

**CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION**

Financial Statements
December 31, 2005 and 2004
(With Independent Auditors' Report)

**CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION**

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2 |
| Audited Financial Statements | |
| Balance Sheets | 11 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 13 |
| Statements of Cash Flows | 14 |
| Notes to the Financial Statements | 16 |
| Required Supplementary Information | |
| Schedule of Funding Progress | 40 |

Independent Auditors' Report

Honorable Mayor and Members of City Council
City of Atlanta, Georgia
Department of Aviation

We have audited the accompanying balance sheets of the Department of Aviation (the "Department") of the City of Atlanta, Georgia (the "City"), a major Enterprise Fund of the City, as of December 31, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Department. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department, a major enterprise fund of the City, and are not intended to, and do not, present fairly the financial position of the City as of December 31, 2005 and 2004, and its changes in financial position and cash flows, where applicable, for the years then ended 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 the Department as of December 31, 2005 and 2004 and its change in financial position, operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

July 12, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis of the financial performance and activities of the City of Atlanta, Georgia Department of Aviation (the "Department") is to provide an introduction and understanding of the basic financial statements of the Department for the years ended December 31, 2005 and 2004. This discussion and analysis has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Department operates the Hartsfield-Jackson Atlanta International Airport (the "Airport"). The Department is reported as a major enterprise fund of the City of Atlanta, Georgia (the "City"). The Department is self-supporting, using aircraft landing fees, fees from terminal and other rentals and revenues from concessions to fund operating expenses. The Capital Improvement Program (CIP) is funded by bonds, federal grants, contribution from the City and Passenger Facility Charges (PFCs) and from Customer Facility Charges (CFCs) paid by car rental customers.

Required Financial Statements

The Department's financial report includes three financial statements: the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows and Disclosure Notes to the Financial Statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board (GASB). The Department is structured as a single enterprise fund with revenues recognized when earned and expenses recognized when incurred. Capital asset related costs are capitalized and (with the exception of land and artwork) depreciated over their estimated useful lives. Certain net asset balances are restricted for debt service and construction activities.

Following is an overview of the required financial statements:

The Balance Sheet includes all of the Department's assets, liabilities and net assets provides information about the nature and amounts of investments in resources (assets) as well as obligations to creditors and investor (liabilities). It also provides the basis for evaluating the capital structure of the Department and assessing liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Assets reports the operating and non-operating revenues and expenses of the Department for the fiscal year with the difference (net income or loss) being combined with any capital contributions to arrive at the net change in assets for the fiscal year. This statement measures the success of the Department's operations over the past year and can be used to determine whether the Department has successfully recovered all its costs through its users' fees and other charges.

The Statement of Cash Flows provides information about the Department's cash receipts and disbursements during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and capital and related capital financing activities and provides an insight as to which activity provided or used cash. The Notes to the Financial Statements present additional information that is integral to a complete understanding of the data provided in the financial statements.

Activity Highlights

As the principal air carrier airport in the southeastern United States, Hartsfield-Jackson Atlanta International Airport (Hartsfield-Jackson) serves as a major origin, destination, and connecting point between America and the world. Hartsfield-Jackson's passenger traffic continued its steady growth in 2005 by reaching 85.5 million, an increase of 2.75% over 2004.

Since a strong recovery in 2002, the Airport continues to grow year after year following one of the most difficult recovery periods in the history of aviation. Total enplanements for 2005 were 43,020,532 compared to 41,838,001 in 2004, a 2.83% increase. International enplanements for 2005 were 3,358,972 compared to 3,118,084 in 2004, a 7.73% increase. The increase in international enplanements is primarily due to the increase in general passenger travel. For the period ended December 31, 2005, domestic enplanements increased 2.43%.

Enplanements and Operations Activity for 2003, 2004 and 2005:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------|-------------|-------------|-------------|
| Total Enplanements | 43,020,532 | 41,838,001 | 39,696,975 |
| International | 3,358,972 | 3,118,084 | 2,756,315 |
| Domestic | 39,661,560 | 38,719,917 | 36,940,660 |
| Flight Operations | 980,386 | 965,204 | 911,723 |

In 2005 Hartsfield-Jackson handled 767,897 metric tons of cargo, a 10.78% decrease when compared to 2004. This is due in part to a 53.84% drop in mail resulting from Delta losing the mail contract.

The City and the majority of the airlines serving the Airport (the "Signatory Airlines") have entered into agreements relating to the use of the airfield that extend to 2010 (the "Airport Use Agreements"). Under the Airport Use Agreements, the Signatory Airlines agree to pay landing fees to allow the City to recover certain operating and maintenance expenses as well as debt service plus 20% coverage on General Revenue Bonds issued to finance approved airfield capital improvements. The Signatory Airlines collectively accounted for approximately 99% of all aircraft landed weight at Hartsfield-Jackson in 2005.

The City has also entered into agreements that extend to 2010 with the principal passenger airlines serving Hartsfield-Jackson (the "Contracting Airlines") relating to their use and lease of the central passenger terminal complex (the "CPTC Leases"). The CPTC Leases provide for the calculation of terminal rentals and charges to allow the City to recover certain operating and maintenance expenses as well as debt service plus 20% coverage on General Revenue Bonds issued to finance approved terminal projects.

The following Contracting Airlines are signatories to the CPTC Leases:

| | |
|-----------------------------|--------------------|
| AirTran Airways | Midwest Airlines |
| American Airline | Northwest Airlines |
| Atlantic Southeast Airlines | United Airlines |
| Continental Airlines | US Airways |
| Delta Air Lines | |

These nine airlines collectively accounted for over 96% and 95%, respectively, of all passengers enplaned at the Airport in 2005 and 2004.

In July 1999, the city and the airlines reached agreement on the scope of the Capital Improvement Plan and on a general plan of finance to permit its implementation at an overall cost of \$5.4 billion. The City and the airlines also agreed on a collaborative process for accomplishing the detailed planning, scheduling, design, construction, and financing of individual projects. In August 1999, a majority-in-interest of the Signatory Airlines approved a financing plan for the Capital Improvement Plan. Under the Airport Use Agreements, a majority-in-interest is defined as any four or more of the Signatory Airlines accounting for 90% or more of landed weight. Under CPTC Leases, a majority-in-interest is defined as at least 51% in the number of the Contracting Airlines that lease 75% or more of exclusively leased terminal, concourses and aircraft parking aprons.

The Transportation Security Administration ("TSA") within the U.S Department of Homeland Security has mandated that 100% of passenger-checked baggage be screened using Explosive Detection System ("EDS") or other electronic detection equipment. The total cost of the security project is expected to be \$167 million. In addition, the TSA has undertaken to reimburse the Department for \$93.75 million of the costs of the infrastructure and baggage handling system modifications required to accommodate the EDS equipment. The Department has been reimbursed \$41.25 million to date. In addition the Federal Aviation Administration (FAA) has committed to reimburse the Department \$42.25 million, bringing the total Federal reimbursement to \$136 million. As of December 31, 2005, \$13.2 million has been reimbursed by the FAA. The Department will provide the funds necessary to complete the project from PFC revenues approved for the project by the FAA.

Financial Highlights

Total net assets for the year increased by approximately \$418.1 million an increase of 15.94% over 2004. The increase is due to an increase in capital assets. This increase over prior year's changes in net assets is primarily due to a significant increase in total revenues, specifically, investment income and a decrease in interest on long-term debt and other non-operating expenses.

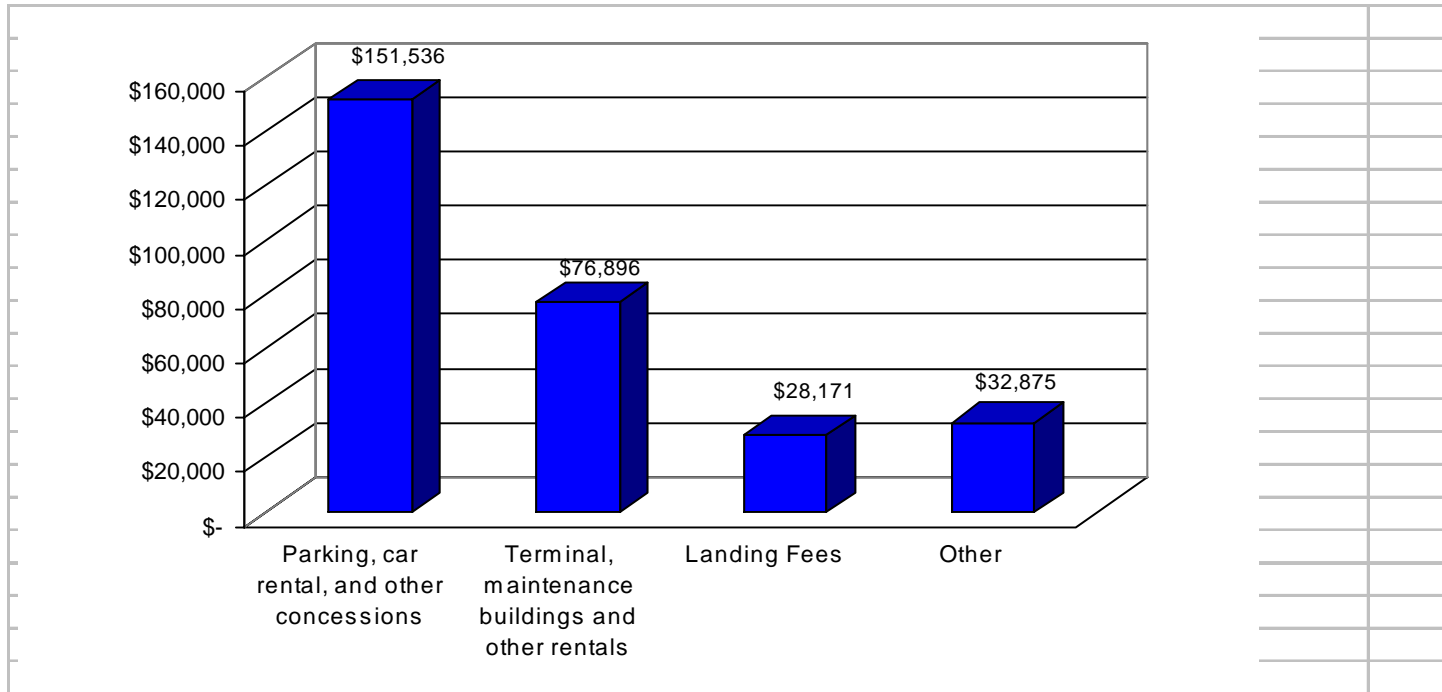
The restricted portion of the Airport's net assets represents bond reserve funds that are subject to external restrictions on how they can be used under bond ordinance, Customer Facility Charge (CFC) and Passenger Facility Charges (PFC) that are restricted by Federal PFC regulations for the purposes authorized, together with the bond ordinance stating they will be used to pay future indebtedness. The 11.3% increase in restricted net assets in 2005 is primarily due to PFC investments.

