

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

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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 years ended June 30, 2010 and 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 audits.

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 audits provide a reasonable basis for our opinions.

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, 2010 and 2009, 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 November 17, 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
November 17, 2010

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2010 and 2009**

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, 2010 and June 30, 2009.

Financial Highlights

- PMGAA's assets exceeded liabilities at the end of the fiscal year by \$130,572,972 (net assets). Total net assets included \$121,201,771 in capital assets, net of related debt, and \$9,371,201 in unrestricted net assets. During the year, total net assets increased by \$1,590,864.
- PMGAA earned \$1,523,299 in Passenger Facility Charges.
- During the year, member government loans to PMGAA increased by \$3,920,000 to \$68,218,056 and accrued interest relating to that debt increased by \$2,363,675 to \$16,854,777. (The first of these notes comes due in the year 2020.)
- Total liabilities (primarily member loans) increased by \$5,895,193 (6.8%), to \$92,549,841.
- Sales in PMGAA's fueling operation were up 4% in dollars to \$7,172,992. The number of gallons of retail sales was up 2%. The number of gallons uploaded was up 27%, due primarily to an increase in the number of Allegiant Air flights. Gross margin for all fueling sales (gross revenues less cost of goods sold) was up 7%.
- PMGAA's operations produced a loss of \$10,017,513 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.

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 - 28 of this report.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2010 and 2009**

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 \$130,572,972.

Airports are capital-intensive enterprises. 92.8% 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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 12,290,525	\$ 8,983,958	\$ 11,045,532
Capital assets, net of accumulated depreciation	210,832,288	206,652,798	194,689,382
Total assets	<u>223,122,813</u>	<u>215,636,756</u>	<u>205,734,914</u>
Long-term liabilities	88,827,258	83,769,731	75,839,822
Other liabilities	3,722,583	2,884,917	2,623,098
Total liabilities	<u>92,549,841</u>	<u>86,654,648</u>	<u>78,462,920</u>
Net assets:			
Invested in capital assets, net of related debt	121,201,771	122,435,419	119,030,879
Restricted	-	-	65,075
Unrestricted	9,371,201	6,546,689	8,176,040
Total net assets	<u>\$ 130,572,972</u>	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>

\$9,371,201 (7.2%) 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.

Net assets increased by \$1,590,864 (1.2%) from the previous fiscal year-end. This was primarily due to an increase in airport usage fees, including landing, parking, and rental car fees. Member loans increased in fiscal year 2009-10 by \$3,920,000, which is lower than the amount received in fiscal year 2008-09.

Net assets invested in capital assets, net of related debt decreased by 1.0%. New investments in capital assets (less asset dispositions) were \$4,179,490 more than the year's depreciation expense on capital assets.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2010 and 2009**

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 3% (\$387,350). (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 up, an increase of 7%. The change in net assets came about as indicated by the following elements of the revenues and expenses:

