

WILLIAMS GATEWAY AIRPORT AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WGAA's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2007 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 24, 2007

**WILLIAMS GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2007 and 2006**

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, 2007 and June 30, 2006. 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 \$123,158,640 (net assets). Total net assets includes \$117,811,717 in capital assets, net of related debt. An additional \$341,777 of the total net assets are restricted for specific uses, and \$5,005,146 are unrestricted net assets. During the year, total net assets decreased by \$6,757,658.
- Total liabilities (primarily member loans) increased by \$ 5,568,803 (8.8%) to \$68,578,194.
- WGAA's operations produced a loss of \$9,056,188 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, WGAA 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 \$4,641,000 to \$52,284,976 and accrued interest relating to that debt increased by \$1,691,520 to \$10,431,554 . (The first of these notes comes due in the year 2020.)
- Sales in WGAA's fueling operation were up 5% in volume and down 12% in dollars to \$12,313,072. However, gross margin (gross revenues less cost of goods sold) was up \$329,805 (9%). Much of this change was due to a shift in the way WGAA sells fuel to the federal government. Previously, it was purchased by WGAA and sold. It is now purchased directly from the supplier by the government and WGAA is paid an increased fee to upload the fuel. As a result, both revenues and cost of sales relating to this activity are down, but gross margin is up.

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, 2007 and 2006**

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 \$123,158,640.

Airports are capital-intensive enterprises. 95.7% 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

	2007	2006 (restated)	2005 (restated)
Current and other assets	\$ 7,921,016	\$ 10,008,869	\$ 7,121,157
Capital assets, net of accumulated depreciation	<u>183,815,818</u>	<u>182,916,820</u>	<u>178,561,609</u>
Total assets	<u>191,736,834</u>	<u>192,925,689</u>	<u>185,682,766</u>
Long-term liabilities	65,977,201	59,683,508	52,100,244
Other liabilities	<u>2,600,993</u>	<u>3,325,883</u>	<u>2,698,759</u>
Total liabilities	<u>68,578,194</u>	<u>63,009,391</u>	<u>54,799,003</u>
Net assets:			
Invested in capital assets, net of related debt	117,811,717	122,987,750	126,239,707
Restricted	341,777	3,225,292	1,090,137
Unrestricted	<u>5,005,146</u>	<u>3,703,256</u>	<u>3,553,920</u>
Total net assets	<u>\$ 123,158,640</u>	<u>\$ 129,916,298</u>	<u>\$ 130,883,764</u>

\$341,777 (0.3%) of WGAA's net assets represents 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, 2007 restricted net assets includes customer deposits and unspent 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. Capital assets are shown 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 \$6,757,658 (5.2%) from the previous fiscal year-end. This was primarily due to depreciation expense and additional loans from member governments to help pay operating expenses. Member loans increased in fiscal year 2006-07 by \$4,641,000, which is higher than the amount received in fiscal year 2005-06. Current and restricted assets decreased, primarily due to spending of borrowed funds for construction of a hangar to be leased to Arizona State University.

**WILLIAMS GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2007 and 2006**

Invested in capital assets, net of related debt decreased by 4.2%. New investments in capital assets (less asset dispositions) were \$898,998 more than the year's depreciation expense on capital assets. Most of the \$2,883,515 decrease in restricted assets was due to spending of borrowed funds for construction of a hangar to be leased to 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 reductions in capital grants and contributions, which were down \$5,428,065 (60%). Capital grants were down because some grant funds were being held until sufficient funds could be accumulated to construct a large taxiway project. (Grant funds are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.) Fuel sales and related cost of sales taken together (gross margin) were up \$329,805, an increase of 9%. The change came about as indicated by the following elements of the revenues and expenses:

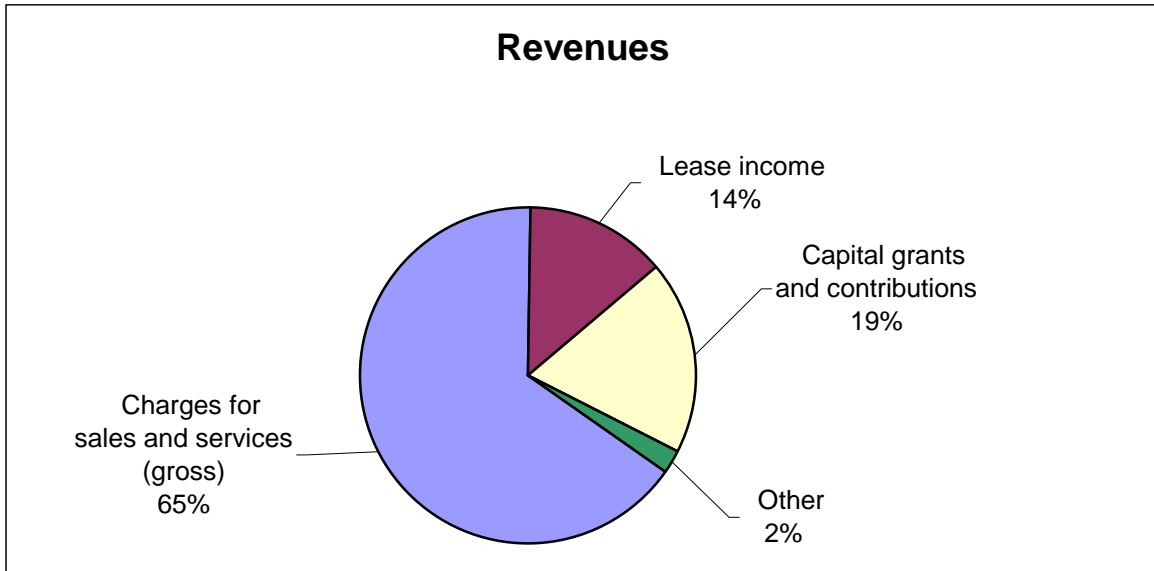
Williams Gateway Airport Authority's Changes in Net Assets

	2007	2006	2005
Revenues:			
Charges for sales and services (gross)	\$ 13,047,806	\$ 14,618,487	\$ 12,987,564
Lease income	2,702,719	2,532,710	2,268,373
Capital grants and contributions	3,679,160	9,107,225	4,081,130
Operating grants and contributions	-	130,000	147,766
Other	435,020	271,960	288,897
Total revenues	<u>19,864,705</u>	<u>26,660,382</u>	<u>19,773,730</u>
Expenses			
Cost of sales	8,463,708	10,503,245	9,110,114
Depreciation	6,690,074	6,897,986	7,528,876
Other operating expenses	9,652,931	8,629,987	8,482,693
Interest expense on loans from member governments	1,691,520	1,543,515	1,399,820
Other non-operating expenses	124,130	53,115	369,968
Total expenses	<u>26,622,363</u>	<u>27,627,848</u>	<u>26,891,471</u>
Increase (decrease) in net assets	(6,757,658)	(967,466)	(7,117,741)
Net assets at prior year-end (as restated)	<u>129,916,298</u>	<u>130,883,764</u>	<u>138,001,505</u>
Net assets at year-end	<u><u>\$123,158,640</u></u>	<u><u>\$129,916,298</u></u>	<u><u>\$130,883,764</u></u>

Revenues:

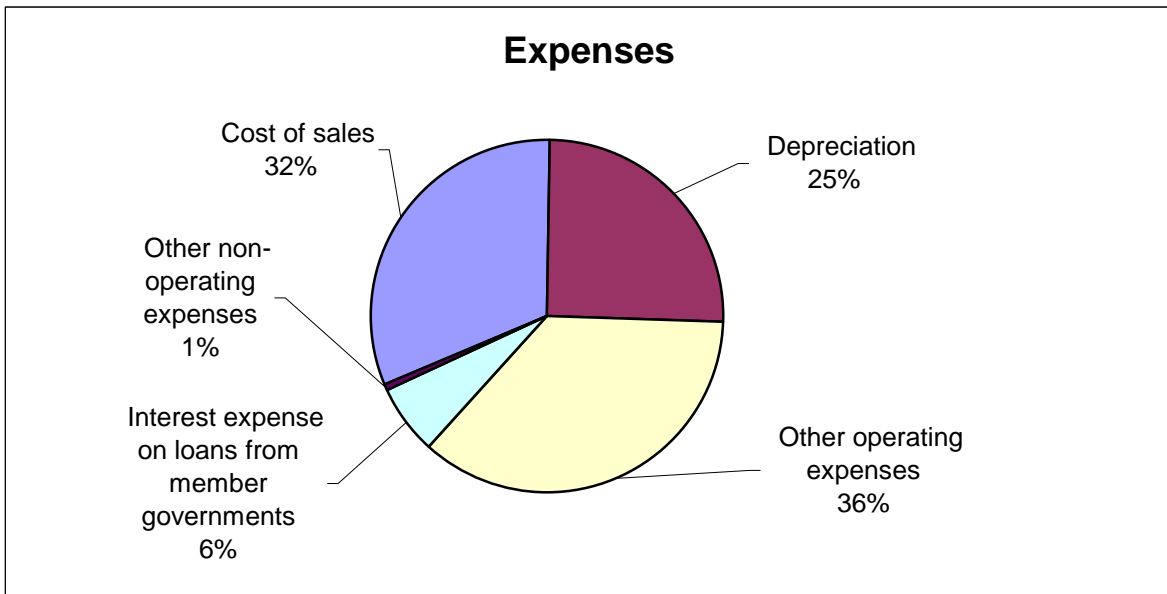
Charges for sales and services decreased by \$1,570,681, primarily due to a change in the way we sell fuel to the federal government, our largest customer. Previously, WGAA purchased fuel and sold it to the government. Now, the government purchases their fuel from a supplier and WGAA is paid for uploading the fuel into their aircraft. This has reduced both sales and cost of sales, but has provided an increase in gross profit to the airport. The volume of fuel sold was 5% more than the prior year. Lease income was up \$170,009 (7%). Capital grants and contributions decreased by \$5,428,065 (60%). Now that the City of Phoenix is a contributing member of the Airport Authority, it no longer contributes operating grants for marketing.

