

DES MOINES INTERNATIONAL AIRPORT

Financial Statements

June 30, 2007 and 2006

(with Auditor's Report thereon)

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Des Moines International Airport Board and the
Honorable Mayor and Members of the City Council
Des Moines International Airport
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the accompanying financial statements of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the City of Des Moines, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

McGladrey & Pullen, LLP

Davenport, Iowa
November 15, 2007

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

DES MOINES INTERNATIONAL AIRPORT

Statements of Net Assets

June 30, 2007 and 2006

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

See accompanying notes to financial statements

Liabilities and Net Assets

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

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements.

(continued on page 6)

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

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

See accompanying notes to financial statements.

Des Moines International Airport

Notes to Financial Statements

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

Nature of Reporting Entity

The Des Moines International Airport (the "Airport") provides an airline terminal, runways and other aeronautical facilities in Des Moines, Iowa, for use by passenger, cargo, military and private aircraft. In addition, the Airport provides parking services and facilities for various tenant concessionaires to conduct business.

The Airport meets the criteria set forth in accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB") to be included as an Enterprise Fund of the City of Des Moines (the "City"). As such, the Airport is an integral part of the City and is presented in the City's financial statements. An Enterprise Fund is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There are no other funds of the City combined with the Airport in the accompanying financial statements. All accounts established by bond ordinances related to the Airport have been combined for reporting purposes in the accompanying financial statements.

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

Summary of Significant Accounting Policies

General – In accordance with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Airport, as a Enterprise Fund of the City, has elected to apply all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

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

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

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

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

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

Des Moines International Airport

Notes to Financial Statements

Passenger Facility Charge (PFC) funds – These assets represent PFC charges collections based on an approved FAA application to “impose” such charges on enplaned passengers at the Airport. These funds are restricted for designated capital projects and any debt incurred to finance the construction of these projects. The Airport recognizes and reports as non-operating revenue those PFCs that have been collected when all conditions have been met that entitles the Airport to retain the PFCs. Any PFCs received prior to this time for certain designated capital projects are reported as deferred revenue.

Revenue Bond funds – These assets represent general airport revenue bond reserve funds that must equal at least one year’s principal and interest payments.

Compensated Absences – Vacation and sick leave vest over time and may be carried forward for subsequent use or payment upon termination, retirement, or death. Such sick leave that is paid upon death or retirement is paid at a rate and amount determined by the classification of the employee. These compensated absences are accrued as accrued employee benefits as they are earned.

Capital Assets – Capital assets consist of buildings and structures, parking, roadways, runways, taxiways, ramps and other airfield improvements, land improvements, fencing, lighting and signage, and equipment, furniture, and fixtures at the Airport and are stated at cost. Costs associated with the ongoing construction at the Airport are included in construction-in-process. Maintenance and repairs are expensed as incurred, and depreciation expense is provided on the straight-line method over the estimated useful lives of the depreciable property and equipment as follows:

Buildings	40 years
Improvements	20-50 years
Machinery and Equipment	5-10 years

Interest expense on obligations incurred specifically to finance capital assets has been capitalized during the construction period net of interest earned on related investments acquired with proceeds of the related tax-exempt borrowings.

Rates and Charges - Annually, the Airport establishes airline rentals, landing fees, and other charges sufficient to recover the costs of operations, debt service, and maintenance related to the airfield, terminal building, aircraft parking apron, and other space utilized by the airlines. Any over or under collection of airline revenues in excess of or less than actual costs related to those cost (rate) centers is credited or billed to the airlines ratably over the subsequent fiscal year. Additionally, under current signatory airline agreements, the Airport shares net revenue, calculated in accordance with those agreements, with the signatory airlines.