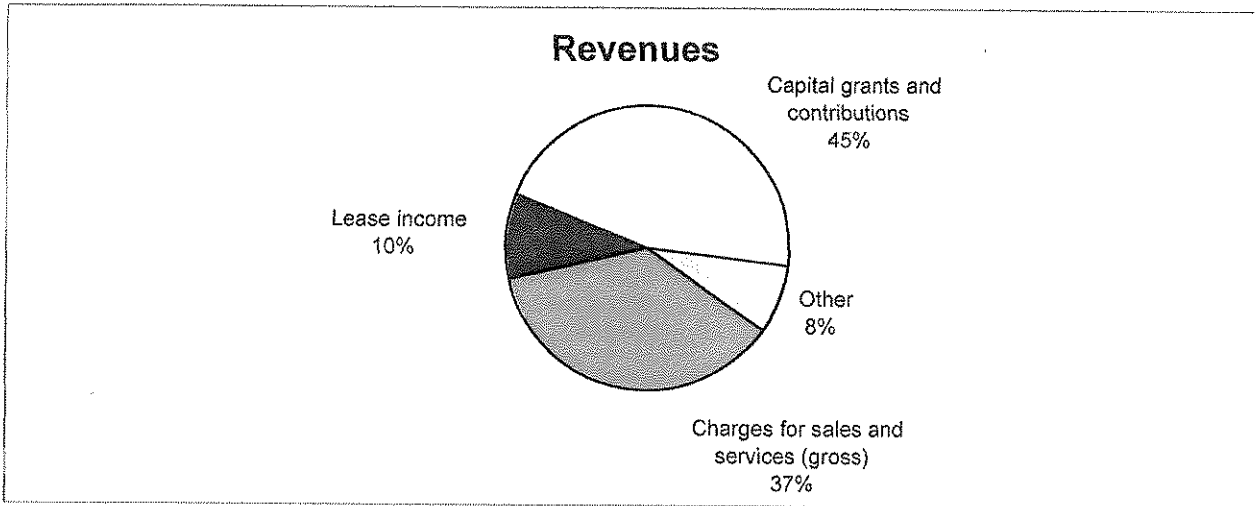
Phoenix-Mesa Gateway Airport Authority's Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
Charges for sales and services (gross)	\$ 9,900,589	\$ 8,644,160	\$ 8,818,571
Lease income	2,583,435	2,454,007	2,485,384
Capital grants and contributions	12,375,692	12,763,042	15,995,163
Other	2,063,598	1,098,024	304,581
Total revenues	<u>26,923,314</u>	<u>24,959,233</u>	<u>27,603,699</u>
Expenses			
Cost of sales	2,014,501	2,102,348	2,668,884
Depreciation	8,906,605	7,472,145	7,099,278
Other operating expenses	11,580,431	11,228,380	11,120,750
Interest expense on loans from member governments	2,363,675	2,178,052	1,881,496
Other non-operating expenses	467,238	268,194	719,937
Total expenses	<u>25,332,450</u>	<u>23,249,119</u>	<u>23,490,345</u>
Increase (decrease) in net assets	1,590,864	1,710,114	4,113,354
Net assets at prior year-end	128,982,108	127,271,994	123,158,640
Net assets at year-end	<u>\$ 130,572,972</u>	<u>\$ 128,982,108</u>	<u>\$ 127,271,994</u>

Revenues:

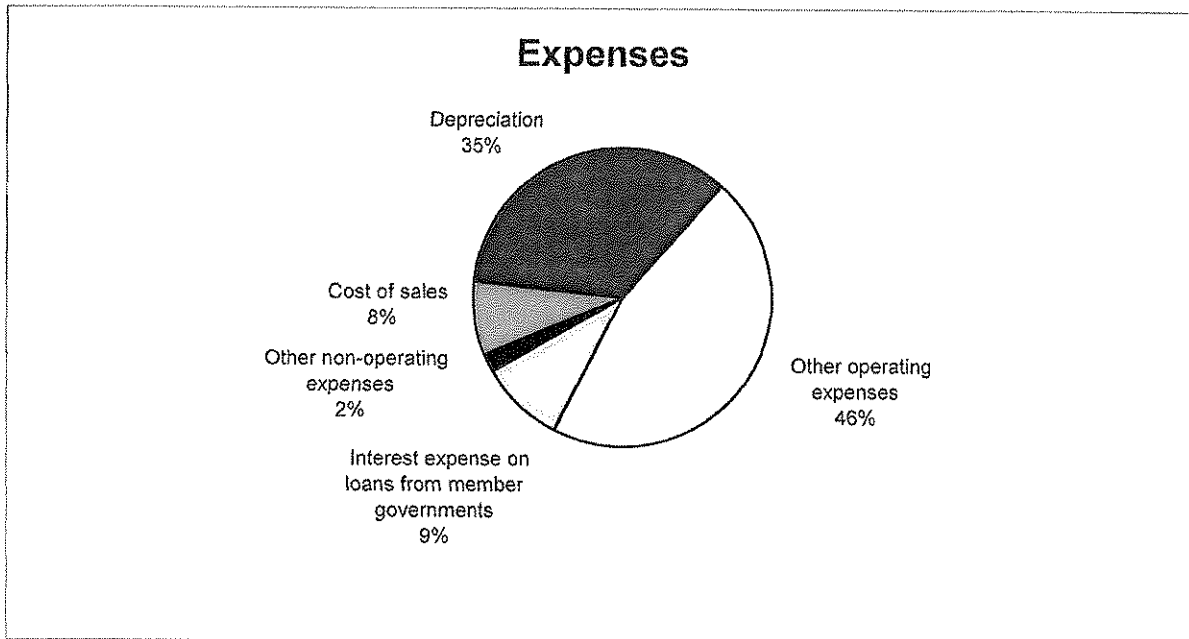
Charges for sales and services increased by \$1,256,429. Gains were primarily due to the increased number of Allegiant Air flights which resulted in increased airport usage fees. This includes domestic passenger airline landing fees, parking fees, and rental car fees. There was also an increase in hangar space fees, due mostly to the use of vacant hangars for transient aircraft parking. Other income increased by \$965,574 mostly because of the increased number of passengers and related passenger facility charges.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2010 and 2009**



Expenses:

Other operating expenses increased by \$352,051 (3%). This is due mostly to increased costs for fire and police contractual services. These increases were partially offset by savings in personnel costs, telephone services, and supplies. Interest expense on loans from member governments increased by \$185,623, 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, 2010 and 2009**

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 31 for a presentation of the budget as supplementary information.

