



DENVER
INTERNATIONAL
AIRPORT



Financial Report 2001

I. INTRODUCTION

Denver International Airport (the Airport) is organized as a department of the City and County of Denver. It is headed by the Manager of Aviation who reports directly to the Mayor. The senior management team is further comprised of four deputy managers. Together they strive to fulfill the Airport's mission: "To enhance the economic prosperity and quality of life in Denver and the region by providing and managing a major airport system connecting people and products to the world."

This report was prepared by the Airport's Finance Section in collaboration with other Airport personnel to afford a deeper understanding of Denver International Airport than the annual financial statements typically provide.

Description of the Airport

Situated approximately 24 miles northeast of downtown Denver, the Airport is the primary air carrier airport serving the Denver region. According to Airport Council International, in 2001 the Airport was the fifth busiest airport in the United States and the tenth busiest in the world, serving over 36 million passengers. The Airport site comprises approximately 33,800 acres (53 square miles) of land, an area larger than Manhattan Island. The passenger Terminal Complex is reached via Peña Boulevard, a 12-mile dedicated access road from Interstate 70. The Airport has five runways—three oriented north-south and two oriented east-west, all 12,000 feet long and 150 feet wide—and a related system of taxiways and aircraft aprons. A sixth runway is under construction and is scheduled to open in the fall of 2003. This new runway is 16,000 feet long and 200 feet wide, allowing for nonstop, jumbo jet service to the Orient.

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

Passengers travel between the Landside Terminal and three airside concourses via an underground Automated Guide way Transit System (AGTS). In addition, there is a pedestrian passenger bridge to Concourse A. The airside concourses (Concourses A, B, and C) provide 89 parking positions (gates) for large jet aircraft and up to 55 parking positions for regional/commuter airline aircraft.

Air Traffic

Located close to the geographic center of the United States mainland, Denver has long been a major air transportation hub. Airline service within the United States is provided nonstop between Denver and more than 100 cities. Denver's natural geographic advantage as a connecting hub location has been enhanced by the capabilities of the Airport to accommodate aircraft landings and takeoffs in virtually all weather conditions. In 2001, over 18 million passengers enplaned at the Airport, of which approximately 57% originated their air journeys in Denver and 43% connected between flights. The Denver Metropolitan Area, with a population of more than 2.4 million, is the primary region served by the Airport. The Denver Metropolitan Area comprises Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties.

As shown in Table 1, as of April 2002, 24 airlines provide scheduled passenger service at the Airport: 15 major/national airlines, 5 regional/commuter airlines, and 4 foreign-flag airlines. In addition, several passenger charter and all-cargo airlines, including Airborne Express, DHL Worldwide Express, Emery Worldwide, FedEx, and United Parcel Service provide service at the Airport. Recent trends in airline traffic for the Airport System (Stapleton International Airport through February 1995 and the Airport thereafter) are summarized in Table 2.

Table 1
SCHEDULED PASSENGER AIRLINES SERVING DENVER
 April 2002

<i>Major/national</i>	<i>Regional/commuter</i>
Alaska Airlines	Air Wisconsin (United Express)
America West Airlines	Big Sky Airlines
American Airlines	Great Lakes Aviation
American Trans Air	Mesa Airlines (Frontier Jet Express)
Continental Airlines	SkyWest Airlines (United Express)
Delta Air Lines	
Frontier Airlines	<i>Foreign-flag</i>
Horizon Air	Air Canada
JetBlue Airways	British Airways
Midwest Express Airlines	Mexicana de Aviacion
Northwest Airlines	Lufthansa German Airlines
Spirit Airlines <i>(a)</i>	
United Airlines	
US Airways	
Vanguard Airlines	

(a) Spirit Airlines will begin operations in May 2002.

Source: Airport management records April 2002.

Table 2
HISTORICAL AIRLINE ACTIVITY
 Denver Airport System
 1990-2001

<u>Year</u>	<u>Enplaned Passengers</u>		<u>Aircraft Departures</u>	<u>Aircraft Landed Weight</u>
	<u>Number</u>	<u>Percent Originating</u>	<u>Number</u>	<u>1,000-lb Units</u>
1990	13,793,284	55.5%	217,896	23,554,981
1991	14,173,874	53.4%	223,767	23,712,203
1992	15,437,711	51.0%	237,579	25,101,545
1993	16,320,472	50.0%	262,726	27,680,635
1994	16,589,168	55.5%	249,403	25,855,835
1995	15,618,044	58.7%	218,165	23,993,337
1996	16,178,997	56.5%	210,815	24,773,607
1997	17,530,200	55.8%	228,006	26,661,657
1998	18,444,540	54.0%	221,942	27,416,721
1999	19,031,209	55.1%	234,935	29,316,690
2000	19,392,996	56.6%	247,471	29,795,458
2001	18,046,109	56.8%	233,725	27,809,534

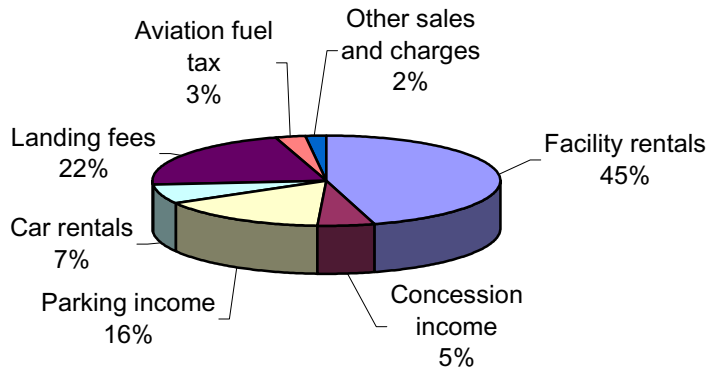
Source: Airport Management Records

Financial Highlights

Additional information is contained in the following Management's Discussion and Analysis section of this report

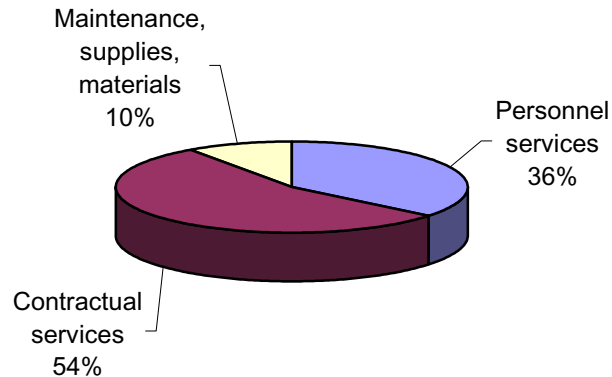
Revenues:

The Airport derives its operating revenue from three primary sources: Airlines, Concessions, and Parking. In fiscal 2001, operating revenues totaled approximately \$450,695,000, a 2.8% increase over 2000.



Expenses:

Operating expenses totaled approximately \$223,408,000 in fiscal year 2001, a 17% increase from 2000.



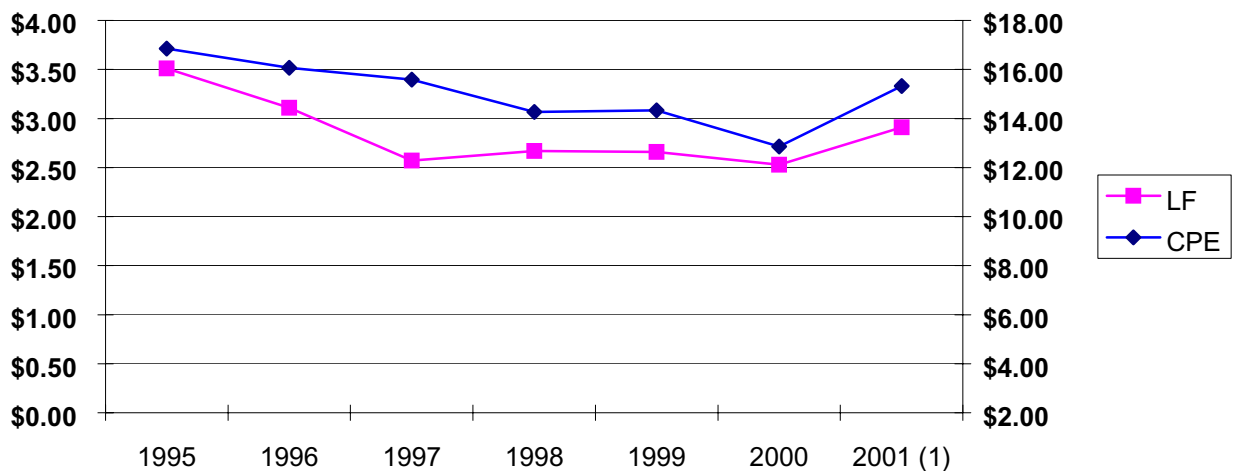
Airlines Rates, Fees and Charges

The Airport has a hybrid rate structure. Rate charges to the airlines are residual in nature, i.e. the Airport recovers its costs of providing space and services. Non-airline cost centers are compensatory. This means that to the extent non-airline revenues exceed the cost of providing the space and services, the Airport earns a profit. Under the airline use and lease agreements, net revenue is shared between the Airport and airlines, with the airlines receiving 75% of the net. The 25% that the Airport receives is deposited in the Airport's capital improvement account and can be used by the Airport for any lawful purpose. The net revenue available for sharing since the Airport opened is reflected in Table 3 below.

Table 3
NET REVENUE AVAILABLE FOR SHARING

<u>Year</u>	Total Net Revenue (000's)	DIA Share (000's)
1995	\$ 20,533	\$ 3,694
1996	37,291	6,954
1997	33,159	5,311
1998	68,924	18,551
1999	69,250	15,058
2000	76,133	25,534
2001	43,811	10,953

Through 2000, the airline cost of operating at DIA has shown a steady decline. As a result of the September 11, 2001 terrorist attacks and the resulting decline in flight activity and enplaned passengers, costs for 2001 showed increases as depicted in the graph below.



(1) Preliminary

LF = Cost per 1000 lbs. landed weight

CPE = Cost per enplaned passenger

Long Term Debt

As of December 31, 2001, the Airport had approximately \$4 billion in outstanding bonded debt, both senior and subordinate, paying fixed and variable rates. The total annual service on this debt was approximately \$302 million in 2001. Over the past two years, the Airport has called in and refunded over \$1 billion in high interest debt originally issued in the early 1990s. This has resulted in a cumulative present value debt service savings of approximately \$349 million. Several series of bonds issued in 1992 are callable later this year. At currently prevailing market interest rates, it is expected that these bonds will be refunded as well.

