★ **Roll Call Number**

**Agenda Item Number**

35

**Date** January 25, 2010

**Receive and File the Financial Statements of the Des Moines International Airport for the fiscal year ended June 30, 2009.**

WHEREAS, Chapter 22 of the Des Moines City Code assigns certain responsibilities to the Airport Board, including the need to "ensure that all Airport revenues collected by or under Board authority are credited to the Airport Enterprise Fund, and that all expenditures from said fund are done in accordance with applicable state and federal laws and regulations."

WHEREAS, the Airport Board determined that the issuance of stand alone audited financial statements is important in the process of the issuance of Airport Revenue Bonds to fund the Airport's Capital Improvement Program; and

WHEREAS, the City's Finance Department through normal practice issues a Request for Proposal (RFP) for auditing services every three years; and

WHEREAS, the most recent RFP included completion of the Airport's required audit reports in its listing of audit requirements covering the fiscal years ending June 30, 2009, 2010, and 2011, as well as three additional option years; and

WHEREAS, the successful firm in that RFP process was the audit firm of McGladrey and Pullen, LLP (McGladrey); and

WHEREAS, on December 1, 2009, by Resolution No. A09-212, the Airport Board approved the audited financial statements and other reports for the year ended June 30, 2009, and recommended the transmittal of said report to City Council.

★ **Roll Call Number**

**Agenda Item Number** 35

**Date** January 25, 2010

NOW THEREFORE BE IT RESOLVED, BY THE CITY COUNCIL OF DES MOINES, IOWA:

That (1) the audited financial statements and other reports of the Airport for the year ended June 30, 2009, be received and filed; and (2) the letter from the Airport Board Chairperson is hereby received and filed.

(Council Communication 10-027 is attached.)

Moved by ______________________ to adopt.

Approved as to form:

David A. Ferree
Assistant City Attorney

| COUNCIL ACTION | YEAS | NAYS | PASS | ABSENT |
|---|---|---|---|---|
| COWNIE | | | | |
| COLEMAN | | | | |
| GREISS | | | | |
| HENSLEY | | | | |
| MAHAFFEY | | | | |
| MEYER | | | | |
| MOORE | | | | |
| TOTAL | | | | |

MOTION CARRIED APPROVED

______________________ Mayor

**CERTIFICATE**

I, DIANE RAUH, City Clerk of said City hereby certify that at a meeting of the City Council of said City of Des Moines, held on the above date, among other proceedings the above was adopted.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal the day and year first above written.

______________________ City Clerk

DES MOINES International Airport

CITY OF DES MOINES
AVIATION DEPARTMENT

January 19, 2010

The Honorable Mayor and Members of
the Des Moines City Council
400 Robert D. Ray Drive
Des Moines, IA 50309

**RE: FY09 Airport Audited Financial Statements**

Dear Mayor and Members of the City Council:

One of the covenants of the Airport's revenue bond issuance includes the completion of an annual, stand-alone, audited set of financial statements for the Airport. As you are aware, the City of Des Moines has contracted with McGladrey and Pullen, LLP, to perform the auditing services for the City, including the Airport, for the year ended June 30, 2009.

On December 1, 2009, by Resolution A09-212, the Airport Board approved the unqualified auditor's audit report covering the financial statements for the year ended June 30, 2009. Along with granting its approval, the Board authorized the transmittal of the reports to City Council.

On behalf of the Airport Board, it is my pleasure to present each of you with a copy of the financial statements. The Airport Board sincerely appreciates City Council's continuing support.

Should you have questions regarding this report, please contact me or Aviation Director Craig S. Smith.

Sincerely,

James W. Erickson
Airport Board Chairperson

JWE:trs

Enclosure

cc: Airport Board Members
Richard A. Clark, City Manager
Merrill Stanley, Deputy City Manager

P:\WORKING\2010\COUNCIL\Corres\0125 FY09 audit report LTR.docx

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# DES MOINES INTERNATIONAL AIRPORT

## Financial Statements and Additional Information

## June 30, 2009 and 2008

## (with Auditor's Report thereon)

DES MOINES
International Airport

## CONTENTS

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report**

Des Moines International Airport Board and the
Honorable Mayor and Members of the City Council
Des Moines International Airport
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the accompanying financial statements of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Des Moines, Iowa'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa, and do not purport to, and do not, present fairly the financial position of the City of Des Moines, Iowa and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa, and do not purport to, and do not, present the financial statements of the City of Des Moines, Iowa, management has chosen not to present a Management's Discussion & Analysis for the Des Moines International Airport.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of funding progress on page 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Davenport, Iowa
November 24, 2009

**DES MOINES INTERNATIONAL AIRPORT**
Statements of Net Assets
June 30, 2009 and 2008

| Assets | 2009 | 2008 |
|---|---|---|
| **Current assets** | | |
| Unrestricted assets: | | |
| Cash and cash equivalents (note 2) | $ 15,588,207 | $ 17,430,762 |
| Accounts receivable, net of allowance for doubtful accounts of $50,000 | 2,268,018 | 1,689,639 |
| Prepaid expenses | 207,004 | 191,915 |
| Amounts due from other governmental units | 1,269,323 | 130,818 |
| Amounts due from signatory airlines | 516,840 | 151,077 |
| Inventories | 103,810 | 164,521 |
| Unamortized bond discount | 43,537 | 44,740 |
| Deferred asset | 39,601 | 41,197 |
| Total current unrestricted assets | 20,036,340 | 19,844,669 |
| Restricted assets: | | |
| Cash and cash equivalents (note 2) | 8,493,438 | 8,785,300 |
| Investments (note 2) | - | 2,916,327 |
| Accrued interest receivable | - | 4,849 |
| Passenger facility charges receivable | 518,513 | 542,947 |
| Total current restricted assets | 9,011,951 | 12,249,423 |
| Total current assets | 29,048,291 | 32,094,092 |
| **Noncurrent assets** | | |
| Capital assets (note 3): | | |
| Land | 64,540,054 | 47,522,781 |
| Buildings, improvements and equipment, net of accumulated depreciation | 187,326,300 | 189,782,039 |
| Construction in process | 23,631,217 | 32,339,820 |
| Total capital assets | 275,497,571 | 269,644,640 |
| Unamortized bond discount | 484,304 | 527,841 |
| Deferred asset | 425,429 | 465,324 |
| Total noncurrent assets | 276,407,304 | 270,637,805 |
| Total assets | $ 305,455,595 | $ 302,731,897 |

