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Board of Directors
Phoenix-Mesa Gateway Airport Authority
Mesa, Arizona

We have audited the financial statements of the business-type activities of Phoenix-Mesa Gateway Airport Authority for the year ended June 30, 2009, and have issued our report thereon dated February 16, 2010. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 6, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Phoenix-Mesa Gateway Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Phoenix-Mesa Gateway Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Phoenix-Mesa Gateway Airport Authority's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Phoenix-Mesa Gateway Airport Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Phoenix-Mesa Gateway Airport Authority's compliance with those requirements.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.



LarsonAllen LLP is a member of Nexia International, a worldwide network of independent accounting and consulting firms.

Other information in documents containing audited financial statements

Our audit opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 14, 2009.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Phoenix-Mesa Gateway Airport Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives and remaining useful lives of capital assets is based on an analysis of the assets' condition and the Authority's previous experience. We evaluated the key factors and assumptions used to develop the useful lives and remaining useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on an analysis of the aged receivable balance and the Authority's previous experience. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the compensated absences due within one year is based on an analysis of the current and prior year used balances and the Authority's previous experience in employees' use of compensated absences. We evaluated the key factors and assumptions used to develop the compensated absences due within one year in determining that they were reasonable in relation to the financial statements taken as a whole.

Significant audit findings (Continued)

Qualitative aspects of accounting practices (Continued)

Management's estimate of the future payments on the Allegiant Loan are presented based on the expected number flights and traffic through the terminal, using the current year activity as a basis.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated February 16, 2010.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other audit findings or issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * *

Board of Directors
Phoenix-Mesa Gateway Airport Authority
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This information is intended solely for the use of the board of directors and management of Phoenix-Mesa Gateway Airport Authority and is not intended to be and should not be used by anyone other than these specified parties.

Larson Allen LLP

LarsonAllen LLP

Mesa, Arizona
February 16, 2010

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

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PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors
Phoenix-Mesa Gateway Airport Authority

We have audited the accompanying financial statements of the business-type activities of Phoenix-Mesa Gateway Airport Authority (PMGAA) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of Phoenix-Mesa Gateway Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the PMGAA as of June 30, 2008, were audited by Cronstrom, Osuch & Company, P.C. (whose practice became part of LarsonAllen LLP effective June 1, 2009), whose report dated October 20, 2008, expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Phoenix-Mesa Gateway Airport Authority, as of June 30, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2010 on our consideration of Phoenix-Mesa 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.

To the Members of the Board of Directors
Phoenix-Mesa Gateway Airport Authority

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 PMGAA'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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 16, 2010

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

The management of Phoenix-Mesa Gateway Airport Authority (PMGAA) offers readers this overview and analysis of PMGAA's financial statements and activities for the fiscal years ended June 30, 2009 and June 30, 2008.

Financial Highlights

- PMGAA's assets exceeded liabilities at the end of the fiscal year by \$128,982,108 (net assets). Total net assets included \$122,435,419 in capital assets, net of related debt, and \$6,546,689 in unrestricted net assets. During the year, total net assets increased by \$1,710,114.
- PMGAA received approval from the FAA to collect Passenger Facility Charges (PFC's) at the rate of \$4.50 per enplaned passenger. During the year, PMGAA earned \$713,000 in PFC's.
- PMGAA received a \$3M loan from Allegiant Air to expand the passenger terminal.
- During the year, member government loans to PMGAA increased by \$4,009,360 to \$64,298,056 and accrued interest relating to that debt increased by \$2,178,052 to \$14,491,102. (The first of these notes comes due in the year 2020.)
- Total liabilities (primarily member loans) increased by \$ 8,191,728 (10.4%), to \$86,654,648.
- Sales in PMGAA's fueling operation were down 11% in dollars to \$6,928,705. Sales of avgas, retail jet, and contract fuel uploaded to military aircraft decreased. However, the number of gallons was up 19%, due primarily to the increase in number of Allegiant Air flights. Gross margin (gross revenues less cost of goods sold) was down 5%.
- PMGAA's operations produced a loss of \$9,704,706 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, PMGAA relies on its member governments to supplement the revenues it earns from providing airport services.

Overview of the Financial Statements:

This discussion and analysis serves to introduce PMGAA's financial statements. PMGAA's basic financial statements have two components, 1) fund financial statements, and 2) notes to the financial statements. Since PMGAA 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, PMGAA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of PMGAA's activities are business-type activities and are accounted for in a single proprietary fund.

Proprietary funds. PMGAA 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 PMGAA'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 PMGAA is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how PMGAA'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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

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, PMGAA's assets exceeded liabilities by \$128,982,108.

Airports are capital-intensive enterprises. 94.9% of PMGAA's net assets are invested in capital assets (net of any outstanding debt used to acquire those assets). PMGAA 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 PMGAA'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.

Phoenix-Mesa Gateway Airport Authority's Net Assets

	2009	2008	2007
Current and other assets	\$ 8,983,958	\$ 11,045,532	\$ 7,921,016
Capital assets, net of accumulated depreciation	206,652,798	194,689,382	183,815,818
Total assets	<u>215,636,756</u>	<u>205,734,914</u>	<u>191,736,834</u>
Long-term liabilities	83,769,731	75,839,822	65,977,201
Other liabilities	2,884,917	2,623,098	2,600,993
Total liabilities	<u>86,654,648</u>	<u>78,462,920</u>	<u>68,578,194</u>
Net assets:			
Invested in capital assets, net of related debt	122,435,419	119,030,879	117,811,717
Restricted	-	65,075	341,777
Unrestricted	6,546,689	8,176,040	5,005,146
Total net assets	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>	<u>\$ 123,158,640</u>

\$6,546,689 (5.1%) of PMGAA's net assets are unrestricted and represent funds available for PMGAA's ongoing 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 increased by \$1,710,114 (1.3%) from the previous fiscal year-end. This was primarily due to an increase in capital contributions from the Federal Aviation Administration and Arizona Department of Transportation for capital projects. Member loans increased in fiscal year 2008-09 by \$4,009,360, which is lower than the amount received in fiscal year 2007-08.

