

WILLIAMS GATEWAY AIRPORT AUTHORITY  
ANNUAL FINANCIAL REPORT  
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

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**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors  
Williams Gateway Airport Authority

We have audited the accompanying financial statements of the business-type activities of Williams Gateway Airport Authority (WGAA) as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of William Gateway Airport Authority'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 and the standards applicable to financial reports 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Williams Gateway Airport Authority, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-8 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. In addition, the budgetary information presented on page 31 is not a part of the financial statements, but is presented as supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2006 on our consideration of William Gateway Airport Authority'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 Auditing Standards* and should be considered in assessing the results of our audit.

*Cronstrom, Osuch & Company, P.C.*

Cronstrom, Osuch & Company, P.C.

October 12, 2006

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

The management of Williams Gateway Airport Authority (WGAA) offers readers this overview and analysis of WGAA's financial statements and activities for the fiscal years ended June 30, 2006 and June 30, 2005. In the following discussion, references to "WGAA" relate to Williams Gateway Airport Authority and references to "the Airport" relate to Williams Gateway Airport, which WGAA manages and operates.

**Financial Highlights**

- WGAA's assets exceeded liabilities at the end of the fiscal year by \$128,467,197 (net assets). Total net assets includes \$121,538,649 in capital assets, net of related debt. An additional \$3,225,292 of the total net assets are restricted for specific uses, and \$3,703,256 are unrestricted net assets. During the year, total net assets decreased by \$967,466.
- Total liabilities (primarily member loans) increased by \$8,210,389 (15.0%) to \$63,009,391.
- WGAA's operations produced a loss of \$8,880,021 for the fiscal year. Much of this loss is attributable to non-cash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants. Beyond that, however, WGAA still relies on its member governments to supplement the revenues it earns from providing airport services.
- During the year, member government loans to WGAA increased by \$3,390,000 to \$47,643,976 and accrued interest relating to that debt increased by \$1,543,515 to \$8,740,034. (The first of these notes comes due in the year 2020.)
- WGAA borrowed \$3,000,000 from the Arizona Department of Transportation to finance construction of a new hangar to be leased to Arizona State University.
- \$3.9 million in roads that were previously dedicated to the City of Mesa were returned to WGAA's books due to technical limitations by the Federal Aviation Administration (FAA) on transferring airport assets.
- Sales in WGAA's fueling operation were down 4% in volume, but up 12% in dollars to \$14,031,048.

**Overview of the Financial Statements:**

This discussion and analysis serves to introduce WGAA's financial statements. WGAA's basic financial statements have two components, 1) fund financial statements, and 2) notes to the financial statements. Since WGAA has only one fund, separate government-wide financial statements are not presented.

**Fund financial statements.**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, WGAA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of WGAA's activities are business-type activities and are accounted for in a single proprietary fund.

*Proprietary funds.* WGAA maintains its accounting records in a single enterprise fund. An enterprise fund is a type of proprietary fund used to report business-type activities.

The proprietary fund financial statements can be found on pages 10 -13 of this report.

The *statement of net assets* presents information on WGAA's assets and liabilities, with the difference between the two being shown as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of WGAA is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how WGAA's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 - 27 of this report.

**Financial Analysis**

Net assets may serve as a useful indicator of a government's financial position. At the end of the fiscal year, WGAA's assets exceeded liabilities by \$128,467,197.

Airports are capital-intensive enterprises. 94.6% of WGAA's net assets are invested in capital assets (net of any outstanding debt used to acquire those assets). WGAA uses these assets to provide aviation access and services to the flying public and the surrounding community, consequently these assets are not available for future spending. Although WGAA's investment in its capital assets is reported net of related debt, the resources needed to pay such debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Williams Gateway Airport Authority's Net Assets**

	2006	2005	2004
Current and other assets	\$ 10,008,869	\$ 7,121,157	\$ 8,652,456
Capital assets, net of accumulated depreciation	181,467,719	177,112,508	178,366,878
Total assets	<u>191,476,588</u>	<u>184,233,665</u>	<u>187,019,334</u>
Long-term liabilities	59,683,508	52,100,244	47,664,263
Other liabilities	3,325,883	2,698,759	2,802,667
Total liabilities	<u>63,009,391</u>	<u>54,799,003</u>	<u>50,466,930</u>
Net assets:			
Invested in capital assets, net of related debt	121,538,649	124,790,606	130,486,395
Restricted	3,225,292	1,090,137	1,935,366
Unrestricted	3,703,256	3,553,920	4,130,643
Total net assets	<u>\$ 128,467,197</u>	<u>\$ 129,434,663</u>	<u>\$ 136,552,404</u>

\$3,225,292 (2.5%) of WGAA's net assets represent resources that are subject to external restrictions on how they may be used. Restricted assets generally represent deposits and grant funds received that have not yet been spent for the intended purposes. At June 30, 2006 restricted net assets includes nearly \$3 million of borrowed funds for construction of a hangar for lease to Arizona State University. Unrestricted net assets represent funds available for WGAA's on-going operations. The remaining net assets are invested in capital assets. This reflects the capital assets net of any unpaid debts used to purchase capital assets, including member governments' investments in both the operations and infrastructure of the airport. Member loans and accrued interest are payable beginning June 30, 2020.

At the end of the fiscal year and the previous year, all three categories of net assets had positive balances.

Net assets decreased by \$967,466, or 0.7% from the previous fiscal year-end. This was primarily due to depreciation expense and another year's loans from member governments to help pay operating expenses. Member loans increased in fiscal year 2005-06 by \$3,390,000, which is the same increase recorded in fiscal year 2004-05. Current and other assets increased, primarily due to borrowing of \$3,000,000 for construction of a hangar to be leased to Arizona State University, most of which has yet to be spent at the end of the fiscal year.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

The decrease in capital assets, net of related debt is primarily the result of depreciation of existing assets. New investments in capital assets (less asset dispositions) were \$4,355,211 less than the year's depreciation expense on capital assets. The \$2,135,155 increase in restricted assets was mostly due to the receipt of the \$3,000,000 loan from ADOT to construct the hangar for Arizona State University.

