Independent Auditors' Report

Years ended April 30, 2002 and 2001

Honorable Mayor and Members of The City Council of
Kansas City, Missouri:

We have audited the accompanying balance sheets of the Kansas City Airports Fund as of April 30, 2002 and 2001, and the related statements of operations, changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements present only the Kansas City Airports Fund and are not intended to present fairly the financial position of the City of Kansas City, Missouri and the results of its operations and 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 Kansas City Airports Fund as of April 30, 2002 and 2001, and the results of its operations, changes in fund equity, 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 12 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

KPMG LLP

August 2, 2002

Balance Sheets

Years ended April 30, 2002 and 2001

Assets	2002	2001
Current assets:		
Cash and short-term investments (note 2)	$155,209,797	147,248,851
Accounts receivable, net of allowance for doubtful accounts of $238,880 in 2002 and $169,426 in 2001 (notes 3, 5, and 8)	5,161,582	5,235,151
Grants receivable	2,241,572	6,431,133
Accrued interest receivable (note 2)	2,287,748	1,770,662
Prepaids	392,017	275,520
Inventories, at cost	667,672	685,291
Total current assets	165,960,388	161,646,608
Restricted assets (notes 2 and 4):		
Cash and short-term investments	119,628,023	36,910,970
Accrued interest receivable	1,763,281	374,873
Total restricted assets	121,391,304	37,285,843
Fixed assets:		
Land	35,928,163	35,784,163
Buildings and building improvements	222,371,144	201,059,356
Runways, aprons, and roads	334,605,943	269,751,622
Equipment	28,836,544	29,232,807
	621,741,794	535,827,948
Less accumulated depreciation	284,365,891	263,913,086
	337,375,903	271,914,862
Construction in progress	101,091,962	97,242,089
Net fixed assets	438,467,865	369,156,951
Bond issue costs and other assets	1,919,483	699,061
	$ 727,739,040	568,788,463

See accompanying notes to financial statements.

Balance Sheets (Continued)

Years ended April 30, 2002 and 2001

Liabilities and Fund Equity	2002	2001
Current liabilities:		
Accounts payable	$ 4,547,554	7,125,210
Accrued payroll, vacation, and sick leave	2,283,587	1,976,468
Other accrued expenses	12,099,829	4,767,310
Deposits on hand	116,900	88,350
Due to other funds	582,512	570,297
Total current liabilities	19,630,382	14,527,635
Liabilities payable from restricted assets:		
Matured bonds and coupons	183,540	116,008
Accrued interest and fiscal agent fees	1,823,620	1,292,982
Revenue bonds, current portion (note 4)	10,325,000	6,520,000
Construction contract and retainages payable	2,230,503	1,750,230
Due to other governments	5,653,729	136,491
Total liabilities payable from restricted assets	20,216,392	9,815,711
Deferred revenue	4,410,059	4,719,469
Revenue bonds payable (note 4)	252,531,206	123,212,759
Total liabilities	296,788,039	152,275,574
Fund equity:		
Contributed capital	134,462,070	141,085,580
Retained earnings (note 4):		
Reserved	40,775,822	33,987,715
Unreserved	255,713,109	241,439,594
Total retained earnings	296,488,931	275,427,309
Total fund equity	430,951,001	416,512,889
Commitments and contingencies (notes 5, 6, 9, and 10)		
	$ 727,739,040	568,788,463

Statements of Operations

Years ended April 30, 2002 and 2001

	2002	2001
Operating revenues (notes 5 and 11):		
Field and runway rentals	$ 9,533,402	9,919,277
Terminal buildings and apron rentals	10,894,533	9,630,210
Other property rentals	6,095,620	5,630,947
Parking	29,791,619	32,773,679
Rental car	7,238,64	7,773,929
Concessions	2,855,587	3,740,279
Other	810,837	143,254
	67,220,241	69,611,575
Operating expenses:		
Salaries, wages, and employee benefits	20,509,676	18,292,675
Materials and supplies	2,515,841	3,091,249
Utilities	3,340,417	3,871,593
Contractual services	23,027,364	15,925,308
Repairs and maintenance	2,567,145	1,849,688
Insurance	982,327	689,807
Other	107,939	85,288
Depreciation on properties acquired from proceeds of: General obligation bonds, revenue bonds, and other funds	16,006,696	15,039,087
Contributions and grants	6,623,510	6,593,058
	75,680,915	65,437,753
Operating income (loss)	(8,460,674)	4,173,822
Other income (expense):		
Interest income	9,725,987	14,711,152
Interest expense and fiscal agent fees	(12,280,379)	(8,428,713)
Amortization of bond-related costs	(105,513)	(50,378)
Passenger facility charge (note 8)	16,134,494	17,207,518
Customer facility charge (note 8)	6,186,432	1,776,234
Operating grant revenue	1,223,993	123,049
Other income (expense), net (note 6a)	(7,104,353)	1,463,226
Net income before capital grants	5,319,987	30,975,910
Capital grants	9,118,124	—
Net income	$ 14,438,111	30,975,910

