

**Date** February 13, 2012

**Receive and File the Financial Statements of the Des Moines International Airport  
for the fiscal year ended June 30, 2011.**

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

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

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

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

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

WHEREAS, on January 3, 2012, the audited financial statements for the year ended June 30, 2011, were presented to the Des Moines Airport Authority Board and are now transmitted to the City Council.



**Roll Call Number**

**Agenda Item Number**

**54**

**Date** February 13, 2012

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

That the audited financial statements of the Airport for the year ended June 30, 2011, be received and filed.

Moved by \_\_\_\_\_ to adopt.

Approved as to form:

  
David A. Ferree  
Assistant City Attorney

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

**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.

MOTION CARRIED APPROVED  
\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Clerk

**DES MOINES INTERNATIONAL AIRPORT**  
**Financial Statements and Additional Information**  
**June 30, 2011 and 2010**  
**(with Auditor's Report thereon)**



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## 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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Des Moines, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

*McGladrey & Pullen, LLP*

Des Moines, Iowa  
December 8, 2011

**DES MOINES INTERNATIONAL AIRPORT**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
<b>Current assets</b>		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 11,578,272	\$ 15,244,918
Accounts receivable, net of allowance for doubtful accounts of \$50,000	2,549,943	1,745,597
Prepaid expenses	38,269	35,744
Amounts due from other governmental units	418,098	75,204
Amounts due from signatory airlines	889,956	1,233,016
Inventories	58,270	53,932
Unamortized bond issuance costs	51,724	37,046
	<b>15,584,532</b>	<b>18,425,457</b>
Restricted assets:		
Cash and cash equivalents (note 2)	4,430,325	3,885,004
Investments (note 2)	4,349,864	3,000,000
Accrued interest receivable	29,018	7,083
Passenger facility charges receivable	580,624	559,203
	<b>9,389,831</b>	<b>7,451,290</b>
	<b>24,974,363</b>	<b>25,876,747</b>
<b>Noncurrent assets</b>		
Capital assets (note 3):		
Land	66,838,189	66,838,189
Buildings, improvements and equipment, net of accumulated depreciation	197,955,427	200,302,054
Construction in process	13,209,303	10,942,168
	<b>278,002,919</b>	<b>278,082,411</b>
Unamortized bond issuance costs	684,873	387,051
	<b>278,687,792</b>	<b>278,469,462</b>
	<b>\$ 303,662,155</b>	<b>\$ 304,346,209</b>

See accompanying notes to financial statements

## Liabilities and Net Assets

<b>Current liabilities</b>	<u>2011</u>	<u>2010</u>
Payable from unrestricted assets:		
Accounts and warrants payable	\$ 823,815	\$ 687,350
Accrued expenses	407,520	391,735
Accrued employee benefits (note 5)	329,444	270,658
Deposit payments held by Airport	103,050	109,750
Amounts due to signatory airlines	-	-
Accrued interest payable	440,445	1,014,853
Unearned revenue	87,847	77,422
Short-term notes payable (note 4)	-	12,000,000
Current maturities of capitalized leases (note 5)	167,085	201,700
Current maturities of long-term debt (note 5)	1,459,812	1,117,359
Unamortized bond premium (note 5)	-	-
Unamortized bond discount (note 5)	(31,541)	(42,276)
	<hr/>	<hr/>
Total liabilities payable from unrestricted assets	3,787,477	15,828,551
Liabilities payable from restricted assets, construction-related accounts and warrants payable	<hr/> 1,453,354	<hr/> 1,511,252
	<hr/>	<hr/>
Total current liabilities	5,240,831	17,339,803
	<hr/>	<hr/>
<b>Noncurrent liabilities</b>		
Accrued employee benefits (note 5)	648,811	591,065
Accrued post-retirement benefits (notes 5 & 9)	213,445	154,709
Capitalized leases (note 5)	87,708	254,792
Long-term debt (note 5)	46,867,622	34,901,891
Unamortized bond premium (note 5)	-	-
Unamortized bond discount (note 5)	(414,899)	(442,028)
	<hr/>	<hr/>
Total noncurrent liabilities	47,402,687	35,460,429
	<hr/>	<hr/>
Total liabilities	52,643,518	52,800,232
	<hr/>	<hr/>
<b>Net Assets</b>		
Investment in capital assets, net of related debt (notes 3 and 5)	231,325,346	242,090,973
Restricted net assets:		
Capital projects	-	-
Passenger Facility Charge funds	788,199	1,069,119
Debt service (note 5)	7,137,225	5,163,702
Unrestricted net assets	<hr/> 11,767,867	<hr/> 3,222,183
	<hr/>	<hr/>
Total net assets	251,018,637	251,545,977
	<hr/>	<hr/>
Total liabilities and net assets	\$ 303,662,155	\$ 304,346,209
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**DES MOINES INTERNATIONAL AIRPORT**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating revenues (note 7)</b>		
Landing fees	\$ 4,755,072	\$ 4,059,009
Security fees	1,586,769	1,414,680
Apron fees	768,372	1,220,108
Facility rentals	6,373,598	6,407,219
Vehicle parking fees	7,846,701	7,339,404
Car rental concessions	2,119,021	1,771,832
Other concessions	1,134,281	1,036,345
Other airfield-related revenue	672,179	557,238
Other	759,335	511,068
Total operating revenues	<u>26,015,328</u>	<u>24,316,903</u>
<b>Operating expenses (notes 5 and 6)</b>		
Contractual services	7,696,113	7,394,422
Personnel services	9,407,010	8,807,874
Supplies	2,031,202	1,970,624
Depreciation	14,488,621	10,909,417
Amortization	636,647	68,061
Bad debt	833	2,154
Total operating expenses	<u>34,260,426</u>	<u>29,152,552</u>
Operating loss	<u>(8,245,098)</u>	<u>(4,835,649)</u>
<b>Non-operating revenues / (expenses)</b>		
Investment earnings	82,085	93,942
Interest expense	(2,271,474)	(2,130,559)
Loss on sale or disposal of fixed assets	(57,471)	(24,740)
Proceeds from Damage Claims	7,641	3,275
Passenger facility charges	3,808,808	3,519,917
Customer facility charges	1,440,827	1,182,624
Total non-operating revenues / (expenses)	<u>3,010,416</u>	<u>2,644,459</u>
Net decrease in net assets, exclusive of capital grant and contributed revenues	(5,234,682)	(2,191,190)
<b>Capital grant and contributed revenues</b>	<u>4,707,342</u>	<u>3,147,565</u>
Net increase (decrease) in net assets	(527,340)	956,375
<b>Net assets, beginning of year</b>	<u>251,545,977</u>	<u>250,589,602</u>
<b>Net assets, end of year</b>	<u>\$ 251,018,637</u>	<u>\$ 251,545,977</u>

