★ **Roll Call Number**

Agenda Item Number

44

Date April 9, 2007

Receive and File the Financial Statements of the Des Moines International Airport (City of Des Moines Aviation Department) for the year ended June 30, 2006, 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 (hereinafter called 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, in July 1996, City Council established an Airport Audit Committee made up of one Council member, one Airport Board member, and three community leaders. The Committee was asked to review the way the City would audit the Airport Enterprise Fund. That Committee recommended that the Airport Board engage for its audits, the same independent accounting firm used by the City. The City's Finance Department, as part of its normal audit procedures, issues a Request for Proposal (RFP) for auditing services every three years. The most recent RFP included completion of the Airport's required audit reports in its listing of audit requirements. For fiscal years ending June 30, 2004, 2005, and 2006, the successful firm in that RFP process was the audit firm of McGladrey and Pullen, LLP.

WHEREAS, on February 6, 2007, by Resolution No. A07-31, the Airport Board approved the audited financial statements and other reports for the year ended June 30, 2006, and the transmittal of said report to City Council. NOW THEREFORE

★ **Roll Call Number**

Agenda Item Number

44

Date April 9, 2007

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, 2006, be received and filed; and (2) the letter from the Airport Board Chairperson be received and filed.

(Council Communication 07-199 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, ROOM 201
5800 FLEUR DRIVE
DES MOINES, IOWA 50321-2854
(515) 256-5100

ALL-AMERICAN CITY
1949, 1976, 1981
2003

March 12, 2007

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

RE: FY06 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, 2006.

On February 6, 2007, by Resolution A07-31, the Airport Board approved the unqualified auditor's audit report covering the financial statements for the year ended June 30, 2006. 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 the 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,

John R. Fitzgibbon
Airport Board Chairperson

JRF:trs

Enclosure

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

P:\WORKING\2007\COUNCIL\Corres\0306 FY06 audit report LTR.doc

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Des Moines International Airport

Financial Statements
June 30, 2006 and 2005

(With Auditor's Report Thereon)

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, 2006 and 2005, 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, 2006 and 2005, 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 October 27, 2006 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
October 27, 2006

DES MOINES INTERNATIONAL AIRPORT

Statements of Net Assets

June 30, 2006 and 2005

Assets

	2006	2005
Current assets		
Unrestricted assets:		
Cash and cash equivalents (note 2)	$ 9,708,339	$ 2,739,717
Accounts receivable, net of allowance for doubtful accounts of $50,000 and none (note 8)	1,717,408	2,216,223
Prepaid expenses	149,516	136,530
Amounts due from other governmental units	454,719	3,741,074
Amounts due from signatory airlines	1,109,503	286,085
Inventories	130,475	87,296
Unamortized bond discount (note 5)	46,962	47,996
Deferred asset (note 5)	43,144	42,786
Total current unrestricted assets	13,360,066	9,297,707
Restricted assets:		
Cash and cash equivalents (note 2)	4,520,090	4,529,674
Investments (note 2)	3,074,211	6,846,673
Accrued interest receivable	9,625	51,175
Passenger facility charges receivable	639,595	514,764
Total current restricted assets	8,243,521	11,942,286
Total current assets	21,603,587	21,239,993
Noncurrent assets		
Capital assets (notes 3, 4 and 5):		
Land	46,021,889	42,682,266
Buildings, improvements and equipment, net of accumulated depreciation	141,891,393	124,981,848
Construction in process	73,824,403	86,232,451
Total capital assets	261,737,685	253,896,565
Unamortized bond discount (note 5)	618,462	665,424
Deferred asset (note 5)	548,718	593,127
Total noncurrent assets	262,904,865	255,155,116
Total assets	284,508,452	$ 276,395,109