Capital Assets and Debt Administration

Capital assets (net of depreciation)

At June 30, 2010, PMGAA's capital assets totaled \$210,832,288 (net of accumulated depreciation). The capital assets include land; runways, taxiways, and apron areas; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants. Total capital assets, net of depreciation increased by 2.0% during the fiscal year.

Capital assets (net of depreciation)

	2010	2009	2008
Land	\$ 85,133,911	\$ 85,133,911	\$ 84,703,586
Buildings and improvements	114,440,194	112,817,286	91,779,882
Machinery and equipment	3,726,756	4,097,518	2,763,351
Construction in progress	7,531,427	4,604,083	15,442,563
Total capital assets, net	<u>\$ 210,832,288</u>	<u>\$ 206,652,798</u>	<u>\$ 194,689,382</u>

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

- Construct Taxiway B – Phase IV: Spent in FY10: \$7.3 million
- Design and construct west terminal expansion: Spent in FY10: \$4.6 million
- Drainage improvements – south ramp: Spent in FY10: \$.3 million
- Taxilane L drainage improvements: Spent in FY10: \$.3 million

Long-term debt.

At the end of the current fiscal year, PMGAA had total debt outstanding of \$89,630,518. \$85,072,833 (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 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 \$1,962 (53%) by making regularly scheduled principal and interest payments.

Phoenix-Mesa Gateway Airport Authority's Outstanding Debt

	2010	2009	2008
Loans from Member Governments (including accrued interest)	\$ 85,072,833	\$ 78,789,158	\$ 72,601,746
ADOT and Allegiant Loans (including accrued interest)	4,555,960	5,609,242	3,051,229
Capital Leases	1,725	3,687	5,528
	<u>\$ 89,630,518</u>	<u>\$ 84,402,087</u>	<u>\$ 75,658,503</u>

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2010 and 2009**

Loans from member governments (principal) increased by \$3,920,000 (6%) during the fiscal year, compared to the \$4,009,360 increase in loans during the previous year. The accrued interest component of member government loans increased by \$2,363,675 compared to \$2,178,052 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, 2010 and 2009

	Business-type Activities - Enterprise Fund	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,904,167	\$ 6,739,671
Accounts receivable, net	895,509	689,212
Due from other governments	1,962,765	814,315
Prepaid costs	66,074	72,628
Inventories	158,804	140,212
Total current assets	11,987,319	8,456,038
Noncurrent assets:		
Restricted assets	303,206	527,920
Capital assets:		
Nondepreciable	92,665,338	89,737,994
Depreciable	118,166,950	116,914,804
Total noncurrent assets	211,135,494	207,180,718
Total assets	223,122,813	215,636,756
Liabilities		
Current liabilities:		
Accounts payable	1,538,791	792,987
Accrued liabilities	182,586	176,057
Vacation benefits payable	448,112	457,477
Capital lease obligations payable	1,725	1,962
Retirement sick leave payable	39,627	18,720
Allegiant loan	1,080,000	892,800
ADOT loan	78,177	74,556
Unearned revenue	50,359	127,146
Total current liabilities	3,419,377	2,541,705
Current liabilities payable from restricted assets:		
Tenant deposits	303,206	343,212
Noncurrent liabilities:		
Loans payable to member governments	68,218,056	64,298,056
Accrued interest payable to member governments	16,854,777	14,491,102
Allegiant loan	570,390	1,736,316
ADOT loan	2,827,393	2,905,570
Capital leases	-	1,725
Retirement sick leave payable	356,642	336,962
Total noncurrent liabilities	88,827,258	83,769,731
Total liabilities	92,549,841	86,654,648
Net assets		
Invested in capital assets, net of related debt	121,201,771	122,435,419
Unrestricted net assets	9,371,201	6,546,689
Total net assets	\$ 130,572,972	\$ 128,982,108