See accompanying notes to financial statements.

Statements of Changes in Fund Equity

Years ended April 30, 2002 and 2001

	Contributed capital	Retained earnings	Total fund equity
Balances at April 30, 2000	$ 132,159,930	233,989,864	366,149,794
Federal grants (note 1(f))	15,518,708	—	15,518,708
Net income	—	30,975,910	30,975,910
Equity transfer	—	3,868,477	3,868,477
Depreciation on properties acquired from contributions and grants	(6,593,058)	6,593,058	—
Balances at April 30, 2001	141,085,580	275,427,309	416,512,889
Net income	—	14,438,112	14,438,112
Depreciation on properties acquired from contributions and grants	(6,623,510)	6,623,510	—
Balances at April 30, 2002	$ 134,462,070	296,488,931	430,951,001

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended April 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Operating income	$ (8,460,672)	4,173,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	22,630,206	21,632,145
Changes in assets and liabilities:		
Receivables	(315,869)	(5,198,281)
Prepaid insurance	(116,497)	164,866
Inventory	17,619	183,824
Other assets	—	50,365
Accounts payable	(2,510,124)	1,146,569
Accrued vacation, sick, and other accrued expenses	2,668,188	4,911,671
Contracts and retainages payable	480,273	847,292
Due to other government	5,517,238	—
Deferred revenue	(309,410)	3,207,393
Total adjustments	28,061,624	26,945,844
Net cash provided by operating activities	19,600,952	31,119,666
Cash flows from noncapital financing activities:		
Proceeds from grants	1,223,993	123,049
Due from other funds	—	3,984,106
Due to other funds	12,215	36,109
Net cash provided by (used in) noncapital financing activities	1,236,208	4,143,264
Cash flows from capital and related financing activities:		
Bond issue costs paid	(1,325,935)	—
Acquisition and construction of capital assets	(92,012,560)	(57,073,651)
Proceeds from sale of fixed assets	43,626	77,227
Proceeds from bond issuance	140,187,992	—
Principal payments on revenue bonds	(6,520,000)	(6,100,000)
Interest payments on revenue bonds	(12,266,472)	(7,904,723)
Legal settlement	—	1,533,608
Passenger facility charges	16,373,775	16,985,722
Customer facility charges	6,120,618	1,252,625
Payment to extinguish special facility lease	(1,412,767)	—
Other	(475,620)	—

Statements of Cash Flows (Continued)

Years ended April 30, 2002 and 2001

	2002	2001
Capital contributed by federal government	13,307,685	15,518,707
Net cash used in capital and related financing activities	62,020,342	(35,710,485)
Cash flows from investing activities:		
Interest on investments	7,820,497	14,151,762
Net increase in cash and short-term investments	90,677,999	13,704,207
Cash and short-term investments at beginning of year	184,159,821	170,455,614
Cash and short-term investments at end of year	$ 274,837,820	184,159,821
Components of cash and short-term investments at end of year:		
Unrestricted	$ 155,209,797	147,248,851
Restricted	119,628,023	36,910,970
	$ 274,837,820	184,159,821
Noncash item:		
Transfer of land from Special Facility Airport Reserve Bond Fund	$ —	3,868,477

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended April 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The Kansas City Airports Fund (Airports Fund) is owned by and is a fund of the City of Kansas City, Missouri (the City). The Airports Fund is utilized to account for the operations of the City's two airports – Kansas City International Airport and the Charles B. Wheeler Downtown Airport and the Richards-Gebaur Intermodal Transportation Facility.

