City of Atlanta Department of Aviation

2004 FINANCIAL REPORT

December 31, 2004 and 2003

Independent Auditors' Report


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Independent Auditors' Report

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

We have audited the accompanying balance sheet of the Department of Aviation (the "Department") of the City of Atlanta, Georgia (the "City") as of December 31, 2004 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year 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 audit. The financial statements as of and for the year ended December 31, 2003 were audited by other auditors whose report dated June 16, 2004, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements present only the Department, an Enterprise Fund of the City of Atlanta, Georgia, and are not intended to present fairly the financial position of the City and its changes in financial position and cash flows, where applicable, 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, 2004 and its change in financial position, operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 audit of the basic financial statements and, accordingly, we express no opinion on it.

June 21, 2005.

Banks, Finley, White & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis of the financial performance and activity 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 year ended December 31, 2004 and 2003. This discussion and analysis have 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 an 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 for concessions to fund operating expenses. The Capital Improvement Program (CIP) is funded by bonds, federal and state grants, contribution from the City and Passenger Facility Charges (PFCs).

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. 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.

During the 2002 fiscal year, the Aviation Department adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus;* and GASB Statement No. 38, Certain Financial Statement Note Disclosure, and has applied those statements. The objective of the GASB in developing the new reporting standards is to enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors.

Following is an overview of the required financial statements:

The Balance Sheet includes all of the Department's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) as well as obligations to creditors and investor (liabilities). It also provided 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 revenues and expenses 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.

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 continues its steady growth in 2004 by reaching 83.6 million, an increase of 5.72% over 2003.

Total enplanements for the 12 months of 2004 were 41,836,667 compared to 39,696,975 in 2003, a 5.39% increase. International enplanements for the 12 months of 2004 were 3,116,157 compared to 2,756,315 in 2003, a 13.06% increase. The increase in International enplanements is primarily due to the increase in general passenger travel and the re entry of KLM airline to Hartsfield Jackson. For the 12 months period ended December 31, 2004, domestic enplanements increased 4.82%.

Enplanements and Operations Activity for 2002, 2003 and 2004:

	2004	2003	2002
Total Enplanements	$41,836,667	$39,696,975	$38,639,600
International	3,116,157	2,756,315	2,863,505
Domestic	38,720,510	36,940,660	35,776,095
Flight Operations	964,858	911,723	889,966

Having made a strong recovery in 2002, following one of the most difficult recovery periods in the history of aviation, the Airport exceeded its own expectations in 2003. Additionally, in 2004 Hartsfield Jackson handled 862,230 metric tons of cargo and managed 964,858 flight operations, an increase of 5.83% over 2003 flight operations.

The City and most 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 90% of all aircraft landed weight at Hartsfield-Jackson in 2004.

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 signatory to the CPTC Leases:

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

These nine airlines collectively accounted for over 95% and 97%, respectively, of all passengers enplaned at the Airport in 2004 and 2003.

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 and a majority in interest of the Contracting Airlines formally 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 number of the Contracting Airlines that lease 75% or more of exclusively leased terminal premises 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 $215 million. In addition, the TSA has undertaken to reimburse the City for $93.75 million of the costs of the infrastructure and baggage handling system modifications required to accommodate the EDS equipment in line with the baggage handling system. The TSA has appropriated $41.75 million and the City expects to receive the TSA reimbursement amount under a letter of intent documenting the TSA's intention to obligate the amount from future budget authority (assumed to be received over the four years 2004 through 2007). In addition the Federal Aviation Administration (FAA) has committed to reimburse the Department $42.25 million, bringing the total Federal reimbursement to $136 million. The Department will provide the funds necessary to complete the project from PFC revenues approved for the project by the FAA.

Financial Highlights

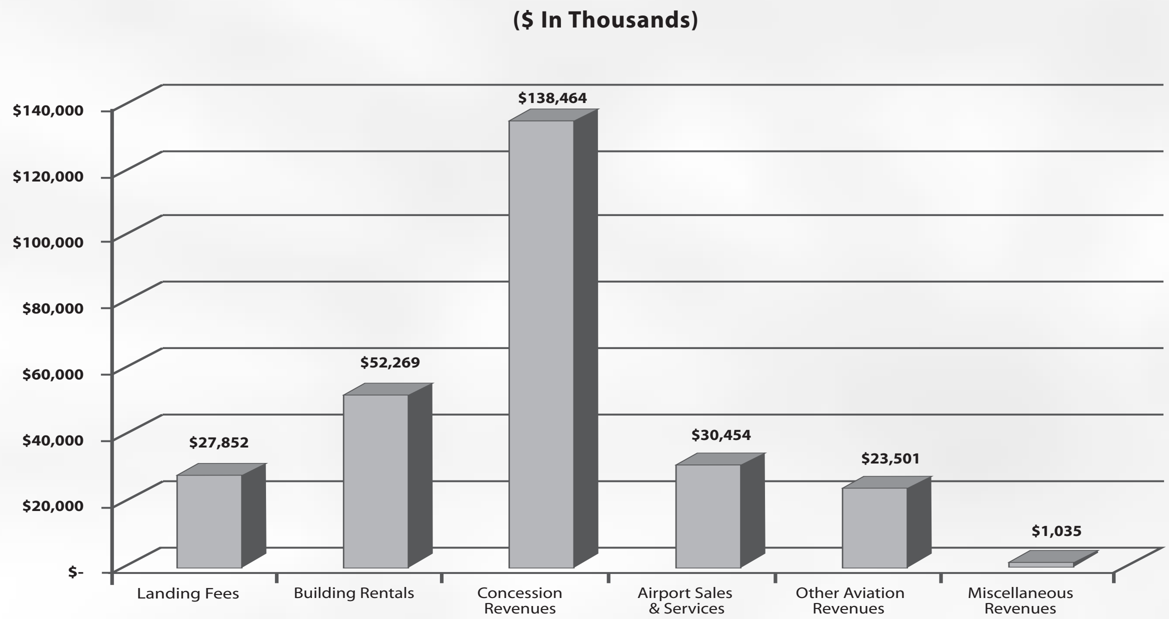
Total net assets for the year increased by approximately $227.9 million, an increase of 9.52% over 2003. This increase over prior year's changes in net assets is primarily due to a significant increase in capital contributions (grants) and partially offset by a significant decrease in investment income, increased operating expenses and long term interest 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 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 15.9% increase in restricted net assets in 2004 is primarily due to investment in PFC.