Net assets invested in capital assets, net of related debt increased by 2.9%. New investments in capital assets (less asset dispositions) were \$11,963,416 more than the year's depreciation expense on capital assets. The \$65,075 decrease in restricted net assets was due to spending the remaining balance of the state legislature grant.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008

Business-type activities

All of PMGAA's activities are classified as business-type activities. Significant changes in the financial operations of PMGAA included decreases in capital grants and contributions, which were down 20% (\$3,232,121). (Grant funds are recognized as revenue when all eligibility requirements imposed by the provider have been met.) Fuel sales and related cost of sales taken together (gross margin) were down, a decrease of 5%. The change in net assets came about as indicated by the following elements of the revenues and expenses:

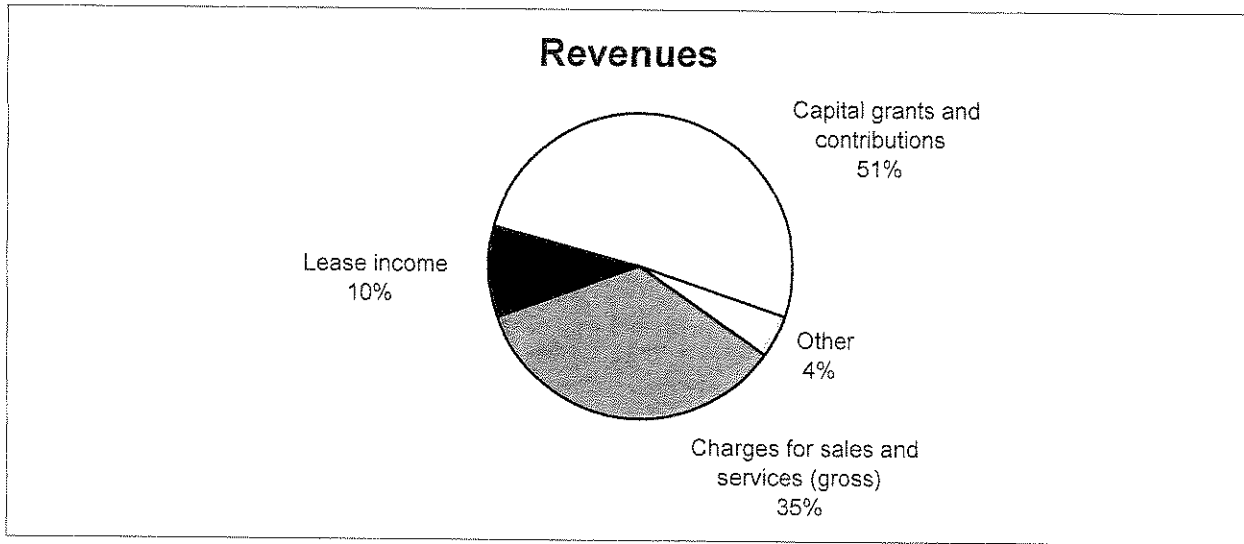
Phoenix-Mesa Gateway Airport Authority's Changes in Net Assets

	2009	2008	2007
Revenues:			
Charges for sales and services (gross)	\$ 8,644,160	\$ 8,818,571	\$ 13,047,806
Lease income	2,454,007	2,485,384	2,702,719
Capital grants and contributions	12,763,042	15,995,163	3,679,160
Other	1,098,024	304,581	435,020
Total revenues	<u>24,959,233</u>	<u>27,603,699</u>	<u>19,864,705</u>
Expenses			
Cost of sales	2,102,348	2,668,884	8,463,708
Depreciation	7,472,145	7,099,278	6,690,074
Other operating expenses	11,228,380	11,120,750	9,652,931
Interest expense on loans from member governments	2,178,052	1,881,496	1,691,520
Other non-operating expenses	268,194	719,937	124,130
Total expenses	<u>23,249,119</u>	<u>23,490,345</u>	<u>26,622,363</u>
Increase (decrease) in net assets	1,710,114	4,113,354	(6,757,658)
Net assets at prior year-end	127,271,994	123,158,640	129,916,298
Net assets at year-end	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>	<u>\$ 123,158,640</u>

Revenues:

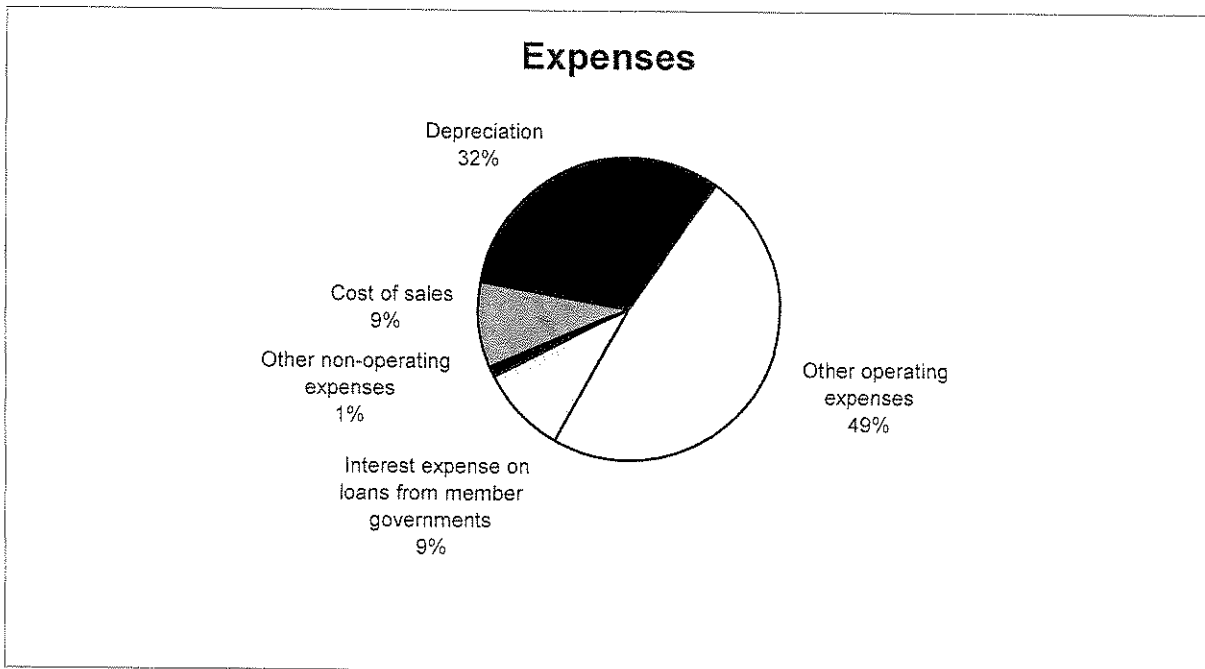
Charges for sales and services decreased by \$174,411. This was due mostly to the sluggish economy and decreased fuel sales to military and general aviation aircraft. This was partially offset by increased passenger-related revenues such as concessions and rental cars. In addition, this was the first complete year for collecting parking fees, accounting for an increase of \$498,760 (566.6%). Lease income was down from the prior year by \$31,377 (1%), due to building vacancies.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**