**Business-type activities**

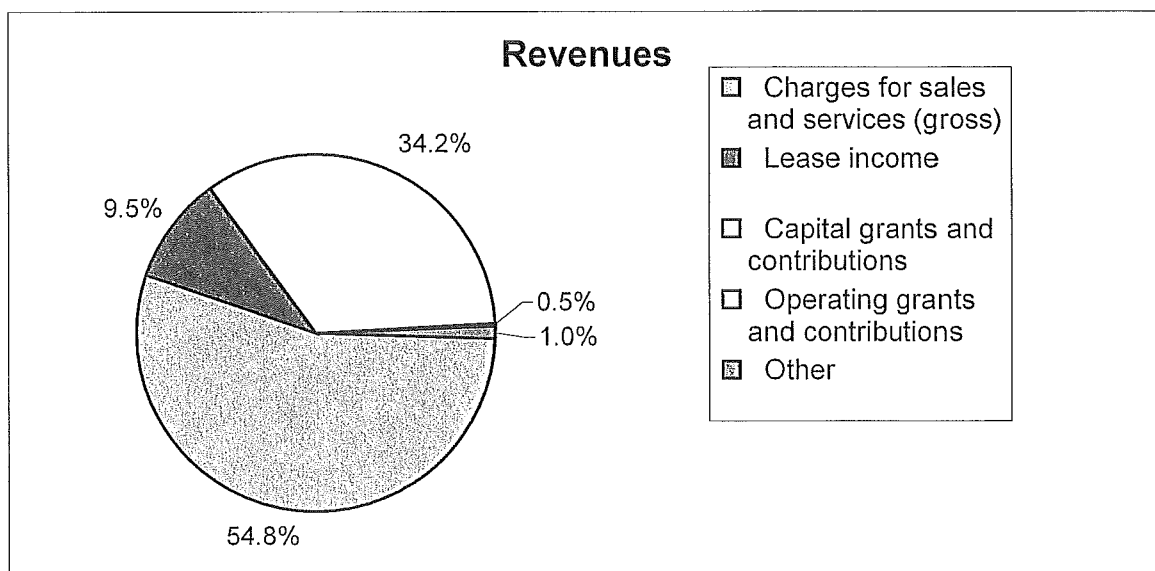
All of WGAA's activities are classified as business-type activities. Significant changes in the financial operations of WGAA included increases in fuel sales and in capital grants and contributions. The \$967,466 decrease in net assets was 86.4% less than the reduction in net assets last year. The change came about as indicated by the following elements of the revenues and expenses:

**Williams Gateway Airport Authority's Changes in Net Assets**

	2006	2005	2004
<b>Revenues:</b>			
Charges for sales and services (gross)	14,618,487	\$ 12,987,564	\$ 10,255,728
Lease income	2,532,710	2,268,373	2,069,647
Capital grants and contributions	9,107,225	4,081,130	2,489,081
Operating grants and contributions	130,000	147,766	82,234
Other	271,960	288,897	117,554
<b>Total revenues</b>	<u>26,660,382</u>	<u>19,773,730</u>	<u>15,014,244</u>
<b>Expenses</b>			
Cost of sales	10,503,245	9,110,114	6,936,862
Depreciation	6,897,986	7,528,876	7,301,957
Other operating expenses	8,629,987	8,482,693	8,114,704
Interest expense on loans from member governments	1,543,515	1,399,820	1,260,311
Other non-operating expenses	53,115	369,968	53,923
<b>Total expenses</b>	<u>27,627,848</u>	<u>26,891,471</u>	<u>23,667,757</u>
Increase (decrease) in net assets	(967,466)	(7,117,741)	(8,653,513)
Net assets at prior year-end	<u>129,434,663</u>	<u>136,552,404</u>	<u>145,205,917</u>
Net assets at year-end	<u>\$128,467,197</u>	<u>\$129,434,663</u>	<u>\$136,552,404</u>

**Revenues:**

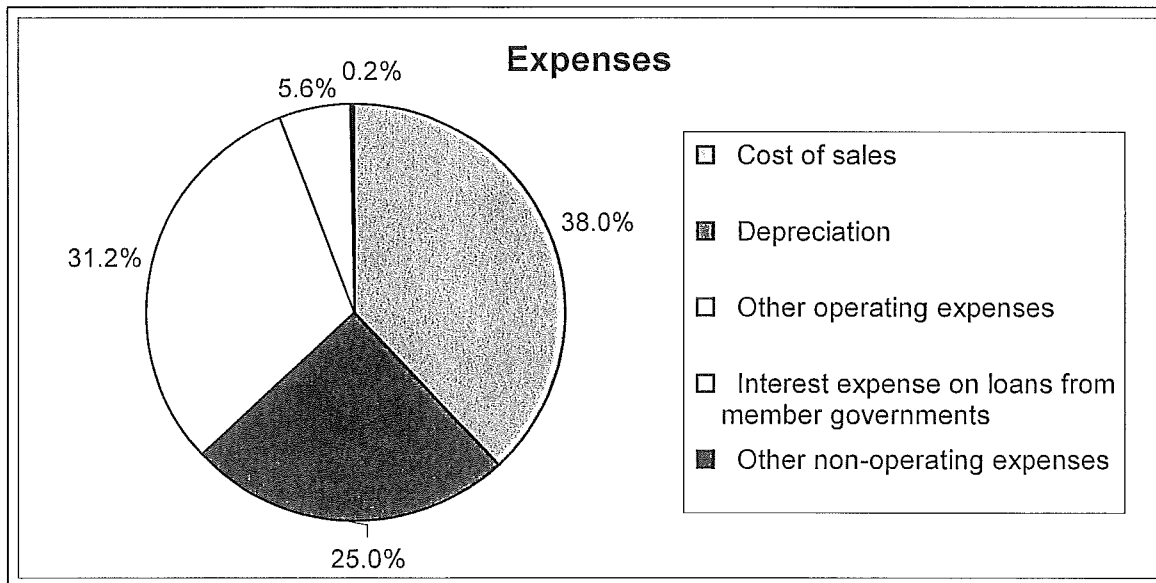
Charges for sales and services increased by \$1,630,923 (13%), primarily due to increased fuel sale prices. The volume of fuel sold was 4% less than the prior year. Lease income was up \$264,337 (12%). Capital grants and contributions were up by \$5,026,095 (123%). The amounts under operating grants represent marketing grants contributed by the City of Phoenix Aviation Department.



**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

**Expenses:**

Cost of sales increased by \$1,393,131 (15%), mostly reflecting the increased cost of the fuel sold. Depreciation expense decreased \$630,890. The decrease in depreciation expense is due to several large assets becoming fully depreciated. Other operating expenses increased by \$147,294 (2%). Most of the increase represents increases in personnel costs, including health care insurance and required contributions to the state retirement system. Other non-operating expenses were down from the prior year because last year's demolition of several small "line shack" buildings was not repeated in the current fiscal year. Interest expense on loans from member governments increased by \$143,695, reflecting the accumulation of accrued interest and additional interest relating to annual additions to these loans from the member governments.