See accompanying notes to financial statements

Liabilities and Net Assets

	2006	2005
Current liabilities		
Payable from unrestricted assets:		
Accounts and warrants payable	$ 643,245	$ 621,887
Accrued expenses	329,618	288,177
Accrued employee benefits (note 5)	285,560	303,040
Deposit payments held by Airport	115,700	137,800
Amounts payable to City of Des Moines	142,302	99,074
Amounts due to signatory airlines	61,251	859,428
Deferred revenue	11,906	16,597
Accrued interest payable	1,186,655	1,215,150
Short-term notes payable (note 4)	7,300,000	7,300,000
Current maturities of capitalized leases (note 5)	275,729	268,316
Unamortized bond premium (note 5)	6,071	6,071
Current maturities of long-term debt (note 5)	1,234,000	1,223,000
Total liabilities payable from unrestricted assets	11,592,037	12,332,469
Payable from restricted assets, construction-related accounts and warrants payable	2,454,903	6,180,909
Total current liabilities	14,046,940	18,513,378
Noncurrent liabilities		
Accrued employee benefits (note 5)	516,993	552,990
Capitalized leases (note 5)	1,330,536	1,606,265
Unamortized Bond Premium (note 5)	28,557	34,628
Long-term debt (note 5)	39,604,000	40,838,000
Total noncurrent liabilities	41,480,086	43,037,954
Total liabilities	55,527,026	61,551,332
Net Assets		
Investment in capital assets, net of related debt (notes 3 and 5)	220,516,078	211,269,618
Restricted net assets:		
Capital projects	2,638,618	2,611,377
Debt service (note 5)	3,150,000	3,150,000
Unrestricted net assets	2,676,730	(2,187,218)
Total net assets	228,981,426	214,843,777
Total liabilities and net assets	$ 284,508,452	$ 276,395,109

DES MOINES INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues (notes 7 and 8)		
Landing fees	$ 4,508,716	$ 4,553,515
Facility rentals	6,053,813	4,779,260
Parking fees	6,748,168	6,661,688
Car rental concessions	1,827,396	1,854,683
Other concessions	874,356	875,313
Other airfield-related revenue	3,909,771	3,066,328
Other	392,530	377,088
Total operating revenues	24,314,750	22,167,875
Operating expenses (notes 5 and 6)		
Contractual services	6,324,678	5,925,362
Personnel services	8,879,619	8,534,019
Supplies	1,562,723	1,599,832
Depreciation	7,616,767	6,996,014
Amortization	85,976	92,808
Bad debt	45,110	66,156
Total operating expenses	24,514,873	23,214,191
Operating loss	(200,123)	(1,046,316)
Non-operating revenues (expenses)		
Investment earnings	752,322	601,770
Interest expense	(2,563,319)	(2,592,220)
Gain / (loss) on sale of assets	(2,911)	31,629
Passenger facility charges	3,809,524	3,948,628
Total non-operating revenues / (expenses)	1,995,616	1,989,807
Net increase in net assets, exclusive of capital grant revenues	1,795,493	943,491
Capital grant revenues	12,342,156	10,858,017
Net increase in net assets	14,137,649	11,801,508
Net assets, beginning of year	214,843,777	203,042,269
Net assets, end of year	$ 228,981,426	$ 214,843,777

See accompanying notes to financial statements.

DES MOINES INTERNATIONAL AIRPORT

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Proceeds received by providing services	$ 26,243,305	$ 19,913,459
Payments to suppliers	(7,824,602)	(7,482,401)
Payments to employees	(8,826,142)	(8,601,034)
Net cash provided by operating activities	9,592,561	3,830,024
Cash flows from investing activities		
Interest payments received	815,883	609,219
Investment maturities and sales	4,250,451	8,549,213
Investment purchases	(500,000)	(4,750,451)
Net cash provided by investing activities	4,566,334	4,407,981
Cash flows from non-capital financing activities		
Net cash provided by non-capital financing activities, proceeds from inter-fund accounts	43,228	99,074
Cash flows from capital financing activities		
Proceeds from intergovernmental capital grants	12,342,156	10,858,017
Passenger facility charges received	3,684,693	4,109,470
Interest paid	(2,591,814)	(2,577,836)
Premium cost from issuance	-	17,436
Principal paid on short-term notes payable	(14,600,000)	(16,500,000)
Principal paid on capitalized leases	(268,316)	(261,129)
Payments for bond issue costs	-	(8,146)
Proceeds from issuance of long-term bonds	-	941,000
Principal paid on long-term notes payable	(1,223,000)	(2,530,000)
Proceeds from issuance of short-term notes payable	14,600,000	16,600,000
Proceeds from sale of capital assets	2,150	48,300
Acquisition and construction of capital assets	(19,188,954)	(19,294,133)
Net cash (used in) capital financing activities	(7,243,085)	(8,597,021)
Net increase / (decrease) in cash and cash equivalents	6,959,038	(259,942)
Cash and cash equivalents, beginning of year	7,269,391	7,529,333
Cash and cash equivalents, end of year	$ 14,228,429	$ 7,269,391

