★ **Roll Call Number**

Agenda Item Number

53

Date January 5, 2009

Receive and File the Financial Statements of the Des Moines International Airport (City of Des Moines Aviation Department) for the year ended June 30, 2008, including Independent Auditor's Reports as prepared by McGladrey & Pullen, LLP.

WHEREAS, on September 20, 1993, by Roll Call No. 93-3490, the Des Moines City Council approved Ordinance No.12,040, assigning certain rights and responsibilities pertaining to the Airport to the Des Moines International Airport Board (the "Airport Board"), including the responsibility to "ensure that all airport revenues collected by or under Airport 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"; and

WHEREAS, the Airport Board determined that the issuance of stand alone audited financial statements is extremely important in the process of the issuance of Airport Revenue Bonds to fund the 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, 2004, 2005, and 2006, as well as two additional option years; and

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

WHEREAS, the City and McGladrey have agreed to the second of two options allowing completion of the financial statements for the fiscal year ended June 30, 2008; and

WHEREAS, on December 2, 2008, by Resolution No. A08-251, the Airport Board approved the audited financial statements and other reports for the year ended June 30, 2008, and recommended the transmittal of said report to City Council.

(Continued on Page 2)

★ **Roll Call Number**

Agenda Item Number

53

Date January 5, 2009

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, 2008, be received and filed; and (2) the letter from the Airport Board Chairperson be received and filed.

(Council Communication 09-020 is attached.)

Moved by ________________________ to adopt.

Approved as to form:

David A. Ferree
Assistant City Attorney

COUNCIL ACTION	YEAS	NAYS	PASS	ABSENT
COWNIE				
COLEMAN				
HENSLEY				
KIERNAN				
MAHAFFEY				
MEYER				
VLASSIS				
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

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CITY OF DES MOINES

DES MOINES INTERNATIONAL AIRPORT
DEPARTMENT OF AVIATION
5800 FLEUR DRIVE, ROOM 201
DES MOINES, IOWA 50321-2854
(515) 256-5100

ALL-AMERICA CITY
1949, 1976, 1981
2003

January 5, 2009

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

RE: FY08 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, 2008.

On December 2, 2008, by Resolution A08-251, the Airport Board approved the unqualified auditor's audit report covering the financial statements for the year ended June 30, 2008. 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 report. 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

JEE:scd

Enclosure

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

P:\WORKING\2008\COUNCIL\Corres\010509 FY08 audit report LTR.doc

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DES MOINES INTERNATIONAL AIRPORT

Financial Statements and Additional Information

June 30, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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.

As explained in Note 9 to the financial statements, the Des Moines International Airport changed its method of accounting for other postemployment benefits.

The schedule of funding progress on page 25 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 14, 2008

DES MOINES INTERNATIONAL AIRPORT
Statements of Net Assets
June 30, 2008 and 2007

Assets	2008	2007
Current assets		
Unrestricted assets:		
Cash and cash equivalents (note 2)	$ 17,430,762	$ 10,874,984
Accounts receivable, net of allowance for doubtful accounts of $50,000	1,689,639	2,605,925
Prepaid expenses	191,915	204,281
Amounts due from other governmental units	130,818	680,906
Amounts due from signatory airlines	151,077	291,486
Inventories	164,521	63,382
Unamortized bond discount	44,740	45,881
Deferred asset	41,197	42,197
Total current unrestricted assets	19,844,669	14,809,042
Restricted assets:		
Cash and cash equivalents (note 2)	8,785,300	9,156,406
Investments (note 2)	2,916,327	995,000
Accrued interest receivable	4,849	2,795
Passenger facility charges receivable	542,947	599,449
Total current restricted assets	12,249,423	10,753,650
Total current assets	32,094,092	25,562,692
Noncurrent assets		
Capital assets (note 3):		
Land	47,522,781	47,522,781
Buildings, improvements and equipment, net of accumulated depreciation	189,782,039	197,208,580
Construction in process	32,339,820	21,159,195
Total capital assets	269,644,640	265,890,556
Unamortized bond discount	527,841	572,581
Deferred asset	465,324	506,521
Total noncurrent assets	270,637,805	266,969,658
Total assets	$ 302,731,897	$ 292,532,350