See accompanying notes to financial statements.

**DES MOINES INTERNATIONAL AIRPORT**  
**Statements of Cash Flows**  
For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Proceeds received by providing services	\$ 25,554,409	\$ 23,997,875
Payments to suppliers	(9,595,188)	(9,406,611)
Payments to employees	(9,215,957)	(8,733,929)
	<u>6,743,264</u>	<u>5,857,335</u>
 <b>Cash flows from investing activities</b>		
Interest payments received	82,982	99,969
Investment maturities and sales	3,000,000	-
Investment purchases	(4,372,696)	(3,013,110)
	<u>(1,289,714)</u>	<u>(2,913,141)</u>
 <b>Cash flows from capital financing activities</b>		
Proceeds from intergovernmental capital grants and contributions	4,364,448	4,341,684
Passenger facility charges received	3,787,387	3,479,227
Customer facility charges received	1,440,827	1,182,624
Interest paid	(2,845,882)	(2,160,506)
Principal paid on short-term notes payable	(60,000,000)	(88,000,000)
Principal paid on capitalized leases	(201,699)	(299,405)
Principal paid on long-term notes payable	(24,136,816)	(1,200,000)
Proceeds from issuance of short-term notes payable	48,000,000	88,000,000
Proceeds from issuance of long-term debt*	35,533,717	39,250
Proceeds from sale of capital assets	5,321	23,100
Proceeds from damage claims	7,641	3,275
Acquisition and construction of capital assets	(14,529,819)	(13,305,166)
	<u>(8,574,875)</u>	<u>(7,895,917)</u>
Net cash used in capital financing activities		
	<u>(3,121,325)</u>	<u>(4,951,723)</u>
 <b>Cash and cash equivalents, beginning of year</b>	<u>19,129,922</u>	<u>24,081,645</u>
 <b>Cash and cash equivalents, end of year</b>	<u>\$ 16,008,597</u>	<u>\$ 19,129,922</u>

\*Net of bond discount and issuance costs  
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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Net operating loss	\$ (8,245,098)	\$ (4,835,649)
Depreciation	14,488,621	10,909,417
Amortization	636,647	68,061
(Increases) / decreases in assets:		
Accounts receivable and prepaid expenses	(806,871)	693,681
Inventories	(4,338)	49,878
Due from signatory airlines	343,060	(716,176)
Increases / (decreases) in liabilities:		
Due to signatory airlines	-	(367,350)
Due to City of Des Moines	-	-
Deposit payments held by Airport	(6,700)	12,450
Accounts and warrants payable	136,465	(41,563)
Deferred revenue	10,425	(7,127)
Accrued liabilities and employee benefits	191,053	91,713
	<u>\$ 6,743,264</u>	<u>\$ 5,857,335</u>
 <b>Schedule of non-cash activities:</b>		
Non-cash investing activity, net decrease in fair value of investments	<u>\$ (22,832)</u>	<u>\$ (13,110)</u>
Non-cash capital and related financing activity, payments (proceeds) on contracts payable for acquisition of capital assets	<u>\$ (57,898)</u>	<u>\$ 236,931</u>

See accompanying notes to financial statements.

# Des Moines International Airport

## Notes to Financial Statements

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

#### *Nature of Reporting Entity*

The Des Moines International Airport ("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 ("City"). As such, the Airport is an integral part of the City and is presented in the City's financial statements. An Enterprise Fund is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There are no other funds of the City combined with the Airport Enterprise Fund in the accompanying financial statements. All accounts established by bond ordinances related to the Airport have been combined for reporting purposes in the accompanying financial statements.

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

#### *Summary of Significant Accounting Policies*

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

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

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

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

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

# Des Moines International Airport

## Notes to Financial Statements

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

**Passenger Facility Charge (“PFC”) funds** – These assets represent PFC charges collections based on an approved Federal Aviation Administration (“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.

**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	10-50 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.

**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.

**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



## Des Moines International Airport

### Notes to Financial Statements

is recognized over the life of the respective leases and concession revenue is recognized based on reported concessionaire revenue.

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

Customer Facility Charge (“CFC”) Funds – On September 1, 2008, the Airport began imposing, upon approval of the Board of Directors and pursuant to Section 4.08 of the Concession Agreements with rental car companies, a CFC on each car rented at the Airport. The CFC is \$2.75 per day, per transaction. The Airport is authorized to collect this fee pursuant to Iowa Code for the construction of a consolidated rental car facility. The Airport collected CFC revenues in the amount of \$1,440,827 and \$1,182,624 for the fiscal years ended June 30, 2011 and 2010 respectively.

