Supplemental Indenture and the Supplemental Indenture specifying such Event of Default requires acceleration upon occurrence of such Event of Default (provided that if the Supplemental Indenture specifies that any conditions relating to such Event of Default to be satisfied prior to acceleration, such conditions are satisfied),

declare upon notice in writing to the Issuer the Principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Upon such declaration such Principal and interest shall be immediately due and payable, notwithstanding anything to the contrary

contained in the Master Indenture or in the Bonds; provided that with respect an Event of Default described in (1) or (2) relative to any Series of Bonds Outstanding secured by a Security Instrument which is in full force and effect and not in default on any payment obligation thereunder, no acceleration of such Series of Bonds shall occur without the written consent of the Security Instrument Issuer that provided such Security Instrument, which consent shall not be unreasonably withheld.

The right of the Trustee, or of the parties described in paragraph (2) above, to request the Trustee to make any such declaration as aforesaid, however, is subject to the conditions that:

(1) If, at any time after such declaration, any overdue installments of interest upon the Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Trustee, and all other sums then payable by the Issuer under the Master Indenture (except the Principal of and interest accrued since the next preceding interest payment date on the Bonds due and payable solely by virtue of such declaration) shall either be paid by the Issuer or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Master Indenture (other than the payment of Principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor; and

(2) If, at any time after such declaration, no event of default, however defined in any Security Instrument Agreement, has occurred and is continuing under such Security Instrument Agreement;

(3) If the amount available to be drawn by the Trustee under each Reserve Instrument is then equal to the Reserve Instrument Limit; and

(4) If any other requirement specified in a Supplemental Indenture shall have been satisfied;

then and in every such case (a) the Holders of a majority in aggregate Principal amount of the Bonds at the time Outstanding (subject to any limitations specified in a Supplemental Indenture authorizing a Series of Bonds with respect to the rights of the Holders of such Bonds), (b) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure a majority in aggregate Principal amount of the Bonds then Outstanding, or (c) any combination of Bondholders and Security Instrument Issuers described in clauses (a) and (b) representing a majority in aggregate Principal amount of the Bonds at the time Outstanding, by written notice to the Issuer and to the Trustee, may rescind such declaration and annul such default in its entirety or, if the Trustee shall have acted without a direction from the Holders or Security Instrument Issuers representing not less than 25% in aggregate Principal amount of the Bonds at the time Outstanding at the time of such request, and if there shall not have been theretofore delivered to the Trustee written request to the contrary by (i) the Holders of a majority

in aggregate Principal amount of the Bonds then Outstanding (subject to any limitations specified in a Supplemental Indenture authorizing a Series of Bonds with respect to the rights of the Holders of such Bonds), (ii) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure a majority in aggregate Principal amount of the Bonds then Outstanding, or (iii) any combination of Bondholders and Security Instrument Issuers described under clauses (i) and (ii) representing a majority in aggregate Principal amount of the Bonds at the time Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Accounting and Examination of Records after Default. The Issuer covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Issuer and all other records of the Issuer relating to the Airport shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys. The Issuer covenants that if an Event of Default shall happen and shall not have been remedied, the Issuer, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities, and funds pledged or held under the Master Indenture for such period as shall be stated in such demand.

Application of Revenues and Other Moneys after Default. During the continuance of an Event of Default, the Trustee shall apply Revenues and such moneys, securities, and funds and the income therefrom as follows and in the following order, provided that moneys held in any Series Subaccount in the Bond Account or in the Debt Service Reserve Account or received under any Security Instrument shall not be used for purposes other than payment of the interest and Principal or Redemption Price then due on the Series of Bonds corresponding to such Series Subaccount or such Security Instrument in accordance with paragraph (3) below:

- (1) To the payment of the reasonable and proper charges and expenses of the Trustee and the reasonable fees and disbursements of its counsel;
- (2) To the payment of the Operation and Maintenance Costs;
- (3) To the payment of the interest and Principal or Redemption Price then due on the Bonds and Security Instrument Repayment Obligation, as follows:
 - (a) Unless the Principal of all of the Bonds shall have become or have been declared due and payable,

FIRST: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and Security Instrument Repayment Obligations in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment

or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the persons entitled thereto of the unpaid Principal or Redemption Price of any Bonds and Security Instrument Repayment Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all the Bonds and Security Instrument Repayment Obligations due on any date, then to the payment thereof ratably, according to the amounts of Principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the Principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the Principal and interest then due and unpaid upon the Bonds and Security Instrument Repayment Obligations without preference or priority of Principal over interest or of interest over Principal, or of any installment of interest over any other installment of interest, or of any Bond or Security Instrument Repayment Obligations over any other Bond or Security Instrument Repayment Obligations, ratably, according to the amounts due respectively for Principal and interest, to the persons entitled thereto without any discrimination or preference.

(4) To the payment of all obligations owed to all Reserve Instrument Issuers, ratably, according to the amounts due without any discrimination or preference.

If and whenever all overdue payments on all Bonds and Repayment Obligations, together with the reasonable and proper charges and expenses of the Trustee, shall be paid, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Master Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee and the Repayment Obligations shall be made good or secured to the satisfaction of the Security Instrument Issuers and the Reserve Instrument Issuers, as appropriate, or provision deemed to be adequate shall be made therefor, the Trustee shall pay over to the Issuer all such Revenues then remaining unexpended in the hands of the Trustee (except Revenues deposited or pledged with the Trustee). The Issuer and the Trustee shall be restored to their former positions and rights under the Master Indenture, and all Revenues shall thereafter be applied as provided in the Master Indenture. No such payment over to the Issuer by the Trustee or resumption of the application of Revenues as provided in the Master Indenture shall extend to or affect any subsequent default under the Master Indenture or impair any right consequent thereon.

Rights and Remedies of Bondholders. No Holder of any Bond, any Security Instrument Issuer, or any Reserve Instrument Issuer shall have any right to institute any proceeding, judicial or

otherwise, with respect to the Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) Such Holder, any Security Instrument Issuer, or any Reserve Instrument Issuer has previously given written notice to the Trustee of a continuing Event of Default;

(2) Either (a) the Holders of not less than 25% in aggregate Principal amount of the Outstanding Bonds, (b) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure 25% in aggregate Principal amount of the Bonds at the time Outstanding, or (c) any combination of Bondholders and Security Instrument Issuers described in clauses (a) and (b) representing not less than 25% in aggregate Principal amount of the Bonds at the time Outstanding, shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Master Indenture;

(3) Such Holders or Security Instrument Issuer have offered to the Trustee reasonable indemnity against the costs, expenses, and liabilities to be incurred in compliance with such request;

(4) The Trustee has failed to institute any such proceedings for 60 days after its receipt of such notice, request, and offer of indemnity; and

(5) No direction inconsistent with such written request has been given to the Trustee during such 60 day period by (a) the Holders of a majority in Principal amount of the Outstanding Bonds, (b) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure a majority in aggregate Principal amount of the Bonds then Outstanding, or (c) any combination of Bondholders and Security Instrument Issuers described in clauses (a) and (b) representing a majority in aggregate Principal amount of the Bonds at the time Outstanding;

It being understood and intended that no one or more Holders of Bonds, Security Instrument Issuers, or Reserve Instrument Issuers shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Master Indenture to affect, disturb, or prejudice the rights of any other such parties, or to obtain or to seek to obtain priority or preference over any other such parties or to enforce any right under the Master Indenture, except in the manner therein provided and for the equal and ratable benefit of all such parties in accordance with the provisions of the Master Indenture.

Notwithstanding any other provision in the Master Indenture, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the Principal and Redemption Price of and interest on such Bond on the respective stated maturities expressed in such Bond (or, in the case of redemption, on the redemption date of such Bond) and to institute suit for

the enforcement of any such payment, subject only to any conditions of any Security Instrument Issuer providing a Security Instrument securing such Bond. Such right to receive payment shall not be impaired without the consent of such Holder.

The (1) Holders of a majority of the Principal amount of the Outstanding Bonds, (2) Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure a majority in aggregate Principal amount of the Bonds then Outstanding, or (3) any combination of Bondholders and Security Instrument Issuers described under clauses (1) and (2) representing a majority in aggregate Principal amount of the Bonds at the time Outstanding, shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that: such direction shall not be in conflict with any rule of law or the Master Indenture, the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Holders and Security Instrument Issuers not taking part in such direction, and the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders, the Security Instrument Issuers, and the Reserve Instrument Issuers, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the trust estate created by the Master Indenture, including, without limitation, the proceeds of the sale of the Bonds, the Revenues, and the Funds, including the investments, if any, thereof, pending such proceedings, with such powers as a court making such appointments shall confer.

Investment of Funds

Moneys held in any Fund or account shall be invested and reinvested by the Issuer or the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund or account, subject to the following:

- (1) The Trustee shall make such investments only in accordance with instructions received from an Authorized Officer of the Issuer;
- (2) Any Supplemental Indenture authorizing a Series of Bonds may impose additional restrictions on moneys held in any Fund or account; and
- (3) Any Supplemental Indenture authorizing a Series of Bonds may authorize the investment of moneys to be held in any Project Account, Series Subaccount in the Bond Account, or Series Subaccount in the Debt Service Reserve Account created by such Supplemental Indenture and relating to such Series of Bonds in such other investments as may be specified by the Supplemental Indenture.

Subject to any required rebate of earnings on investments in any Fund or account to the United States of America pursuant to section 148(f) of the Code and except as otherwise provided in a Supplemental Indenture establishing a Series Subaccount: (1) all moneys earned as an investment of moneys in the Construction Fund shall be retained therein; (2) net income earned on any moneys or investments in the Revenue Fund and the Bond Account shall be transferred to the Revenue Fund; and (3) whenever a Series Subaccount in the Debt Service Reserve Account is in its full required amount, net income earned on any moneys or investments in such Series Subaccount shall be transferred to the Revenue Fund as provided in the Master Indenture (see the caption "Summary of the Master Indenture—Principal and Interest Fund—Debt Service Reserve Account" herein), otherwise, to be retained therein.

Defeasance

Discharge of Indebtedness. If the Issuer shall pay, or there shall otherwise be paid to the Holder of all Bonds the Principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein, and if all Repayment Obligations owed to Security Instrument Issuers and Reserve Instrument Issuers shall have been paid in full, then the pledge of any Revenues and other moneys, securities, and Funds pledged under the Master Indenture and all covenants, agreements, and other obligations of the Issuer to the Bondholders, Security Instrument Issuers, and Reserve Instrument Issuers shall thereupon cease, terminate, and become void and be discharged and satisfied. Such Bonds shall cease to be entitled to any lien, benefit, or security under the Master Indenture, and all covenants, agreements, and obligations of the Issuer to the Holders of such Bonds shall thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Issuer of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding Bonds of any Series shall be, prior to the maturity or redemption date thereof, deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (1) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds on said date, (2) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations (including any Government Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the Principal or Redemption Price, if applicable, of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (3) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, first class postage prepaid, a notice to the Holders of such Bonds that the deposit

required by (2) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Master Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the Principal or Redemption Price, if applicable, of said Bonds. Neither Government Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purpose, shall be, to the extent practicable, reinvested in Government Obligations maturing at times and in amounts sufficient to pay when due the Principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien, or pledge.

Unclaimed Moneys. Any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for five years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall be repaid by the Fiduciary to the Issuer, as its absolute property and free from trust, and the Fiduciary thereupon shall be released and discharged with respect thereto and the Bondholders shall look only to the Issuer for the payment of such Bonds. Before being required to make any such payment to the Issuer, the Fiduciary shall, at the expense of the Issuer, cause to be published at least twice in a Financial Newspaper or Journal of general circulation in New York, New York, at an interval of not less than seven days between publications, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Issuer.

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APPENDIX C

**LITTLE ROCK NATIONAL AIRPORT
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2005**

L. COTTON THOMAS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
LITTLE ROCK, ARKANSAS 72201

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L. COTTON THOMAS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
620 WEST THIRD, SUITE 400
LITTLE ROCK, AR 72201-2224

MEMBERS AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Little Rock Municipal Airport Commissioners
Little Rock National Airport
Little Rock, Arkansas

We have audited the accompanying financial statements of Little Rock National Airport, a component unit of City of Little Rock, Arkansas, as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of Airport management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements referred to above present only Little Rock National Airport and are not intended to present fairly the financial position of the City of Little Rock, Arkansas, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Rock National Airport as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2006, on our consideration of Little Rock National Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of Little Rock National Airport, a component unit of the City of Little Rock, Arkansas, taken as a whole. The Management's Discussion and Analysis on pages 4 through 10 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The additional financial information on pages 40 through 44 is presented for purposes of additional analysis and is not a required part of the financial statements of Little Rock National Airport. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Summary Schedule of Prior Audit Findings is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Little Rock National Airport. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole.

L. Cotton Thomas + Company

March 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Little Rock National Airport (the Airport), a component unit of City of Little Rock, Arkansas, we offer this narrative overview and analysis of the financial activities of the Airport for the fiscal years ended December 31, 2005 and 2004. Please read this in conjunction with the financial statements which follow this section. Unless otherwise indicated, all amounts are expressed in thousands of dollars.

Financial Highlights

- The Airport's net assets increased \$11 million, or 5.8%, from the beginning to the end of the year.
- Operating income before depreciation decreased by \$7 thousand, or .12%, while operating loss net of depreciation decreased \$281 thousand, or 62.6%.
- Operating expenses before depreciation increased \$1.3 million, or 11%.
- Contributions in the form of federal and state grants were \$6 and \$7.3 million, in 2005 and 2004, respectively.
- Investment income increased by \$518 thousand, or 130%, due to rising interest rates.
- Interest expense decreased by \$70 thousand, or 4.4%, due to scheduled bond principal payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Airport's financial statements. The Airport's financial statements consist of two components: 1) the financial statements and 2) the notes to the financial statements.