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, 2006 and 2005

	2006	2005
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (200,123)	$ (1,046,316)
Depreciation	7,616,767	6,996,014
Amortization	85,976	92,808
(Increases) / decreases in assets:		
Accounts receivable and prepaid expenses	3,772,184	(3,571,127)
Inventories	(43,179)	(44,170)
Due from signatory airlines	(823,418)	563,969
Increases / (decreases) in liabilities:		
Due to signatory airlines	(798,177)	752,734
Deposit payments held by Airport	(22,100)	27,400
Accounts and warrants payable	21,358	(83,338)
Deferred revenue	(4,691)	16,597
Accrued liabilities and employee benefits	(12,036)	125,453
Net cash provided by operating activities	$ 9,592,561	$ 3,830,024

	2006	2005
Schedule of non-cash activities:		
Non-cash investing activity, net increase / (decrease) in fair value of investments	$ (22,011)	$ 27,038
Non-cash capital and related financing activities:		
Additions to contracts payable for acquisition of capital assets	-	3,510,090
Payments on contracts payable for acquisition of capital assets	(3,726,006)	-
Total non-cash capital and related financing activities	$ (3,726,006)	$ 3,510,090

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 Proprietary 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, to its Enterprise Funds.

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 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 - By letter dated November 29, 1993, the FAA issued a Record of Decision to the Airport that authorized 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. In the first application, the Airport received approval for a $3 PFC to finance projects totaling approximately $6.5 million. Collection for the first application began in March 1994. Records of decision on February 14, 1997, October 21, 1997, May 8, 1998, October 26, 1998, March 30, 1999, July 9, 1999, January 26, 2000, February 10, 2000, April 13, 2000, May 7, 2003, June 14, 2004, November 30, 2004, April 21, 2005, March 24, 2005, July 19, 2005, and August 16, 2005, have amended the program. These have increased the authorized collections and project expenditures to approximately $62.0 million.

Additionally, the May 18, 2001 record of decision amended the PFC rate to increase the collection level to $4.50.

Charges collected and receivable are recorded as restricted assets. The balance in the restricted reserve asset accounts associated with PFC's totaled $1,872,171 and $3,188,909 at June 30, 2006 and 2005, 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.

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 of Des Moines, Iowa's investment policy.

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	5 to 10
FHLB Total	$ 3,074,211	$ 3,074,211	$ -

Des Moines International Airport

Notes to Financial Statements

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, 2006, the Airport's investments were rated as follows:

Security Description	Moody's	Standard & 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, 2006, 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, 2006, 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, 2006 and 2005, including changes occurring each of the fiscal years, is as follows:

Des Moines International Airport

Notes to Financial Statements

	Balance June 30, 2004	Additions	Transfers	Deletions	Balance June 30, 2005
Non-depreciable assets:					
Land	$ 42,591,302	$ -	$ 90,964	$ -	$ 42,682,266
Construction in progress	69,361,478	22,066,684	(5,195,711)	-	86,232,451
Total non-depr. assets	111,952,780	22,066,684	(5,104,747)	-	128,914,717
Depreciable assets:					
Buildings & building impr.	48,611,117	-	571,022	-	49,182,139
Other improvements	155,497,404	-	4,197,563	-	159,694,967
Machinery and equipment	12,998,712	737,539	336,162	(257,931)	13,814,482
Total depreciable assets	217,107,233	737,539	5,104,747	(257,931)	222,691,588
Total capital assets	329,060,013	22,804,223	-	(257,931)	351,606,305
Accumulated depreciation:					
Building	13,267,010	906,347	-	-	14,173,357
Improvements	68,951,081	5,357,225	-	-	74,308,306
Machinery and equipment	8,736,895	732,442	-	(241,260)	9,228,077
Total	90,954,986	6,996,014	-	(241,260)	97,709,740
Net capital assets	$ 238,105,027	$15,808,209	$ -	$ (16,671)	$ 253,896,565