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, 2010 AND 2009

	Business-type Activities Enterprise Fund	
	2010	2009
Operating revenues		
Fueling operations	\$ 7,172,992	\$ 6,928,705
Lease income	2,583,435	2,454,007
Maintenance services	217,103	259,921
Airport usage fees	2,510,494	1,455,534
Total operating revenues	<u>12,484,024</u>	<u>11,098,167</u>
Operating expenses		
Personnel costs	6,731,493	6,900,710
Professional services	2,201,135	1,652,143
Cost of goods sold - fueling operations	1,974,113	2,059,309
Costs of maintenance services sold	40,388	43,039
Repair and maintenance	789,206	751,861
Utilities	540,615	585,160
Insurance	298,831	266,755
Other expense	1,019,151	1,071,751
Depreciation	8,906,605	7,472,145
Total operating expenses	<u>22,501,537</u>	<u>20,802,873</u>
Operating loss	<u>(10,017,513)</u>	<u>(9,704,706)</u>
Nonoperating revenues (expenses)		
Investment income	160,802	138,440
PFC income	1,523,299	712,993
CFC income	289,849	214,723
Other income	11,187	19,855
Gain/(loss) on disposition of assets	(35,141)	12,013
Intergovernmental revenue	113,602	-
Interest expense - notes payable to member governments	(2,363,675)	(2,178,052)
Interest expense - other	(467,238)	(268,194)
Total nonoperating revenues (expenses)	<u>(767,315)</u>	<u>(1,348,222)</u>
Loss before contributions and transfers	(10,784,828)	(11,052,928)
Capital contributions	<u>12,375,692</u>	<u>12,763,042</u>
Change in net assets	1,590,864	1,710,114
Net assets, beginning of year	<u>128,982,108</u>	<u>127,271,994</u>
Net assets, end of year	<u>\$ 130,572,972</u>	<u>\$ 128,982,108</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, 2010 AND 2009

	Business-type Activities - Enterprise Funds	
	2010	2009
Cash flows from operating activities		
Receipts from customers	\$ 12,046,424	\$ 12,170,791
Payments to employees	(6,693,742)	(6,739,628)
Payments to suppliers	(6,631,466)	(6,340,920)
Customer deposits	(40,006)	17,588
Net cash flows from operating activities	<u>(1,318,790)</u>	<u>(892,169)</u>
Cash flows from non-capital financing activities		
Loans from member governments	3,920,000	4,009,360
Operating grants from other governments	45,452	-
Net cash flows from non-capital financing activities	<u>3,965,452</u>	<u>4,009,360</u>
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(12,604,441)	(19,951,264)
Loan from Allegiant	-	3,000,000
Payments on loans	(1,053,282)	(390,758)
Passenger Facility Charges received	1,445,640	495,776
Customer Facility Charges received	277,986	198,638
Cash from sale of equipment	-	13,014
Principal paid on capital leases	(1,962)	(1,841)
Interest paid on ADOT loan	(467,074)	(319,142)
Interest paid on capital leases	(164)	(281)
Capital grants received	11,532,068	13,270,566
Net cash flows from capital and financing activities	<u>(871,229)</u>	<u>(3,685,292)</u>
Cash flows from investing activities		
Investment income	109,723	155,927
Investment gain (loss)	-	(109,723)
Other income/expense	54,626	112,091
Net cash flows from investing activities	<u>164,349</u>	<u>158,295</u>
Net change in cash and cash equivalents	1,939,782	(409,806)
Cash and cash equivalents, beginning of year	<u>7,267,591</u>	<u>7,677,397</u>
Cash and cash equivalents, end of year	<u>\$ 9,207,373</u>	<u>\$ 7,267,591</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 8,904,167	\$ 6,739,671
Restricted assets	303,206	527,920
Total	<u>\$ 9,207,373</u>	<u>\$ 7,267,591</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, 2010 AND 2009**

	Business-type Activities - Enterprise Funds	
	2010	2009
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (10,017,513)	\$ (9,704,706)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	8,906,605	7,472,145
Change in assets/liabilities:		
Accounts receivable	(360,813)	1,014,369
Prepaid costs	6,554	(28,505)
Inventories	(18,592)	33,682
Accounts payable and accrued liabilities	250,540	119,372
Unearned revenue	(76,787)	58,255
Tenant deposits	(40,006)	17,588
Compensated absences payable	31,222	125,631
Net cash used by operating activities	\$ (1,318,790)	\$ (892,169)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized \$2,363,675 and \$2,178,052 of interest payable on loans from member governments during fiscal years 2010 and 2009, respectively.

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, 2010 and 2009**

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

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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, 2010, \$2,236,292 in PFC's had been earned.