See accompanying notes to financial statements

Liabilities and Net Assets

	2008	2007
Current liabilities		
Payable from unrestricted assets		
Accounts and warrants payable	$ 499,031	$ 745,689
Accrued expenses	416,837	321,843
Accrued employee benefits (note 5	263,644	280,373
Deposit payments held by Airpor	134,700	96,900
Amounts payable to City of Des Moines	234,582	-
Amounts due to signatory airlines	434,987	465,236
Deferred revenue	-	26,802
Accrued interest payable	1,077,338	1,118,655
Short-term notes payable (note 4)	8,700,000	8,700,000
Current maturities of capitalized leases (note 5	291,264	283,375
Unamortized bond premium (note 5	6,072	6,072
Current maturities of long-term debt (note 5	1,241,000	1,183,000
Total liabilities payable from unrestricted assets	13,299,455	13,227,945
Construction-related accounts and warrants payable from restricted assets	3,846,763	583,423
Deferred revenue from restricted assets	1,823,147	-
Total liabilities payable from restricted assets	5,669,910	583,423
Total current liabilities	18,969,365	13,811,368
Noncurrent liabilities		
Accrued employee benefits (note 5	628,630	586,314
Accrued post-retirement benefits (notes 5 & 9	49,304	-
Capitalized leases (note 5)	755,897	1,047,161
Unamortized bond premium (note 5	16,411	22,482
Long-term debt (note 5)	37,180,000	38,421,000
Total noncurrent liabilities	38,630,242	40,076,957
Total liabilities	57,599,607	53,888,325
Net Assets		
Investment in capital assets, net of related debt (notes 3 and 5	230,726,577	225,545,928
Restricted net assets:		
Capital projects	426,932	4,206,726
Debt service (note 5)	6,152,581	5,963,501
Unrestricted net assets	7,826,200	2,927,870
Total net assets	245,132,290	238,644,025
Total liabilities and net assets	$ 302,731,897	$ 292,532,350

DES MOINES INTERNATIONAL AIRPORT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
Operating revenues (note 7)		
Landing fees	$ 3,063,749	$ 4,650,519
Security fees	2,151,946	1,785,851
Apron fees	1,201,054	1,054,700
Facility rentals	5,743,791	4,840,340
Vehicle parking fees	7,318,532	7,155,977
Car rental concessions	2,239,676	2,079,829
Other concessions	1,084,956	1,011,454
Other airfield-related revenue	978,601	826,427
Other	594,707	728,913
Total operating revenues	24,377,012	24,134,010
Operating expenses (notes 5 and 6)		
Contractual services	7,269,818	7,314,742
Personnel services	9,354,383	8,915,222
Supplies	2,028,132	1,716,874
Depreciation	10,451,871	9,381,011
Amortization	82,007	84,034
Bad debt	6,554	1,716
Total operating expenses	29,192,765	27,413,599
Operating loss	(4,815,753)	(3,279,589)
Non-operating revenues / (expenses)		
Investment earnings	1,110,982	1,137,586
Interest expense	(2,456,184)	(2,592,187)
Gain / (loss) on sale of assets	(11,875)	76,770
Passenger facility charges	3,838,183	3,950,072
Total non-operating revenues / (expenses)	2,481,106	2,572,241
Net decrease in net assets, exclusive of capital grant and contributed revenues	(2,334,647)	(707,348)
Capital grant and contributed revenues	8,822,912	10,369,947
Net increase in net assets	6,488,265	9,662,599
Net assets, beginning of year	238,644,025	228,981,426
Net assets, end of year	$ 245,132,290	$ 238,644,025