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 centers is credited or billed to the airlines ratably over the subsequent fiscal year. Additionally, under current signatory airline agreements, the Airport shares net revenue, calculated in accordance with those agreements, with the signatory airlines.

Passenger Facility Charges – In 1993 the FAA issued a Record of Decision authorizing the Airport to collect and expend PFC revenue. The Airport's PFC accounts represent fees imposed on enplaning passengers for the purpose of generating resources for airport projects that increase capacity, increase safety, or mitigate noise impact. The Airport initially received PFC approval at a level of \$3.00 per passenger for specific projects, but since that time have received approval for numerous other projects and in 2001 the collection level was raised to \$4.50 per passenger. As approved projects are completed, corresponding portions of the PFC program are closed. The collection level and planned project expenditures under the program totaled approximately \$27 million at June 30, 2011. The City's PFC collection authority extends through October 1, 2019.

Charges collected and receivable are recorded as restricted assets. The balance in these restricted reserve asset accounts totaled \$788,199 and \$776,209 at June 30, 2011 and 2010, respectively.

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

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimated.

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

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

## Des Moines International Airport

### Notes to Financial Statements

**Reclassifications** — Certain amounts have been reclassified in the statement of revenue and expenses, with no impact on net assets, to more accurately reflect their classifications.

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

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

***Authorized Investments***

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

***Interest Rate Risk***

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

Information about the sensitivity of the fair values of the Airport's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Airport's investments as of June 30, 2011, and June 30, 2010, by maturity:

**2011**

<u>Security Description</u>	<u>Current Market Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>2 to 10</u>
FHLMC	\$ 3,850,204	\$ 3,850,204	\$ --
FNMA Discount Note	499,660	499,660	--
	<u>\$ 4,349,864</u>	<u>\$ 4,349,864</u>	<u>\$ --</u>

**2010**

<u>Security Description</u>	<u>Current Market Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>2 to 10</u>
FHLMC	\$ 3,000,000	\$ 3,000,000	\$ --



## 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, 2011, the Airport's investments were rated as follows:

<u>Security Description</u>	<u>Moody's</u>	<u>Standard and Poor's</u>
FHLMC	Aaa	AAA
FNMA Discount Note	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 Airport's investments are not in accordance with these policies regarding diversification. The investment in FHLMC is 89% 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, 2011 and 2010, 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, 2011, the Airport's investments were uninsured and unregistered held by the counterparty's trust department in the City's name.

## Des Moines International Airport

### Notes to Financial Statements

#### (3) Capital Assets

A summary of the Airport's capital assets at June 30, 2011 and 2010, including changes occurring each of the fiscal years, is as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Non-depreciable assets:					
Land	\$ 64,540,054	\$ -	\$ 2,298,135	\$ -	\$ 66,838,189
Construction in progress	23,631,217	13,268,731	(25,957,780)	-	10,942,168
Total non-depr. assets	<u>88,171,271</u>	<u>13,268,731</u>	<u>(23,659,645)</u>	<u>-</u>	<u>77,780,357</u>
Depreciable assets:					
Buildings & building impr.	83,975,244	-	15,037,735	-	99,012,979
Other improvements	221,836,873	-	7,435,658	-	229,272,531
Machinery and equipment	17,478,932	273,366	1,186,252	(248,284)	18,690,266
Total depreciable assets	<u>323,291,049</u>	<u>273,366</u>	<u>23,659,645</u>	<u>(248,284)</u>	<u>346,975,776</u>
Total capital assets	<u>411,462,320</u>	<u>13,542,097</u>	<u>-</u>	<u>(248,284)</u>	<u>424,756,133</u>
Accumulated depreciation:					
Building	22,425,915	2,740,927	-	-	25,166,842
Improvements	100,893,495	7,225,341	-	-	108,118,836
Machinery and equipment	12,645,339	943,149	-	(200,444)	13,388,044
Total	<u>135,964,749</u>	<u>10,909,417</u>	<u>-</u>	<u>(200,444)</u>	<u>146,673,722</u>
Net capital assets	<u>\$ 275,497,571</u>	<u>\$ 2,632,680</u>	<u>\$ -</u>	<u>\$ (47,840)</u>	<u>\$ 278,082,411</u>
	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Non-depreciable assets:					
Land	\$ 66,838,189	\$ -	\$ -	\$ -	\$ 66,838,189
Construction in progress	10,942,168	13,843,369	(11,574,269)	(1,965)	13,209,303
Total non-depr. assets	<u>77,780,357</u>	<u>13,843,369</u>	<u>(11,574,269)</u>	<u>-</u>	<u>80,047,492</u>
Depreciable assets:					
Buildings & building impr.	99,012,979	-	7,070,410	-	106,083,389
Other improvements	229,272,531	305,386	540,705	-	230,118,622
Machinery and equipment	18,690,266	323,166	3,963,154	(721,358)	22,255,228
Total depreciable assets	<u>346,975,776</u>	<u>628,552</u>	<u>11,574,269</u>	<u>(721,358)</u>	<u>358,457,239</u>
Total capital assets	<u>424,756,133</u>	<u>14,471,921</u>	<u>-</u>	<u>(723,323)</u>	<u>438,504,731</u>
Accumulated depreciation:					
Building	25,166,842	3,391,501	-	-	28,558,343
Improvements	108,118,836	9,548,601	-	-	117,667,437
Machinery and equipment	13,388,044	1,548,519	-	(660,531)	14,276,032
Total	<u>146,673,722</u>	<u>14,488,621</u>	<u>-</u>	<u>(660,531)</u>	<u>160,501,812</u>
Net capital assets	<u>\$ 278,082,411</u>	<u>\$ (16,700)</u>	<u>\$ -</u>	<u>\$ (62,792)</u>	<u>\$ 278,002,919</u>