It is PMGAA's policy to use restricted resources before using unrestricted resources.

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 4% to 8% 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.

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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.

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9. Subsequent events

In preparing these financial statements, PMGAA has evaluated events and transactions for potential recognition or disclosure through November 17, 2010, the date the financial statements were available to be issued.

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, 2010 and 2009 consist of the following:

	2010	2009
Cash on hand	\$ 4,300	\$ 4,300
Deposits		
Cash in bank	284,827	219,992
Investments		
State Treasurer's Investment Pool	8,918,246	7,043,299
Total deposits and investments	<u>9,207,373</u>	<u>7,267,591</u>
Less: restricted cash	<u>(303,206)</u>	<u>(527,920)</u>
Total cash and equivalents	<u>\$ 8,904,167</u>	<u>\$ 6,739,671</u>

Deposits - PMGAA's deposits at June 30, 2010, 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, 2010 of \$1,419,724 to cover deposits in excess of the federal depository insurance coverage. PMGAA's bank balance was \$495,819.

Investments - PMGAA's investments (detailed below) include deposits with the Arizona State Treasurer's Local Government Investment Pool (LGIP) 5 and LGIP 500. 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, 2010, 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

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Government Investment Pools are not insured or collateralized. The most recent rating for LGIP 5 is AAAs1+, and LGIP 500 is unrated.

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, 2010, PMGAA had the following investments:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>	<u>%</u>
State Treasurer's Investment Pool 5	AaafS1+	Standard & Poor's	\$ 4,607,055	51.70%
State Treasurer's Investment Pool 500	Not Rated		4,311,191	48.30%
Total investments			<u>\$ 8,918,246</u>	<u>100.00%</u>

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:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>
		<u>Less than 1 year</u>
State Treasurer's Investment Pool 5	\$ 4,607,055	\$ 4,607,055
State Treasurer's Investment Pool 500	4,311,191	4,311,191
	<u>\$ 8,918,246</u>	<u>\$ 8,918,246</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:

	<u>2010</u>	<u>2009</u>
Customer deposits	\$ 303,206	\$ 343,212
Unspent balance on Allegiant loan	-	184,708
Total restricted assets	<u>\$ 303,206</u>	<u>\$ 527,920</u>

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3. Receivables

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

	2010	2009
Trade receivables - governments	\$ 322,362	\$ 17,536
Grants receivable	1,640,403	796,779
Total due from other governments	<u>\$ 1,962,765</u>	<u>\$ 814,315</u>
Total accounts receivable	\$ 937,032	\$ 746,292
Less allowance for uncollectible accounts	(41,523)	(57,080)
Accounts receivable, net	<u>\$ 895,509</u>	<u>\$ 689,212</u>

4. Capital assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance 6/30/2009	Increases	Decreases	Ending Balance 6/30/2010
Capital assets not being depreciated				
Land	\$ 85,133,911	\$ -	\$ -	\$ 85,133,911
Construction in progress	4,604,083	13,106,235	(10,178,891)	7,531,427
Total capital assets not being depreciated	<u>\$ 89,737,994</u>	<u>\$ 13,106,235</u>	<u>\$(10,178,891)</u>	<u>\$ 92,665,338</u>
Capital assets being depreciated				
Buildings and improvements	\$188,116,333	10,052,541	(66,466)	198,102,408
Machinery and equipment	8,334,881	141,351	(40,285)	8,435,947
Total capital assets being depreciated	<u>\$196,451,214</u>	<u>\$ 10,193,892</u>	<u>\$ (106,751)</u>	<u>\$ 206,538,355</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 75,299,047	8,394,492	(31,325)	83,662,214
Machinery and equipment	4,237,363	512,113	(40,285)	4,709,191
Total accumulated depreciation	<u>\$ 79,536,410</u>	<u>\$ 8,906,605</u>	<u>\$ (71,610)</u>	<u>\$ 88,371,405</u>
Total capital assets being depreciated, net	<u>\$116,914,804</u>	<u>\$ 1,287,287</u>	<u>\$ (35,141)</u>	<u>\$ 118,166,950</u>
Business-type activities capital assets, net	<u>\$206,652,798</u>	<u>\$ 14,393,522</u>	<u>\$(10,214,032)</u>	<u>\$ 210,832,288</u>

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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	\$100,146,149	\$ 15,541,848	\$(25,950,003)	\$ 89,737,994
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	\$166,671,327	\$ 29,844,717	\$ (64,830)	\$ 196,451,214
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	\$ 72,128,094	\$ 7,472,145	\$ (63,829)	\$ 79,536,410
Total capital assets being depreciated, net	\$ 94,543,233	\$ 22,372,572	\$ (1,001)	\$ 116,914,804
Business-type activities capital assets, net	\$194,689,382	\$ 37,914,420	\$(25,951,004)	\$ 206,652,798

B. Purchase commitments

As of June 30, 2010, 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.