(a) *Basis of Accounting*

The City accounts for the Airports Fund as a Proprietary Enterprise Fund. The accompanying financial statements are prepared on the accrual basis of accounting, wherein revenues are recorded when earned and expenses are recorded when incurred.

In reporting its financial activity, the Airports Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedures.

(b) *Statements of Cash Flows*

The Airports Fund investments maintained in the City's pooled investments are readily convertible to known amounts of cash and so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. Accordingly, for purposes of the statements of cash flows, these investments are considered cash equivalents.

(c) *Inventory*

Inventory consisting of machine parts, fuel, and supplies is valued at average cost.

(d) *Fixed Assets and Depreciation*

Fixed assets are stated at cost and include assets funded by proceeds of revenue and general obligation bonds, grants, and contributions. Normal maintenance

Notes to Financial Statements

Years ended April 30, 2002 and 2001

and repairs are charged to expense as incurred. Renewals and betterments are capitalized when placed into service and depreciated over the remaining estimated useful lives of the related properties.

At the time of retirement or other disposition of properties, the assets and related depreciation accounts are relieved of the amounts included therein and the resulting gain or loss is recognized.

The provision for depreciation of fixed assets ($1,500 or more) is computed using the straight-line method over the following estimated useful lives:

Buildings and building improvements	25 years
Runways, aprons, and roads	15 years
Equipment:	
Firefighting vehicles	10 years
Operating equipment, vehicles, and rolling stock	5 years
Police vehicles, buses, passenger transport vehicles	3 years
Telecommunications and computer equipment	3 years
Office equipment and furnishings	3 years

(e) *Deferred Revenue*

The Airports Fund reports deferred revenue on its balance sheets when resources are received by the Airports Fund before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenses. In subsequent periods, when revenue recognition criteria are met, or when the Airports Fund has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheets and revenue is recognized.

(f) *Contributed Capital*

Contributions of capital assets received from other entities, including those from other City funds, grants, and assistance received from other governmental units for the acquisition of capital assets were credited directly to fund equity in 2001. These same contributions are reported in net income in 2002. Contributions received for operating purposes are included in other nonoperating income.

Notes to Financial Statements

Years ended April 30, 2002 and 2001

Accumulated depreciation on properties acquired from contributions and grants was $76,469,848 and $69,846,338, respectively, at April 30, 2002 and 2001.

(g) *Vacation and Sick Leave Benefits*

Under the terms of the City's personnel policy, City employees are granted vacation and sick leave in varying amounts. Vacation is accumulated at an annual rate of ten to twenty days depending on the employee's length of service. Sick leave is accumulated at the rate of three and seven-tenths hours per two-week pay period, with the exception of firefighters, who accumulate five and one-half hours for the same period. The maximum amount of vacation that may be carried forward, which is accrued in the Airports Fund, is two times the amount earned in a year. Sick leave with pay may be accumulated up to a limit of 2,080 hours. Upon separation from service, employees may convert accrued sick leave at the ratio of four hours of sick leave to one hour of vacation leave credit. Retiring employees fifty-five years or older with at least twenty-five years of creditable service, employees who are to receive a line-of-duty disability pension, employees who qualify for a City pension and retire with a normal retirement, take early retirement at age sixty or thereafter, or die, are entitled to sick leave credit at the rate of two hours of sick leave to one hour of vacation leave credit.

(h) *Interfund Payments*

Interfund payments consist primarily of payments to the City's General Fund for administrative, data processing, and accounting services as well as payments for fire operation services. Payments for the administrative services totaled $3,158,616 and $3,009,353 during the years ended April 30, 2002 and 2001, respectively. Payments for fire operation services totaled $2,354,314 and $2,167,243 during the years ended April 30, 2002 and 2001, respectively. The above interfund payments are recorded in contractual services in the financial statements.

(i) *Use of Estimates*

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

(j) *GASB Statement No. 34*

This report does not incorporate GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. The City has not completed the process of evaluating the impact of adopting this statement, and, therefore, is unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is implemented. The City will adopt this statement for its year ended April 20, 2003.