The Airport is a component unit of City of Little Rock, Arkansas. As such, the Airport is included in the City of Little Rock's Comprehensive Annual Financial Report.

The Statement of Net Assets presents information on all the Airport's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Airport is improving or deteriorating.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

The Statement of Cash Flows reports how much cash was provided by or used for the Airport's operations, investing activities, and acquisition or retirement of capital assets.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Net Assets

Total net assets at December 31, 2005, were \$200,309 million a 5.8% increase from December 31, 2004.

NET ASSETS (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current and other assets	\$ 39,954	\$ 38,372	\$ 35,365
Capital assets	<u>220,581</u>	<u>214,566</u>	<u>201,499</u>
Total Assets	<u>260,535</u>	<u>252,938</u>	<u>236,864</u>
Liabilities:			
Long-term debt outstanding	26,806	28,508	30,139
Other liabilities	<u>33,420</u>	<u>35,191</u>	<u>28,741</u>
Total Liabilities	<u>60,226</u>	<u>63,699</u>	<u>58,880</u>
Net Assets:			
Invested in capital assets, net of debt	162,196	153,123	144,745
Restricted	18,884	15,928	14,666
Unrestricted	<u>19,229</u>	<u>20,188</u>	<u>18,573</u>
Total Net Assets	<u>\$ 200,309</u>	<u>\$ 189,239</u>	<u>\$ 177,984</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets (in Thousands - Continued)

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Assets:				
Current and other assets	\$ 39,954	\$ 38,372	\$ 1,582	4.1
Capital assets	<u>220,581</u>	<u>214,566</u>	<u>6,015</u>	2.8
Total Assets	<u>260,535</u>	<u>252,938</u>	<u>7,597</u>	3.0
Liabilities:				
Long-term debt outstanding	26,806	28,508	(1,702)	(6.0)
Other liabilities	<u>33,420</u>	<u>35,191</u>	<u>(1,771)</u>	(5.0)
Total Liabilities	<u>60,226</u>	<u>63,699</u>	<u>(3,473)</u>	(5.5)
Net Assets:				
Invested in capital assets, net of debt	162,196	153,123	9,073	5.9
Restricted	18,884	15,928	2,956	18.6
Unrestricted	<u>19,229</u>	<u>20,188</u>	<u>(959)</u>	(4.8)
Total Net Assets	<u>\$ 200,309</u>	<u>\$ 189,239</u>	<u>\$ 11,070</u>	5.8

The largest portion of the Airport's net assets (81%) reflects those invested in capital assets (e.g. land, buildings, runways, equipment, and infrastructure) less any outstanding debt related to those acquisitions. Although the Airport's investment in its capital assets is reported net of related debt, it should be noted that funds utilized for the repayment of this debt come from other sources as the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Airport's net assets (9.4%) represents resources whose use is subject to legal covenants and external restrictions. Covenants made to holders of City of Little Rock, Arkansas Airport Revenue Bonds under ordinances passed by the Little Rock City Board of Directors controls the expenditure and repayment of bond proceeds. Restrictions on the collection and expenditure of Passenger Facility Charge (PFC) and the use of capital acquisition funds, or federal and state grant proceeds, are controlled by the Department of Transportation (DOT) through the Federal Aviation Administration (FAA) or by state statutes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

From January 1 to December 31, 2005, net assets of the Airport increased by \$11.1 million, or 5.8%.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues	\$ 18,509	\$ 17,236	\$ 16,293
Operating Expense	<u>12,884</u>	<u>11,604</u>	<u>10,998</u>
Operating Income Before Depreciation	5,625	5,632	5,295
Depreciation	<u>6,355</u>	<u>6,081</u>	<u>5,416</u>
Operating Loss Before Non-Operating Income and Expense	(730)	(449)	(121)
Non-Operating Income and Expense, Net	<u>5,770</u>	<u>4,438</u>	<u>3,704</u>
Income Before Capital Contributions	5,040	3,989	3,583
Capital Contributions	<u>6,030</u>	<u>7,266</u>	<u>9,018</u>
Increase in Net Assets	<u>\$ 11,070</u>	<u>\$ 11,255</u>	<u>\$ 12,601</u>

A competitive fare environment and the cautious, but strengthening national economy have contributed to a resurgence in the number of people returning to air travel. Total passenger traffic (enplaned and deplaned passengers) from January 1 through December 31, 2005, increased by 11.2% from the prior year. Parking and other concession revenues, which are largely driven by passenger volume, increased by 11.6% during the same period. Terminal and other rentals increased by 4.1%. Auto rental revenue increased 17.1%, due to an increase in the rental rates and an 11.7% increase in passenger deplanements. Restaurant and lounge revenue increased 9.6% with the additional passenger activity. A portion of terminal rental rates and commercial landing fees are earned from use and lease agreements with the airlines whose rates are adjusted annually based on a formula to recover certain operating and capital costs of the Airport's terminal and airside facilities. Airline space rentals, departure lounges, and baggage claim revenue decreased and airline credits increased resulting in an

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets (Continued)

aggregate 18.2% decrease in revenues as a result of an airline terminal rental rate reduction; the issuance of signatory airline credits and airline incentive credits; and bad debt expense of Delta and other airlines. Landing fees increased \$302 thousand, or 9.1%, due to an increase in the landed weight fee. Tenant expansion on the airside and a full year under a revised Fixed Base Operation lease agreement resulted in an increase of \$215 thousand or 29.5% in airside tenant revenue.

Total operating expenses before depreciation increased by \$1.3 million, or 11% in 2005. The largest increase occurred in the service and other expenses category which increased by \$933 thousand, or 20%. Security costs increased \$421 thousand, or 25.2%. A substantial amount of this increase was a full year of canine assisted security guards and the TSA Explosive Detection Canine Team Program which was added in the last quarter of 2005. Contracted services increased \$168 thousand, or 53.4%. Terminal interior landscaping was enhanced, maintenance of the elevators and escalators was outsourced, the runway rubber removal contract was increased due to additional flight activity, and greater utilization of out-sourced workers. Public relations and marketing costs increased \$216 thousand, or 68.9%. An advertising firm was hired at the end of 2004 and Airport advertising was significantly increased in 2005 in order to sustain and accelerate increasing passenger numbers. An Air Service Development Incentive Program (ASDIP) implemented in 2004 to encourage expanded service from incumbent carriers and additional service from new carriers via landing fee and gate rental credits incurred its first full year of expenses in 2005. Professional fees increased \$130 thousand, or 25.8%. The additional fees covered an assortment of services, including new terminal building research; executive searches; preparation for property acquisitions; utility, traffic, and general aviation research; update security exhibits and signage plans; reproduce drainage district maps; and a building survey for insurance purposes.

Salaries, wages, and employee benefits increased only 1.4%. Beginning the year there were several non-exempt vacancies that were filled as the year progressed. There were also several unfilled administrative positions. Utility costs increased 11.6%, reflecting electrical, water, and gas usage and rate increases. Supplies and materials increased 2.9%. Repairs and maintenance increased \$142 thousand, or 24.3%, reflecting the repair of several large pieces of equipment and additional landscaping costs due to the warranty expiration of the 2004 landscaping improvement project. Depreciation costs increased \$273 thousand, or 4.5%, due to completion of several improvements.

In 2005, total nonoperating revenues and expenses increased \$1.3 million or 20.7%, and decreased \$72 thousand, or 4.4%, respectively. PFC revenues increased by 9.8%, due to expanded enplanements. Investment income increased by \$518 thousand, or 130%, and PFC interest income increased \$240 thousand, or 182%, due to higher interest rates and additional capital. Interest expense decreased by \$70 thousand or 4.4%, due to scheduled principal payments.

Capital Assets

The Airport's investment in capital assets totaled \$318 million as of December 31, 2005, an increase of \$12.8 million, or 4.2% from December 31, 2004. The largest increase is in buildings and improvements, which increased by \$6.2 million or 2.4%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets (Continued)

CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
Land	\$ 37,734	\$ 32,979
Building and improvements	261,844	255,609
Equipment, furniture, and fixtures	5,383	4,836
Construction in progress	<u>13,105</u>	<u>11,881</u>
	318,066	305,305
Less accumulated depreciation	<u>97,485</u>	<u>90,739</u>
	<u>\$ 220,581</u>	<u>\$ 214,566</u>

Major capital projects ongoing during 2005 included renovations to baggage claim; phase one of Roosevelt Road relocation; Runway 4R/22L extension and safety area extension; security checkpoint relocation; terminal ramp expansion; landscaping and lighting Airport Drive; extension of Runway 18/36; cargo ramp-expansion; and property acquisition.

Debt

At the end of the current fiscal year, the Airport had total outstanding debt of \$28.7 million which represents two outstanding revenue bond issues.

OUTSTANDING DEBT (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
Current maturities-revenue bonds	\$ 1,695	\$ 1,625
Long-term revenue bonds payable	<u>27,045</u>	<u>28,740</u>
Total outstanding revenue bonds	28,740	30,365
Less unamortized discounts, premiums, and deferred amounts on refunding	<u>239</u>	<u>232</u>
Total revenue bonds payable - net	<u>\$ 28,501</u>	<u>\$ 30,133</u>

Total outstanding debt decreased 5.4% during 2005.

The Airport's underlying ratings of its outstanding debt is as follows:

Moody's	A2
Standard's and Poor's	A-

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Request for Information

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

Little Rock National Airport
One Airport Drive
Little Rock, Arkansas 72202

COMPONENT UNIT FINANCIAL STATEMENTS

LITTLE ROCK NATIONAL AIRPORT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<u>Assets</u>		
Current Assets:		
Unrestricted assets:		
Cash	\$ 19,413,586	\$ 20,367,977
Trade accounts receivable - net	815,929	1,206,648
Accrued interest receivable	48,441	30,603
Prepaid expenses	<u>119,699</u>	<u>110,584</u>
Total Unrestricted Assets	<u>20,397,655</u>	<u>21,715,812</u>
Restricted Assets:		
Cash	17,861,958	14,869,888
Federal grants/agreements receivable	326,282	337,997
Passenger facility charge receivable	675,000	710,606
Accrued interest receivable	<u>20,677</u>	<u>9,841</u>
Total Restricted Assets	<u>18,883,917</u>	<u>15,928,332</u>
Total Current Assets	<u>39,281,572</u>	<u>37,644,144</u>
Noncurrent Assets:		
Capital assets:		
Land	37,734,146	32,979,516
Buildings and improvements	261,843,771	255,609,370
Equipment, furniture, and fixtures	5,382,352	4,835,678
Construction in progress	<u>13,105,443</u>	<u>11,880,582</u>
	318,065,712	305,305,146
Less: accumulated depreciation	<u>97,485,085</u>	<u>90,738,775</u>
Total Capital Assets	<u>220,580,627</u>	<u>214,566,371</u>
Other Assets:		
Unamortized bond issue costs	<u>672,725</u>	<u>727,221</u>
Total Noncurrent Assets	<u>221,253,352</u>	<u>215,293,592</u>
Total Assets	<u>\$ 260,534,924</u>	<u>\$ 252,937,736</u>

See accompanying notes to financial statements.

	<u>December 31,</u> 2005	<u>December 31,</u> 2004
<u>Liabilities and Net Assets</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts payable - trade	\$ 771,216	\$ 1,022,354
Accounts payable - other	7,998	148,474
Accrued expenses and other current liabilities	<u>436,284</u>	<u>501,580</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>1,215,498</u>	<u>1,672,408</u>
Current Liabilities Payable from Restricted Assets:		
Accounts payable	625,320	968,931
Accrued interest	234,156	245,689
Current maturities of revenue bonds	<u>1,695,000</u>	<u>1,625,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>2,554,476</u>	<u>2,839,620</u>
Total Current Liabilities	<u>3,769,974</u>	<u>4,512,028</u>
Revenue Bonds Payable	27,045,000	28,740,000
Less: Unamortized discount	181,527	195,853
Deferred refunding costs	338,879	373,341
Plus: Unamortized premium	<u>281,477</u>	<u>337,264</u>
Revenue Bonds Payable-Net	<u>26,806,071</u>	<u>28,508,070</u>
Unrealized Equity in Capital Assets	<u>29,649,691</u>	<u>30,678,741</u>
Total Liabilities	<u>60,225,736</u>	<u>63,698,839</u>
Net Assets:		
Invested in capital assets, net of related debt	<u>162,196,022</u>	<u>153,122,935</u>
Restricted		
Bond funds	6,488,063	6,403,360
Passenger facility charge	12,069,572	9,157,790
Capital acquisition	<u>326,282</u>	<u>367,182</u>
Total Restricted	<u>18,883,917</u>	<u>15,928,332</u>
Unrestricted	<u>19,229,249</u>	<u>20,187,630</u>
Total Net Assets	<u>200,309,188</u>	<u>189,238,897</u>
Total Liabilities and Net Assets	<u>\$ 260,534,924</u>	<u>\$ 252,937,736</u>

LITTLE ROCK NATIONAL AIRPORT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	December 31, 2005	December 31, 2004
Operating Revenues:		
Terminal and other rentals	\$ 8,140,375	\$ 7,820,348
Parking and other concessions	6,555,984	5,875,877
Landing fees	3,632,455	3,330,311
Other	<u>179,996</u>	<u>209,742</u>
Total Operating Revenues	<u>18,508,810</u>	<u>17,236,278</u>
Operating Expenses:		
Salaries, wages, and employee benefits	5,311,719	5,238,571
Supplies and materials	92,267	89,701
Services and other expenses	5,514,507	4,581,852
Utilities	1,237,385	1,108,371
Repairs and maintenance	<u>728,139</u>	<u>585,929</u>
Total Operating Expenses	<u>12,884,017</u>	<u>11,604,424</u>
Operating Income Before Depreciation	5,624,793	5,631,854
Depreciation	<u>6,354,364</u>	<u>6,081,236</u>
Operating Loss Before Nonoperating Income and Expenses	<u>(729,571)</u>	<u>(449,382)</u>
Nonoperating Revenues:		
Investment income	915,940	397,933
Passenger facility charge	5,206,579	4,740,694
Interest on PFC deposits and investments	371,430	131,577
Gain on sale of assets	195	18,747
Amortization of bond premium	55,787	54,157
Accruals to leased property, net of depreciation of \$1,545,000 for 2005 and \$1,489,210 for 2004	<u>796,398</u>	<u>743,554</u>
Total Nonoperating Revenues	<u>7,346,329</u>	<u>6,086,662</u>
Nonoperating Expenses:		
Interest on funded debt	1,517,094	1,587,439
Paying agents' and trustees' fees	8,295	8,637
Professional fees	2,245	4,156
Amortization of bond discount and deferred refunding costs	<u>48,789</u>	<u>48,256</u>
Total Nonoperating Expenses	<u>1,576,423</u>	<u>1,648,488</u>

See accompanying notes to financial statements.