**Budget**

WGAA staff prepares a budget annually. It is submitted to the Board of Directors for approval during the spring of each year. Although the budget is not legally binding, it is an important management tool used throughout the fiscal year. During the fiscal year, actual activity is compared to the budget on a monthly basis to assess operating results. See page 31 for a presentation of the budget as supplementary information.

**Capital Assets and Debt Administration**

**Capital assets (net of depreciation)**

At June 30, 2006, WGAA's capital assets totaled \$181,467,719 (net of accumulated depreciation). The capital assets include land; runways, taxiways, and apron areas; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants. Total capital assets, net of depreciation increased by 2.5% during the fiscal year.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

**Capital assets (net of depreciation)**

	2006	2005	2004
Land	\$ 81,567,973	\$ 81,514,058	\$ 81,979,080
Buildings and improvements	89,061,422	89,746,119	88,600,690
Machinery and equipment	2,671,596	1,726,653	2,110,589
Construction in progress	8,166,728	4,125,678	5,676,519
Total capital assets, net	<u>\$ 181,467,719</u>	<u>\$ 177,112,508</u>	<u>\$ 178,366,878</u>

Major capital asset events during the current fiscal year included the following:

- Runway shoulders were improved on 2 runways. Costs to June 30, 2006: \$4.1 million.
- The new airport fuel farm was completed and capitalized. Cost: \$2.3 million.
- Taxiway F (in north general aviation area) was constructed and capitalized. Cost: \$1.9 million.
- Construction continued on extending the service area of the South Central Fire Protection System to additional lots. This involves added piping and pumps. Due to our prime contractor going out of business, this project experienced significant delays. Costs to June 30, 2006: \$1.5 million.
- Remodeling of the restaurant area in the new general aviation center was completed and capitalized. A restaurant opened in this location. Total cost for the GA Center Remodel project: \$0.7 million.
- A parking lot accommodating approximately 150 cars was constructed near the passenger terminal. Costs to June 30, 2006: \$0.6 million.
- Ramp lighting was installed in the north general aviation area. Costs to June 30, 2006: \$0.6 million.
- In FY2005, Sossaman Road and Velocity Way were completed and transferred to City of Mesa, however due to property transfer restrictions, the FAA required that these assets be transferred back to WGAA. In FY2006, ownership of these roads returned to WGAA, but the City of Mesa was given a permanent easement over the property.
- Money was borrowed, a lease signed and a construction contract executed to build a \$3 million hangar/classroom facility for Arizona State University.

**Long-term debt.**

At the end of the current fiscal year, WGAA had total debt outstanding of \$59,929,071. \$56,384,010 (94%) of the total outstanding debt is principal and interest (at 3% rate) on loans made by member governments to help cover operating expenses and airport improvements. The first of these loans are due June 30, 2020 or such time as the WGAA Board of Directors determines that WGAA has sufficient funds for repayments. WGAA reduced its capital lease obligations by \$352,293, (40%) by making regularly scheduled principal and interest payments. During the current fiscal year, WGAA added a photocopier lease to its capital lease obligations.

**Williams Gateway Airport Authority's Outstanding Debt**

	2006	2005	2004
Loans from Member Governments (including accrued interest)	\$ 56,384,010	\$ 51,450,495	\$ 46,660,675
ADOT Loan (including interest)	3,025,947		-
Capital Leases	519,114	871,407	1,219,808
	<u>\$ 59,929,071</u>	<u>\$ 52,321,902</u>	<u>\$ 47,880,483</u>

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2006 and 2005**

- Loans from member governments (principal) increased by \$3,390,000 (8%) during the fiscal year, the same amount as the \$3,390,000 increase in loans during the previous year. The accrued interest component of member government loans increased by \$1,543,515 compared to \$1,399,820 in the previous year. These loans carry an interest rate of 3% per year.
- WGAA borrowed \$3,000,000 during FY2006 (at 4.77% interest rate) to finance construction of a hangar and contracted to lease the facility to Arizona State University.

Additional information on WGAA's long-term debt can be found in note 3.D. on pages 22 - 23.

**Economic Factors**

The percentage of expenses provided by operating revenues has been increasing each year, but WGAA still depends on annual loans from its member governments to cover some of its operating costs. This makes WGAA susceptible to downturns in the economy and other difficulties that could affect member governments' abilities to provide this annual funding. However member government support of this kind has been consistent over the last several years.

With WGAA's largest fueling customer being the federal government, a significant portion of fueling revenue depends on continuation of military training and other activities that bring government aircraft to the airport.

WGAA also depends on capital grants, which have mostly been from the Federal Aviation Administration (FAA) and the Arizona Department of Transportation (ADOT), to continue its current level of capital improvement and renewal programs.

**Other Potentially Significant Matters**

During the year ended June 30, 2006, WGAA entered into a development agreement for development and leasing of approximately 50 acres in the south industrial area of the airport. The developer will install infrastructure and market the property in exchange for a percentage of the lease revenues generated.

After June 30, 2006, WGAA signed a letter of intent with an aircraft manufacturer for lease of approximately 10 acres for the construction of a maintenance, repair and overhaul facility for servicing aircraft produced by the manufacturer.

**Requests for Information**

This financial report is designed to provide a general overview of WGAA's finances for all those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Williams Gateway Airport Authority, 5835 S. Sossaman Road, Mesa, AZ 85212.

## FINANCIAL STATEMENTS

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**June 30, 2006 and 2005**

	Business-type Activities - Enterprise Fund	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,837,493	\$ 2,898,656
Accounts receivable, net	397,028	412,320
Due from other governments	1,880,739	2,239,635
Prepaid costs	121,334	124,428
Inventories	409,547	230,593
Total current assets	6,646,141	5,905,632
Noncurrent assets:		
Restricted assets	3,362,728	1,215,525
Capital assets:		
Nondepreciable	89,734,701	85,639,736
Depreciable	91,733,018	91,472,772
Total noncurrent assets	184,830,447	178,328,033
Total assets	191,476,588	184,233,665
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	2,158,065	1,421,012
Accrued liabilities	105,228	304,652
Vacation benefits payable	384,978	391,872
Capital lease obligations payable	350,600	361,175
Retirement sick leave payable	14,268	12,683
ADOT loan	16,456	-
Accrued interest payable to ADOT	25,947	-
Unearned revenue	132,905	81,976
Total current liabilities	3,188,447	2,573,370
Current liabilities payable from restricted assets:		
Tenant deposits	137,436	125,388
Noncurrent liabilities:		
Loans payable to member governments	47,643,976	44,253,976
Accrued interest payable to member governments	8,740,034	7,196,519
ADOT loan	2,983,544	-
Capital leases	168,514	510,232
Retirement sick leave payable	147,440	139,517
Total noncurrent liabilities	59,683,508	52,100,244
Total liabilities	63,009,391	54,799,002
<b>Net assets</b>		
Invested in capital assets, net of related debt	121,538,649	124,790,606
Restricted net assets	3,225,292	1,090,137
Unrestricted net assets	3,703,256	3,553,920
Total net assets	\$ 128,467,197	\$ 129,434,663

The accompanying notes to the basic financial statements are an integral part of this statement.

