

.....
Date February 11, 2008

**Receive and File the Financial Statements of the Des Moines International Airport
(City of Des Moines Aviation Department) for the year ended June 30, 2007,
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 first of two options allowing completion of the financial statements for the fiscal year ended June 30, 2007; and

WHEREAS, on December 4, 2007, by Resolution No. A07-216, the Airport Board approved the audited financial statements and other reports for the year ended June 30, 2007, and recommended the transmittal of said report to City Council.

★ Roll Call Number

Agenda Item Number

32

Date February 11, 2008

-2-

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, 2007, be received and filed; and (2) the letter from the Airport Board Chairperson is hereby received and filed.

(Council Communication 08-057 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

February 11, 2008

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

RE: FY07 Airport Audited Financial Statements

Dear Mayor and Members of the City Council:

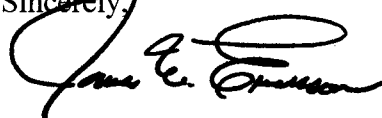
One of the covenants of the Airport's revenue bond issuance includes the completion of an annual, stand-alone, audited set of financial statements for the Airport. As you are aware, the City of Des Moines has contracted with McGladrey and Pullen, LLP, to perform the auditing services for the City, including the Airport, for the year ended June 30, 2007.

On December 4, 2007, by Resolution A07-216, the Airport Board approved the unqualified auditor's audit report covering the financial statements for the year ended June 30, 2007. 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 E. Erickson
Airport Board Chairperson

JEE:trs

Enclosure

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



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

ALL-AMERICAN CITY
1949, 1976, 1981
2003

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, 2007. 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, 2007.

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, 2007, and have issued our report thereon dated November 15, 2007. 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.