**Des Moines International Airport**  
Notes to Financial Statements

**(4) Short-Term Debt**

The Airport's short-term debt at June 30, 2010, consisted of Non-PFC-Backed Commercial Paper (Series C). A summary of changes to the debt obligation occurring during each of the fiscal years is as follows:

Balance June 30, 2009	\$	12,000,000
Issuances		88,000,000
Retirements		<u>(88,000,000)</u>
Balance June 30, 2010	\$	12,000,000
Issuances		48,000,000
Retirements		<u>(60,000,000)</u>
Balance June 30, 2011	\$	<u>0</u>

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 line of credit was remarketed and reissued multiple times during the fiscal year ended June 30, 2011, at rates ranging from 0.34% to 0.40%. In December 2010, permanent financing replaced the Series C line of credit with the issuance of the 2010 revenue bonds. The letter of credit that backed the commercial paper has expired, and the Airport has no short-term financing as of June 30, 2011.

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

*Capitalized Lease Notes Payable*

Under the City's Governmental-Lease Purchase Master Agreement, the Airport enterprise fund entered into five capital lease agreements used to finance airport runway and maintenance equipment. A summary of the Airport's capitalized lease notes payable at June 30, 2011 and 2010, including changes occurring during each of the fiscal years, is as follows:

	<u>Master Lease #2</u>	<u>Master Lease #3</u>	<u>Master Lease #4</u>	<u>Master Lease #5</u>	<u>Master Lease #9</u>	<u>Total</u>
Balance June 30, 2009	41,893	60,171	75,499	237,435	340,899	755,897
Retirements	<u>(41,893)</u>	<u>(60,171)</u>	<u>(37,316)</u>	<u>(77,251)</u>	<u>(82,774)</u>	<u>(299,405)</u>
Balance June 30, 2010	-	-	38,183	160,184	258,125	456,492
Retirements	-	-	<u>(38,183)</u>	<u>(79,130)</u>	<u>(84,386)</u>	<u>(201,699)</u>
Balance June 30, 2011	-	-	-	81,054	173,739	254,793
Less: current portion	-	-	-	<u>(81,054)</u>	<u>(86,031)</u>	<u>(167,085)</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,708</u>	<u>\$ 87,708</u>

The balance of the capital leases payable for the Airport fund is \$254,793 and is payable through fiscal year 2013. The principal and interest is payable from the operating revenues of the Airport. Annual principal and interest on the capital leases are expected to require 0.7% of the operating revenue. Total

## Des Moines International Airport

### Notes to Financial Statements

principal and interest remaining to be paid on the capital leases is \$268,926. Principal and interest paid in the current year and operating revenues were \$221,330 and \$26,022,969, respectively.

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

<u>Year ended June 30,</u>	<u>Total Payment due</u>	<u>Interest</u>	<u>Principal</u>
2012	177,800	10,715	167,085
2013	91,126	3,418	87,708
Total	<u>\$ 268,926</u>	<u>\$ 14,133</u>	<u>\$ 254,793</u>

At June 30, 2011 and 2010, the net book value of the equipment purchased with capitalized lease notes payable was \$177,254 and \$563,522, respectively.

#### *Long-Term Debt*

A summary of the Airport's long-term debt payable at June 30, 2011 and 2010, including changes occurring during each of the fiscal years then ended, is as follows:

	<u>Airport Revenue Bonds</u>	<u>Airport Portion of GO Bonds</u>	<u>SWAP Loan</u>	<u>Total</u>
Balance June 30, 2009	37,030,000	150,000	-	37,180,000
Issuances	-	-	39,250	39,250
Retirements	(1,050,000)	(150,000)	-	(1,200,000)
Balance June 30, 2010	35,980,000	-	39,250	36,019,250
Issuances	36,445,000	-	-	36,445,000
Retirements	(24,130,000)	-	(6,816)	(24,136,816)
Balance June 30, 2011	48,295,000	-	32,434	48,327,434
Less: current portion	(1,450,000)	-	(9,812)	(1,459,812)
Non-current portion	<u>\$ 46,845,000</u>	<u>\$ -</u>	<u>\$ 22,622</u>	<u>\$ 46,867,622</u>

- A. On April 1, 1998, the City issued \$42,670,000 of Aviation System Revenue Bonds (Series 1998 A, B, C). The bonds are special obligations payable solely from and secured by a pledge of the net revenues of the Airport, subject to the prior lien on the net revenues of the Airport Revenue Capital Loan Notes. Payment of the principal and interest on the bonds is guaranteed by a municipal bond insurance policy. Principal is payable annually, with interest paid semi-annually on July 1<sup>st</sup> and January 1<sup>st</sup>. With the issuance of \$22,845,000 of the 2010 Revenue Bonds (described below), the Series 1998A and 1998C bonds were completely refinanced, and the Series 1998B bonds were partially refinanced (all principal payments through 2019).

As of June 30, 2011, the outstanding balance of the Series 1998B bonds is \$11,850,000. Interest rate on the bonds is 5.125%. Under the bond restructuring, the Airport will pay only interest until July 1, 2020. Total principal and interest remaining to be paid on the bonds is \$20,250,387. Principal and interest paid for the current year and total Airport net revenues were \$25,450,196 and \$6,761,970, respectively.