(k) *Reclassification*

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

(2) Deposits and Investments

The City maintains a cash and investment pool, which is available for use by most funds. Interest income on investments is allocated to the various funds on the basis of month-end cash and investment balances. The Airports Fund participates in the pool and at April 30, 2002 had cash and short-term investments, restricted assets, and accrued interest receivable of $155,209,797, $121,391,304, and $2,287,748, respectively, invested in the pool. At April 30, 2001, the Airports Fund had cash and short-term investments, restricted assets, and accrued interest receivable of $147,248,851, $37,285,843, and $1,770,662, respectively, invested in the pool.

Information concerning the City's investment policy and carrying amounts by type of investment or deposit categorized by credit risk may be found in the City's general purpose financial statements.

(3) Advances from Airlines

Under the signatory lease agreements for Kansas City International (KCI) Airport, the airlines have agreed to a guaranteed minimum amount of rentals and fees based on expected levels of use of airport facilities. If the payments received from the airlines differ from computed amounts due based on actual landing weights and other factors, the Airports Fund and airlines settle the payment differences. The amounts due from the airlines resulting from such differences totaled $600,777 and $257,899 at April 30, 2002 and 2001, respectively.

(4) Revenue Bonds and Restricted Assets

Revenue bonds outstanding in the Airports Fund at April 30, 2002 and 2001 were as follows:

	2002	2001
General Improvement Airport Revenue Bonds, Series 1994A, interest from 5.5% to 7.0%, maturing through September 1, 2012	$ 37,715,000	38,200,000
General Improvement Airport Refunding Revenue Bonds, Series 1995, interest from 4.00% to 6.75%, maturing through September 1, 2009	32,985,000	35,350,000
General Improvement Airport Refunding Revenue Bonds, Series 1997A, interest from 5.3% to 5.5%, maturing through September 1, 2014	29,495,000	29,495,000
General Improvement Airport Refunding Revenue Bonds, Series 1999A, interest from 5.3% to 5.5% maturing through September 1, 2008	28,070,000	31,740,000
Passenger Facility Charge Revenue Bonds, Series 2001, interest at 5.0%, maturing through April 1, 2026	140,000,000	—
	268,265,000	134,785,000
Less current portion	10,325,000	6,520,000
	257,940,000	128,265,000
Less:		
Unamortized bond discount	1,392,906	555,634
Deferred charge on refunding	4,661,361	5,233,070
Unamortized bond premium	(645,473)	(736,463)
	$ 252,531,206	123,212,759

Notes to Financial Statements

Years ended April 30, 2002 and 2001

The annual requirements to retire the bonds outstanding as of April 30, 2002 are as follows:

	Principal	Interest	Total
Year ending April 30:			
2003	$ 10,325,000	14,274,192	24,599,192
2004	10,790,000	13,749,666	24,539,666
2005	11,285,000	13,192,946	24,477,946
2006	11,815,000	12,607,393	24,422,393
2007	12,380,000	11,990,558	24,370,558
Thereafter	211,670,000	93,134,561	304,804,561
Total	$ 268,265,000	158,949,316	427,214,316

On August 1, 2001, the City issued $140,000,000 in PFC Revenue Bonds. The bonds are backed by the Passenger Facility Charge on ticketed passengers that pass through Kansas City International Airport, for the purpose of financing the design and construction costs of terminal improvements at the Kansas City International Airport. These bonds have an average interest rate of 5%. The bonds mature annually in amounts ranging from $3,480,000 to $9,550,000 during fiscal years 2003 through 2026.

On December 15, 2000, the City issued $10,000,000 in General Improvement Airport Revenue Bonds authorized by voters in 2000. The bonds are primarily backed by the Customer Facility Charge on the rental of cars at KCI Airport and subordinated by general airport revenues. KCI Airport used excess operating funds to purchase the bonds at issuance. The bond issuance has not been reflected in the accompanying financial statements since they have not been issued to the public.

Under the terms of various ordinances enacted at issuance of revenue bonds, the Airports Fund must maintain adequate insurance coverage and rates and fees sufficient to pay reasonable and proper operating and maintenance expenses and scheduled debt service requirements.