Unrestricted net assets may be used to meet any of the Airport's ongoing capital and operating obligations. The balance in unrestricted assets at the end of 2005 was \$217 million compared to \$336 million in 2004. The variance of \$119 million was primarily used to fund capital projects.

Operating revenues are diverse and consist primarily of inside concession revenues, parking and ground transportation revenues, and airline revenues, which include landing fees, terminal rentals, reimbursed expenses and other revenues.

2005 Operating Revenues

(\$ in thousands)



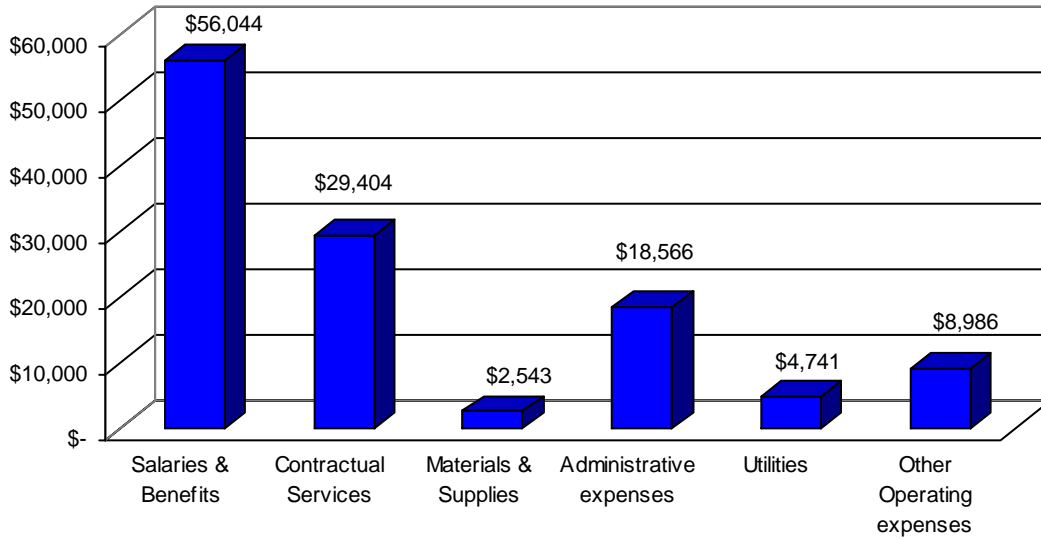
Total revenues consist of operating revenue, investment income, and other income, which includes Passenger Facility Charges ("PFC") revenue and Customer Facility Charges (CFC) revenue. The total revenue in 2005 was \$564.6 million or 21.81% higher than the \$463.5 million generated in 2004.

Operating revenues in 2005 were \$289.5 million, or 5.8% higher than the \$273.6 million reported in 2004 due to a 2.83% increase in enplaned passenger. All revenue accounts contributed to the revenue growth experienced in 2005 with inside concession and car rental revenues contributing the greatest percentage increase. Both car rental and inside concessions revenues increased 13% over 2004 revenue while parking revenue was 6.8% greater than in 2004. Additionally, the new revenue generating initiative, wireless network "WiFi", contributed approximately \$4 million to operating revenue. Passengers can access wireless internet through one of four providers for a fee.

Non-operating revenues increased by \$85.2 million or 44.9%. This is due mainly to an increase in investment income of \$76.1 million for 2005 over 2004. This increase is due to a general increase in interest rates, having more available to invest from recent debt issuances and a change in investment vehicles in the cash pool from repurchase agreements to United States Treasuries and Agencies.

2005 Operating Expenses

(\$ In Thousands)



Operating expenses increased 2.05% in 2005 over 2004. Salaries and benefits increased 6.28% due to an overall salary increase of 2% and switch from consultants to permanent employees. Meanwhile, there was a 3.3% reduction in repair and maintenance account contributed to savings gained from a new Customer Service and a reduction in consumable supplies primarily in Airfield Maintenance. Other operating expenses decreased 5.6%. The savings were from a reduction in consultants services in the Budget and Information Systems divisions.

In 2005 total expenses decreased \$73.0 million or 24.01% less than 2004 expenses. This is due in part to a \$36.6 million or 37.42% reduction in interest expense due to the utilization of additional capitalized interest relating to construction projects, a 100.0% reduction in litigation, settlements & claims, and \$14.3 million decrease in depreciation and amortization expenses.

In 2002, DOA had engaged American Appraisal Associates (AAA) to help in the preparation of a detailed property record to assist the department in its adoption of the capital reporting requirements of Government Accounting Standards Board Statement No. 34. As a result of the report submitted by AAA, some cost transfers and reclassifications were recorded between asset categories such as runways, taxiways, other land improvements, terminal, maintenance buildings and other structures. In addition, the economic useful lives of some assets were extended. As a result, in 2005 the depreciation expense was lower when compared to 2004.

Financial Summary

As noted below, total net assets increased from last year by \$418.1 million. The table below shows the composition of assets, liabilities and net assets as of December 2005, 2004 and 2003 (in thousands).

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|---------------------|
| Capital assets | \$ 3,594,221 | \$ 3,122,826 | \$ 2,628,804 |
| Current and other assets | <u>2,633,720</u> | <u>2,797,582</u> | <u>1,721,832</u> |
| Total assets | <u>\$ 6,227,941</u> | <u>\$ 5,920,408</u> | <u>\$ 4,350,636</u> |
| Long-term debt outstanding | 2,801,348 | 2,904,378 | 1,812,077 |
| Other liabilities | <u>385,250</u> | <u>392,795</u> | <u>143,255</u> |
| Total liabilities | <u>\$ 3,186,598</u> | <u>\$ 3,297,173</u> | <u>\$ 1,955,332</u> |
| Net assets: | | | |
| Invested on capital assets, net of debt | \$ 2,240,102 | \$ 1,762,423 | \$ 1,600,928 |
| Restricted | 584,291 | 524,829 | 452,948 |
| Unrestricted | <u>216,950</u> | <u>335,983</u> | <u>341,428</u> |
| Total net assets | <u>\$ 3,041,343</u> | <u>\$ 2,623,235</u> | <u>\$ 2,395,304</u> |

Changes in Net Assets can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands) for the years ended December 31, 2005 and 2004.

| | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
|----------------------------------|---------------------|---------------------|-----------------|
| Operating revenues | \$ 289,478 | \$ 273,575 | 5.81% |
| Investment income | 104,963 | 28,906 | 263.12 |
| Other income | <u>170,199</u> | <u>161,014</u> | 5.70 |
| Total revenues | <u>\$ 564,640</u> | <u>\$ 463,495</u> | <u>21.82%</u> |
| Operating expenses | \$ 120,284 | \$ 117,868 | 2.05 % |
| Interest expenses | 61,275 | 97,922 | (37.42) |
| Other non-operating expenses | - | 24,426 | (106.00) |
| Depreciations and amortization | <u>49,572</u> | <u>63,944</u> | (22.48) |
| Total expenses | <u>\$ 231,131</u> | <u>\$ 304,160</u> | <u>(24.01)%</u> |
| Excess of revenues over expenses | \$ 333,509 | \$ 159,335 | 109.31% |
| Capital contributions | <u>84,599</u> | <u>68,596</u> | 5.81 |
| Change in net assets | 418,108 | 227,931 | 83.44 |
| Net assets at beginning of year | <u>2,623,235</u> | <u>2,395,304</u> | 9.51 |
| Net assets at end of year | <u>\$ 3,041,343</u> | <u>\$ 2,623,235</u> | <u>15.94%</u> |

The change in 2005 operating revenues is described above under Financial Highlights.

Changes in Net Assets in 2004 can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands) for the years ended December 31.

| | <u>2004</u> | <u>2003</u> | <u>% Change</u> |
|----------------------------------|---------------------|---------------------|-----------------|
| Operating revenues | \$ 273,575 | \$ 247,845 | 10.38% |
| Investment income | 28,906 | 65,617 | (55.95) |
| Other income | <u>161,014</u> | <u>152,373</u> | 5.67 |
| Total revenues | \$ 463,495 | \$ 465,835 | (0.50%) |
| Operating expenses | \$ 117,868 | \$ 100,126 | 17.72% |
| Interest expenses | 97,922 | 78,415 | 24.88 |
| Other non-operating expenses | 24,426 | - | - |
| Depreciations and amortization | <u>63,944</u> | <u>62,146</u> | 2.89 |
| Total expenses | <u>\$ 304,160</u> | <u>\$ 240,687</u> | <u>26.37%</u> |
| Excess of revenues over expenses | \$ 159,335 | \$ 225,148 | (29.23%) |
| Capital contributions | <u>68,596</u> | <u>36,535</u> | 87.75 |
| Change in net assets | 227,931 | 261,683 | (12.90) |
| Net assets at beginning of year | <u>2,395,304</u> | <u>2,133,621</u> | 12.26 |
| Net assets at end of year | <u>\$ 2,623,235</u> | <u>\$ 2,395,304</u> | <u>9.52%</u> |

Operating revenues in 2004 were \$273.6 million, or 10.38% higher than the \$247.8 million reported in 2003. The increase can be attributed to increase in inside concessions revenue, parking and insurance cost recovery revenues and in other revenues. These increases were offset by increases in operating charges and decrease in other building rental revenues. The decrease in investment income is due primarily to low interest earnings realized in the City's pooled investment funds. The increase in other non-operating revenues was primarily due to timing differences in the recording of Passenger Facility Charges (PFC) collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005 and 2004, the Department had \$3.6 billion and \$3.1 billion, respectively, invested in capital assets, net of accumulated depreciation.

The following table summarizes the composition of capital assets (in thousands) as of December 31, 2005, 2004, and 2003.

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|---------------------|
| Land and land purchased for noise abatement | \$ 848,646 | \$ 824,500 | \$ 809,100 |
| Runways, taxiways and other land improvements | 1,163,083 | 820,402 | 812,575 |
| Terminals, maintenance buildings and other Structures | 976,908 | 1,230,782 | 1,218,256 |
| Other property and equipment | 79,496 | 73,022 | 71,504 |
| Construction in progress | <u>1,677,131</u> | <u>1,235,896</u> | <u>717,639</u> |
| Total capital assets | <u>\$ 4,745,264</u> | <u>\$ 4,184,602</u> | <u>\$ 3,629,074</u> |

The City has adopted a Capital Improvement Plan to increase airfield capacity and provide additional terminal facilities required to accommodate increased operations and passenger activity at the Airport. The Capital Improvement Plan is based on a master plan developed by the Airport entitled "Hartsfield 2000 and Beyond".

