★ **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

44

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:

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

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

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44

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

Schedule of non-cash activities:

	2006	2005
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.

Des Moines International Airport

Notes to Financial Statements

(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.