See accompanying notes to financial statements

**Liabilities and Net Assets**

| | 2009 | 2008 |
|---|---|---|
| **Current liabilities** | | |
| Payable from unrestricted assets: | | |
| Accounts and warrants payable | $ 728,913 | $ 499,031 |
| Accrued expenses | 364,395 | 416,837 |
| Accrued employee benefits (note 5) | 252,890 | 263,644 |
| Deposit payments held by Airport | 97,300 | 134,700 |
| Amounts payable to City of Des Moines | - | 234,582 |
| Amounts due to signatory airlines | 367,350 | 434,987 |
| Accrued interest payable | 1,044,800 | 1,077,338 |
| Deferred Revenue | 84,549 | - |
| Short-term notes payable (note 4) | 12,000,000 | 8,700,000 |
| Current maturities of capitalized leases (note 5) | 299,405 | 291,264 |
| Unamortized bond premium (note 5) | 6,072 | 6,072 |
| Current maturities of long-term debt (note 5) | 1,200,000 | 1,241,000 |
| Total liabilities payable from unrestricted assets | 16,445,674 | 13,299,455 |
| Construction-related accounts and warrants payable from restricted assets | 1,274,321 | 3,846,763 |
| Deferred revenue from restricted assets | - | 1,823,147 |
| Total liabilities payable from restricted assets | 1,274,321 | 5,669,910 |
| Total current liabilities | 17,719,995 | 18,969,365 |
| **Noncurrent liabilities** | | |
| Accrued employee benefits (note 5) | 602,214 | 628,630 |
| Accrued post-retirement benefits (notes 5 & 9) | 96,955 | 49,304 |
| Capitalized leases (note 5) | 456,492 | 755,897 |
| Unamortized bond premium (note 5) | 10,337 | 16,411 |
| Long-term debt (note 5) | 35,980,000 | 37,180,000 |
| Total noncurrent liabilities | 37,145,998 | 38,630,242 |
| Total liabilities | 54,865,993 | 57,599,607 |
| **Net Assets** | | |
| Investment in capital assets, net of related debt (notes 3 and 5) | 238,073,106 | 230,726,577 |
| Restricted net assets: | | |
| Capital projects | 1,466,998 | 426,932 |
| Debt service (note 5) | 6,270,632 | 6,152,581 |
| Unrestricted net assets | 4,778,866 | 7,826,200 |
| Total net assets | 250,589,602 | 245,132,290 |
| Total liabilities and net assets | $ 305,455,595 | $ 302,731,897 |

**DES MOINES INTERNATIONAL AIRPORT**

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Operating revenues (note 7)** | | |
| Landing fees | $ 4,396,502 | $ 3,063,749 |
| Security fees | 1,881,407 | 2,151,946 |
| Apron fees | 1,106,540 | 1,201,054 |
| Facility rentals | 5,888,282 | 5,743,791 |
| Vehicle parking fees | 7,279,575 | 7,318,532 |
| Car rental concessions | 2,312,580 | 2,239,676 |
| Other concessions | 1,040,755 | 1,084,956 |
| Other airfield-related revenue | 658,502 | 978,601 |
| Other | 636,034 | 594,707 |
| Total operating revenues | 25,200,177 | 24,377,012 |
| **Operating expenses (notes 5 and 6)** | | |
| Contractual services | 7,095,239 | 7,269,818 |
| Personnel services | 9,334,479 | 9,354,383 |
| Supplies | 1,989,876 | 2,028,132 |
| Depreciation | 11,286,332 | 10,451,871 |
| Amortization | 80,160 | 82,007 |
| Bad debt | 14,272 | 6,554 |
| Total operating expenses | 29,800,358 | 29,192,765 |
| Operating loss | (4,600,181) | (4,815,753) |
| **Non-operating revenues / (expenses)** | | |
| Investment earnings | 426,627 | 1,110,982 |
| Interest expense | (2,339,957) | (2,456,184) |
| Gain / (loss) on sale of assets | (198,698) | (11,875) |
| Passenger facility charges | 3,426,190 | 3,838,183 |
| Customer facility charges | 1,036,879 | - |
| Total non-operating revenues / (expenses) | 2,351,041 | 2,481,106 |
| Net decrease in net assets, exclusive of capital grant and contributed revenues | (2,249,140) | (2,334,647) |
| **Capital grant and contributed revenues** | 7,706,452 | 8,822,912 |
| Net increase in net assets | 5,457,312 | 6,488,265 |
| **Net assets, beginning of year** | 245,132,290 | 238,644,025 |
| **Net assets, end of year** | $ 250,589,602 | $ 245,132,290 |

See accompanying notes to financial statements.