The Airport's senior lien debt is currently rated respectively by Standard & Poor, Moody, and Fitch at A, A2 and A+.

The Airport's governing bond ordinances require that the Airport's net revenues plus other available funds be sufficient to provide debt service coverage of 125% of the annual debt service requirement. More fully described in the accompanying financial statements, the debt service coverage ratio in 2001 was 149%.

Cash Management

The Airport's cash is under the control of the City and County of Denver Treasurer who invests the funds pursuant to the City's investment policy. At December 31, 2001, cash and investments totaled approximately \$894 million. Current investment vehicles include U.S. government securities, high-grade commercial paper, and repurchase agreements. In 2001, the City received a fee of \$441,000 from the Airport for performing the cash management function.

Terrorist Attacks

The terrorist attacks of September 11, 2001 had a profound effect on the entire airline travel industry, including the Airport. In the months immediately following the attacks, the Airport's activity based revenue sources (e.g. landing fees, passenger facility charges, concessions and parking income) were down over 20%, driven by a steep decline in enplaned passengers. Since January 2002 these revenue declines have moderated somewhat and show continued improvement, but remain down in the 5-10% range, compared to the prior year.

In 2001, the Airport realized a decline in enplaned passengers of 6.9%, its largest decline ever and the first decrease since 1995. For planning purposes, the Airport forecasts approximately 17 million enplaned passengers for 2002. This represents a 12.5% reduction from original estimates and a 5.8% decrease from 2001 actual results.

In response to these revenue impacts, the Airport implemented a variety of cost saving measures including an immediate freeze in discretionary spending and hiring for non-critical positions. A thorough review of the 2002 operating and maintenance budget was undertaken and a cut of \$23 million, or about 10%, was implemented. These actions helped mitigate increases in 2001 and 2002 rates and charges to the airlines. In an effort to conserve cash and debt capacity, capital spending plans for 2001-2002 were reviewed and reprioritized. As a result, the budget was curtailed by deferring or canceling over \$150 million in projects.

In the midst of these reductions, the Airport continues to exhibit strength. Four new airlines have begun or announced new service to the Airport since September and new non-stop international service has been announced. Major terminal expansion plans are proceeding on behalf of a tenant carrier, as are plans for the addition of ticket counters and gates to provide for new entrants.

New Security Measures

Security has been at the forefront since the September 2001 attacks. The Airport estimates that its additional operations and maintenance security costs for 2002 will be over \$10 million. The Airport is expanding the number of security screening lanes in the landside terminal from 14 to 20 to accommodate the return of the traveling public and is in the process of designing baggage screening systems to ensure compliance with recent legislation. The newly formed Transportation Security Administration (TSA) has taken over responsibility from the airlines for passenger screening. The TSA expects to add 300 employees to the airport in the near future, bringing its total contingent of security screeners to over 800 employees. The Airport recently regained use of 1,300 out of the 1,800 parking spaces that were lost as the result of Federal Aviation Administration rules enacted post September 11.

Strategic Business Plan

Under the leadership of executive management, the Airport is finalizing its strategic plan covering a broad range of focus areas. These include competition, growth, customer service, safety and security, financial success and community partnerships. Each focus area is supported by five-year goals together with specific implementation plans.

Development of the strategic plan began last summer and was nearing completion when the terrorist attacks occurred. The effort was suspended temporarily and was reinstated in January 2002 with appropriate adjustments to the goals and base line measures. The plan is in its final editing stage and is expected to be published midsummer.

Accounting System Internal Control

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

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

II. Management's Discussion and Analysis

Liquidity and Capital Resources

The Airport's cash and cash equivalents and short-term investments totaled \$894.2 million at December 31, 2001. Of this amount, \$684.2 million was restricted in various reserve accounts. This compares with \$986.9 million and \$754.7 million, respectively at December 31, 2000. The decrease was due to \$53 million of Airline Revenue Credit given to the Airlines in 2001. Also, approximately \$40 million of restricted monies were used for the 2001A, B, C, and D Bond proceeds. Operating activities generated net cash of \$214.6 million in 2001 and \$276 million in 2000. Proceeds from issuance of debt (net of bond issue costs and original discount) were \$662.2 million in 2001 and \$741.5 million in 2000. The total \$662.2 million was used to refund prior bond issues in 2001. Property additions in 2001 and 2000 totaled \$52.4 million and \$32.8 million, respectively. Proceeds from the sale of Stapleton property were \$7.9 million in 2001 and \$0 in 2000. Principal payments during 2001 were \$66.2 million as compared to \$46.8 million in 2000.

The Airport also receives capital through grants from the federal government. These grants amounted to \$3.1 million in 2001 to \$4.2 million in 2000.

Capital Commitments

At December 31, 2001, the Airport had encumbered \$130 million toward future capital project commitments, compared with \$65 million at year-end 2000. The amount encumbered is shown as restricted cash on the balance sheet. The major encumbered items include Stapleton demolition and the sixth runway.

It is anticipated that future capital requirements will be met through a combination of internally generated cash and issuance of long-term debt.

Results of Operations

For the fiscal years ended December 31, 2000 and 2001, operating revenues increased by \$12.4 million from December 31, 2000 to 2001. The significant increases were in facility rentals and landing fees. The facility rentals increase was derived from the increase in rates; airline space rent increased to 7.4% for non-signatory, 6.1% for signatory in 2001 and in 2000 the rates were 7.3% for non-signatory and 6.1% for signatory. There was an increase in rates for tenant finishes per square foot and an increase in the AGTS system of 27% in 2001. Also airport revenue credit and clearing accounts decreased in 2001 which was associated with the year-end revenue credit, which decreased from \$40 million in 2000 to \$21 million in 2001. Landing fees increased due to the year-end revenue credit that reflected that the Airlines underpaid the landing fees for 2001.

Operating expenses

Operating expenses increased by \$32 million in 2001. Personnel expense increased \$7.4 million due to an increase of \$4.5 million in permanent salaries caused by an average pay increase for the Aviation Department of 4.9% and several job classes being raised a pay grade. Other city agencies personnel expense increased due to the increase in security measures required by the Federal Aviation Administration. Contractual services increased by \$13.3 million, of which \$1.4

million was attributable to an increase in guard services and management services due to the tightened security at the Airport. Twelve million was accrued due to a probable exposure in noise damages to Adams County. Maintenance, supplies and materials increased \$11.3 million; \$3 million was attributable to an increase in deicing chemicals for the Airport; an increase in jet bridges and parts by \$3 million and approximately \$4.2 million was associated with the City's change in capitalization policy that was effective January 1, 2001, wherein items under \$5000 previously capitalized are now being expensed.

Non-operating revenues (expense)

The significant decrease of \$54 million in non-operating revenues (expenses) is primarily attributable to a decrease in interest expense of \$25 million resulting from the debt refunding in 2000 and 2001. An increase in passenger facility charge revenue of \$10.5 million is due to the April 2001 increase in rates charged per passenger to \$4.50 from \$3.00. A decrease in interest income of \$5.1 is due to the decrease in yields for investments from an average of 6.34% in 2000 to an average of 5.06% in 2001. Other expenses decreased by \$20.4 million because costs associated with the demolition and environmental cleanup of Stapleton were accrued in previous years; there was a gain of \$7 million on the sale of Stapleton property in 2001. A \$3 million increase in capital grants is due to the implementation of GASB Statement No. 33 that requires grant monies to be accounted for as revenue in 2001. Capital grants were previously accounted for as contributed capital.



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Independent Auditors' Report

The Honorable Wellington E. Webb, Mayor
Members of the City Council
City and County of Denver
Denver, Colorado:

We have audited the accompanying balance sheets of the City and County of Denver Municipal Airport System (Airport System) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Airport System's management. Our responsibility is to express an opinion on the 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 A, the financial statements present only the City and County of Denver Municipal Airport System Enterprise Fund and are not intended to present fairly the financial position of the City and County of Denver, and the results of its operations and the cash flows of its proprietary fund types 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 Airport System as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note N, in 2001, the Airport System adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

KPMG LLP

May 10, 2002

**City and County of Denver
Municipal Airport System
Balance Sheets
As of December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 176,474,356	\$ 67,075,908
Investments	33,540,267	165,204,779
Accounts receivable (net of allowance for doubtful accounts \$13,357,668 and \$14,771,433)	13,814,339	5,916,842
Accrued interest receivable	4,603,005	7,527,333
Current portion of long-term receivables	1,886,174	2,230,496
Inventories	3,968,319	8,023,312
Prepaid expenses and other	<u>6,483,419</u>	<u>6,885,161</u>
Total current assets	240,769,879	262,863,831
Current restricted assets:		
Cash and cash equivalents	320,808,796	226,084,208
Investments	363,397,151	528,579,708
Accrued interest receivable	714,188	618,921
Grant receivable	200,500	-
Passenger facility charges receivable	<u>6,963,930</u>	<u>8,266,849</u>
Total current restricted assets	692,084,565	763,549,686
Long-term receivables, net of current portion	3,086,191	4,348,465
Property, plant and equipment:		
Buildings	1,543,365,729	1,563,803,696
Improvements other than buildings	1,627,558,515	1,627,317,234
Machinery and equipment	<u>602,895,336</u>	<u>601,092,879</u>
	3,773,819,580	3,792,213,809
Less accumulated depreciation	<u>(831,762,200)</u>	<u>(724,767,358)</u>
	2,942,057,380	3,067,446,451
Construction in progress	263,177,777	160,784,005
Land, land rights and air rights	<u>291,120,471</u>	<u>291,052,112</u>
Total property, plant and equipment	3,496,355,628	3,519,282,568
Bond issue costs, net of accumulated amortization	79,826,186	74,974,678
Assets held for disposition	<u>49,380,940</u>	<u>57,304,113</u>
Total assets	<u>\$4,561,503,389</u>	<u>\$4,682,323,341</u>

(continued)