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 15, 2007

**PFC Revenue and Disbursement Schedule
Des Moines International Airport
For the Fiscal Year Ended June 30, 2007**

	FY2006 Program Total	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Quarter 3 Jan - Mar	Quarter 4 Apr - Jun	FY2007 Total	FY2007 Program Total
Revenue							
Collections	\$ 34,171,083	\$ 977,803	\$ 979,016	\$ 845,153	\$ 1,188,245	\$ 3,990,217	\$ 38,161,300
Interest	1,654,359	8,966	36,163	72,350	47,700	165,179	1,819,538
Total Revenue	<u>\$ 35,825,442</u>	<u>\$ 986,769</u>	<u>\$ 1,015,179</u>	<u>\$ 917,503</u>	<u>\$ 1,235,945</u>	<u>\$ 4,155,396</u>	<u>\$ 39,980,838</u>
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
	<u>\$ 8,259,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,259,287</u>
Application 97-02							
Runway 5/23, IA Hwy 28 & Army Post Rd	\$ 6,236,545	\$ 132,046	\$ -	\$ (177,403)	\$ -	\$ (45,357)	\$ 6,191,188
Terminal Concourse Chiller Update	539,915	-	3,588	9,998	-	13,586	553,501
Reconstruct Terminal Apron	765,328	-	-	-	-	-	765,328
	<u>\$ 7,541,788</u>	<u>\$ 132,046</u>	<u>\$ 3,588</u>	<u>\$ (167,405)</u>	<u>\$ -</u>	<u>\$ (31,771)</u>	<u>\$ 7,510,017</u>
Application 98-03							
Terminal (Lobby) Restroom Renovation	\$ 675,438	\$ 1,404	\$ -	\$ -	\$ -	\$ 1,404	\$ 676,842
Terminal Passenger Skywalk	1,278,315	688	(762)	-	-	(74)	1,278,241
Terminal Passenger Skywalk Lobby	2,293,684	-	-	-	-	-	2,293,684
Terminal Capacity Enhancement - Phase 2	2,561,387	75,937	-	-	-	75,937	2,637,324
Terminal Ticket Counter Reconfiguration	236,898	-	-	-	-	-	236,898
	<u>\$ 7,045,722</u>	<u>\$ 78,029</u>	<u>\$ (762)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,267</u>	<u>\$ 7,122,989</u>
Application 99-04							
Stormwater Detention Facility	\$ 1,726,601	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,726,601
Application 00-05							
South Passenger Apron Expansion & Rehab	\$ 788,496	\$ (402)	\$ -	\$ -	\$ -	\$ (402)	\$ 788,094
Terminal Elevator - C Concourse	89	-	-	-	-	-	89
	<u>\$ 788,585</u>	<u>\$ (402)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (402)</u>	<u>\$ 788,183</u>
Application 03-06							
Glycol Tank Storage Area	\$ 611,860	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 611,860
Passenger Loading Bridges	2,003,779	(198,600)	120,307	-	-	(78,293)	1,925,496
Passenger Terminal Fire Suppression System	315,294	1,022	-	-	-	1,022	316,316
Passenger Terminal Stern Expansion	4,358,708	(278,847)	-	-	-	(278,847)	4,079,861
Passenger Terminal Paging System	66,782	-	-	-	74,692	74,692	141,474
	<u>\$ 7,356,423</u>	<u>\$ (476,425)</u>	<u>\$ 120,307</u>	<u>\$ -</u>	<u>\$ 74,692</u>	<u>\$ (281,426)</u>	<u>\$ 7,074,997</u>
Application 04-07							
Replace Snow Removal Equipment	\$ 1,016,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,016,328
Acquire Snow Removal Equipment	-	-	-	-	-	-	-
ARFF-Aircraft Rescue Fire Fighting Vehicle	579,889	-	-	-	-	-	579,889
	<u>\$ 1,596,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,596,217</u>
Application 05-08							
Outbound Baggage Make-Up Belts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Full-Depth Replacement of Signature Aprons	81,619	4,943	997,338	27,398	1,083	1,030,762	1,112,381
Americans with Disabilities Act Transition Project	22,438	-	7,215	356	4,653	12,224	34,662
Automated Access Control System Upgrade	65,672	-	-	-	-	-	65,672
	<u>\$ 169,729</u>	<u>\$ 4,943</u>	<u>\$ 1,004,553</u>	<u>\$ 27,754</u>	<u>\$ 5,736</u>	<u>\$ 1,042,986</u>	<u>\$ 1,212,715</u>
Application 05-09							
Airport Access Control System	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	-	-	-	1,444	9	1,453	1,453
Southeast Service Road Relocation	7,440	2,441	-	-	-	2,441	9,881
Rehabilitation of Runway 13L/31R	403,308	-	13,883	58	(3,865)	10,076	413,384
Security Gate Upgrade	-	-	-	127	458	585	585
Land Acquisition - Runway 13R/31L	53,684	76,780	233,728	1,598	156,321	468,427	522,111
	<u>\$ 464,432</u>	<u>\$ 79,221</u>	<u>\$ 247,611</u>	<u>\$ 3,227</u>	<u>\$ 152,923</u>	<u>\$ 482,982</u>	<u>\$ 947,414</u>
Amounts paid for interest - PFC Borrowing	\$ 2,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,047
Total Disbursements	<u>\$ 34,950,831</u>	<u>\$ (182,588)</u>	<u>\$ 1,375,297</u>	<u>\$ (136,424)</u>	<u>\$ 233,351</u>	<u>\$ 1,289,636</u>	<u>\$ 36,240,467</u>
Net PFC Revenue (Rev - Disb)	<u>\$ 874,611</u>	<u>\$ 1,169,357</u>	<u>\$ (360,118)</u>	<u>\$ 1,053,927</u>	<u>\$ 1,002,594</u>	<u>\$ 2,865,760</u>	<u>\$ 3,740,371</u>

DES MOINES INTERNATIONAL AIRPORT

Financial Statements

June 30, 2007 and 2006

(with Auditor's Report thereon)



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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, 2007 and 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Davenport, Iowa
November 15, 2007

McGladrey & Pullen, LLP is a member firm of RSM International -
an affiliation of separate and independent legal entities.