See accompanying notes to financial statements

DES MOINES INTERNATIONAL AIRPORT
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Proceeds received by providing services	$ 28,071,244	$ 24,097,938
Payments to suppliers	(9,544,607)	(8,929,171)
Payments to employees	(9,328,796)	(8,851,088)
Net cash provided by operating activities	9,197,841	6,317,679
Cash flows from investing activities		
Interest payments received	1,098,934	1,062,294
Investment maturities and sales	1,964,517	3,150,000
Investment purchases	(3,875,850)	(988,667)
Net cash provided by / (used in) investing activities	(812,399)	3,223,627
Cash flows from capital financing activities		
Proceeds from intergovernmental capital grants and contributions	8,822,912	10,369,947
Passenger facility charges received	3,894,685	3,990,218
Interest paid	(2,497,501)	(2,660,189)
Principal paid on short-term notes payable	(88,100,000)	(86,900,000)
Principal paid on capitalized leases	(283,375)	(275,729)
Principal paid on long-term notes payable	(1,183,000)	(1,234,000)
Proceeds from issuance of short-term notes payable	88,100,000	88,300,000
Proceeds from sale of capital assets	5,500	114,565
Acquisition and construction of capital assets	(10,959,991)	(15,443,157)
Net cash used in capital financing activities	(2,200,770)	(3,738,345)
Net increase in cash and cash equivalents	6,184,672	5,802,961
Cash and cash equivalents, beginning of year	20,031,390	14,228,429
Cash and cash equivalents, end of year	$ 26,216,062	$ 20,031,390

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, 2008 and 2007

	2008	2007
Reconciliation of operating loss to net cash provided by operating activities:		
Net operating loss	$ (4,815,753)	$ (3,279,589)
Depreciation	10,451,871	9,381,011
Amortization	82,007	84,034
(Increases) / decreases in assets:		
Accounts receivable and prepaid expenses	1,478,741	(1,169,469)
Inventories	(101,139)	67,093
Due from signatory airlines	140,409	818,017
Increases / (decreases) in liabilities:		
Due to signatory airlines	(30,250)	403,985
Due to City of Des Moines	234,582	(142,302)
Deposit payments held by Airport	37,800	(18,800)
Accounts and warrants payable	(246,657)	102,444
Deferred revenue	1,796,345	14,896
Accrued liabilities and employee benefits	169,885	56,359
Net cash provided by operating activities	$ 9,197,841	$ 6,317,679
Schedule of non-cash activities:		
Non-cash investing activity, net increase in fair value of investments	$ 9,994	$ 82,122
Non-cash capital and related financing activity, payments on / (proceeds from) contracts payable for acquisition of capital assets	$ 3,263,339	$ (1,871,480)

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 pronouncements issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

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.

Des Moines International Airport

Notes to Financial Statements

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.

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 $50.8 million at June 30, 2008. The City's PFC collection authority extends through January 1, 2018.

Charges collected and receivable are recorded as restricted assets. The balance in these restricted reserve asset accounts totaled $327,684 and $3,673,435 at June 30, 2008 and 2007, 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 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.

Information about the sensitivity of the fair values of the Airport's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Airport's investments by maturity:

	Current	Investment Maturities (in Years)	
Security Description	**Market Value**	**Less than 1**	**2 to 10**
FHLB	$ 2,916,327	$ ---	$ 2,916,327

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.

As of June 30, 2008, the Airport's investments were rated as follows:

Security Description	Moody's	Standard and Poor's
FHLB	Aaa	AAA

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. The City's investments are in accordance with these policies regarding diversification. The investment in the FHLB is 100% of the investment portfolio in the Airport fund.

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, 2008, 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.

At June 30, 2008, the Airport's investments were uninsured and unregistered held by the counterparty's trust department in the City's name.