City and County of Denver
Municipal Airport System
Balance Sheets, continued
As of December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Vouchers payable	\$ 20,723,091	\$ 20,853,976
Due to other City agencies	18,835,527	14,719,049
Compensated absences payable	5,172,194	4,666,622
Current portion of long-term debt	77,785,000	56,255,000
Other liabilities	<u>29,075,552</u>	<u>51,080,682</u>
Total current liabilities	<u>151,591,364</u>	<u>147,575,329</u>
Current liabilities payable from restricted assets:		
Vouchers payable	22,414,755	12,777,211
Retainages payable	13,986,601	8,662,322
Accrued interest and matured coupons	24,989,216	29,574,070
Other liabilities	<u>46,107,356</u>	<u>49,600,611</u>
Total current liabilities payable from restricted assets	<u>107,497,928</u>	<u>100,614,214</u>
Deferred rent	19,208,028	3,602,756
Long-term debt:		
Revenue bonds and commercial paper, net of current portion	3,960,382,440	4,064,454,000
Less: deferred losses on bond refunding	(225,535,685)	(158,572,346)
Less: unamortized discounts	<u>(47,966,240)</u>	<u>(113,225,169)</u>
Total long-term debt	3,686,880,515	3,792,656,485
Capital lease liability	<u>-</u>	<u>6,384,149</u>
Total liabilities	<u>3,965,177,835</u>	<u>4,050,832,933</u>
Fund equity:		
Contributed capital:		
Federal government	500,435,885	509,770,694
Municipalities	4,540,595	4,540,595
Tenants	<u>15,389,281</u>	<u>15,389,281</u>
	520,365,761	529,700,570
Retained earnings	<u>75,959,793</u>	<u>101,789,838</u>
Total fund equity	<u>596,325,554</u>	<u>631,490,408</u>
Total liabilities and fund equity	<u>\$4,561,503,389</u>	<u>\$4,682,323,341</u>

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

City and County of Denver
Municipal Airport System
Statements of Revenues, Expenses and Changes in Retained Earnings
For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Facility rentals	\$204,583,840	\$200,364,917
Concession income	24,163,704	25,038,305
Parking income	71,307,956	77,269,240
Car rentals	30,873,590	31,219,471
Landing fees	97,090,281	81,282,885
Aviation fuel tax	12,939,952	14,387,933
Other sales and charges	<u>9,736,022</u>	<u>8,777,692</u>
Total operating revenues	<u>450,695,345</u>	<u>438,340,443</u>
Operating expenses:		
Personnel services	79,747,110	72,378,486
Contractual services	121,706,060	108,388,202
Maintenance, supplies and materials	<u>21,954,769</u>	<u>10,622,487</u>
Total operating expenses	<u>223,407,939</u>	<u>191,389,175</u>
Operating income before depreciation and amortization	<u>227,287,406</u>	<u>246,951,268</u>
Depreciation and amortization	<u>151,796,591</u>	<u>150,631,241</u>
Operating income	<u>75,490,815</u>	<u>96,320,027</u>
Non-operating income/(expenses):		
Passenger facility charges	61,987,546	51,482,169
Investment income	57,198,374	62,374,179
Interest expense	(222,438,008)	(247,554,170)
Capital grants	3,079,969	-
Other expense	<u>(10,483,550)</u>	<u>(30,869,323)</u>
Total non-operating expenses	<u>(110,655,669)</u>	<u>(164,567,145)</u>
Net loss	(35,164,854)	(68,247,118)
Add depreciation of assets acquired through federal grants	<u>9,334,809</u>	<u>9,329,003</u>
Net loss excluding depreciation of assets acquired through federal grants	(25,830,045)	(58,918,115)
Retained earnings, beginning of year	<u>101,789,838</u>	<u>160,707,953</u>
Retained earnings, end of year	<u>\$ 75,959,793</u>	<u>\$101,789,838</u>

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

City and County of Denver
Municipal Airport System
Statements of Cash Flows
For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 432,544,304	\$ 458,076,036
Payments to suppliers	(138,470,190)	(110,181,688)
Payments to employees	<u>(79,452,004)</u>	<u>(71,856,946)</u>
Net cash provided by operating activities	<u>214,622,110</u>	<u>276,037,402</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Miscellaneous non-operating payments made to employees and suppliers	<u>(14,624,077)</u>	<u>(20,863,259)</u>
Net cash used by noncapital and related financing activities	<u>(14,624,077)</u>	<u>(20,863,259)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from debt	662,171,839	741,516,372
Principal paid on capital debt	(765,391,560)	(676,420,000)
Interest paid on capital debt	(222,296,768)	(263,618,899)
Bond issue costs	(10,302,332)	(6,126,016)
Passenger facility charges	63,292,465	46,640,395
Capital grants	3,079,969	4,218,143
Purchases of capital assets	(52,420,200)	(32,849,796)
Payments to escrow for current refunding of debt	(39,719,514)	(28,185,184)
Proceeds from sale of equipment	14,888,907	-
Proceeds from sale of Stapleton property	<u>7,923,173</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(338,774,021)</u>	<u>(214,824,985)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(7,985,585,733)	(4,853,108,079)
Proceeds from sales and maturities of investments	8,282,432,802	4,811,953,323
Investment income	<u>46,051,955</u>	<u>70,428,550</u>
Net cash provided by investing activities	<u>342,899,024</u>	<u>29,273,794</u>
Net increase in cash and cash equivalents	204,123,036	69,622,952
Cash and cash equivalents – beginning of the year	<u>293,160,116</u>	<u>223,537,164</u>
Cash and cash equivalents – end of the year	<u>\$ 497,283,152</u>	<u>\$ 293,160,116</u>

(continued)

**City and County of Denver
Municipal Airport System
Statements of Cash Flows
For the Years Ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 75,490,815	\$ 96,320,027
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	151,796,591	150,631,241
Change in assets and liabilities:		
Receivables, net of allowance	(6,292,901)	21,727,872
Inventories	4,054,993	116,961
Prepaid expenses and other	401,742	2,052,951
Accounts and other payables	(130,885)	3,837,793
Deferred rent	15,605,272	(264,924)
Due to other City agencies	4,116,478	1,260,869
Accrued expenses	<u>(30,419,995)</u>	<u>354,612</u>
Net cash provided by operating activities	<u>\$214,622,110</u>	<u>\$276,037,402</u>

The accompanying notes are an integral part of the financial statements

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements
December 31, 2001 and 2000**

A. Organization and Reporting Entity

Nature of Operations

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

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

Reporting Entity

There are no other funds of the City combined with the Airport System in the accompanying financial statements. All funds established by bond ordinances related to the Airport System have been combined for reporting purposes in the accompanying financial statements.

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

B. Summary of Significant Accounting Policies

Basis of Accounting

The Airport System is an enterprise fund of the City, and as such is an integral part of the City. An enterprise fund is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

The Airport System has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements (including National Council on Governmental Accounting Statements and Interpretations currently in effect). In implementing GASB Statement No. 20, the Airport System elected not to adopt Financial Accounting Standards Board pronouncements issued after November 30, 1989.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

Cash and Cash Equivalents

Cash and cash equivalents consist principally of U.S. Treasury securities, U.S. agency securities, repurchase agreements, and commercial paper with original maturities of less than ninety days.

Investments

Investments are reported at fair value, which is primarily determined based on quoted market prices at December 31, 2001 and 2000.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment consist of buildings, roadways, airfield improvements, machinery and equipment and land, land rights and air rights at Denver International, and are stated at cost. Costs associated with ongoing construction activities of Denver International are included in construction in progress. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight line method over the shorter of the lease term or their estimated useful life.

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

Buildings	20-40 years
Roadways	30-40 years
Runways/Taxiways	35 years
Other Improvements	15-40 years
Major System Equipment	15-25 years
Vehicles and Other Equipment	5-10 years

Depreciation on assets acquired through federal grants is charged against contributed capital from the federal government.

Included in depreciation and amortization in 2001 and 2000 is \$28,400,000 and \$28,400,000, respectively, of certain assets amortized in accordance with the resolution of certain leases.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

Bond Issue Costs, Deferred Losses on Bond Refundings, and Unamortized Discounts

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

Assets Held for Disposition

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

Compensated Absences Payable

Accumulated vested sick and vacation benefits are recorded as an expense and a liability as benefits accrue to employees.

Deferred Rent

Deferred rent is recorded when rental payments are received by the Airport System prior to a legal claim to them. United Airlines advance payment of \$13,266,775 was received on December 27, 2001.

Rates and Charges

The Airport System establishes annually, as adjusted semi-annually, airline rentals, landing fees, and other charges sufficient to recover the costs of operations, maintenance, and debt service related to the airfield and space utilized by the airlines. Any differences between airline revenues collected and actual costs allocated to the airlines' leased space are credited or billed to the airlines. As of December 31, 2001 and 2000, the Airport System has accrued a liability of \$21,776,403 and \$49,239,815 respectively, for such amounts due to the airlines.

For the years ended December 31, 2000 through 2005, 75% of Net Revenues (as defined by the bond ordinance) remaining at the end of each year is to be credited in the following year to the passenger airlines signatory to use and lease agreements; and thereafter it is 50%, capped at \$40,000,000. The estimated Net Revenues credited to the airlines for the years ended December 31, 2001 and 2000, were \$21,557,403 and \$40,000,000, respectively, and have been accrued in the liability described above.

Use of Estimates

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

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

C. Cash, Cash Equivalents, and Investments

At December 31, 2001 and 2000, respectively, the carrying amount of the Airport System's deposits were \$10,456,371 and (\$11,951,858) and the bank balance was \$468,000 and \$1,169,032. Of the total bank balance, \$100,000 was covered by federal depository insurance at December 31, 2001 and 2000, and \$368,000 and \$1,069,032 was insured and collateralized with securities held by banks in their trust departments in the City's name in accordance with the State's Public Deposit Protection Act.

The City's investment portfolio includes investments which bear interest at variable rates or interest rates which periodically increase; investments in mortgage-backed securities; and investments which are callable by the issuer at par. With respect to these investments, as well as other investments within the City's portfolio, the City is subject to market risk, which represents the exposure to changes in the market such as a change in interest rates or a change in price or principal value of a security. Additionally, the Airport System is exposed to credit risk associated with its investment portfolio. Credit risk is exposure to default of counterparty or counterparty's trust department or agent to investment transactions.

The City's investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the City or its agent in the City's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

At December 31, 2001 and 2000, all of the Airport System's investments were in category 1, except for commercial paper which is category 3. The Airport System's investments are maintained in segregated pools and consist of the following:

	2001 <u>Fair Value</u>	2000 <u>Fair Value</u>
U. S. Treasury Securities	\$118,489,960	\$179,658,064
U. S. Agency Securities	293,561,783	334,294,623
Commercial Paper	122,361,198	297,301,457
Repurchase Agreements	<u>370,264,000</u>	<u>187,642,317</u>
	904,676,941	998,896,461
Deposits	<u>(10,456,371)</u>	<u>(11,951,858)</u>
Total	<u>\$894,220,570</u>	<u>\$986,944,603</u>

Investment income earned on the Airport System's pooled cash and investments is allocated to the participating Airport System funds based upon the average investment balances of each fund. Investment income for 2001 and 2000 is comprised of interest income and an unrealized gain/(loss) on investments of \$15,732,461 and (\$6,499,366), respectively.