## DES MOINES INTERNATIONAL AIRPORT

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Proceeds received by providing services | $ 21,281,934 | $ 28,071,244 |
| Payments to suppliers | (9,118,946) | (9,544,607) |
| Payments to employees | (9,323,998) | (9,328,796) |
| Net cash provided by operating activities | 2,838,990 | 9,197,841 |
| **Cash flows from investing activities** | | |
| Interest payments received | 447,803 | 1,098,934 |
| Investment maturities and sales | 2,900,000 | 1,964,517 |
| Investment purchases | - | (3,875,850) |
| Net cash provided by / (used in) investing activities | 3,347,803 | (812,399) |
| **Cash flows from capital financing activities** | | |
| Proceeds from intergovernmental capital grants and contributions | 7,706,452 | 8,822,912 |
| Passenger facility charges received | 3,450,624 | 3,894,685 |
| Customer facility charges received | 1,036,879 | - |
| Interest paid | (2,372,498) | (2,497,501) |
| Principal paid on short-term notes payable | (123,500,000) | (88,100,000) |
| Principal paid on capitalized leases | (291,264) | (283,375) |
| Principal paid on long-term notes payable | (1,241,000) | (1,183,000) |
| Proceeds from issuance of short-term notes payable | 126,800,000 | 88,100,000 |
| Proceeds from sale of capital assets | 3,000 | 5,500 |
| Acquisition and construction of capital assets | (19,913,403) | (10,959,991) |
| Net cash used in capital financing activities | (8,321,210) | (2,200,770) |
| Net increase (decrease) in cash and cash equivalents | (2,134,417) | 6,184,672 |
| **Cash and cash equivalents, beginning of year** | 26,216,062 | 20,031,390 |
| **Cash and cash equivalents, end of year** | $ 24,081,645 | $ 26,216,062 |

See accompanying notes to financial statements.

**(continued on page 6)**

## DES MOINES INTERNATIONAL AIRPORT

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Reconciliation of operating loss to net cash provided by operating activities:** | | |
| Net operating loss | $ (4,600,181) | $ (4,815,753) |
| Depreciation | 11,286,332 | 10,451,871 |
| Amortization | 80,160 | 82,007 |
| (Increases) / decreases in assets: | | |
| Accounts receivable and prepaid expenses | (1,731,973) | 1,478,741 |
| Inventories | 60,711 | (101,139) |
| Due from signatory airlines | (365,763) | 140,409 |
| Increases / (decreases) in liabilities: | | |
| Due to signatory airlines | (67,637) | (30,250) |
| Due to City of Des Moines | (234,582) | 234,582 |
| Deposit payments held by Airport | (37,400) | 37,800 |
| Accounts and warrants payable | 229,882 | (246,657) |
| Deferred revenue | (1,738,598) | 1,796,345 |
| Accrued liabilities and employee benefits | (41,961) | 169,885 |
| Net cash provided by operating activities | $ 2,838,990 | $ 9,197,841 |
| **Schedule of non-cash activities:** | | |
| Non-cash investing activity, net increase / (decrease) in fair value of investments | $ - | $ 9,994 |
| Non-cash capital and related financing activity, payments on / (proceeds from) contracts payable for acquisition of capital assets | $ 2,572,442 | $ 3,263,339 |

See accompanying notes to financial statements.

# Des Moines International Airport

## Notes to Financial Statements

## (1) Nature of Reporting Entity and Summary of Significant Accounting Policies

### *Nature of Reporting Entity*

The Des Moines International Airport (the "Airport") provides an airline terminal, runways and other aeronautical facilities in Des Moines, Iowa, for use by passenger, cargo, military and private aircraft. In addition, the Airport provides parking services and facilities for various tenant concessionaires to conduct business.

The Airport meets the criteria set forth in accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB") to be included as an Enterprise Fund of the City of Des Moines (the "City"). As such, the Airport is an integral part of the City and is presented in the City's financial statements. 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. There are no other funds of the City combined with the Airport Enterprise Fund in the accompanying financial statements. All accounts established by bond ordinances related to the Airport have been combined for reporting purposes in the accompanying financial statements.

The Airport does not have any component units and is not involved in any joint ventures.

### *Summary of Significant Accounting Policies*

**General** – In accordance with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Airport, as a Enterprise Fund of the City, has elected to apply all applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The Airport has elected not to apply FASB guidelines subsequent to November 30, 1989.

The accompanying financial statements are presented in the form of a single Enterprise Fund that encompasses all financial activity relative to operating and improving the Airport facilities. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The economic measurement focus and the accrual basis of accounting are used by the Airport, and as such, revenues are recorded when earned and expenses are recorded as incurred. Under this basis of accounting all assets and liabilities associated with the operation of the Airport are included in the Statement of Net Assets.

**Cash, Pooled-Cash-Investments, and Other Investments** - The Airport maintains all cash and investments with the City, which are invested on a short-term basis. The City allocates investment income to the Airport based upon the City's rate of return on pooled cash investments and the Airport's average monthly deposit balance. The Airport considers all highly liquid investments with a maturity of less than ninety days when purchased to be cash equivalents. Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

**Receivables** – Receivables are reported net of an allowance for doubtful accounts. When continued collection activity results in the receipt of amounts previously written off as uncollectible, revenue is recognized for the amount collected.

**Restricted Assets** – Restricted assets consist of monies and other resources that are restricted legally as follows:

Capital funds – These assets represent capital debt proceeds that are restricted to designated capital projects and cannot be expended for any other item.

Passenger Facility Charge (PFC) funds – These assets represent PFC charges collections based on an approved FAA application to "impose" such charges on enplaned passengers at the Airport. These funds are restricted for designated capital projects and any debt incurred to finance the construction of these projects. The Airport recognizes and reports as non-operating revenue those PFCs that have been collected when all conditions have been met that entitles the Airport to retain the PFCs. Any PFCs received prior to this time for certain designated capital projects are reported as deferred revenue.

Revenue Bond funds – These assets represent general airport revenue bond reserve funds that must equal at least one year's principal and interest payments.

**Compensated Absences** – Vacation and sick leave vest over time and may be carried forward for subsequent use or payment upon termination, retirement, or death. Such sick leave that is paid upon death or retirement is paid at a rate and amount determined by the classification of the employee. These compensated absences are accrued as accrued employee benefits as they are earned.

**Capital Assets** – Capital assets consist of buildings and structures, parking, roadways, runways, taxiways, ramps and other airfield improvements, land improvements, fencing, lighting and signage, and equipment, furniture, and fixtures at the Airport and are stated at cost. Costs associated with the ongoing construction at the Airport are included in construction-in-process. Maintenance and repairs are expensed as incurred, and depreciation expense is provided on the straight-line method over the estimated useful lives of the depreciable property and equipment as follows:

| | |
|---|---|
| Buildings | 40 years |
| Improvements | 20-50 years |
| Machinery and Equipment | 5-10 years |

Interest expense on obligations incurred specifically to finance capital assets has been capitalized during the construction period net of interest earned on related investments acquired with proceeds of the related tax-exempt borrowings.