The ordinances also establish priorities for the allocation of revenues. After meeting normal operating and maintenance expenses, all remaining monies are to be allocated to the following accounts in the order listed below:

Account	Restriction
Reserve	For the accumulation of revenue bond reserves until the required balance is obtained.
Operations and Maintenance	For the accumulation of up to $1,000,000 to pay for reasonable and proper operating and maintenance expenses of the airports.
Deferred Maintenance and Replacement	For the accumulation of up to $750,000 for operating and maintaining the City's airports and for unusual or extraordinary maintenance or repairs.
Principal and Interest	For the accumulation of monies to meet the maturing revenue bond principal and interest requirements. Each month the City is to set aside at least one-sixth of the next semiannual interest payment and at least one-twelfth of the next annual principal payment.
Construction	For holding bond proceeds to be used to finance construction. To the extent these amounts are not utilized for construction, they may be allocated to the Bond Reserve Account, the Maintenance Accounts, or the Extension and Bond Account for future bond retirement.
Drug Enforcement Agency (DEA)	For the accumulation of funds received from the DEA for assisting the DEA in pursuit of individuals wanted for drug-related charges. Funds are restricted to the advancement of Aviation Department's drug-enforcement program.

Notes to Financial Statements

Years ended April 30, 2002 and 2001

Account	Restriction
Customer Facility Charge	For the accumulation of funds received from car rental agencies for the debt service, design, and construction associated with the consolidated rental car facility.
Unliquidated PFC Revenue	The FAA has approved a Passenger Facility Charge (PFC) for a multiproject capital program. The PFC is charged to passengers at the time each ticket is sold by an airline. PFC's collected are restricted to use on the approved projects.

Restricted accounts and special reserves are reported on the accompanying balance sheets as restricted assets and reservations of retained earnings and are as follows at April 30, 2002 and 2001:

Account	Restricted assets	Reserved retained earnings
Reserve	$ 15,275,500	15,275,500
Operations and Maintenance	1,000,000	1,000,000
Deferred Maintenance and Replacement	750,000	750,000
Principal and Interest	6,676,953	6,676,953
Construction	73,506,105	—
Drug Enforcement Agency	104,373	104,373
Passenger Facility Charges	10,309,380	10,309,380
Customer Facility Charges	6,659,616	6,659,616
Other restricted	7,109,377	—
April 30, 2002	$ 121,391,304	40,775,822
April 30, 2001	$ 37,285,843	23,560,724

At April 30, 2002, the City was in compliance with the provisions of the ordinances relating to the maintenance of restricted accounts and special reserves and coverage requirements.

(5) Lease Agreements

Facilities at KCI Airport are leased through May 31, 2003 to the principal airlines serving the airport. Total annual rentals are based on actual operating expenses of the airport and are allocated among the airlines based on percentage of terminal space occupied and traffic volume. Total revenues under these operating lease agreements for the years ended April 30, 2002 and 2001 were $19,538,098 and $19,535,125, respectively.

In addition to the leases described above, the City leases space in the Richards-Gebaur, Downtown, and KCI Airports under long-term noncancelable operating leases. Certain leases include contingent rentals based upon sales. Total revenues under these operating lease agreements for the years ended April 30, 2002 and 2001 were $16,205,923 and $16,853,039, respectively, which included contingent rentals. Future minimum rentals under such leases for each of the next five years and thereafter are as follows:

Fiscal year:	Amount
2003	$ 5,870,408
2004	4,927,463
2005	4,801,637
2006	4,281,349
2007	3,727,935
Thereafter	63,804,563

In August 2001, the City paid $1,420,405 to pay off the 1991 Special Facility Revenue Bonds (Special Facility Fund Debt) to allow for the cancellation of a 1991 lease with Host/Marriott. This cancellation allowed for the creation of a new lease due to the scheduled terminal improvements.

(6) Richards-Gebaur Memorial Airport

(a) *Memorandum of Agreement with the Federal Aviation Administration*

During the 2000 fiscal year, the Federal Aviation Administration (FAA) approved the City's request to close the Richards-Gebaur Memorial Airport (RG) and released the City from its obligations to maintain certain parcels at RG for aeronautical use, and from its obligations under federal grant agreements to make RG available to the public for aeronautical use.

Notes to Financial Statements

Years ended April 30, 2002 and 2001

The release enabled the City to close RG in order to use certain parcels as nonaeronautical, revenue-producing airport property. Specifically, two parcels will be used as an intermodal freight center (Phase I Property) and an ancillary railroad facility (Phase II Property). The two properties mentioned were then subsequently identified as property leased from the City to the Port Authority of Kansas City, Missouri (the Authority) and then subleased from the Authority to Kansas City Southern Railroad (KCSR).