## Des Moines International Airport

### Notes to Financial Statements

- B. On December 7, 2010, the City issued \$36,445,000 of Aviation System Revenue Bonds (Series 2010 A, B, C, D). The bonds are special obligations payable solely from and secured by a pledge of the net revenues of the Airport, subject to the prior lien on the net revenues of the Airport Revenue Capital Loan Notes. Payment of the principal and interest on the bonds is guaranteed by a municipal bond insurance policy. Principal is payable annually, with interest paid semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup>. Interest rates range from 2.10% to 5.75%. Total principal and interest remaining to be paid on the bonds is \$61,350,949. Principal and interest paid for the current year and total Airport net revenues were \$767,097 and \$6,761,970, respectively.

As discussed above, \$22,845,000 of the Series 2010 Revenue Bonds with an average interest rate of 4.73 percent were issued on December 7, 2010, to current refund \$23,020,000 of Series 1998 Revenue Bonds (full refunding of \$5,140,000 and \$10,320,000 Series 1998A and Series 1998C, respectively, and partial refunding of \$7,560,000 of Series 1998B) with an average interest rate of 6.13% on January 7, 2011. The current refunding was done to reduce aggregate debt service payments by \$3,622,070 over the next 17 years and obtain an economic gain (difference between the present values of the old and new debt service payments, net of funds on hand of \$1,295,096) of \$1,665,907.

As of June 30, 2011, the Airport restricted \$7,137,225 in revenue bond reserve cash funds for all revenue bonds. Annual principal and interest payments on all revenue bonds are expected to require roughly 56% of the Airport net revenues.

- C. In October 2009, the Airport entered into a contract with the State of Iowa Department of Natural Resources (“DNR”) to begin a recycling program under the agency’s Solid Waste Alternatives Program (“SWAP”). Under the terms of the contract, the DNR provided the Airport with a zero-interest loan of \$39,250 and a forgivable loan of \$20,000 to cover the costs of starting the recycling program. Quarterly payments are due from October 15, 2010 through July 15, 2014. As of June 30, 2011, the Airport is in compliance with all terms and conditions in the contract.

As of June 30, 2011, the Airport’s long-term debt matures as follows:

Year ended June 30,	Airport Revenue Bonds		SWAP Loan
	Principal	Interest	Principal
2012	1,450,000	2,344,136	9,812
2013	1,490,000	2,313,947	9,812
2014	1,525,000	2,275,400	9,812
2015	1,580,000	2,223,108	2,998
2016	1,630,000	2,164,190	-
2017-2021	9,380,000	9,653,218	-
2022-2026	11,975,000	7,189,759	-
2027-2031	10,860,000	4,004,853	-
2032-2035	8,405,000	1,137,725	-
<b>Total</b>	<b>\$ 48,295,000</b>	<b>\$ 33,306,336</b>	<b>\$ 32,434</b>



## Des Moines International Airport

### Notes to Financial Statements

#### *Cooperative Financing Agreement*

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

The bonds are secured by the property financed, and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the facilities transfers to the private sector entity served by the bond issuance. The Airport, the City, or any political subdivisions thereof bear no obligation in any way for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the Airport's financial statements. As of June 30, 2011, the principal amount outstanding is \$5,370,000, and the bonds are scheduled to mature as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Balance Outstanding</u>
2012	225,000	5,145,000
2013	235,000	4,910,000
2014	245,000	4,665,000
2015	255,000	4,410,000
2016	265,000	4,145,000
2017-2021	1,490,000	2,655,000
2022-2026	1,830,000	825,000
2027-2028	825,000	-
Total	<u>\$ 5,370,000</u>	<u>\$ -</u>

## Des Moines International Airport

### Notes to Financial Statements

#### *Accrued Employee Benefits*

Salaries, benefits and direct operating costs of police officers assigned to the Airport are included with personnel expense, and future benefits payable are recorded with the Airport's accrued employee benefits and accrued post-retirement benefits (see Note 9 for further details regarding the post-retirement benefits for City employees). The total cost is shown net of FAA reimbursements of \$203,968 and \$203,493, received during the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010, including those changes occurring during the fiscal years, is as follows:

Balance June 30, 2009	855,104
Additions	468,631
Payments	<u>(462,012)</u>
Balance June 30, 2010	861,723
Additions	637,544
Payments	<u>(521,012)</u>
Balance June 30, 2011	978,255
Less: current portion	<u>329,444</u>
Non-current portion	<u>\$ 648,811</u>

#### (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, 2011 and 2010, totaled \$2,527,707 and \$2,524,907, respectively, and are included in operating expenses or capitalized as appropriate.

As part of the above payments, the City imposes payments in lieu of taxes ("PILOT") charges on the Airport. PILOT charges imposed for the fiscal years ended June 30, 2011 and 2010, totaled \$592,923 and \$578,265, 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 passenger airlines provide commercial air service at the Airport either directly or through an affiliated carrier. Seven airlines have executed a signatory airline agreement. The agreement provides funding for the ongoing maintenance, operations, debt service with coverage, and capital improvements

## Des Moines International Airport

### Notes to Financial Statements

of the Airport through various rates and charges. In addition, the Airport accommodates several air cargo carriers, two of which have also executed a similar signatory airline agreement. All of the current signatory agreements expire on June 30, 2013.

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

A portion of the Airport's revenue is provided by concession agreements and other lease agreements which are not directly related to providing commercial air service. These agreements relate to a portion of the Airport's buildings, land, and the privilege to do business at the Airport, and have terms ranging from one to thirty years. Rents received under all concession and other lease agreements totaled \$4,086,151 and \$3,806,874 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, rents received from these concession agreements were \$3,216,141 and \$2,734,349, including amounts received under their contingent clauses totaling \$754,746 and \$619,219, respectively.