(3) Capital Assets

A summary of the Airport's capital assets at June 30, 2008 and 2007, including changes occurring each of the fiscal years, is as follows:

Des Moines International Airport

Notes to Financial Statements

	Balance June 30, 2006	Additions	Transfers	Deletions	Balance June 30, 2007
Non-depreciable assets:					
Land	$ 46,021,889	$ -	$ 1,532,892	$ (32,000)	$ 47,522,781
Construction in progress	73,824,403	13,057,901	(65,723,109)	-	21,159,195
Total non-depr. assets	119,846,292	13,057,901	(64,190,217)	(32,000)	68,681,976
Depreciable assets:					
Buildings & building impr.	67,337,713	-	11,884,347	-	79,222,060
Other improvements	164,387,318	-	52,305,870	-	216,693,188
Machinery and equipment	15,447,318	513,776	-	(57,983)	15,903,111
Total depreciable assets	247,172,349	513,776	64,190,217	(57,983)	311,818,359
Total capital assets	367,018,641	13,571,677	-	(89,983)	380,500,335
Accumulated depreciation:					
Building	15,539,500	2,085,022	-	-	17,624,522
Improvements	79,849,769	6,523,837	-	-	86,373,606
Machinery and equipment	9,891,687	772,152	-	(52,188)	10,611,651
Total	105,280,956	9,381,011	-	(52,188)	114,609,779
Net capital assets	$261,737,685	$ 4,190,666	$ -	$ (37,795)	$265,890,556

	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

Construction-period interest costs of $98,041 and $229,262 have been reflected as capital asset additions for the years ended June 30, 2008 and 2007, respectively.

(4) Short-Term Debt

The Airport's short-term debt at June 30, 2008 and 2007, 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:

		Non-PFC-backed, Series C Commercial Paper
Balance June 30, 2006	$	7,300,000
Issuances		88,300,000
Retirements		(86,900,000)
Balance June 30, 2007	$	8,700,000
Issuances		88,100,000
Retirements		(88,100,000)
Balance June 30, 2008	$	8,700,000

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 amounts outstanding under the Series C facility bear interest at variable rates as follows:

Rate	Amount	Maturity
1.85%	$5,200,000	October 8, 2008
1.90%	3,500,000	October 20, 2008
	$8,700,000	

The balance of the Series C facility line of credit was due in full on the maturity dates listed above, but under the arrangement with the lending institution which extends through June 30, 2009, the outstanding balance has been remarketed and reissued.

The line of credit was remarketed and reissued multiple times during the fiscal year ended June 30, 2008, at rates ranging from 1.60% to 3.70%.

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. The letter of credit agreement with the lending institution extends through June 30, 2009.

Des Moines International Airport

Notes to Financial Statements

(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, 2008 and 2007, 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, 2006	$ 161,288	$ 224,345	$ 182,432	$ 458,357	$ 579,843	$ 1,606,265
Issuances	-	-	-	-	-	-
Retirements	(38,778)	(52,129)	(34,828)	(71,879)	(78,115)	(275,729)
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
Less: current portion	(40,828)	(57,362)	(36,467)	(75,417)	(81,190)	(291,264)
Non-current portion	$ 41,893	$ 60,171	$ 75,499	$ 237,435	$ 340,899	$ 755,897

The balance of the capital leases payable for the Airport fund is $1,047,161 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 $1,161,155. Principal and interest paid in the current year and operating revenues were $343,228 and $24,377,012, respectively.

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

Year ended June 30,	Total Payment due	Interest	Principal
2009	$ 338,081	$ 46,817	$ 291,264
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	$ 1,161,155	$ 113,994	$ 1,047,161

At June 30, 2008 and 2007, the net book value of the equipment purchased with capitalized lease notes payable was $1,084,098 and $1,344,387, respectively.