Construction of elements for the Capital Improvement Plan began in 1999. Completion of the construction called for by the Capital Improvement Plan is expected to occur by 2012. The Capital Improvement Plan includes, among other things, the construction of a 9,000 foot fifth parallel runway, a new South Terminal, a new International Terminal, a Consolidated Rental Car Facility, and renovations to the existing terminal complex. Construction-In-Progress increased by a net \$441.2 million or 35.7% in connection with the ongoing Capital Improvement Plan particularly the nearly completed Runway 10/28.

Debt Administration

At the end of 2005, the Department had a total of \$2.8 billion in long-term revenue bonds outstanding. Maturity dates range from 2005 to 2034, and the interest rates range from 3.75% to 7.25%. Both principal and interest are payable from Operating Revenues, Capitalized interest, PFC, CFC and Federal Grants under the provision of the restated and amended Master Bond Ordinance. The Revenue Bonds do not constitute debt of the City or a pledge of the full faith and credit of the City.

Cash Management

The Department of Aviation continues to maximize investment income within constraints imposed by State Statutes and City Ordinance. Wherever legal requirements permit, cash is pooled in order to achieve maximum cash yields on short-term investments of otherwise idle cash. Cash and cash equivalents are considered highly liquid investments with an original maturity of three months or less.

Economic Factors and Outlook

It has been said many times that Hartsfield-Jackson is, indisputably, the catalyst that sparks the entire economy of the Southeast region. The growth and success of Atlanta, particularly since its inauguration as a city 150 years ago, have been linked with a successful transportation center. International air transportation and commerce are of paramount importance to the economic development of cities and regions. Atlanta is one of the few major cities not connected with a waterway or seaport. Instead, Atlanta's success in recent years is owed to its airport.

The Maynard Jackson, Jr. International Terminal when operating will provide 10 to 14 additional gates, increasing the total number of international gates to 38 and domestic gates by 14. It will provide upgrades to the Airport's international passenger service and support facilities, including concessions, duty free areas, ticketing, baggage handling, general facility modifications and other traveler comforts. Scheduled completion is presently forecast for 2011.

Runway 10/28 (The Fifth Runway) opened in May, 2006. The new runway has a full-length parallel taxiway and dual north/south taxiways to connect to the existing airfield. Additionally, Runway 10/28 is equipped to accommodate CAT III operations (takeoffs and landings in all weather conditions).

Passenger activity levels are expected to increase to more than 94 million annually by 2012. Airport operating revenues is expected to approximate \$470.5 million by the year 2012.

On September 14, 2005, Delta and its subsidiaries filed to reorganize under Chapter 11 in the US Bankruptcy Court of the Southern District in New York. Delta continues to honor its post petition obligations.

As a result of the Bankruptcy filing, Delta began a massive reorganization strategy, which consisted of retiring older, less efficient aircraft. In retiring these less efficient aircraft models, Delta began researching the capacity that they offered on their domestic routes along with the load factors registered on those particular routes. Delta found it much more economical to have its subsidiaries in the Delta Connection market, operate a number of its domestic flights. In turn, Delta re-deployed a large number of aircraft (mainly their Boeing 767-400ER and 767-300ER fleet) from domestic flights to international flights. This allowed Delta to expand internationally and use these aircraft on flights that would generate higher yields. The international expansion being conducted by Delta Air Lines will allow the airport to experience growth of over 20% in its international-passenger traffic. Delta Air Lines has also reported average load factors over the 85 percent tile.

Delta Air Lines has stated that with their newly employed strategies, they will have emerged from Chapter 11 (barring any major oil crisis or terrorist attacks) by third quarter 2007.

REQUESTS FOR INFORMATION

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

Director of Finance
Business and Finance
P.O. Box 20509
Atlanta, Georgia, 30320

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Balance Sheets

December 31, 2005 and 2004

(In Thousands)

| | <u>2005</u> | <u>2004</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,142 | \$ 5,871 |
| Investment in pooled investment fund (Note 2) | 307,765 | 475,392 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,500 for 2005 and \$4,000 for 2004 | 1,114 | 1,109 |
| Restricted assets (Note 4) | 42,633 | 217,092 |
| Prepaid expenses | 3,879 | 2,011 |
| Due from other funds of the City of Atlanta | 197,169 | 110,922 |
| Due from other governments | 1,891 | 1,891 |
| Materials and supplies, net of allowance for obsolescence of \$569 in 2005 and \$462 in 2004 | <u>1,328</u> | <u>1,139</u> |
| Total current assets | <u>566,921</u> | <u>815,427</u> |
| Restricted investments (Note 2 and 4) | <u>1,922,885</u> | <u>1,829,807</u> |
| Capital assets: | | |
| Land | 488,515 | 478,001 |
| Land purchased for noise abatement | 360,131 | 346,499 |
| Runways, taxiways, and other land improvements | 1,163,083 | 820,402 |
| Terminal, maintenance building and other structures | 976,908 | 1,230,782 |
| Other property and equipment | 79,496 | 73,022 |
| Construction in progress | 1,677,131 | 1,235,896 |
| Less: accumulated depreciation | <u>(1,151,043)</u> | <u>(1,061,776)</u> |
| Capital assets, net (Note 5) | <u>3,594,221</u> | <u>3,122,826</u> |
| Deferred assets: | | |
| Bond issue costs, net | 35,366 | 37,520 |
| Loss refunding, net | <u>108,548</u> | <u>114,828</u> |
| Total assets | <u>\$6,227,941</u> | <u>\$5,920,408</u> |

| | <u>2005</u> | <u>2004</u> |
|---|--------------------|--------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,974 | \$ 3,118 |
| Accrued expenses | 6,552 | 10,738 |
| Claims payable (Note 9) | 333 | 333 |
| Due to other funds | <u>178,576</u> | <u>182,882</u> |
| Total current liabilities | <u>187,435</u> | <u>197,071</u> |
| Current liabilities payable from restricted assets: | | |
| Current maturities of long-term debt (Note 6) | 33,935 | 52,183 |
| Accrued interest payable | 51,511 | 57,079 |
| Accounts payable | 67,447 | 64,193 |
| Contract retentions | 16,443 | 8,670 |
| Arbitrage rebate liability | - | 11,815 |
| Deposits and advances | 1,784 | 1,784 |
| Commercial paper notes payable | <u>26,695</u> | <u>-</u> |
| Total current liabilities payable from restricted assets | <u>197,815</u> | <u>195,724</u> |
| Total current liabilities | <u>385,250</u> | <u>392,795</u> |
| Long-term liabilities: | | |
| Revenue bonds payable, net of current maturities (Note 6) | 2,771,854 | 2,876,645 |
| Arbitrage rebate liability | 1,313 | 1,313 |
| Contract retention | 4,609 | 1,509 |
| Claims payable (Note 9) | 23,045 | 24,295 |
| Accrued workers' compensation (Note 9) | <u>527</u> | <u>616</u> |
| Total long-term liabilities | <u>2,801,348</u> | <u>2,904,378</u> |
| Total liabilities | <u>3,186,598</u> | <u>3,297,173</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 2,240,102 | 1,762,423 |
| Restricted for debt service and capital projects (Note 4) | 584,291 | 524,829 |
| Unrestricted | <u>216,950</u> | <u>335,983</u> |
| Total net assets | <u>3,041,343</u> | <u>2,623,235</u> |
| Total liabilities and net assets | <u>\$6,227,941</u> | <u>\$5,920,408</u> |

The accompanying notes are an integral part of the basic financial statements.

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2005 and 2004
(In Thousands)

| | <u>2005</u> | <u>2004</u> |
|---|--------------------|--------------------|
| Operating revenues: | | |
| Parking, car rental and other concessions | \$ 151,536 | \$ 138,989 |
| Terminal, maintenance buildings and other rentals | 76,896 | 75,363 |
| Landing fees | 28,171 | 27,852 |
| Other | <u>32,875</u> | <u>31,371</u> |
| Total operating revenues | <u>289,478</u> | <u>273,575</u> |
| Operating expenses: | | |
| Salaries and employee benefits | 56,044 | 52,734 |
| Repairs, maintenance and other contractual services | 29,404 | 30,410 |
| General services | 18,566 | 18,080 |
| Utilities | 4,741 | 4,650 |
| Materials and supplies | 2,543 | 2,479 |
| Other operating expenses | <u>8,986</u> | <u>9,515</u> |
| Total operating expenses | <u>120,284</u> | <u>117,868</u> |
| Operating income before depreciation and amortization | 169,194 | 155,707 |
| Depreciation and amortization expenses | <u>49,572</u> | <u>63,944</u> |
| Operating income | <u>119,622</u> | <u>91,763</u> |
| Nonoperating revenues (expenses): | | |
| Investment income | 104,963 | 28,906 |
| Passenger facility charges | 164,833 | 161,014 |
| Customer facility charges | 5,366 | - |
| Interest on long-term debt | (61,275) | (97,922) |
| Other nonoperating expenses | <u>-</u> | <u>(24,426)</u> |
| Nonoperating revenues (expenses), net | <u>213,887</u> | <u>67,572</u> |
| Income before capital contributions | 333,509 | 159,335 |
| Capital contributions | <u>84,599</u> | <u>68,596</u> |
| Change in net assets | <u>418,108</u> | <u>227,931</u> |
| Net assets: | | |
| Beginning of year | <u>2,623,235</u> | <u>2,395,304</u> |
| End of year | <u>\$3,041,343</u> | <u>\$2,623,235</u> |

The accompanying notes are an integral part of the basic financial statements.

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION
Statements of Cash Flows
Years Ended December 31, 2005 and 2004
(In thousands)

| | <u>2005</u> | <u>2004</u> |
|--|------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Receipts from customers and tenants | \$ 289,473 | \$ 282,106 |
| Payments to suppliers for goods and services | (69,309) | (71,612) |
| Payments to or on behalf of employees | (60,319) | (48,966) |
| Other receipts (payments), net | <u>(1,250)</u> | <u>-</u> |
| Net cash provided by operating activities | <u>158,595</u> | <u>161,528</u> |
| Cash Flows From Investing Activities: | | |
| Interest and dividends on investments | 93,723 | 28,906 |
| Purchases and sales of nonpooled investments, net | 93,078 | (863,600) |
| Change in pooled investment fund | <u>(77,074)</u> | <u>(35,480)</u> |
| Net cash provided by (used in) investing activities | <u>109,727</u> | <u>(870,174)</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Capital grants | 97,953 | 68,596 |
| Principal repayments of long-term debt | (126,260) | (441,305) |
| Acquisition, construction and improvement of capital assets | (496,294) | (428,008) |
| Passenger and customer facility charges | 168,407 | 161,014 |
| Contract retainage withheld (paid), net | 10,873 | (4,526) |
| Proceeds from bond/note issuance, net | 26,695 | 1,523,788 |
| Interest paid on revenue bonds | <u>(118,357)</u> | <u>(110,020)</u> |
| Net cash from (used in) capital and related financing activities | <u>(436,983)</u> | <u>769,539</u> |
| Increase (decrease) in cash and cash equivalents | <u>(168,661)</u> | <u>60,893</u> |
| Cash and cash equivalents: | | |
| Beginning of Year | <u>206,021</u> | <u>145,128</u> |
| End of Year | <u>\$ 37,360</u> | <u>\$ 206,021</u> |

The accompanying notes are an integral part of the basic financial statements.