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

<u>Year ended June 30,</u>	<u>Amount</u>
2012	2,973,093
2013	2,219,850
2014	2,032,053
2015	1,937,069
2016	1,225,259
2017-2021	3,140,997
2022-2026	284,695
2027-2031	127,501
2032-2036	127,501
2037-2041	127,501
Total	<u>\$ 14,195,519</u>

At June 30, 2011, the net book value of leased property is as follows:

Cost of Leased Land	\$ 19,884,059
Cost of Leased Buildings	54,985,611
Accumulated Depreciation of Leased Buildings	<u>(9,523,207)</u>
Net book value of Leased Fixed Assets	<u>\$ 65,346,463</u>

#### **(8) Retirement System**

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

Plan members are required to contribute 4.5% and 4.3% of their annual covered salary for the fiscal years ending June 30, 2011, and June 30, 2010, respectively, and the Airport is required to contribute 6.95%



## Des Moines International Airport

### Notes to Financial Statements

and 6.65% of the eligible payroll, respectively, for the years ended June 30, 2011 and June 30, 2010. State Statute establishes contribution requirements. The Airport's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$348,360, \$304,989, and \$318,997, 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 104<sup>th</sup> Street, Urbandale, IA 50322.

MFPRSI plan members are required to contribute a percentage of their annual covered salary, and the City is required to contribute at an actuarially determined rate of annual covered payroll. The contribution requirements of plan members and the City are established, and may be amended by statute. The contribution rates for the fiscal year ended June 30, 2011, were 9.4% for the plan members and 19.9% for the Airport. For the fiscal year ended June 30, 2010, the Airport contribution rate was 17.0%. The Airport's contributions, through the City, to MFPRSI for the years ended June 30, 2011, 2010, and 2009 were \$281,098, \$232,893, and \$271,612, respectively. For each of the years, the actual contributions were equal to the required contributions.

#### (9) Post-retirement Benefits

##### *Plan description*

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

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 62. Retiree expenses are then offset by monthly contributions.

##### *Funding policy*

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

The required contribution is based on projected pay-as-you-go financing. For the fiscal years ending June 30, 2011 and 2010, the Airport contributed \$17,781 and \$16,165, respectively.

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

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45.

## Des Moines International Airport

### Notes to Financial Statements

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2011, as it pertains to the Airport, the amount actuarially contributed to the plan, and changes in the City's annual OPEB obligation:

Annual required contribution	\$	75,508
Interest on net OPEB obligation		6,962
Adjustment to annual required contribution		<u>(5,952)</u>
Annual OPEB cost(expense)		76,518
Contributions and payments made		<u>(17,781)</u>
Increase in net OPEB obligation		58,736
Net OPEB obligation - July 1, 2010		<u>154,709</u>
Net OPEB obligation - June 30, 2011	\$	<u><u>213,445</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended June 30, 2011, 2010, and 2009, follows. Fiscal year 2008 was the transition year for GASB Statement No. 45.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 76,518	23.23%	\$ 213,445
2010	\$ 73,919	21.86%	\$ 154,709
2009	\$ 60,322	21.00%	\$ 96,955

#### ***Funded status and funding progress***

As of July 1, 2009, the most recent actuarial valuation date, the plan was not funded. The Airport's portion of the City's actuarial accrued liability for benefits was \$569,254 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability ("UAAL") of \$569,254. The covered payroll (annual payroll of active employees covered by the plan) was \$6,520,388 and the ratio of the UAAL to the covered payroll was 9%.

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

#### ***Actuarial methods and assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and

# Des Moines International Airport

## Notes to Financial Statements

plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5% discount rate, an annual health care cost trend rate of 9.5% reduced by decrements of 0.5% annually to an ultimate rate of 5%. The UAAL is being amortized as an open level dollar. The amortization of UAAL is done over a period of 30 years.

### (10) Deferred Compensation

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

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

### (11) Commitments and Contingencies

#### *Grants*

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

The Airport has also received funds from the State of Iowa Department of Natural Resources Solid Waste Alternatives Program (SWAP) totaling \$59,250 to enhance recycling efforts. The funds were granted in the form of a zero-interest loan, \$20,000 of which is forgivable provided the Airport meets specific criteria over a period of four years, ending July 2014. According to the terms of the loan, if the Airport fails to meet the requirements of the program as of the final reporting date of April 15, 2011, the forgivable balance becomes due and payable at that time. The Airport successfully met those requirements for FY2011, and is on track to meet all criteria for forgiveness of the loan by July 2014.

#### *Construction Costs*

The Airport has additional commitments for signed construction contracts of approximately \$3,060,310 at June 30, 2011. These commitments will be funded by various sources including revenue, bonds, federal and state grants, operating revenues, PFC funds, and private contributions.

### (12) Risk Management

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

## Des Moines International Airport

### Notes to Financial Statements

#### (13) Pending Pronouncements

As of June 30, 2011, the GASB had issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Issued July 2011, the statement will be effective for the Airport beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets*. The Airport's management has not yet determined the effect these statements will have on the Airport's financial statements.

#### (14) Major Customer

One customer accounted for 11.1% of total operating revenues for the year ended June 30, 2011. This customer provided 12.5% of total operating revenue for the year ended June 30, 2010.

#### (15) Subsequent Events

- A. On February 14, 2011, the Des Moines City Council passed an ordinance creating the Des Moines Airport Authority. The Authority officially came into being on November 1, 2011, at which time all assets (except land) of the Airport passed from the City's control to the Authority. The Authority is led by a five member Board of Directors whose members are nominated by the City Council and appointed by the Mayor.