Des Moines International Airport

Notes to Financial Statements

Long-Term Debt

A summary of the Airport's long-term debt payable at June 30, 2008 and 2007, 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, 2006	$ 39,885,000	$ 953,000	$ 40,838,000
Issuances	-	-	-
Retirements	(900,000)	(334,000)	(1,234,000)
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
Less: current portion	(1,005,000)	(236,000)	(1,241,000)
Non-current portion	$ 37,030,000	$ 150,000	$ 37,180,000

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 $64,922,947. Principal and interest paid for the current year and total Airport net revenues were $3,116,530 and $19,478,327, respectively. The Airport has restricted $6,152,581 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%.

Des Moines International Airport

Notes to Financial Statements

At June 30, 2008, 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
2009	$ 1,005,000	$ 2,115,362	236,000	16,390
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	-	-
2014-2018	7,285,000	8,223,526	-	-
2019-2023	9,590,000	5,859,096	-	-
2024-2028	12,625,000	2,725,681		
2029	2,970,000	84,821		
Total	$ 38,035,000	$ 26,887,947	$ 386,000	$ 22,390

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, 2008, the principal amount outstanding is $6,000,000. The amortization schedule for the bonds is as follows:

Year ended August 1,	Principal	Balance Outstanding
2008	$ 200,000	$ 5,800,000
2009	210,000	5,590,000
2010	220,000	5,370,000
2011	225,000	5,145,000
2012	235,000	4,910,000
2013-2017	1,325,000	3,585,000
2018-2022	1,620,000	1,965,000
2023-2027	1,965,000	-
Total	$ 6,000,000	$ -

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 $220,624 and $269,023, received during the fiscal years ended June 30, 2008 and 2007, 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, 2008 and 2007, including those changes occurring during the fiscal years, is as follows:

Balance June 30, 2006	$	802,553
Additions		353,838
Payments		(289,704)
Balance June 30, 2007		866,687
Additions		655,033
Payments		(629,446)
Balance June 30, 2008		892,274
Less: current portion		263,644
Non-current portion	$	628,630

(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, 2008 and 2007, totaled $2,909,276 and $2,587,640, respectively, and are included in operating expenses or capitalized as appropriate.

In addition to 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, 2008 and 2007, totaled $579,466 and $570,481, 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

Eight 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, three of whom have also executed a similar signatory airline agreement. All of the current signatory agreements expired on June 30, 2008.

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 $6,597,220 and $5,506,489 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, rents received from these concession agreements were $3,249,935 and $3,013,007, including amounts received under their contingent clauses totaling $546,517 and $647,299, respectively.

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

Year ended June 30,	Amount
2009	2,714,624
2010	2,182,301
2011	1,976,772
2012	1,836,276
2013	1,624,943
2014-2018	5,709,641
2019-2023	3,092,364
2024-2028	2,657,204
2029-2033	380,471
2034-2038	127,501
Total	$ 22,302,097

At June 30, 2008, the net book value of leased property is as follows:

Cost of Leased Land	$ 14,199,111
Cost of Leased Buildings	27,274,686
Accumulated Depreciation of Leased Buildings	(4,200,790)
Net book value of Leased Fixed Assets	$ 37,273,007

(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 3.9% of their annual covered salary and the Airport is required to contribute 6.05% of the eligible payroll. State Statute establishes contribution requirements. The Airport's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were $303,689, $271,766, and $261,930, 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, 2008, were 9.35% for the plan members and 25.48% for the Airport. For the fiscal year ended June 30, 2007, the Airport contribution rate was 27.75%. The Airport's contributions, through the City, to MFPRSI for the years ended June 30, 2008, 2007, and 2006 were $378,613, $401,031, and $390,359, 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 2008, the Airport contributed $8,799.

Des Moines International Airport

Notes to Financial Statements

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	-
Adjustment to annual required contribution	-
Annual OPEB cost(expense)	58,103
Contributions and payments made	8,799
Increase in net OPEB obligation	49,304
Net OPEB obligation - July 1, 2007	-
Net OPEB obligation - June 30, 2008	$ 49,304

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, 2008, follows. This is the transition year of GASB Statement No. 45.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 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 results of the July 1, 2007 valuation were rolled forward to July 1, 2008. The actuarial accrued liability for benefits was $447,085 and the actuarial value of assets is zero, resulting in a UAAL of $447,085 as of July 1, 2008. The covered payroll (annual payroll of active employees covered by the plan) was $6,592,647 and the ratio of the UAAL to the covered payroll was 6.8%.