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	Business-type Activities Enterprise Fund	
	2006	2005
Operating revenues		
Fueling operations	\$ 14,031,048	\$ 12,535,780
Lease income	2,532,710	2,268,373
Maintenance services	325,856	208,261
Airport usage fees	261,583	243,523
Total operating revenues	<u>17,151,197</u>	<u>15,255,937</u>
Operating expenses		
Personnel costs	5,549,231	5,350,193
Professional services	1,051,078	1,112,363
Cost of goods sold - fueling operations	10,475,076	9,082,974
Costs of maintenance services sold	28,169	27,140
Repair and maintenance	494,191	505,076
Utilities	320,436	295,068
Insurance	243,933	241,475
Other expense	971,118	978,518
Depreciation	6,897,986	7,528,876
Total operating expenses	<u>26,031,218</u>	<u>25,121,683</u>
Operating income (loss)	<u>(8,880,021)</u>	<u>(9,865,746)</u>
Nonoperating revenues (expenses)		
Operating grants from other governments	130,000	147,766
Investment income	211,862	113,356
Other income	20,593	175,541
Recovery of prior loss - AZ State Local Govt Investment Pool	39,505	-
Gain/(loss) on disposition of assets	(9,181)	(331,748)
Interest expense - notes payable to member governments	(1,543,515)	(1,399,820)
Interest expense - other	(43,934)	(38,220)
Total nonoperating revenues (expenses)	<u>(1,194,670)</u>	<u>(1,333,125)</u>
Loss before contributions and transfers	(10,074,691)	(11,198,871)
Capital contributions	<u>9,107,225</u>	<u>4,081,130</u>
Change in net assets	(967,466)	(7,117,741)
Net assets, beginning of year	<u>129,434,663</u>	<u>136,552,404</u>
Net assets, end of year	<u>\$ 128,467,197</u>	<u>\$ 129,434,663</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	Business-type Activities - Enterprise Funds	
	2006	2005
Cash flows from operating activities		
Receipts from customers	\$ 16,965,005	\$ 15,437,701
Payments to employees	(5,746,041)	(5,238,072)
Payments to suppliers	(13,707,769)	(12,265,470)
Customer deposits	12,048	33,992
Net cash flows from operating activities	(2,476,757)	(2,031,849)
Cash flows from non-capital financing activities		
Loans from member governments	3,390,000	3,390,000
Operating grants from other governments	130,000	130,000
Net cash flows from non-capital financing activities	3,520,000	3,520,000
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(6,683,459)	(6,916,507)
Principal paid on capital leases	(361,438)	(348,401)
Loan from ADOT	3,000,000	-
Interest paid on capital leases	(25,536)	(38,220)
Capital grants received	5,841,270	3,971,115
Net cash flows from capital and financing activities	1,770,837	(3,332,013)
Cash flows from investing activities		
Investment income	211,862	113,356
Investment gain	39,505	-
Other income/expense	20,593	175,541
Net cash flows from investing activities	271,960	288,897
Net change in cash and cash equivalents	3,086,040	(1,554,965)
Cash and cash equivalents, beginning of year	4,114,181	5,669,146
Cash and cash equivalents, end of year	\$ 7,200,221	\$ 4,114,181
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 3,837,493	\$ 2,898,656
Restricted assets	3,362,728	1,215,525
Total	\$ 7,200,221	\$ 4,114,181

(Continued)

The accompanying notes to the basic financial statements are an integral part of this statement.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	Business-type Activities - Enterprise Funds	
	2006	2005
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (8,880,021)	\$ (9,865,746)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	6,897,986	7,528,876
Change in assets/liabilities:		
Accounts receivable	(237,121)	211,790
Prepaid costs	3,094	(10,123)
Inventories	(178,954)	(115,319)
Accounts payable and accrued liabilities	(147,332)	159,499
Unearned revenue	50,929	(30,026)
Customer deposits	12,048	33,992
Compensated absences payable	2,614	55,208
Net cash provided (used) by operating activities	\$ <u>(\$2,476,757)</u>	\$ <u>(2,031,849)</u>

**NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

The Authority recognized \$1,543,515 and \$1,399,820 of interest payable on loans from member governments during fiscal years 2006 and 2005, respectively. During the fiscal year ended June 30, 2006, the Authority received \$3,877,264 of assets contributed from the City of Mesa. The Authority capitalized \$7,549 of interest during the year.

The accompanying notes to the basic financial statements are an integral part of this statement.

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**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Fiscal Years Ended June 30, 2006 and 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of Williams Gateway Airport Authority (WGAA) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

**A. Reporting entity**

Williams Gateway Airport Authority was established on May 19, 1994 as a joint powers airport authority pursuant to Arizona Revised Statutes Title 28, Chapter 25, Article 8. It operates 3,020 acres as Williams Gateway Airport ("the Airport"). WGAA is overseen by a four-person board of directors, which is comprised of a representative from each of the member governments. The members of WGAA are the Gila River Indian Community; Town of Gilbert, Arizona; City of Mesa, Arizona; and Town of Queen Creek, Arizona. The City of Phoenix joined as an additional member effective July 1, 2006.

In addition to WGAA's board of directors, a variety of federal, state and local laws, agreements and regulations govern the operations at the airport. The Federal Aviation Administration (FAA) has jurisdiction over aircraft operations, including aircraft, personnel, facilities and many technical issues, including noise limits and reasonableness of fees. Under federal law and the FAA's regulations and grant agreements, WGAA cannot legally transfer revenues to its member governments except in exchange for fair value received.

WGAA is legally separate from other state and local governments. There are no component units combined with WGAA for financial statement presentation purposes and WGAA is not included in any other governmental reporting entity. These financial statements present the financial position and activities of WGAA only, for which its governing board is financially accountable.