	Balance June 30, 2005	Additions	Transfers and Adjustments	Deletions	Balance June 30, 2006
Non-depreciable assets:					
Land	$ 42,682,266	$ -	$ 3,339,623	$ -	$ 46,021,889
Construction in progress	86,232,451	13,779,500	(26,187,548)	-	73,824,403
Total non-depreciable assets	128,914,717	13,779,500	(22,847,925)	-	119,846,292
Depreciable assets:					
Buildings & building impr.	49,182,139	-	18,155,574	-	67,337,713
Improvements	159,694,967	-	4,692,351	-	164,387,318
Machinery and equipment	13,814,482	1,683,448	-	(50,612)	15,447,318
Total depreciable assets	222,691,588	1,683,448	22,847,925	(50,612)	247,172,349
Total capital assets	351,606,305	15,462,948	-	(50,612)	367,018,641
Accumulated depreciation:					
Buildings & building impr.	14,173,357	1,366,143	-	-	15,539,500
Improvements	74,308,306	5,541,463	-	-	79,849,769
Machinery and equipment	9,228,077	709,161	-	(45,551)	9,891,687
Total	97,709,740	7,616,767	-	(45,551)	105,280,956
Net capital assets	$ 253,896,565	$ 7,846,181	$ -	$ (5,061)	$ 261,737,685

Construction-period interest costs of $227,537 and $251,268 have been reflected as capital asset additions for the years ended June 30, 2006 and 2005, respectively.

(4) Short-Term Debt

A summary of the Airport's short-term debt at June 30, 2006 and 2005, including the changes occurring during each of the fiscal years, is as follows:

	Commercial Paper Notes		
	PFC-backed, Series A	Non-PFC-backed, Series C	Total
Balance June 30, 2004	$ 1,900,000	$ 5,300,000	$ 7,200,000
Issuances	-	16,600,000	16,600,000
Retirements	(1,900,000)	(14,600,000)	(16,500,000)
Balance June 30, 2005	$ -	$ 7,300,000	$ 7,300,000
Issuances	-	14,600,000	14,600,000
Retirements	-	(14,600,000)	14,600,000
Balance June 30, 2006	$ -	$ 7,300,000	$ 7,300,000

On June 28, 1999, the City established a PFC-backed commercial paper facility (Series A and Series B), supported by a bank's direct-pay letter of credit. This letter of credit was authorized in an amount not to exceed $10,000,000. The City has pledged PFC revenue toward the repayment of all amounts borrowed. Amounts borrowed are to be used for Airport projects approved by the Federal Aviation Administration (FAA) under the PFC program.

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 non-PFC-backed commercial paper revenue 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 (At June 30, 2006, the entire balance carried interest at 3.6%). The balance of the Series C facility line of credit was due in full on July 6, 2006, but under the arrangement with the lending institution, the outstanding balance is to be remarketed and reissued as necessary throughout the remaining term of the agreement The line of credit was renewed on July 6, 2006. On October 12, 2006, the line of credit was remarketed and reissued with a maturity of February 12, 2007.

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 bank currently extends through July 1, 2007.