The City and FAA completed a memorandum of agreement (MOA) on March 20, 2000 in which the City agreed to diligently pursue the relocation and construction of a replacement general aviation airport, subject to applicable FAA approval, within five years. The City completed the master planning process for the relocated airport, and the City decided that it would not construct a relocated airport. RG was placed into permanent closure status and the FAA has concurred in this action. Certain stipulations as documented in the MOA require the City to set up escrow accounts for the repayment of federal obligations and revenue received from airport property.

In accordance with the MOA, the City was required to pay $5,000,000 plus interest as partial settlement for grant funds received for the development of RG. The settlement has been accrued as a nonoperating expense as of April 30, 2002, and was paid subsequent to year-end.

In addition, all proceeds from the sale, lease or other disposition of RG, up to a maximum of $18 million, as outlined in the table below, are restricted for general aviation projects. Once the percentage has been reached, the remainder of RG lease revenue may be used for AIP (Airport Improvement Program) or CIP (Capital Improvement Program) projects at the Charles B. Wheeler Downtown Airport or Kansas City International Airport.

(b) *Lease Agreement with Related Party*

Through June 17, 2003	100%
June 18, 2003 through June 17, 2006	50%
June 18, 2006 through June 17, 2021	25%
June 18, 2021 through lease term	0%

Notes to Financial Statements

Years ended April 30, 2002 and 2001

On December 30, 1999, the Authority entered into a Lease Agreement (Lease) with the City to lease certain property referred to as Phase I and Phase II Property located at RG for the purpose of the Authority to subsequently sublease the Phase I and Phase II Property to KCSR. KCSR has leased Phase I and Phase II Property from the Authority for the purpose of constructing an intermodal freight center and an ancillary railroad facility, respectively.

The term of the Lease between the Authority and the City is fifty years beginning January 9, 2000. On the 10th day of each January throughout the term of the Lease, the Authority is to pay rent as follows:

Years 1 through 6	7% of the appraised value of the Phase I Property and, if applicable, 7% of the Phase II Property if construction begins prior to June 1, 2002.
Years 7 through 50	10% of the appraised value of the Phase I Property and, if applicable, 10% of the appraised value of the Phase II Property.

Phase I and Phase II Property's appraised value is \$6,100,000 and \$3,400,000, respectively. Rental income related to this Lease is approximately \$665,000 per year for the first five years.

For the years one through twenty of the Lease term, the rent payable will be adjusted every five years based upon the consumer price index and the specific terms of the Lease. For years twenty-one through fifty, the rent will be increased every year by 1.5% based upon year twenty's rent due.

At any time after the twenty-third anniversary of the inception of the Lease, the Authority will have the option to purchase Phase I and Phase II Property for a purchase price which is equal to the fair market value of both properties at that time.

The Airports Fund has accounted for the Lease as an operating lease and had Lease revenue of $665,000 for each of the fiscal years ended April 30, 2002 and 2001, respectively.

(7) Employee Retirement Plan

The City has a contributory, single employer, defined benefit pension plan, The Employees' Retirement System (the Plan), covering substantially all employees. Contributions to the Plan are made by the City and covered employees. The contributions are calculated to fund normal cost and amortization of unfunded prior service costs. The City receives an annual actuarial report on the actuarial accrued liability and net assets available for benefits. At May 1, 2001 and 2000, the actuarial accrued liability of the Plan was $573,340,000 and $517,046,000, respectively, and the net assets available for benefits were $643,559,000 and $663,428,000, respectively; however, a determination is not made for individual funds. Contributions to the Plan made by the Airports Fund during the years ended April 30, 2002 and 2001 amounted to $869,411 and $767,367, respectively, and were in accordance with the Plan's minimum funding requirements. A stand-alone financial report is issued for the Plan. The report may be obtained from the City's Retirement Division.

(8) Facility Charges

(a) *Passenger Facility Charges*

The FAA has approved a Passenger Facility Charge (PFC) for a multiproject capital program. The PFC is charged to passengers at the time each ticket is sold by an airline. The airlines are reimbursed for collecting the fee by retaining eight cents ($0.08) of each PFC. Projects named in the program application have been approved for total PFC collections of $271,389,802, of which $99,945,400 has been collected through April 30, 2002. Revenues earned for the fiscal years ended April 30, 2002 and 2001 are $16,134,494 and $17,207,518, respectively, and are recorded on an accrual basis as nonoperating revenues.