The City continues to own the land underlying the Airport, and the Authority has a 99-year lease on that land. All City employees working for the Aviation Department were hired by the Authority as of November 14, 2011; represented employees were given the option to exercise their bumping rights to remain employed by the City of Des Moines. The Authority assumed the existing union contracts with the City; when those contracts expire on June 30, 2012, the Authority will negotiate new contracts independent of the City.

As defined in the agreement between the Authority and the City, the Authority will continue to use City services (accounting, payroll, human resources, police, etc.). The City, then, will function as a service provider to the Authority, thus preserving the Authority's autonomy and the City's budgeted resources. The Authority's separation from the City is intended to be revenue-neutral to the City, as the Authority will continue to pay for those services the Airport already receives from the City.

- B. Due to a change in its business plans, United Parcel Service ("UPS") requested to be released from three of its leases with the Airport during FY2011. The affected properties are 3251 Army Post Road (aka "UPS Business Center"), 2870 Army Post Road, and a parcel of land upon which UPS had intended to build a large parcel sorting facility. Combined rents for all three facilities totaled \$57,859.33 per month.

## **Des Moines International Airport**

### **Notes to Financial Statements**

Airport and City staff negotiated a cash settlement with UPS, which was approved by the City Council on October 10, 2011. The lease termination agreement transaction was completed on October 30, 2011, with a payment from UPS of \$7.33 million.



Des Moines International Airport

Required Supplementary Information  
Other Post-employment Benefit Plan

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**SCHEDULE OF FUNDING PROGRESS**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2011	7/1/2009	\$ -	\$ 569,254	\$ 569,254	0.00%	\$ 6,520,388	8.73%
2010	7/1/2009	\$ -	\$ 569,254	\$ 569,254	0.00%	\$ 6,146,236	9.26%
2009	7/1/2007	\$ -	\$ 447,085	\$ 447,085	0.00%	\$ 6,520,628	6.85%

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

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2009. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0 – 9.5 percent; discount rate of 4.5 percent
4. The amortization method is open, level dollar over 30 years.



**Independent Auditor's Report on Compliance with  
Requirements that Could Have a Direct and Material  
Effect to the Passenger Facility Charge Program and on  
Internal Control Over Compliance**

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 types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2011.

**Internal Control Over Compliance**

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

#### **Schedule of Expenditures of Passenger Facility Charges**

We have audited the basic financial statements of the City of Des Moines, Iowa, which includes the Des Moines International Airport, an enterprise fund of the City, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 8, 2011. 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 management, 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*

Des Moines, Iowa  
December 8, 2011



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**PFC Revenue and Disbursement Schedule  
Des Moines International Airport  
For the Fiscal Year Ended June 30, 2011**