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

Capitalized Lease Notes Payable

A summary of the Airport's capitalized lease notes payable at June 30, 2006 and 2005, 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, 2004	$ 235,909	$ 321,414	$ 249,728	$597,035	$ 731,624	$2,135,710
Issuances	-	-	-	-	-	-
Retirements	(36,830)	(47,374)	(34,035)	(68,506)	(75,158)	(261,129)
Balance June 30, 2005	199,079	274,040	216,467	528,529	656,466	1,874,581
Issuances	-	-	-	-	-	-
Retirements	(37,791)	(49,695)	(34,035)	(70,172)	(76,623)	(268,316)
Balance June 30, 2006	161,288	224,345	182,432	458,357	579,843	1,606,265
Less: current portion	(38,777)	(52,129)	(34,827)	(71,879)	(78,116)	(275,729)
Non-current portion	$ 122,510	$ 172,216	$ 147,604	$ 386,478	$ 501,727	$1,330,536

On November 1, 1999, the City established a Master Lease-Purchase Program with a lending institution in order to provide financing for the purchase of equipment. During the year ended June 30, 2001, the Airport entered into three separate finance agreements under this program, and during each of the years ended June 30, 2002 and June 30, 2004, an additional agreement was added. These lease agreements expire on various dates through fiscal year 2014 and require annual payments ranging from approximately $45,000 to $99,000, including rates of approximately 4% to 5%. Under the terms of this Master Lease-Purchase Program, the Airport is restricted with respect to obtaining additional liens and certain other terms.

The following is a schedule of the future minimum lease payments under these capital leases:

Year ended June 30,	Total Payment due	Interest	Principal
2007	$ 348,260	$ 72,531	$ 275,729
2008	343,228	59,853	283,375
2009	338,081	46,817	291,264
2010	332,818	33,414	299,404
2011	221,330	19,630	201,700
2012-2014	268,926	14,133	254,793
Total	$ 852,643	$ 246,378	$ 1,606,265

At June 30, 2006 and 2005, the net book value of the equipment purchased with capitalized lease notes payable was $1,604,676 and $1,864,965, 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, 2006 and 2005, including changes occurring during the each of the fiscal years then ended, is as follows:

	Airport Revenue Bonds	GO Bonds - Airport Portion	Capital Loan Note	Total
Balance June 30, 2004	$ 41,570,000	$ 1,680,000	$ 400,000	$ 43,650,000
Issuances	-	941,000	-	941,000
Retirements	(820,000)	(1,310,000)	(400,000)	(2,530,000)
Balance June 30, 2005	40,750,000	1,311,000	-	42,061,000
Issuances	-	-	-	-
Retirements	(865,000)	(358,000)	-	(1,223,000)
Balance June 30, 2006	39,885,000	953,000	-	40,838,000
Less: current portion	(900,000)	(334,000)	-	(1,234,000)
Non-current portion	$ 38,985,000	$ 619,000	$ -	$ 39,604,000

A. On April 1, 1998, the City of Des Moines issued $42,670,000 of Aviation System Revenue Bonds (Series 1998 A, B, and 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 of 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 on the debt range from 4.25% to 6.95%. A discount on the sale of the bonds and bond issuance costs are being amortized over the term of the bonds. In addition, at June 30, 2006, the Airport has restricted $3,150,000 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. 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%.

C. On November 10, 2000, the City issued an Aviation System Revenue Capital Loan Note in the amount of $1,000,000. The Note was paid in full during the year ended June 30, 2005.

Des Moines International Airport

Notes to Financial Statements

At June 30, 2006, 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
2007	$ 900,000	$ 2,214,503	$ 334,000	$ 34,572
2008	950,000	2,166,530	233,000	23,676
2009	1,005,000	2,115,362	236,000	14,593
2010	1,050,000	2,061,045	150,000	5,190
2011	1,110,000	2,003,050	-	-
2012-2016	6,535,000	8,997,097	-	-
2017-2021	8,585,000	6,885,443	-	-
2022-2026	11,310,000	4,085,545	-	-
2027-2029	8,440,000	740,404	-	-
Total	$ 39,885,000	$ 31,268,978	$ 953,000	$ 78,031

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. The total cost is shown net of FAA reimbursements of $267,235 and $238,452, received during the fiscal years ended June 30, 2006 and 2005, 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, 2006 and 2005, including those changes occurring during the fiscal years, is as follows:

Balance June 30, 2004	$ 789,015
Additions	2,640,912
Payments	(2,573,897)
Balance June 30, 2005	856,030
Additions	2,697,702
Payments	(2,751,179)
Balance June 30, 2006	802,553
Less: current portion	(285,560)
Non-current portion	$ 516,993

(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, 2006 and 2005, totaled $2,013,603 and $2,428,829, 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, 2006 and 2005 totaled $547,395 and $558,674, 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, 2006, however, the agreements have been extended through June 30, 2008, through negotiations with the carriers.