Expenses:

Cost of sales decreased by \$566,536 (21%). Other operating expenses increased by \$107,630 (1%). This includes payments for utilities, which increased by \$109,979 due to increased usage and rates. Personnel costs, including salaries and health care insurance increased by \$388,949 (5.97%). These increases were offset by reductions in repair and maintenance, \$157,285 advertising, \$131,835 and consulting, \$69,120 . Interest expense on loans from member governments increased by \$296,556, reflecting the accumulation of accrued interest and additional interest relating to annual additions to these loans from the member governments. (Capital grants and contributions indicated in the chart above are not included in the chart below because they were spent on assets, not expenses.)



**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

Budget

PMGAA 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 32 for a presentation of the budget as supplementary information.

Capital Assets and Debt Administration

Capital assets (net of depreciation)

At June 30, 2009, PMGAA's capital assets totaled \$206,652,798 (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 6.1% during the fiscal year.

Capital assets (net of depreciation)

	2009	2008	2007
Land	\$ 85,133,911	\$ 84,703,586	\$ 83,017,074
Buildings and improvements	112,817,286	91,779,882	89,933,990
Machinery and equipment	4,097,518	2,763,351	2,439,924
Construction in progress	4,604,083	15,442,563	8,424,830
Total capital assets, net	<u>\$ 206,652,798</u>	<u>\$ 194,689,382</u>	<u>\$ 183,815,818</u>

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

- Construct Taxiway B: Spent in FY09: \$8 million
- Passenger terminal expansion: Spent in FY09: \$3.2 million
- Taxilane L drainage improvements: Spent in FY09: \$1.8 million
- Construct Sossaman Road parking lot: Spent in FY09: \$1.1 million
- Apron reconstruction drainage improvements: Spent in FY09: \$1.2 million
- Purchase of ARFF vehicle: Spent in FY09: \$.9 million

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2009 and 2008**

Long-term debt.

At the end of the current fiscal year, PMGAA had total debt outstanding of \$84,402,087. \$78,789,158 (93%) 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 nominally due June 30, 2020, more specifically at such time as the PMGAA Board of Directors determines that PMGAA has sufficient funds for repayments. PMGAA reduced its capital lease obligations by \$1,841 (33%) by making regularly scheduled principal and interest payments.

Phoenix-Mesa Gateway Airport Authority's Outstanding Debt

	2009	2008	2007
Loans from Member Governments (including accrued interest)	\$ 78,789,158	\$ 72,601,746	\$ 62,716,530
ADOT and Allegiant Loans (including accrued interest)	5,609,242	3,051,229	3,119,040
Capital Leases	3,687	5,528	168,531
	<u>\$ 84,402,087</u>	<u>\$ 75,658,503</u>	<u>\$ 66,004,101</u>

Loans from member governments (principal) increased by \$4,009,360 (7%) during the fiscal year, compared to the \$8,003,720 increase in loans during the previous year. The accrued interest component of member government loans increased by \$2,178,052 compared to \$1,881,496 in the previous year. Member loans carry an interest rate of 3% per year. In August, 2008, Allegiant Air loaned PMGAA \$3,000,000 to expand the passenger terminal. This loan will be repaid based on the number of enplaned passengers at the rate of \$4.00 each (\$3.00 principal and \$1.00 interest). The total interest to be paid is \$1,000,000, and the interest rate depends on how quickly the loan is repaid. Based on projected enplanements, it is estimated that the loan will be paid in full in the year ending June 30, 2012.

Additional information on PMGAA's long-term debt can be found in note 3.D. on pages 23 - 25.

Economic Factors

PMGAA depends on annual loans from its member governments to cover some of its operating costs. This makes PMGAA 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 PMGAA'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.

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

Requests for Information

This financial report is designed to provide a general overview of PMGAA'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 Deputy Director, Phoenix-Mesa Gateway Airport Authority, 5835 S. Sossaman Road, Mesa, AZ 85212.