LITTLE ROCK NATIONAL AIRPORT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
 IN NET ASSETS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Income Before Capital Contributions	\$ 5,040,335	\$ 3,988,792
Capital Contributions	<u>6,029,956</u>	<u>7,265,780</u>
Net Assets		
Increase in Net Assets	11,070,291	11,254,572
Total Net Assets, Beginning of Year	<u>189,238,897</u>	<u>177,984,325</u>
Total Net Assets, End of Year	<u>\$ 200,309,188</u>	<u>\$ 189,238,897</u>

See accompanying notes to financial statements.

LITTLE ROCK NATIONAL AIRPORT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities:		
Receipts from providing services	\$ 18,719,533	\$ 16,803,814
Other receipts	179,996	209,742
Payments to suppliers	(7,824,555)	(6,177,538)
Payments of salaries and benefits	<u>(5,377,015)</u>	<u>(5,337,566)</u>
Net Cash Provided by Operating Activities	<u>5,697,959</u>	<u>5,498,452</u>
Cash Flows from Noncapital Financing Activities:		
Receipts from federal grants/agreements	<u>163,204</u>	<u>327,385</u>
Net Cash Provided for Noncapital Investing Activities	<u>163,204</u>	<u>327,385</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on bonds	(1,625,000)	(1,545,000)
Interest paid on bonds	(1,474,131)	(1,544,706)
Acquisition and construction of capital assets	(13,093,356)	(12,203,301)
Proceeds from sale of capital assets	195	18,747
Receipts from federal and state grants	5,883,096	6,629,034
Repayment of private capital grants	(4,629)	-0-
Receipts from passenger facility charge	5,242,185	4,511,618
Amounts paid for other financing capital activities	<u>(10,540)</u>	<u>(12,793)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(5,082,180)</u>	<u>(4,146,401)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	-0-	2,572,048
Receipts from interest	<u>1,258,696</u>	<u>499,208</u>
Net Cash Provided By Investing Activities	<u>1,258,696</u>	<u>3,071,256</u>
Net Increase in Cash and Cash Equivalents	2,037,679	4,750,692
Cash and Cash Equivalents at Beginning of Year	<u>35,237,865</u>	<u>30,487,173</u>
Cash and Cash Equivalents at End of Year	<u>\$ 37,275,544</u>	<u>\$ 35,237,865</u>

See accompanying notes to financial statements.

LITTLE ROCK NATIONAL AIRPORT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$(729,571)	\$(449,382)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,354,364	6,081,236
Change in assets and liabilities:		
Decrease (Increase) in accounts receivable	390,719	(222,722)
Increase in prepaid expenses	(9,116)	(90,387)
(Decrease) Increase in accounts payable	(243,140)	278,702
Decrease in accrued expenses and other current liabilities	(65,297)	(98,995)
Net Cash Provided by Operating Activities	<u>\$ 5,697,959</u>	<u>\$ 5,498,452</u>

RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO BALANCE SHEET

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash - Beginning	\$ 20,367,977	\$ 14,869,888	\$ 35,237,865
Net Increase (Decrease)	<u>(954,391)</u>	<u>2,992,070</u>	<u>2,037,679</u>
Cash - Ending	<u>\$ 19,413,586</u>	<u>\$ 17,861,958</u>	<u>\$ 37,275,544</u>

SCHEDULE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING
ACTIVITIES

	<u>2005</u>	<u>2004</u>
Accruals to leased property, net of depreciation of \$1,545,000 for 2005 and \$1,489,210 for 2004 (Note 2)	<u>\$ 796,398</u>	<u>\$ 743,554</u>
Amortization of bond discount, bond premium, bond issue costs, and deferred refunding costs	<u>\$ 47,496</u>	<u>\$ 48,594</u>
Change in fair value of investments	<u>\$ -0-</u>	<u>\$(609)</u>
Addition to capital assets and unrealized equity in capital assets	<u>\$ 1,312,348</u>	<u>\$ 7,771,500</u>

See accompanying notes to financial statements.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE 1: ORGANIZATION AND REPORTING ENTITY

Reporting Entity

Little Rock National Airport (the Airport) is a component unit of City of Little Rock, Arkansas, and is governed by a seven member commission appointed by the City Board of Directors.

The members of the Commission serve staggered five-year terms and are eligible for reappointment with a limit of two terms (10 years). One member of the Commission is required to be a pilot.

The history of Little Rock National Airport stretches back to 1917 when the facility served as an Army Depot.

The airfield was purchased by the citizens of Little Rock in 1930 and commercial air service was launched in June, 1931, by American Airways, now American Airlines.

Between the two World Wars, the Airport grew from 40 acres to 640 acres, from one sod runway to three hard surfaced runways, and was rapidly becoming a key center for commercial and military air service. The Airport now encompasses about 2,200 acres.

Throughout World War II, the War Department assumed control of the Airport. Shortly after the war ended, the City of Little Rock regained responsibility for the facility, and daily commercial air service was re-established.

Jets came to Little Rock in the 1960's, a new terminal opened in 1972, and a second commercial service runway was opened in 1991.

During the 1990's, more than \$170 million in capital improvements were made at the Airport. This trend has continued in this new decade, with an additional \$57 million of improvements encompassing both the landside and airside, to ensure that the facility can continue to well serve its customers in the new century.

Nature of Operations

The nature of operations of the Airport is the leasing of its facilities to various airlines and business entities; operating revenues are composed of contingent rentals from operating leases and parking lots.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 1: ORGANIZATION AND REPORTING ENTITY (CONTINUED)

Financial Statements Presented and Segment Information

The financial statements presented are only those of Little Rock National Airport, the component unit, and are intended to present the financial position and the results of operations of Little Rock National Airport and are not intended to present the financial position and the results of operations of the City of Little Rock, Arkansas.

The Airport meets the criteria set forth in generally accepted accounting principles as promulgated by the Government Accounting Standards Board (GASB) for inclusion as a component unit within the City's general purpose financial statements. As a component unit, the Airport's financial statements are discretely presented in the City's general purpose financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Airport is a proprietary fund of the City and its financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Airport has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting." As permitted by the Statement, the Airport has elected not to adopt Financial Accounting Standards Board (FASB) Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

As a component unit of the City of Little Rock, the Airport has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*" Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

As a component unit of the City of Little Rock, the Airport has also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*." This statement requires that capital contributions to the Airport be presented as a change in net assets.

The adoption of Statement No. 34 and Statement No. 33 affected the classification of net assets in accordance with the statements and the presentation of capital contributions as a change in net assets.

A proprietary fund is used to account for and report those governmental activities that are designed to be self-supporting. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises; therefore, the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues from airlines, concessions, including food and beverage, retail, rental cars, advertising, parking, and other commercial tenants are reported as operating revenues. Transactions which are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Airport has defined cash and cash equivalents as: cash on hand, demand deposits as well as repurchase agreement investments callable on demand, certificates of deposit and short-term instruments with original maturities at purchase of ninety days or less. For purposes of the statement of cash flows, cash includes both unrestricted and restricted cash.

Note 4 sets forth information about the use of federal depository insurance (FDIC) and collateralization to insure the Airport's deposits.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history, aviation industry trends, and current information regarding the credit worthiness of the tenants and others doing business with the Airport. When accounts previously written off are collected, revenue is recognized for the amount collected.

Restricted Assets

Restricted assets consist of monies and other resources which are restricted legally as described below:

Bond Funds - These assets include cash, investments, and accrued interest held in various restricted accounts as required by the bond indentures.

Passenger Facility Charge Funds - These assets represent a passenger facility charge (PFC) based on an approved FAA application to impose a charge on enplaned passengers at the Airport. These funds are restricted for designated capital projects and any debt incurred to finance the construction of those projects. The Airport recognizes and reports as nonoperating revenue PFC collections when all conditions have been met that entitles the Airport to retain the PFC.

Capital Acquisition Funds - These assets are restricted for designated capital projects and cannot be expended for any other item.

Compressed Natural Gas Funds - These assets are restricted specifically for the Natural Gas Vehicle Project and cannot be expended for any other item.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Prior to January 1, 1951, records relating to the capital assets of the Airport were not in sufficient detail to determine a cost basis; therefore, only the additions after January 1, 1951, were reflected in the financial statements. In 1960, an estimated cost of the Airport's facilities was obtained and recorded. Effective January 1, 1961, the Airport began recognizing depreciation on the facilities.

Subsequent to 1960, acquisitions of new assets and expenditures which substantially increase the useful lives of existing assets are recorded at cost with the exception of special circumstances regarding the following:

- Airport Services Building, TCBY Hangar, Stephens Hangar
- Arkansas Modification Center #2 - Raytheon Corporate Jet
- Central Flying Service #1, #4, #5, #6, and #7
- Central Flying Service Axiom Hangar
- Central Flying Service Maintenance Hangar
- Central Flying Service #12
- Central Flying Service, formerly Midcoast Hangar #1 and #2 Improvements
- Central Flying Service, formerly Midcoast Little Rock, Inc., #1, #2, #3, #4, #5 and #7
- Dassault Falcon Jet Cabinet Shop and Cabinet Shop Hangar
- Dassault Falcon Jet Corporation #1, #2, #3, #4, #5, and #6
- Dassault Falcon Jet Delivery and Customer Annex Service Center Hangar
- Dassault Falcon Jet Paint Facility
- Dassault Falcon Jet Paint Prep Hangar and Parts Fabrication Building
- Flight Safety Training Facility
- Skytravel Avionics Hangar #1 and #2
- Southwest Reservation Center
- UPS Little Rock Gateway Building

The aforementioned additions were constructed by the individual lessees and will revert to Little Rock National Airport at the termination of the period specified in the lease agreements. The Airport recognizes the original certified cost of constructing the facility as an asset with a contra liability account for the unearned equity based upon the provision of the lease agreement. The buildings are depreciated over their estimated useful lives while the equity is recognized over the life specified in the lease agreement. The recognized equity is reported as nonoperating revenue and totals \$2,341,398 and \$2,232,764, for the years ending December 31, 2005 and 2004, respectively.

Depreciation is provided using the straight-line method over estimated useful lives ranging from twenty to forty-five years for buildings and improvements and five to twenty years for equipment, furniture, and fixtures.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Maintenance and repairs are expensed as incurred. When property disposition occurs, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded.

Reclassifications

Amounts have been reclassified in the 2004 financial statements to conform to the presentation in the 2005 financial statements.

Capital Contributions

Expenditures for capital improvements are significantly funded through grants of the Airport Improvement Program (AIP) of the Federal Aviation Administration, with certain matching funds provided by the Airport or State grants. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred and is reported after nonoperating revenues as capital contributions.

Some security expenses of the Airport are reimbursed from the Transportation Security Administration. The federal award is considered earned as the related allowable expenses are incurred and is reported after nonoperating revenues as capital contributions.

Revenue Recognition

Terminal and Other Rentals, Parking and Other Concessions - Rental and concession fees are generated from airlines, parking lots, food and beverage, retail, rental cars, advertising, and other commercial tenants. Leases are for various terms and generally require rentals based on the volume of business, with specific minimum annual rental payments required. Rental revenue is recognized over the life of the respective leases and concession revenue is recognized based on reported concessionaire revenue.

Landing Fees - Landing fees are primarily generated from airlines and cargo carriers and are based on the landed weight of the aircraft. The estimated landing fee structure is determined annually pursuant to an agreement between the Airport and the signatory airlines based on the operating budget of the Airport and is adjusted at year end for the actual landed weight of all aircraft. Landing fees are recognized as revenue when the related facilities are utilized.