**WILLIAMS GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2007 and 2006**



Expenses:

Cost of sales decreased by \$2,039,537 (19%), reflecting the change in method of selling fuel (discussed on page 5). Other operating expenses increased by \$1,022,944 (12%). Most of the increase represents increases in personnel costs, including salaries, health care insurance and required contributions to the state retirement system, repair and maintenance, and professional service. Interest expense on loans from member governments increased by \$148,005, reflecting the accumulation of accrued interest and additional interest relating to annual additions to these loans from the member governments.



**WILLIAMS GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2007 and 2006**

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, 2007, WGAA's capital assets totaled \$183,815,818 (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 0.5% during the fiscal year.

Capital assets (net of depreciation)

	2007	2006 (restated)	2005 (restated)
Land	\$ 83,017,074	\$ 83,017,074	\$ 82,963,159
Buildings and improvements	89,933,990	89,061,422	89,746,119
Machinery and equipment	2,439,924	2,671,596	1,726,653
Construction in progress	8,424,830	8,166,728	4,125,678
Total capital assets, net	<u>\$ 183,815,818</u>	<u>\$ 182,916,820</u>	<u>\$ 178,561,609</u>

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

- Runway shoulders on 2 runways (underway last year) were completed. Total cost: \$4.4 million.
- Construction of a \$3 million hangar/classroom facility for Arizona State University began and was nearly complete. Costs to June 30, 2007: \$2.9 million.
- Construction was completed on extending the service area of the South Central Fire Protection System to additional lots. This involved added piping and pumps. Due to the prime contractor going out of business, this project experienced significant delays. Costs to June 30, 2007: \$1.6 million.
- A parking lot accommodating approximately 150 cars near the passenger terminal (underway last year) was completed. Total cost: \$0.7 million.
- Airport Pavement Maintenance System South and Middle Aprons and Taxiways B & G. Total cost: \$.7 million
- Taxiway G was essentially completed connecting the runway system with the Cessna facility that is being built on the airport. Cost to June 30, 2007: \$.7 million
- Drainage Improvements along the north apron were essentially completed. Estimated cost: \$.9 million. Cost to June 30, 2007: \$.7 million
- Airport Security Fencing. Cost to June 30, 2007: \$.5 million

Long-term debt.

At the end of the current fiscal year, WGAA had total debt outstanding of \$66,004,101. \$62,716,530 (95%) of the total outstanding debt is principal and interest (at 3% annual 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 \$350,583 (68%) by making regularly scheduled principal and interest payments.

**WILLIAMS GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2007 and 2006**

Williams Gateway Airport Authority's Outstanding Debt

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Loans from Member Governments (including accrued interest)	\$ 62,716,530	\$ 56,384,010	\$ 51,450,495
ADOT Loan (including accrued interest)	3,119,040	3,025,947	-
Capital Leases	168,531	519,114	871,407
	<u>\$ 66,004,101</u>	<u>\$ 59,929,071</u>	<u>\$ 52,321,902</u>

Loans from member governments (principal) increased by \$4,641,000 (10%) during the fiscal year, compared to the \$3,390,000 increase in loans during the previous year. \$741,000 of the current year increase is the amount received from the City of Phoenix; the City of Phoenix agreed to make available \$5,000,000 for capital improvements as a condition of it becoming a member of WGAA. The accrued interest component of member government loans increased by \$1,691,520 compared to \$1,543,515 in the previous year. Member loans carry an interest rate of 3% per year.