FINANCIAL STATEMENTS

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2009 and 2008

	Business-type Activities - Enterprise Fund	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,739,671	\$ 7,286,698
Accounts receivable, net	689,212	482,040
Due from other governments	814,315	2,668,078
Prepaid costs	72,628	44,123
Inventories	140,212	173,894
Total current assets	<u>8,456,038</u>	<u>10,654,833</u>
Noncurrent assets:		
Restricted assets	527,920	390,699
Capital assets:		
Nondepreciable	89,737,994	100,146,149
Depreciable	116,914,804	94,543,233
Total noncurrent assets	<u>207,180,718</u>	<u>195,080,081</u>
Total assets	<u>215,636,756</u>	<u>205,734,914</u>
Liabilities		
Current liabilities:		
Accounts payable	792,987	1,581,768
Accrued liabilities	176,057	140,606
Vacation benefits payable	457,477	419,392
Capital lease obligations payable	1,962	1,845
Retirement sick leave payable	18,720	13,869
Allegiant loan	892,800	-
ADOT loan	74,556	19,874
Accrued interest payable to ADOT	-	51,229
Unearned revenue	127,146	68,891
Total current liabilities	<u>2,541,705</u>	<u>2,297,474</u>
Current liabilities payable from restricted assets:		
Tenant deposits	<u>343,212</u>	<u>325,624</u>
Noncurrent liabilities:		
Loans payable to member governments	64,298,056	60,288,696
Accrued interest payable to member governments	14,491,102	12,313,050
Allegiant loan	1,736,316	-
ADOT loan	2,905,570	2,980,126
Capital leases	1,725	3,683
Retirement sick leave payable	336,962	254,267
Total noncurrent liabilities	<u>83,769,731</u>	<u>75,839,822</u>
Total liabilities	<u>86,654,648</u>	<u>78,462,920</u>
Net assets		
Invested in capital assets, net of related debt	122,435,419	119,030,879
Restricted net assets	-	65,075
Unrestricted net assets	6,546,689	8,176,040
Total net assets	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

	Business-type Activities Enterprise Fund	
	2009	2008
Operating revenues		
Fueling operations	\$ 6,928,705	\$ 7,758,454
Lease income	2,454,007	2,485,384
Maintenance services	259,921	223,953
Airport usage fees	1,455,534	836,164
Total operating revenues	<u>11,098,167</u>	<u>11,303,955</u>
Operating expenses		
Personnel costs	6,900,710	6,585,977
Professional services	1,652,143	1,358,903
Cost of goods sold - fueling operations	2,059,309	2,629,549
Costs of maintenance services sold	43,039	39,335
Repair and maintenance	751,861	909,145
Utilities	585,160	386,511
Insurance	266,755	270,790
Other expense	1,071,751	1,609,424
Depreciation	7,472,145	7,099,278
Total operating expenses	<u>20,802,873</u>	<u>20,888,912</u>
Operating loss	<u>(9,704,706)</u>	<u>(9,584,957)</u>
Nonoperating revenues (expenses)		
Investment income	138,440	276,950
PFC income	712,993	-
CFC income	214,723	21,980
Other income	19,855	5,651
Gain/(loss) on disposition of assets	12,013	(605,078)
Interest expense - notes payable to member governments	(2,178,052)	(1,881,496)
Interest expense - other	(268,194)	(114,859)
Total nonoperating revenues (expenses)	<u>(1,348,222)</u>	<u>(2,296,852)</u>
Loss before contributions and transfers	<u>(11,052,928)</u>	<u>(11,881,809)</u>
Capital contributions	<u>12,763,042</u>	<u>15,995,163</u>
Change in net assets	1,710,114	4,113,354
Net assets, beginning of year	<u>127,271,994</u>	<u>123,158,640</u>
Net assets, end of year	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

	Business-type Activities - Enterprise Funds	
	2009	2008
Cash flows from operating activities		
Receipts from customers	\$ 12,170,791	\$ 10,302,417
Payments to employees	(6,739,628)	(6,477,966)
Payments to suppliers	(6,340,920)	(7,296,368)
Customer deposits	17,588	122,305
Net cash flows from operating activities	<u>(892,169)</u>	<u>(3,349,612)</u>
Cash flows from non-capital financing activities		
Loans from member governments	4,009,360	8,003,720
Net cash flows from non-capital financing activities	<u>4,009,360</u>	<u>8,003,720</u>
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(19,951,264)	(16,537,583)
Loan from Allegiant	3,000,000	-
Payments on loans	(390,758)	-
Passenger Facility Charges received	495,776	-
Customer Facility Charges received	198,638	21,980
Cash from sale of equipment	13,014	-
Principal paid on capital leases	(1,841)	(163,003)
Interest paid on ADOT loan	(319,142)	(215,389)
Interest paid on capital leases	(281)	(2,081)
Capital grants received	13,270,566	13,145,191
Net cash flows from capital and financing activities	<u>(3,685,292)</u>	<u>(3,750,885)</u>
Cash flows from investing activities		
Investment income	155,927	274,067
Investment gain (loss)	(109,723)	2,883
Other income/expense	112,091	5,651
Net cash flows from investing activities	<u>158,295</u>	<u>282,601</u>
Net change in cash and cash equivalents	(409,806)	1,185,824
Cash and cash equivalents, beginning of year	<u>7,677,397</u>	<u>6,491,573</u>
Cash and cash equivalents, end of year	\$ <u><u>7,267,591</u></u>	\$ <u><u>7,677,397</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 6,739,671	\$ 7,286,698
Restricted assets	527,920	390,699
Total	\$ <u><u>7,267,591</u></u>	\$ <u><u>7,677,397</u></u>

(Continued)

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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

	Business-type Activities - Enterprise Funds	
	2009	2008
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (\$9,704,706)	\$ (9,584,957)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	7,472,145	7,099,278
Change in assets/liabilities:		
Accounts receivable	1,014,369	(888,153)
Prepaid costs	(28,505)	58,106
Inventories	33,682	141,328
Accounts payable and accrued liabilities	119,372	(257,372)
Unearned revenue	58,255	(113,385)
Tenant deposits	17,588	122,305
Compensated absences payable	125,631	73,238
Net cash used by operating activities	\$ <u>(\$892,169)</u>	\$ <u>(3,349,612)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized \$2,178,052 and \$1,881,496 of interest payable on loans from member governments during fiscal years 2009 and 2008, respectively. Included in capital contributions is \$358,000 of land deeded to WGAA by the Air Force.

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

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PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Phoenix-Mesa Gateway Airport Authority (PMGAA) 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

Phoenix-Mesa 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. Originally incorporated as Williams Gateway Airport Authority, the name was officially changed on July 1, 2009. It operates 3,005 acres as Phoenix-Mesa Gateway Airport ("the Airport"). PMGAA is overseen by a five-person board of directors, which is comprised of a representative from each of the member governments. The members of PMGAA 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 PMGAA'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, PMGAA cannot legally transfer revenues to its member governments except in exchange for fair value received.