Other - All other types of revenues are recognized when earned.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Passenger Facility Charge

The Aviation Safety and Capacity Expansion Act of 1990 authorized the Secretary of Transportation and the Federal Aviation Administration to approve the local imposition of an airport passenger facility charge of \$1, \$2, or \$3 per enplaned passenger for use on certain airport projects. Under guidelines issued by the FAA, the Airport became authorized as of February 23, 1995, to impose a passenger facility charge of \$3 per enplaned passenger over a period of approximately 8 years and one month, commencing on May 1, 1995. The Airport is designated to collect up to \$24,383,919, as amended, which is authorized to be spent on runway extension, expansion, property acquisition, and the debt service and financing costs of the related PFC-approved projects. With the April 5, 2000 passage of the Aviation Investment and Reform Act of the 21st Century, commonly known as AIR-21, the Secretary of Transportation and the FAA were authorized to approve the local imposition of an increased PFC of up to \$4.50 per enplaned passenger. On June 29, 2001, the FAA approved a PFC application from the Airport to impose a PFC of \$4.50 with an effective date no earlier than September 1, 2001, and to collect a total of \$15,986,750 on approved projects over a period of three years and ten months or until the date on which the total net PFC revenue collected, plus interest thereon, equals the allowable project cost. Of this amount, \$4,643,300 was approved for authority to *impose only* a PFC at the Airport and \$11,343,450 was approved for authority to *impose and use* a PFC at the Airport. On March 29, 2004, the Airport received authority to also use the \$4,643,300. Subsequently, authority to impose and use an additional \$5,250,598 was issued along with a new estimated charge expiration date. On January 31, 2006, the FAA approved an additional application to impose and use \$7,913,333 for eight projects. The charge expiration date is estimated to be October 1, 2007.

Compensated Absences

Effective January 1, 2003, employees earn Personal Time Off (PTO) at the rate of 4.62% of hours worked per pay period for the first twelve months, 6.16% for years one through four, 10.00% for years five through nine, and 13.85% for ten years and over. After one year of service, at least 40 hours of PTO must be taken each calendar year or it will be forfeited. PTO may accumulate up to a maximum of 360 hours. The Airport records expense when employees are paid for leave. The financial statements present the cost of accumulated PTO as a liability.

Pension Plan

The provision for retirement pension costs is recorded when the related payroll is accrued and the obligation is incurred.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of allowances for uncollectible accounts in the amount of \$108,356 as of December 31, 2005, and \$16,550 as of December 31, 2004, respectively.

NOTE 4: INVESTMENT POLICY

Deposits

Cash in the amount of \$6,000 is maintained at the Airport for its daily operations requiring use of currency. All other cash is deposited with financial institutions.

A summary of deposits, including certificates of deposit and money market accounts (restricted and unrestricted), at December 31, 2005, is as follows:

<u>Carrying Amount</u>	<u>Balance per Bank Statement</u>
<u>\$ 37,269,544</u>	<u>\$ 37,896,978</u>

Deposits are categorized below to give an indication of the level of risk assumed by the Airport at year-end. Category 1 includes deposits that are FDIC insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes uncollateralized deposits or deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.

Category			Total
1	2	3	Bank Balance
<u>\$ 554,197</u>	<u>\$ 30,875,395</u>	<u>\$ 6,467,386</u>	<u>\$ 37,896,978</u>

City statute requires that deposits in financial institutions be collateralized with federal depository insurance and bonds or other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies or instrumentalities of those entities at 100 percent. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

During the year, several certificates of deposits matured and the monies were reinvested at the highest rate of interest made available to the Airport. The related interest on those certificates is recorded in interest income. The Airport held no investments as of December 31, 2005 and 2004.

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 5: CAPITAL ASSETS

Changes in capital assets during 2005 were as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions/</u> <u>Transfers</u>	<u>Disposals/</u> <u>Transfers</u>	<u>Balance</u> <u>12/31/05</u>
Land	\$ 32,979,516	\$ 4,754,630	\$ -0-	\$ 37,734,146
Building and improvements:				
Buildings, improvements	254,800,275	7,387,455	1,153,054	261,034,676
Airfield pavement	581,687	-0-	-0-	581,687
Storm drainage	<u>227,408</u>	<u>-0-</u>	<u>-0-</u>	<u>227,408</u>
	<u>255,609,370</u>	<u>7,387,455</u>	<u>1,153,054</u>	<u>261,843,771</u>
Equipment, furniture, and fixtures:				
Furniture, fixtures	386,502	14,728	-0-	401,230
Equipment	2,881,575	531,946	-0-	3,413,521
Rolling stock	720,985	-0-	-0-	720,985
Fire trucks	<u>846,616</u>	<u>-0-</u>	<u>-0-</u>	<u>846,616</u>
	<u>4,835,678</u>	<u>546,674</u>	<u>-0-</u>	<u>5,382,352</u>
Construction in progress	<u>11,880,582</u>	<u>8,246,611</u>	<u>7,021,750</u>	<u>13,105,443</u>
	<u>\$305,305,146</u>	<u>\$20,935,370</u>	<u>\$ 8,174,804</u>	<u>\$318,065,712</u>

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 5: CAPITAL ASSETS (CONTINUED)

Changes in accumulated depreciation during 2005 were as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
Buildings and improvements:				
Buildings, improvements	\$ 86,456,861	\$ 7,454,977	\$ 1,153,054	\$ 92,758,784
Airfield pavement	575,501	717	-0-	576,218
Storm drainage	<u>227,045</u>	<u>363</u>	<u>-0-</u>	<u>227,408</u>
	<u>87,259,407</u>	<u>7,456,057</u>	<u>1,153,054</u>	<u>93,562,410</u>
Equipment, furniture, and fixtures:				
Furniture, fixtures	360,392	9,304	-0-	369,696
Equipment	1,732,127	341,727	-0-	2,073,854
Rolling stock	601,378	35,835	-0-	637,213
Fire trucks	<u>785,471</u>	<u>56,441</u>	<u>-0-</u>	<u>841,912</u>
	<u>3,479,368</u>	<u>443,307</u>	<u>-0-</u>	<u>3,922,675</u>
	<u>\$ 90,738,775</u>	<u>\$ 7,899,364</u>	<u>\$ 1,153,054</u>	<u>\$ 97,485,085</u>

NOTE 6: LONG-TERM DEBT

A summary of changes in long-term debt during 2005 were as follows:

<u>Year</u>	<u>Percent</u>	<u>Outstanding</u> <u>12/31/04</u>	<u>Payment</u>	<u>Outstanding</u> <u>12/31/05</u>
1999	Revenue Bonds 4.50% - 6.50%	\$ 23,965,000	\$ 1,120,000	\$ 22,845,000
2003	Revenue Refunding Bonds 3.20% - 5.00%	<u>6,400,000</u>	<u>505,000</u>	<u>5,895,000</u>
		<u>\$ 30,365,000</u>	<u>\$ 1,625,000</u>	<u>\$ 28,740,000</u>

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 6: LONG-TERM DEBT (CONTINUED)

City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 1994

The \$4,935,000 Special Obligation Bonds dated October 1, 1994, were issued to currently refund the City of Little Rock, Arkansas, Municipal Airport Revenue Refunding Bonds, Series 1984, to fund a debt service reserve and to pay issuance costs. The bonds were special obligations payable solely from net revenues of the Airport and amounts in certain accounts established under a Master and Supplemental Indenture. The bonds maturing on or after November 1, 2003, were subject to optional redemption on or after November 1, 2002. Principal payments were due annually on November 1, and interest payments at a rate of 3.85% to 6.00% were due semi-annually on May 1 and November 1 of each year. The bond discount was being amortized as a component of interest expense and the difference between the reacquisition price and the net carrying amount of the Series 1984 Bonds was deferred and was being amortized over the remaining life of the bonds.

As more fully described below, Special Obligation Bonds dated July 1, 2003, were issued to currently refund on July 15, 2003, the outstanding balance of \$3,540,000 of these Series 1994 Bonds.

City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 1995

The \$5,300,000 Special Obligation Bonds dated September 1, 1995, were issued to currently refund the City of Little Rock, Arkansas Municipal Airport Revenue Refunding Bonds, Series 1985, to fund a debt service reserve, and to pay issuance costs. The bonds were special obligations payable solely from the net revenues of the Airport and amounts in certain accounts established under the Master and Supplemental Indentures. The bonds maturing on or after November 2003, were subject to optional redemption on or after November 1, 2003. Principal payments were due annually on November 1 and interest payments at a rate of 3.80% to 5.75% were due semi-annually on May 1 and November 1 of each year. The bond discount was being amortized as a component of interest expense and the difference between the reacquisition price and the net carrying amount of the Series 1985 Bonds was deferred and was amortized over the remaining life of the Series 1985 Bonds.

As more fully described below, Special Obligation Bonds dated July 1, 2003, were issued to advance refund on November 1, 2003, the outstanding balance of \$4,020,000 of these Series 1995 Bonds.

City of Little Rock, Arkansas, Airport Revenue Bonds, Series 1999A and 1999B

The \$27,860,000 Special Obligations Bonds dated September 1, 1999, were issued in two series: Series A of \$24,730,000, and Series B of \$3,130,000. The bonds were issued to finance expansion of the terminal building and construction of a parking deck and related facilities and improvements, to fund a debt service reserve, and to pay issuance costs. The

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 6: LONG-TERM DEBT (CONTINUED)

City of Little Rock, Arkansas, Airport Revenue Bonds, Series 1999A and 1999B (Continued)

bonds are special obligations payable solely from the revenues of the Airport and amounts on deposit in certain accounts established under the Master and Supplemental Indentures. The Series 1999A term bonds maturing on November 1, 2016 and 2019, are subject to redemption in part by operation of sinking fund installments beginning November 1, 2015. The Series 1999A bonds maturing on November 1 in the years 2010 through 2014 and 2019 are subject to optional redemption on or after November 1, 2009, and the Series 1999A bonds maturing on November 1, 2016, are subject to optional redemption on or after November 1, 2006.

Series A principal payments are due annually on November 1, beginning in 2004. Series B principal payments are due annually on November 1 beginning in 2001. Interest payments at a rate of 4.50% to 6.50% are due semi-annually on May 1 and November 1 of each year, commencing May 1, 2000. The bond discount is being amortized as a component of interest expense.

The outstanding balance of the Revenue Bonds, Series 1999, consists of the following:

	<u>2005</u>	<u>2004</u>
Revenue Bonds Payable	\$ 22,845,000	\$ 23,965,000
Less: Unamortized Discount	<u>181,527</u>	<u>195,853</u>
	22,663,473	23,769,147
Less Current Maturity	<u>1,170,000</u>	<u>1,120,000</u>
Long-Term Maturities	<u>\$ 21,493,473</u>	<u>\$ 22,649,147</u>

City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 2003

The \$7,060,000 Special Obligation Bonds dated July 1, 2003, were issued to currently refund the \$3,540,000 outstanding principal of the City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 1994, and to advance refund the \$4,020,000 outstanding principal of the City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 1995, to fund a debt service reserve, and to pay issuance costs. The bonds are special obligations payable solely from net revenues of the Airport and amounts on deposit in certain accounts established under the Master and Supplemental Indentures. The bonds are subject to redemption in part by sinking fund installments beginning November 1, 2008.

Principal payments are due annually on November 1, beginning in 2003, and interest payments at a rate of 3.20% to 5.00% are due semi-annually on May 1 and November 1 of each year, commencing November 1, 2003.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 6: LONG-TERM DEBT (CONTINUED)

City of Little Rock, Arkansas, Airport Revenue Refunding Bonds, Series 2003 (Continued)

As a result of the refunding, the Airport reduced its total debt service requirements by \$1,021,950, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$845,363.

The bond premium of \$417,990 is being amortized as a component of interest expense and the \$423,599 difference between the carrying amount of the refunded debt and the amount required to reduce the debt was deferred and is being amortized over the remaining life of the Series 2003 Bonds.

The outstanding balance of the Revenue Refunding Bonds, Series 2003, consists of the following:

	<u>2005</u>	<u>2004</u>
Revenue Refunding Bonds Payable	\$ 5,895,000	\$ 6,400,000
Add: Unamortized Premium	281,477	337,264
Less: Deferred Refunding Costs	<u>338,879</u>	<u>373,341</u>
	5,837,598	6,363,923
Less Current Maturity	<u>525,000</u>	<u>505,000</u>
Long-Term Maturities	<u>\$ 5,312,598</u>	<u>\$ 5,858,923</u>

Annual Debt Service of Outstanding Bonds

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2005, is as follows:

<u>Year Ending December 31,</u>	<u>Series 1999</u>	<u>Series 2003</u>	<u>Total Requirements</u>
2006	\$ 2,330,554	\$ 769,382	\$ 3,099,936
2007	2,331,149	761,008	3,092,157
2008	2,332,961	762,282	3,095,243
2009	2,331,281	762,858	3,094,139
2010	2,330,712	769,107	3,099,819
2011 - 2012	4,660,685	1,536,575	6,197,260
2013 - 2017	11,650,810	1,925,373	13,576,183
2018 - 2019	<u>4,663,087</u>	<u> </u>	<u>4,663,087</u>
	<u>\$ 32,631,239</u>	<u>\$ 7,286,585</u>	<u>\$ 39,917,824</u>

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 7: CAPITAL CONTRIBUTIONS AND UNRESTRICTED NET ASSETS

The Airport has received capital contributions as follows:

	Year Ended December <u>31, 2003</u>	Year Ended December <u>31, 2004</u>	Year Ended December <u>31, 2005</u>	As of December <u>31, 2005</u>
U. S. Government	\$121,860,668	\$ 7,010,397	\$ 6,034,585	\$134,905,650
City of Little Rock	3,000,000	-0-	-0-	3,000,000
State and Private	<u>3,343,758</u>	<u>255,383</u>	<u>(4,629)</u>	<u>3,594,512</u>
	<u>\$128,204,426</u>	<u>\$ 7,265,780</u>	<u>\$ 6,029,956</u>	<u>\$141,500,162</u>

Regardless of Airport ownership, governance, or management structure, funding agreements between the Airport and the Federal Aviation Administration require that all Airport revenues be expended only for capital or operating costs of the Airport, the Airport system, or other facilities operated by the Airport that are directly and substantially related to the actual air transportation of passengers or property. While the Airport's unrestricted assets are not restricted for specific uses, the federal funding agreements mandate the Airport's assets be used only for purposes related to air transportation. Unrestricted net assets total \$19,229,249 and \$20,187,630, respectively, for the years ending December 31, 2005 and 2004.