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION
 Statements of Cash Flows
 Years Ended December 31, 2005 and 2004
(In thousands)

| | <u>2005</u> | <u>2004</u> |
|---|------------------|------------------|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$119,622 | \$ 91,763 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 49,572 | 63,944 |
| Changes in assets and liabilities: | | |
| Receivables - net of allowances | (5) | 8,531 |
| Inventory | (189) | (79) |
| Prepaid expense | (3,736) | 2,130 |
| Accounts payable and accrued expense | (5,330) | (3,128) |
| Other liabilities | <u>(1,339)</u> | <u>(1,633)</u> |
| Net cash provided by operating activities | <u>\$158,595</u> | <u>\$161,528</u> |
| | | |
| Supplemental schedule of noncash financing activities | | |
| Appreciation of capital appreciation bonds | <u>\$ 4,080</u> | <u>\$ 5,592</u> |

The accompanying note is an integral part of the basic financial statements.

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION
Notes to the Financial Statements
December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies

The Department of Aviation (the "Department") of the City of Atlanta, Georgia (the "City") operates the Atlanta Hartsfield-Jackson International Airport (the "Airport"). The accompanying financial statements include only the financial activities of the Department. The Department is an integral part of the City's financial reporting entity, and its results are included in the Comprehensive Annual Financial Report (CAFR) of the City as a major enterprise fund. The latest available CAFR is as of and for the year ended December 31, 2005; that CAFR should be read in conjunction with these financial statements.

The accounting policies of the Department conform, in all material respects, to accounting principles generally accepted in the United States of America applicable to proprietary funds of governmental units. Below is a summary of the more significant accounting policies followed by the Department.

Basis of Accounting and Presentation

As required by various City ordinances, the financial activities of the Department are accounted for in separate funds established by such ordinances and are combined for financial reporting purposes and presented as a single enterprise fund. Enterprise fund financial statements are prepared on the accrual basis of accounting. Revenues are recorded as earned and expenses are recorded as incurred.

The City applies all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, that are not inconsistent with Governmental Accounting Standards Board (GASB) pronouncements. The City has elected not to apply FASB pronouncements issued subsequent to November 30, 1989.

Investments

Investments are carried at fair value based on quoted market prices, and include any accrued interest. The City maintains a pooled investment fund in which the Department participates, with the exception of its construction, sinking, and special charges funds. Investment income of this pooled fund is allocated to each participating fund based on that fund's recorded equity in the pooled fund.

Interfund Transactions

During the course of normal operations, transactions take place between the funds comprising the Department and other funds within the City. These interfund transactions are not eliminated and are classified as "due from other funds" or "due to other funds" on the balance sheets.

Material and Supplies

Material and supplies are stated at the lower of cost (first-in, first-out) or market.

Notes to the Financial Statements - Continued

Note 1 - Summary of Significant Accounting Policies, continued

Restricted Assets

Restricted assets represent amounts which are required to be maintained pursuant to City ordinances relating to bonded indebtedness (construction, renewal and extension, passenger facility charges, customer facility charges and sinking funds) (see Note 4) and funds received for specific purposes pursuant to U.S. government grants (related primarily to noise abatement programs and funding of debt services).

The Department's policy is to use restricted resources first, then unrestricted resources, when both are available for use to fund an activity.

Capital Assets

Capital assets are recorded at cost, if purchased, and at fair market value at date of gift, if donated. Depreciation of capital assets is provided on the straight-line method over the following estimated useful lives:

| <u>Classification</u> | <u>Range of Lives</u> |
|---|-----------------------|
| Runways, taxiway, and other land improvements | 15-35 years |
| Terminal, maintenance buildings, and other structures | 15-35 years |
| Other property and equipment | 2-10 years |

The Department has a capitalization threshold of \$5,000 for all capital assets.

The Department purchases certain residential parcels of land surrounding the Airport that are considered to be within the area designated as "noise-impacted". The costs of acquisition and relocation of residents in this area are eligible under the Federal Aviation Administration (FAA) Noise Abatement Grant Program for reimbursement. The FAA funds approximately 75% to 80% of these costs with the remainder financed by the Department.

The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with the noise levels associated with the operation of the Airport. All costs associated with acquiring these parcels of land are recorded under the caption "Land purchased for noise abatement" on the Department's balance sheets.

Capitalization of Interest

Net interest costs incurred during the construction of runways, taxiways, and other land improvements and terminal, maintenance buildings, and other structures are capitalized as part of the historical costs of acquiring these assets. The interest earned on investments acquired with proceeds from tax-exempt borrowing (where such borrowings are restricted to the acquisition of assets) is offset against the related interest costs in determining either the amount of interest to be capitalized or limitations on the amount of interest costs to be capitalized. Net interest costs capitalized for 2005 and 2004 totaled approximately \$61 million and \$26 million, respectively.

Notes to the Financial Statements - Continued

Note 1 - Summary of Significant Accounting Policies, continued

Compensated Absences

City employees can accrue a maximum of 25 to 45 days of annual leave, depending upon the length of service, and 20 days of compensatory leave. Vested or accumulated vacation leave, including related benefits, is recorded as an expense and liability as the benefits accrue to employees.

Employees can accrue unlimited amounts of sick leave. Sick leave can be taken only due to personal illness or illness in certain cases, of family members. Depending on the City Council's approval and availability of funds, employees may be paid in cash each year for a portion of their sick leave accrual in excess of a stated base accumulation. No accrued liability is recorded for sick pay accumulated because the amount which ultimately may be paid is not determinable.

Long-Term Debt

Bond discounts and premiums are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond discounts and premiums are presented as a reduction or addition to the face amount of bonds payable, respectively.

Deferred Assets

Bond issuance costs are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Gains and losses from refundings are deferred and amortized over the life of the old debt or new debt on a straight-line basis, whichever is shorter. The unamortized bond issuance costs and losses from refunding are presented as deferred assets on the accompanying balance sheets.

Capital Grants

Grants received for the acquisition or construction of capital assets are recorded as nonoperating revenues (capital contributions), when earned. Grants are earned when costs relating to such capital assets, which are reimbursable under the terms of the grants, have been incurred. During 2005 and 2004, the Department recorded \$84,598,613 and \$68,596,165, respectively, in capital contributions consisting of federal grants in aid of construction and funding of debt services.

Net Assets

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Notes to the Financial Statements - Continued

Note 1 - Summary of Significant Accounting Policies, continued

Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "Restricted" or "Invested in capital assets, net of related debt."

Revenues

Operating revenues are principally derived from agreements relating to the use of Airport facilities. Landing fees are determined on the basis of the gross weight of aircrafts landing at the Airport. Revenue from "terminal, maintenance buildings, and other rentals" is derived from the leasing of various Airport facilities to air carriers and other tenants. Concession revenue is earned through various agreements providing for the operation of concessions at the Airport, such as parking lots, car rental agencies, newsstands, restaurants, etc. Revenues which are derived from capital financing or investing related activities are reported as nonoperating revenues.

On February 26, 1997, in accordance with Section 158.29 of the Federal Aviation Regulations (Title 14, Code of Federal Regulations, Part 158), the FAA approved the City's application to impose a Passenger Facility Charge (PFC) at the Airport and to use PFC revenue either now or in the future. The City imposed a \$3.00 PFC to collect a total of \$491,390,000 over an estimated period of six years and nine months. In May 2000, the FAA approved an amendment to the original application which increased the PFC to \$4.50 and increased the total to be collected by \$516,390,000. The Department collected \$164,833,304 and \$161,003,553 in passenger facility charges for the years ended December 31, 2005 and 2004, respectively, and has collected a total of \$1,141,268,354 from program inception to December 31, 2005.

The Installment Purchase Agreement entered into by the City with the City of College Park for the purchase of a Consolidated Rental Car Facility (the "CONRAC") on June 1, 2006 obligates the City to make debt service payments through 2031, totaling \$443,046,805, on the Series 2006A and Series 2006B Bonds issued by the City of College Park. In relation to the agreement, the City adopted an ordinance effective October 1, 2005, imposing a customer facility charge (CFC) at the Airport to fund the purchase. The CFC of \$4.00 is a charge on each Airport car rental transaction day applicable to both On-Airport Operators and Off-Airport Operators. The Department collected \$5,366,035 in customer facility charges for the year ended December 31, 2005.

Economic Concentration

Delta Airlines (Delta) and the Airport-owned parking facilities account for approximately 16.7% and 24.4% of total operating revenues, respectively in 2005. For 2004, Delta and the parking facilities accounted for 18.8% and 24.2% of total operating revenues, respectively.

On September 14, 2005, Delta and its subsidiaries filed to reorganize under Chapter 11 in the U.S. Bankruptcy Court of the Southern District in New York. Delta continues to honor its post petition obligations. As result of the bankruptcy filing, Delta began a massive reorganization with plans to emerge from Chapter 11 by the third quarter of 2007.

Notes to the Financial Statements - Continued

Note 1 - Summary of Significant Accounting Policies, continued

General Services Costs

The Department is one of a number of departments and/or funds maintained by the City. General services costs, such as purchasing, accounting, budgeting, and personnel administration, represent services provided to the Department by other City departments and/or funds. Such costs are allocated to the Department based on allocation by an independent study. In 2005, such allocated expenses amounted to \$9,480,861.

Statement of Cash Flows

For purposes of the statement of cash flows, the Department considers all highly liquid debt securities with an original maturity of no more than three months to be cash equivalents. At December 31, 2005 and 2004, cash and cash equivalents included:

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|-----------------|------------------|
| Unrestricted cash and equivalents | \$11,142 | \$ 5,871 |
| Restricted cash and equivalents | <u>26,218</u> | <u>200,150</u> |
| | <u>\$37,360</u> | <u>\$206,021</u> |

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 reported amounts and disclosures. Actual results could differ significantly from those estimates.

Reclassifications

Certain amounts previously reported have been reclassified in order to be consistent with the current year presentation.