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 $11,007,848 at June 30, 2008. These commitments will be funded by various sources including revenue, bonds, federal and state grants, operating revenues, PFC funds, and private contributions.

Of that balance, $5,684,432 is concentrated in a single contract for the construction of an aircraft maintenance facility in support of the operations of an air carrier serving the Airport. That air carrier has provided $5.6 million in cash to the Airport for the construction of the facility; funds which are restricted to be used for construction of this facility.

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

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*: This Statement established standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities of assets, note disclosures and, if applicable required supplementary information in the financial reports. As a result, at June 30, 2008, the Airport recorded a liability of $49,304 and added footnote disclosures pertaining to the plan.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*: This Statement establishes accounting and financial reporting standards for transactions in which an entity receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for an entity that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. This Statement modified the disclosures for long-term obligations.
- GASB Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27: This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement had no effect to the City or the Airport.

As of June 30, 2008, the GASB has issued the following statements not yet implemented by the City. The statements which may impact the City and Airport are as follows:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the City and Airport beginning with its year ending June 30, 2009. 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 City and 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.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the City and 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. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the City and Airport beginning with its year ending June 30, 2009. This Statement establishes 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. The changes in the fair value are to be reported as investment income.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the City and 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.

Management has not yet determined the effect these statements will have on the financial statements of the City or Airport.

(14) Subsequent Events

A. The outstanding balance of the Airport's Commercial Paper Series C was remarketed and reissued on October 8, October 20, October 21, and October 22, 2008, as follows (*denotes new borrowing):

Issue Date	Amount Issued	Maturity Date	Interest Rate
October 8, 2008	$ 5,200,000	December 4, 2008	4.00%
October 20, 2008	3,500,000	October 21, 2008	4.00%
October 20, 2008*	3,300,000	October 21, 2008	4.00%
October 21, 2008	6,800,000	October 22, 2008	4.00%
October 22, 2008	6,800,000	December 1, 2008	4.00%

B. On July 11, 2008, the Airport received approval to amend and close PFC application no. 98-03-C-00-DSM, which originally consisted of five different projects totaling $12,882,783. The collection authority was amended by a reduction of $5,708,334, which was largely due to a decision to only construct one of four holdrooms originally planned under an Airport Terminal Capacity Enhancement project. The Airport submitted a plan to utilize any excess PFC funds collected during the authorized period, which was approved by the FAA at the time of the application closeout.

C. Effective September 1, 2008, the Airport Board authorized the imposition and collection of a Customer Facility Charge ("CFC") on rental car customers in the amount of $2.75 per rental day. The CFC is collected and remitted by the rental car operators in accordance with the provisions of the current Concession Agreement. All funds are to be used specifically for projects designed to enhance the operations of rental car concessionaires at the Airport. Monies collected from the CFC will be held in the Airport's pooled cash fund but all collections and expenditures are accounted for separately.

D. Each of the Airport's Signatory Airline Agreements expired on June 30, 2008. As the Airport was in negotiation with all the airlines on a new signatory agreement, the City Council approved a three-month extension to the agreements on July 28, 2008. During the extension period, all terms of new five-year

Signatory Airline Agreements were reached and City Council approved the new Signatory Agreements on October 27, 2008.

Des Moines International Airport

Notes to Financial Statements

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)
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.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Compliance and on Compliance with Requirements Applicable to the Passenger Facility Charge Program

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

Compliance

We have audited the compliance of the City of Des Moines, Iowa, which includes the Des Moines International Airport, an enterprise fund of the City, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2008. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Des Moines, Iowa, which includes the Des Moines International Airport, an enterprise fund of the City, complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance on noncompliance with those requirements which is required to be reported and is described below:

<u>Finding</u>: The PFC Quarterly Status Report – Revenue and Expenditures submitted for quarter ending June 30, 2008 incorrectly reported the final agency decision (FAD) 05-08-C-00-DSM impose amount as $2,750,000 rather than $2,250,000.