NOTE 8: LEASE REVENUE

The Airport leases its property to commercial airlines, auto rental companies, fee based operators who service the airline industry, Federal Aviation Administration, Transportation Security Administration, and various other entities. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 6,646,931
2007	4,274,614
2008	4,224,196
2009	4,211,624
2010	<u>3,532,856</u>
	<u>\$ 22,890,221</u>

Several of the leases in these balances include rental amounts that are redetermined annually based on formulas prescribed in the individual lease agreements. The minimum future rentals for these leases were determined using the rates in effect at fiscal year end. The Airport also has several leases that require the lessee to remit a percentage of its revenue as

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 8: LEASE REVENUE (CONTINUED)

the rental charge. Rental income under leases of this type is not included in the future minimum rental amounts, and the actual income to be received in future periods cannot be known due to the nature of these leases. Further, staff anticipates that 18 of the 19 leases expiring between 2007 and 2010 will be renegotiated and/or renewed via option, resulting in additional lease revenues totaling \$10,346,030 from 2007 through 2010 based on the estimated rates in place at the expiration of the leases. For the preceding reasons, Airport management does not anticipate the rents received from these bases to significantly decrease.

NOTE 9: EMPLOYEES' RETIREMENT FUND

The employees of Little Rock National Airport were covered under a defined benefit pension plan through 1986. On January 1, 1987, this plan was frozen and no additional employee contributions were required as the Airport initiated a defined contribution plan to cover all eligible employees. The plan requires that the Airport contribution be 4% of the salary of all participating employees and the employee contribution be 3 1/2% of salary. In 2005 and 2004, the Airport's required and actual contributions amounted to \$128,902 and \$135,773, respectively, which were 4% of the covered payroll.

The employees' required and voluntary contributions for 2005 and 2004, amounted to \$133,394 and \$140,947, respectively.

NOTE 10: RISK MANAGEMENT

The Airport is exposed to various risks of loss related to various federal claims; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport purchases commercial insurance coverage for claims arising from various risks of loss. The insurance is renewed to be effective the first day of each May. The Airport did not renew its liability coverage effective January 1, 2002, due to the cost of coverage, opting instead for the existing provision of tort immunity and the coverage afforded by the Arkansas Municipal League's Legal Defense Program. A schedule of insurance policies in force as of December 31, 2005, is as follows:

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 10: RISK MANAGEMENT (CONTINUED)

Type of Coverage and Carrier	Effective Date	Expiration Date	Coverage
Directors, Officers and Employee's Liability Resurgens Specialty Underwriting	05-01-05	04-30-06	\$ 1,000,000 each loss and aggregate
Fidelity Travelers Insurance Company	05-01-05	04-30-06	\$ 250,000
Property, Flood, Earthquake, Affiliated FM Insurance Company	05-01-05	04-30-06	\$ 76,509,908
Commercial Automobiles Clarendon National Insurance	05-01-05	04-30-06	\$ 1,000,000
Boiler and Machinery Affiliated FM Insurance Company	05-01-05	04-30-06	\$ 76,509,908

NOTE 11: COMMITMENTS AND CONTINGENCIES

American Airlines Flight 1420

On June 1, 1999, American Airlines Flight 1420 overran the end of Runway 4R after landing and collided with the structure supporting the Runway 22L approach lighting system. Flight 1420 was a McDonnell Douglas MD-82 that had been in service since June 1983. The plane carried a crew of six and 139 passengers. The captain and ten passengers ultimately died as a result of the crash. The remaining crew members and 105 passengers received serious or minor injuries; 83 passengers were hospitalized; and 24 passengers were not injured.

On November 15, 2001, the National Transportation Safety Board ("NTSB") released its final report of the accident; a 320-page document including accident facts, an analysis of the accident, conclusions and recommendations. In that report, the NTSB concluded that the probable causes of the accident were the flight crew's failure to discontinue the approach when severe thunderstorms and their associated hazards to flight operations had moved into the airport area, and the flight crew's failure to ensure that the spoilers had extended after touchdown.

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 11: COMMITMENTS AND CONTINGENCIES (CONTINUED)

American Airlines Flight 1420 (Continued)

In June 2001, the estate of the deceased pilot, Richard Buschmann, filed a civil complaint against Little Rock National Airport and the Little Rock Municipal Airport Commission, also FAA, City of Little Rock, and others although they were ultimately "excused" from the case in the U. S. District Court, Eastern Division, Arkansas, alleging negligence and breach of contract. In January 2002, two flight attendants on American Airlines 1420 and their respective spouses filed a second civil action complaint in the U. S. District Court, Eastern Division, Arkansas, also alleging negligence and breach of contract.

These cases were consolidated and were resolved in 2005. The Airport's general liability coverage satisfied any and all payments made or damages assessed in both cases. In the opinion of the Airport Commission's counsel, the litigation did not materially affect the financial condition of the Airport.

Timex

Preliminary environmental assessment of the Timex building indicated the need for remedial environmental clean-up. The Airport Commission and Timex agreed to share the expense of the preliminary environmental investigation, with each party reserving its respective rights regarding the responsibility for any future work that may be conducted or required. As of December 31, 2005, the Airport's costs incurred, excluding building demolition, totaled approximately \$145,383.

If additional environmental remedial action is needed to address the conditions that have been identified, state and federal environmental statutes establish a legal basis for seeking to have Timex and any other responsible parties pay the costs of such work. Airport management is unable to reasonably estimate any future possible costs. However, in the opinion of the Airport Commission's counsel, the possible additional expense incurred by the Airport Commission will not materially affect its financial condition.

Airline Bankruptcies

Litigation involving Chapter 11 bankruptcies, as referenced below, are in various stages of reorganization. Some of the companies in Chapter 11 bankruptcy hold leases with Little Rock National Airport and/or are obligated to pay landing fees and/or passenger facility charges to the Airport. In the opinion of the Airport Commission's counsel, any monies owed to the Airport pre-petition or post-petition filing will not materially affect the financial condition of the Airport.

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 11: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Airline Bankruptcies (Continued)

The following companies doing business with the Airport and involved in bankruptcy litigation are:

<i>US Airways, Inc. et al</i> United States Bankruptcy Court for the Eastern District of Virginia Alexandria Division September 12, 2004	Case No. 04-13819 Chapter 11
<i>UAL Corporation, et al</i> United States Bankruptcy Court for the Northern District of Illinois Eastern Division December 9, 2002	Case No. 02-B-48191 Chapter 11
<i>Delta Airlines, et al</i> United States Bankruptcy Court for the Southern District of New York September 14, 2005	Case No. 05-17 923 (pub) Chapter 11
<i>Northwest Airlines Corporation, Inc. et al</i> United States Bankruptcy Court for the Southern District of New York September 14, 2005	Case No. 04-13819 Chapter 11
<i>ATA Holdings Corp., et al</i> United States Bankruptcy Court for the Southern District of Indiana Indianapolis Division October 26, 2004	Case No. 04-19866 Chapter 11
<i>Hawaiian Airlines, Inc.</i> United States Bankruptcy Court for the District of Hawaii March 21, 2003	Case No. 03-00817 Chapter 11
<i>Aloha Airgroup, Inc., et al</i> United States Bankruptcy Court for the District of Hawaii December 30, 2004	Case No. 04-03063 Chapter 11

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 11: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

In addition, the Airport is involved in other lawsuits and litigation matters on an on-going basis as a result of its day-to-day operations. However, Airport management does not believe any of these or any threatened lawsuits or litigation matters will have a material adverse effect on the Airport or its business.

Construction Projects

The Airport is committed to various construction projects which will result in future obligations that are significant in amount. The future obligations for the contracts will be paid from available funds or will qualify for Passenger Facility Charge reimbursement or Federal Aviation Administration grants.

Grant Programs

The Airport participates in state and federal grant programs, which are governed by various rules and regulations. Costs charged to the programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Airport has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of December 31, 2005, may be impaired. In the opinion of Airport management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Business and Credit Risk

Because the Airport primarily generates revenue by leasing its facilities to commercial airlines, Federal Aviation Administration, Transportation Security Administration, and various entities servicing the airline industry, operations are affected by economic or other conditions affecting air travel.

Additional Bonds

The issuance of Airport Revenue Bonds prior to the end of year 2006 is anticipated. The financial plan, the financing structure, and the final amount are currently being developed and, as such, have not yet been finalized.

LITTLE ROCK NATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2005 AND 2004

NOTE 12: RATE COVENANT REQUIREMENTS

The Master Indenture dated October 4, 1994, and the Supplemental Indentures for Revenue Bond Series 1994, 1995, 1999, and 2003, contain rate covenant requirements whereby the Commission covenants to establish and collect rates and charges for the sale or use of Airport services which, together with other income, are reasonably expected to yield available revenues which are at least equal to the rate covenant requirements for the forth-coming fiscal year. The term "rate covenant requirements" shall mean an amount at least equal to the sum of (1) 125% of the aggregate debt service excluding amounts payable on repayment obligations for the fiscal year, and (2) 100% of the repayment obligations, if any, which will be due and payable during the forthcoming fiscal year, and 100% of the amounts, if any, required by the Master Indenture to be deposited into the debt service reserve account during the forthcoming fiscal year. The net income of the Airport for the fiscal years ended December 31, 2005 and 2004 as reflected in the Statements of Revenues, Expenses and Changes in Net Assets was sufficient to meet the rate covenant requirements for the revenue bonds.

NOTE 13: DEPOSITS IN REQUIRED FUNDS

The Master Indenture dated October 1, 1994, and the Supplemental Indentures for Revenue Bond Series 1994, 1995, 1999, and 2003, established certain funds related to the bond issues.

Revenue Refunding Bonds, Series 1995 and 1994

The Indentures established a Construction Fund consisting of a project account that was used to redeem the refunded bonds and a Principal and Interest Fund consisting of a bond account used to meet the required principal and interest payments and a debt service reserve account used to fund the reserve requirements as established by the Master Indenture of an amount equal to the lesser of (i) 10% of the principal amount of the Series 1995 and 1994 Bonds or (ii) the maximum annual debt service on the Series 1995 and 1994 Bonds. The outstanding bonds were refunded during 2003 and funds in the accounts were used for the refunding.

Airport Revenue Bonds, Series A, 1999 and Series B, 1999

The Indentures established a Construction Fund consisting of a project account to complete the construction and a Principal and Interest Fund consisting of the following: a bond account used to meet the required principal and interest payments, and a capitalized interest account used to pay interest during a portion of the construction period, and a debt service reserve account used to fund the reserve requirements as established by the Master Indenture. The amounts held by Regions Morgan Keegan Trust in each of these funds as of December 31, 2005, is as follows:

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 13: DEPOSITS IN REQUIRED FUNDS

Airport Revenue Bonds, Series A, 1999 and Series B, 1999 (Continued)

1999A Project Account	<u>\$ 2,081,473</u>
1999A Bond Fund	<u>\$ 388,426</u>
1999A Debt Service Reserve Account	<u>\$ 2,572,905</u>
1999B Project Account	<u>\$ 534,316</u>
1999B Bond Fund	<u>\$ -0-</u>

Revenue Refunding Bonds, Series 2003

The Series 2003 Supplemental Indenture established a Construction Fund consisting of a project account that was used to refund the bonds, a 2003 bond Sub-Account consisting of a bond account used to meet required principal and interest payments, and a 2003 Debt Service Reserve Sub-Account consisting of a debt service reserve account used to fund the reserve requirements of an amount equal to the lesser of (i) 10% of the aggregate issuance price of the Series 2003 Bonds or (ii) the maximum annual debt service on the Series 2003 Bond. The amounts held by Regions Morgan Keegan Trust in each of these funds as of December 31, 2005, are as follows:

2003 Project Fund	<u>\$ 14,237</u>
2003 Bond Fund	<u>\$ 128,230</u>
2003 Debt Service Reserve Account	<u>\$ 747,799</u>

NOTE 14: SINKING FUND REQUIREMENTS

The series 2003 and 1999 Bonds are subject to redemption in part by operation of Sinking Fund Installments as provided in the Master Indenture. Amounts and due dates of the Sinking Fund Installments for the bonds maturing on November 1, are as follows:

<u>Due November 1,</u>	<u>Series 2003</u>	<u>Series 1999A</u>
2006	\$ 525,000	\$ -0-
2007	535,000	-0-
2008	555,000	-0-
2012 - 2019	<u>1,345,000</u>	<u>10,025,000</u>
	<u>\$ 2,960,000</u>	<u>\$ 10,025,000</u>

LITTLE ROCK NATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005 AND 2004

NOTE 15: RELATED PARTY TRANSACTIONS

Little Rock National Airport operates as a component unit of City of Little Rock, Arkansas. As a result of this relationship, there are certain related party transactions that exist between the two entities as well as with other component units. A summary of these related party cash transactions for the years ended December 31, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Payments to City for workman's compensation	<u>\$ 13,114</u>	<u>\$ 10,624</u>
Payments to City for fire protection	<u>\$ 1,488,263</u>	<u>\$ 1,131,858</u>
Payments to City for police protection	<u>\$ 983,357</u>	<u>\$ 793,888</u>
Payments to City for legal defense program	<u>\$ 16,876</u>	<u>\$ 12,296</u>
Payments to City for ramp rental	<u>\$ 42,999</u>	<u>\$ 36,384</u>
Payments to City for seasonal contract labor	<u>\$ 10,000</u>	<u>\$ 10,512</u>
Payments to City for miscellaneous items	<u>\$ -0-</u>	<u>\$ 200</u>
Payments to Little Rock Waterworks	<u>\$ 86,033</u>	<u>\$ 80,861</u>
Payments to Little Rock Office of Emergency Services	<u>\$ -0-</u>	<u>\$ 2,448</u>
Payments to Little Rock Parks and Recreation	<u>\$ -0-</u>	<u>\$ 497</u>
Payments to Little Rock Communications Department	<u>\$ 2,760</u>	<u>\$ -0-</u>

ADDITIONAL FINANCIAL INFORMATION

LITTLE ROCK NATIONAL AIRPORT
SCHEDULE OF REVENUE BONDS PAYABLE
DECEMBER 31, 2005

Year	Series 1999 Original Issue \$27,860,000 Interest Rate 4.50% to 6.50%		Series 2003 Original Issue \$7,060,000 Interest Rate 3.20% to 5.00%		Total Annual Requirements
	Principal	Interest	Principal	Interest	
2006	\$ 1,170,000	\$ 1,160,554	\$ 525,000	\$ 244,382	\$ 3,099,936
2007	1,225,000	1,106,149	535,000	226,008	3,092,157
2008	1,285,000	1,047,961	555,000	207,282	3,095,243
2009	1,345,000	986,281	575,000	187,858	3,094,139
2010	1,410,000	920,712	610,000	159,107	3,099,819
2011	1,480,000	850,213	645,000	128,608	3,103,821
2012	1,555,000	775,472	655,000	107,967	3,093,439
2013	1,635,000	696,168	690,000	75,218	3,096,386
2014	1,715,000	612,782	720,000	40,717	3,088,499
2015	1,805,000	524,460	385,000	14,438	2,728,898
2016	1,900,000	430,600			2,330,600
2017	2,000,000	331,800			2,331,800
2018	2,105,000	226,800			2,331,800
2019	2,215,000	116,287			2,331,287
	<u>\$ 22,845,000</u>	<u>\$ 9,786,239</u>	<u>\$ 5,895,000</u>	<u>\$ 1,391,585</u>	<u>\$ 39,917,824</u>

See independent auditors' report.