In 2000, the Airport System invested \$19.165 million of Airport System non-operating funds in commercial paper issued by Southern California Edison ("SCE"), an electric utility located in California. The commercial paper was to mature January 30, 2001. SCE announced in January 2001 that it was instituting a "Temporary Suspension of Payments" on all of its debt obligations, including the commercial paper held by the Airport System, in response to escalating energy costs that were increasing at a rate beyond which the utility could charge its customers.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

In 2000, the Airport System recorded an unrealized loss of \$6,289,876 on its investments in SCE commercial paper due to the decline in market value and uncertainty concerning payment. In March 2002, the Airport received payment in full on these investments. As a result, at December 31, 2001, the Airport System recorded an unrealized gain of \$6,289,876 to reflect the fair market value of the investment.

The Airport System may enter into securities lending transactions with broker-dealers and other entities (borrowers) who must provide collateral that will be returned for the same securities in the future. The Airport System must maintain custody of the collateral securities. The collateral securities cannot be pledged or sold by the Airport unless the borrower defaults. The Airport system requires borrowers, at the time of the initial transaction, to provide collateral securities with a market value of 102 percent of the market value of the securities lent. Additional collateral must be provided by the next business day if the value of the collateral falls to less than 100 percent of the market value of the securities lent. No more than 20 percent of the Airport's investment portfolio may be used in securities lending transactions. The Airport System does not have credit risk exposure on securities lending transactions because borrowers provide more in collateral than they receive in underlying securities, and all transactions are settled on a delivery versus payment basis. The Airport System earns a fee on each securities lending transaction, which is negotiated with the borrower at the inception of each transaction. As of December 31, 2001, there were \$96,556,000 of outstanding securities lending transactions.

Cash, cash equivalents, and investments included in restricted assets are restricted for the following purposes:

	<u>2001</u>	<u>2000</u>
Operations and maintenance reserve	\$ 32,064,041	\$ 31,099,356
Bond interest and retirement	426,335,468	433,389,854
Acquisition, construction and replacement	225,772,938	290,141,206
Deposits	<u>33,500</u>	<u>33,500</u>
	<u>\$684,205,947</u>	<u>\$754,663,916</u>

D. Accounts Receivables

Western Pacific Airlines, Lone Star Aspen Mountain, Mountain Air Express, Mark Air, Midway Airlines and Kitty Hawk have all filed for bankruptcy protection. As a result of these filings, the Airport System fully reserved its accounts receivable from these airlines with an allowance for doubtful accounts of \$12,190,128 and \$13,860,978, at December 31, 2001 and 2000, respectively.

E. Long-Term Receivables

Long-term receivables consist of the following:

	<u>2001</u>	<u>2000</u>
Due from Continental Airlines, Inc.	\$4,238,992	\$5,331,201
Due from Concessionaires	<u>733,373</u>	<u>1,247,760</u>
Total	4,972,365	\$6,578,961
Less: current portion	<u>(1,886,174)</u>	<u>(2,230,496)</u>
Long-term receivables	<u>\$3,086,191</u>	<u>\$4,348,465</u>

The amounts due from Continental Airlines, Inc. consist of costs incurred related to improvements to Concourse C at Stapleton. Of the amount due for improvements at Stapleton, \$2,556,109 is due in monthly installments of \$71,340, including interest at 10.3% through July 2005. The remaining \$1,682,883 is due in equal installments over a ten-year period, which commenced February 28, 1995.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

F. Assets Held for Disposition

Stapleton consists of approximately 4,500 acres of land and various buildings and roadways. The City ceased aviation operations at Stapleton upon the opening of Denver International on February 28, 1995, and is proceeding to dispose of the Stapleton property. Certain portions of Stapleton were acquired with proceeds from federal grants, which provide for the return of certain federal funds. In addition, certain portions of the property are also subject to deed restrictions, under which the property would revert to the United States. The City is able to seek releases from the grant assurances and deed restrictions from the Secretary of Transportation as dispositions occur, provided that 1) the property is sold at fair market value, and 2) the proceeds are used to develop, improve, and construct Denver International. The City intends to seek such releases and, in accordance with certain use and lease agreements, use any net proceeds from sales of Stapleton to retire or defease subordinate debt.

On July 1, 1998, the City entered into a master lease agreement with Stapleton Development Corporation (SDC), which permits SDC to manage and operate the Stapleton site (excluding certain parcels) while disposing of the Stapleton site in accordance with the Master Plan. In January 2000, the City entered into an agreement with Forest City Corporation for the purchase and redevelopment of the Stapleton site. The agreement calls for Forest City Corporation to purchase the remaining site acreage over 15 years for a total price of \$79.4 million as escalated annually by the Consumer Price Index. Effective January 1999, the City reached an agreement with nine of the signatory airlines formerly operating at Stapleton (the Airline Agreement). The Airline Agreement caps the Airport System's financial exposure for demolition and environmental remediation costs of Stapleton at \$120 million. The Airline Agreement provided for a direct payment of \$15 million by three of the airlines, which was accrued in 1999 and collected in 2000, and recovery of \$43.1 million from the signatory airlines through the Airport System's rates and charges over a 25-year period. The remaining cost will be funded through the sale of land to Forest City Corporation.

In March 2000, the Airport System entered into a comprehensive environmental remediation contract and purchased cost cap insurance for environmental issues up to \$100 million. Under certain circumstances, the City may perform remediation that is beyond the level otherwise required by the Stapleton Airlines Agreement, and the City is permitted to pay up to a maximum of \$20 million for additional remediation from the City's share of Airport Net Revenues in the Capital Fund.

In May 2000, the Airport System issued Series 2000B Subordinate Commercial Paper Notes in an aggregate principal amount of \$30,789,000. The proceeds of these notes are to be used to pay costs associated with certain expenses associated with the disposition of Stapleton, as noted above, and are being amortized over a 25-year term.

As a result of the long-term nature of the development plan, the timing and ultimate amount of net proceeds from the disposition of Stapleton's existing plant and improvements is not presently determinable. The carrying value of Stapleton is \$49,380,940 and \$57,304,113 at December 31, 2001 and 2000, respectively. The net realizable value of future proceeds is expected to be greater than the current carrying value.

G. Due to Other City Agencies

The City provides various services to the Airport System, including data processing, investing, budgeting, police and fire, and engineering. Billings from the City during 2001 and 2000 totaled \$33,246,082 and \$29,009,735 respectively, and are included in operating expenses. The outstanding liability to the City and its related agencies in connection with these services totaled \$18,835,527 and \$14,719,049 at December 31, 2001 and 2000, respectively.

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

H. Long-Term Debt

The Airport System has issued bonds collateralized by and payable from Airport System Net Revenues, as defined in the 1984 Airport System General Bond Ordinance as supplemented and amended (Bond Ordinance) and the 1990 Airport System General Subordinate Bond Ordinance as supplemented and amended (Subordinate Bond Ordinance). Interest is payable semi-annually. The maturity dates, interest rates, and principal amounts outstanding as of December 31, 2001, are as follows:

<u>Bond</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Airport System Revenue Bonds</u>			
<u>Series 1990A</u> Capital appreciation bonds	Annually, November 15, 2003 to 2005	8.50-8.55%	\$ 40,360,000
<u>Series 1991A</u> Capital appreciation bonds	Annually, November 15, 2002 to 2003	8.75-8.80%	14,030,000
Term bonds	November 15, 2005 and 2008	14.00%	26,500,000
<u>Series 1991D</u> Capital appreciation bonds	Annually, November 15, 2003 to 2006	7.80-7.95%	53,020,000
Term bonds	November 15, 2013, 2021 and 2025	7.00-7.75%	102,600,000
<u>Series 1992B</u> Serial bonds	Annually, November 15, 2002 to 2003	6.90-7.00%	10,560,000
Term bonds	November 15, 2005, 2007, 2012, 2023 and 2025	7.25-7.50%	199,705,000
<u>Series 1992C</u> Serial bonds	Annually, through November 15, 2006	5.05-6.65%	42,300,000
Term bonds	November 15, 2013, 2022 and 2025	6.13-6.75%	211,135,000
<u>Series 1992D,F,G</u>	November 15, 2025	Weekly Rates	101,800,000

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

<u>Bond</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Series 1994A</u> Serial bonds	Annually, November 15, 2002 to 2006	6.35-7.50%	\$ 15,100,000
Term bonds	November 15, 2017 and 2023	7.50-8.00%	82,555,000
<u>Series 1995A</u>	Annually, November 15, 2017 to 2025	5.60-5.70%	230,760,000
<u>Series 1995B</u> Serial Bonds	Annually, November 15, 2002 to 2011	5.00-5.75%	31,745,000
Term Bonds	Annually, November 15, 2012 to 2017	5.75%	64,915,000
<u>Series 1995C</u> Serial Bonds	Annually, November 15, 2002 to 2009	4.70 -5.50%	21,225,000
Term Bonds	Annually, November 15, 2010 to 2012	6.50%	10,625,000
Term Bonds	Annually, November 15, 2013 to 2016	5.50%	17,425,000
Term Bonds	Annually, November 15, 2017 to 2025	5.60%	56,190,000
<u>Series 1996A</u> Term Bonds	Annually, November 15, 2016 to 2017	5.75%	31,925,000
Term Bonds	Annually, November 15, 2018 to 2025	5.50%	114,185,000
<u>Series 1996B</u> Serial Bonds	Annually, November 15, 2002 to 2012	4.00% -6.25%	86,865,000
Term Bonds	Annually, November 15, 2012 to 2013	5.75%	34,165,000

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

<u>Bond</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Series 1996C</u> Serial Bonds	Annually, November 15, 2002 to 2011	5.00% - 6.00%	\$ 82,260,000
Term Bonds	Annually, November 15, 2012 to 2013	5.50%	26,015,000
<u>Series 1996D</u> Term Bonds	Annually, November 15, 2017 to 2025	5.50%	142,790,000
<u>Series 1997E</u> Serial Bonds	Annually, November 15, 2011 to 2015	5.13-6.00%	105,020,000
Term Bonds	November 15, 2017, 2023, and 2025	5.47-5.60%	310,685,000
<u>Series 1998 A</u> Term Bonds	Annually November 15, 2026 to 2025	5.00%	206,665,000
<u>Series 1998B</u> Term Bonds	Annually November 15, 2025	5.00%	103,395,000
<u>Series 2000A</u> Serial Bonds	Annually November 15, 2002 to 2019	4.5-6.00%	289,910,000
Term Bonds	Annually November 15, 2020 to 2023	5.77%	31,495,000
<u>Series 2000B</u>	November 15, 2025	Weekly Rates	200,000,000
<u>Series 2000C</u>	November 15, 2025	Weekly Rates	100,000,000
<u>Series 2001A</u> Serial Bonds	Annually November 15, 2002 to 2017	4.0-5.625%	386,845,000
<u>Series 2001B</u> Serial Bonds	Annually November 15, 2013 to 2016	4.7-5.50%	16,675,000
<u>Series 2001D</u> Serial Bonds	Annually November 15, 2002 to 2024	4.5-5.50%	70,540,000

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

Airport System Subordinate Revenue Bonds

<u>Series 1997A</u>	December 1, 2010	Flexible	\$ 44,345,000
<u>Series 1997B</u>	December 1, 2020	Weekly rates	25,000,000
<u>Series 2000A</u> Commercial Paper	November 15, 2025	Flexible	12,400,000
<u>Series 2000B</u> Commercial Paper	November 15, 2025	Flexible	29,557,440
<u>Series 2001C</u>	November 15, 2022	Flexible	200,000,000
<u>Economic Defeasance</u> LOI 1998/1999	November 15, 2013, 2024 and 2025	6.125-7.75%	<u>54,880,000</u>
Total revenue bonds			\$4,038,167,440
Less: current portion			<u>(77,785,000)</u>
Long-term revenue bonds			<u>\$3,960,382,440</u>

All of the Airport System bonds are subject to certain mandatory redemption requirements commencing subsequent to 2001.