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

PMGAA 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. PMGAA 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, since PMGAA only engages in business-type activities. PMGAA 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 PMGAA's activities are accounted for in a single proprietary or business-type fund.

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

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. PMGAA 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.

In accordance with 49 United States Code (U.S.C.) 40117 and paragraph (c)(3) of the Federal Aviation Extension Act of 2008, the Federal Aviation Administration (FAA) approved PMGAA's application to impose a Passenger Facility Charge (PFC) at the \$4.50 level on November 1, 2008. Airports are authorized to use PFC's for projects that must meet at least one of the following eligibility requirements: (1) preserve or enhance safety, security, or capacity of the national transportation system; (2) reduce noise or reduce noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers. This application expires when \$3,585,510 has been collected or on February 1, 2013, whichever comes first. These monies are recorded as non-operating revenues. Since PMGAA had already paid for and completed the approved capital projects, the PFC's are reimbursement for past costs and are not shown as current restricted assets. As of June 30, 2009, \$712,993 in PFC's had been earned.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

PMGAA'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 PMGAA 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. PMGAA 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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

4. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets. Capital assets are defined by PMGAA as assets with an initial, individual cost of more than \$10,000 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.

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 PMGAA. Unrestricted net assets are the remaining net assets not included in the previous two categories.

7. Income taxes

PMGAA 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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

PMGAA 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, 2009 and 2008 consist of the following:

	2009	2008
Cash on hand	\$ 4,300	\$ 1,780
Deposits		
Cash in bank	219,992	7,187
Investments		
Overnight Sweep Account	-	27,147
State Treasurer's Investment Pool	7,043,299	7,641,283
Total deposits and investments	7,267,591	7,677,397
Less: restricted cash	(527,920)	(390,699)
Total cash and equivalents	<u>\$ 6,739,671</u>	<u>\$ 7,286,698</u>

Deposits - PMGAA's deposits at June 30, 2009, were covered by federal depository insurance or by collateral held by PMGAA's custodial bank in PMGAA's name.

PMGAA's bank accounts are covered up to \$250,000 by federal depository insurance. In addition, PMGAA's bank has pledged collateral having a market value at June 30, 2009 of \$2,175,465 to cover deposits in excess of the federal depository insurance coverage. PMGAA's bank balance was \$514,240.

Investments - PMGAA's investments (detailed below) include deposits with the Arizona State Treasurer's Local Government Investment Pool (LGIP) 5 and LGIP 500. PMGAA discontinued overnight sweep investments of its bank deposits in March 2009. PMGAA 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, 2009, according to the Arizona State Treasurer's Office, the fair market value of the underlying securities in its Local Government Investment Pool (LGIP) 5 was \$1.00 per \$1.00 of carrying value in the Pool. The value of investments in LGIP 500 has been adjusted to fair market value at June 30. LGIP shares are not identified with specific investments held for PMGAA in physical or book entry form. Investments in the State Treasurer's Local Government Investment Pools are not insured or collateralized. The most recent rating for LGIP 5 is AAf, and LGIP 500 is unrated.

In October 2008, Lehman Brothers, a company in which LGIP had invested substantial funds, declared bankruptcy. As a result, the State Treasurer identified \$109,723 as PMGAA's share of the potential total loss. Due to the unlikely recovery of these funds, PMGAA recognized the entire amount as a loss.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

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. PMGAA is not subject to custodial credit risk since its investments are not identified with specific investments held by others for PMGAA in physical or book entry form. PMGAA 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. PMGAA does not have a formal policy for concentration of credit risk. Concentration percentages are shown below. As of June 30, 2009, PMGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 5	Aaaf	Standard & Poor's	\$ 3,886,744	55.20%
State Treasurer's Investment Pool 500			3,156,555	44.80%
Total investments			<u>\$ 7,043,299</u>	<u>100.00%</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. PMGAA has no investments or deposits denominated in a foreign currency. PMGAA does not have a formal policy for foreign currency risk.

Interest rate risk – Due to the short maturities of PMGAA's investments, the risk of losses due to market interest rate changes are minimal. PMGAA 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	\$ 3,886,744	\$ 3,886,744
State Treasurer's Investment Pool 500	3,156,555	3,156,555
	<u>\$ 7,043,299</u>	<u>\$ 7,043,299</u>

2. Restricted assets

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

	2009	2008
Customer deposits	\$ 343,212	\$ 325,624
Unspent balance on Allegiant loan	184,708	-
State appropriation and related interest	-	65,075
Total restricted assets	<u>\$ 527,920</u>	<u>\$ 390,699</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

3. Receivables

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

	2009	2008
Trade receivables - governments	\$ 17,536	\$ 1,005,775
Grants receivable	796,779	1,662,303
Total due from other governments	<u>\$ 814,315</u>	<u>\$ 2,668,078</u>
 Total accounts receivable	 \$ 746,292	 \$ 531,993
Less allowance for uncollectible accounts	(57,080)	(49,953)
Accounts receivable, net	<u>\$ 689,212</u>	<u>\$ 482,040</u>