LITTLE ROCK NATIONAL AIRPORT
SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Terminal and Other Rentals		
Airline space rentals	\$ 585,410	\$ 528,175
Departure lounges	732,461	673,283
Baggage claims	1,091,846	1,065,166
Airline credits	(555,729)	-0-
Federal agencies	2,101	2,101
Auto rentals	3,243,728	2,770,999
Restaurant and lounge	817,577	745,697
Airline trip insurance	-0-	529
Terminal advertising	113,981	93,110
Other office rental	142,432	123,797
Hangar rentals	301,852	294,201
Airside tenants	945,421	730,361
Land leases	266,017	371,743
Building leases		
Hertz Building	-0-	3,249
Air Cargo Building	253,052	217,711
FAA Building	200,226	200,226
	<u>8,140,375</u>	<u>7,820,348</u>
Parking and Other Concessions		
Terminal area parking	6,420,431	5,742,976
Vending machines	34,953	29,627
Ground transportation	100,600	103,274
	<u>6,555,984</u>	<u>5,875,877</u>
Landing Fees		
Airlines	3,339,143	2,925,864
Other	293,312	404,447
	<u>3,632,455</u>	<u>3,330,311</u>
Other		
Utilities	30,974	30,974
Telephone	78,228	81,577
Commissions on fuel sales	41,317	71,553
Miscellaneous	29,477	25,638
	<u>179,996</u>	<u>209,742</u>
Total Operating Revenues	<u>\$ 18,508,810</u>	<u>\$ 17,236,278</u>

See independent auditors' report.

LITTLE ROCK NATIONAL AIRPORT
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Terminal Operations		
Salaries	\$ 1,749,302	\$ 1,721,320
Payroll taxes	145,994	131,518
Retirement	61,603	52,708
Insurance	341,936	340,540
Maintenance, repairs, and supplies	345,741	271,919
Utilities	761,052	679,516
Police and security	1,168,686	1,036,193
Professional fees	102,348	20,858
Contracted services	412,552	256,652
Training and education	<u>1,944</u>	<u>3,168</u>
	<u>5,091,158</u>	<u>4,514,392</u>
 Airfield Operations		
Salaries	692,536	657,244
Payroll taxes	56,981	50,856
Retirement	23,684	20,360
Insurance	147,137	137,133
Maintenance, repairs, and supplies	240,729	215,927
Utilities	108,531	91,953
ARFF	1,240,408	1,171,976
Police and security	511,032	363,452
Professional fees	3,492	32,825
Contracted services	70,860	58,383
Training and education	2,039	2,040
Fingerprinting	-0-	27,812
Real estate tax	<u>4,170</u>	<u>1,982</u>
	<u>3,101,599</u>	<u>2,831,943</u>
 Industrial Operation		
Salaries	82,571	73,119
Payroll taxes	7,160	5,594
Retirement	3,525	2,995
Insurance	20,405	18,602
Maintenance, repairs, and supplies	22,412	14,691
Utilities	67,484	61,558
Professional fees	42,233	40,042
Real estate tax	<u>-0-</u>	<u>7,794</u>
	<u>245,790</u>	<u>224,395</u>

See independent auditors' report.

LITTLE ROCK NATIONAL AIRPORT
 SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Administrative Expenses		
Salaries	\$ 795,528	\$ 879,868
Payroll taxes	65,032	63,726
Retirement	34,189	32,735
Insurance	390,667	372,424
Office supplies	60,583	60,213
Communications	106,683	94,971
Travel expense	24,184	26,960
Public relations and marketing	530,175	313,915
Professional fees	485,410	409,978
Human resources	74,778	95,886
Dues and subscriptions	11,315	9,800
Deferred compensation	156	3,500
Training and education	11,523	8,571
Other	5,850	5,841
Special project	106	38,138
	<u>2,596,179</u>	<u>2,416,526</u>
 Parking Lot Operations		
Salaries	628,508	622,015
Payroll taxes	50,485	47,583
Retirement	17,739	15,441
Insurance	119,287	115,401
Maintenance, repairs, and supplies	93,198	62,270
Merchant fees	108,339	96,420
Utilities	200,099	187,758
Police and security	413,121	271,851
Public relations	9,973	7,437
Training and education	3,175	4,475
Seasonal contract labor	10,000	10,512
Other	17,494	15,659
	<u>1,671,418</u>	<u>1,456,822</u>

See independent auditors' report.

LITTLE ROCK NATIONAL AIRPORT
 SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Shuttle Service Operations		
Salaries	\$ 102,486	\$ 87,785
Payroll taxes	8,091	6,718
Retirement	3,443	2,472
Insurance	27,822	33,840
Maintenance, repairs, and supplies	21,302	18,474
Fuel	<u>14,729</u>	<u>11,057</u>
	<u>177,873</u>	<u>160,346</u>
Operating Expenses Before Depreciation	12,884,017	11,604,424
Depreciation	<u>6,354,364</u>	<u>6,081,236</u>
Total Operating Expenses	<u>\$ 19,238,381</u>	<u>\$ 17,685,660</u>

See independent auditors' report.

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OMB A-133 REQUIRED INFORMATION

LITTLE ROCK NATIONAL AIRPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>PROGRAM TITLE/PROJECT NO.</u>	<u>Federal CFDA Number</u>	<u>Pass- through Grantor Number</u>	<u>Program or Award Amount</u>	<u>Federal %</u>
Department of Transportation				
Airport Improvement Program				
(AIP)				
Federal Aviation Administration				
<u>PROJECT NO.</u>				
03-05-0035-47	20.106	N/A	\$ 2,071,521	90
03-05-0035-52	20.106	N/A	2,812,110	90
03-05-0035-54	20.106	N/A	3,005,000	90
03-05-0035-55	20.106	N/A	3,000,000	95
03-05-0035-56	20.106	N/A	4,241,939	95
03-05-0035-57	20.106	N/A	1,080,000	95
03-05-0035-58	20.106	N/A	<u>6,012,179</u>	95
			<u>22,222,749</u>	
Department of Homeland Security				
Transportation Security				
Administration				
Reimbursement Law Enforcement Personnel (LEO)	Not Available			
	Contract			
	HSTS 01-			
	04-A-LEF 052	N/A	167,608	100
National Explosives Detection				
Canine Team Program				
(NEDCTP)	97.084	N/A	<u>602,500</u>	
			<u>770,108</u>	
Total Expenditures of Federal Awards			<u>\$ 22,992,857</u>	

See notes to Schedule of Expenditures of Federal Awards.

<u>Accrued or (Deferred) Revenue at 12/31/04</u>	<u>Grant Receipts Federal</u>	<u>Matching By Sponsor</u>	<u>Disbursement /Expenditure</u>	<u>Accrued or (Deferred) Revenue at 12/31/05</u>
\$ 23,212	\$ 330,095	\$ 39,716	\$ 346,599	\$ -0-
69,177	635,549	63,981	639,995	9,642
18,031	1,214,287	552,188	1,748,444	-0-
-0-	1,777,393	98,802	1,976,039	99,844
206,102	1,285,332	40,343	1,154,272	34,699
7,685	269,673	15,227	342,386	65,171
-0-	<u>370,767</u>	<u>21,878</u>	<u>437,536</u>	<u>44,891</u>
<u>324,207</u>	<u>5,883,096</u>	<u>832,135</u>	<u>6,645,271</u>	<u>254,247</u>
13,790	163,204	-0-	162,801	13,387
-0-	-0-	-0-	58,648	58,648
<u>13,790</u>	<u>163,204</u>	<u>-0-</u>	<u>221,449</u>	<u>72,035</u>
<u>\$ 337,997</u>	<u>\$ 6,046,300</u>	<u>\$ 832,135</u>	<u>\$ 6,866,720</u>	<u>\$ 326,282</u>

LITTLE ROCK NATIONAL AIRPORT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2005

GENERAL:

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial award programs of Little Rock National Airport. All federal financial awards received directly from federal agencies as well as federal financial awards passed through other governmental agencies are included on the schedule.

BASIS OF ACCOUNTING:

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting which is described in Note 1 to the Airport's financial statements.

RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS:

Federal financial award expenditures are reported in the Airport's financial statements as follows:

	<u>Federal Grant</u>	<u>Sponsor Matching</u>	<u>Total</u>
Increase in:			
Capital assets			
AIP	\$ 5,813,136	\$ 832,135	\$ 6,645,271
NEDCTP	8,550	-0-	8,550
Security personnel expense - LEO	162,801	-0-	162,801
Security personnel expense -			
NEDCTP	47,395	-0-	47,395
Canine security expense - NEOCTP	<u>2,703</u>	<u>-0-</u>	<u>2,703</u>
	<u>\$ 6,034,585</u>	<u>\$ 832,135</u>	<u>\$ 6,866,720</u>

Equity Grant-In-Aid from the U. S. Government increased as follows:

Federal Grants:	
Increase in capital assets	\$ 5,821,686
Current security expense	162,801
Current canine security expense	<u>50,098</u>
	<u>\$ 6,034,585</u>

RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except applicable reimbursement has not yet been requested from FAA for all costs of Airport improvement projects and retainage payable has not been requested. These exceptions are reported in the financial statement as expenditures consistent with the accrual basis of accounting, but are not reported in the federal financial report until actually paid.

LITTLE ROCK NATIONAL AIRPORT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

DEPARTMENT OF TRANSPORTATION

Airport Improvement Program

Federal Aviation Administration

2004

There were no findings and questioned costs which included audit findings as defined in §.510 of OMB Circular A-133.

FEDERAL REPORTS

L. COTTON THOMAS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
620 WEST THIRD, SUITE 400
LITTLE ROCK, AR 72201-2224

MEMBERS AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Little Rock Municipal Airport Commissioners
Little Rock National Airport
Little Rock, Arkansas

We have audited the financial statements of Little Rock National Airport, a component unit of City of Little Rock, Arkansas, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Little Rock National Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Little Rock National Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted, however, certain matters that we reported to management of Little Rock National Airport in a separate letter dated March 7, 2006.

This report is intended for information of the Airport Commissioners, Airport management, and the Federal Aviation Administration. This report, however, is a matter of public record and its distribution is not limited.

J. Cotton Thomas + Company

March 7, 2006

L. COTTON THOMAS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
620 WEST THIRD, SUITE 400
LITTLE ROCK, AR 72201-2224

MEMBERS AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Little Rock Municipal Airport Commissioners
Little Rock National Airport
Little Rock, Arkansas

Compliance

We have audited the compliance of Little Rock National Airport with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. Little Rock National Airport's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Little Rock National Airport's management. Our responsibility is to express an opinion on Little Rock National Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Little Rock National Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Little Rock National Airport's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, Little Rock National Airport did not comply in one instance with requirements regarding financial reporting requirements that are applicable to the Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for Little Rock National Airport to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Little Rock National Airport complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Little Rock National Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Little Rock National Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Little Rock National Airport's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the Airport Commissioners, management, and the Federal Aviation Administration. However, this report is a matter of public record and its distribution is not limited.

J. Cotton Thomas & Company

March 7, 2006

LITTLE ROCK NATIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

SUMMARY OF AUDIT RESULTS - FINANCIAL STATEMENTS

A summary of results relating to the audit of the financial statements required by *Government Auditing Standards* is as follows:

The independent auditors' report on the financial statements of Little Rock National Airport, a component unit of City of Little Rock, Arkansas, expresses an unqualified opinion.

Results of tests performed during the audit of the financial statements of Little Rock National Airport, a component unit of City of Little Rock, Arkansas, noted no matters involving the internal control over financial reporting and its operations that is considered to be a material weakness.

Results of tests performed during the audit of the financial statements of Little Rock National Airport, a component unit of City of Little Rock, Arkansas, disclosed no instances of noncompliance required to be reported.

