

Des Moines International Airport

Financial Statements

June 30, 2004 and 2003
(with Auditor's Report thereon)

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Net Assets	3 - 4
Statements of Revenues, Expenses and Changes in Net Assets	5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 21

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

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 year ended June 30, 2004, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa 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 audit provides 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, 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 year 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 and 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, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2004 on our consideration of the Des Moines International Airport'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 and 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 Audit Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Davenport, Iowa
October 28, 2004

DES MOINES INTERNATIONAL AIRPORT

Statements of Net Assets

June 30, 2004 and 2003

Assets			
Current assets		2004	2003
		<u> </u>	<u> </u>
Unrestricted assets:			
Cash and cash equivalents (note 2)	\$	102,584	\$ -
Accounts receivable (note 8)		1,985,470	2,011,561
Prepaid expenses		132,426	128,355
Amounts due from other governmental units		404,804	87,948
Amounts due from signatory airlines		743,360	507,855
Inventories		43,126	38,875
Deferred asset (note 5)		43,284	43,741
		<u> </u>	<u> </u>
Total current unrestricted assets		3,455,054	2,818,335
		<u> </u>	<u> </u>
Restricted assets:			
Cash and cash equivalents (note 2)		7,426,749	3,606,878
Investments (note 2)		10,618,397	9,989,339
Accrued interest receivable		85,662	82,485
Passenger facility charges receivable		675,606	631,358
		<u> </u>	<u> </u>
Total current restricted assets		18,806,414	14,310,060
		<u> </u>	<u> </u>
Total current assets		22,261,468	17,128,395
		<u> </u>	<u> </u>
Noncurrent assets			
Capital assets (notes 3, 4 and 5):			
Land		42,591,302	42,086,840
Buildings, improvements and equipment, net of accumulated depreciation		126,152,247	131,603,892
Construction in process		69,361,478	52,497,135
		<u> </u>	<u> </u>
Total capital assets		238,105,027	226,187,867
		<u> </u>	<u> </u>
Deferred asset (note 5)		628,310	668,087
		<u> </u>	<u> </u>
Total noncurrent assets		238,733,337	226,855,954
		<u> </u>	<u> </u>
Total assets	\$	<u>260,994,805</u>	\$ <u>243,984,349</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

Current liabilities	2004	2003
Payable from unrestricted assets:		
Accounts and warrants payable	\$ 705,225	\$ 1,559,730
Accrued expenses	229,739	149,853
Accrued employee benefits (note 5)	274,440	392,448
Deposit payments held by Airport	110,400	111,250
Amounts payable to City of Des Moines	-	661,106
Accrued interest payable	1,189,605	1,194,880
Short-term notes payable (note 4)	5,300,000	3,450,000
Current maturities of capitalized leases (note 5)	261,129	180,440
Current maturities of long-term debt (note 5)	1,496,000	1,228,000
Total liabilities payable from unrestricted assets	9,566,538	8,927,707
Payable from restricted assets:		
Construction-related accounts and warrants payable	2,670,819	2,951,808
Accrued interest payable	8,578	7,052
Short-term notes payable (note 4)	1,900,000	3,900,000
Total liabilities payable from restricted assets	4,579,397	6,858,860
Total current liabilities	14,145,935	15,786,567
Noncurrent liabilities		
Accrued employee benefits (note 5)	514,575	482,445
Capitalized leases (note 5)	1,874,581	1,404,087
Long-term debt, net of discount / premium (note 5)	41,417,445	43,036,683
Total noncurrent liabilities	43,806,601	44,923,215
Total liabilities	57,952,536	60,709,782
Net Assets		
Investment in capital assets, net of related debt (notes 3 and 5)	186,527,466	173,700,485
Restricted net assets:		
Capital Projects	12,977,017	8,201,200
Debt Service	3,150,000	3,150,000
Unrestricted net assets	387,786	(1,777,118)
Total net assets	203,042,269	183,274,567
Total liabilities and net assets	\$ 260,994,805	\$ 243,984,349

DES MOINES INTERNATIONAL AIRPORT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues (notes 7 and 8)		
Landing fees	\$ 6,064,414	\$ 5,004,725
Facility rentals	4,726,051	5,303,818
Parking fees	5,984,108	5,664,725
Car rental concessions	1,675,598	1,825,163
Other concessions	795,423	792,020
Other airfield-related revenue	3,180,679	2,879,621
Other	385,674	378,400
Total operating revenues	<u>22,811,947</u>	<u>21,848,472</u>
Operating expenses (notes 5 and 6)		
Contractual services	5,317,761	5,784,145
Personnel services	7,983,171	7,990,806
Supplies	1,454,131	1,332,278
Depreciation	7,007,001	6,850,506
Amortization	93,778	94,502
Bad debt	-	8,335
Total operating expenses	<u>21,855,842</u>	<u>22,060,572</u>
Operating income / (loss)	<u>956,105</u>	<u>(212,100)</u>
Non-operating revenues (expenses)		
Investment earnings	206,030	521,404
Interest expense	(2,619,613)	(2,646,137)
Payments to City in lieu of taxes (note 6)	-	(1,929,813)
Gain on sale of assets	12,726	6,523
Passenger facility charge revenue	3,910,277	3,614,075
Capital grants	17,302,177	16,173,044
Total non-operating revenues / (expenses)	<u>18,811,597</u>	<u>15,739,096</u>
Net increase in net assets, before adjustments	19,767,702	15,526,996
Adjustment to net assets, cumulative effect of depreciation application (note 3)	<u>-</u>	<u>201,864</u>
Net increase in net assets	19,767,702	15,728,860
Net assets, beginning of year	<u>183,274,567</u>	<u>167,545,707</u>
Net assets, end of year	<u>\$ 203,042,269</u>	<u>\$ 183,274,567</u>

See accompanying notes to financial statements.