Passenger Facility Charges – In 1993 the FAA issued a Record of Decision to the Airport authorizing the collection and expenditure of Passenger Facility Charge (PFC) revenue. PFC’s are fees imposed on enplaning passengers by airports for the purpose of generating resources for airport projects that increase capacity, increase safety, or mitigate noise impacts. The Airport first received PFC approval at a level of \$3.00 per passenger. Since the initial approval, the Airport has applied for and received approval for numerous other projects. In 2001, it was approved that the collection level be raised to \$4.50 per passenger. As the approved projects were subsequently completed, portions of the PFC program have been closed. The currently-authorized collection level and planned project expenditures under the program total approximately \$50.0 million. The City’s PFC collection authority extends through September 30, 2017.

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

Des Moines International Airport

Notes to Financial Statements

Debt Issue Costs, Discounts and Premiums – Debt issuance costs, discounts and premiums are deferred and amortized over the life of the debt using the bonds-outstanding method.

Inventories – Inventories are stated at cost and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time the supplies are relieved from inventory for use. Inventories are priced on the first-in, first-out basis.

Revenue Recognition – The various types of Airport revenue are recognized as follows:

Airfield Landing Fees – Landing fees are principally generated from scheduled passenger and cargo carriers, as well as non-scheduled commercial aviation, and are based on the landed weight of the aircraft. The estimated landing fee structure is determined annually pursuant to an agreement between the Airport and each of the signatory airlines based on the operating budget of the Airport and is adjusted at year-end for the actual landed weight of all aircraft. Landing fees are recognized as revenue when the related facilities are utilized.

Terminal Rents and Concessions – Rental and concession fees are generated from airlines, parking facilities, food and beverage operations, rental car agencies, advertisers and other commercial tenants. Leases are for terms from one to ten years and generally require rentals based on the volume of business. Specific minimum annual rental payments are required for some of the leases. Rental revenue is recognized over the life of the respective leases and concession revenue is recognized based on reported concessionaire revenue.

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

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

Operating and non-operating revenues and expenses – Operating revenues result from exchange transactions of airport activities. Non-operating revenues result from non-exchange transactions such as investment earnings and passenger facility charges. Expenses associated with operating the Airport facilities are 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. The City maintains a cash and investment pool that is available for use by all funds, where the resources have been pooled in order to maximize investment opportunities. Investment income is allocated to the various funds based on their respective participation and in accordance with accounting principles generally accepted in the United States of America. In addition, investments are separately held by several of the City's funds, including the Airport enterprise fund.

Des Moines International Airport

Notes to Financial Statements

Authorized Investments

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

Interest Rate Risk

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

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

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

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of June 30, 2007, the Airport's investments were rated as follows:

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

Concentration of credit risk

The City's investment policy seeks diversification to reduce overall portfolio risk while attaining benchmark average rates of return to meet all anticipated cash requirements. The policy requires that with the exception of U.S. Treasury securities, no more than 50% of the City's total investment portfolio will be invested in a single security type, and no more than 25% with a single financial institution. The City will invest in securities with varying maturities. Certificates of deposit will be limited to the amount approved by City Council for each financial institution in accordance with Chapter 12C of the Code of Iowa. Prime bankers' acceptances and commercial paper are limited as explained under authorized

Des Moines International Airport

Notes to Financial Statements

investments, above. The City's investments are in accordance with these policies regarding diversification. The investment in the FHLMC 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, 2007, 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, 2007, 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, 2007 and 2006, including changes occurring each of the fiscal years, is as follows:

Des Moines International Airport

Notes to Financial Statements

	Balance June 30, 2005	Additions	Transfers	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	<u>128,914,717</u>	<u>13,779,500</u>	<u>(22,847,925)</u>	<u>-</u>	<u>119,846,292</u>
Depreciable assets:					
Buildings & building impr.	48,847,877	-	18,155,574	-	67,337,713
Improvements	160,029,229	-	4,692,351	-	164,387,318
Machinery and equipment	13,814,482	1,683,448	-	(50,612)	15,447,318
Total depreciable assets	<u>222,691,588</u>	<u>1,683,448</u>	<u>22,847,925</u>	<u>(50,612)</u>	<u>247,172,349</u>
Total capital assets	<u>351,606,305</u>	<u>15,462,948</u>	<u>-</u>	<u>(50,612)</u>	<u>367,018,641</u>
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	<u>97,709,740</u>	<u>7,616,767</u>	<u>-</u>	<u>(45,551)</u>	<u>105,280,956</u>
Net capital assets	<u>\$ 253,896,565</u>	<u>\$ 7,846,181</u>	<u>\$ -</u>	<u>\$ (5,061)</u>	<u>\$ 261,737,685</u>
	Balance June 30, 2006	Additions	Transfers	Deletions	Balance June 30, 2007
Non-depreciable assets:					
Land	\$ 6,021,889	\$ -	\$ 1,532,892	\$ (32,000)	\$ 47,522,781
Construction in progress	73,824,403	13,057,901	(65,723,109)	-	21,159,195
Total non-depr. assets	<u>119,846,292</u>	<u>13,057,901</u>	<u>(64,190,217)</u>	<u>(32,000)</u>	<u>68,681,976</u>
Depreciable assets:					
Buildings & building impr.	67,337,713	-	11,884,347	-	79,222,060
Other improvements	164,387,318	-	52,305,870	-	216,693,188
Machinery and equipment	15,447,318	513,776	-	(57,983)	15,903,111
Total depreciable assets	<u>247,172,349</u>	<u>513,776</u>	<u>64,190,217</u>	<u>(57,983)</u>	<u>311,818,359</u>
Total capital assets	<u>367,018,641</u>	<u>13,571,677</u>	<u>-</u>	<u>(89,983)</u>	<u>380,500,335</u>
Accumulated depreciation:					
Building	15,539,500	2,085,022	-	-	17,624,522
Improvements	79,849,769	6,523,837	-	-	86,373,606
Machinery and equipment	9,891,687	772,152	-	(52,188)	10,611,651
Total	<u>105,280,956</u>	<u>9,381,011</u>	<u>-</u>	<u>(52,188)</u>	<u>114,609,779</u>
Net capital assets	<u>\$ 261,737,685</u>	<u>\$ 4,190,666</u>	<u>\$ -</u>	<u>\$ (37,795)</u>	<u>\$ 265,890,556</u>

Construction-period interest costs of \$229,262 and \$227,537 have been reflected as capital asset additions for the years ended June 30, 2007 and 2006, respectively.

Des Moines International Airport

Notes to Financial Statements

(4) Short-Term Debt

The Airport's short-term debt at June 30, 2007 and 2006, consists of Non-PFC-Backed Commercial Paper (Series C). A summary of changes to the debt obligation occurring during each of the fiscal years is as follows:

	Non-PFC-backed, Series C Commercial Paper
Balance June 30, 2005	\$ 7,300,000
Issuances	14,600,000
Retirements	(14,600,000)
Balance June 30, 2006	\$ 7,300,000
Issuances	88,300,000
Retirements	(86,900,000)
Balance June 30, 2007	\$ 8,700,000

On November 29, 2000, the City established a Non-PFC-backed commercial paper facility, also supported by a direct-pay letter of credit from the same bank. This letter of credit was authorized in an amount not to exceed \$5,000,000. On October 8, 2003, the City entered into an amendment of this facility and letter of credit, which increased the authorized amount of borrowings to \$12,000,000. The note contains a covenant in which net revenues calculated in accordance with the agreement are not less than 110% of debt service requirements. The amounts outstanding under the Series C facility bear interest at variable rates as follows:

Rate	Amount	Maturity
3.69%	\$1,000,000	August 14, 2007
3.75%	5,000,000	July 6, 2007
3.80%	1,300,000	July 6, 2007
3.80%	1,400,000	August 14, 2007
	\$8,700,000	

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 which extends through June 30, 2008, the outstanding balance has been remarketed and reissued as necessary throughout the remaining term of the agreement. In addition, the Airport drew an additional \$1.4 million of principal on January 22, 2007. The line of credit was remarketed and reissued multiple times during the fiscal year ended June 30, 2007, as follows:

Des Moines International Airport

Notes to Financial Statements

Issue Date	Amount Issued	Maturity Date	Interest Rate
July 6, 2006	\$ 2,300,000	July 7, 2006	3.38%
July 6, 2006	5,000,000	August 2, 2006	3.49%
July 7, 2006	2,300,000	July 10, 2006	3.35%
July 10, 2006	2,300,000	July 11, 2006	3.23%
July 11, 2006	2,300,000	July 12, 2006	3.25%
July 12, 2006	1,000,000	October 10, 2006	3.75%
July 12, 2006	1,300,000	October 11, 2006	3.75%
August 2, 2006	5,000,000	August 3, 2006	3.44%
August 3, 2006	5,000,000	October 23, 2006	3.75%
October 10, 2006	1,000,000	February 12, 2007	3.57%
October 11, 2006	1,300,000	October 12, 2006	3.55%
October 12, 2006	1,300,000	February 12, 2007	3.70%
October 23, 2006	5,000,000	January 22, 2007	3.65%
January 22, 2007	5,000,000	March 6, 2007	3.64%
January 22, 2007	1,400,000	January 23, 2007	3.63%
January 23, 2007	1,400,000	March 6, 2007	3.64%
February 12, 2007	1,300,000	February 13, 2007	3.65%
February 12, 2007	1,000,000	June 5, 2007	3.67%
February 13, 2007	1,300,000	June 5, 2007	3.70%
March 6, 2007	5,000,000	May 21, 2007	3.66%
March 6, 2007	1,400,000	May 21, 2007	3.68%
May 21, 2007	5,000,000	May 29, 2007	3.78%
May 21, 2007	1,400,000	May 22, 2007	3.87%
May 22, 2007	1,400,000	May 29, 2007	3.95%
May 29, 2007	5,000,000	June 7, 2007	3.90%
May 29, 2007	1,400,000	May 30, 2007	3.85%
May 30, 2007	1,400,000	May 31, 2007	3.87%
May 31, 2007	1,400,000	June 1, 2007	3.86%
June 1, 2007	1,400,000	June 4, 2007	3.84%
June 4, 2007	1,400,000	June 7, 2007	3.80%
June 5, 2007	1,300,000	June 6, 2007	3.70%
June 5, 2007	1,000,000	August 14, 2007	3.69%
June 6, 2007	1,300,000	July 6, 2007	3.80%
June 7, 2007	5,000,000	July 6, 2007	3.75%
June 7, 2007	1,400,000	June 8, 2007	3.67%
June 8, 2007	1,400,000	June 11, 2007	3.73%
June 11, 2007	1,400,000	June 12, 2007	3.72%
June 12, 2007	1,400,000	June 13, 2007	3.80%
June 13, 2007	1,400,000	August 14, 2007	3.80%
<u>\$ 88,300,000</u>			

Each commercial paper facility contains certain compliance covenants for the City. Management expects that permanent financing will eventually replace the Series C line of credit. However, due to uncertain duration of construction funded by the Series C program, a specific date has not yet been identified to incorporate such permanent financing. The letter of credit agreement with the lending institution extends through June 30, 2008.

Des Moines International Airport

Notes to Financial Statements

(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, 2007 and 2006, 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, 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
Issuances	-	-	-	-	-	-
Retirements	(38,778)	(52,129)	(34,828)	(71,879)	(78,115)	(275,729)
Balance June 30, 2007	122,510	172,216	147,604	386,478	501,728	1,330,536
Less: current portion	(39,789)	(54,683)	(35,638)	(73,626)	(79,639)	(283,375)
Non-current portion	<u>\$ 82,721</u>	<u>\$ 117,533</u>	<u>\$ 111,966</u>	<u>\$ 312,852</u>	<u>\$ 422,089</u>	<u>\$ 1,047,161</u>

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 2013 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
2008	\$ 343,228	\$ 59,853	\$ 283,375
2009	338,081	46,817	291,264
2010	332,818	33,414	299,405
2011	221,330	19,630	201,700
2012	177,799	10,715	167,084
2013	91,127	3,418	87,708
Total	<u>\$ 1,504,383</u>	<u>\$ 173,847</u>	<u>\$ 1,330,536</u>

At June 30, 2007 and 2006, the net book value of the equipment purchased with capitalized lease notes payable was \$1,344,387 and \$1,604,676, respectively.