Note 2 - Deposits and Investments

Cash and cash equivalents and investments as of December 31, 2005 are classified in the accompanying financial statements as follows (in thousands):

| | <u>Fair Value</u> |
|----------------------------------|--------------------|
| Unrestricted: | |
| Cash and Equivalent | \$ 11,142 |
| Investment in Pooled Investments | 307,765 |
| Restricted | |
| Cash and Cash Equivalents | 26,218 |
| Investments | <u>1,922,885</u> |
| Total Deposits and Investments | <u>\$2,268,010</u> |

Notes to the Financial Statements - Continued

Note 2 - Deposits and Investments, continued

Pooled Cash and Investments Held in City Treasury

The City maintains a cash and investment pool that is available for use by all funds. The Department's portion of this pool is displayed on the accompanying financial statements as "Investment in pooled investment fund".

Investments Authorized by the Georgia State Code Section 36-83-4 and the City of Atlanta Investment Policy

The City has adopted an investment policy (the "Policy") to minimize the inherent risks associated with deposits and investments. The primary objective of the investment policy is to invest funds to provide for the maximum safety of principal.

Identified below are the investment types that are authorized by the City of Atlanta Investment Policy. The Policy also identifies certain provisions of the Official Code of Georgia (OCGA) that address interest rate risk, credit risk and concentration of credit risk. This Policy governs all governmental and business-type activities for the City, but does not govern the City of Atlanta Pension Plans.

The City investments are limited to U.S. Government guaranteed securities and U.S. government agency securities which are limited to issues of Federal Farm Credit System (FFCS), Federal Home Loan Bank System (FHLBS), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Student Loan Marketing Association (SLMA) and Federal Agricultural Mortgage Corporation (FAMC). Under the Policy, the City will restrict investments in eligible obligations to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.

The City also invests in fully collateralized repurchase agreements provided the City has on file a signed Master Repurchase Agreement, approved by the City Attorney, detailing eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination. It also requires the securities being purchased by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

The City's investment portfolio, in aggregate, will be diversified to limit its exposure to interest rate and credit risk by observing the above limitations.

Notes to the Financial Statements - Continued

Note 2 - Deposits and Investments, continued

Investment Risk Disclosures

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments governed by the Policy as of December 31, 2005, was approximately 6 months. If it becomes necessary or strategically prudent for the City to sell a security prior to maturity, the Policy allows for occasional restructuring of the portfolio to minimize the loss of market value and/or to maximize cash flows.

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of December 31, 2005, the Department had the following fixed income investments (in thousands), with the corresponding credit ratings and maturities:

| Type of Investment | Credit Rating | Maturity | | | | | Fair Value |
|--------------------|---------------|------------------|-----------------|------------------|--------------------|--------------|--------------------|
| | | Under 30 Days | 31-180 Days | 181-365 Days | 1-5 Years | Over 5 Years | |
| FFCB | Aaa | \$ - | \$ 5,191 | \$ - | \$ 9,767 | \$ - | \$ 14,958 |
| FHLB | Aaa | 40,537 | - | 43,742 | - | - | 84,279 |
| FHLMC | Aaa | 8,057 | - | - | 18,494 | - | 26,551 |
| FHLMC-DN | Aaa | 71,932 | - | 43,731 | - | - | 115,663 |
| FNMA | Aaa | 7,985 | 44,735 | 38,924 | - | - | 91,644 |
| FNMA-DN | Aa | 101,122 | - | - | - | - | 101,122 |
| U.S. Obligations | Exempt | - | - | - | 2,981 | - | 2,981 |
| State Pool | AAA | 31,955 | - | - | - | - | 31,955 |
| Treasury Note | Exempt | 9,986 | 39,902 | - | - | - | 49,888 |
| Money Markets | AAA | 212,441 | - | - | - | - | 212,441 |
| GIC's | * | - | - | - | 1,191,403 | - | 1,191,403 |
| | | <u>\$484,015</u> | <u>\$89,828</u> | <u>\$126,397</u> | <u>\$1,222,645</u> | <u>\$ -</u> | <u>\$1,922,885</u> |

* All Guaranteed Investment Contracts (GIC's) are fully collateralized by U.S. Government Obligations or Agency securities.

Notes to the Financial Statements - Continued

Note 2 - Deposits and Investments, continued

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risks for *investments*, is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City requires that all uninsured collected balances plus accrued interest in depository accounts be secured in accordance with their policy which states that the market value of pledged securities must be at least 110% of the deposits and 102% for repurchase agreements. As a result, the Department had no deposits with custodial risks.

At December 31, 2005 the carrying amount of the Department's investment was approximately \$1,922,885,000. Of the investment balance, all were covered by collateral held by the City's agent or pledging financial institution.

Concentration Credit Risk. The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the OCGA. Investments in any one issuer that represents 5% or more of total City investments, (except for U.S. Treasury securities, mutual funds, and external investment pools) are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>% of Total Investments</u> |
|------------------------|------------------------|-----------------------------------|
| Citigroup | GIC | 10.5% |
| GIC - Society Generale | GIC | 18.5% |

The City is a voluntary participant in the Georgia Local Government Investment Pool (Georgia Fund 1) that is managed by the Office of Treasury and Fiscal Services. As of December 31, 2005, the City's investment in the Georgia Fund 1 is approximately \$31,954,624. The total amount recorded by all public agencies in Georgia Fund 1 at that date is approximately \$1,340,875,278.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of its investments or deposits. The Department is not exposed to this risk and its investment policy does not provide for investments in foreign currency denominated securities.

Notes to the Financial Statements - Continued

Note 2 - Deposits and Investments, continued

The various risks associated with the Pension plan in which the Department participates are disclosed in the City's 2005 Comprehensive Annual Financial Report.

Securities Lending Transactions

At year-end, the Plans had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plans. The contract with the Plans' custodian requires them to indemnify the Plans if the custodian fails to recover borrowed securities and distributions made during the term of the loans. There were no losses resulting from borrower default during the period nor were there any recoveries of prior period losses.

All securities loans can be terminated on demand by either the Plans or the borrower, with the borrower returning equivalent securities to the Plans within a specified period of time.

Custodial Risk. The Pension Plan's had no deposits or investments with custodial risk as of December 31, 2005.

Concentration Credit Risk. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds) that represents 5% or more of *total Pension Plan investments*.

Investments in any one issuer that represents 5% or more of total investments by *individual plan* are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>% of Total Investments</u> |
|---------------------------------|-------------------------|-------------------------------|
| General Employees Pension Plan: | | |
| FHLMC | Federal Agency Security | 8.620% |
| FNMA | Federal Agency Security | 12.280% |
| Police Officer's Pension Plan: | | |
| Europac Growth Fund | Equities | 5.818% |
| Northern Trust Bank N.A. | Equities | 29.128% |
| NTGI | Equities | 9.049% |
| Firemen's Pension Plan: | | |
| FHLMC | Federal Agency Security | 6.402% |
| FNMA | Federal Agency Security | 11.764% |
| NTCC | Equities | 7.467% |
| ISHARES TR | Equities | 18.153% |

Foreign Currency Risk. The Plan's policies state that the portfolio will consist of domestic equities, domestic fixed income and cash equivalents. At December 31, 2005, the Plans were not in compliance with the provisions of its policy requirements for authorized investment purchases. As of year-end, the Plans had investments in foreign equity securities totaling approximately \$55,124,000 and investments in foreign fixed income securities totaling approximately \$3,994,000.

Notes to the Financial Statements - Continued

Note 2 - Deposits and Investments, continued

Although all the foreign equity securities are American Depository Receipts (ADR's), this does not eliminate the foreign currency risk involved in purchasing foreign securities.

The following provides the value in U.S. dollars by foreign currency denominations and investment type for all Pension Plan investments denominated in foreign currencies (in thousands):

| <u>Currency</u> | <u>Short Term</u> | <u>Debt</u> | <u>Equity</u> | <u>Total</u> |
|---|-----------------------|---------------------|----------------------|----------------------|
| Canada | \$ - | \$ 507 | \$ 524 | \$ 1,031 |
| India | - | - | 996 | 996 |
| Netherlands | - | - | 1,093 | 1,093 |
| Switzerland | - | - | 808 | 808 |
| United Kingdom | - | 1,522 | 112 | 1,634 |
| Mexico | - | 1,227 | - | 1,227 |
| France | - | 738 | - | 738 |
| International Region | - | - | 22,540 | 22,540 |
| Multi-National Agencies Region | <u>-</u> | <u>-</u> | <u>29,051</u> | <u>29,051</u> |
| Total Securities subject to Foreign Currency Risk | <u>\$ -</u> | <u>\$ 3,994</u> | <u>\$ 55,124</u> | <u>\$ 59,118</u> |

Note 3 - Disaggregation of Receivables and Payables

Receivables

Net accounts receivable as of December 31, 2005 and 2004 are due from airport tenants, customers and concessionaires. There are no material receivables expected to take longer than one year to collect.

Payables

As of December 31, 2005 and 2004, the majority of the balances reported as accounts payable and accrued expenses were related to normal trade payable and construction contract accruals. Other accruals relate to employee payroll and related expenses. Amounts reported as contract retentions relate to the retained percentage for construction contracts in progress.

Commercial Paper Notes Payable

In July 2005, the City issued Airport General Revenue Commercial Paper Notes, Series 2005A-1 (AMT) and Series 2005A-2 (Non-AMT) up to the amount of \$350,000,000 and Airport Passenger Facility Charge and Subordinate Lien General Revenue Commercial Paper Notes, Series 2005B-1 (AMT) and 2005B-2 (Non-AMT) up to the amount of \$200,000,000. These notes were issued to finance, on an interim basis, a portion of the capital improvements for the Airport. General revenues are pledged as security for payment on Series A notes and PFC revenues and a subordinate pledge of general revenues secures Series B notes. The notes do not constitute a debt, liability, or obligation of the City, or a pledge

Notes to the Financial Statements, Continued

Note 3 - Disaggregation of Receivables and Payables, continued

of the faith and credit or taxing power of the City. These notes are not considered a long term obligation of the Airport and may be repaid and reissued as often as necessary to affect the purposes set out in the program. The Series A Notes and Series B Notes will be secured by irrevocable, direct pay letter of credit issued by a consortium of four banks. The Notes will have varying maturities of not more than 270 days and bear interest at a market rate at the date issued not to exceed 12% per annum. During 2005 approximately \$163 million and \$137 million of Commercial Paper Notes have been issued and liquidated, respectively.