<u>Response</u>: The Des Moines International Airport will adjust the next quarterly submission to properly report the impose amount.

Internal Control Over Compliance

The management of the City of Des Moines, Iowa, which includes the Des Moines International Airport, an enterprise fund of the City, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the City of Des Moines, Iowa, which includes the Des Moines International Airport, an enterprise fund of the City, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Des Moines International Airport's response to the finding identified in our audit is described above. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Airport Board, City Council and the Federal Aviation Administration of the United States Department of Transportation and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 14, 2008

PFC Revenue and Disbursement Schedule
Des Moines International Airport
For the Fiscal Year Ended June 30, 2008

	FY2007 Program Total	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Quarter 3 Jan - Mar	Quarter 4 Apr - Jun	FY2008 Total	FY2008 Closeouts	FY2008 Program Total
Revenue								
Collections	38,161,300	927,840	978,927	896,567	1,091,355	3,894,689	(20,476,657)	21,579,332
Interest	1,828,971	42,300	45,249	62,633	8,149	158,331	(150,757)	1,836,545
Total Revenue	$ 39,990,271	$ 970,140	$ 1,024,176	$ 959,200	$ 1,099,504	$ 4,053,020	$ (20,627,414)	$ 23,415,877
Financing Adjustment to Cumulative Revenue								
Revenue Adjustment for Closed Applications**	$ -						$ (25,190)	$ (25,190)
Disbursements								
Application 93-01								
Baggage Claim Expansion	5,772,392	-	-	-	-	-	(5,772,392)	-
Concourse Restroom Expansion	244,485	-	-	-	-	-	(244,485)	-
Curbside & Roadway Canopy	2,242,410	-	-	-	-	-	(2,242,410)	-
	$ 8,259,287	$ -	$ -	$ -	$ -	$ -	$ (8,259,287)	$ -
Application 97-02								
Runway 5/23, IA Hwy 28 & Army Post Rd	6,191,188	-	-	2,089,523	-	2,089,523	(8,280,711)	-
Terminal Concourse Chiller Update	553,501	-	-	-	-	-	(553,501)	-
Reconstruct Terminal Apron	765,328	70,040	-	-	-	70,040	(835,368)	-
	$ 7,510,017	$ 70,040	$ -	$ 2,089,523	$ -	$ 2,159,563	$ (9,669,580)	$ -
Application 98-03								
Terminal (Lobby) Restroom Renovation	676,842	-	-	-	-	-		676,842
Terminal Passenger Skywalk	1,278,241	-	-	-	-	-		1,278,241
Terminal Passenger Skywalk Lobby	2,293,684	-	-	-	-	-		2,293,684
Terminal Capacity Enhancement - Phase 2	2,637,324	-	-	-	-	-		2,637,324
Terminal Ticket Counter Reconfiguration	236,898	-	-	277	-	277		237,175
	$ 7,122,989	$ -	$ -	$ 277	$ -	$ 277	$ -	$ 7,123,266
Application 99-04								
Stormwater Detention Facility	1,726,601	-	-	-	-	-	(1,726,601)	-
	$ 1,726,601	$ -	$ -	$ -	$ -	$ -	$ (1,726,601)	$ -
Application 00-05								
South Passenger Apron Expansion & Rehab	788,094	-	-	-	-	-	(788,094)	-
Terminal Elevator - C Concourse	89	183,762	-	-	-	183,762	(183,851)	-