LITTLE ROCK NATIONAL AIRPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

SUMMARY OF AUDIT RESULTS - FINANCIAL STATEMENTS

A summary of results relating to the audit of federal awards relating to the reports required in accordance with OMB Circular A-133 is as follows:

The independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 for Little Rock National Airport, a component unit of City of Little Rock, Arkansas, expresses a qualified opinion on compliance with requirements applicable to the Airport's major program described in the schedule of findings and questioned costs for the year ended December 31, 2005, as 05-1.

The independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 for Little Rock National Airport, a component unit of City of Little Rock, Arkansas, noted one reportable condition described in the schedule of findings and questioned costs for the year ended December 31, 2005, as 05-1.

Little Rock National Airport has one major program which is the Department of Transportation, Airport Improvement Program, CFDA 20.106.

A threshold of \$300,000 was used to distinguish Type A and Type B programs as those terms are defined in OMB Circular A-133.

Little Rock National Airport qualifies as a low-risk auditee as that term is defined in OMB Circular A-133.

LITTLE ROCK NATIONAL AIRPORT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2005

FINDINGS REQUIRED TO BE REPORTED - MAJOR FEDERAL AWARDS PROGRAM

Department of Transportation
 Airport Improvement Program
 CFDA No. 20.106

Questioned
 Costs

05-1

N/A

Criteria:	Financial reporting requirements for the Airport AIP grants requires quarterly filing of Form 272, Federal Cash Transactions Report.
Condition:	The Airport failed to file any of the quarterly reports for 2005.
Effect:	The Airport was not in compliance with reporting requirements for fiscal year ended December 31, 2005.
Cause:	With the change in the Airport's reporting requirements, the interim program manager did not realize Form 272 was required. All reports were filed by January 31, 2006.
Recommendation and Response:	Management agrees with the recommendation of a quarterly review by the accounting department to ascertain reports are timely filed.

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APPENDIX D

GLOSSARY OF TERMS

Certain terms used in this Official Statement have the meanings set forth below:

"Accountant's Certificate" means a certificate signed by an Independent Public Accountant.

"Accrued Debt Service" means, as of any date of calculation, the amount of Debt Service that has accrued with respect to any Series of Bonds and any related Security Instrument Repayment Obligations, calculating the Debt Service that has accrued with respect to each Series of Bonds and any related Security Instrument Repayment Obligations as an amount equal to the sum of (1) the interest on the Bonds of such Series and on any related Security Instrument Repayment Obligations that has accrued and is unpaid and that will have accrued by the end of the then current calendar month, and (2) that portion of all Principal Installments payable within the 12 month period following the date of calculation for the Bonds of such Series (other than Subordinated Bond Anticipation Notes) and on any related Security Instrument Repayment Obligations that would have accrued (if deemed to accrue in the same manner as interest accrues) by the end of the then current calendar month.

"Aggregate Debt Service" means, as of any date of calculation and with respect to any period, the sum of the amounts of Debt Service for all Series of Bonds Outstanding, and any Repayment Obligations outstanding.

"Airport" means The Little Rock Regional Airport, plus future additions thereto and all present and future improvements and facilities thereof or acquired or constructed for purposes associated therewith.

"Airport Consultant" means any firm, corporation or individual, including but not limited to registered professional engineers and certified public accountants, who are experienced in the administration, financial affairs, maintenance, construction or operation of airports and airport facilities, appointed and paid by the City, who:

- (i) is in fact independent and not under the domination of the City;
- (ii) does not have any substantial interest, direct or indirect, with the City; and
- (iii) is not connected with the City as an officer or employee but who may be regularly retained to make annual or other periodic reports to the City.

"Airport Consultant's Certificate" means a certificate or opinion signed by an Airport Consultant.

"Authorized Officer" means the Commission's Chairperson, or the City's Mayor, its City Manager or its City Clerk, and any other person authorized by ordinance or resolution of the Board or the Commission to perform the act or sign the document in question.

"Board" means the City of Little Rock Board of Directors and its successor as the governing body of the City.

"Bond Account" means the Bond Account in the Principal and Interest Fund established in the Master Indenture.

"Bond Anticipation Notes" means Bonds issued by the City pursuant to the Master Indenture in advance of the permanent financing by the City for a Project.

"Bond Counsel" means Wright, Lindsey & Jennings LLP and Ivory Law Firm, P.A., Little Rock, Arkansas, Co-Bond Counsel, or other counsel of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States.

"Bondholder" or "Holder," or any similar term, means the owner of any Bond or Bonds. In the case of a fully-registered Bond, Bondholder means the registered owner of such Bond.

"Bonds" means bonds issued from time to time under the Master Indenture.

"Bonds" means bonds, notes or other obligations (other than Repayment Obligations) authorized by and at any time Outstanding pursuant to the Master Indenture.

"Business Day" means a day of the year which is not a Saturday, Sunday or legal holiday in New York, New York, or a day on which the Trustee, any Depository and any Security Instrument Issuer are authorized or obligated to close.

"Calendar Year" means the period commencing on January 1 of each year and terminating on the next succeeding December 31.

"Capital Appreciation Bonds" means Bonds the interest on which (1) is compounded and accumulated at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and designating them as Capital Appreciation Bonds, and (2) is payable upon maturity or redemption of such Bonds.

"City" or "Issuer" means Little Rock, Arkansas, a municipality and political subdivision of the State of Arkansas, and its successors and assigns.

"Closing Date" means the date of the delivery of the Series 2007 Bonds to the Underwriters.

"Code" means the Internal Revenue Code of 1986, as amended and supplemented from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Master Indenture, including the Bonds, the use of Bond proceeds or a Project.

"Commission" means the Little Rock Municipal Airport Commission which is the agency of the City which has full and complete charge of the Airport and authority to manage, operate, maintain, improve extend the Airport.

"Construction Bonds" means all Bonds, whether issued in one or more Series for the purpose of paying or providing for the payment of all or a portion of (i) the Cost of Construction of a Project, (ii) Principal, Redemption Price and interest on Bond Anticipation Notes or (iii) a combination of (i) and (ii).

"Construction Fund" means the fund by that name established in the Master Indenture.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement among the Issuer, the Commission, and the Trustee dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Cost of Construction" means the costs of the City properly attributable to the acquisition of any Project and all expenses preliminary and incidental thereto incurred by the City in connection therewith and in the issuance of the Bonds, including all engineering, fiscal, underwriting, financing and legal expenses and costs of issuance, printing and advertising, for which funds may be disbursed from the Construction Fund and interest during construction, including but not limited to:

- (1) Payment of the acquisition or construction costs of a Project;
- (2) Payment of the initial or acceptance fee of the Trustee;
- (3) Payment to the City of such amounts, if any, as shall be necessary to reimburse the City in full for advances and payments theretofore made or costs theretofore incurred by the City for any item of Cost of Construction;
- (4) Costs for the obtaining of any insurance policy or policies or surety bonds with respect to a Project by the City during the construction of such Project;
- (5) Payment of audit fees and expenses for maintenance of construction records required to be kept with respect to a Project;
- (6) Payment of the costs of any necessary litigation and the obtaining of all necessary permits and rulings;

- (7) Payment of the costs of issuance of the Bonds including legal, accounting and fiscal agent and underwriting fees and expenses, payments and fees due under any agreement pursuant to which any Series of Bonds is sold, bond discount, printing and engraving costs and fees of rating agencies, incurred in connection with the authorization, sale and issuance of the Bonds and preparation of the Master Indenture and Supplemental Indenture pursuant to which the Bonds will be issued;
- (8) Payment of interest on the Bonds during the period of construction of a Project and for 12 months thereafter (or such different period as may then be permitted by law);
- (9) The amount, if any, to be deposited into the Revenue Fund as working capital amounts pursuant to the Master Indenture;
- (10) The amount, if any, to be deposited into the Debt Service Reserve Account pursuant to the Master Indenture; and
- (11) Payment of any other costs and expenses during the construction period of a Project and relating to the Project, including Security Instrument Costs, Reserve Instrument Costs, and fees and expenses of the Trustee and of professional services to comply with the rebate requirements of the Code.

"Current Interest Bonds" means Bonds not constituting Capital Appreciation Bonds. Interest on Current Interest Bonds shall be payable periodically on the interest payment dates provided therefor in a Supplemental Indenture.

"Debt Service" means, for any particular Fiscal Year and for any Series of Bonds and any Repayment Obligations, an amount equal to the sum of

- (a) all interest (net of any interest subsidy with respect to Bonds paid or payable to or for the account of the City or the Commission by any governmental body or agency and, for purposes of computing the Rate Covenant Requirement, net of any amounts deposited with the Trustee pursuant to the Master Indenture and available to pay interest on Bonds) payable during such Fiscal Year on such Bonds Outstanding and such Repayment Obligations then outstanding, plus
- (b) the Principal Installments payable during such Fiscal Year on (i) such Bonds Outstanding (other than Subordinated Bond Anticipation Notes), calculated on the assumption that Bonds Outstanding on the day of calculation cease to be Outstanding by reason of, but only by reason of, payment either upon maturity or application of any Sinking Fund Installments required by the Master Indenture, and (ii) such Repayment Obligations then outstanding;

provided, however that

- (i) when calculating interest payable during such Fiscal Year for any Series of Variable Rate Bonds or Repayment Obligations bearing interest at a variable rate which cannot be ascertained for any particular Fiscal Year, it shall be assumed that such Series of Variable Rate Bonds or related Repayment Obligations will bear interest at the maximum permissible rates applicable to such Series of Variable Rate Bonds or related Repayment Obligations.

and further provided, however, that there shall be excluded from "Debt Service" Repayment Obligations to the extent that payments on Pledged Bonds relating to such Repayment Obligations satisfy the City's obligation to pay such Repayment Obligations.

"Debt Service Reserve Account" means the Debt Service Reserve Account in the Principal and Interest Fund established in the Master Indenture.

"Debt Service Reserve Requirement" means, with respect to any Series of Bonds for which a Series Subaccount has been established in the Debt Service Reserve Account corresponding to such Series of Bonds, the amount specified in the Supplemental Indenture establishing such Series Subaccount.

"Depository" means any bank or trust company selected by the City and satisfactory to the Trustee as a depository of moneys and securities held under the provisions of the Master Indenture and may include the Trustee.

"Estimated Completion Date" means the estimated date upon which a Project will have been substantially completed in accordance with the plans and specifications applicable thereto as that date shall set forth in a Written Certificate of the City.

"Estimated Net Revenues" means, for any Year, the estimated Revenues for such Year less the estimated Operation and Maintenance Costs for such Year.

"Event of Default" has the meaning specified in the Master Indenture.

"Fiduciary" or "Fiduciaries" means the Trustee, the Paying Agents, any Transfer Agent, any Depository, or any or all of them, as may be appropriate.

"Financial Newspaper or Journal" means *The Wall Street Journal* or *The Bond Buyer* or any other newspaper or journal printed in the English language and customarily published on each business day devoted to financial news and selected by the Trustee, whose decision shall be final.

"Fiscal Year" means the annual accounting period of the Airport as from time to time in effect, initially a period commencing on January 1 of each Calendar Year and ending on the next succeeding December 31.

"Fund" means one of the funds confirmed or established pursuant to the Master Indenture, including the Construction Fund, the Principal and Interest Fund and the Revenue Fund.

"Government Obligations" means:

- (i) Direct obligations of or obligations guaranteed by the United States of America; and
- (ii) Any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in clause (i) above.

"Grant Aid" means any grants in aid made to the City or the Commission by the federal government (now called "AIP") or by the State of Arkansas.

"Independent Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom

- (1) is in fact independent and not under domination of the City;
- (2) does not have any substantial interest, direct or indirect, with the City;
- (3) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City; and
- (4) is satisfactory to the Trustee.

The Trustee shall be entitled to rely on the written statement of a certified public accountant or firm of such accountants as to his or its compliance with the terms of this definition.

"Investment Securities" means any of the following securities, if and to the extent that the same are at the time legal for investment of City funds:

- (i) The following investments fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation: (a) certificates of deposit, (b) savings accounts, (c) deposit accounts, or (d) depository receipts of a bank, savings and loan associations and mutual savings banks;

- (ii) Certificates of deposit of a rated bank or insured certificate of deposit;
- (iii) Government Obligations; and
- (iv) Bonds, debentures or notes or other evidence of indebtedness issued by any one or a combination of any of the following federal agencies so long as such evidences of indebtedness are supported by the full faith and credit of the United States of America: the Export-Import Bank of the United States; the Government National Mortgage Association; the Federal Financing Bank; the Farmer's Home Administration; the Federal Housing Administration; the Maritime Administration; or the Public Housing Authority.

"Issue Date" means (i) the first day of any calendar month, or (ii) any other date, established in a Supplemental Indenture with respect to a Series of Bonds.

"Master Indenture" means the Master Trust Indenture between the City and the Trustee dated as of October 1, 1994, providing for the issuance of Municipal Airport Revenue Bonds, as amended and supplemented from time to time by Supplemental Indentures.

"Maximum Annual Debt Service" means the maximum amount of Debt Service due in any Year with respect to the Series 2007 Bonds Outstanding.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City, with the approval of the Trustee.

"Net Revenues" means, for any period, the Revenues during such period less the Operation and Maintenance Costs during such period.

"Operation and Maintenance Costs" means all actual operation and maintenance costs related to the Airport incurred by the City or the Commission in any particular Fiscal Year or period to which said term is applicable or charges made therefor during such Fiscal Year or period, including amounts reasonably required to be set aside in reserves for items of Operation and Maintenance Costs the payment of which is not then immediately required.