On January 1, 1998, the Airport System entered into interest rate swap agreements (the “1998 Swap Agreements”) with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the future refunding of certain senior bonds through the Airport System’s issuance of variable rate bonds on or before October 4, 2000. Each 1998 Swap Agreement has a notional amount of \$100 million and provides for certain payments to or from each financial institution equal to the difference between a fixed rate payable by the Airport System under each Agreement and the prevailing floating rate on certain of the Airport System’s variable rate bonds payable by the respective financial institutions. In August 2000, the Airport System issued the Series 2000B and the Series 2000C Bonds in order to refund a portion of the Series 1990A Bonds, and treated such Agreements as relating to the payments due on the Series 2000B Bonds and the Series 2000C Bonds, thereby effectively converting the floating rates of the Series 2000B Bonds and the Series 2000C Bonds to a fixed interest rate. The average fixed rate payable by the Airport System under the 1998 Swap Agreements is 4.7463%. The 1998 Swap Agreements became effective on October 4, 2000, and payments under these Agreements commenced on November 1, 2000.

On July 28, 1999, the Airport System entered into interest rate Swap Agreements (the “1999 Swap Agreements”) with three financial institutions in order to take advantage of and secure prevailing interest rates in contemplation of the future refunding of a portion of the Series 1991A Bonds and Series 1991D Bonds through the Airport System’s issuance of variable rate bonds on or before October 4, 2001. The 1999 Swap Agreements have notional amounts of \$100 million, \$50 million and \$50 million, respectively, and provide for certain payments to or from each financial institution equal to the difference between a fixed rate payable by the Airport System under each Agreement and the Bond Market Association Index payable by the respective financial institutions.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

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

On April 11, 2002, the Airport System entered into interest rate Swap Agreements (the “2002 Swap Agreements”) with two financial institutions in order to effectively change the amounts it receives under the 1999 Swap Agreements from the Bond Market Association Index (“BMA”) to a percentage of the London Interbank Offered Rate for one month deposits of U.S. dollars (“LIBOR”). The 2002 Swap Agreements have a notional amount of \$200 million, and provide for certain payments to or from each financial institution equal to the difference between BMA payable by the Airport System and a percentage of LIBOR payable by the respective financial institutions. The net effect of the 2002 Swap Agreements, when considered together with the 1999 Swap Agreements, is that the Airport System will receive a percentage of LIBOR, rather than BMA, to offset the actual rate paid on the Series 2001C1-C4 bonds. The average percentage of LIBOR received by the Airport System under the 2002 Swap Agreements is 76.165%. The 2002 Swap Agreements became effective on April 15, 2002 and payments under these Agreements will commence on May 1, 2002.

On November 1, 1999, the Airport System entered into an economic defeasance of \$54,880,000 from certain 1998 and 1999 Federal grant proceeds from the United States Department of Transportation under the 1990 Letter of Intent. These funds were set aside into a special account held by the City. Escrow A proceeds will be used to defease \$40,080,000 of the Series 1992C maturing on November 15, 2025. Escrow B proceeds will be used to defease \$14,800,000 of the Series 1991D maturing on November 15, 2013. These bonds are considered defeased for bond ordinance purposes; however, the defeasance was not considered a legal defeasance and, therefore, the bonds remain outstanding in the accompanying financial statements.

In August 2001, the Airport System issued \$482,850,000 of Airport System Revenue Bonds Series 2001A, 2001B, and 2001D. The Series 2001A and 2001B were issued in a fixed rate mode for the purpose of currently refunding \$173,050,000, \$407,915,000 and \$17,405,000 of the Airport System Revenue Bonds 1991A, 1991D and 1996D, respectively. The Series 2001D was issued in a fixed rate mode for the purpose of currently refunding \$65,700,000 of the Airport System Subordinate Commercial Paper Notes, Series 2000A.

In October 2001, the Airport System issued \$200,000,000 of Airport System Subordinate Revenue Bonds Series 2001C1-C4. The Series 2001C1-C4 were issued in a variable rate auction mode for the purpose of currently refunding \$89,250,000, \$106,945,000 of the Airport System Revenue Bonds 1991A and 1991D, respectively. The Series 2001C1-C4 currently refunded \$11,900,000 of the Airport System Subordinate Commercial Paper Notes, Series 2000A. The variable rate is hedged by the 1999 Swap Agreements. The fixed payments under the Swap offset most of the variable debt paid under the Swap.

**City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued**

The 2001A and 2001B Airport System Revenue Bonds were issued at an economic gain (difference in the present value of the old debt and new debt service payments) of \$120,644,302. The 2001C Airport System Subordinate Revenue Bonds were issued at an economic gain (with expectation that the variable amount paid is offset by the amount received) of \$36,314,580. The refundings of 2001A, 2001B, 2001C and 2001D Bonds, resulted in a deferred loss which is the difference between the reacquisition price and the net carrying amount of the old debt of \$72,336,529. This difference is reported as a deduction from long-term debt and is charged to operations through the shorter of the remaining life of the old debt or new debt, using the effective interest rate method.

I. Demand Bonds

Included in long-term debt are \$101,800,000, \$44,345,000, \$25,000,000, \$200,000,000, \$100,000,000 and \$200,000,000 of Airport System Revenue Bonds Series 1992D, 1992F, 1992G, 1997A, 1997B, 2000B 2000C and 2001C1-C4, respectively, and \$12,400,000 and \$29,557,440 Commercial Paper Series 2000A and 2000B Notes which bear interest at flexible or weekly rates and are subject to mandatory redemption upon conversion of the interest rate to a different rate type or rate period.

Irrevocable letters of credit were issued as collateral for the Series 1992D, 1992F, 1992G, 1997A, 1997B, revenue bonds, and Series 2000A and Series 2000B Notes in the amounts as follows:

<u>Bonds</u>	<u>Par amount Outstanding</u>	<u>Letter of Credit amount</u>	<u>Annual commitment fee¹</u>	<u>Letter of Credit expiration date</u>
Series 1992D	\$ 48,500,000	\$ 51,765,667	0.600%	December 1, 2002
Series 1992F	29,100,000	31,059,400	0.700%	October 1, 2002
Series 1992G	24,200,000	25,829,467	0.700%	October 1, 2002
Series 1997A	44,345,000	48,557,775	0.350%	May 9, 2003
Series 1997B	25,000,000	25,408,333	0.350%	May 9, 2003
Series 2000A Commercial Paper	12,400,000	145,000,000	0.350%	May 14, 2003
Series 2000B Commercial Paper	29,577,440	35,000,000	0.350%	May 14, 2003

¹Commitment fees are payable quarterly on the Letter of Credit amount.

Irrevocable Letters of Credit in the amount of \$318,400,000 were issued, together with municipal bond insurance policies, as collateral for the \$300,000,000 Series 2000B and 2000C revenue bonds. The Letters of Credit are scheduled to terminate on August 24, 2003 and the Airport System is required to pay a quarterly commitment fee equal to 0.110% per annum on the total amount of the Letters of Credit. The municipal bond insurance policies covering principal and interest for the life of the Series 2000B and 2000C bonds were issued. The Airport System paid an initial premium for these insurance policies on the closing date of the 2000B and 2000C revenue bonds covering premiums due through August 24, 2002. Beginning on August 24, 2002, the Airport System is required to pay an annual insurance premium equal to 0.070% of the outstanding par amount of the 2000B and 2000C revenue bonds.

As of December 31, 2001 and 2000, no amounts have been drawn under any of the letter agreements.

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

J. Bond Ordinance Provisions

Additional Bonds

The Airport System may issue additional parity bonds, subject to certain coverage and other provisions, for the purpose of acquiring, improving or equipping facilities related to the Airport System. The Airport System may not issue subordinate bonds in excess of \$600,000,000 outstanding total aggregate principal.

Airport System Revenue Bonds

Under the terms of the Bond Ordinance, the Series 1990A, 1991A, 1991D, 1992B, 1992C, 1992D, 1992F, 1992G, 1994A, 1995A, 1995B, 1995C, 1996A, 1996B, 1996C, 1996D, 1997E, 1998A, 1998B, 2000A, 2000B, 2000C, 2001A, 2001B and 2001D (the Senior Bonds) are collateralized by a first lien on the Net Revenues of the Airport System. Under the terms of the Subordinate Bond Ordinance, the Series 1997A, 1997B, 2001C1-C4 Bonds, 2000A Notes and 2000B Notes are collateralized by Net Revenues of the Airport System subordinate to the Senior Bonds.

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

K. Debt Service Requirements

Debt service requirements of the Airport System to maturity as of December 31, 2001 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 77,785,000	\$ 223,562,437
2003	86,035,000	219,817,072
2004	97,900,000	216,783,735
2005	104,650,000	212,761,174
2006	95,590,000	208,275,366
Thereafter	<u>3,521,327,440</u>	<u>2,395,565,945</u>
Total	<u>\$3,983,287,440</u>	<u>\$3,476,765,729</u>

Debt service requirements, for the economic defeasance noted above, of the Airport System to maturity as of December 31, 2001 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ -	\$ 3,601,900
2003	-	3,601,900
2004	-	3,601,900
2005	-	3,601,900
2006	-	3,601,900
Thereafter	<u>54,880,000</u>	<u>53,198,425</u>
Total	<u>\$54,880,000</u>	<u>\$71,207,925</u>

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

L. Denver International Special Facility Revenue Bonds

To finance the acquisition and construction of various facilities at Denver International, the City issued three series of Special Facility Revenue Bonds. These bonds are special limited obligations of the City, payable and secured by a pledge of certain revenues to be received from lease agreements for these facilities. The bonds do not constitute a debt or pledge of the full faith and credit of the City or the Airport System, and accordingly, have not been reported in the accompanying financial statements. As of December 31, 2001 and 2000, Special Facility Revenue Bonds outstanding totaled \$389,535,000 and \$393,080,000, respectively.