Des Moines International Airport

Notes to Financial Statements

Long-Term Debt

A summary of the Airport's long-term debt payable at June 30, 2007 and 2006, including changes occurring during the each of the fiscal years then ended, is as follows:

	Airport Revenue Bonds	GO Bonds - Airport Portion	Total
Balance June 30, 2005	\$ 40,750,000	\$ 1,311,000	\$ 42,061,000
Issuances	-	-	-
Retirements	(865,000)	(358,000)	(1,223,000)
Balance June 30, 2006	39,885,000	953,000	40,838,000
Issuances	-	-	-
Retirements	(900,000)	(334,000)	(1,234,000)
Balance June 30, 2007	38,985,000	619,000	39,604,000
Less: current portion	(950,000)	(233,000)	(1,183,000)
Non-current portion	\$ 38,035,000	\$ 386,000	\$ 38,421,000

- A. On April 1, 1998, the City of Des Moines issued \$42,670,000 of Aviation System Revenue Bonds (Series 1998 A, B, and C). The bonds are special obligations payable solely from and secured by a pledge of the net revenues of the Airport, subject to the prior lien on the net revenues of the Airport Revenue Capital Loan Notes. Payment of the principal of and interest on the bonds is guaranteed by a municipal bond insurance policy. Principal is payable annually, with interest paid semi-annually on July 1st and January 1st. Interest rates on the debt range from 4.25% to 6.95%. A discount on the sale of the bonds and bond issuance costs are being amortized over the term of the bonds. The unamortized discount totaled \$618,462 and \$665,424 at June 30, 2007 and 2006, respectively. Amortization expense of \$46,962 and \$47,996 was recorded in 2007 and 2006, respectively. In addition, at June 30, 2007, the Airport has restricted \$5,963,501 in revenue bond reserve cash funds.
- B. The City has issued several series of general obligation (GO) bonds. The GO bonds represent indebtedness of the City secured by the full faith and credit of the City. The Airport had previously been allocated a portion of proceeds of two series of GO Bonds, 1996D and 1996F. During the year ended June 30, 2004, the City paid the Series 1996D Bonds in full with the proceeds of new series 2004A. The Airport's portion of the 1996D Bonds at the time of the restructuring was \$520,000. In addition to the payoff amount of the 1996D bonds, a premium of \$25,846 was paid and is amortized over the term of the bonds. During the year ended June 30, 2005, the City paid the Series 1996F Bonds in full with the proceeds of new series 2005A. The Airport's portion of the 1996F Bonds at the time of the restructuring was \$941,000. In addition to the payoff amount of the bonds, premiums and bond issuance costs are being amortized over the term of the bonds. Interest and principal payments on portion of the GO Bonds allocated to the Airport are payable from Airport funds with interest rates ranging from 3.25% to 4.2%.

Des Moines International Airport

Notes to Financial Statements

At June 30, 2007, the Airport's long-term debt matures as follows:

Year ended June 30,	Airport Revenue Bonds		GO Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 950,000	\$ 2,166,530	\$ 233,000	\$ 23,676
2009	1,005,000	2,115,362	236,000	14,593
2010	1,050,000	2,061,045	150,000	5,190
2011	1,110,000	2,003,050	-	-
2012	1,170,000	1,940,888	-	-
2013-2017	6,895,000	8,621,451	-	-
2018-2022	9,075,000	6,386,796	-	-
2023-2027	11,950,000	3,424,720	-	-
2028-2029	5,780,000	334,635	-	-
Total	<u>\$ 38,985,000</u>	<u>\$ 29,054,477</u>	<u>\$ 619,000</u>	<u>\$ 43,459</u>