**Customer Facility Charge** – On September 1, 2008, the Airport began imposing, upon approval of the Board of Directors and pursuant to Section 4.08 of the Concession Agreements with rental car companies, a Customer Facility Charge ("CFC") on each car rented at the Airport. The CFC is $2.75 per day, per transaction. The Airport is authorized to collect this fee pursuant to Iowa Code to evaluate and possibly construct a consolidated rental car facility. The Airport collected CFC revenues in the amount of $1,036,879 for the fiscal year ended June 30, 2009.

**Rates and Charges** - Annually, the Airport establishes airline rentals, landing fees, and other charges sufficient to recover the costs of operations, debt service, and maintenance related to the airfield, terminal building, aircraft parking apron, and other space utilized by the airlines. Any over or under collection of airline revenues in excess of or less than actual costs related to those cost (rate) centers is credited or billed to the airlines ratably over the subsequent fiscal year. Additionally, under current signatory airline agreements, the Airport shares net revenue, calculated in accordance with those agreements, with the signatory airlines.

**Passenger Facility Charges** – In 1993 the FAA issued a Record of Decision to the Airport authorizing the collection and expenditure of Passenger Facility Charge (PFC) revenue. The Airport's PFC accounts represent fees imposed on enplaning passengers for the purpose of generating resources for airport projects that increase capacity, increase safety, or mitigate noise impact. The Airport initially received PFC approval at a level of $3.00 per passenger for specific projects, but since that time have received approval for numerous other projects and in 2001 the collection level was raised to $4.50 per passenger. As approved projects are completed, corresponding portions of the PFC program are closed. The collection level and planned project expenditures under the program totaled approximately $46 million at June 30, 2009. The City's PFC collection authority extends through October 1, 2019.

Charges collected and receivable are recorded as restricted assets. The balance in these restricted reserve asset accounts totaled $2,605,328 and $870,631 at June 30, 2009 and 2008, respectively.

**Debt Issue Costs, Discounts and Premiums** – Debt issuance costs, discounts and premiums are deferred and amortized over the life of the debt using the bonds-outstanding method.

**Inventories** – Inventories are stated at cost and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time the supplies are relieved from inventory for use. Inventories are priced on the first-in, first-out basis.

**Revenue Recognition** – The various types of Airport revenue are recognized as follows:

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

Terminal Rents and Concessions – Rental and concession fees are generated from airlines, parking facilities, food and beverage operations, rental car agencies, advertisers and other commercial tenants. Leases are for terms from one to ten years and generally require rentals based on the volume of business; specific minimum annual rental payments are required for some of the leases. Rental revenue is recognized over the life of the respective leases and concession revenue is recognized based on reported concessionaire revenue.

Deferred Revenue – Deferred revenue represents advance receipts from third parties with specific purposes that have not yet met eligibility requirements to be recognized as revenue.

Other – All other types of revenue are recognized when earned.

**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 certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimated.

**Operating and non-operating revenues and expenses** – Operating revenues result from exchange transactions of airport activities. Non-operating revenues result from non-exchange transactions such as investment earnings and customer and passenger facility charges. Expenses associated with operating the Airport facilities are considering operating expenses.

**Net assets** – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings, used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Airport or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Airport first applies restricted resources.

## (2) Equity in Cash and Pooled Cash Investments

The Airport follows the City's investment policy. The City maintains a cash and investment pool that is available for use by all funds, where the resources have been pooled in order to maximize investment opportunities. Investment income is allocated to the various funds based on their respective participation and in accordance with accounting principles generally accepted in the United States of America. In addition, investments are separately held by several of the City's funds, including the Airport enterprise fund.

### *Authorized Investments*

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved pursuant to Chapter 12C, Code of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. However, the City's investment policy additionally limits investments in commercial paper to obligations at the time of purchase rated within the two highest ratings, issued by nationally recognized statistical rating organizations with a maturity less than 270 days, provided that at the time of purchase no more than 10% of the investment portfolio be invested in commercial paper and no more than 5% of the investment portfolio shall be invested in securities of a single issuer. It also limits investments in prime bankers' acceptances to those that mature within 270 days and that are eligible for purchase by a federal reserve bank, provided that at the time of purchase no more than 5% of the investment portfolio shall be invested in the securities of a single issuer.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the City's investment policy, the Airport minimizes the market value risk of investments in the portfolio by structuring its investment portfolio so that securities mature to meet cash requirements for operations, thereby avoiding the need to sell securities in the open market prior to maturity.

The $2.9 million investment with FHLB reported in the June 30, 2008, financial statements was called in December 2008 and the proceeds placed into the Airport's cash accounts. As of June 30, 2009, the Airport has no investments.

### *Credit Risk*

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Airport has no investments as of June 30, 2009.

### *Concentration of credit risk*

The City's investment policy seeks diversification to reduce overall portfolio risk while attaining benchmark average rates of return to meet all anticipated cash requirements. The policy requires that with the exception of U.S. Treasury securities, no more than 50% of the City's total investment portfolio will be invested in a single security type, and no more than 25% with a single financial institution. The City will invest in securities with varying maturities. Certificates of deposit will be limited to the amount approved by City Council for each financial institution in accordance with Chapter 12C of the Code of Iowa. Prime bankers' acceptances and commercial paper are limited as explained under authorized investments, above.

***Custodial credit risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Chapter 12c of the Code of Iowa requires all City funds be deposited into an approved depository and be either insured or collateralized. At June 30, 2009, the City's deposits were held in banks within the state of Iowa and covered by the state sinking fund per Section 12C.25 of the Code of Iowa.