Notes to the Financial Statements, Continued

Note 4 - Restricted Assets

Restricted assets at December 31, 2005 and 2004 are summarized as follows (in thousands):

| | <u>2005</u> | <u>2004</u> |
|---------------------------------|--------------------|--------------------|
| Renewal and Extension Fund: | | |
| Grants receivable | \$ 1,657 | \$ 15,011 |
| Commercial Papers: | | |
| Investments | 25,777 | - |
| Interest receivables | 53 | - |
| Passenger Facility Charge Fund: | | |
| Investments | 464,547 | 433,863 |
| Cash | 21,338 | 181 |
| Accounts receivable | 270 | 212 |
| Interest receivable | 1,463 | 999 |
| Customer Facility Charge Fund: | | |
| Cash | 3,501 | - |
| Accounts receivable | 1,734 | - |
| Construction Fund: | | |
| Investments | 1,333,811 | 1,382,041 |
| Cash | - | 122,731 |
| Interest receivable | 10,868 | 44 |
| Sinking Funds: | | |
| Investments | 98,750 | 13,903 |
| Cash | 1,379 | 77,443 |
| Interest receivable | <u>370</u> | <u>471</u> |
| Total | <u>\$1,965,518</u> | <u>\$2,046,899</u> |

The following is a summary of carrying amount of restricted assets as shown on the accompanying balance sheets at December 31, (in thousands)

| | <u>2005</u> | <u>2004</u> |
|---------------------------|--------------------|--------------------|
| Current restricted assets | \$ 42,633 | \$ 217,092 |
| Investments | <u>1,922,885</u> | <u>1,829,807</u> |
| Totals | <u>\$1,965,518</u> | <u>\$2,046,899</u> |

Notes to the Financial Statements, Continued

Note 5 - Capital Assets

Summaries of capital asset activity and changes in accumulated depreciation for the years ended December 31, 2005 and 2004 follows (in thousands):

| | Balance at December 31, <u>2004</u> | <u>Additions</u> | Deletion and <u>Retirements</u> | <u>Transfers</u> | Balance at December 31, <u>2005</u> |
|--|---|------------------|------------------------------------|------------------|---|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 824,500 | \$ 13,707 | \$ - | \$ 10,439 | \$ 848,646 |
| Construction in progress | <u>1,235,896</u> | <u>502,034</u> | <u>-</u> | <u>(60,799)</u> | <u>1,677,131</u> |
| Total capital assets, not being depreciated | <u>2,060,396</u> | <u>515,741</u> | <u>-</u> | <u>(50,360)</u> | <u>2,525,777</u> |
| Runways, taxiways and other | | | | | |
| Land improvements | 820,402 | - | - | 342,681 | 1,163,083 |
| Terminal, maintenance buildings and other structures | 1,230,782 | - | - | (253,874) | 976,908 |
| Other property and equipment | <u>73,022</u> | <u>7,669</u> | <u>(1,195)</u> | <u>-</u> | <u>79,496</u> |
| Total capital assets being depreciated | <u>2,124,206</u> | <u>7,669</u> | <u>(1,195)</u> | <u>88,807</u> | <u>2,219,487</u> |
| Less accumulated depreciation for: | | | | | |
| Runways, taxiways and other | | | | | |
| Land improvements | (408,105) | (21,949) | - | (245,418) | (675,472) |
| Terminal, maintenance buildings and other structures | (621,806) | (25,768) | - | 228,464 | (419,110) |
| Other property and equipment | <u>(31,865)</u> | <u>(4,084)</u> | <u>981</u> | <u>(21,493)</u> | <u>(56,461)</u> |
| Total accumulated depreciation | <u>(1,061,776)</u> | <u>(51,801)</u> | <u>981</u> | <u>(38,447)</u> | <u>(1,151,043)</u> |
| Net capital assets | <u>\$ 3,122,826</u> | <u>\$471,609</u> | <u>\$ (214)</u> | <u>\$ -</u> | <u>\$ 3,594,221</u> |

Notes to the Financial Statements, Continued

Note 5 - Capital Assets, continued

| | Balance at December 31, <u>2003</u> | <u>Additions</u> | Deletion and <u>Retirements</u> | <u>Transfers</u> | Balance at December 31, <u>2004</u> |
|---|---|------------------|------------------------------------|------------------|---|
| Capital assets at being depreciated: | | | | | |
| Land | \$ 809,100 | \$ 15,400 | \$ - | \$ - | \$ 824,500 |
| Construction in progress | <u>717,639</u> | <u>538,610</u> | <u>-</u> | <u>(20,353)</u> | <u>1,235,896</u> |
| Total capital asset, not being depreciated | <u>1,526,739</u> | <u>554,010</u> | <u>-</u> | <u>(20,353)</u> | <u>2,060,396</u> |
| Runways, taxiways and other land improvements | 812,575 | - | - | 7,827 | 820,402 |
| Terminal, maintenance buildings and other structures | 1,218,256 | - | - | 12,526 | 1,230,782 |
| Other property and equipment | <u>71,504</u> | <u>1,844</u> | <u>(326)</u> | <u>-</u> | <u>73,022</u> |
| Total capital assets being depreciated | <u>2,102,335</u> | <u>1,844</u> | <u>(326)</u> | <u>20,353</u> | <u>2,124,206</u> |
| Less accumulated depreciation for: | | | | | |
| Runways, taxiways and other land Improvements | (392,128) | (15,977) | - | - | (408,105) |
| Terminal, maintenance buildings and other structures | (579,666) | (42,140) | - | - | (621,806) |
| Other property and equipment | <u>(28,476)</u> | <u>(3,670)</u> | <u>281</u> | <u>-</u> | <u>(31,865)</u> |
| Total accumulated depreciation | <u>(1,000,270)</u> | <u>(61,787)</u> | <u>281</u> | <u>-</u> | <u>(1,061,776)</u> |
| Net capital Asset | <u>\$ 2,628,804</u> | <u>\$494,067</u> | <u>\$ (45)</u> | <u>\$ -</u> | <u>\$3,122,826</u> |

Depreciation expense incurred during the years December 31, 2005 and 2004 ended and amounted to \$47,426,776 and \$61,786,761, respectively.

Note 6 - Long-Term Debt

The City has issued various revenue bonds to finance its extensive airport capital improvement projects. The net revenues, as defined in the 2000 Airport Master Bond Ordinance as supplemented and amended, generated by operating activities are pledged as security for the bonds. Interest is payable semi-annually.

Notes to the Financial Statements - Continued

Note 6 - Long-Term Debt, continued

Long-term debt at December 31, 2005 and 2004 consists of the following (in thousands):

| General Revenue Bonds | <u>2005</u> | <u>2004</u> |
|---|---------------------------|---------------------------|
| Airport Facilities Revenue Bonds, Series 1990, at 7.25%, Capital Appreciation Term Bonds, due January 1, 2010 | \$ 70,547 | \$ 80,577 |
| Airport Facilities Revenue and Refunding Bonds, Series 1994B at 5.70%, , due January 1, 2005 | - | 1,960 |
| Airport Facilities Revenue Refunding Bonds, Series 1996 at 5.25% - 6.50%, due serially through 2010 | 71,635 | 99,010 |
| Airport General Revenue and Refunding Bonds, Series 2000A, 2004B and 2004C, at 4.75% - 6.25%, due serially through 2021 | 550,795 | 550,870 |
| Airport General Revenue Refunding Bonds, Series 2003RF-A, at 4.5% - 5.0%, due serially through 2014 | 52,595 | 70,160 |
| Variable Rate Airport General Revenue and Refunding Bonds, Series 2003RF-B-1, RF-B-2, RF-B-3, RF-C-1, RF-C-2, RF-C-3, at weekly modal variable interest rate, due serially through 2014 | 490,170 | 490,170 |
| Airport General Revenue and Refunding Bonds, Series 2003RF-D, at 4.375% - 5.25%, due serially through 2019 | 118,270 | 118,270 |
| Airport General Revenue Bonds, Series 2004A, combination serial (at 5.25% - 5.375%) and term bond (5.125%) Through 2033 | 164,165 | 164,165 |
| Airport General Revenue Bonds, Series 2004B, at 5.25%, Term bond due January 1, 2033 | 58,655 | 58,655 |
| Airport General Revenue and Refunding Bonds, Series 2004F and Series 2004G, at 4.0% - 5.25%, due serially through 2029 | 128,465 | 128,465 |
| Airport General Revenue and Refunding Bonds, Series 2004I, at variable auction rate, due serially through 2024 | <u>51,625</u> | <u>51,625</u> |
| Total General Revenue and Refunding Bonds | <u>1,756,922</u> | <u>1,813,927</u> |
| Passenger Facility Charge Subordinate Revenue Bonds | | |
| PFC and Subordinate lien General Revenue Bonds, Series 2004C at 5.0%, a term bond due January 1, 2033 , | 293,070 | 293,070 |
| PFC and Subordinate Lien General Revenue Bonds, Series 2004D-1, 2004D-2 ,2004E-1 and 2004E-2, variable auction rate, due serially through 2024 | 182,550 | 236,200 |
| PFC and Subordinate Lien General Revenue Bonds, Series 2004J, at 4.0% - 5.25%, due serially through 2029 | 235,860 | 235,860 |
| PFC and Subordinate Lien General Revenue Bonds, Subseries 2004K-1, 2004K-2, 2004K-3 and 2004K-4, at variable auction rate, due serially through 2020 due serially through 2029 | <u>336,725</u> | <u>348,250</u> |
| Total PFC and Subordinate Lien General Revenue Bonds | <u>1,048,205</u> | <u>1,113,380</u> |
| Total revenue bonds | 2,805,127 | 2,927,307 |
| Less: | | |
| Current maturities | (33,935) | (52,183) |
| Unamortized discounts/premiums, net | <u>662</u> | <u>1,521</u> |
| Total long-term revenue bonds | <u>\$2,771,854</u> | <u>\$2,876,645</u> |

Notes to the Financial Statements - Continued

Note 6 - Long-Term Debt, continued

Changes in long-term liabilities are as follows (in thousands):

| | Balance at December 31, <u>2004</u> | <u>Additions</u> | <u>Reductions</u> | Balance at December 31, <u>2005</u> | Due Within <u>One Year</u> |
|---|---|--------------------|--------------------|---|-------------------------------|
| Revenue and PFC bonds | \$2,927,307 | \$4,080 | \$(126,260) | \$2,805,127 | \$33,935 |
| Less deferred amounts: | | | | | |
| For issuance discount and Premium, net | <u>1,521</u> | <u>-</u> | <u>(859)</u> | <u>662</u> | <u>-</u> |
| Total long-term bonded debt | <u>\$2,928,828</u> | <u>\$4,080</u> | <u>\$(127,119)</u> | <u>\$2,805,789</u> | <u>\$33,935</u> |
| | | | | | |
| | Balance at December 31, <u>2003</u> | <u>Additions</u> | <u>Reductions</u> | Balance at December 31 <u>2004</u> | Due Within <u>One Year</u> |
| Revenue and PFC bonds | \$1,442,984 | \$1,523,788 | \$ 39,465) | \$2,927,307 | \$52,183 |
| Bond anticipation | 395,000 | - | (395,000) | - | - |
| Less deferred amounts: | | | | | |
| For issuance discount and Premium, net | <u>4,429</u> | <u>(2,183)</u> | <u>(725)</u> | <u>1,521</u> | <u>-</u> |
| Total long-term bonded debt | <u>\$1,842,413</u> | <u>\$1,521,605</u> | <u>\$(435,190)</u> | <u>\$2,928,828</u> | <u>\$52,183</u> |

In prior years the City defeased certain outstanding Department bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Department's accompanying financial statements. At December 31, 2005 and 2004 the outstanding amount of bonds considered defeased are approximately \$518,315,000 and \$530,375,000, respectively.