Accrued Employee Benefits

Salaries, benefits and direct operating costs of police officers assigned to the Airport are included with personnel expense, and future benefits payable are recorded with the Airport's accrued employee benefits. The total cost is shown net of FAA reimbursements of \$269,023 and \$267,235, received during the fiscal years ended June 30, 2007 and 2006, 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, 2007 and 2006, including those changes occurring during the fiscal years, is as follows:

Balance June 30, 2005	\$ 856,030
Additions	2,697,702
Payments	<u>(2,751,179)</u>
Balance June 30, 2006	802,553
Additions	353,838
Payments	<u>(289,704)</u>
Balance June 30, 2007	866,687
Less: current portion	<u>(280,373)</u>
Non-current portion	<u>\$ 586,314</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, 2007 and 2006, totaled \$2,587,640 and \$2,013,603, respectively, and are included in operating expenses or capitalized as appropriate.

Des Moines International Airport

Notes to Financial Statements

In addition to the above payments, the City imposes payments in lieu of taxes (“PILOT charges”) on the Airport. These charges are imposed in lieu of assessing property taxes. PILOT charges imposed for the fiscal years ended June 30, 2007 and 2006 totaled \$570,481 and \$547,395, respectively, and are classified as operating expenses.

(7) Operating Leases

Substantially all Airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual payments equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used (i.e., amortization). Other facilities at the Airport are charged to user lease agreements that provide for compensatory rental rates that have been designed to recover agreed-upon portions of costs incurred, including amortization and interest, in the terminal building, ramp, and airfield areas. Other facilities, to the extent they are leased under conventional agreements, are primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining public areas of the Airport.

Airline Agreements

Eight major passenger airlines provide commercial air service at the Airport either directly or through an affiliated carrier. All major airlines have executed a signatory airline agreement. The agreement provides funding for the ongoing maintenance, operations, debt service with coverage, and capital improvements of the Airport through various rates and charges. In addition, the Airport accommodates several air cargo carriers, three of whom have also executed a similar signatory airline agreement. All of the current signatory agreements will expire on June 30, 2008.

Non-airline and Concession Agreements

A portion of the Airport’s revenue is provided by concession agreements and other lease agreements which are not directly related to providing commercial air service. These agreements relate to a portion of the Airport’s buildings, land, and the privilege to do business at the Airport, and have terms ranging from one to thirty years. Rents received under all concession and other lease agreements totaled \$5,506,489 and \$4,726,548 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, rents received from these concession agreements were \$3,013,007 and \$2,623,772, including amounts received under their contingent clauses totaling \$647,299 and \$306,901, respectively.

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

Year ended		Amount
June 30,		
2008	\$	2,419,547
2009		2,262,811
2010		1,826,957
2011		1,714,930
2012		2,125,757
2013-2017		5,369,144
2018-2022		2,791,697
2023-2027		2,657,204
2028-2032		1,392,352
2033-2037		127,501
Total	\$	<u>22,687,900</u>

Des Moines International Airport

Notes to Financial Statements

At June 30, 2007, the net book value of leased property is as follows:

Cost of Leased Land	\$ 11,776,223
Cost of Leased Buildings	26,511,322
Accumulated Depreciation of Leased Buildings	<u>(3,515,388)</u>
Net book value of Leased Fixed Assets	<u>\$ 34,772,157</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 3.7% of their annual covered salary and the Airport is required to contribute 5.75% of the eligible payroll. State Statute establishes contribution requirements. The Airport's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005, were \$271,766, \$261,930, and \$249,489, respectively. For each year, the actual contributions were equal to the required contributions.

In addition, the Airport contributes, through the City, to the Municipal Fire and Police Retirement System of Iowa (MFPRSI) on behalf of police department officers assigned to its Airport division. The MFPRSI is a cost-sharing, multi-employer, defined benefit pension plan and provides retirement, disability and death benefits to plan members and beneficiaries. Benefit provisions are established by state statute, and vest after four years of accredited service. MFPRSI issues publicly available financial reports, which include financial statements and required supplementary information for the plan. The reports may be obtained by contacting the MFPRSI, 2836 104th Street, Urbandale, IA 50322.