## (3) Capital Assets

A summary of the Airport's capital assets at June 30, 2009 and 2008, including changes occurring each of the fiscal years, is as follows:

# Des Moines International Airport

Notes to Financial Statements

| | Balance June 30, 2007 | Additions | Transfers | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|---|
| Non-depreciable assets: | | | | | |
| Land | $ 47,522,781 | $ - | $ - | $ - | $ 47,522,781 |
| Construction in progress | 21,159,195 | 13,255,604 | (2,074,979) | - | 32,339,820 |
| Total non-depr. assets | 68,681,976 | 13,255,604 | (2,074,979) | - | 79,862,601 |
| Depreciable assets: | | | | | |
| Buildings & building impr. | 79,222,060 | 4,235 | 810,556 | - | 80,036,851 |
| Other improvements | 216,693,188 | 931 | 1,264,423 | - | 217,958,542 |
| Machinery and equipment | 15,903,111 | 962,560 | - | (186,043) | 16,679,628 |
| Total depreciable assets | 311,818,359 | 967,726 | 2,074,979 | (186,043) | 314,675,021 |
| Total capital assets | 380,500,335 | 14,223,330 | - | (186,043) | 394,537,622 |
| Accumulated depreciation: | | | | | |
| Building | 17,624,522 | 2,376,412 | - | - | 20,000,934 |
| Improvements | 86,373,606 | 7,313,290 | - | - | 93,686,896 |
| Machinery and equipment | 10,611,651 | 762,169 | - | (168,668) | 11,205,152 |
| Total | 114,609,779 | 10,451,871 | - | (168,668) | 124,892,982 |
| Net capital assets | $265,890,556 | $ 3,771,459 | $ - | $ (17,375) | $269,644,640 |

| | Balance June 30, 2008 | Additions | Transfers | Deletions | Balance June 30, 2009 |
|---|---|---|---|---|---|
| Non-depreciable assets: | | | | | |
| Land | $ 47,522,781 | $ - | $ 17,017,273 | $ - | $ 64,540,054 |
| Construction in progress | 32,339,820 | 17,104,055 | (25,812,658) | - | 23,631,217 |
| Total non-depr. assets | 79,862,601 | 17,104,055 | (8,795,385) | - | 88,171,271 |
| Depreciable assets: | | | | | |
| Buildings & building impr. | 80,036,851 | 54,316 | 3,884,077 | - | 83,975,244 |
| Other improvements | 217,958,542 | - | 3,878,331 | - | 221,836,873 |
| Machinery and equipment | 16,679,628 | 182,590 | 1,032,977 | (416,263) | 17,478,932 |
| Total depreciable assets | 314,675,021 | 236,906 | 8,795,385 | (416,263) | 323,291,049 |
| Total capital assets | 394,537,622 | 17,340,961 | - | (416,263) | 411,462,320 |
| Accumulated depreciation: | | | | | |
| Building | 20,000,934 | 2,424,981 | - | - | 22,425,915 |
| Improvements | 93,686,896 | 7,206,599 | - | - | 100,893,495 |
| Machinery and equipment | 11,205,152 | 1,654,752 | - | (214,565) | 12,645,339 |
| Total | 124,892,982 | 11,286,332 | - | (214,565) | 135,964,749 |
| Net capital assets | $269,644,640 | $ 6,054,629 | $ - | $ (201,698) | $275,497,571 |

Construction-period interest costs of $38,386 and $98,041 have been reflected as capital asset additions for the years ended June 30, 2009 and 2008, respectively.

## (4) Short-Term Debt

The Airport's short-term debt at June 30, 2009 and 2008, consists of Non-PFC-Backed Commercial Paper (Series C). A summary of changes to the debt obligation occurring during each of the fiscal years is as follows:

| | | |
|---|---|---|
| Balance June 30, 2007 | $ | 8,700,000 |
| Issuances | | 88,100,000 |
| Retirements | | (88,100,000) |
| Balance June 30, 2008 | $ | 8,700,000 |
| Issuances | | 126,800,000 |
| Retirements | | (123,500,000) |
| Balance June 30, 2009 | $ | 12,000,000 |

On November 29, 2000, the City established a Non-PFC-backed commercial paper facility, also supported by a direct-pay letter of credit from the same bank. This letter of credit was authorized in an amount not to exceed $5,000,000. On October 8, 2003, the City entered into an amendment of this facility and letter of credit, which increased the authorized amount of borrowings to $12,000,000. The note contains a covenant in which net revenues calculated in accordance with the agreement are not less than 110% of debt service requirements. The amount outstanding under the Series C facility bears interest 0.4% with maturity date of July 2, 2009.

While the balance of the Series C facility line of credit was due in full on the maturity date listed above, under the arrangement with the lending institution which extends through June 30, 2011, the outstanding balance will be remarketed and reissued.

The line of credit was remarketed and reissued multiple times during the fiscal year ended June 30, 2009, at rates ranging from 0.40% to 4.00%.

Each commercial paper facility contains certain compliance covenants for the City. Management expects that permanent financing will eventually replace the Series C line of credit. However, due to uncertain duration of construction funded by the Series C program, a specific date has not yet been identified to incorporate such permanent financing.

## (5) Capitalized Lease Notes Payable, Long-Term Debt, and Accrued Employee Benefits

### *Capitalized Lease Notes Payable*

Under the City's Governmental-Lease Purchase Master Agreement, the Airport enterprise fund entered into five capital lease agreements used to finance airport runway and maintenance equipment. A summary of the Airport's capitalized lease notes payable at June 30, 2009 and 2008, including changes occurring during each of the fiscal years, is as follows:

| | Master Lease #2 | Master Lease #3 | Master Lease #4 | Master Lease #5 | Master Lease #9 | Total |
|---|---|---|---|---|---|---|
| Balance June 30, 2007 | 122,510 | 172,216 | 147,604 | 386,478 | 501,728 | 1,330,536 |
| Issuances | - | - | - | - | - | - |
| Retirements | (39,789) | (54,683) | (35,638) | (73,626) | (79,639) | (283,375) |
| Balance June 30, 2008 | 82,721 | 117,533 | 111,966 | 312,852 | 422,089 | 1,047,161 |
| Issuances | - | - | - | - | - | - |
| Retirements | (40,828) | (57,362) | (36,467) | (75,417) | (81,190) | (291,264) |
| Balance June 30, 2009 | 41,893 | 60,171 | 75,499 | 237,435 | 340,899 | 755,897 |
| Less: current portion | (41,893) | (60,171) | (37,316) | (77,251) | (82,774) | (299,405) |
| Non-current portion | $ -- | $ -- | $ 38,183 | $ 160,184 | $ 258,125 | $ 456,492 |