The remaining $336.0 million of the unrestricted net assets may be used to meet any of the Airport's ongoing capital and operating obligations.

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.

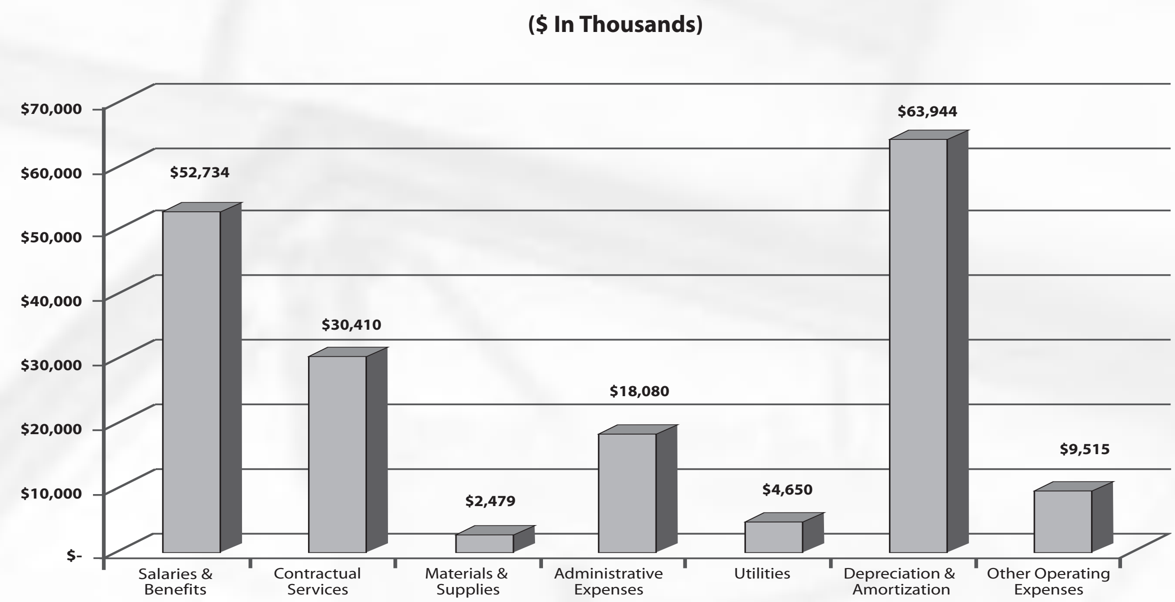
2004 Operating Revenues



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 increases in Inside Concessions revenue, Parking and Insurance Cost Recovery revenues and Other revenues. These increases were offset by increases in Operating charges and decreases in Other Building Rental revenues.

Total revenues consist of operating revenue, investment income and other income, which includes Passenger Facility Charges ("PFC") revenue. The total revenue in 2004 was $463.5 million or .5% less than the $465.8 million generated in 2003.

2004 Operating Expenses



Total expenses in 2004 increased by $63.5 million or 26.4% over 2003 expenses. This is due in part to a $17.7 million dollar or 17.7% increase in Operating expenses, a $19.5 million or 24.9% increase in interest expense resulting from the structuring of debt service and a $1.8 million increase in Depreciation and Amortization Expenses. The increase in Operating expenses is primarily due to a $5.8 million (12.25%) increase in personnel expenses, a $6.1 million (25.02%) increase in repairs and maintenance expenses and $4.3 million in general expenses.

Financial Summary

As noted below, total net assets increased from last year by $227.9 million. The table below shows the composition of assets, liabilities and net assets as of December 2004, 2003 and 2002 (in thousands).

	2004	2003	2002
Capital assets	$3,122,826	$2,628,804	$2,269,610
Current and other assets	2,797,582	1,721,832	1,653,272
Total assets	$5,920,408	$4,350,636	$3,922,882
Long term debt outstanding	$2,904,378	$1,812,077	$1,631,498
Other liabilities	392,795	143,255	157,763
Total liabilities	$3,297,173	$1,955,332	$1,789,261
Net assets:			
Invested on capital assets, net of debt	$1,762,423	$1,600,928	$1,012,237
Restricted	524,829	452,948	700,154
Unrestricted	335,983	341,428	421,230
Total net assets	$2,623,235	$2,395,304	$2,133,621

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, 2004 and 2003.

	2004	2003	% Change
Operating revenues	$273,575	$247,845	10.38%
Investment income	28,906	65,617	(55.95)
Other income	161,014	152,373	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 nonoperating expenses	24,426	—	—
Depreciations and amortization	63,944	62,146	2.89
Total expenses	$304,160	$240,687	26.37%
Excess of revenues over expenses	$159,335	$225,148	(29.23)%
Capital contributions	68,596	36,535	87.75
Change in net assets	227,931	261,683	(12.90)
Net assets at beginning of year	2,395,304	2,133,621	12.26
Net assets at end of year	$2,623,235	$2,395,304	9.52%

The change in 2004 operating revenues is described above under Financial Highlights. 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 revenue was primarily due to timing differences in the recording of Passenger Facility Charges (PFC) collections.