Additional information on WGAA's long-term debt can be found in note 3.D. on pages 23 - 24.

Economic Factors

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 received 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

In September 2007, the Board of Directors of WGAA voted to change the name of the airport from Williams Gateway Airport to Phoenix-Mesa Gateway Airport. The name of the airport authority did not change. WGAA expects to incur less than \$100,000 in costs related to the name change.

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, 2007 and 2006

	Business-type Activities - Enterprise Fund	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,946,477	\$ 3,837,493
Accounts receivable, net	572,694	397,028
Due from other governments	439,298	1,880,739
Prepaid costs	102,229	121,334
Inventories	315,222	409,547
Total current assets	7,375,920	6,646,141
Noncurrent assets:		
Restricted assets	545,096	3,362,728
Capital assets:		
Nondepreciable (as restated)	91,441,904	91,183,802
Depreciable	92,373,914	91,733,018
Total noncurrent assets	184,360,914	186,279,548
Total assets	191,736,834	192,925,689
Liabilities		
Current liabilities:		
Accounts payable	1,468,374	2,158,065
Accrued liabilities	105,834	105,228
Vacation benefits payable	396,782	384,978
Capital lease obligations payable	163,003	350,600
Retirement sick leave payable	13,594	14,268
ADOT loan	-	16,456
Accrued interest payable to ADOT	67,811	25,947
Unearned revenue	182,276	132,905
Total current liabilities	2,397,674	3,188,447
Current liabilities payable from restricted assets:		
Tenant deposits	203,319	137,436
Noncurrent liabilities:		
Loans payable to member governments	52,284,976	47,643,976
Accrued interest payable to member governments	10,431,554	8,740,034
ADOT loan	3,000,000	2,983,544
Accrued interest payable to ADOT	51,229	-
Capital leases	5,528	168,514
Retirement sick leave payable	203,914	147,440
Total noncurrent liabilities	65,977,201	59,683,508
Total liabilities	68,578,194	63,009,391
Net assets		
Invested in capital assets, net of related debt	117,811,717	122,987,750
Restricted net assets	341,777	3,225,292
Unrestricted net assets	5,005,146	3,703,256
Total net assets	\$ 123,158,640	\$ 129,916,298

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, 2007 AND 2006

	Business-type Activities Enterprise Fund	
	2007	2006
Operating revenues		
Fueling operations	\$ 12,313,072	\$ 14,031,048
Lease income	2,702,719	2,532,710
Maintenance services	467,940	325,856
Airport usage fees	266,794	261,583
Total operating revenues	<u>15,750,525</u>	<u>17,151,197</u>
Operating expenses		
Personnel costs	5,900,980	5,549,231
Professional services	1,231,214	1,051,078
Cost of goods sold - fueling operations	8,427,295	10,475,076
Costs of maintenance services sold	36,413	28,169
Repair and maintenance	723,747	494,191
Utilities	342,013	320,436
Insurance	273,149	243,933
Other expense	1,181,828	971,118
Depreciation	6,690,074	6,897,986
Total operating expenses	<u>24,806,713</u>	<u>26,031,218</u>
Operating loss	<u>(9,056,188)</u>	<u>(8,880,021)</u>
Nonoperating revenues (expenses)		
Operating grants from other governments	-	130,000
Investment income	368,674	211,862
Other income	30,052	20,593
Recovery of prior loss - AZ State - Local Govt Investment Pool	36,294	39,505
Gain/(loss) on disposition of assets	-	(9,181)
Interest expense - notes payable to member governments	(1,691,520)	(1,543,515)
Interest expense - other	(124,130)	(43,934)
Total nonoperating revenues (expenses)	<u>(1,380,630)</u>	<u>(1,194,670)</u>
Loss before contributions and transfers	(10,436,818)	(10,074,691)
Capital contributions	<u>3,679,160</u>	<u>9,107,225</u>
Change in net assets	(6,757,658)	(967,466)
Net assets, beginning of year (as restated)	<u>129,916,298</u>	<u>130,883,764</u>
Net assets, end of year	<u>\$ 123,158,640</u>	<u>\$ 129,916,298</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, 2007 AND 2006