The balance of the capital leases payable for the Airport fund is $755,897 and is payable through fiscal year 2013. The principal and interest is payable from the operating revenues of the Airport. Annual principal and interest on the capital leases are expected to require 1.5% of the operating revenue. Total principal and interest remaining to be paid on the capital leases is $823,074. Principal and interest paid in the current year and operating revenues were $338,081 and $25,200,177, respectively.

Future principal and interest requirements on these capital leases are summarized as follows:

| Year ended June 30, | Total Payment due | Interest | Principal |
|---|---|---|---|
| 2010 | 332,819 | 33,414 | 299,405 |
| 2011 | 221,330 | 19,630 | 201,700 |
| 2012 | 177,799 | 10,715 | 167,084 |
| 2013 | 91,126 | 3,418 | 87,708 |
| Total | $ 823,074 | $ 67,177 | $ 755,897 |

At June 30, 2009 and 2008, the net book value of the equipment purchased with capitalized lease notes payable was $823,810 and $1,084,098, respectively.

***Long-Term Debt***

A summary of the Airport's long-term debt payable at June 30, 2009 and 2008, including changes occurring during the each of the fiscal years then ended, is as follows:

| | Airport Revenue Bonds | GO Bonds - Airport Portion | Total |
|---|---|---|---|
| Balance June 30, 2007 | 38,985,000 | 619,000 | 39,604,000 |
| Issuances | - | - | - |
| Retirements | (950,000) | (233,000) | (1,183,000) |
| Balance June 30, 2008 | 38,035,000 | 386,000 | 38,421,000 |
| Issuances | - | - | - |
| Retirements | (1,005,000) | (236,000) | (1,241,000) |
| Balance June 30, 2009 | 37,030,000 | 150,000 | 37,180,000 |
| Less: current portion | (1,050,000) | (150,000) | (1,200,000) |
| Non-current portion | $ 35,980,000 | $ - | $ 35,980,000 |

A. On April 1, 1998, the City issued $42,670,000 of Aviation System Revenue Bonds (Series 1998 A, B, C). The bonds are special obligations payable solely from and secured by a pledge of the net revenues of the Airport, subject to the prior lien on the net revenues of the Airport Revenue Capital Loan Notes. Payment of the principal and interest on the bonds is guaranteed by a municipal bond insurance policy. Principal is payable annually, with interest paid semi-annually on July 1st and January 1st. Interest rates range from 4.25% to 6.95%. Annual principal and interest payments on the bonds are expected to require 16% of the Airport net revenues. Total principal and interest remaining to be paid on the bonds is $61,802,586. Principal and interest paid for the current year and total Airport net revenues were $3,372,751 and $19,083,602, respectively. The Airport has restricted $6,270,632 in revenue bond reserve cash funds.

B. The City has issued several series of general obligation (GO) bonds. The GO bonds represent indebtedness of the City secured by the full faith and credit of the City. The Airport had previously been allocated a portion of proceeds of two series of GO Bonds, 1996D and 1996F. During the year ended June 30, 2004, the City paid the Series 1996D Bonds in full with the proceeds of new series 2004A. The Airport's portion of the 1996D Bonds at the time of the restructuring was $520,000. In addition to the payoff amount of the 1996D bonds, a premium of $25,846 was paid and is amortized over the term of the bonds. During the year ended June 30, 2005, the City paid the Series 1996F Bonds in full with the proceeds of new series 2005A. The Airport's portion of the 1996F Bonds at the time of the restructuring was $941,000. In addition to the payoff amount of the bonds, premiums and bond issuance costs are being amortized over the term of the bonds. Interest and principal payments on portion of the GO Bonds allocated to the Airport are payable from Airport funds with interest rates ranging from 3.25% to 4.2%.

At June 30, 2009, the Airport's long-term debt matures as follows:

| Year ended June 30, | Airport Revenue Bonds Principal | Airport Revenue Bonds Interest | GO Bonds Principal | GO Bonds Interest |
|---|---|---|---|---|
| 2010 | 1,050,000 | 2,061,045 | 150,000 | 6,000 |
| 2011 | 1,110,000 | 2,003,050 | - | - |
| 2012 | 1,170,000 | 1,940,888 | - | - |
| 2013 | 1,230,000 | 1,874,478 | - | - |
| 2014 | 1,305,000 | 1,803,786 | - | - |
| 2015-2019 | 7,695,000 | 7,802,273 | - | - |
| 2020-2024 | 10,130,000 | 5,300,833 | - | - |
| 2025-2029 | 13,340,000 | 1,986,233 | - | - |
| Total | $ 37,030,000 | $ 24,772,586 | $ 150,000 | $ 6,000 |

***Cooperative Financing Agreement***

On May 21, 2007, the Des Moines City Council approved a cooperative financing agreement between the Airport and an Airport-based tenant, Elliott Aviation of Des Moines, Inc. ("Elliott"), to issue 20-year industrial revenue bonds for the purpose of financing a new building facility for Elliott. Under the terms of the agreement (as authorized under Iowa Code Chapter 419), on August 2, 2007, the City issued Special Facility Revenue Bonds in the amount of $6,000,000 and immediately lent the proceeds to Elliott for the construction of this facility. Elliott is responsible for all principal and interest payments and other fees associated with the bonds.