M. Capital Lease

In 1997, the Airport System entered into a capital lease agreement for certain AGTS train cars. The Airport System paid the total capital lease liability of \$6,384,149 on January 29, 2002.

N. Contributed Capital

Contributed capital represents actual or future cash payments or facilities contributed by governmental agencies, municipalities or tenants of the Airport System facilities for improvement or expansion of the Airport System. Contributions from the federal government were \$4,218,143 in 2000, representing grants in aid for airport construction from the Federal Aviation Administration. In 2001, the City adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This Statement requires the Airport system to reflect contributions as non-operating revenue rather than contributed capital. The impact of this Statement in 2001 was an increase of \$3,079,969 to non-operating income. Certain federal contributions relate to the acquisition of depreciable plant and equipment. Such contributions are amortized against contributed capital in an amount equal to depreciation expense on the related plant and equipment. The amount amortized in 2001 and 2000 totaled \$9,334,809 and \$9,329,003, respectively. This amount appears as an adjustment to net loss on the accompanying Statements of Revenues, Expenses, and Changes in Retained Earnings.

O. Pension Plan

Plan Description

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

The Denver Employees Retirement Plan (DERP) is a single-employer, defined benefit plan established by the City to provide pension benefits for its employees. The DERP is administered by the DERP Board of Trustees in accordance with sections 18.401 through 18.422 of the City's Revised Municipal Code. These Code sections establish the plan, provide complete information on the DERP, and vest the authority for the benefit and contribution provision with the City Council. The DERP Board of Trustees acts as the trustee of the plan's assets.

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

Denver Employees Retirement Plan
777 Pearl Street
Denver, Colorado 80203

**City and County of Denver
Municipal Airport System**
Notes to the Financial Statements, continued

Pension Plan's Funding Policy and Annual Pension Cost

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

	<u>DERP</u>	<u>DERP HEALTH BENEFITS</u>
Contribution rates (as a percentage of covered payroll):		
City	8.8%	1.2%
Plan members	-	-
Annual pension cost	\$43,725	\$6,009
Total contributions made	\$43,898	\$6,214
Actuarial valuation date	12-31-00	12-31-00
Actuarial cost method	Entry age	Entry age
Amortization method	Level % of payroll-closed	Level % of payroll-closed
Remaining amortization period	15 years	15 years
Asset valuation method	5 year smooth mkt.	5 year smooth mkt.
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.1-8.7%	4.1-8.7%
*Includes inflation at	4.0%	4.0%
Cost of living adjustments	None	None
Health insurance benefit inflation	-	5.0%

Three-year Trend Information (amounts expressed in thousands):

	<u>Year Ending December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
DERP	1999	\$35,288	100	-
	2000	40,439	100	-
	2001	43,725	100	-
DERP Health Benefits	1999	6,327	100	-
	2000	5,683	100	-
	2001	6,009	103	-

P. Deferred Compensation Plan

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

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

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

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

Q. Commitments and Contingencies

Commitments

At December 31, 2001 and 2000, the Airport System has the following contractual commitments for construction and professional services:

	<u>2001</u>	<u>2000</u>
Construction Projects	\$ 65,949,269	\$33,132,221
Projects Related to Operations—Denver International	46,657,880	11,591,649
Projects Related to Operations—Stapleton	<u>17,436,968</u>	<u>20,341,379</u>
Total Commitments	<u>\$130,044,117</u>	<u>\$65,065,249</u>

Noise

The City and Adams County entered into an Intergovernmental Agreement for Denver International dated April 21, 1988 (the "Intergovernmental Agreement"). The Intergovernmental Agreement establishes maximum levels of noise that should not be exceeded on an average annual basis at various grid points surrounding Denver International. In January 1998, Adams County and its cities filed a lawsuit alleging they are entitled to specific performance or damages under this agreement. On October 29, 1999 the Court found the City liable for noise mitigation payments for 1995 totaling \$4 million. The Court's October 29, 1999 judgment will be amended to reflect an award of prejudgment interest in the amount of \$1,307,218 for a total judgment of \$5,307,218 plus interest. The City paid Adams County and its cities \$6,301,218. In addition, on March 13, 2002, Adams County and its cities filed a lawsuit alleging they are entitled to specific performance or damages under this agreement. The case is pending until November 2002. The City has probable potential exposure of \$12,000,000 in damages, which is accrued in the accompanying financial statements at December 31, 2001.

Claims and Litigation

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

Defeased Bonds

The City has defeased certain Airport System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of December 31, 2001 and 2000, \$387,545,000 and \$592,235,000, respectively, of bonds outstanding are considered defeased.

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

Denver International Assets under Operating Leases

Denver International leases portions of its buildings and improvements to airline and concession tenants under non-cancelable operating leases. Lease terms vary from 1 to 30 years. The operating leases with the concession tenants require rental payments equal to the greater of a fixed minimum amount per square foot or percentage of gross receipts. Rental income under operating leases for 2001 and 2000 was \$36,600,000 and \$30,500,000, respectively. Minimum future rentals due from concession tenants are as follows, for the years ending December 31:

2002	\$ 33,519,915
2003	31,486,684
2004	29,348,857
2005	25,235,590
2006	25,235,590
Thereafter	<u>154,311,814</u>
Total minimum future rentals	<u>\$299,138,450</u>

Leases with airlines for terms of 10 and 30 years can be terminated by the airline if the airline's cost per enplaned passenger exceeds \$25 and \$20 (in 1990 dollars), respectively. Current costs per enplaned passenger do not exceed these limits for either 2000 or 2001. Rental rates for airlines are established under a ratemaking methodology whereby a compensatory method is used to set terminal rental rates and a residual method is used to set landing fees. Rentals, fees, and charges must generate gross revenues together with other available funds sufficient to meet the rate maintenance covenant per the bond ordinance.

R. Insurance

The Airport System is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Airport System has historically retained these risks, except where it has been determined that commercial insurance is more cost beneficial or legally required.

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

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

Deductibles under this insurance program are: (1) workers' compensation liability of \$250,000 per occurrence; and (2) general liability, builders' risk, and professional liability insurance of \$25,000, \$100,000 and \$1,000,000 per occurrence, respectively. Other current liabilities payable from restricted assets includes \$537,476 and \$749,241, respectively, accrued for fully developed projected losses, including losses incurred but not reported, due to claims filed prior to December 31, 2001 and 2000.

City and County of Denver
Municipal Airport System
Notes to the Financial Statements, continued

S. Significant Concentration of Credit Risk

The Airport System derives a substantial portion of its operating revenues from airlines' landing and facility rental fees. For the years ended December 31, 2001 and 2000, United Airlines represented approximately 67% and 69% respectively of the Airport System's operating revenues. No other airlines represented over 10% of the Airport System's operating revenues. The Airport System requires performance bonds to support airlines and concession accounts receivables.

T. Terrorist Attacks

The terrorist attacks of September 11, 2001 had a profound effect on the entire airline travel industry, including the Airport. In the months immediately following the attacks, the Airport System's activity-based revenue sources (e.g. landing fees, passenger facility charges, concessions and parking income) were down over 20%, driven by a steep decline in enplaned passengers. Since January 2002, these revenue declines have moderated somewhat and show continued improvement, but remain down in the 5-10% range, compared to the prior year.

In 2001, the Airport System realized a decline in enplaned passengers of 6.9%, its largest decline ever and the first decrease since 1995. For planning purposes, the Airport System forecasts approximately 17 million enplaned passengers for 2002. This represents a 12.5% reduction from original estimates and a 5.8% decrease from 2001 actual results.



Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report on Supplementary Information

The Honorable Wellington E. Webb, Mayor
Members of the City Council
City and County of Denver
Denver, Colorado:

We have audited and reported separately herein on the financial statements of the City and County of Denver Municipal Airport System (Airport System) as of and for the year ended December 31, 2001. Our report included an explanatory paragraph stating the Airport System adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Airport System taken as a whole. The supplementary information, Statement of Compliance with Rate Maintenance Covenant as defined in the 1984 Airport System General Bond Ordinance, for the year ended December 31, 2001; Statement of Required Deposits to the Bond Fund, Bond Reserve Fund and the Operation and Maintenance Reserve Account as defined in the 1984 Airport System General Bond Ordinance for the year ended December 31, 2001; the Summary of Insurance Coverage as of December 31, 2001; Combining Balance Sheet as of December 31, 2001; Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the year ended December 31, 2001 and information included under the heading "Annual Financial Information" contained in schedules I through VIII, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Summary of Insurance Coverage as of December 31, 2001, and the information included under the heading "Annual Financial Information" contained in schedules I through VIII, marked unaudited, on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

May 10, 2002

**City and County of Denver
Municipal Airport System
Statement of Compliance with Rate Maintenance Covenant
As Defined in the 1984 Airport System General Bond Ordinance
Airport Revenue Fund
Year Ended December 31, 2001**

Gross Revenue:	
Facility rentals	\$241,332,404
Concession income	24,163,704
Parking income	71,307,956
Car rental income	30,873,590
Landing fees	97,090,281
Aviation fuel tax	12,939,952
Other sales and charges	8,395,981
Interest income	31,760,338
Miscellaneous income	<u>9,103,989</u>
Gross Revenues as Defined in the Ordinance	526,968,195
Operation and Maintenance Expenses:	
Personnel services	79,747,110
Contractual services	109,574,632
Maintenance, supplies and materials	<u>21,949,832</u>
Operation and Maintenance Expenses as Defined in the Ordinance	211,271,574
Net Revenue	315,696,621
Other Available Funds	<u>54,558,203</u>
Net Revenue Plus Other Available Funds as Defined in the Ordinance	<u>\$370,254,824</u>
Debt Service Requirements as defined in the ordinance	<u>\$248,374,625</u>
Coverage (Net Revenue Plus Other Available Funds as a Percentage of Debt Service Requirements)	149%

See accompanying independent auditors' report.