	Business-type Activities - Enterprise Funds	
	2007	2006
Cash flows from operating activities		
Receipts from customers	\$ 16,595,966	\$ 16,965,005
Payments to employees	(5,832,770)	(5,746,041)
Payments to suppliers	(12,351,251)	(13,707,769)
Customer deposits	65,883	12,048
Net cash flows from operating activities	(1,522,172)	(2,476,757)
Cash flows from non-capital financing activities		
Loans from member governments	4,641,000	3,390,000
Operating grants from other governments	-	130,000
Net cash flows from non-capital financing activities	4,641,000	3,520,000
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(7,373,325)	(6,683,459)
Principal paid on capital leases	(350,583)	(361,438)
Loan from ADOT	-	3,000,000
Interest paid on ADOT loan	(53,848)	-
Interest paid on capital leases	(12,870)	(25,536)
Capital grants received	3,528,130	5,841,270
Net cash flows from capital and financing activities	(4,262,496)	1,770,837
Cash flows from investing activities		
Investment income	368,674	211,862
Investment gain	36,294	39,505
Other income/expense	30,052	20,593
Net cash flows from investing activities	435,020	271,960
Net change in cash and cash equivalents	(708,648)	3,086,040
Cash and cash equivalents, beginning of year	7,200,221	4,114,181
Cash and cash equivalents, end of year	\$ 6,491,573	\$ 7,200,221
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 5,946,477	\$ 3,837,493
Restricted assets	545,096	3,362,728
Total	\$ 6,491,573	\$ 7,200,221

(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, 2007 AND 2006**

	Business-type Activities - Enterprise Funds	
	2007	2006
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (\$9,056,188)	\$ (8,880,021)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	6,690,074	6,897,986
Change in assets/liabilities:		
Accounts receivable	796,070	(237,121)
Prepaid costs	19,105	3,094
Inventories	94,325	(178,954)
Accounts payable and accrued liabilities	(248,416)	(147,332)
Unearned revenue	49,371	50,929
Customer deposits	65,883	12,048
Compensated absences payable	67,604	2,614
Net cash used by operating activities	\$ (\$1,522,172)	\$ (2,476,757)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized \$1,691,520 and \$1,543,515 of interest payable on loans from member governments during fiscal years 2007 and 2006, respectively. The Authority capitalized \$35,681 of interest during the year and received \$620,735 in contributed assets from the Arizona Department of Transportation.

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, 2007 and 2006

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 3,005 acres as Williams Gateway Airport ("the Airport"). WGAA is overseen by a five-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; City of Phoenix, Arizona; and Town of Queen Creek, Arizona.

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, terminal usage fees, 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 9% to 12% 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. 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.

**WILLIAMS GATEWAY AIRPORT AUTHORITY
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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, 2007 and 2006 consist of the following:

	2007	2006
Cash on hand	\$ 7,482	\$ 1,230
Deposits		
Cash in bank	7,749	9,652
Investments		
Overnight Sweep Account	289,425	469,212
State Treasurer's Investment Pool	6,186,917	6,720,127
Total deposits and investments	6,491,573	7,200,221
Less: restricted cash	(545,096)	(3,362,728)
Total cash and equivalents	\$ 5,946,477	\$ 3,837,493

Deposits - WGAA's deposits at June 30, 2007, 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, 2007 of \$2,125,191 to cover deposits in excess of the federal depository insurance coverage. WGAA's bank balance was \$120,667.

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, 2007, 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, 2007, WGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 5	Unrated	Not applicable	\$ 6,186,917	96%
Overnight sweep account	Aaa	Moody's	289,425	4%
Total investments			<u>\$ 6,476,342</u>	<u>100%</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	\$ 6,186,917	\$ 6,186,917
Overnight sweep account	289,425	289,425
	<u>\$ 6,476,342</u>	<u>\$ 6,476,342</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:

	2007	2006
Customer deposits	\$ 203,319	\$ 137,436
ADOT loan and related earned interest	183,217	3,009,934
State appropriation and related interest	158,560	215,358
Total restricted assets	<u>\$ 545,096</u>	<u>\$ 3,362,728</u>

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3. Receivables

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

	<u>2007</u>	<u>2006</u>
Trade receivables - governments	\$ 26,967	\$ 998,703
Grants receivable	412,331	882,036
Total due from other governments	<u>\$ 439,298</u>	<u>\$ 1,880,739</u>
Total accounts receivable	\$ 651,372	\$ 437,709
Less allowance for uncollectible accounts	(78,678)	(40,681)
Accounts receivable, net	<u>\$ 572,694</u>	<u>\$ 397,028</u>

4. Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance 6/30/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2007</u>
Capital assets not being depreciated				
Land (as restated)	\$ 83,017,074	\$ -	\$ -	\$ 83,017,074
Construction in progress	8,166,728	7,470,198	(7,212,096)	8,424,830
Total capital assets not being depreciated	<u>\$ 91,183,802</u>	<u>\$ 7,470,198</u>	<u>\$ (7,212,096)</u>	<u>\$ 91,441,904</u>
Capital assets being depreciated				
Buildings and improvements	\$144,724,297	7,180,708	-	151,905,005
Machinery and equipment	5,753,328	150,262	(7,000)	5,896,590
Total capital assets being depreciated	<u>\$150,477,625</u>	<u>\$ 7,330,970</u>	<u>\$ (7,000)</u>	<u>\$ 157,801,595</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 55,662,875	6,308,140	-	61,971,015
Machinery and equipment	3,081,732	381,934	(7,000)	3,456,666
Total accumulated depreciation	<u>\$ 58,744,607</u>	<u>\$ 6,690,074</u>	<u>\$ (7,000)</u>	<u>\$ 65,427,681</u>
Total capital assets being depreciated, net	<u>\$ 91,733,018</u>	<u>\$ 640,896</u>	<u>\$ -</u>	<u>\$ 92,373,914</u>
Business-type activities capital assets, net	<u>\$182,916,820</u>	<u>\$ 8,111,094</u>	<u>\$ (7,212,096)</u>	<u>\$ 183,815,818</u>

A prior period adjustment was recorded to properly record two parcels of land deeded to WGAA from the Air Force in 2004. See Note 4.E. on page 27 for further information on this adjustment.

**WILLIAMS GATEWAY AIRPORT AUTHORITY
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B. Purchase commitments

As of June 30, 2007, 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, 2007</u>	<u>June 30, 2006</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 5,400,000	\$ 3,850,000
Portion of above funded by grants	\$ 4,641,000	\$ 940,000

WGAA had 22 active design or construction projects at June 30, 2007. These projects are expected to cost a total of \$14.1 million, of which \$13 million has been committed and \$7.6 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>
Airfield Perimeter Road	132,338	\$ 24,605
Airport Master Plan Update (2005)	175,106	611,056
Construct Drainage Improvements (North) - Phase I	733,341	122,529
Construct Taxiway B - Phase II	84,956	127,279
Construct South Central Fire Protection	700,883	25,171
Construct Sossaman Rd Parking Lots (Terminal-37)	20,332	2,096,873
Design & Const. Sossaman Rd Parking (#46-#74)	59,785	55,685
Design/Construct Code Upgrades Hangar 31	4,705	1,716,471
Design/Build ASU Hangar	2,829,217	196,025
Design Taxiway L	232,020	161,964
Drainage Improvements (North) - Phase II	91,060	48,675
North Fire Suppression Line Extension	420,477	23,397
Taxilane Access - Twy G (Wings)	21,646	55,761
Upgrade/Replace Common Use Terminal Equip	5,984	63,572
Other	83,470	39,128
Total	<u>5,595,320</u>	<u>5,368,191</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 \$1,651,122 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, 2007 and 2006 were \$210,781 and \$210,781 respectively.

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The future minimum operating lease payments as of June 30, 2007 and June 30, 2006 were payable as follows:

<u>Year ending June 30,</u>	<u>2007</u>	<u>2006</u>
2007	\$ -	\$ 210,781
2008	210,781	210,781
2009	210,782	210,782
2010	210,782	210,782
2011	210,782	210,782
2012	210,781	210,781
2013-2015	597,214	597,214
Minimum operating lease payments	<u>\$ 1,651,122</u>	<u>\$ 1,861,903</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>2007</u>	<u>2006</u>
Machinery and equipment	\$ 2,618,120	\$ 2,976,899
Less: Accumulated depreciation	(361,182)	(388,253)
Total	<u>\$ 2,256,938</u>	<u>\$ 2,588,646</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, 2007 and June 30, 2006, 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>2007</u>	<u>2006</u>
2007	\$ -	\$ 363,448
2008	165,084	165,079
2009	2,126	2,122
2010	2,126	2,122
2011	1,773	1,768
2012	-	-
Total minimum lease payments	<u>171,109</u>	<u>534,539</u>
Less: amounts representing interest	(2,578)	(15,425)
Present value of minimum lease payments	<u>\$ 168,531</u>	<u>\$ 519,114</u>

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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 FY2006, 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 facility on the airport for Arizona State University. The quarterly payments began in June 2007. Changes in long-term obligations for the year ended June 30, 2007 are as follows:

	June 30, 2006	Increases	Decreases	June 30, 2007	Due Within One Year
Loans payable					
Principal on member loans	\$ 47,643,976	\$ 4,641,000	\$ -	\$ 52,284,976	\$ -
Accrued Interest on member loans	8,740,034	1,691,520	-	10,431,554	-
Member loans	56,384,010	6,332,520	-	62,716,530	-
Other Loans	3,000,000	-	-	3,000,000	-
Accrued Interest on other loans	25,947	146,940	(53,847)	119,040	67,811
Other Liabilities					
Capital Leases	519,114	-	(350,583)	168,531	163,003
Compensated absences	546,686	480,305	(412,701)	614,290	410,376
Business-type long-term liabilities	<u>\$ 60,475,757</u>	<u>\$ 6,959,765</u>	<u>\$ (817,131)</u>	<u>\$ 66,618,391</u>	<u>\$ 641,190</u>

Debt service requirements on long-term loans payable at June 30, 2007, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Principal	Interest
2008	\$ -	\$ 215,388
2009	19,874	195,514
2010	74,556	140,832
2011	78,177	137,211
2012	81,973	133,415
2013-2017	473,584	603,355
2018-2022	44,854,269	36,380,865
2023-2027	8,791,903	6,789,915
2028-2032	910,640	112,452
Total	<u>\$ 55,284,976</u>	<u>\$ 44,708,947</u>

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Loans from member governments:

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

	Year Ended June 30, 2007	Year Ended June 30, 2006
City of Mesa	43.6%	73.7%
City of Phoenix	33.3%	0.0%
Gila River Indian Community	11.5%	13.3%
Town of Gilbert	9.0%	10.3%
Town of Queen Creek	2.6%	2.7%
	<u>100.0%</u>	<u>100.0%</u>

As a condition of joining the Airport Authority, the City of Phoenix agreed to make available to WGAA \$5,000,000 toward capital needs of the airport, in addition to its share of annual funding (shown). During FY07, WGAA received \$741,000 of the \$5,000,000, which is not reflected in the above percentages.

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.

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 \$4,641,000 in principal and \$1,691,520 in accrued interest in fiscal year 2007 and by \$3,390,000 in principal and \$1,543,515 in accrued interest in fiscal year 2006:

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

	<u>2007</u>	<u>2006</u>
City of Mesa	\$ 47,063,033	\$ 44,041,779
City of Phoenix	2,041,000	-
Gila River Indian Community	6,231,464	5,613,072
Town of Gilbert	6,082,545	5,565,578
Town of Queen Creek	1,298,488	1,163,581
Loans Payable to member governments at June 30	<u>\$ 62,716,530</u>	<u>\$ 56,384,010</u>

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

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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 \$118,000 and \$24,000 of such contingent rents in the fiscal years ending June 30, 2007 and 2006, respectively.

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2007 and June 30, 2006:

Fiscal Years Ending June 30:	2007	2006
2007	\$ -	\$ 1,419,453
2008	1,683,656	533,431
2009	775,324	465,526
2010	650,614	297,294
2011	544,740	210,409
2012	588,898	588,898
2013 and thereafter	12,311,989	3,741,271
Totals	<u>\$16,555,221</u>	<u>\$ 7,256,282</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.

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, 2007 and 2006.

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 3,005 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.

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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 \$120,334,178 (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 \$38,836,161 (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.

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, 2007</u>				
City of Mesa	\$ 8,114	\$ 700,693	\$ 24,224	\$ 137,121
Town of Queen Creek	-	-	-	-
<u>Fiscal Year ended June 30, 2006</u>				
City of Mesa	\$ 7,629	\$ 612,951	\$ 10,038	\$ 128,987
Town of Queen Creek	515	-	-	-

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.

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Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and WGAA's contribution rate. For the year ended June 30, 2007, active plan members and WGAA were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 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, 2007, 2006, and 2005 were \$406,831, \$324,171, and \$242,668, 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.

E. Prior Period Adjustment

When the Air Force deeded airport assets to WGAA in 1998, they withheld several small parcels which had to be environmentally cleaned before ownership could be transferred. On April 14, 2004, the Air Force deeded two of these parcels to WGAA, totaling 39.2149 acres. During preparation of the fiscal year 2007 financial statements, it was discovered that the value of this land was not recorded in fiscal year 2004. Based on an analysis of sales of other parcels of land in the area, we estimate the value at the time of the 2004 transfer to have been \$1,449,101. This amount has been added to the beginning net assets for fiscal years 2007 and 2006.