Changes in Net Assets in 2003 can be determined by review the following condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands) for the years ended December 31.

	2003	2002	% Change
Operating revenues	$247,845	$244,997	1.16%
Investment income	65,617	48,263	35.96
Other income	152,373	150,006	1.58
Total operating revenues	$465,835	$443,266	5.09%
Operating expenses	$100,126	$95,714	4.61%
Interest expenses	78,415	77,258	1.50
Depreciations and amortization	62,146	60,351	2.97
Total expenses	$240,687	$233,323	3.16%
Excess of revenues over expenses	$225,148	$209,043	7.70%
Capital contributions	36,535	45,927	(20.45)
Change in net assets	261,683	255,870	2.27
Net assets at beginning of year	2,133,621	1,877,751	13.63
Net assets at end of year	$2,395,304	$2,133,621	12.26%

The increase in investment income is primarily due to market related gains realized in the City's pooled investment funds.

Operating Revenues

Hartsfeld Jackson Atlanta Airport derives its operating revenues from several major airport business activities. The following table illustrates a comparatives summary of the major operating revenue categories in fiscal years 2004 and 2003.

Summary of Operating Revenue (Dollars in Thousand):

	2004	2003	Increase (decrease)	% Increase (decrease)
Landing fees	$ 27,852	$ 26,752	$ 1,100	4.11%
Building rentals	52,269	49,478	2,791	5.64
Concession revenue	138,464	121,630	16,834	13.84
Airport sales and services	30,454	29,760	694	2.33
Other aviation revenue	23,501	18,960	4,541	23.95
Miscellaneous revenue	1,035	1,265	(230)	(18.18)
Total Operating Revenue	$ 273,575	$ 247,845	$ 25,730	10.38%

Operating Expenses

The following table illustrates a comparative summary of the major operating expenses categories in fiscal years 2004 and 2003.

Summary of Operating Expenses (Dollars in Thousand):

	2004	2003	Increase (decrease)	% Increase (decrease)
Salaries and benefits	$ 52,734	$ 46,980	$ 5,754	12.25%
Contractual service	30,410	24,325	6,085	25.02
Materials and supplies	2,479	1,947	532	27.32
Administrative expenses	18,080	13,793	4,287	31.08
Utilities	4,650	3,873	777	20.06
Other operating expenses	9,515	9,208	307	3.33
Total operating expenses before depreciation and amortization	117,868	100,126	17,742	17.72
Depreciation and amortization	63,944	62,146	1,798	2.89
Total Operating Expenses	$ 181,812	$ 162,272	$ 19,540	12.04%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004 and 2003, the Department had $3.1 billion and $2.6 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:

	2004	2003	2002
Land and land purchased for noise abatement	$ 824,500	$ 809,100	$ 763,419
Runways, taxiways and other land improvements	820,402	812,575	789,178
Terminals, maintenance buildings and other structures	1,230,782	1,218,256	1,180,614
Other property and equipment	73,022	71,504	67,434
Construction in progress	1,235,896	717,639	409,172
Total capital assets	$ 4,184,602	$ 3,629,074	$ 3,209,817

Construction In Progress increased by a net $518.3 million or 72.2% in connection with the ongoing Capital Improvement Plan. 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.

Debt Administration

At year end, 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 4.55% to 7.25%. Both principal and interest are payable solely from Operating Revenues 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.

In June of 2004, the City issued Airport Passenger Facility Charge Revenue and Subordinate Lien General Revenue Bonds, Series 2004D-1, Auction Rate Securities (AMT-$44,825,000), Series 2004D-2 (AMT-$44,825,000), Series 2004E-1 (Non-AMT-$73,275,000) and Series 2004E-2 (Non-AM-$73,275,000) to finance a portion of the Airport's Capital Improvements, refund the 2003 BANS, fund separate reserve requirement, interest and issuance costs for 2004 Auction Rate Bonds.

Also in June of 2004, the City issued Airport Passenger Facility Charge Revenue and Subordinate Lien General Revenue Bonds, Series 2004A (AMT-$164,165,000), Series 2004B (Non-AMT-$58,655,000) and Airport Passenger Facility Charge and Subordinate Lien General Revenue Bonds Series 2004C (Non-AMT-$293,070,000), respectively, to finance capital improvements.

In November of 2004, the City issued simultaneously the issuance of Airport General Revenue Bonds, Series 2004-F (AMT-$32,290,000), Series 2004G (Non-AMT-$96,175,000) and Airport Passenger Facility Charge and Subordinate Lien General Revenue Bonds Series 2004J (Non-AMT-$235,860,000) to (1) finance a portion of the Airport's Capital Improvement Plan; (2) fund a deposit to the PFC Revenue Bond Sub Account in the Debt Service Reserve Account; (3) pay a portion to Capitalized Interest on the Series 2004F-G and Series 2004A-B; (4) and issuance costs for Series 2004F-G and Series 2004J.

Also in November of 2004, the City issued Airport General Revenue Bonds, Series 2004I (Non-AMT-$51,625,000), and Airport Passenger Facility Charge and Subordinate Lien General Revenue Bonds Series 2004K (AMT-$348,250,000) to (1) finance a portion of the Airport's Capital Improvements Plan (CIP); (2) to fund debt service requirement for the Series 2004K PFC Revenue Bonds; (3) pay cost associated with the issuance of the Series 2004I/K Bonds.

Cash Management

The Aviation Department 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.

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 additional gates, increasing the total number of international gates to 38. 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.

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

Passenger activity levels are expected to increase to more than 115 million annually by 2015. Airport operating revenues is expected to approximate $498 million by the year 2012.