4. Capital assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance 6/30/2008	Increases	Decreases	Ending Balance 6/30/2009
Capital assets not being depreciated				
Land	\$ 84,703,586	\$ 430,325	\$ -	\$ 85,133,911
Construction in progress	15,442,563	15,111,523	(25,950,003)	4,604,083
Total capital assets not being depreciated	<u>\$100,146,149</u>	<u>\$ 15,541,848</u>	<u>\$(25,950,003)</u>	<u>\$ 89,737,994</u>
Capital assets being depreciated				
Buildings and improvements	\$160,064,598	28,061,193	(9,458)	188,116,333
Machinery and equipment	6,606,729	1,783,524	(55,372)	8,334,881
Total capital assets being depreciated	<u>\$166,671,327</u>	<u>\$ 29,844,717</u>	<u>\$ (64,830)</u>	<u>\$ 196,451,214</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 68,284,716	7,022,788	(8,457)	75,299,047
Machinery and equipment	3,843,378	449,357	(55,372)	4,237,363
Total accumulated depreciation	<u>\$ 72,128,094</u>	<u>\$ 7,472,145</u>	<u>\$ (63,829)</u>	<u>\$ 79,536,410</u>
Total capital assets being depreciated, net	<u>\$ 94,543,233</u>	<u>\$ 22,372,572</u>	<u>\$ (1,001)</u>	<u>\$ 116,914,804</u>
Business-type activities capital assets, net	<u>\$194,689,382</u>	<u>\$ 37,914,420</u>	<u>\$(25,951,004)</u>	<u>\$ 206,652,798</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance 6/30/2007	Increases	Decreases	Ending Balance 6/30/2008
Capital assets not being depreciated				
Land	\$ 83,017,074	\$ 1,686,512	\$ -	\$ 84,703,586
Construction in progress	8,424,830	16,450,802	(9,433,069)	15,442,563
Total capital assets not being depreciated	\$ 91,441,904	\$ 18,137,314	\$ (9,433,069)	\$ 100,146,149
Capital assets being depreciated				
Buildings and improvements	\$151,905,005	9,163,536	(1,003,943)	160,064,598
Machinery and equipment	5,896,590	710,139	-	6,606,729
Total capital assets being depreciated	\$157,801,595	\$ 9,873,675	\$ (1,003,943)	\$ 166,671,327
Less accumulated depreciation for:				
Buildings and improvements	\$ 61,971,015	6,712,566	(398,865)	68,284,716
Machinery and equipment	3,456,666	386,712	-	3,843,378
Total accumulated depreciation	\$ 65,427,681	\$ 7,099,278	\$ (398,865)	\$ 72,128,094
Total capital assets being depreciated, net	\$ 92,373,914	\$ 2,774,397	\$ (605,078)	\$ 94,543,233
Business-type activities capital assets, net	\$183,815,818	\$ 20,911,711	\$ (10,038,147)	\$ 194,689,382

B. Purchase commitments

As of June 30, 2009, PMGAA 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.

	June 30, 2009
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 1,900,000
Portion of above funded by grants	\$ 623,000

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

PMGAA had 17 active design or construction projects at June 30, 2009. These projects are expected to cost a total of \$27.5 million, of which \$7.6 million has been committed and \$6 million has been spent, including closed and open commitments. At fiscal year end, PMGAA's commitments remaining open with contractors relating to these projects were as follows:

Project	Spent-to-date on uncompleted contracts	Remaining Contract
Airport Capital Projects & Financial Plan	\$ 518,197	\$ 56,529
Benefit Cost Analysis for Capital Projects	4,215	56,237
Construct Taxiway B - Phase IV	25,547	656,302
Design W. Terminal Expansion	25,682	711,483
Fire Protection System Bldg 1083	0	40,330
Other	93,713	58,856
Total	<u>\$ 667,354</u>	<u>\$ 1,579,737</u>

C. Obligations under leases

Operating leases

PMGAA has leased land to a tenant who constructed a building on the property and in 2000 leased the building to PMGAA for 15 years. The total rent due from PMGAA over the remaining life of the lease is \$1,352,514 plus agreed upon escalation factors. PMGAA 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, 2009 and 2008 were \$231,860 and \$216,051 respectively.

The future minimum operating lease payments as of June 30, 2009 and June 30, 2008 were payable as follows:

<u>Year ending June 30,</u>	<u>2009</u>
2010	\$ 231,860
2011	231,860
2012	231,860
2013	231,860
2014	231,860
2015	193,214
Minimum operating lease payments	<u>\$ 1,352,514</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

Capital leases

PMGAA 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:

Asset type:	<u>2009</u>	<u>2008</u>
Machinery and equipment	\$ 9,145	\$ 2,618,120
Less: Accumulated depreciation	<u>(5,792)</u>	<u>(495,333)</u>
Total	<u>\$ 3,353</u>	<u>\$ 2,122,787</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, 2009 and June 30, 2008, 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>	
2010	\$ 2,126
2011	<u>1,772</u>
Total minimum lease payments	3,898
Less: amounts representing interest	<u>(212)</u>
Present value of minimum lease payments	<u>\$ 3,686</u>

D. Long-term obligations

PMGAA 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 PMGAA \$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. In August 2008, Allegiant Air loaned PMGAA \$3,000,000 to expand the passenger terminal to accommodate increased numbers of passengers. PMGAA will pay \$1,000,000 in interest in addition to the \$3,000,000 principal in monthly payments based on the number of enplaned passengers for the preceding month. Allegiant Air collects \$4.50 per enplaned passenger in PFC's and remits \$4.39 of this (less \$.11 administrative fee) to PMGAA. The rate of repayment of this loan is \$4/enplaned passenger (\$3 principal and \$1 interest). The interest rate is variable depending on how quickly the loan is repaid. Based on projected future enplanements, the loan is estimated to be paid in full in the year ending June 30, 2012. For the year ending June 30, 2009, \$123,628 in interest and \$370,884 in principal was repaid, leaving a loan balance of \$2,629,116. Projected principal and interest payments for the years ending June 30, 2010, 2011, and 2012 are \$1,190,400, \$1,440,000, and \$875,088, respectively. Changes in long-term obligations for the year ended June 30, 2009 are as follows:

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Loans payable					
Principal on member loans	\$ 60,288,696	\$ 4,009,360	\$ -	\$ 64,298,056	\$ -
Accrued Interest on member loans	12,313,050	2,178,052	-	14,491,102	-
Member loans	72,601,746	6,187,412	-	78,789,158	-
Other Loans	3,000,000	3,000,000	(390,758)	5,609,242	967,356
Accrued Interest on other loans	51,229	-	(51,229)	-	-
Other Liabilities					
Capital Leases	5,528	-	(1,841)	3,687	1,962
Compensated absences	687,528	573,764	(448,133)	813,159	476,197
Business-type long-term liabilities	<u>\$ 76,346,031</u>	<u>\$ 9,761,176</u>	<u>\$ (891,961)</u>	<u>\$ 85,215,246</u>	<u>\$1,445,515</u>