The bonds are secured by the property financed, and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the facilities transfers to the private sector entity served by the bond issuance. The Airport, the City, or any political subdivisions thereof bear no obligation in any way for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the Airport's financial statements. As of June 30, 2009, the principal amount outstanding is $5,800,000. The amortization schedule for the bonds is as follows:

| Year ended June 30, | Principal | Balance Outstanding |
|---|---|---|
| 2010 | $ 210,000 | $ 5,590,000 |
| 2011 | 220,000 | 5,370,000 |
| 2012 | 225,000 | 5,145,000 |
| 2013 | 235,000 | 4,910,000 |
| 2014 | 245,000 | 4,665,000 |
| 2015-2019 | 1,380,000 | 3,285,000 |
| 2020-2024 | 1,685,000 | 1,600,000 |
| 2025-2027 | 1,600,000 | - |
| Total | $ 5,800,000 | $ - |

### *Accrued Employee Benefits*

Salaries, benefits and direct operating costs of police officers assigned to the Airport are included with personnel expense, and future benefits payable are recorded with the Airport's accrued employee benefits and accrued post-retirement benefits (see Note 9 for further details regarding the post-retirement benefits for City employees). The total cost is shown net of FAA reimbursements of $242,688 and $220,624, received during the fiscal years ended June 30, 2009 and 2008, respectively, for the cost of officers placed directly at the Airport's passenger security checkpoint.

A summary of accrued benefits due all Airport employees as of June 30, 2009 and 2008, including those changes occurring during the fiscal years, is as follows:

| | | |
|---|---|---|
| Balance June 30, 2007 | $ | 866,687 |
| Additions | | 655,033 |
| Payments | | (629,446) |
| Balance June 30, 2008 | | 892,274 |
| Additions | | 542,754 |
| Payments | | (579,924) |
| Balance June 30, 2009 | | 855,104 |
| Less: current portion | | 252,890 |
| Non-current portion | $ | 602,214 |

## (6) Intergovernmental Activity

The City provides various services to the Airport, including data processing, finance, accounting, budgeting, police and fire support, legal consultation, human resource management, and engineering. Excluding wages and benefits paid to the Airport's police division, payments to the City for the years ended June 30, 2009 and 2008, totaled $2,888,176 and $2,909,276, respectively, and are included in operating expenses or capitalized as appropriate.

As part of the above payments, the City imposes payments in lieu of taxes ("PILOT charges") on the Airport. These charges are imposed in lieu of assessing property taxes. PILOT charges imposed for the fiscal years ended June 30, 2009 and 2008, totaled $584,175 and $579,466, respectively, and are classified as operating expenses.

## (7) Operating Leases

Substantially all Airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual payments equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used (i.e., amortization). Other facilities at the Airport are charged to user lease agreements that provide for compensatory rental rates that have been designed to recover agreed-upon portions of costs incurred, including amortization and interest, in the terminal building, ramp, and airfield areas. Other facilities, to the extent they are leased under conventional agreements, are primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining public areas of the Airport.

***Airline Agreements***

Seven major passenger airlines provide commercial air service at the Airport either directly or through an affiliated carrier. All major airlines have executed a signatory airline agreement. The agreement provides funding for the ongoing maintenance, operations, debt service with coverage, and capital improvements of the Airport through various rates and charges. In addition, the Airport accommodates several air cargo carriers, two of which have also executed a similar signatory airline agreement. All of the current signatory agreements expire on June 30, 2013.

***Non-airline and Concession Agreements***

A portion of the Airport's revenue is provided by concession agreements and other lease agreements which are not directly related to providing commercial air service. These agreements relate to a portion of the Airport's buildings, land, and the privilege to do business at the Airport, and have terms ranging from one to thirty years. Rents received under all concession and other lease agreements totaled $4,007,994 and $3,353,219 for the years ended June 30, 2009 and 2008, respectively. Several of the concession agreements contain contingent provisions whereby additional amounts in excess of stated minimums are paid, based upon the lessees' gross revenue. For the years ended June 30, 2009 and 2008, rents received from these concession agreements were $3,286,165 and $3,249,935, including amounts received under their contingent clauses totaling $374,266 and $546,517, respectively.

Guaranteed minimum future lease payments to be received under all operating lease agreements are as follows:

| Year ended June 30, | Amount |
|---|---|
| 2010 | 3,366,399 |
| 2011 | 2,686,375 |
| 2012 | 2,535,598 |
| 2013 | 2,185,254 |
| 2014 | 2,104,334 |
| 2015-2019 | 7,444,337 |
| 2020-2024 | 2,960,567 |
| 2025-2029 | 2,657,204 |
| 2030-2034 | 380,471 |
| 2035-2039 | 127,501 |
| Total | $ 26,448,040 |

At June 30, 2009, the net book value of leased property is as follows:

| | |
|---|---|
| Cost of Leased Land | $ 19,210,810 |
| Cost of Leased Buildings | 40,480,423 |
| Accumulated Depreciation of Leased Buildings | (6,814,766) |
| Net book value of Leased Fixed Assets | $ 52,876,467 |

## (8) Retirement System

The Airport contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost sharing, multiple-employer defined benefit pension plan administered by the State of Iowa (the State). IPERS provides retirement and death benefits, which are established by State Statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306.

Plan members are required to contribute 4.1% of their annual covered salary and the Airport is required to contribute 6.35% of the eligible payroll. State Statute establishes contribution requirements. The Airport's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were $318,997, $303,689, and $271,766, respectively. For each year, the actual contributions were equal to the required contributions.

In addition, the Airport contributes, through the City, to the Municipal Fire and Police Retirement System of Iowa (MFPRSI) on behalf of police department officers assigned to its Airport division. The MFPRSI is a cost-sharing, multi-employer, defined benefit pension plan and provides retirement, disability and death benefits to plan members and beneficiaries. Benefit provisions are established by state statute, and vest after four years of accredited service. MFPRSI issues publicly available financial reports, which include financial statements and required supplementary information for the plan. The reports may be obtained by contacting the MFPRSI, 2836 104th Street, Urbandale, IA 50322.