MFPRSI plan members are required to contribute a percentage of their annual covered salary, and the City is required to contribute at an actuarially determined rate of annual covered payroll. The contribution requirements of plan members and the City are established, and may be amended by statute. The contribution rates for the fiscal year ended June 30, 2007 were 9.35% for the plan members and 27.75% for the Airport. For the fiscal year ended June 30, 2006, the Airport contribution rate was 17%. The Airport's contributions, through the City, to MFPRSI for the years ended June 30, 2007, 2006, and 2005 were \$401,031, \$390,359, and \$340,980, respectively. For each of the years, the actual contributions were equal to the required contributions.

(9) Post-retirement Benefits

Post-retirement benefits, other than pension benefits, are available to all full-time employees of the City of Des Moines. These benefits include certain health and dental care benefits. All full-time employees who retire at the normal retirement age are eligible to receive these benefits. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. Retirees are required to reimburse the City for a portion of the cost of coverage. The benefits covered 199 and 187 eligible retirees at June 30, 2007 and 2006, respectively.

(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

Des Moines International Airport

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

Construction Costs

The City has additional commitments for signed construction contracts for the Airport of approximately \$583,421 at June 30, 2007. 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.

(13) Pending Pronouncements

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

GASB Statement No. 43, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB) and supersedes existing guidance. This Statement had no effect on the current year financial statements.

In addition, the GASB has issued the following statements:

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

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the Airport beginning with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It

Des Moines International Airport

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also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the Airport beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27, issued May 2007, will be effective for the Airport beginning with its year ending June 30, 2008. This Statement more closely aligns the financial reporting requirements for pensions with those of other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Airport beginning with its year ending June 30, 2010. This statement provides guidance regarding how to identify, account for, and report intangible assets. This new standard characterizes an intangible asset as an asset that lack physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period.

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

(14) Subsequent Events

A. On May 21, 2007, the City Council approved a cooperative financing agreement between the Airport and a tenant, Elliott Aviation of Des Moines, Inc. ("Elliott"), to issue bonds for the purpose of financing a new facility for Elliott. Under the terms of the agreement (as authorized under Iowa Code Chapter 419), the City is to issue Special Facility Revenue Bonds in the amount of \$6,000,000 and lend the proceeds to Elliott for the construction of the new facility. The Special Facility Bonds were sold to investors on August 2, 2007. Elliott is responsible for all principal and interest payments and other fees associated with the bonds; as the bonds will be repaid solely from Elliott's loan payments and operating revenues, the City does not carry any financial risk.

B. The outstanding balance of the Airport's Commercial Paper Series C was remarketed and reissued on July 6, August 14, and November 6, 2007, as follows:

<u>Issue Date</u>	<u>Amount Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
July 6, 2007	\$ 6,300,000	August 14, 2007	3.70%
August 14, 2007	8,700,000	November 6, 2007	3.66%
November 6, 2007	8,700,000	January 7, 2008	3.44%

C. On September 19, 2007, the Airport received approval to collect and use PFCs for six different projects totaling \$7,662,500. In addition, two amendments related to the PFC program were approved on July 31, 2007. These amendments to previously-approved projects include an increase of \$640,000 (to a total of \$1 million) for a terminal paging system and deletion of a \$500,000 project related to baggage conveyor belts.

McGladrey & Pullen

Certified Public Accountants

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

Des Moines International Airport Board and the
Honorable Mayor and Members of the City Council
Des Moines International Airport
City of Des Moines, Iowa
Des Moines, Iowa

We have audited the financial statements of Des Moines International Airport, an enterprise fund of the City of Des Moines, Iowa as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Des Moines International Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Des Moines International Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Des Moines International Airport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Des Moines International Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McGladrey & Pullen, LLP

Davenport, Iowa
November 15, 2007