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:

Assistant General Manager
Business and Finance
P.O. Box 20509
Atlanta, Georgia, 30320

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Balance Sheets

December 31, 2004 and 2003

(In Thousands)

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 5,871	$ 3,929
Investment in pooled investment fund (Note 2)	475,392	439,912
Accounts receivable, net of allowance for doubtful accounts of $4,000 for 2004 and $8,672 for 2003	1,411	9,942
Restricted assets (Note 4)	216,790	143,184
Prepaid expenses	2,011	4,141
Due from other funds of the City of Atlanta	110,922	18,817
Due from other governments	1,891	—
Materials and supplies, net of allowance for obsolescence of $462 in 2004 and $454 in 2003	1,139	1,060
Total current assets	815,427	620,985
Restricted investments (Note 2 and 4)	1,829,807	966,207
Capital assets:		
Land	478,001	472,404
Land purchased for noise abatement	346,499	336,696
Construction-in-Progress	1,235,896	717,639
Runways, taxiways, and other land improvements	820,402	812,575
Terminal, maintenance building and other structures	1,230,782	1,218,256
Other property and equipment	73,022	71,504
Less: accumulated depreciation	(1,061,776)	(1,000,270)
Capital assets, Net (Note 5)	3,122,826	2,628,804
Deferred assets:		
Bond issue costs, net	37,520	13,533
Loss refunding, net	114,828	121,107
Total assets	$ 5,920,408	$ 4,350,636

	2004	2003
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 3,118	$ 9,596
Accrued expenses	10,738	6,970
Claims payable (Note 9)	333	201
Due to other funds	182,882	16,691
Total current liabilities	197,071	33,458
Current liabilities payable from restricted assets:		
Current maturities of long term debt (Note 6)	52,183	45,057
Accrued interest payable	57,079	38,141
Accounts payable	64,193	11,619
Contract retention	8,670	13,196
Arbitrage rebate liability	11,815	—
Deposits and advances	1,784	1,784
Total current liabilities payable from restricted assets	195,724	109,797
Long term liabilities:		
Revenue bonds payable, net of current maturities (Note 6)	2,876,645	1,402,356
Bond anticipation notes	—	395,000
Arbitrage rebate liability	1,313	12,472
Contract retention	1,509	—
Claims payable (Note 9)	24,295	—
Accrued workers' compensation (Note 9)	616	2,249
Total long term liabilities	2,904,378	1,812,077
Total liabilities	3,297,173	1,955,332
Net assets:		
Invested in capital assets, net of related debt	1,762,423	1,600,928
Restricted for debt service and capital projects	524,829	452,948
Unrestricted	335,983	341,428
Total net assets	2,623,235	2,395,304
Total liabilities and net assets	$ 5,920,408	$ 4,350,636

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

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2004 and 2003
(In Thousands)

	2004	2003
Operating Revenues:		
Parking, car rental, and other concessions	$ 138,989	$ 122,078
Terminal, maintenance buildings, and other rentals	75,363	77,140
Landing Fees	27,852	26,752
Other	31,371	21,875
Total operating revenues	273,575	247,845
Operating Expenses:		
Salaries and employee benefits	52,734	46,980
Repairs, maintenance, and other contractual services	30,410	24,325
General services	18,080	13,793
Utilities	4,650	3,873
Materials and supplies	2,479	1,947
Other operating expenses	9,515	9,208
Total operating expenses	117,868	100,126
Operating income before depreciation and amortization	155,707	147,719
Depreciation and amortization expenses	63,944	62,146
Operating income	91,763	85,573
Nonoperating revenue (expenses):		
Investment income	28,906	65,617
Passenger facility charges	161,014	152,373
Interest on long term debt	(97,922)	(78,415)
Other nonoperating expenses	(24,426)	—
Nonoperating revenue (expenses), net	67,572	139,575
Income before capital contributions	159,335	225,148
Capital contributions	68,596	36,535
Change in net assets	227,931	261,683
Net assets:		
Beginning of year	2,395,304	2,133,621
End of year	$ 2,623,235	$ 2,395,304

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

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Statements of Cash Flows

Years Ended December 31, 2004 and 2003

(In Thousands)

	2004	2003
Cash Flows From Operating Activities:		
Cash received from customers and tenants	$ 282,106	$ 239,212
Cash paid to suppliers for goods and services	(71,612)	(64,156)
Cash paid to or on behalf of employees	(48,966)	(47,461)
Net cash provided by operating activities	161,528	127,595
Cash Flows From Investing Activities:		
Interest and dividends on investments	28,906	40,920
Purchases and sales of nonpooled investments, net	(863,600)	78,199
Change in pooled investment fund	(35,480)	14,173
Net cash provided by (used in) investing activities	(870,174)	133,292
Cash Flows From Capital and Related Financing Activities		
Capital grants	68,596	37,685
Principal repayments of long term debt	(441,305)	(973,685)
Acquisition, construction, and improvement of capital assets	(428,008)	(405,670)
Passenger facility charges	161,014	152,373
Contract retainage withheld, net	(4,526)	908
Proceeds from bond issuance, net	1,523,788	1,012,718
Interest paid on revenue bonds	(110,020)	(77,807)
Net cash provided by (used in) capital and related financing activities	769,539	(253,478)
Increase in cash and cash equivalents	60,893	7,409
Cash and cash equivalents:		
Beginning of Year	145,128	137,719
End of Year	$ 206,021	$ 145,128

The accompanying notes are an integral part of the financial statements

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Statements of Cash Flows (continued)
Years Ended December 31, 2004 and 2003
(In Thousands)

	2004	2003
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 91,763	$ 85,573
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation and amortization	63,944	62,146
Changes in assets and liabilities:		
Receivables net of allowances	8,531	(8,633)
Inventory	(79)	—
Due from other funds of the City of Atlanta	(93,996)	(13,636)
Prepaid expense	2,130	(2,219)
Accounts payable and accrued expense	(75,323)	(7,228)
Other liabilities	(1,633)	376
Deposits and advances	—	—
Due to other funds	166,191	11,216
Total adjustments	69,765	42,022
Net cash provided by operating activities	$ 161,528	$ 127,595
Supplemental schedule of noncash financing activities		
Appreciation of capital appreciation bonds	$ 5,592	$ 5,575

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

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION
Notes to Financial Statements
December 31, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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, 2004; 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. Revenue is recorded as earned and expenses are recorded as incurred.