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	<u>June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
Loans payable					
Principal on member loans	\$ 52,284,976	\$ 8,003,720	\$ -	\$ 60,288,696	\$ -
Accrued Interest on member loans	10,431,554	1,881,496	-	12,313,050	-
Member loans	62,716,530	9,885,216	-	72,601,746	-
Other Loans	3,000,000	-	-	3,000,000	19,874
Accrued Interest on other loans	119,040	-	(67,811)	51,229	51,229
Other Liabilities					
Capital Leases	168,531	-	(163,003)	5,528	1,845
Compensated absences	614,290	501,681	(428,443)	687,528	433,261
Business-type long-term liabilities	<u>\$ 66,618,391</u>	<u>\$ 10,386,897</u>	<u>\$ (659,257)</u>	<u>\$ 76,346,031</u>	<u>\$ 506,209</u>

Debt service requirements on long-term loans payable at June 30, 2009, including future interest based on current repayment schedules, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 967,356	\$ 438,432
2011	1,158,177	497,211
2012	738,289	352,187
2013	85,954	129,434
2014	90,127	125,260
2015-2019	520,695	556,244
2020-2024	44,913,985	36,321,149
2025-2029	20,880,676	16,398,100
2030-2032	552,039	40,278
Total	<u>\$ 69,907,298</u>	<u>\$ 54,858,295</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

Loans from member governments:

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

	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
City of Mesa	43.4%	43.4%
City of Phoenix	33.1%	33.1%
Gila River Indian Community	11.5%	11.5%
Town of Gilbert	8.9%	8.9%
Town of Queen Creek	3.1%	3.1%
	<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 PMGAA \$5,000,000 toward capital needs of the airport, in addition to its share of annual funding (shown). During FY09, PMGAA received \$89,360 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 PMGAA, all payments made to PMGAA by the members are considered loans to be repaid to the members. The intent of the members in providing funds to PMGAA 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 PMGAA's right to eventually repay contributions made by its members, PMGAA 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 PMGAA's board of directors deems appropriate, with 3% interest (compounded annually).

Loans payable to member governments increased by \$4,009,360 in principal and \$2,178,052 in accrued interest in fiscal year 2009 and by \$8,003,720 in principal and \$1,881,496 in accrued interest in fiscal year 2008:

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

	<u>2009</u>	<u>2008</u>
City of Mesa	\$ 53,380,172	\$ 50,174,924
City of Phoenix	9,099,888	7,485,949
Gila River Indian Community	7,524,460	6,868,408
Town of Gilbert	7,163,472	6,615,022
Town of Queen Creek	1,621,166	1,457,443
Loans Payable to member governments at June 30	<u>\$ 78,789,158</u>	<u>\$ 72,601,746</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 PMGAA to consult with its management, attend meetings and provide other services.

E. Operating lease revenue

PMGAA leases out various facilities on the airport. Leases are primarily for office buildings and hangars, but also include ground leases for tenant development. Occasionally PMGAA's lease agreements provide for rents based on the tenants' operating revenues or other criteria. Lease income included \$367,000 and \$208,000 of such contingent rents in the fiscal years ending June 30, 2009 and 2008, respectively.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2009 and June 30, 2008:

Fiscal Years Ending June 30:	2009
2010	\$ 2,000,126
2011	1,830,069
2012	1,885,439
2013	1,806,303
2014	1,810,609
2015 and thereafter	57,053,654
Totals	<u>\$66,386,200</u>

With few exceptions, PMGAA'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, PMGAA's risk management activities include purchase of commercial insurance for all significant risks. Risks retained by PMGAA 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, 2009 and 2008.

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 PMGAA 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, including four acres in FY09. Less than one acre remains under the 25-year lease, which PMGAA 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.

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 \$114,843,504 (net of accumulated depreciation) that are subject to certain restrictions contained in an indenture between the United States of America and PMGAA. Under the terms of the deed, this property is restricted for public airport purposes for the use and benefit of the public. No land or improvements can be used, leased, sold, salvaged, or disposed of by PMGAA for other than airport purposes without the written consent of the Administrator of the FAA. The term "airport purposes" as used in this deed includes the use and/or development of the property, including hotel development, to produce sources of revenue from nonaviation business.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008**

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 and Federal Aviation Administration

Property and Equipment includes \$63,667,784 (net of accumulated depreciation) in improvements to real property that were paid for (in part) with funds from ADOT and the FAA. 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 or the FAA.

3. Economic dependence

PMGAA 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

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

	<u>WGAA Revenues</u>	<u>WGAA Expenses</u>	<u>WGAA Capital Projects</u>	<u>Sales Taxes Collected/ Remitted</u>
<u>Fiscal Year ended June 30, 2009</u>				
City of Mesa	\$ 8,832	\$ 750,905	\$ 68,020	\$ 97,931
Town of Queen Creek	-	300	-	-
<u>Fiscal Year ended June 30, 2008</u>				
City of Mesa	\$ 8,687	\$ 757,278	\$ 4,017	\$ 99,191
Town of Gilbert	-	225	-	-

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

D. Retirement plans

Arizona State Retirement System – Plan Description

PMGAA 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 to the Arizona State Retirement, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2009 and 2008

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and PMGAA's contribution rates. For the year ended June 30, 2009, active plan members and PMGAA were each required by statute to contribute at the actuarially determined rate of 9.45 percent (7.92 percent retirement, 1.03 percent for health insurance premium, and 0.50 percent long-term disability) of the members' annual covered payroll. PMGAA's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	\$418,387	\$54,444	\$26,429
2008	404,822	51,669	25,082
2007	338,430	46,048	22,353

Deferred Compensation Plans

PMGAA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all PMGAA 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 PMGAA financial statements.

PMGAA 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. Subsequent Events

Effective July 1, 2009, the name of the Airport Authority officially changed from "Williams Gateway Airport Authority" to "Phoenix-Mesa Gateway Airport Authority."

On October 19, 2009, the board of directors authorized the issuance and sale of a \$6,460,000 Special Facility Revenue Bond on behalf of Embraer Aircraft Holding, Inc. (Embraer). The Board authorized the issuance of the debt with the intent of the obligation and bond covenants to be assumed by Embraer and the issuing bank and for PMGAA to have no obligation with respect to the debt and its covenants.