WGAA earns revenue from leases of land and airport facilities. Fees received for use of the airport include landing fees, tie down fees, and fuel flowage and fixed base operator (FBO) fees. WGAA also operates a fueling operation at the airport and contracts with various tenants and users of the facilities within the airport area to provide maintenance services. Major expenses include salaries and fringe benefits, professional services for fire protection, legal and development consulting, maintenance and utilities.

**B. Government-wide and fund financial statements**

Government-wide financial statements are not presented, as WGAA only engages in business-type activities. WGAA has only one fund, an enterprise fund. Accordingly, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows report information for that single enterprise fund only.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

All of WGAA's activities are accounted for in a single proprietary or business-type fund.

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. WGAA has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and investments**

WGAA's cash and cash equivalents are comprised of cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Arizona Revised Statutes authorize WGAA to invest public monies in the State and County Treasurer's investment pools; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investment contracts such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories.

**2. Receivables**

All trade receivables are shown net of an allowance for uncollectible receivables. WGAA annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. Receivables from governments are assumed to be entirely collectible and are not included in this analysis. Over the last two years, this allowance has ranged from 8% to 9% of accounts receivable.

**3. Inventories and prepaid items**

Supply inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of inventory is reported as an expense at the time the individual items are consumed. Fuel inventories are valued at cost using the moving average method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**4. Capital assets**

Capital assets include property, plant, equipment, and infrastructure assets. Capital assets are defined by WGAA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant, equipment and infrastructure assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Interest incurred during construction of capital assets is included as part of the capitalized cost of the assets constructed. Other costs incurred for repairs and maintenance are expensed as incurred.

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Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	20 – 30 years
Improvements other than buildings	5 – 30 years
Machinery and equipment	3 – 10 years

Amortization of leased capital assets is provided using the straight-line method based on the estimated useful lives of the leased assets. Such amortization is added to accumulated depreciation and depreciation expense for reporting purposes.

When assets are retired or sold, the costs of those assets and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is charged to income or expense.

**5. Compensated absences**

The liability for compensated absences reported in the statement of net assets consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts are included for employees who currently are eligible to receive termination payments.

**6. Net assets**

In the statement of net assets, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is reported separately because it makes up a significant portion of total net assets. Restricted net assets are the portion of net assets restricted by parties outside WGAA. Unrestricted net assets are the remaining net assets not included in the previous two categories.

**7. Income taxes**

WGAA is exempt from federal and state income taxes as a political subdivision under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

**8. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

WGAA uses a budget process that culminates in the adoption of a formal annual budget by the board of directors. The budget is a planning and control device; it is not legally binding in the sense of appropriations commonly required in municipal governments.

**NOTE 3 - DETAILED NOTES**

**A. Assets**

**1. Deposits and investments**

Deposits and investments at June 30, 2006 and 2005 consist of the following:

	2006	2005
Cash on hand	\$ 1,230	\$ 1,830
Deposits		
Cash in bank	9,652	6,760
Investments		
Overnight Sweep Account	469,212	383,302
State Treasurer's Investment Pool	6,720,127	3,453,662
Cash on deposit with trustee	-	268,627
Total deposits and investments	7,200,221	4,114,181
Less: restricted cash	(3,362,728)	(1,215,525)
Total cash and equivalents	\$ 3,837,493	\$ 2,898,656

**Deposits** - WGAA's deposits at June 30, 2006, were covered by federal depository insurance or by collateral held by WGAA's custodial bank in WGAA's name.

WGAA's bank accounts are covered up to \$100,000 by federal depository insurance. In addition, WGAA's bank has pledged collateral having a market value at June 30, 2006 of \$1,927,930 to cover deposits in excess of the federal depository insurance coverage. WGAA's bank balance was \$274,180.

**Investments** - WGAA's investments (detailed below) only include deposits with the Arizona State Treasurer's Local Government Investment Pool and overnight sweep investments of its bank deposits. WGAA does not have a formally adopted investment policy.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. At June 30, 2006, according to the Arizona State Treasurer's Office, the fair market value of the underlying securities in its Local Government Investment Pool (LGIP) was \$1.00 per \$1.00 of carrying value in the Pool. The LGIP shares are not identified with specific investments held for WGAA in physical or book entry form. Investments in the State Treasurer's Local Government Investment Pool are not insured or collateralized.

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**Custodial Credit Risk** – Custodial Credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. WGAA is not subject to custodial credit risk since its investments are not identified with specific investments held by others for WGAA in physical or book entry form. WGAA does not have a formal policy regarding credit risk.

**Concentration Risk** – Concentration risk is the increased risk to the organization when a significant portion of its resources are invested with a single issuer. WGAA does not have a formal policy for concentration of credit risk. Concentration percentages are shown below. As of June 30, 2006, WGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 5	Unrated	Not applicable	\$ 6,720,127	93%
Overnight sweep account	Aaa	Moody's	<u>469,212</u>	<u>7%</u>
Total investments			<u><u>\$ 7,189,339</u></u>	<u><u>100%</u></u>

**Foreign Currency Risk** – Foreign currency risk is the chance that changes in exchange rates will adversely affect the fair market value of investments and deposits. WGAA has no investments or deposits denominated in a foreign currency. WGAA does not have a formal policy for foreign currency risk.

**Interest rate risk** – Due to the short maturities of WGAA's investments, the risk of losses due to market interest rate changes are minimal. WGAA does not have a formal policy regarding interest rate risk. The following table shows the investment maturities by year and type of security:

Investment Type	Amount	Investment Maturities Less than 1 year
State Treasurer's Investment Pool 5	\$ 6,720,127	\$ 6,720,127
Overnight sweep account	<u>469,212</u>	<u>469,212</u>
	<u><u>\$ 7,189,339</u></u>	<u><u>\$ 7,189,339</u></u>

## 2. Restricted assets

Certain assets of WGAA are classified as restricted net assets because their use is restricted by grant or contractual agreements. Restricted assets include the following:

	2006	2005
Customer deposits	\$ 137,436	\$ 125,388
ADOT loan and related earned interest	3,009,934	-
State appropriation and related interest	215,358	821,510
Cash held in escrow for purchase of equipment	-	<u>268,627</u>
Total restricted assets	<u><u>\$ 3,362,728</u></u>	<u><u>\$ 1,215,525</u></u>

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**3. Receivables**

Total accounts receivable has been reduced by an allowance for uncollectible accounts:

	<u>2006</u>	<u>2005</u>
Trade receivables - governments	\$ 998,703	\$ 746,290
Grants receivable	882,036	1,493,345
Total due from other governments	<u>\$ 1,880,739</u>	<u>\$ 2,239,635</u>
Total accounts receivable	\$ 437,709	\$ 450,154
Less allowance for uncollectible accounts	(40,681)	(37,834)
Accounts receivable, net	<u>\$ 397,028</u>	<u>\$ 412,320</u>

**4. Capital assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance 6/30/2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2006</u>
Capital assets not being depreciated				
Land	\$ 81,514,058	\$ 53,915	\$ -	\$ 81,567,973
Construction in progress	4,125,678	7,136,674	(3,095,624)	8,166,728
<b>Total capital assets not being depreciated</b>	<u>\$ 85,639,736</u>	<u>\$ 7,190,589</u>	<u>\$ (3,095,624)</u>	<u>\$ 89,734,701</u>
Capital assets being depreciated				
Buildings and improvements	\$138,916,284	5,808,013	-	144,724,297
Machinery and equipment	4,445,716	1,359,400	(51,788)	5,753,328
Total capital assets being depreciated	<u>\$143,362,000</u>	<u>\$ 7,167,413</u>	<u>\$ (51,788)</u>	<u>\$ 150,477,625</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 49,170,165	6,492,710	-	55,662,875
Machinery and equipment	2,719,063	405,276	(42,607)	3,081,732
Total accumulated depreciation	<u>\$ 51,889,228</u>	<u>\$ 6,897,986</u>	<u>\$ (42,607)</u>	<u>\$ 58,744,607</u>
<b>Total capital assets being depreciated, net</b>	<u>\$ 91,472,772</u>	<u>\$ 269,427</u>	<u>\$ (9,181)</u>	<u>\$ 91,733,018</u>
<b>Business-type activities capital assets, net</b>	<u>\$177,112,508</u>	<u>\$ 7,460,016</u>	<u>\$ (3,104,805)</u>	<u>\$ 181,467,719</u>

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**B. Purchase commitments**

As of June 30, 2006, WGAA had entered into various contracts and commitments for purchases of goods and consulting and construction/renovation services, both on its own account and under grant programs.

	<u>June 30 2006</u>	<u>June 30, 2005</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 3,850,000	\$ 902,000
Portion of above funded by grants	\$ 940,000	\$ 267,000

WGAA had 20 active design or construction projects at June 30, 2006. These projects are expected to cost a total of \$12.6 million, of which \$11.3 million has been committed and \$7.5 million has been spent. At fiscal year end, WGAA's commitments remaining open with contractors relating to these projects were as follows:

<u>Project</u>	<u>Spent-to-date on uncompleted contracts</u>	<u>Remaining Contract</u>
Construct Parking Lot 30	\$ 578,323	\$ 143,717
Construct Rwy 12C/30C Safety Area	4,088,270	384,444
Construct South Central Fire Protection	630,799	95,255
Design Taxiway L	169,843	120,652
Design/Build ASU Hangar	268,620	2,691,093
Other	176,179	329,027
Total	<u>\$ 5,912,034</u>	<u>3,764,188</u>

**C. Obligations under leases**

**Operating leases**

WGAA has leased land to a tenant who constructed a building on the property and in 2000 leased the building to WGAA for 15 years. The total rent due from WGAA over the remaining life of the lease is \$1,861,903 plus agreed upon escalation factors. WGAA subleases the space in the building to other airport tenants. The long-term lease agreement is classified as an operating lease. Future rents will include adjustments based on the Consumer Price Index (which are not projected in the following schedules). Total rent expenses for operating leases for the years ended June 30, 2006 and 2005 were \$210,781 and \$200,439, respectively.

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The future minimum operating lease payments as of June 30, 2006 and June 30, 2005 were payable as follows:

<u>Year ending June 30,</u>	<u>2006</u>	<u>2005</u>
2006	\$ -	\$ 210,781
2007	210,781	210,781
2008	210,781	210,781
2009	210,782	210,782
2010	210,782	210,782
2011-2015	<u>1,018,777</u>	<u>1,018,777</u>
Minimum operating lease payments	<u><u>\$ 1,861,903</u></u>	<u><u>\$ 2,072,684</u></u>

**Capital leases**

WGAA has entered into lease agreements as lessee for financing the acquisition of various equipment items. These lease agreements qualify as capital leases for accounting purposes. The leased assets have been recorded at cost. The assets acquired through capital leases are as follows:

<u>Asset type:</u>	<u>2006</u>	<u>2005</u>
Machinery and equipment	\$ 2,976,899	\$ 2,837,259
Less: Accumulated depreciation	<u>(388,253)</u>	<u>(263,456)</u>
Total	<u><u>\$ 2,588,646</u></u>	<u><u>\$ 2,573,803</u></u>

Capital leases result in purchases of capital assets, which are funded by outside entities. Such assets are pledged as collateral against the full payment of the lease obligations. As of June 30, 2006 and June 30, 2005, the future minimum capital lease obligations and the net present value of these minimum lease payments were payable as follows:

<u>Year ending June 30,</u>	<u>2006</u>	<u>2005</u>
2006	\$ -	\$ 386,621
2007	363,448	361,327
2008	165,079	162,958
2009	2,122	-
2010	2,122	-
2011	<u>1,768</u>	<u>-</u>
Total minimum lease payments	<u>534,539</u>	<u>910,906</u>
Less: amounts representing interest	<u>(15,425)</u>	<u>(39,499)</u>
Present value of minimum lease payments	<u><u>\$ 519,114</u></u>	<u><u>\$ 871,407</u></u>

**D. Long-term obligations**

WGAA has long-term loans payable from its member governments to provide funds for its shortfall in operating revenues and for capital improvements. During the year, the Arizona Department of Transportation (ADOT) loaned WGAA \$3 million at 4.77% interest with a 25 year term to finance construction of a hangar and teaching

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facility on the airport for Arizona State University. The quarterly payments begin June 30, 2007, allowing about one year so construction can be completed and lease revenues from the new facility can support the payments. Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	June 30, 2005	Increases	Decreases	June 30, 2006	Due Within One Year
Loans payable					
Principal on member loans	\$ 44,253,976	\$ 3,390,000	\$ -	\$ 47,643,976	\$ -
Accrued Interest on member loans	7,196,519	1,543,515	-	8,740,034	-
Member loans	51,450,495	4,933,515	-	56,384,010	-
Other Loans	-	3,000,000	-	3,000,000	16,456
Accrued Interest on other loans	-	25,947	-	25,947	25,947
Other Liabilities					
Capital Leases	871,407	9,145	(361,438)	519,114	350,600
Compensated absences	544,072	408,650	(406,036)	546,686	399,246
Business-type long-term liabilities	<u>\$ 52,865,974</u>	<u>\$ 8,377,257</u>	<u>\$ (767,474)</u>	<u>\$ 60,475,757</u>	<u>\$ 792,249</u>