Interest Rate Swap Agreements

The Department is a party to interest rate swap agreements that are not recorded in the financial statements. Following are disclosure of key aspects of the agreements.

Objective of the Interest Rate Swaps - On June 17, 2003, the Department entered into interest rate swaps with Goldman Sachs Mitsui Marine Derivative Products, L.P., and JP Morgan Chase Bank (Counterparties) in connection with its Variable Rate Airport General Revenue Refunding Bonds (Series 2003RF-B-1, RF-B-2, RF-B-3, RF-C-1, RF-C-2 and RF-C-3). The objective was to lower borrowing costs by synthetically fixing interest rates on the subject bonds.

Term - The swaps, with a notional amount of \$490 million, became effective on June 26, 2003. The notional amount decreases over time, matching the outstanding balance of the variable rate debt. The first notional decrease for both is January 1, 2015, with the final maturity of January 1, 2030. Under the terms of the swap agreements, the Department will pay the Counterparties a fixed annual interest rate of 3.009%. The Department will receive from the Counterparties a variable payment based on the BMA

Notes to the Financial Statements - Continued

Note 6 - Long-Term Debt, continued

Index for the first year of the swap and thereafter based on a percentage equal to 67.5% of the monthly LIBOR-BBA (U.S. Dollars). The Department will also pay the interest rate resulting from the periodic remarketing of the Series 2003 variable rate bonds. As of December 31, 2005, rates were as follows:

| | <u>Terms</u> | <u>Rates</u> |
|--|-------------------------------|---------------|
| Interest rate swaps: | | |
| Fixed payment to counter party | Fixed | 3.009% |
| Variable payment from counterparty | 67.5% of LIBOR-BBA (4.39%) | <u>2.963</u> |
| Net interest rate swap payments (receipts) | | <u>0.046</u> |
| Variable rate bond coupon payments | Weekly | <u>3.380%</u> |
| Synthetic interest rate on bonds | | <u>3.426%</u> |

Fair Value - As of December 31, 2005, the fair value of the two swaps was \$ 15.2 million, based on quoted market prices, indicating the amount that the counterparties would be required to pay the City to terminate the swap agreements.

Swap Payments and Associated Debt - As of December 31, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (in thousands). As rates vary, variable-rate bond interest payments and net swap payments (receipts) will vary.

| <u>Year Ending</u> | <u>Variable Rate Principal</u> | <u>Bonds Interest</u> | <u>Interest Rate Swaps, Net</u> | <u>Interest Total</u> |
|--------------------|------------------------------------|---------------------------|-------------------------------------|---------------------------|
| 2006 | \$ - | \$ 16,568 | \$ 225 | \$ 16,793 |
| 2007 | - | 16,568 | 225 | 16,793 |
| 2008 | - | 16,568 | 225 | 16,793 |
| 2009 | - | 16,568 | 225 | 16,793 |
| 2010 | - | 16,568 | 225 | 16,793 |
| 2011-2015 | 5,265 | 82,839 | 1,127 | 83,966 |
| 2016-2020 | 34,955 | 80,044 | 1,089 | 81,133 |
| 2021-2025 | 191,300 | 65,537 | 892 | 66,429 |
| 2026-2030 | <u>258,650</u> | <u>26,790</u> | <u>365</u> | <u>27,155</u> |
| Total | <u>\$490,170</u> | <u>\$338,050</u> | <u>\$4,598</u> | <u>\$342,648</u> |

Notes to the Financial Statements - Continued

Note 6 - Long-Term Debt, continued

Credit Risk - As of December 31, 2005, the fair value of the swaps represents the Department's credit exposure to the Counterparties. Should the Counterparties fail to perform in accordance with the terms of the swap agreements, the Department faces a maximum possible loss equivalent to the swaps' \$15.2 million fair value. As of December 31, 2005, the Counterparties were rated as follows by Moody's and S&P:

| | <u>Moody's</u> | <u>S&P</u> |
|----------------------|----------------|----------------|
| Goldman Sachs Mitsui | Aa3 | A+ |
| JP Morgan Chase Bank | Aa2 | AA- |

Basis Risk - As noted above, the swap exposes the Department to basis risk should the relationship between BMA and/or LIBOR and the variable rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination Risk - The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event". That is, the swap may be terminated by the Department if the Counterparty has one or more outstanding issues or rated unsecured, unenhanced senior debt or long term deposits and none of such issues has at least two ratings of at least (i) BAAL or higher as determined by Moody's, (ii) BBB+ or higher as determined by S&P, (iii) BBB+ or higher from Fitch, or (iv) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties. The Department or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Department would be liable to the Counterparty for a payment equal to the swap's fair value.

The annual debt service requirements at December 31, 2005 are as follows (in thousands):

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total debt Service</u> |
|--------------|---------------------------|---------------------------|-------------------------------|
| 2006 | \$ 33,935 | \$ 131,813 | \$ 165,748 |
| 2007 | 49,387 | 129,822 | 179,209 |
| 2008 | 53,231 | 127,786 | 181,017 |
| 2009 | 59,277 | 125,682 | 184,959 |
| 2010 | 111,837 | 123,861 | 235,698 |
| 2011-2015 | 381,575 | 515,467 | 897,042 |
| 2016-2020 | 489,690 | 416,586 | 906,276 |
| 2021-2025 | 599,885 | 302,705 | 902,590 |
| 2026 - 2030 | 750,460 | 164,093 | 914,553 |
| 2031 - 2035 | <u>275,850</u> | <u>28,404</u> | <u>304,254</u> |
| Total | <u>\$2,805,127</u> | <u>\$2,066,219</u> | <u>\$4,871,346</u> |

Notes to the Financial Statements - Continued

Note 6 - Long-Term Debt, continued

Interest expense includes amortization of bond discounts and deferred refunding losses of \$5,420,467.

All of the bond ordinances require the maintenance of sinking funds to provide for debt service on the related bonds. The ordinances also require the Department to maintain a ratio of Net Airport Revenue to Aggregate Debt Service, as defined, of at least 120%. As of December 31, 2005, the City believes it was in compliance with all significant limitations and restrictions contained in the various revenue bond indentures.

Note 7 - Leased Facilities

The Department leases terminal space, aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other structures to air carriers and other tenants at the Airport under various operating leases which terminate no later than 2023. The total cost of the facilities described above which are substantially leased to various tenants is \$1,604,992,798 with a carrying value of \$782,794,230. Depreciation expense for 2005 on the facilities was \$37,395,389. Certain of the leases provide for fixed and variable rental payments, and all are generally designed to allow the Department to meet its debt service requirements and recover certain operating and maintenance costs. Rental receipts related to the terminal are based on the cost of the facilities. In addition, certain of the agreements under which the Department receives revenue from the operation of concessions at the Airport, provide for the payment of a fee based on the greater of an aggregated percentage of gross receipts or a guaranteed minimum.

At December 31, 2005 minimum future rentals and fees to be received under noncancelable leases or concession agreements are as follows (in thousands):

| | |
|-----------|--------------------|
| 2006 | \$ 190,034 |
| 2007 | 193,835 |
| 2008 | 197,712 |
| 2009 | 201,666 |
| 2010 | 205,699 |
| 2011-2015 | 1,091,876 |
| 2016-2020 | 1,205,520 |
| 2021-2023 | <u>782,632</u> |
| Total | <u>\$4,068,974</u> |

The agreement covering the operation of the parking lot does not provide for a minimum fee and is therefore not included in the above table. Revenue from this source, which is solely a function of parking receipts as defined were \$70,104,998 and \$66,926,569 in 2005 and 2004, respectively.

Notes to the Financial Statements - Continued

Note 8 - Pension Plans and Other Employee Benefits

Pension Plans

The City maintains one agent multiple-employer defined benefit pension plan, entitled the General Employees' Pension Plan, two single-employer defined benefit pension plans, entitled the Firefighter's Pension Plan and the Police Officers' Pension Plan, and one single-employer defined contribution pension plan, entitled the General Employees' Defined Contribution Plan (the "Plans"). The employees of the Department are covered by one of the applicable four plans. The Plans do not provide for measurements of assets and pension benefit obligations for individual units of the City. Such information for the City as a whole is presented in the City's 2005 Comprehensive Annual Financial Report.

The funding methods and determination of benefits payable year established by the legislative acts creating the Plans, amended, and in general, provide that the pension funds are to be accumulated from employee contributions, City contributions, and income from the investment of accumulated funds. The Plans are administered by boards of trustees which include an appointee of the Mayor, the Chief Financial Officer, a member of the City Council, and members elected from active and retired employees.

Prior to July 1, 2001, all permanent employees of the City, excluding sworn personnel of the Police and Fire Departments and including employees of the Atlanta Board of Education (the Board) who are not covered under the Teachers Retirement System of Georgia, are eligible to participate in the General Employees' Pension Plan. The financial information herein relates only to City obligations for City employees.

Effective July 1, 2001, all new, permanent employees of the City, excluding sworn personnel of the Police and Fire Departments, are only eligible to participate in the newly created Defined Contribution Plan. During 2002 persons employed prior to July 1, 2001 were given the option of transferring to the Defined Contribution Plan. As of December 5, 2002, employees previously participating in the General Employees' Defined Benefit Plan did not have the option of transferring to the new Defined Contribution Plan. Sworn personnel of the Police and Fire Departments are only eligible to participate in the Police Officers' and Firefighters' plans, respectively.

Effective September 1, 2005, classified employees currently in the Defined Contribution Plan have the one-time option of transferring to the General Employee's Pension Plan. Classified employees not covered by either the Police Officers or Firefighters' Pension Plans, hired after September 1, 2005 are required to become members of the General Employee's Pension Plan.

The City accounts for and funds the costs of the defined benefit plans as they accrue. Such costs are based on contribution rates determined by annual actuarial valuations. The total contributions by the Department were \$3,821,936 and \$3,258,428 for 2005 and 2004, respectively.