SUPPLEMENTARY INFORMATION

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Phoenix-Mesa Gateway Airport Authority
Statement of Revenues and Expenses

Unaudited (Budget Basis)
Fiscal Year Ended June 30, 2009

AIRPORT - All Operations

	2009 Budget	Fiscal YTD Actual	% of Budget YTD = 100.0	YTD Actual Over(Under) Ann'l Budget
AERONAUTICAL OPERATING REVS				
Aircraft Parking	250,731	186,075	74%	(64,656)
Fuel Flowage Fees	696,818	568,849	82%	(127,969)
Landing Fees	188,532	176,142	93%	(12,390)
Lease Income Aero	965,535	547,152	57%	(418,383)
Fuel Sales (net of CGS)	891,857	856,445	96%	(35,412)
Services Sold - Aero (net of CGS)	4,121,904	3,686,111	89%	(435,793)
NON AERONAUTICAL OPERATING REVS				
Concessions	18,587	42,623	229%	24,036
Lease Income Non-Aero	1,964,441	1,906,855	97%	(57,586)
Parking & Ground Transportation	372,609	586,791	157%	214,182
Rental Car Fees	151,571	300,181	198%	148,610
Services Sold - Non Aero (net of CGS)	129,424	138,595	107%	9,171
Total operating revenues (net of CGS)	<u>9,752,009</u>	<u>8,995,819</u>	<u>92%</u>	<u>(756,190)</u>
OPERATING EXPENSES				
Personnel compensation & benefits	7,031,404	6,900,710	98%	(130,694)
Communications & Utilities	507,204	585,160	115%	77,956
Contractual Services	2,262,989	1,651,748	73%	(611,241)
Insurance	317,000	266,755	84%	(50,245)
Other	562,889	459,437	82%	(103,452)
Repair & Maintenance	891,514	751,861	84%	(139,653)
Supplies & Materials	670,720	612,709	91%	(58,011)
Total operating expenses before Depr	<u>12,243,720</u>	<u>11,228,380</u>	<u>92%</u>	<u>(1,015,340)</u>
Operating income (loss) before Depreciation	(2,491,711)	(2,232,561)	90%	259,150
Depreciation	7,928,036	7,472,145	94%	(455,891)
Operating income (loss)	<u>(10,419,747)</u>	<u>(9,704,706)</u>	<u>93%</u>	<u>715,041</u>
Nonoperating revenues (expenses)				
CFC income	0	214,723	--	214,723
PFC income	0	712,993	--	712,993
Investment income	105,000	138,440	132%	33,440
Other income (expense)	4,713	19,855	421%	15,142
Loss (Gain) on disposition of assets	0	12,013	--	12,013
Interest expense - member govts	(2,115,541)	(2,178,052)	103%	(62,511)
Interest expense - other	(144,565)	(268,194)	186%	(123,629)
Total nonoperating rev (exp)	<u>(2,150,393)</u>	<u>(1,348,222)</u>	<u>63%</u>	<u>802,171</u>
Income before contributions and transfers	(12,570,140)	(11,052,928)	88%	1,517,212
Capital contributions (capital grants earned)	7,368,385	12,763,042	173%	5,394,657
Change in net assets	<u>(5,201,755)</u>	<u>1,710,114</u>	<u>-33%</u>	<u>6,911,869</u>

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PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SINGLE AUDIT ACT REPORTS
FOR THE
FISCAL YEAR ENDED JUNE 30, 2009

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
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FISCAL YEAR ENDED JUNE 30, 2009**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors of the
Phoenix-Mesa Gateway Airport Authority

We have audited the financial statements of the Phoenix-Mesa Gateway Airport Authority (Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated February 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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



The Board of Directors of the
Phoenix-Mesa Gateway Airport Authority
February 16, 2010

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 16, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors of the
Phoenix-Mesa Gateway Airport Authority

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the Phoenix-Mesa Gateway Airport Authority (Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Phoenix-Mesa Gateway Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Phoenix-Mesa Gateway Airport Authority's management. Our responsibility is to express an opinion on the Phoenix-Mesa Gateway Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Phoenix-Mesa Gateway Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Phoenix-Mesa Gateway Airport Authority's compliance with those requirements.

In our opinion, the Phoenix-Mesa Gateway Airport Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance in Accordance with OMB Circular A-133

The management of the Phoenix-Mesa Gateway Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Phoenix-Mesa Gateway Airport Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

The Board of Directors of the
Phoenix-Mesa Gateway Airport Authority
February 16, 2010

A control deficiency in the Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a major federal program such that there is more than a remote likelihood that the noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of the Phoenix-Mesa Gateway Airport Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated Report Date. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 16, 2010

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency (ies) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified not
considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s)
20.106

Name of Federal Program or Cluster
Airport Improvement Program

Dollar threshold used to distinguish
between Type A and Type B programs:

\$337,017

Auditee qualified as low-risk auditee?

X yes _____ no

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009**

SECTION II—FINANCIAL STATEMENT FINDINGS

None noted

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Noted

SECTION IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior audit findings.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2009**

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Expenditures</u>
U.S. Department of Transportation -			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP3-04-0078-15	\$ 573,042
Airport Improvement Program	20.106	AIP3-04-0078-16	140,450
Airport Improvement Program	20.106	AIP3-04-0078-18	271,281
Airport Improvement Program	20.106	AIP3-04-0078-19	136,452
Airport Improvement Program	20.106	AIP3-04-0078-20	7,050,263
Airport Improvement Program	20.106	AIP3-04-0078-21	1,108,475
Airport Improvement Program	20.106	AIP3-04-0078-22	1,929,681
Airport Improvement Program	20.106	AIP3-04-0078-23	<u>24,269</u>
Total U.S. Department of Transportation			<u>11,233,913</u>
 TOTAL FEDERAL AWARDS			 <u><u>\$ 11,233,913</u></u>

Note: This schedule was prepared on the accrual basis of accounting.