**City and County of Denver
Municipal Airport System
Statement of Required Deposits to the Bond Fund,
Bond Reserve Fund and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance
Year Ended December 31, 2001**

I. BOND FUND

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

(a) Interest Account:

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

<u>Bond Series</u>	<u>Interest Payment Date</u>	<u>Balance Interest Due</u>	<u>Required Interest Account Balance at December 31, 2001</u>
Series 1991A	05/15/02	\$1,855,000	\$309,167
Series 1991D	05/15/02	3,975,750	662,625
Series 1992B	05/15/02	7,608,906	1,268,151
Series 1992C	05/15/02	8,515,333	1,419,222
Series 1992D-G	01/01/02	565,833	565,833
Series 1994A	05/15/02	3,652,813	608,802
Series 1995A-B	05/15/02	9,285,221	1,547,537
Series 1995C	05/15/02	2,947,809	491,301
Series 1996A	05/15/02	4,057,931	676,322
Series 1996B	05/15/02	3,582,353	597,059
Series 1996C	05/15/02	3,008,989	501,500
Series 1996D	05/15/02	3,926,725	654,454
Series 1997E	05/15/02	11,168,913	1,861,485
Series 1998A	05/15/02	5,166,625	861,104
Series 1998B	05/15/02	2,584,875	430,813
Series 2000A	05/15/02	9,276,082	1,546,014
Series 2000B	01/01/02	793,333	793,333
Series 2000C	01/01/02	393,250	393,250
Series 2001A	05/15/02	10,399,197	1,733,199
Series 2001B	05/15/02	456,563	76,094
Series 2001D	05/15/02	1,827,000	<u>304,500</u>
			<u>\$17,301,765</u>

**City and County of Denver
Municipal Airport System
Statement of Required Deposits to the Bond Fund,
Bond Reserve Fund and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance
Year Ended December 31, 2001
continued**

(b) Principal Account

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

<u>Bond Series</u>	<u>Principal Payment Date</u>	<u>Principal Payment</u>	<u>Required Principal Account Balance at December 31, 2001</u>
Series 1991A	11/15/02	\$7,015,000	\$ 584,583
Series 1992B	11/15/02	5,100,000	425,000
Series 1992C	11/15/02	7,420,000	618,333
Series 1992 D, F, G	12/31/02	1,700,000	141,667
Series 1994A	11/15/02	2,300,000	191,667
Series 1995B	11/15/02	1,930,000	160,833
Series 1995C	11/15/02	2,220,000	185,000
Series 1996B	11/15/02	5,820,000	485,000
Series 1996C	11/15/02	4,195,000	349,583
Series 2000A	11/15/02	9,635,000	802,917
Series 2001A	11/15/02	28,255,000	2,354,583
Series 2001D	11/15/02	2,195,000	<u>182,917</u>
Total Principal Account Requirement			<u>\$6,482,083</u>

(c) Sinking Fund Account

Required deposit - monthly, to the Bond Fund Sinking Fund account, commencing on the first day of the twelfth calendar month prior to the date on which the City is required to pay any Term Bonds, one twelfth of the amount necessary to pay the redemption price or principal of such Term Bonds scheduled to be retired in any year by mandatory redemption, at fixed maturity or otherwise, except to the extent any other monies, including without limitation, monies in any escrow account, are available therefore. There are no mandatory sinking fund redemptions in 2001.

**City and County of Denver
Municipal Airport System
Statement of Required Deposits to the Bond Fund,
Bond Reserve Fund and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance
Year Ended December 31, 2001
continued**

(d) Redemption Account

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

As of December 31, 2001, the City did not have any outstanding options to redeem any Bonds; therefore, there is no deposit required.

(e) Bond Fund Summary

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

Aggregate required Bond Fund balance	<u>\$23,783,848</u>
Bond Fund balance at December 31, 2001	<u>\$23,783,897</u>

**City and County of Denver
Municipal Airport System
Statement of Required Deposits to the Bond Fund,
Bond Reserve Fund and the Operation and Maintenance
Reserve Account as Defined in the 1984
Airport System General Bond Ordinance, continued
Year Ended December 31, 2001
continued**

II. BOND RESERVE FUND

The City is required, after making required monthly deposits to the Interest, Principal, Sinking Fund and Redemption accounts of the Bond Fund, to apply Net Revenues to the Bond Reserve Fund, an amount equal to the maximum annual interest payable on all outstanding Senior Bonds of the Airport System. The amount deposited to the Bond Reserve Fund at December 31, 2001 is \$314,134,293. The minimum Bond Reserve Fund requirement is \$313,852,909.

III. OPERATION AND MAINTENANCE RESERVE ACCOUNT

An amount equal to two times the monthly average operating and maintenance costs of the preceding year. The City is required to make equal monthly transfers sufficient to fully fund the Operations and Maintenance Reserve Account by January 1, 2002.

Computation of Minimum Operation and Maintenance Reserve:

2000 Operation and Maintenance Expenses	\$192,384,243
Minimum Operations and Maintenance Reserve requirement for 2001	\$ <u>32,064,041</u>
Operation and Maintenance Reserve Account balance at December 31, 2001	\$ <u>32,064,041</u>

See accompanying independent auditors' report.

Summary of Insurance Coverage as of December 31, 2001

<u>Policy Number</u>	<u>Company</u>	<u>Item Covered</u>	<u>Expiration Date</u>	<u>Annual Premium</u>	<u>Coverage</u>
51200	Federal Insurance Company (CHUBB)	Airport Property, Boiler and Machinery Insurance (Primary)	01-01-02	\$ 917,137	\$ 500,000,000
CLP3000367	Allianz Insurance Company	Airport Property, Boiler and Machinery Insurance (Excess-1 st Layer)	01-01-02	105,000	600,000,000 any one loss
31 3 68513	Industrial Risk Insurers	Airport Property, Boiler and Machinery Insurance (Excess-1 st Layer)	01-01-02	140,000	800,000,000
RMP198800232	CNA Insurance Co.	Airport Property, Boiler and Machinery Insurance (Excess-2 nd Layer)	01-01-02	112,500	500,000,000
PR110204	Old Republic Insurance	Primary Liability--DIA Construction	01-01-02	291,234	20,000,000
JDDNX09705105	Lloyds of London	Excess Liability--DIA Construction (over \$20M)	01-01-02	202,007	480,000,000
JDDNX00002303	Lloyds of London	Excess Liability--DIA Construction (over \$500 million)	01-01-02	59,684	250,000,000
CLS0599361	Scottsdale Insurance Co.	Liability--Stonehouse	01-01-02	2,999	1,000,000
BE7409405	National Union Fire Ins.	Umbrella--SIA	01-01-02	23,250	25,000,000
810755G5425IND01	Travelers Indemnity	Automobile Liability	01-01-02	111,645	1,000,000

Unaudited. See accompanying independent auditors' report.

Summary of Insurance Coverage as of December 31, 2001

<u>Policy Number</u>	<u>Company</u>	<u>Item Covered</u>	<u>Expiration Date</u>	<u>Annual Premium</u>	<u>Coverage</u>
CP02679461	American International Specialty Lines Insurance	Liability – Pollution Contractor	06-24-05	\$149,647	\$15,000,000
CCC2679462	American International Specialty Lines Insurance	Clean Up Cost Cap	Life of Project	TBD	4,500,000 approximate
5355493	Lexington Insurance Co.	General Liability	01-01-02	34,000	1,000,000

Unaudited. See accompanying independent auditors' report.

**CITY AND COUNTY OF DENVER
MUNICIPAL AIRPORT SYSTEM
COMBINING BALANCE SHEETS
December 31, 2001**

	Capital					Totals
	Airport Revenue Fund	Improvement Fund	Project Fund	Bond Fund	Bond Reserve Fund	
Current assets:						
Cash and cash equivalents	\$ 176,474,356	\$	\$	\$	\$	\$ 176,474,356
Investments	33,540,267					33,540,267
Accounts receivable, net	12,299,858	1,514,481				13,814,339
Accrued interest receivable	710,263	1,022,985			2,869,757	4,603,005
Current portion of long-term receivables	1,776,701	109,473				1,886,174
Inventories	3,972,471	(4,152)				3,968,319
Prepaid expenses and other	181,585				6,301,834	6,483,419
	228,955,501	2,642,787			6,301,834	240,769,879
Current restricted assets:						
Cash and cash equivalents	37,267,305	71,512,132	80,874,103	1,640,953	102,041,881	320,808,796
Investments	(32,785)	47,727,989	73,589,087	23,789,259	218,323,602	363,397,151
Accrued interest receivable	11,430		654,521			714,188
Grants Receivable	200,500				48,237	200,500
Passenger facility charges receivable	6,963,930					6,963,930
	44,410,380	119,240,121	155,117,711	25,430,212	320,365,482	692,084,565
Long-term receivables	3,086,191					3,086,191
Property, plant and equipment:						
Buildings	1,543,388,453	(22,724)				1,543,365,729
Improvements other than buildings	1,626,708,155	850,360				1,627,558,515
Machinery and equipment	600,322,049	2,509,787			63,500	602,895,336
	3,770,418,657	3,337,423			63,500	3,773,819,580
Less accumulated depreciation	(831,762,200)					(831,762,200)
	2,938,656,457	3,337,423			63,500	2,942,057,380
Construction-in-progress	69,824	3,764,464	259,343,489			263,177,777
Land, land rights and air rights	291,062,132	58,339	88,339			291,120,471
	2,938,726,281	298,164,019	259,401,828		63,500	3,496,355,628
Bond issue costs, net of accumulated amortization		5,583	78,215,919	1,604,684		79,826,186
Assets held for disposition - SIA	49,380,940					49,380,940
Total assets	\$ 3,264,559,293	\$ 420,052,510	\$ 492,735,458	\$ 27,034,896	\$ 323,235,239	\$ 4,561,503,389

See accompanying independent auditors report.