In 2002, the Department adopted the provisions of GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus.* Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a management's discussion and analysis section, a balance sheet, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. The most significant change related to the implementation of Statement 34 for the Department is the required classification of net assets into three components: invested in capital assets, net of related debt; restricted; and, unrestricted.

Also in 2002, the Department adopted GASB Statement No. 38 *Certain Financial Statement Note Disclosures*. Statement 38 modifies, establishes and rescinds certain financial statement disclosure requirements.

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.

Note 1 - Summary of Significant Accounting Policies, *continued*

Investments

Statutes authorize the City to invest in U. S. government obligations, U.S. government agency obligations, State of Georgia obligations, obligations of a corporation of the U.S. government, and the Georgia Fund I (a local government investment pool maintained by the State of Georgia). The City invests in repurchase agreements only when collateralized by U. S. government or agency obligations.

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.

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 and sinking funds) see (Note 4) and funds received for specific purposes pursuant to U.S. government grants (related primarily to noise abatement programs).

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:

Classification	Range of Lives
Runways, taxiway, and other land improvements	15 - 40 years
Terminal, maintenance buildings, and other structures	15 - 40 years
Other property and equipment	3 - 8 years

Note 1 - Summary of Significant Accounting Policies, *continued*

The Department purchases certain residential parcels of land that are considered to be within the area designated as "noise impacted" surrounding the Airport. 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 2004 and 2003 totaled approximately
$ 26 million and $13 million, respectively.

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.

Note 1 - Summary of Significant Accounting Policies, *continued*

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 2004 and 2003, the Department recorded $68,596,165 and $36,535,401, respectively, in capital contributions consisting of federal and state grants in aid of construction.

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 roceeds 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.
>
> **Restricted net assets** - Consist 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."

Revenue

Operating revenue is principally derived from agreements relating to the use of Airport facilities. Landing fees are determined on the basis of the gross weight of aircraft 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 increase the PFC to $4.50 and increased the total to be collected by $516,390,000. The Department collected $161,013,521 and $152,373,000 in passenger facility charges for the years ended December 31, 2004 and 2003, respectively, and has collected a total of $976,435,354 from program inception to December 31, 2004.

Note 1 - Summary of Significant Accounting Policies, *continued*

Economic Concentration

Delta Airlines and the Airport owned parking facilities account approximately for 18.8% and 24.2% of total operating revenue, respectively in 2004. For 2003, Delta Airlines and the Airport-owned parking facilities accounted for 20.11% and 22.39% of total operating revenue, respectively.

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 rates determined by an independent study.

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, cash and cash equivalents included:

	2004	2003
Unrestricted cash and equivalents	$ 5,871	$ 3,929
Restricted cash and equivalents	200,150	141,199
	$206,021	$145,128

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 - Cash and Investments

Cash on Deposit

Deposits are classified into three categories of credit risk: (1) cash that is insured or collateralized with securities held by the City or by its agent in the City's name; (2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; and (3) uncollateralized bank accounts.

Note 2 - Cash and Investments, *continued*

The balance is classified as follows at December 31 (in thousands):

	2004	2003
Category 1	$ 200,343	$ 86,295
Category 2	5,678	58,833
Category 3	—	—
Total	$ 206,021	$ 145,128

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the City at year end. Category 1 is for investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 is for uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 is for uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

	December 31, 2004 (In thousands)	
Security Type	Risk Category 1	Carrying Value
U.S. government obligations	$ —	$ 212
U.S. agency obligations	393,098	393,098
Repurchase agreements	50,867	667,614
	$ 443,965	1,060,924
Investments not categorized:		
Mutual funds		24,923
Guaranteed investment contracts		743,960
Total		$ 1,829,807

	December 31, 2003 (In thousands)	
Security Type	Risk Category 1	Carrying Value
U.S. government obligations	$ 34,408	$ 34,408
U.S. agency obligations	374,893	374,893
Repurchase agreements	164,893	164,893
	$ 574,194	574,194
Investments not categorized:		
Mutual funds		392,013
Total		$ 966,207

Note 2 - Cash and Investments, *continued*

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

	2004	2003
Investments in pooled investment fund	$ 475,392	$ 439,912
Restricted investments	1,829,807	966,207
Totals	$ 2,305,199	$ 1,406,119

Note 3 - Disaggregation of Receivables and Payables

Receivables

Net accounts receivable as of December 31, 2004 and 2003 are due from airport tenants, customers and concessionaires. There are no receivables expected to take longer than one year to collect.

Payables

As of December 31, 2004 and 2003, 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 retention relate to the retained percentage for construction contracts in progress.