MFPRSI plan members are required to contribute a percentage of their annual covered salary, and the City is required to contribute at an actuarially determined rate of annual covered payroll. The contribution requirements of plan members and the City are established, and may be amended by statute. The contribution rates for the fiscal year ended June 30, 2009, were 9.35% for the plan members and 18.75% for the Airport. For the fiscal year ended June 30, 2008, the Airport contribution rate was 25.48%. The Airport's contributions, through the City, to MFPRSI for the years ended June 30, 2009, 2008, and 2007 were $271,612, $378,613, and $401,031, respectively. For each of the years, the actual contributions were equal to the required contributions.

## (9) Post-retirement Benefits

### *Plan description*

The City sponsors a single-employer health care plan that provides medical, prescription drug, and dental benefits to all active and retired employees and their eligible dependents. Employees who have attained age 55 and retire from active employment are eligible for retiree benefits . Eligible retirees and their dependents receive medical and prescription coverage through a fully-insured plan with Wellmark BCBS and dental benefits through a self-insured plan. These are the same plans that are available for active employees.

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 59. Retiree expenses are then offset by monthly contributions.

### *Funding policy*

The City of Des Moines establishes and amends contribution requirements.

The current funding policy of the City is to pay health insurance premiums as they occur. This arrangement does not qualify as Other Post-Employment Benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2009, the Airport contributed $12,671.

***Annual OPEB Cost and Net OPEB Obligation***

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year as it pertains to the Des Moines International Airport enterprise fund, the amount actuarially contributed to the plan, and changes in the City's annual OPEB obligation:

| | | |
|---|---|---|
| Annual required contribution | $ | 58,103 |
| Interest on net OPEB obligation | | 2,219 |
| Adjustment to annual required contribution | | - |
| Annual OPEB cost(expense) | | 60,322 |
| Contributions and payments made | | 12,671 |
| Increase in net OPEB obligation | | 47,651 |
| Net OPEB obligation - July 1, 2008 | | 49,304 |
| Net OPEB obligation - June 30, 2009 | $ | 96,955 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ended June 30, 2009 and 2008, follows. Fiscal year 2008 was the transition year for GASB Statement No. 45.

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2009 | $ 60,322 | 21.00% | $ 96,955 |
| 2008 | 58,103 | 15.14% | 49,304 |

***Funded status and funding progress***

As of July 1, 2007, the most recent actuarial valuation date, the plan was not funded. The Airport's portion of the City's actuarial accrued liability for benefits was $447,085 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (hereafter referred to as "UAAL") of $447,085. The covered payroll (annual payroll of active employees covered by the plan) was $6,520,628 and the ratio of the UAAL to the covered payroll was 6.9%.

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***Actuarial methods and assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5% discount rate, an annual health care cost trend rate of 10 % reduced by decrements of 0.55% annually to an ultimate rate of 5% for medical and prescription costs, and annual health care cost trend rate of 6.5% for dental and related administrative costs. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of 30 years.

## (10) Deferred Compensation

The City offers deferred compensation plans to its employees. The plans have been created in accordance with *Internal Revenue Code*, Section 401(a) and 457. The Section 457 plan is available to all full-time employees, while the Section 401(a) plan is available only to employees in the supervisory, professional, and management group. Each of the plans permits an employee to defer a portion of his or her compensation until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with Federal legislation (the Small Business and Wage Protection Act of 1996), the City has confirmed or established trust arrangements for all of the assets in the plans, to ensure those assets are protected and used exclusively for plan participants and beneficiaries. As a result of these arrangements, the deferred compensation plans are no longer reported in the Airport's financial statements.

## (11) Commitments and Contingencies

***Grants***

The Airport has received several federal grants for specific purposes, which are subject to various grant assurances and to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under grant terms. Airport management believes any such disallowance would be immaterial to the financial statements.

***Construction Costs***

The Airport has additional commitments for signed construction contracts of approximately $3,809,961 at June 30, 2009. These commitments will be funded by various sources including revenue, bonds, federal and state grants, operating revenues, PFC funds, and private contributions.

## (12) Risk Management

The Airport is exposed to various risks of loss related to torts, errors and omissions, natural disasters, and theft of, damage to, and destruction of assets. The Airport carries commercial insurance for general liability claims. Settled claims have not exceeded commercial coverage in the last three fiscal years.

## (13) Pending Pronouncements

The City and the Airport implemented the following Governmental Accounting Standard Board (GASB) Statements during the year:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the Airport to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Airport has no such remediation obligations pending, and, as a result, has not recorded an estimated liability for same.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement established consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. This Statement had no effect to the Airport's financial statements.

As of June 30, 2009, the GASB has issued the following statements not yet implemented by the Airport. The statements which might impact the Airport are as follows:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Airport beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Airport beginning with its year ending June 30, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

The Airport's management has not yet determined the effect these statements will have on the Airport's financial statements.

## (14) Subsequent Events

A. The outstanding balance of the Airport's Commercial Paper Series C was remarketed and reissued as follows:

| Issue Date | Amount Issued | Maturity Date | Interest Rate |
|---|---|---|---|
| July 2, 2009 | $ 12,000,000 | August 11, 2009 | 0.40% |
| August 11, 2009 | 12,000,000 | January 11, 2010 | 0.70% |

**Des Moines International Airport**

**Required Supplementary Information**
**Other Post-employment Benefit Plan**

## SCHEDULE OF FUNDING PROGRESS

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Net Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Over-funded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c) |
|---|---|---|---|---|---|---|---|
| 2009 | 7/1/2007 | $ - | $ 447,085 | $ 447,085 | 0.00% | $ 6,520,628 | 6.85% |
| 2008 | 7/1/2007 | $ - | $ 447,085 | $ 447,085 | 0.00% | $ 6,592,647 | 6.78% |

**NOTE:** Fiscal Year 2008 is the transition year for GASB No. 45.

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2007. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0% – 10.0 %; discount rate of 4.5%.
4. The amortization method is closed, level dollar.