	$ 788,183	$ 183,762	$ -	$ -	$ -	$ 183,762	$ (971,945)	$ -
Application 03-06								
Glycol Tank Storage Area	611,860	-	-	-	-	-		611,860
Passenger Loading Bridges	1,925,486	-	-	-	-	-		1,925,486
Passenger Terminal Fire Supression System	316,316	-	-	1,122	-	1,122		317,438
Passenger Terminal Stem Expansion	4,079,861	(183,762)	-	765,064	-	581,302		4,661,163
Passenger Terminal Paging System	141,474	-	-	763,183	95,343	858,526		1,000,000
	$ 7,074,997	$ (183,762)	$ -	$ 1,529,369	$ 95,343	$ 1,440,950	$ -	$ 8,515,947
Application 04-07								
Replace Snow Removal Equipment	1,016,328	-	-	-	479,750	479,750		1,496,078
Acquire Snow Removal Equipment	-	-	-	-	-	-		-
ARFF-Aircraft Rescue Fire Fighting Vehicle	579,889	-	-	-	-	-		579,889
	$ 1,596,217	$ -	$ -	$ -	$ 479,750	$ 479,750	$ -	$ 2,075,967
Application 05-08								
Outbound Baggage Make-Up Belts	-	-	-	-	-	-		-
Full-Depth Replacement of Signature Aprons	1,112,381	-	-	80,082	-	80,082		1,192,463
Americans with Disabilities Act Transition Project	34,662	-	-	692	18,564	19,256		53,918
Automated Access Control System Upgrade	65,672	-	-	824	-	824		66,496
	$ 1,212,715	$ -	$ -	$ 81,598	$ 18,564	$ 100,162	$ -	$ 1,312,877
Application 05-09								
Airport Access Control System	-	-	-	34,626	-	34,626		34,626
Runway 31 Category II Centerline Lights	-	-	-	-	-	-		-
Construct Runway 5/23 Extension	-	-	-	-	-	-		-
Extend Taxiway "P"	-	-	-	-	-	-		-
Noise Compatibility Program	-	-	-	-	-	-		-
Runway/Taxiway Signage	-	-	-	-	-	-		-
Terminal Apron Reconstruction	-	-	-	-	-	-		-
South Cargo Ramp Extension	1,453	-	-	1,673,499	-	1,673,499		1,674,952
Southeast Service Road Relocation	9,881	-	-	55,317	-	55,317		65,198
Rehabilitation of Runway 13L/31R	413,384	-	-	190,763	-	190,763		604,147
Security Gate Upgrade	585	-	-	-	-	-		585
Land Acquisition - Runway 13R/31L	522,111	-	-	269,321	340	269,661		791,772
	$ 947,414	$ -	$ -	$ 2,223,526	$ 340	$ 2,223,866	$ -	$ 3,171,280
Application 07-10								
Terminal Modifications for EDS Deployment	-	-	-	-	-	-		-
Full-Depth Replacement - N Elliott Apron	-	-	-	-	777,415	777,415		777,415
Security Gate Expansion	-	-	-	-	-	-		-
Master Plan Update/Part 150 Update	-	-	-	30,287	2,741	33,028		33,028
Terminal Enhancements	-	-	-	-	-	-		-
Airport Common-Use Terminal System	-	-	-	-	-	-		-
	$ -	$ -	$ -	$ 30,287	$ 780,156	$ 810,443	$ -	$ 810,443
Amounts paid for interest - PFC Borrowing	$ 2,047	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,047
Total Disbursements	$ 36,240,467	$ 70,040	$ -	$ 5,954,580	$ 1,374,153	$ 7,398,773	$ (20,627,413)	$ 23,011,827
Net PFC Revenue (Rev - Disb)	$ 3,749,804	$ 900,100	$ 1,024,176	$ (4,995,380)	$ (274,649)	$ (3,345,753)	$ (25,191)	$ 378,860

Note 1 ** PFC Applications 93-01, 97-02, 99-04, & 00-05 were closed during FY2008. Cumulative revenue adjustments for financed projects were $24,985 for Application 97-02 and $205 for Application 99-04.