Note 4 - Restricted Assets

Restricted assets at December 31, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003
Renewal and Extension Fund:		
Grants receivable	$ 14,921	$ —
Passenger Facility Charge Fund:		
Investments	434,862	374,893
Cash	182	2,104
Construction Fund:		
Investments	1,382,085	475,818
Cash	122,731	139,079
Sinking Funds:		
Investments	14,373	117,481
Cash	77,443	—
Cash held by fiscal agent	—	16
Total	$ 2,046,597	$ 1,109,391

Note 4 - Restricted Assets, *continued*

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

	2004	2003
Current restricted assets	$216,790	$143,184
Investments	1,829,807	966,207
Totals	$ 2,046,597	$ 1,109,391

Note 5 - Capital Assets

Summaries of capital asset activity and changes in accumulated depreciation for the years ended December 31, 2004 and 2003 follows (in thousands):

	Balance at December 31, 2003	Additions	Deletion Retirements	Transfers of Completed Projects	Balance at December 31, 2004
Capital assets not being depreciated:					
Land	$ 809,100	$ 15,400	$ —	$ —	$ 824,500
Construction in progress	717,639	538,610	—	(20,353)	1,235,896
Total capital assets, not deing depreciated	1,526,739	554,010	—	(20,353)	2,060,396
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	71,504	1,844	(326)	—	73,022
Total capital assets being depreciated	$ 2,102,335	$ 1,844	$ (326)	$ 20,353	$ 2,124,206
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	(28,476)	(3,670)	281	—	(31,865)
Total accumulated depreciation	(1,000,270)	(61,787)	281	—	(1,061,776)
Net capital assets	$ 2,628,804	$ 494,067	$ (45)	$ —	$ 3,122,826

Note 5 - Capital Assets, *continued*

	Balance at December 31, 2002	Additions	Deletion Retirements	Transfers of Completed Projects	Balance at December 31, 2003
Capital assets not being depreciated:					
Land	$ 763,419	$ 45,681	$ —	$ —	$ 809,100
Construction in progress	471,024	308,467	—	(61,852)	717,639
Total capital assets, not being Depreciated	1,234,443	354,148	—	(61,852)	1,526,739
Runways, taxiways and other land Improvements	789,178	—	—	23,397	812,575
Terminal, maintenance buildings and other structures	1,180,614	—	(814)	38,455	1,218,256
Other property and equipment	67,434	5,202	(1,132)	—	71,504
Total capital assets being depreciated	2,037,226	5,202	(1,946)	61,852	2,102,335
Less accumulated depreciation for:					
Runways, taxiways and other land Improvements	(375,964)	(16,164)	—	—	(392,128)
Terminal, maintenance buildings and other structures	(538,288)	(41,378)	—	—	(579,666)
Other property and equipment	(25,955)	(3,567)	1,046	—	(28,476)
Total accumulated depreciation	(940,207)	(61,109)	1,046	—	(1,000,270)
Net capital assets	$2,331,462	$ 298,241	$ (900)	$ —	$ 2,628,804

Depreciation expense incurred during the years ended December 31, 2004 and 2003 amounted to approximately $61,786,761 and $61,109,000, respectively.

Note 6 - Long Term Debt

Long term debt at December 31, 2004 and 2003 (in thousands):

	2004	2003
Airport General Revenue and Refunding Bonds	$ 1,813,927	$ 1,442,984
PFC and Subordinate Lien General Revenue Bonds	1,113,380	—
Total bonds (4.55% - 7.25%, due serially through 2034)	2,927,307	1,442,984
Less:		
Current maturities	(52,183)	(45,057)
Unamortized discounts/premiums, net	1,521	4,429
Total	$ 2,876,645	$ 1,402,356

Note 6 - Long Term Debt, *continued*

The annual debt service requirements at December 31, 2004 and 2003 are as follows (in thousands):

	Principal	Interest	Total Debt Service
Year:			
2005	$ 52,183	$ 137,911	$ 190,094
2006	54,720	136,829	191,549
2007	58,979	134,474	193,453
2008	63,135	132,147	195,282
2009	69,469	129,735	199,204
2010 - 2014	365,120	541,979	907,099
2015 - 2019	467,495	437,945	905,440
2020 - 2024	576,190	326,090	902,280
2025 - 2029	717,890	195,728	913,618
2030 - 2034	502,126	38,908	541,034
Total	$ 2,927,307	$ 2,211,746	$ 5,139,053

Interest expense includes amortization of bond discounts and premium of $5,555,088.

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 1.20.

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

	Balance at December 31, 2003	Additions	Reductions	Balance at December 31, 2004	Due Within One Year
Revenue 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	4,429	(2,183)	(725)	1,521	—
Total long-term bonded debt	$ 1,842,413	$1,521,605	$(435,190)	$2,928,828	$52,183

	Balance at December 31, 2003	Additions	Reductions	Balance at December 31, 2004	Due Within One Year
Revenue bonds	$ 1,370,641	$694,495	$(674,335)	$1,442,984	$45,057
Bond anticipation notes	299,350	395,000	(299,350)	395,000	—
Less deferred amounts:					
For issuance discount and premium, net	(26,069)	17,183	13,315	4,429	—
Total long-term bonded debt	$ 1,643,922	$1,106,678	$(960,370)	$1,842,413	$45,057

Note 6 - Long Term Debt, *continued*

In November 2004, the City issued the City Of Atlanta Airport General Revenue Bonds, Series 2004F in the amount of $32,290,000, Series 2004G in the amount of $96,175,000, Series 2004I in the amount of $51,625,000,and the City of Atlanta Airport Passenger Facility Charge and Subordinate Lien General Revenue Bonds, Series 2004J ($235,860,000), Subseries 2004K-1 ($99,575,000), Subseries 2004K-2 ($99,575,000), Subseries 2004K-3 ($99,625,000) and Subseries 2004K-4 ($49,475,000), respectively. The Series 2004F-G/J Bonds mature serially through January 2029 and bear fixed interest ranging from 4.0% to 5.25%. The Series 2004I and the Subseries 2004K-1 through 2004K-4 bonds were issued as auction rate securities (variable rate bonds). The auction rate securities are a form of variable rate bonds, where the interest rate is periodically set by an auction bid by investors. The auction rate bonds can be auctioned every seven (7) days or every thirty five (35) days. These auction rate bonds are auctioned every thirty five (35) days, except for one series which is auctioned at twenty eight (28) days. The bond proceeds were used to (i) finance a portion of the Airport's Capital Improvement Plan; (ii) fund a deposit to the PFC Revenue Bond subaccount in the Debt Service Reserve Account; (iii) fund a portion of the capitalized interest on the series 2004F-G Bonds and the Series 2004A-B Bonds during construction; and (iv) pay costs associated with the issuance of the Series 2004 F-G/J Bonds.