"Opinion of Counsel" means a written opinion of counsel selected by the City and satisfactory to the Trustee. Any Opinion of Counsel may be based, insofar as it relates to factual matters, on information with respect to which is in the possession of the City, upon a Written Certificate of the City, unless such counsel knows, or in the exercise of reasonable care should have known, that such Written Certificate is erroneous.

"Other Available Funds" means for any Year (i) the amount, including but not limited to lease revenues on Special Purpose Facilities and proceeds from sale of assets, set forth in a Written Certificate of the City submitted to the Trustee, available throughout the applicable Year for use in accordance with the Master Indenture, provided that the amount designated in accordance with the Master Indenture shall not exceed 25% of the Aggregate Debt Service, excluding amounts payable on Repayment Obligations, for such Year, plus (ii) Passenger Facility Charges ("PFC's") receipts.

"Outstanding" means with respect to the Bonds, as of any date of calculation (subject to the provisions of the Master Indenture), all Bonds which have been duly authenticated and delivered by the Trustee except: (a) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation; b) Bonds for the payment or redemption of which cash funds or Investment Securities shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the provisions of the Master Indenture or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; (c) Bonds in exchange for or in lieu of which other Bonds have been authenticated or delivered as permitted by the Master Indenture; and (d) the Principal amount of any Bond issued pursuant to a Supplemental Indenture authorizing partial payment without cancellation if payment is noted on a payment record attached to such Bond provided such payment has been made and duly noted on the payment record attached to such Bond.

"Paying Agent" means any bank or trust company designated as paying agent for the Bonds of any series and its successor or successors hereinafter appointed in the manner provided in the Master Indenture.

"Pledged Bonds" means any Bonds that have been pledged or in which any interest has otherwise been granted to a Security Instrument Issuer as collateral security for Security Instrument Repayment Obligations.

"Principal" means with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

"Principal and Interest Fund" means the fund by that name established in the Master Indenture.

"Principal Installment" means, as of any date of calculation, (a) with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (1) the Principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (2) the unsatisfied balance (determined as provided in the definition of "Sinking Fund Installment" in this Section) of any Sinking Fund Installment due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a Principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (3) if such future dates coincide as to different Bonds

of such Series, the sum of such Principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date plus such applicable redemption premiums, if any, and (b) with respect to any Repayment Obligations, the principal amount of such Repayment Obligations due on a certain future date.

"Project" means additions, improvements and extensions to the Airport that are designated by the Board as a Project and identified in a Supplemental Indenture authorizing the issuance of Construction Bonds or Bond Anticipation Notes for such Project, including any modifications or amendments pursuant to the Master Indenture.

"Project Account" means the separate account for each Project in the Construction Fund pursuant to the Master Indenture.

"Purchase Contract" means the Bond Purchase Agreement, among the Issuer and the Underwriters pursuant to which the Series 2007 Bonds are to be sold by the Issuer. date.

"Rate Covenant Requirement" has the meaning specified under "SUMMARY OF THE MASTER INDENTURE - Rates and Charges" in Appendix B hereto.

"Rating Agency" means Moody's and S&P.

"Rebate Fund" means any fund established with respect to a Series of Bonds issued under the Master Indenture, to be administered and expended in accordance with the Tax Regulatory Agreement with respect to such Series of Bonds.

"Record Date" means the fifteenth day of the month next preceding any interest payment.

"Redemption Price" means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to any Supplemental Indenture.

"Refunded Debt" has the meaning set forth in the Master Indenture.

"Refunding Bonds" means all Bonds, whether issued in one or more Series, authenticated and delivered pursuant to the Master Indenture for refunding purposes, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Master Indenture.

"Repayment Obligations" means, collectively, all outstanding Security Instrument Repayment Obligations and Reserve Instrument Repayment Obligations.

"Reserve Instrument" means an instrument or other device issued by a Reserve Instrument Issuer to satisfy all or any portion of the Debt Service Reserve Requirement, if any, for a Series of Bonds. The term "Reserve Instrument" includes, by way of example and not of limitation, letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit and other security instruments and other devices; provided, however, that no such device or instrument shall be a "Reserve Instrument" for purposes of the Master Indenture unless specifically so designated in the Supplemental Indenture authorizing the use of such device or instrument.

"Reserve Instrument Agreement" means any agreement entered into by the City and approved by the Commission and a Reserve Instrument Issuer pursuant to a Supplemental Indenture and providing for the issuance by such Reserve Instrument Issuer of a Reserve Instrument.

"Reserve Instrument Coverage" means, as of any date of calculation and with respect to any Reserve Instrument, the amount available to be paid under such Reserve Instrument into the related Series subaccount in the Debt Service Reserve Account to satisfy all or any portion of the Debt Service Reserve requirement.

"Reserve Instrument Issuer" means any bank, savings and loan association, savings bank, thrift institution, credit union, insurance company, surety company or other institution issuing a Reserve Instrument.

"Reserve Instrument Limit" means, as of any date of calculation and with respect to any Reserve Instrument, the maximum amount available to be paid under such Reserve Instrument into the related Series Subaccount in the Debt Service Reserve Account to satisfy all or any portion of the Debt Service Reserve Requirement, assuming for purposes of such calculation that the amount initially available under each Reserve Instrument has not been reduced or that the amount initially available under each Reserve Instrument has only been reduced as a result of the payment of Principal on the corresponding Series of Bonds.

"Revenue Fund" means the fund by that name identified in the Master Indenture.

"Revenues" means all revenues, fees, income, rents and receipts derived by the Commission from the Airport or any lease or other contractual arrangement with respect to the use of the Airport, including without limitation any use agreements or lease agreements, or from the sale of any property of the Airport permitted under the Master Indenture, including the proceeds of any insurance covering business interruption loss. Revenues also includes all interest, profits or other income derived from the investment of any moneys held pursuant to the Master Indenture and required to be paid into the Revenue Fund and the proceeds of any interest subsidy with respect to the Bonds paid for or for the account of the City by any governmental body or agency. Revenues shall not include: (a) Grant Aid; (b) proceeds received on insurance resulting from casualty damage to assets of the Airport; (c) rentals or other charges (other than ground rental) derived by the City or the Commission under and pursuant to a lease or leases relating to Special Purpose Facilities; (d) the

proceeds of sale of Bonds or other obligations issued for City Airport purposes; or (e) Passenger Facility Charges ("PFC's").

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City, with the approval of the Trustee.

"Series" means all of the Bonds designated as being of the same Series authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Master Indenture.

"Series Subaccount" means the separate subaccount created for each Series of Bonds in the Bond Account or in the Debt Service Reserve Account pursuant to the Master Indenture.

"Series 2007 Bonds" means the Series 2007A Bonds and the Series 2007B Bonds.

"Series 2007 Security Instrument" means the Financial Guaranty Insurance Policy issued by Ambac Assurance Corporation, insuring the payment of principal and interest on the Series 2007 Bonds.

"Series 2007 Supplemental Indentures" means the Series 2007A Supplemental Indenture and the Series 2007B Supplemental Indenture.

"Series 2007A Bond Subaccount" means the Series Subaccount in the Bond Account established in the Series 2007A Supplemental Indenture for payment of the Series 2007A Bonds.

"Series 2007A Bonds" means the City's Airport Revenue Refunding and Improvement Bonds, Series 2007A, authorized by the Series 2007A Supplemental Indenture.

"Series 2007A Debt Service Reserve Requirement" means an amount equal to the lesser of 10% of the original aggregate issue price of the Series 2007A Bonds or the Maximum Annual Debt Service.

"Series 2007A Debt Service Reserve Subaccount" means the Series 2007A Subaccount in the Debt Service Reserve Account established in the Series 2007A Supplemental Indenture for the Series 2007A Bonds.

"Series 2007A Project" means construction of approximately 84,700 square feet of auto parking and costs for clearing and preparation of the construction site and related engineering and similar costs. The Series 2007A Bonds are also being issued to provide a portion of the costs of refunding the 2016 maturity of the City's Airport Revenue Bonds, Series 1999A.

“Series 2007A Project Account” means the Series 2007A Project Account in the Construction Fund established in the Series 2007A Supplemental Indenture.

“Series 2007A Supplemental Indenture” means the Series 2007A Supplemental Indenture dated as of January 1, 2007 pursuant to which the Series 2007A Bonds are issued.

“Series 2007A Tax Regulatory Agreement” means (a) the Series 2007A Tax Regulatory Agreement, dated the Closing Date, between the Issuer, Commission and the Trustee and (b) any other agreement or certificate of the Issuer executed and delivered in connection with the Series 2007A Bonds in order to assure the tax-exempt status of interest received on the Series 2007A Bonds.

“Series 2007B Bond Subaccount” means the Series Subaccount in the Bond Account established in the Series 2007B Supplemental Indenture for payment of the Series 2007B Bonds.

“Series 2007B Bonds” means the City’s Airport Revenue Improvement Bonds, Series 2007B, authorized by the Series 2007B Supplemental Indenture.

“Series 2007B Debt Service Reserve Requirement” means an amount equal to the lesser of 10% of the original aggregate issue price of the Series 2007B Bonds or the Maximum Annual Debt Service.

“Series 2007B Debt Service Reserve Subaccount” means the Series Subaccount in the Debt Service Reserve Account established in the Series 2007B Supplemental Indenture for the Series 2007B Bonds.

“Series 2007B Project” means the acquisition of approximately 12 acres of land and the construction of a concrete public aircraft parking apron and site work on newly acquired land, construction of extensions of the existing aircraft taxiway to serve the new facilities, as well as costs for clearing and preparation of the construction site and related engineering and similar costs and the installation of the utility infrastructure required to provide services to the site.

“Series 2007B Project Account” means the Series 2007B Project Account in the Construction Fund established in the Series 2007B Supplemental Indenture.

“Series 2007B Supplemental Indenture” means the Series 2007B Supplemental Indenture dated as of January 1, 2007 pursuant to which the Series 2007B Bonds are issued.

“Series 2007B Tax Regulatory Agreement” means (a) the Series 2007B Tax Regulatory Agreement, dated the Closing Date, between the Issuer, Commission and the Trustee, (b) the Project Certificate of the Issuer addressed to Bond Counsel and dated the Closing Date, and (c) any other agreement or certificate of the Issuer executed and delivered in connection with the Series 2007B Bonds in order to assure the tax-exempt status of interest received on the Series 2007B Bonds.

"Sinking Fund Installment" means an amount so designated which is established pursuant to the Master Indenture. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Master Indenture toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"Special Purpose Facilities" means (1) hangars, aircraft overhaul, maintenance or repair shops, reservation centers, storage facilities, cargo handling buildings and necessary ramp areas incidental thereto, and other similar facilities; (2) projects now or hereafter provided in Ark. Code Ann. §§14-164-201 *et seq.* and 14-164-501 *et seq.*, and similar acts; (3) such other facilities or projects as the Commission shall by resolution designate as a Special Purpose Facility, and the cost of construction and acquisition of which are financed with the proceeds of special purpose bonds, notes or obligations of the City as contemplated and permitted by the Master Indenture.

"Subordinated Bond Anticipation Notes" means Bond Anticipation Notes, the Principal Installments which have been subordinated pursuant to the Master Indenture.

"Supplemental Indenture" means any trust indenture in full force and effect which has been by the Board and accepted by the Commission; but only if and to the extent that Supplemental Trust Indenture is adopted in accordance with the provisions of the Master Indenture.

"Term Bonds" means the Series 2007A Bonds and the Series 2007B Bonds maturing on November 1 in the years 2020 and 2024.

"Transfer Agent" means, as the agent of the City, the Trustee and each and every additional agent appointed from time to time as the agent of the City pursuant to the Master Indenture for the transfer and authentication of Bonds for so long as such appointment shall continue in effect.

"Trustee" means Regions Bank and its successors and permitted assigns under the Series 2007 Supplemental Indentures.

"Underwriters" means Morgan Keegan & Company, Inc., Banc of America Securities LLC, Edward Jones and M. R. Beal & Company.

"Variable Rate Bonds" means, as of any date of calculation, Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed as a rate to be calculated pursuant to a formula.

"Written Certificate of the City," "Written Request of the City" and "Written Statement of the City" means an instrument in writing signed on behalf of the City by an Authorized Officer. Any such instrument and any supporting opinions or certificates may, but need not, be combined in a single instrument with any other instrument, opinion or certificate, and the two or more so combined

shall be read and construed so as to form a single instrument. Any such instrument may be based, insofar as it relates to legal, accounting or engineering matters, upon the opinion or certificate of counsel, consultants, accountants or engineers, unless the Authorized Officer signing such Written Certificate or Request or Statement knows, or in the exercise of reasonable care should have known, that the opinion or certificate with respect to the matters upon which such Written Certificate or Request or Statement may be based, as aforesaid, is erroneous. The same Authorized Officer, or the same counsel, consultant, accountant or engineer, as the case may be, need not certify to all of the matters required to be certified under any provision of the Master Indenture, but different Authorized Officers, counsel, consultants, accountants or engineers may certify to different facts, respectively. Every Written Certificate or Request or Statement of the City, and every certificate or opinion of counsel, consultants, accountants or engineers provided for herein shall include:

- (1) a statement that the person making such certificate, request, statement or opinion has read the pertinent provisions of the Master Indenture to which such certificate, request, statement or opinion relates;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate, request, statement or opinion is based;
- (3) a statement that, in the opinion of such person, the person has made such examination or investigation as is necessary to enable the person to express an informed opinion ,..with respect to the subject matter referred to in the instrument to which the person's signature is affixed; and
- (4) with respect to any statement relating to compliance with any provision hereof, a statement whether or not, in the opinion of such person, such provision has been complied with.

"Year" means any period of twelve consecutive months.

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

E-1

Authorized Officer of Insurance Trustee

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