(b) *Customer Facility Charges*

On January 1, 2001, the City began collecting a $3.00 Customer Facility Charge (CFC) per transaction day on car rentals made at KCI Airport. The CFC is to be used for the debt service, design, and construction cost associated with a new consolidated rental car facility. Revenues earned for fiscal year ended April 30, 2002 are

$6,186,432, and are recorded on an accrual basis as nonoperating revenue.

(9) Commitments

At April 30, 2002, the City had outstanding purchase commitments on behalf of the Airports Fund of approximately $172,353,000 for outside contractual services, installation of a new financial management system, equipment and supplies purchases, terminal aprons rehabilitation at KCI Airport, rehabilitation of airfield electrical system at KCI Airport, design of common use rental car facility, replace airport signage at KCI Airport, remodel/construct offices for airport police division, and terminal improvements at KCI Airport.

(10) Risk Management

The Airports Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is entitled to the defense of sovereign immunity against tort action that provides immunity except in two areas, motor vehicles and condition of City property; however, plaintiffs are limited to a maximum of $300,000 per person and $2,000,000 per occurrence in these two areas. The City has retained the risk for these amounts and the deductibles on commercial insurance for other risks of loss. Settled claims have not exceeded commercial insurance coverage for the past two years.

The City has established a Cumulative Insurance Reserve Fund (an Internal Service Fund) to account for and finance its uninsured risks of loss. All funds of the City participate in the program and make payments to the Cumulative Insurance Reserve Fund based on actual amounts needed to pay prior and current year claims. The claims expense for the Airports Fund, which includes an estimate of claims incurred but not reported (IBNR), totaled $558,196 and $549,739 for the fiscal years ending April 30, 2002 and 2001, respectively. The IBNR was determined based upon historical claims experience.

(11) Airline Bankruptcy

Over the last several years, a major airline carrier has experienced significant financial difficulties. The airline emerged from bankruptcy in 1993. In 1995, the airline completed a further restructuring of certain obligations through a prepackaged bankruptcy proceeding. Even after this restructuring, the airline remained highly leveraged as compared to most of its major competitors and continued to experience losses from operations. On January 10, 2001, this carrier filed its third bankruptcy proceeding in bankruptcy court leading to a purchase agreement whereby another major carrier purchased certain assets of the bankrupt carrier. The purchasing carrier will operate certain of these assets, including the overhaul base. However, operations of the two carriers was consolidated as of November 2001. The airline pays rent and landing fees to the City for use of the airport facilities on a monthly basis. Rent is due on the first of each month and landing fees are due on the tenth of each month for the previous month's use of the runways. As of April 30, 2002, the TWA receivable of $848,000 was reduced to $623,000 to reflect the amount received as final settlement on July 22, 2002. The remaining balance was written off as of April 30, 2002.

Since the events of September 11, 2001, many airlines have experienced significant financial difficulties. Because of the events of September 11 and other contributing factors, three major airlines filed for bankruptcy. One of these airlines terminated operations as of July 2002 while reviewing its options and the other two airlines are in the process of restructuring their operations. These airlines paid rent and landing fees to the City for use of the airport facilities on a monthly basis. Rent is due on the first of each month and landing fees are due on the tenth of each month for the previous month's use of the runways. For the fiscal year ended April 30, 2002, revenue from these two airlines amounted to approximately $8.1 million and these airlines are currently in arrears $1.2 million of which $0.9 million is post petition.

(12) Change in Contributed Capital

In compliance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the reporting requirements for nonexchange transactions have changed. This adoption of the statement affected only contributed capital. Capital contributions for 2002 have been reported in net income, as opposed to 2001 when contributions were reported directly in equity.

(13) Events of September 11, 2001

Recent events have changed market conditions and have introduced uncertainties into the future trend of passenger traffic at the Airport. On September 11, 2001, terrorists seized control of four U.S. commercial passenger flights, crashing two aircraft into the World Trade Center in New York City, one aircraft into the Pentagon in Washington, D.C., and one aircraft in Somerset, Pennsylvania. These events, caused the complete shutdown of the U.S. aviation system for two days. Industry data show that passenger traffic has been recovering since the September 11, 2001 events. However, monthly traffic levels still remain lower than pre-September 11, 2001 levels.