Non-airline and Concession Agreements

A portion of the Airport's revenue is provided by concession agreements and other lease agreements which are not directly related to providing commercial air service. These agreements relate to a portion of the Airport's buildings, land, and the privilege to do business at the Airport, and have terms ranging from one to thirty years. Rents received under all concession and other lease agreements totaled $4,726,548 and $4,669,935 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, rents received from these concession agreements were $2,623,772 and $2,683,603, including amounts received under their contingent clauses totaling $306,901 and $739,608, respectively.

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

Year ended June 30,	Amount
2007	$ 1,934,361
2008	1,582,536
2009	1,335,227
2010	1,192,872
2011	1,074,824
2012-2016	5,013,288
2017-2021	3,258,868
2022-2026	2,766,201
2027-2031	1,872,797
Total	$ 20,030,974

(8) Major Users

During the fiscal year ended June 30, 2006 and 2005, the Airport derived a significant portion of its revenues from a major passenger airline. This airline handled approximately 28% and 31% of the Airport's total passengers during the fiscal years ended June 30, 2006 and 2005, respectively. The major airline has executed a signatory airline agreement with the Airport that serves to allocate certain charges based factors such as number of passengers, amount of cargo handled, and other flight-related activity.

Airport operating revenues for the fiscal year ended June 30, 2006 and 2005, respectively, include $2,654,799 and $2,422,078 from this airline. Amounts receivable at June 30, 2006 and 2005, respectively, include $101,885 and $153,138 from the airline. In each fiscal year, no other customer represented over 10% of the Airport's operating revenues.

(9) 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 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary and the Airport is required to contribute 5.75% of the eligible payroll. State Statute establishes contribution requirements. The Airport's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004, were $261,930, $249,489, and $241,731, 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 years ended June 30, 2006 and 2005, were 9.35% for the plan members and 17% for the Airport. The Airport's contributions, through the City, to MFPRSI for the years ended June 30, 2006, 2005, and 2004 were $390,359, $340,980, and $259,249, respectively. For each of the years, the actual contributions were equal to the required contributions.

(10) Post-retirement Benefits

Post-retirement benefits, other than pension benefits, are available to all full-time employees of the City of Des Moines. These benefits include certain health and dental care benefits. All full-time employees who retire at the normal retirement age are eligible to receive these benefits. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. Retirees are required to reimburse the City for a portion of the cost of coverage. The benefits covered 187 and 620 eligible retirees at June 30, 2006 and 2005, respectively.

(11) 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.

(12) Commitments and Contingencies

Grants

The Airport has received several federal grants through the City, 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 City has additional commitments for signed construction contracts for the Airport of approximately $2,847,461 at June 30, 2006. These commitments will be funded by various sources including revenue, bonds, federal and state grants, operating revenues, PFC funds, and private contributions.

(13) 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.

Des Moines International Airport

Notes to Financial Statements

(14) Pending Pronouncements

The Airport has implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 42, *Accounting and Financial Reporting For Impairment of Capital Assets and for Insurance Recoveries.* This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner. This Statement had no effect on the Airport.

GASB Statement No. 46, *Net Assets Restricted By Enabling Legislation.* This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. This Statement had no effect on the Airport.

GASB Statement No. 47, *Accounting for Termination Benefits.* This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. This Statement had no effect on the Airport.

In addition, the GASB has issued the following statements:

GASB Statement No. 43, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans,* issued April 2004, will be effective for the Airport beginning with its year ending June 30, 2007. This Statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB) and supercedes existing guidance.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Airport beginning with its year ending June 30, 2008. This Statement establishes standards for measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the Airport beginning with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government 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 a government 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.