	2006	2005
Net assets at June 30		
as previously reported	\$ 128,467,197	\$ 129,434,663
Recognition of capital assets		
(land)	1,449,101	1,449,101
Net assets at July 1		
as restated	\$ 129,916,298	\$ 130,883,764

F. Subsequent Events

In September 2007, the Board of Directors of WGAA voted to change the name of the airport from Williams Gateway Airport to Phoenix-Mesa Gateway Airport. The name of the airport authority did not change. WGAA expects to incur less than \$100,000 in costs related to the name change.

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OTHER SUPPLEMENTARY INFORMATION

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Williams Gateway Airport Authority
Statement of Revenues and Expenses
 Unaudited (Budget Basis)
 Fiscal Year Ended June 30, 2007

AIRPORT - All Operations

	Original and Final 2007 Budget	Fiscal YTD Actual	% of Budget	YTD Actual Over(Under) Ann'l Budget
			YTD = 100.0	
Operating revenues				
Fueling Sales	15,457,079	11,737,477	76%	(3,719,602)
Flowage Fees	679,192	575,595	85%	(103,597)
Landing Fees	205,331	160,054	78%	(45,277)
Lease Income	2,410,865	2,702,719	112%	291,854
Misc. Services	484,203	467,940	97%	(16,263)
Tie Down / Hangaring Income	138,027	106,740	77%	(31,287)
Total operating revenues	<u>19,374,697</u>	<u>15,750,525</u>	<u>81%</u>	<u>(3,624,172)</u>
Cost of Goods Sold				
Cost of Goods Sold re Service Work	28,800	36,413	126%	7,613
Cost of Fueling Sales	12,168,747	8,427,295	69%	(3,741,452)
Total Cost of Sales	<u>12,197,547</u>	<u>8,463,708</u>	<u>69%</u>	<u>(3,733,839)</u>
Gross Margin	<u>7,177,150</u>	<u>7,286,817</u>	<u>102%</u>	<u>109,667</u>
Operating expenses				
Advertising	74,013	109,984	149%	35,971
Bad Debt Expense	3,000	43,000	1433%	40,000
Bank/Credit Card Fees	95,983	76,786	80%	(19,197)
Equipment - Office	67,100	50,422	75%	(16,678)
Equipment - Operating	18,620	15,151	81%	(3,469)
Equipment - Rent	120,756	115,603	96%	(5,153)
Fringe Benefits	1,859,459	1,677,960	90%	(181,499)
Fuel	81,827	84,360	103%	2,533
Insurance	277,750	273,149	98%	(4,601)
Lease Expense (Real Estate)	210,780	210,781	100%	1
Office Supplies	67,742	62,584	92%	(5,158)
Operating Supplies	76,835	101,137	132%	24,302
Other	68,959	74,383	108%	5,424
Postage & Shipping	18,210	12,435	68%	(5,775)
Printing	50,250	17,867	36%	(32,383)
Professional Services	1,400,937	1,231,214	88%	(169,723)
Repair & Maintenance	531,525	723,747	136%	192,222
Salaries	4,374,934	4,223,020	97%	(151,914)
Telephone/Radio	79,462	92,635	117%	13,173
Training	64,382	48,563	75%	(15,819)
Travel	86,365	66,137	77%	(20,228)
Utilities	379,167	342,013	90%	(37,154)
Total operating expenses	<u>10,008,056</u>	<u>9,652,931</u>	<u>96%</u>	<u>(355,125)</u>
Operating income (loss) before Depreciation	(2,830,906)	(2,366,114)	84%	464,792
Depreciation	6,829,202	6,690,074	98%	(139,128)
Operating income (loss)	<u>(9,660,108)</u>	<u>(9,056,188)</u>	<u>94%</u>	<u>603,920</u>
Nonoperating revenues (expenses)				
Operating grants-other governments	376,521	0	0%	(376,521)
Investment income	140,000	368,674	263%	228,674
Other income	4,450	30,052	675%	25,602
Interest expense - member govts	(1,691,520)	(1,691,520)	100%	(0)
Interest expense - other	(12,483)	(124,130)	994%	(111,647)
Other non-operating expense	(386,175)	36,294	-9%	422,469
Total nonoperating rev (exp)	<u>(1,569,207)</u>	<u>(1,380,630)</u>	<u>88%</u>	<u>188,577</u>
Income before contributions and transfers	(11,229,315)	(10,436,818)	93%	792,497
Capital contributions (capital grants earned)	9,132,955	3,679,160	40%	(5,453,795)
Change in net assets	<u>(2,096,360)</u>	<u>(6,757,658)</u>	<u>322%</u>	<u>(4,661,298)</u>

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