DES MOINES INTERNATIONAL AIRPORT
 Statements of Cash Flows
 For the Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Proceeds received by providing services	\$ 22,281,606	\$ 21,563,554
Payments to suppliers	(6,746,267)	(7,655,898)
Payments to employees	(8,069,049)	(7,523,241)
	7,466,290	6,384,415
Cash flows from investing activities		
Interest payments received	269,501	559,519
Investment maturities and sales	6,853,507	8,909,530
Investment purchases	(7,549,213)	(12,741,186)
	(426,205)	(3,272,137)
Cash flows from non-capital financing activities		
Net cash used in non-capital financing activities, payments on inter-fund accounts	(661,106)	(1,271,139)
Cash flows from capital financing activities		
Proceeds from intergovernmental capital grants	17,302,177	16,281,056
Passenger facility charges received	3,866,029	3,584,894
Interest paid	(2,623,362)	(2,675,499)
Principal paid on short-term notes payable	(8,450,000)	(16,950,000)
Principal paid on capitalized leases	(254,162)	(175,090)
Payments for bond issue costs	(3,628)	-
Proceeds from issuance of long-term bonds	545,846	-
Principal paid on long-term notes payable	(1,947,000)	(712,000)
Proceeds from issuance of short-term notes payable	8,300,000	16,200,000
Proceeds from sale of capital assets	14,230	12,855
Acquisition and construction of capital assets	(19,206,654)	(20,968,309)
	(2,456,524)	(5,402,093)
Net cash (used in) capital financing activities		
Net increase / (decrease) in cash and cash equivalents	3,922,455	(3,560,954)
Cash and cash equivalents, beginning of year	3,606,878	7,167,832
Cash and cash equivalents, end of year	\$ 7,529,333	\$ 3,606,878

See accompanying notes to financial statements.

(continued on page 7)

DES MOINES INTERNATIONAL AIRPORT

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income / (loss)	\$ 956,105	\$ (212,100)
Depreciation	7,007,001	6,850,506
Amortization	93,778	94,502
(Increases) in assets:		
Accounts receivable and prepaid expenses	(294,836)	(57,447)
Inventories	(4,251)	(2,663)
Due from signatory airlines	(235,505)	(444,322)
Increases / (decreases) in liabilities:		
Deposit payments held by Airport	(850)	1,465
Accounts and warrants payable	(49,160)	(378,367)
Accrued liabilities and employee benefits	(5,992)	532,841
	\$ 7,466,290	\$ 6,384,415
Schedule of non-cash activities:		
Non-cash investing activity, net decrease in fair value of investments	\$ (66,648)	\$ (67,503)
Non-cash capital and related financing activities:		
Additions to accounts payable for acquisition of capital assets	\$ -	\$ 805,345
Reduction of accounts payable by issuance of long-term debt	(805,345)	-
Additions to contracts payable for acquisition of capital assets	-	1,428,327
Payments on contracts payable for acquisition of capital assets	(280,989)	-
	\$ (1,086,334)	\$ 2,233,672

See accompanying notes to financial statements.

Des Moines International Airport

Notes to Financial Statements

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

Nature of Reporting Entity

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

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

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

Summary of Significant Accounting Policies

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

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

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

Receivables – Receivables are reported at their gross value and are reduced directly as amounts become uncollectible. When continued collection activity results in the receipt of amounts previously written off as uncollectible, revenue is recognized for the amount collected.

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

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

Des Moines International Airport

Notes to Financial Statements

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

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

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

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

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

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

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

Passenger Facility Charges - By letter dated November 29, 1993, the FAA issued a Record of Decision to the Airport that authorized the collection and expenditure of Passenger Facility Charge (PFC) revenue. PFCs are fees imposed on enplaning passengers by airports for the purpose of generating resources for airport projects that increase capacity, increase safety, or mitigate noise impacts. In the first application, the Airport received approval for a \$3 PFC to finance projects totaling approximately \$6.5 million. Collection for the first application began in March 1994. Records of decision on February 14, 1997, October 21, 1997, May 8, 1998, October 26, 1998, March 30, 1999, July 9, 1999, January 26, 2000, February 10, 2000, April 13, 2000, May 7, 2003, and June 14, 2004, amended the program, which increased the authorized collections and project expenditures to approximately \$39.0 million. Additionally, the May 18, 2001 record of decision amended the PFC rate to increase the collection level to \$4.50.

Charges collected and receivable are recorded as restricted assets. The balance in the restricted reserve asset accounts associated with PFCs totaled \$8,109,649 and \$7,443,472 at June 30, 2004 and 2003, respectively.