The Airport has not determined the effect these Statements may have on the Airport's financial statements.

(15) Subsequent Event

On June 19, 2006, the Airport entered into an agreement to purchase approximately 268 acres of land. The Agreement calls for the purchase price of $5.9 million to be paid to the seller in two installments; a payment of $4,163,400 was made on August 11, 2006, with the remaining payment of $1,736,600 to be paid on or about July 15, 2007. Because up to 95% of the cost of the land acquisition is eligible for reimbursement through the FAA AIP grant program, funds totaling $3,955,230 were received from the FAA on August 11, 2006, as reimbursement related to the first installment payment.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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 financial statements of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Des Moines International Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Des Moines International Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as follows:

<u>Finding</u>: The Des Moines International Airport did not accurately complete the quarterly passenger facility charge program reports.

Condition: Interest income reported on the quarterly reports was overstated by approximately $9,000 and total expenses was overstated by approximately $281,000.

Prevalence: The errors were identified in the June 30, 2006 quarterly report.

Questioned cost: None

Criteria: Program Requirement No. 2 of the *Passenger Facility Charge Audit Guide for Public Agencies* states, *The PFC quarterly report must include PFC revenue received from collecting carriers, interest earned and expenditures for the quarter; cumulative PFC revenue received, interest earned, expenditures and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project…as specified in the ROD for that project; and the current project schedule.*

Recommendation: We recommend the Des Moines International Airport amend the quarterly reports to report the proper interest income and expenses.

Response and corrective active plan: The Des Moines International Airport identified the differences and will amend future quarterly reports to properly report interest income and expenses.

This report is intended solely for the information and use of the Airport Board, City Council and the Federal Aviation Administration of the U.S. 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
October 27, 2006

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, 2006. 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported and which is described in the accompanying schedule of findings and questioned costs.

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 and to test and report on internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations and grants that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, 2006, and have issued our report thereon dated October 27, 2006. 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
October 27, 2006

City of Des Moines, Iowa
Des Moines International Airport
Passenger Facility Charge Program

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Finding: The Des Moines International Airport did not accurately complete the quarterly passenger facility charge program reports.

Condition: Interest income reported on the quarterly reports was overstated by approximately $9,000 and total expenses was overstated by approximately $281,000.

Prevalence: The errors were identified in the June 30, 2006 quarterly report.

Questioned costs: None

Criteria: Program Requirement No. 2 of the *Passenger Facility Charge Audit Guide for Public Agencies* states, *The PFC quarterly report must include PFC revenue received from collecting carriers, interest earned and expenditures for the quarter; cumulative PFC revenue received, interest earned, expenditures and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project...as specified in the ROD for that project; and the current project schedule.*

Recommendation: We recommend the Des Moines International Airport amend the quarterly reports to report the proper interest income and expenses.

Response and corrective action plan: The Des Moines International Airport identified the differences and will amend future quarterly reports to properly report interest income and expenses.

PFC Revenue and Disbursement Schedule
Des Moines International Airport
For the Fiscal Year Ended June 30, 2006