In June 2004, the City issued the City Of Atlanta Airport General Revenue Bonds, Series 2004A in the amount of $164,165,000 and 2004B in the amount of $58,655,000, and the City of Atlanta Airport Passenger Facility Charge and Subordinate Lien General Revenue Bonds, Series 2004C ($293,070,000), Series 2004D-1 ($44,825,000) Series 2004D-2 ($44,825,000) Series 2004E-1 ($73,275,000) and series 2004E-2 (73,275,000). The Series 2004A Bonds mature serially through January 2025 at fixed interest rates ranging from 5.25% to 5.375% and a final term payment of $57,555,000 due January 1, 2033 at the fixed interest of 5.125% and is subject to mandatory redemption starting January 1, 2026 through January 1, 2030. The Series 2004B is a term bond of $58,655,000 due January 1, 2003 with a fixed rate of .5.25% and is subject to mandatory redemption starting January 1, 2029 through January 1, 2033. The Series 2004C is a term bond of $293,070,000 due January 1, 2003 with a fixed rate of 5% and is subject to mandatory redemption starting January 1, 2024 through January 1, 2033. The Series 2004D-1, 2004D-2), 2004E 1 and 2004E-2 bonds were issued as auction rate securities (variable rate bonds). The auction rate securities are a form of variable rate bonds, where the interest rate is periodically set by an auction bid by investors. The auction rate bonds can be auctioned every seven (7) days or every thirty five (35) days. These auction rate bonds are auctioned every thirty five (35) days, except for one series which is auctioned at twenty eight (28) days. The bonds issued (i) currently refund the Series 2003 Notes (BAN's in the outstanding principal amount of $395,000,000; (ii) fund a portion of the Airport's Capital Improvement Plan; (iii) fund the separate Reserve Requirements for each of the series 2004A-B General Revenue Bonds and series 2004 PFC Bonds or pay the premium for an insurance policy to satisfy such requirements; (iv) fund a portion of the interest in the series 2004D-E Passenger Facility Charge Auction Rate Bonds during construction; and (v) pay costs associated with the issuance of the 2004 Auction Rate bonds and the 2004A-C Fixed Rate Bonds.

The 2003 Series Bond Anticipation Notes (BAN's) was scheduled to mature on October 16, 2004, and bear interest at an annual stated rate of 1.10%. In June 2004, the City closed on the sale of various series airport revenue bonds, the proceeds of which were used, in part, to refinance the BAN's on a long term basis.

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, 2004 and 2003 the outstanding amount of bonds considered defeased are approximately $616.720,000 and $623,560,000, respectively.

Note 6 - Long Term Debt, *continued*

In June 2003, the City issued Airport General Revenue Refunding Bonds (Series 2003RF A) and 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) in the amounts of $86,055,000 and $490,170,000 respectively. The proceeds from the Series 2003RF Bonds were used to refund all or portions of the then outstanding Series 1994A Bonds ($39,330,000), Series 1996 Bonds ($31,890,000), and Series 2000A Bonds ($423,615,000) in order to reduce its total debt service payments by approximately $80.2 million over the next 27 years and to obtain an economic gain (net present value savings) of $59.6 million. The Series 2003RF A Bonds mature serially through January 2014 and bear fixed interest rates ranging from 2.0% to 5.0%. The Series 2003RF-B-1, RF-B-2, RF-B-3, RF-C 1, RF-C-2 and RF-C-3 Variable Rate Bonds were issued as modal variable interest rate Bonds, initially issued in the Weekly Rate Mode. As such, while in the weekly rate mode, the variable rate bonds bear interest at amounts determined by the remarketing agent on a weekly basis. To fund the purchase of the modal bonds, the City entered into six standby bond purchase agreements with various liquidity providers with scheduled expirations through June 25, 2006 for the 2003RF-C-3 Bonds and June 25, 2008 for all other series of the variable rate bonds. As of December 31, 2004, and as more fully described below, the variable rate bonds are assumed to bear interest at a rate synthetically fixed of 3.009% through an interest rate swap agreement.

In December 2003, the City issued Airport General Revenue Refunding Bonds, Series 2003RF-D in the amount of $118,270,000. The 2003RF-D bonds were issued to refund the then outstanding Series 1994B Bonds ($128,725,000) in order to reduce its total debt service payments by approximately $18.8 million over the next 15 years and to obtain an economic gain (net present value savings) of $11.8 million.

In addition the City has issued the following bonds to refund portions of earlier issued bonds, finance various capital improvements, fund capitalized interest and pay costs associated with various issuances: (1) Airport Facilities Revenue Bonds, Series 1990, Capital Appreciation Term Bonds, dated December 13, 1990, in the amount of $319,247,503.55 with an outstanding balance of $26,345,500 due January 1, 2010 with interest at 7.25%; (2) Airport Facilities Revenue and Refunding Bonds, Series 1994B, dated April 14, 1994, in the amount of $281,140,000 with an outstanding balance and final payment of $1,960,000 due January 1, 2005, interest at 5.70%; (3) Airport Facilities Revenue Refunding Bonds, Series 1996, dated June 26, 1996 in the amount of $276,565,000 with an outstanding balance of $99,010,000 due in annual installments ranging from $4,055,000 to $30,970,000 through January 1, 2010, interest at 5.25% - 6.50%; (4) Airport General Revenue and Refunding Bonds, Series 2000A, 2000B and 2000C,dated March 30, 2000, in the amount of $1,010,235,000 with an outstanding balance of $550,870,000 due in annual installments ranging from $75,000 to $44,095,000 through January 1, 2021, interest at 4.75% - 6.25%.