Debt service requirements on long-term loans payable to member governments at June 30, 2006, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Principal	Interest
2007	\$ 16,456	\$ 37,391
2008	67,630	147,758
2009	70,623	144,764
2010	73,762	141,626
2011-2015	421,494	655,445
2016-2020	44,780,234	36,454,900
2021-2025	659,052	417,887
2026-2030	4,217,376	2,982,280
2031-2035	337,349	39,580
Total	<u>\$ 50,643,976</u>	<u>\$ 41,021,631</u>

**Loans from member governments:**

Member governments have by agreement provided annual funding for operations and capital expenditures as follows:

	Year Ended June 30, 2006	Year Ended June 30, 2005
City of Mesa	73.7%	73.7%
Gila River Indian Community	13.3%	13.3%
Town of Gilbert	10.3%	10.3%
Town of Queen Creek	2.7%	2.7%
	<u>100.0%</u>	<u>100.0%</u>

Based on the Joint Powers Airport Authority Agreement entered into by the members of WGAA, all payments made to WGAA by the members are considered loans to be repaid to the members. The intent of the members in providing funds to WGAA is to invest in the operation and development of the airport for the benefit of the citizens of their communities.

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The Federal Aviation Administration has established a "six year rule" limiting retroactive reimbursement of contributions unless appropriate documented agreements are in place. In order to maintain WGAA's right to eventually repay contributions made by its members, WGAA and its member governments have drawn up formal promissory notes stating that previous and future payments are to be repaid on specified dates or at such later time as WGAA's board of directors deems appropriate, with 3% interest (compounded annually).

Loans payable to member governments increased by \$3,390,000 in principal and \$1,543,515 in interest in fiscal year 2006 and by \$3,390,000 in principal and \$1,399,820 in interest in fiscal year 2005:

Amounts due each member government at year-end (including accrued interest) were:

	<u>2006</u>	<u>2005</u>
City of Mesa	\$ 44,041,779	\$ 40,331,824
Gila River Indian Community	5,613,072	5,012,691
Town of Gilbert	5,565,578	5,063,668
Town of Queen Creek	<u>1,163,581</u>	<u>1,042,312</u>
Loans Payable to member governments at June 30	<u>\$ 56,384,010</u>	<u>\$ 51,450,495</u>

In addition to the above investments by the member governments, representatives from the City of Mesa, Gila River Indian Community and Towns of Gilbert and Queen Creek provide time to WGAA to consult with its management, attend meetings and provide other services.

**E. Operating lease revenue**

WGAA leases out various facilities on the airport. Leases are primarily for office buildings and hangars, but also include ground leases for tenant development. Occasionally WGAA's lease agreements provide for rents based on the tenants' operating revenues or other criteria. Lease income revenue included \$24,000 and \$50 of such contingent rents in the fiscal years ending June 30, 2006 and 2005, respectively.

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2006 and June 30, 2005:

Fiscal Years Ending June 30:	<u>2006</u>	<u>2005</u>
2006	\$ -	\$ 1,271,175
2007	1,419,453	448,326
2008	533,431	279,844
2009	465,526	308,649
2010	297,294	308,287
2011	210,409	230,415
2012 and thereafter	<u>4,330,169</u>	<u>4,999,195</u>
Totals	<u>\$ 7,256,282</u>	<u>\$ 7,845,891</u>

With few exceptions, WGAA's leases include escalation clauses, which will result in increases in future rents. The escalation clauses typically provide for annual rent increases of 5 percent or the change in the Consumer Price Index. Such increases are not included in the above figures.

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**NOTE 4 - OTHER INFORMATION**

**A. Risk management**

In addition to safety efforts, WGAA's risk management activities include purchase of commercial insurance for all significant risks. Risks retained by WGAA include normal deductibles and the small risk of losses in excess of insurance coverage. The amounts of settlements have not exceeded insurance coverage for the past three years. There have been no significant reductions in insurance coverage. The financial statements do not include any liability for claims at June 30, 2006 and 2005.

Losses arising from claims and judgments are expensed when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and (2) the amount of the loss can be reasonably estimated.

**B. Contingencies**

**1. Air Force prime lease and deed**

In April 1998, the United States Air Force conveyed to WGAA a quitclaim deed for 2,931 acres of real property for the purpose of developing a public airport. Since then, portions of the leased property have been deeded to the airport as environmental clearances have been completed. Thirty-six acres remain under the 25-year lease, which WGAA entered in January 1996. Together, the deed and long-term lease encompass approximately 3,020 acres of land, which includes the three runways, and 120 buildings or facilities (such as navigational aids). The real property conveyed in the deed was recorded at estimated fair market value at the date of the transfer.

Included in Property and Equipment are donated assets (referred to in this note as "the Property") received from the U.S. Air Force (Federal government) totaling \$122,479,062 (net of accumulated depreciation) that are subject to certain restrictions contained in an indenture between the United States of America and WGAA. Under the terms of the deed, this property cannot be sold or transferred and the property must be operated as a public airport. Noncompliance with the terms of the indenture could, at the option of the Federal government, result in the Property reverting back to the United States of America

**2. Arizona Department of Transportation**

Property and Equipment includes \$34,262,222 (net of accumulated depreciation) in improvements to real property that were paid for (in part) with funds from the ADOT. Such improvements or any real property necessarily connected or used in conjunction therewith cannot be relocated, sold, transferred, exchanged, mortgaged or encumbered in any way without the prior written permission of ADOT.

**3. Economic dependence**

WGAA is dependent upon its members to fund its current shortfall in operating activities. Continuation of construction and improvement activities is dependent upon continued support from the federal government and other governmental entities.

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**C. Related party transactions**

WGAA has earned revenues, incurred expenses and made other payments involving some of its member governments. Following is a summary of these transactions:

	WGAA Revenues	WGAA Expenses	WGAA Capital Projects	Sales Taxes Collected/ Remitted
<u>Fiscal Year ended June 30, 2006</u>				
City of Mesa	\$ 7,629	\$ 612,951	\$ 10,038	\$ 128,987
Town of Queen Creek	515	-	-	-
<u>Fiscal Year ended June 30, 2005</u>				
City of Mesa	\$ 7,525	\$ 644,276	\$ 64,744	\$ 128,448
Town of Queen Creek	394	-	-	-

WGAA revenues above consist of real property leases, utilities billings and minor maintenance work. WGAA expenses include airport rescue and fire fighting protection and permits.