	FY 2005 Program Total	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Quarter 3 Jan - Mar	Quarter 4 Apr - Jun	FY 2006 Total	FY 2006 Program Total
Revenue							
Collections	$ 30,486,386	$ 804,445	$ 942,122	$ 1,023,296	$ 914,830	$ 3,684,693	$ 34,171,079
Interest	1,580,986	(80,311)	12,916	123,951	16,816 *	73,372	1,654,358
Total Revenue	$ 32,067,372	$ 724,134	$ 955,038	$ 1,147,247	$ 931,646	$ 3,758,065	$ 35,825,437
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	$ 3,848,698	$ 2,351,681	$ -	$ -	$ 36,166	$ 2,387,847	$ 6,236,545
Terminal Concourse Chiller Update	319,913	-	-	-	220,002	220,002	539,915
Reconstruct Terminal Apron	765,328	-	-	-	-	-	765,328
	$ 4,933,939	$ 2,351,681	$ -	$ -	$ 256,168	$ 2,607,849	$ 7,541,788
Application 98-03							
Terminal (Lobby) Restroom Renovation	$ 676,957	$ (1,519)	$ -	$ -	$ -	$ (1,519)	$ 675,438
Terminal Passenger Skywalk	1,279,734	(1,419)	-	-	-	(1,419)	1,278,315
Terminal Passenger Skywalk Lobby	2,293,684	-	-	-	-	-	2,293,684
Terminal Capacity Enhancement - Phase 2	1,958,420	322,923	48,565	254,268	(22,789)	602,967	2,561,387
Terminal Ticket Counter Reconfiguration	236,898	-	-	-	-	-	236,898
	$ 6,445,693	$ 319,985	$ 48,565	$ 254,268	$ (22,789)	$ 600,029	$ 7,045,722
Application 99-04							
Stormwater Detention Facility	$ 1,959,251	$ (232,650)	$ -	$ -	$ -	$ (232,650)	$ 1,726,601
Application 00-05							
South Passenger Apron Expansion & Rehab	$ 788,496	$ -	$ -	$ -	$ -	$ -	$ 788,496
Terminal Elevator - C Concourse	89	-	-	-	-	-	89
	$ 788,585	$ -	$ -	$ -	$ -	$ -	$ 788,585
Application 03-06							
Glycol Tank Storage Area	$ 606,615	$ 5,245	$ -	$ -	$ -	$ 5,245	$ 611,860
Passenger Loading Bridges	1,592,239	260,081	59,824	58,427	33,208	411,540	2,003,779
Passenger Terminal Fire Supression System	235,045	64,915	391	14,943	-	80,249	315,294
Passenger Terminal Stem Expansion	1,138,664	1,374,679	1,420,086	569,147	(143,868)	3,220,044	4,358,708
Passenger Terminal Paging System	22,794	5,195	7,235	31,290	268	43,988	66,782
	$ 3,595,357	$ 1,710,115	$ 1,487,536	$ 673,807	$ (110,392)	$ 3,761,066	$ 7,356,423
Application 04-07							
Replace Snow Removal Equipment	$ 560,103	$ -	$ -	$ 456,225	$ -	$ 456,225	$ 1,016,328
Acquire Snow Removal Equipment	-	-	-	-	-	-	-
ARFF-Aircraft Rescue Fire Fighting Vehcile	-	-	-	579,889	-	579,889	579,889
	$ 560,103	$ -	$ -	$ 1,036,114	$ -	$ 1,036,114	$ 1,596,217
Application 05-08							
Outbound Baggage Make-Up Belts	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Full-Depth Replacement of Signature Aprons	-	514	-	30,466	50,639	81,619	81,619
Americans with Disabilities Act Transition Project	-	9,958	3,077	6,077	3,326	22,438	22,438
Automated Access Control System Upgrade	-	-	-	65,672	-	65,672	65,672
	$ -	$ 10,472	$ 3,077	$ 102,215	$ 53,965	$ 169,729	$ 169,729
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	-	-	-	7,438	2	7,440	7,440
Southeast Service Road Relocation	-	-	-	401,988	1,320	403,308	403,308
Rehabilitation of Runway 13L/31R	-	-	-	-	-	-	-
Security Gate Upgrade	-	-	-	49,613	4,071	53,684	53,684
Land Acquisition - Runway 13R/31L	-	-	-				
	$ -	$ -	$ -	$ 459,039	$ 5,393	$ 464,432	$ 464,432
Amounts paid for interest - PFC Borrowing	$ 18,423	$ (16,376)	$ -	$ -	$ -	$ (16,376)	$ 2,047
Total Disbursements	$ 26,560,638	$ 4,143,227	$ 1,539,178	$ 2,525,443	$ 182,345	$ 8,390,193	$ 34,950,831
Net PFC Revenue (Rev - Disb)	$ 5,506,734	$ (3,419,093)	$ (584,140)	$ (1,378,196)	$ 749,301	$ (4,632,128)	$ 874,606 *

* Difference from quarterly reports equal to duplicated March interest ($9434), adjustments, and rounding