DES MOINES INTERNATIONAL AIRPORT
Statements of Net Assets
June 30, 2007 and 2006

Assets	2007	2006
Current assets		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 10,874,984	\$ 9,708,339
Accounts receivable, net of allowance for doubtful accounts of \$50,000	2,605,925	1,717,408
Prepaid expenses	204,281	149,516
Amounts due from other governmental units	680,906	454,719
Amounts due from signatory airlines	291,486	1,109,503
Inventories	63,382	130,475
Unamortized bond discount (note 5)	45,881	46,962
Deferred asset (note 5)	42,197	43,144
Total current unrestricted assets	<u>14,809,042</u>	<u>13,360,066</u>
Restricted assets:		
Cash and cash equivalents (note 2)	9,156,406	4,520,090
Investments (note 2)	995,000	3,074,211
Accrued interest receivable	2,795	9,625
Passenger facility charges receivable	599,449	639,595
Total current restricted assets	<u>10,753,650</u>	<u>8,243,521</u>
Total current assets	<u>25,562,692</u>	<u>21,603,587</u>
Noncurrent assets		
Capital assets (note 3):		
Land	47,522,781	46,021,889
Buildings, improvements and equipment, net of accumulated depreciation	197,208,580	141,891,393
Construction in process	21,159,195	73,824,403
Total capital assets	<u>265,890,556</u>	<u>261,737,685</u>
Unamortized bond discount (note 5)	572,581	618,462
Deferred asset (note 5)	506,521	548,718
Total noncurrent assets	<u>266,969,658</u>	<u>262,904,865</u>
Total assets	<u>\$ 292,532,350</u>	<u>\$ 284,508,452</u>

See accompanying notes to financial statements

Liabilities and Net Assets

Current liabilities	2007	2006
Payable from unrestricted assets:		
Accounts and warrants payable	\$ 745,689	\$ 643,245
Accrued expenses	321,843	329,618
Accrued employee benefits (note 5)	280,373	285,560
Deposit payments held by Airport	96,900	115,700
Amounts payable to City of Des Moines	-	142,302
Amounts due to signatory airlines	465,236	61,251
Deferred revenue	26,802	11,906
Accrued interest payable	1,118,655	1,186,655
Short-term notes payable (note 4)	8,700,000	7,300,000
Current maturities of capitalized leases (note 5)	283,375	275,729
Unamortized bond premium (note 5)	6,072	6,071
Current maturities of long-term debt (note 5)	1,183,000	1,234,000
	13,227,945	11,592,037
Total liabilities payable from unrestricted assets		
Payable from restricted assets, construction-related accounts and warrants payable	583,423	2,454,903
	13,811,368	14,046,940
Total current liabilities		
Noncurrent liabilities		
Accrued employee benefits (note 5)	586,314	516,993
Capitalized leases (note 5)	1,047,161	1,330,536
Unamortized bond premium (note 5)	22,482	28,557
Long-term debt (note 5)	38,421,000	39,604,000
	40,076,957	41,480,086
Total noncurrent liabilities		
Total liabilities	53,888,325	55,527,026
Net Assets		
Investment in capital assets, net of related debt (notes 3 and 5)	225,545,928	220,516,078
Restricted net assets:		
Capital projects	4,206,726	2,638,618
Debt service (note 5)	5,963,501	3,150,000
Unrestricted net assets	2,927,870	2,676,730
	238,644,025	228,981,426
Total net assets		
Total liabilities and net assets	\$ 292,532,350	\$ 284,508,452

DES MOINES INTERNATIONAL AIRPORT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenues (note 7)		
Landing fees	\$ 4,650,519	\$ 4,508,716
Security fees	1,785,851	2,084,803
Apron fees	1,054,700	955,240
Facility rentals	4,840,340	6,053,813
Vehicle parking fees	7,155,977	6,748,168
Car rental concessions	2,079,829	1,827,396
Other concessions	1,011,454	874,356
Other airfield-related revenue	826,427	869,728
Other	728,913	659,765
Total operating revenues	24,134,010	24,581,985
Operating expenses (notes 5 and 6)		
Contractual services	7,314,742	6,591,913
Personnel services	8,915,222	8,879,619
Supplies	1,716,874	1,562,723
Depreciation	9,381,011	7,616,767
Amortization	84,034	85,976
Bad debt	1,716	45,110
Total operating expenses	27,413,599	24,782,108
Operating loss	(3,279,589)	(200,123)
Non-operating revenues / (expenses)		
Investment earnings	1,137,586	752,322
Interest expense	(2,592,187)	(2,563,319)
Gain / (loss) on sale of assets	76,770	(2,911)
Passenger facility charges	3,950,072	3,809,524
Total non-operating revenues / (expenses)	2,572,241	1,995,616
Net increase / (decrease) in net assets, exclusive of capital grant and contributed revenues	(707,348)	1,795,493
Capital grant and contributed revenues	10,369,947	12,342,156
Net increase in net assets	9,662,599	14,137,649
Net assets, beginning of year	228,981,426	214,843,777
Net assets, end of year	\$ 238,644,025	\$ 228,981,426