CITY AND COUNTY OF DENVER
MUNICIPAL AIRPORT SYSTEM
COMBINING BALANCE SHEETS, Continued
December 31, 2001

	Airport Revenue Fund	Capital Improvement Fund	Project Fund	Bond Fund	Bond Reserve Fund	Stapleton Fund	Totals
Current liabilities:							
Vouchers payable	\$ 20,723,091	\$	\$	\$	\$	\$	\$ 20,723,091
Due to other City agencies	18,490,625	1,505	312,198		31,199		18,835,527
Compensated absences payable	5,172,194						5,172,194
Current portion of long-term debt	29,075,552		77,785,000				77,785,000
Other	73,461,462	1,505	78,097,198		31,199		29,075,552
Current liabilities payable from restricted assets:							
Vouchers payable		412,259	20,499,901		1,502,595		22,414,755
Retainages payable	947,343	1,489,412	9,775,774		1,774,072		13,986,601
Accrued interest payable and matured coupons			24,989,216				24,989,216
Other current liabilities	2,950,164	17,745,788	5,857,867		19,553,537		46,107,356
	3,897,507	19,647,459	61,122,758		22,830,204		107,497,928
Deferred rent, net	19,208,028						19,208,028
Long-term debt:							
Revenue bonds payable, net of current portion			3,960,382,440				3,960,382,440
Less deferred loss on bond refundin			(225,535,685)				(225,535,685)
Less unamortized discounts			(47,966,240)				(47,966,240)
			3,686,880,515				3,686,880,515
Total liabilities	96,566,997	19,648,964	3,826,100,471		22,861,403		3,965,177,835
Fund equity:							
Contributed Capital:							
Federal government	96,111,351	59,046,728	345,277,806				500,435,885
Municipalities	4,540,595						4,540,595
Tenants	13,898,281	1,491,000					15,389,281
	114,550,227	60,537,728	345,277,806				520,365,762
Retained earnings (deficit):	3,053,442,069	339,865,818	(3,678,642,819)	27,034,896	323,235,239	11,024,590	75,959,793
Total fund equity (deficit)	3,167,992,296	400,403,546	(3,333,365,013)	27,034,896	323,235,239	11,024,590	596,325,554
Total liabilities and fund equity	\$ 3,264,559,293	\$ 420,052,510	\$ 492,735,458	\$ 27,034,896	\$ 323,235,239	\$ 33,885,993	\$ 4,561,503,389

CITY AND COUNTY OF DENVER
MUNICIPAL AIRPORT SYSTEM
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Year Ended December 31, 2001

	Airport Revenue Fund	Capital Improvement Fund	Project Fund	Bond Fund	Bond Reserve	Stapleton Fund	Totals
Operating revenues:							
Facility rentals	\$ 204,583,840	\$	\$	\$	\$	\$	\$ 204,583,840
Concession income	24,163,704						24,163,704
Parking income	71,307,956						71,307,956
Car Rental income	30,873,590						30,873,590
Landing fees	97,090,281						97,090,281
Aviation fuel tax	12,939,952						12,939,952
Other sales and charges	9,721,499	14,523					9,736,022
	<u>450,680,822</u>	<u>14,523</u>					<u>450,695,345</u>
Operating expenses:							
Personnel services	79,747,110						79,747,110
Contractual services	109,574,632	12,131,428					121,706,060
Maintenance, supplies & materials	21,949,832	4,937					21,954,769
Other expense	211,271,574	12,136,365					223,407,939
	<u>239,409,248</u>	<u>(12,121,842)</u>					<u>227,287,406</u>
Operating income (loss) before depreciation and amortization	(151,796,591)						(151,796,591)
Depreciation and amortization	87,612,657						87,612,657
Operating income (loss)	48,252,087						48,252,087
Nonoperating income (expenses):							
Passenger facility charges	11,462,658	5,222,290	13,735,459			1,961,798	33,484,205
Interest on investments		1,273,957	1,806,012				3,079,969
Capital grants	(2,678,699)		(219,759,309)				(222,438,008)
Interest expense	11,049,876	(2,454,051)	(11,747,068)			(7,332,307)	(10,483,550)
Miscellaneous income (expense)	54,558,203	(54,558,203)					0
Debt coverage transfer	122,644,125	(50,516,007)	(201,656,483)		24,243,205	(5,370,509)	(110,655,669)
	<u>210,256,782</u>	<u>(62,637,849)</u>	<u>(201,656,483)</u>	<u>24,243,205</u>	<u>24,243,205</u>	<u>(5,370,509)</u>	<u>(35,164,854)</u>
Income (loss) before operating transfers	(363,063,176)	101,886,494	316,819,819	2,027,806	(38,186,182)	(19,484,761)	0
Transfers in (out), net	(152,806,394)	39,248,645	115,163,336	2,027,806	(13,942,977)	(24,855,270)	(35,164,854)
Net income (loss)	9,334,809						9,334,809
Add depreciation of assets acquired through federal grants	3,196,913,654	300,617,173	(3,793,806,155)	25,007,090	337,178,216	35,879,860	101,789,838
Retained earnings (deficit), beginning of year	3,053,442,069	339,865,818	(3,678,642,819)	27,034,896	323,235,239	11,024,590	75,959,793
Retained earnings (deficit), end of year							

See accompanying independent auditors report.

**City and County of Denver
Municipal Airport System
Annual Financial Information**

I. Condensed Statement of Revenues and Expenses (in \$ thousands):

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Operating revenues	\$414,313	\$417,335	\$442,894	\$ 438,340	450,695
Operating expenses	<u>165,755</u>	<u>163,635</u>	<u>195,292</u>	<u>191,389</u>	<u>223,408</u>
Operating Income before Amortization And Depreciation	248,558	253,720	247,602	246,951	227,287
Amortization and Depreciation	121,313	120,939	120,393	150,631	151,796
Operating Income	127,245	132,781	127,209	96,320	75,491
Non-Operating Income (Expense)	<u>(195,726)</u>	<u>(181,297)</u>	<u>(183,654)</u>	<u>(158,277)</u>	<u>(110,964)</u>
Net Income (Loss)	<u>\$ (68,481)</u>	<u>\$ (48,516)</u>	<u>\$ (56,445)</u>	<u>\$ (61,957)</u>	<u>\$ (35,473)</u>

II. Passenger Data:

A. Enplaned passengers by major airline category:

<u>Year</u>	<u>Major National Airlines</u>	<u>% Chg</u>	<u>Regional/ Commuter Airlines</u>	<u>% Chg</u>	<u>Charter/ Miscellaneous Airlines</u>	<u>% Chg</u>	<u>Totals</u>	<u>% Chg</u>
1997	16,686,860	8.7	721,966	9.9	121,374	(56.2)	17,530,200	8.3
1998	17,821,076	6.8	405,557	(43.8)	217,907	79.5	18,444,540	5.2
1999	18,406,437	3.3	337,691	(16.7)	287,081	31.7	19,031,209	3.2
2000	18,684,319	1.5	386,526	14.5	322,151	12.2	19,392,996	1.9
2001	17,353,447	(7.1)	328,909	(14.9)	363,753	12.9	18,046,109	(6.9)

Unaudited. See accompanying independent auditors' report.

**City and County of Denver
Municipal Airport System
Annual Financial Information, continued**

B. Enplaned passengers by airline:

<u>Airline</u>	<u>2000</u>	Percent of <u>Total</u>	<u>2001</u>	Percent of <u>Total</u>
United	11,806,717	60.9%	10,575,093	58.6%
United Express	<u>1,531,351</u>	<u>7.9</u>	<u>1,489,549</u>	<u>8.2</u>
	13,338,074	68.8%	12,064,642	66.8%
American	824,804	4.3	1,023,969	5.7
America West	232,036	1.2	285,693	1.6
Continental	505,064	2.6	509,491	2.8
Delta	982,670	5.1	852,072	4.7
Frontier	1,526,719	7.9	1,557,592	8.6
Northwest	486,979	2.5	488,875	2.7
TWA	276,199	1.4	220,104	1.2
USAir	330,179	1.7	368,869	2.1
Other	<u>890,272</u>	<u>4.5</u>	<u>674,802</u>	<u>3.8</u>
Totals	<u>19,392,996</u>	<u>100.0%</u>	<u>18,046,109</u>	<u>100.0%</u>

C. Originating and connecting enplaned passengers for the year ended December 31, 2001:

<u>Airline</u>	<u>Originating</u>	<u>Connecting</u>	<u>Total</u>
United	4,333,919	6,241,174	10,575,093
United Express	490,490	999,059	1,489,549
Other	<u>5,433,800</u>	<u>547,667</u>	<u>5,981,467</u>
Totals	<u>10,258,209</u>	<u>7,787,900</u>	<u>18,046,109</u>
Percent of Total	56.8%	43.2%	100%

Unaudited. See accompanying independent auditors' report.

**City and County of Denver
Municipal Airport System
Annual Financial Information, continued**

III. Aircraft Operations:

A. Historical aircraft operations:

<u>Year</u>	<u>Air Carrier</u>	<u>Commuter</u>	<u>Taxi/Gen Aviation</u>	<u>Military</u>	<u>Total</u>	<u>Percent Change</u>
1997	341,879	128,271	22,394	770	493,314	8.9
1998	341,074	111,467	19,736	1,055	473,332	(4.1)
1999	362,824	119,799	16,846	982	500,451	5.7
2000	370,072	142,662	14,855	920	528,509	5.6
2001	352,033	139,538	14,614	1,551	507,736	(3.9)

IV. Historical Passenger Facility Charge Revenues (in thousands):

1997	45,429
1998	47,411
1999	48,430
2000	51,482
2001	61,988

Unaudited. See accompanying independent auditors' report.

**City and County of Denver
Municipal Airport System
Annual Financial Information, continued**

VII. Enplaned Cargo Operations (in pounds):

<u>Year</u>	<u>Air Mail</u>	<u>Freight and Express</u>	<u>Total</u>	<u>Percent Change</u>
1997	151,756,471	297,704,390	449,460,861	10.3
1998	161,321,654	302,352,384	463,674,038	3.2
1999	168,505,468	314,616,473	483,121,941	4.2
2000	171,803,661	319,537,612	491,341,273	1.7
2001	106,841,965	260,170,245	367,012,210	(25.3)

VIII. Historical Net Revenues and Debt Service Coverage under the Bond Ordinance (in thousands):

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Gross Revenues	\$477,642	\$500,247	\$522,098	\$530,694	\$526,631
Operation & Maintenance Expenses	<u>176,381</u>	<u>168,126</u>	<u>186,596</u>	<u>192,384</u>	<u>211,2722</u>
Net Revenues	301,261	332,121	335,502	338,310	315,359
Other Available Funds	<u>56,501</u>	<u>60,724</u>	<u>67,247</u>	<u>55,620</u>	<u>54,558</u>
Total amount available for Debt Service Requirements	\$ <u>357,762</u>	\$ <u>392,845</u>	\$ <u>402,749</u>	\$ <u>393,930</u>	\$ <u>369,917</u>
Debt Service Requirement	\$ <u>247,166</u>	\$ <u>255,638</u>	\$ <u>272,083</u>	\$ <u>255,837</u>	\$ <u>248,375</u>
Debt service coverage	<u>145%</u>	<u>154%</u>	<u>148%</u>	<u>154%</u>	<u>149%</u>

Unaudited. See accompanying independent auditors' report.