**D. Retirement plans**

**Arizona State Retirement System – Plan Description**

WGAA contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board, according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and WGAA's contribution rate. For the year ended June 30, 2006, active plan members and WGAA were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. WGAA's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$324,171, \$242,668, and \$228,083, respectively, which were equal to the required contributions for the year.

**Deferred Compensation Plans**

WGAA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all WGAA employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Trust agreements are in place, making these funds available only to employees and their beneficiaries. Accordingly, these funds are not reflected in WGAA financial statements.

WGAA provides its employees the opportunity to participate in two plans: one administered by ING Insurance & Annuity Company and the other by the International City Management Association.

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Fiscal Years Ended June 30, 2006 and 2005**

**E. Subsequent events**

**Additional Loans from Member Governments**

In July 2006, the City of Phoenix joined Williams Gateway Airport Authority as its fifth member. As part of the membership agreement, the City of Phoenix will make a one-time \$5 million loan to the airport to be used toward capital improvements. In addition, member governments agreed that they will make the following loans to WGAA in fiscal year 2007:

City of Mesa	\$1,700,000
City of Phoenix	1,300,000
Gila River Indian Community	450,000
Town of Gilbert	350,000
Town of Queen Creek	100,000

Promissory notes were issued in July 2006 to evidence the terms of these loans. Actual funding of the loans will be made throughout the 2007 fiscal year. Like the previous member loans (see Note 3D), these notes carry an interest rate of 3% per year. Interest and principal will be due in 2027 or at such time as the WGAA Board of Directors deems appropriate.

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**SUPPLEMENTARY INFORMATION**

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Williams Gateway Airport Authority  
Statement of Revenues and Expenses  
Unaudited (Budget Basis)  
Fiscal Year Ended June 30, 2006

**AIRPORT - All Operations**

	2006 Budget	Revised 2006 Budget	Fiscal YTD Actual	% of Budget YTD = 100.0	YTD Actual Over(Under) Ann'l Budget
<b>Operating revenues</b>					
Fueling Sales	12,421,241	12,421,241	13,465,368	0%	1,044,127
Flowage Fees	703,299	703,299	565,680	80%	(137,619)
Landing Fees	133,917	133,917	145,502	109%	11,585
Lease Income	2,393,045	2,393,045	2,532,710	106%	139,665
Misc. Services	224,872	224,872	325,855	145%	100,983
Tie Down / Hangaring Income	111,503	111,503	116,081	104%	4,578
Total operating revenues	<u>15,987,877</u>	<u>15,987,877</u>	<u>17,151,196</u>	<u>107%</u>	<u>1,163,319</u>
<b>Cost of Goods Sold</b>					
Cost of Goods Sold re Service Work	28,800	28,800	28,169	98%	(631)
Cost of Fueling Sales	9,508,800	9,508,800	10,475,076	110%	966,276
Total Cost of Sales	<u>9,537,600</u>	<u>9,537,600</u>	<u>10,503,245</u>	<u>110%</u>	<u>965,645</u>
Gross Margin	<u>6,450,277</u>	<u>6,450,277</u>	<u>6,647,951</u>	<u>103%</u>	<u>197,674</u>
<b>Operating expenses</b>					
Advertising	65,340	60,840	71,065	117%	10,225
Bad Debt Expense	3,000	3,000	3,000	100%	0
Depreciation	7,209,098	7,209,098	6,897,986	96%	(311,112)
Equipment - Office	37,160	46,960	46,862	100%	(98)
Equipment - Operating	23,000	16,700	32,834	197%	16,134
Equipment - Rent	95,756	91,999	93,946	102%	1,947
Fringe Benefits	1,762,167	1,754,431	1,516,018	86%	(238,413)
Fuel	67,318	67,318	78,509	117%	11,191
Insurance	273,000	273,000	243,933	89%	(29,067)
Lease Expense (Real Estate)	212,082	212,082	210,781	99%	(1,301)
Office Supplies	67,154	64,054	53,109	83%	(10,945)
Operating Supplies	52,910	52,910	46,534	88%	(6,376)
Other	125,047	124,147	137,550	111%	13,403
Postage & Shipping	18,104	18,104	9,208	51%	(8,896)
Printing	39,850	39,850	23,724	60%	(16,126)
Professional Services	1,161,647	1,168,147	1,051,078	90%	(117,069)
Repair & Maintenance	486,725	475,681	494,192	104%	18,511
Salaries	4,371,820	4,294,357	4,033,213	94%	(261,144)
Telephone/Radio	73,778	73,778	89,224	121%	15,446
Training	71,284	69,784	34,574	50%	(35,210)
Travel	69,705	69,705	40,195	58%	(29,510)
Utilities	337,899	337,899	320,436	95%	(17,463)
Total operating expenses	<u>16,623,844</u>	<u>16,523,844</u>	<u>15,527,971</u>	<u>94%</u>	<u>(995,873)</u>
Operating income (loss)	<u>(10,173,567)</u>	<u>(10,073,567)</u>	<u>(8,880,020)</u>	<u>88%</u>	<u>1,193,547</u>
<b>Nonoperating revenues (expenses)</b>					
Operating grants-other governments	385,877	385,877	130,000	34%	(255,877)
Investment income	48,000	48,000	211,862	441%	163,862
Other income	1,620	1,620	20,593	1271%	18,973
Loss on disposition of assets	0	0	(9,181)	--	(9,181)
Interest expense - member govts	(1,543,515)	(1,543,515)	(1,543,515)	100%	0
Interest expense - other	(25,625)	(25,625)	(43,934)	171%	(18,309)
Other non-operating expense	(262,438)	(262,438)	39,504	-15%	301,942
Total nonoperating rev (exp)	<u>(1,396,081)</u>	<u>(1,396,081)</u>	<u>(1,194,671)</u>	<u>86%</u>	<u>201,410</u>
Income before contributions and transfers	<u>(11,569,648)</u>	<u>(11,469,648)</u>	<u>(10,074,691)</u>	<u>88%</u>	<u>1,394,957</u>
Capital contributions (capital grants earned)	<u>9,245,471</u>	<u>9,245,471</u>	<u>9,107,225</u>	<u>99%</u>	<u>(138,246)</u>
Change in net assets	<u>(2,324,177)</u>	<u>(2,224,177)</u>	<u>(967,466)</u>	<u>43%</u>	<u>1,256,711</u>

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