See accompanying notes to financial statements

DES MOINES INTERNATIONAL AIRPORT
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Proceeds received by providing services	\$ 24,097,938	\$ 26,243,305
Payments to suppliers	(8,929,171)	(7,824,602)
Payments to employees	(8,851,088)	(8,826,142)
	6,317,679	9,592,561
Net cash provided by operating activities		
Cash flows from investing activities		
Interest payments received	1,062,294	815,883
Investment maturities and sales	3,150,000	4,250,451
Investment purchases	(988,667)	(500,000)
	3,223,627	4,566,334
Net cash provided by investing activities		
Cash flows from non-capital financing activities		
Net cash provided by non-capital financing activities, proceeds from inter-fund accounts	-	43,228
Cash flows from capital financing activities		
Proceeds from intergovernmental capital grants	10,369,947	12,342,156
Passenger facility charges received	3,990,218	3,684,693
Interest paid	(2,660,189)	(2,591,814)
Principal paid on short-term notes payable	(86,900,000)	(14,600,000)
Principal paid on capitalized leases	(275,729)	(268,316)
Principal paid on long-term notes payable	(1,234,000)	(1,223,000)
Proceeds from issuance of short-term notes payable	88,300,000	14,600,000
Proceeds from sale of capital assets	114,565	2,150
Acquisition and construction of capital assets	(15,443,157)	(19,188,954)
	(3,738,345)	(7,243,085)
Net cash used in capital financing activities		
Net increase in cash and cash equivalents	5,802,961	6,959,038
Cash and cash equivalents, beginning of year	14,228,429	7,269,391
Cash and cash equivalents, end of year	\$ 20,031,390	\$ 14,228,429

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Net operating loss	\$ (3,279,589)	\$ (200,123)
Depreciation	9,381,011	7,616,767
Amortization	84,034	85,976
(Increases) / decreases in assets:		
Accounts receivable and prepaid expenses	(1,169,469)	3,772,184
Inventories	67,093	(43,179)
Due from signatory airlines	818,017	(823,418)
Increases / (decreases) in liabilities:		
Due to signatory airlines	403,985	(798,177)
Due to City of Des Moines	(142,302)	-
Deposit payments held by Airport	(18,800)	(22,100)
Accounts and warrants payable	102,444	21,358
Deferred revenue	14,896	(4,691)
Accrued liabilities and employee benefits	56,359	(12,036)
	<u>\$ 6,317,679</u>	<u>\$ 9,592,561</u>
Schedule of non-cash activities:		
Non-cash investing activity, net increase (decrease) in fair value of investments	<u>\$ 82,122</u>	<u>\$ (22,011)</u>
Non-cash capital and related financing activity, payments on contracts payable for acquisition of capital assets	<u>\$ (1,871,480)</u>	<u>\$ (3,726,006)</u>

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 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 is 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. PFC’s are fees imposed on enplaning passengers by airports for the purpose of generating resources for airport projects that increase capacity, increase safety, or mitigate noise impacts. The Airport first received PFC approval at a level of \$3.00 per passenger. Since the initial approval, the Airport has applied for and received approval for numerous other projects. In 2001, it was approved that the collection level be raised to \$4.50 per passenger. As the approved projects were subsequently completed, portions of the PFC program have been closed. The currently-authorized collection level and planned project expenditures under the program total approximately \$50.0 million. The City’s PFC collection authority extends through September 30, 2017.

Charges collected and receivable are recorded as restricted assets. The balance in the restricted reserve asset accounts associated with PFC’s totaled \$3,673,435 and \$1,872,171 at June 30, 2007 and 2006, respectively.

Des Moines International Airport

Notes to Financial Statements

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.

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 considered 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 of Des Moines, Iowa'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.

Des Moines International Airport

Notes to Financial Statements

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:

<u>Security Description</u>	<u>Current Market Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>5 to 10</u>
FHLMC	\$ 995,000	\$ 995,000	\$ -

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, 2007, the Airport's investments were rated as follows:

<u>Security Description</u>	<u>Moody's</u>	<u>Standard and Poor's</u>
FHLMC	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