	FY2010 Program Total	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Quarter 3 Jan - Mar	Quarter 4 Apr - Jun	FY2011 Total	FY2011 Closeouts	FY2011 Program Total
<b>Revenue</b>								
Collections	21,521,450	977,802	957,494	863,002	989,090	3,787,388		25,308,838
Interest	1,714,843	252	568	400	337	1,557		1,716,400
<b>Total Revenue</b>	<u>\$ 23,236,293</u>	<u>\$ 978,054</u>	<u>\$ 958,062</u>	<u>\$ 863,402</u>	<u>\$ 989,427</u>	<u>\$ 3,788,945</u>	<u>\$ -</u>	<u>\$ 27,025,238</u>
<b>Financing Adjustment to Cumulative Revenue</b>								
Revenue Adjustment for Closed Applications**	<u>\$ (76,373)</u>							<u>\$ (76,373)</u>
<b>Disbursements</b>								
<b>Application 93-01</b>								
Baggage Claim Expansion	5,772,392	-	-	-	-	-	-	5,772,392
Concourse Restroom Expansion	244,485	-	-	-	-	-	-	244,485
Curbside & Roadway Canopy	2,242,410	-	-	-	-	-	-	2,242,410
	<u>\$ 8,259,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,259,287</u>
<b>Application 97-02</b>								
Runway 5/23, IA Hwy 28 & Army Post Rd	8,305,696	-	-	-	-	-	-	8,305,696
Terminal Concourse Chiller Update	553,501	-	-	-	-	-	-	553,501
Reconstruct Terminal Apron	835,368	-	-	-	-	-	-	835,368
	<u>\$ 9,694,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,694,565</u>
<b>Application 98-03</b>								
Terminal (Lobby) Restroom Renovation	683,139	-	-	-	-	-	-	683,139
Terminal Passenger Skywalk	1,284,125	-	-	-	-	-	-	1,284,125
Terminal Passenger Skywalk Lobby	2,331,146	-	-	-	-	-	-	2,331,146
Terminal Capacity Enhancement - Phase 2	2,637,325	-	-	-	-	-	-	2,637,325
Terminal Ticket Counter Reconfiguration	238,714	-	-	-	-	-	-	238,714
	<u>\$ 7,174,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,174,449</u>
<b>Application 99-04</b>								
Stormwater Detention Facility	1,726,806	-	-	-	-	-	-	1,726,806
	<u>\$ 1,726,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,726,806</u>
<b>Application 00-05</b>								
South Passenger Apron Expansion & Rehab	788,095	-	-	-	-	-	-	788,095
Terminal Elevator - C Concourse	183,851	-	-	-	-	-	-	183,851
	<u>\$ 971,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 971,946</u>
<b>Application 03-06</b>								
Glycol Tank Storage Area	611,860	-	-	-	-	-	-	611,860
Passenger Loading Bridges	1,925,485	-	-	-	-	-	-	1,925,485
Passenger Terminal Fire Suppression System	317,438	-	-	-	-	-	-	317,438
Passenger Terminal Stair Expansion	4,861,164	-	-	-	-	-	-	4,861,164
Passenger Terminal Paging System	1,000,000	32,977	-	-	-	32,977	-	1,032,977
	<u>\$ 8,515,947</u>	<u>\$ 32,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,977</u>	<u>\$ -</u>	<u>\$ 8,548,924</u>
<b>Application 04-07</b>								
Replace Snow Removal Equipment	1,496,078	-	-	-	-	-	-	1,496,078
Acquire Snow Removal Equipment	-	-	-	-	-	-	-	-
ARFF-Aircraft Rescue Fire Fighting Vehicle	579,889	-	-	-	-	-	-	579,889
	<u>\$ 2,075,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,075,967</u>
<b>Application 05-08</b>								
Outbound Baggage Make-Up Belts	-	-	-	-	-	-	-	-
Full-Depth Replacement of Signature Aprons	1,192,462	-	-	-	-	-	-	1,192,462
Americans with Disabilities Act Transition Project	137,833	-	-	-	-	-	-	137,833
Automated Access Control System Upgrade	66,496	-	-	46,280	139,554	185,834	-	252,330
	<u>\$ 1,396,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,280</u>	<u>\$ 139,554</u>	<u>\$ 185,834</u>	<u>\$ -</u>	<u>\$ 1,582,625</u>
<b>Application 05-09</b>								
Airport Access Control System	34,626	-	-	-	-	-	-	34,626
Runway 31 Category II Centerline Lights	-	-	-	-	-	-	-	-
Construct Runway 5/23 Extension	-	-	-	-	-	-	-	-
Extend Taxiway "P"	-	-	-	-	-	-	-	-
Noise Compatibility Program	-	-	-	-	-	-	-	-
Runway/Taxiway Signage	-	-	-	47,324	-	47,324	-	47,324
Terminal Apron Reconstruction	-	-	-	-	-	-	-	-
South Cargo Ramp Extension	1,674,952	-	-	-	-	-	-	1,674,952
Southeast Service Road Relocation	65,197	-	-	-	-	-	-	65,197
Rehabilitation of Runway 13L/31R	606,039	-	-	-	-	-	-	606,039
Security Gate Upgrade	7,500	-	-	-	-	-	-	7,500
Land Acquisition - Runway 13R/31L	791,772	-	-	2,288	127,206	129,494	-	921,266
	<u>\$ 3,180,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,612</u>	<u>\$ 127,206</u>	<u>\$ 176,818</u>	<u>\$ -</u>	<u>\$ 3,356,904</u>
<b>Application 07-10</b>								
Terminal Modifications for EDS Deployment	1,112,758	-	-	-	-	181,080	-	1,293,838
Full Depth Replacement - N Elliott Apron	1,680,000	-	-	-	-	372,774	-	2,052,774
Security Gate Expansion	165,000	-	-	-	-	-	-	165,000
Master Plan Update/Part 150 Update	35,559	-	-	-	-	-	-	35,559
Terminal Enhancements	-	-	-	645,357	984,083	1,629,440	-	1,629,440
Airport Common-Use Terminal System	1,876,518	-	-	552	-	552	-	1,877,070
	<u>\$ 4,869,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645,909</u>	<u>\$ 1,537,937</u>	<u>\$ 2,183,846</u>	<u>\$ -</u>	<u>\$ 7,053,681</u>
<b>Application 08-11</b>								
Concourse A&C Enhancements (AIR165)	2,251,366	-	-	1,500,633	-	1,500,633	-	3,751,999
E Cargo Pavement Reconstruction (AIR172)	34,552	-	-	-	-	-	-	34,552
Taxiway P Reconstruction (AIR161)	156,631	-	-	-	-	-	-	156,631
Snowblower Head Replacement	153,988	-	-	-	-	-	-	153,988
	<u>\$ 2,596,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,500,633</u>	<u>\$ -</u>	<u>\$ 1,500,633</u>	<u>\$ -</u>	<u>\$ 4,097,170</u>
<b>Application 09-12</b>								
Runway 13R/31L Construction (AIR151)	12,795	-	-	11,178	-	11,178	-	23,973
	<u>\$ 12,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,178</u>	<u>\$ -</u>	<u>\$ 11,178</u>	<u>\$ -</u>	<u>\$ 23,973</u>
Amounts paid for interest - PFC Borrowing	\$ 2,046	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,046
<b>Total Disbursements</b>	<u>\$ 22,850,004</u>	<u>\$ 32,977</u>	<u>\$ -</u>	<u>\$ 2,253,612</u>	<u>\$ 1,804,697</u>	<u>\$ 4,091,286</u>	<u>\$ -</u>	<u>\$ 26,741,290</u>
<b>Net PFC Revenue (Rev - Disb)</b>	<u>\$ 509,916</u>	<u>\$ 945,077</u>	<u>\$ 958,062</u>	<u>\$ (1,390,210)</u>	<u>\$ (815,270)</u>	<u>\$ (302,341)</u>	<u>\$ -</u>	<u>\$ 207,575</u>

Note 1:

\* Amounts may differ by an immaterial amount due to rounding (when compared to the FY2009 report)

Note 2:

\*\* PFC Applications 93-01, 97-02, 99-04, & 00-05 were closed during FY2008. Application 98-03 was closed during FY2009. Cumulative revenue adjustments for financed projects were \$24,985 for Application 97-02, \$205 for Application 99-04, and \$51,183 for Application 98-03.

Net assets restricted for PFC funds

	2011	2010
Net PFC revenue	\$ 207,575	\$ 509,916
PFC charges receivable	580,624	559,203
	<u>788,199</u>	<u>1,069,119</u>