Complete financial statements for the Plans, except the newly created General Employees' Defined Contribution Plan, can be obtained at the following address:

City of Atlanta
68 Mitchell Street, S.W.
Suite 1600
Atlanta, Georgia 30335

Notes to the Financial Statements - Continued

Note 8 - Pension Plans and Other Employee Benefits, continued

Separate financial statements have not been prepared for the General Employees' Defined Contribution plan.

Defined Contribution Plan

The City's General Employees' Defined Plan provides funds at retirement for employees of the City and, in the event of death, to provide funds for their beneficiaries, through an arrangement by which contributions are made to the Plan by employees and the City. The current mandatory contribution requirement of the City is 6% of employee payroll. Employees also make a pre-tax contribution of 6% plus they have the option to contribute amounts up to the amount legally limited for retirement contributions. All modifications to the Plan, including contribution requirements, must receive the recommendations of the City Attorney, the Chief Financial Officer, and the board of trustees of the plan. Each pension law modification must be adopted by at least two-thirds vote of the City Council and approved by the Mayor.

All new employees, hired after July 1, 2001, who previously would have been enrolled in the General Employees' Defined Benefit Plan, were enrolled in the General Employees' Defined Contribution Plan. No existing employees as of July 1, 2001 have yet been given the option to transfer to the Defined Contribution Plan. As of December 31, 2005 and 2004 there were 3,760 and 3,104 participants in the Defined Contribution Plan, respectively.

Effective September 1, 2005, classified employees currently in the Defined Contribution plan have the one-time option of transferring to the General Employee's Pension Plan. Classified employees not covered by either the Police Officers or Firefighters' Pension Plans, hired after September 1, 2005 are required to become members of the General Employee's Pension Plan.

The covered payroll for employees in the Plan was \$70,379,875. Employee contributions for the year ended December 31, 2005 were \$4,048,985 and employer contributions were \$3,882,700 or 5.8% and 5.5% of covered payroll, respectively.

The Defined Contribution Plan uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices and there was no nongovernmental individual investment that exceeded 5% of the net assets of the Plan.

Postretirement Benefits

In accordance with a City ordinance, the City provides certain health/dental care for retired employees, their dependents, and their beneficiaries. The City also provides life insurance for retired employees and their dependents. These benefits are funded on a pay-as-you-go basis.

Substantially all employees may become eligible for these benefits if they reach retirement age, as defined, or are totally disabled while working for the City. Currently, 3,916 retirees meet the eligibility requirements. The City contributes 79% of the premium cost for the median priced health care coverage and contributes \$4.05 per thousand of the premium cost for a retiree's life insurance

Notes to the Financial Statements - Continued

Note 8 - Pension Plans and Other Employee Benefits, continued

coverage in amounts ranging from \$1,000 to \$10,000. The City does not contribute to the cost of dependent life insurance. The cost of retiree health/dental care and life insurance benefits is recognized as premiums are paid. There is no separate accounting for postretirement benefits paid for Department personnel, as all amounts are reported for the City as a whole. The cost of retirees health/dental care and life insurance benefits is recognized as premiums and self-insurance claims are paid to the private insurers and such costs totaled \$26,674,289 and the City's contribution was \$20,578,637.

Deferred Compensation Plan

The City has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan, available to all City employees, allows an employee to voluntarily defer up to 25% of his/her gross compensation, not to exceed certain limits per year. Each participant selects one of three insurance providers to administer the investments of the deferred funds. All administrative costs of the plan are deducted from the participants' accounts. The plan assets are held in custodial accounts for the exclusive benefit of the plan participants and their beneficiaries, and are therefore, not included in the Department's nor the City's financial statements.

Note 9 – Risk Management

Self Insurance

The Department and the City are self-insured for workers' compensation, part of the medical and dental plan, and general claims liabilities. The Department pays for general claims as they become due.

Workers Compensation

The City's workers' compensation liability is calculated based on the analysis of an outside actuary. Liabilities are reported when it is probable a loss has occurred and the amount can be reasonably estimated including amounts for claims incurred but not yet reported. Workers' compensation payments are partially paid by the City's General Fund and partially charged directly to the Department as part of the indirect cost allocation. There were no significant reductions in insurance coverage or claims in excess of insurance coverage during the years ended December 31, 2005 and 2004. The calculation of the present value of future liabilities for workers' compensation is based on a discount rate of 4.0% and 5.5% for 2005 and 2004, respectively.

Health and Dental Insurance

In 2005, the City moved from fully insured medical and dental plans to self insured plans for the Blue Cross Blue Shield Point of Service (POS) and the United Healthcare Preferred Provided organization (PPO) plans. In addition, the CIGNA dental plan is now self insured, The Kaiser HMO, OHS dental access plan and Spectera vision plan remain fully insured. The City's health and dental liabilities are calculated by an outside actuary firm. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR).

Notes to the Financial Statements - Continued

Note 9 – Risk Management, continued

Changes in the balances of the liabilities for worker's compensation and general claims attributable to the Department during 2005 and 2004 were as follows (in thousands):

| | <u>Beginning of Year</u> | <u>Current year Claims and Change in Estimates</u> | <u>Claim Payments</u> | <u>End of Year</u> |
|-----------------------|------------------------------|--|---------------------------|--------------------|
| Workers' compensation | | | | |
| 2005 | \$ 616 | \$ 363 | \$ (272) | \$ 707 |
| 2004 | \$2,249 | \$ 577 | \$ (2,210) | \$ 616 |
| Claims liability: | | | | |
| 2005 | \$24,628 | \$ 5,126 | \$ (6,377) | \$23,377 |
| 2004 | \$ 201 | \$25,094 | \$ (667) | \$24,628 |

The City participates in the State Subsequent Injury Trust Fund, a public entity managed by the State of Georgia. The pool is designed to provide the insurance coverage for employees who are hired with previous medical condition. Historically, premiums have not been significant.

Note 10 - Commitments and Contingencies

Commitments

The Department has several significant construction projects budgeted. At December 31, 2005 the Department was contractually obligated to expenditures of approximately \$666,470,000 related to these projects.

Grants from Other Governmental Units

Federal governmental grants represent an important source of supplementary funding, primarily for the Airport's noise abatement program. Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the Department. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

Litigation

The Department is subject to various lawsuits and proceedings arising in the ordinary conduct of its affairs and has been named as defendant in several lawsuits claiming personal and property damages. The City has also been named as a defendant in various lawsuits concerning alleged noise disturbance at the Airport. The City is working with most of the property owners to settle these claims through its noise abatement program, which consists of insulating homes and purchasing aviation easements. The nature of the Department's operations and the matters currently being alleged are such that similar suits may be filed in the future. In the opinion of the City Attorney, the outcome of these matters will not materially affect the Department's financial position.

Notes to the Financial Statements - Continued

Note 11 - Subsequent Events

On June 21, 2006, the City of College Park, Georgia issued \$211,880,000 in Taxable Revenue Bonds (Hartsfield-Jackson Atlanta International Airport Consolidated Rental Car Facility Project), Series 2006A for the purpose of acquiring, constructing and installing a consolidated rental car facility. In addition, College Park issued Revenue Bonds (Hartsfield-Jackson Atlanta International Airport Automated People Mover System Maintenance Facility Project), Series 2006B for the purpose of acquiring, constructing and installing a maintenance facility for an automated people mover. The City (the "Purchaser") pursuant to the terms of an Installment Purchase Agreement dated June 1, 2006 (the "Agreement") with the City of College Park (the "Issuer") obligates the Purchaser to make installment payments to the Issuer to cover the principal, premium and interest of the Series 2006A/B Bonds. The Purchaser has adopted an Ordinance imposing a customer facility charge (The "CFC") effective October 1, 2005. The CFC revenues have been pledged to secure the payments due under the Agreement.

**CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION**

Required Supplementary Information

Schedule of Funding Progress
(Amounts in thousands)

| <u>Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Liability (AAL)</u> | <u>Percentage funded</u> | <u>Unfunded Actuarial Payroll</u> | <u>Current Year Annual Covered Payroll</u> | <u>Unfunded AAL as a percentage of covered payroll</u> |
|---------------------------|----------------------------------|----------------------------------|--------------------------|-----------------------------------|--|--|
| General Employees: | | | | | | |
| 01/01/00 | \$ 703,381 | \$ 920,409 | 76.4% | \$ 217,028 | \$ 177,754 | 122.1% |
| 01/01/02 | \$ 726,180 | \$ 1,059,876 | 68.5% | \$ 333,696 | \$ 175,752 | 189.9% |
| 01/01/04 | \$ 681,159 | \$ 1,110,501 | 61.3% | \$ 429,342 | \$ 160,767 | 267.1% |
| Firefighters: | | | | | | |
| 01/01/00 | \$ 289,054 | \$ 322,370 | 89.7% | \$ 33,316 | \$ 38,797 | 85.9% |
| 01/01/02 | \$ 326,620 | \$ 370,291 | 88.2% | \$ 43,671 | \$ 39,447 | 110.7% |
| 01/01/04 | \$ 321,908 | \$ 417,092 | 77.2% | \$ 95,184 | \$ 38,303 | 248.5% |
| Police officers: | | | | | | |
| 01/01/00 | \$ 384,083 | \$ 419,439 | 91.6% | \$ 35,356 | \$ 67,330 | 52.5% |
| 01/01/02 | \$ 448,676 | \$ 541,209 | 82.9% | \$ 92,533 | \$ 68,056 | 136.0% |
| 01/01/04 | \$ 440,212 | \$ 617,501 | 71.3% | \$ 177,289 | \$ 63,274 | 280.2% |

The City uses the results of its biannual actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. The actuarial cost method used for funding purposes and to calculate the actuarial liability is the Entry Age Normal Cost Method. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 45* years from January, 1979 as a level percentage of estimated future payrolls. The actuarial value of assets is determined, for the General Employees' Pension Plan, using the market value, and for the Police Officers' and Firefighters' Pension Plans, using a smoothed five years averaged market value. Other actuarial assumptions used to perform the most recent calculations for funding purposes are:

| | <u>General Employees</u> | <u>Firefighters</u> | <u>Police Officers</u> |
|-------------------------------------|--------------------------|---------------------|------------------------|
| Rate of return on investments | 8% | 8% | 8% |
| Projected salary increases for: | | | |
| Inflation | 4.5% | 2.5% | 2.3% |
| Merit or seniority and productivity | .75% - 4.5% | 4.5% | 4.5% |
| Postretirement benefit increases | 3% | 2.5% | 2.5% |

*Amended from 40 years to 45 years by Ordinance 05-O-1232, adopted by City Council on September 6, 2005 and approved by the Mayor on September 12, 2005.