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.

Note 6 - Long Term Debt, *continued*

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, 2016, 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 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 2003 variable rate bonds. As of December 31, 2004, rates were as follows:

	Terms	Rates
Interest rate swaps:		
Fixed payment to counter party	Fixed	3.009%
Variable payment from counterparty	67.5% of LIBOR BBA (2.4175%)	1.632
Net interest rate swap payments		1.377
Variable rate bond coupon payments	Weekly	1.990%
Synthetic interest rate on bonds		3.367%

Fair Value - As of December 31, 2004, the fair value of the swaps was $ 8,9 million, using the par value method, 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, 2004, 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 will vary.

Variable Rate Bonds

Year Ending	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ —	$ 9,754	$ 6,750	$ 16,504
2006	—	9,754	6,750	16,504
2007	—	9,754	6,750	16,504
2008	—	9,754	6,750	16,504
2009	—	9,754	6,750	16,504
2010 - 2014	—	48,772	33,748	82,520
2015 - 2019	28,195	47,987	31,807	107,989
2020 - 2024	156,405	41,698	28,853	226,956
2025 - 2029	250,455	20,757	14,363	285,575
2030	55,115	1,097	414	56,626
Total	$ 490,170	$ 209,081	$ 142,935	$ 842,186

Note 6 - Long Term Debt, *continued*

Credit Risk - As of December 31, 2004, 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' $55.4 million fair value. As of December 31, 2004, the Counterparties were rated as follows by Moody's and S&P:

	Moody's	S&P
Goldman Sachs Mitsui	Aa3	A+
JP Morgan Chase Bank	A1	A+

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's credit quality rating falls below "A " as issued by Fitch Ratings or Standard & Poor's or "A3" as issued by Moody's Investors Service. 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.

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. 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, 2004 minimum future rentals and fees to be received under noncancelable leases or concession agreements are as follows (in thousands):

2005	$ 168,011
2006	171,371
2007	174,798
2008	178,294
2009	181,860
2010 2023	2,972,540
Total	$ 3,846,874

Note 7 Leased Facilities, *continued*

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 $66,926,569 and $57,293,165 in 2004 and 2003, respectively.

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 2004 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. 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.

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 $3,258,428 and $3,289,918 for 2004 and 2003, 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

Note 8 - Pension Plans and Other Employee Benefits, *continued*

Defined Contribution Plan

The City's General Employees' Defined Contribution 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 pension plans, 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 July1, 2001 have yet been given the option to transfer to the Defined Contribution Plan. As of December 31, 2004 and 2003 there were 3,104 and 110 participants in the Defined Contribution Plan, respectively.

Employee contributions for the year ended December 31, 2004 and 2003 were $2,805,763 and $271,222 and employer contributions were $2,810,795 and $271,222.

The Defined Contribution Plan uses the accrual basis of accounting. Investments are valued at market value, based on quoted market prices and no nongovernmental individual investment 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 75% of the premium cost for the least expensive health care provider coverage and contributes $4.05 per thousand of the premium cost for a retiree's life insurance 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 are paid to the private insurers and such costs totaled $3,095,901 and the City's contribution was $2,183,911.

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

Note 8 - Pension Plans and Other Employee Benefits, *continued*

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 - Self Insurance

The Department and the City are self insured for workers' compensation and general claims liabilities. The Department pays for general claims as they become due. 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, 2004 and 2003.

The calculation of the present value of future liabilities for workers' compensation is based on a discount rate of 5.5% and 6% for 2004 and 2003, respectively. Changes in the balances of the liabilities for worker's compensation and general claims attributable to the Department during 2004 and 2003 were as follows (in thousands):

	Beginning of Year	Current year Claims and Changes in Estimates	Claim Payments	End of Year
Workers' compensation				
2004	$ 2,249	577	(2,210)	616
2003	1,873	1,076	(700)	2,249
Claims liability:				
2004	201	25,094	(667)	24,628
2003	201	2	(2)	201

Note 10 - Commitments and Contingencies

Commitments

The Department has several significant construction projects budgeted. At December 31, 2004 the Department was contractually obligated to expenditures of approximately $530,130,000 related to these projects.

Note 10 Commitments and Contingencies, *continued*

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 it 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.

CITY OF ATLANTA, GEORGIA
DEPARTMENT OF AVIATION

Required Supplementary Information
Schedule of Funding Progress
(Amounts in thousands)

Valuation Date	Actuarial Value of assets	Actuarial Accrued Liability (AAL)	Percentage funded	Unfunded actuarial accrued payroll	Current Year Annual covered payroll	Unfunded AAL as a percentage of covered payroll
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 a valuation 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 40 years from January 1979 as a level percentage of estimated future payroll. 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:

Rate of return on investments	8%	per year
Projected salary increases for:		
Inflation	5%	per year
Merit or seniority and productivity	0.7 - 5.5%	per year
Postretirement benefit increases	3%	per year

Mayor
Shirley Franklin

Atlanta City Council 2003

Cathy Woolard	Council President
Carla Smith	District 1
Debi Starnes	District 2
Ivory Lee Young	District 3
Cleta Winslow	District 4
Natalyn M. Archibong	District 5
Anne Fauver	District 6
Howard Shook	District 7
Clair Muller	District 8
Felicia Moore	District 9
Clarence T. Martin	District 10
Jim Maddox	District 11
Derrick Boazman	District 12
Ceasar Mitchell	Post 1
Mary Norwood	Post 2
H. Lamar Willis	Post 3

Aviation General Manager
Benjamin R. DeCosta

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www.atlanta-airport.com

This report produced by the Public Affairs Division at Hartsfield-Jackson Atlanta International Airport