	<u>June 30, 2010</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 7,400,000
Portion of above funded by grants	\$ 6,315,000

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PMGAA had 24 active design or construction projects at June 30, 2010. These projects are expected to cost a total of \$26 million, of which \$19.8 million has been committed and \$12.6 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:

<u>Project</u>	<u>Spent-to-date on uncompleted contracts</u>	<u>Remaining Contract</u>
Construct West Terminal Phase 1B	\$ 3,230,328	\$ 3,933,745
Cargo Apron Expansion	-	2,215,018
Northeast Area Development	111,445	238,555
East Terminal Master Drainage Plan	57,053	228,650
Design Alpha Apron Expansion (III)	30,882	142,944
Design Fuel Farm Tank Capacity Expansion	40,691	121,102
West Terminal Expansion - Phase II Design	31,505	118,565
Other	953,592	200,377
Total	<u>\$ 4,455,496</u>	<u>\$ 7,198,956</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 \$1,120,654 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, 2010 and 2009 were \$231,860 and \$231,860 respectively.

The future minimum operating lease payments as of June 30, 2010 were payable as follows:

<u>Year ending June 30,</u>	<u>2010</u>
2011	\$ 231,860
2012	231,860
2013	231,860
2014	231,860
2015	193,214
Minimum operating lease payments	<u>\$ 1,120,654</u>

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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>2010</u>	<u>2009</u>
Machinery and equipment	\$ 9,145	\$ 9,145
Less: Accumulated depreciation	<u>(7,621)</u>	<u>(5,792)</u>
Total	<u>\$ 1,524</u>	<u>\$ 3,353</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, 2010, 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>	
2011	\$ 1,788
Total minimum lease payments	<u>1,788</u>
Less: amounts representing interest	<u>(63)</u>
Present value of minimum lease payments	<u>\$ 1,725</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, 2010, \$326,242 in interest and \$978,726 in principal was repaid, leaving a loan balance of \$1,650,390. Projected principal and interest payments for the years ending June 30, 2011 and 2012 are \$1,440,000 and \$760,520, respectively. Changes in long-term obligations for the year ended June 30, 2010 are as follows:

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	June 30, 2009	Increases	Decreases	June 30, 2010	Due Within One Year
Loans payable					
Principal on member loans	\$ 64,298,056	\$ 3,920,000	\$ -	\$ 68,218,056	\$ -
Accrued Interest on member loans	14,491,102	2,363,675	-	16,854,777	-
Member loans	78,789,158	6,283,675	-	85,072,833	-
Other Loans	5,609,242	-	(1,053,282)	4,555,960	1,158,177
Other Liabilities					
Capital Leases	3,687	-	(1,962)	1,725	1,725
Compensated absences	813,159	512,994	(481,772)	844,381	487,739
Business-type long-term liabilities	<u>\$ 85,215,246</u>	<u>\$ 6,796,669</u>	<u>\$ (1,537,016)</u>	<u>\$ 90,474,899</u>	<u>\$1,647,640</u>

Changes in long-term obligations for the year ended June 30, 2009 are as follows:

	June 30, 2008	Increases	Decreases	June 30, 2009	Due Within One Year
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>

Debt service requirements on long-term loans payable at June 30, 2010, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Principal	Interest
2011	\$ 1,158,177	\$ 497,211
2012	652,363	323,545
2013	85,954	129,434
2014	90,127	125,260
2015	94,504	120,884
2016-2020	44,799,956	36,435,178
2021-2025	692,059	384,880
2026-2030	24,841,302	19,517,431
2031-2032	359,574	17,355
Total	<u>\$ 72,774,016</u>	<u>\$ 57,551,178</u>

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Loans from member governments:

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

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</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>

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 \$3,920,000 in principal and \$2,363,675 in accrued interest in fiscal year 2010 and by \$4,009,360 in principal and \$2,178,052 in accrued interest in fiscal year 2009:

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

	<u>2010</u>	<u>2009</u>
City of Mesa	\$ 56,681,577	\$ 53,380,172
City of Phoenix	10,672,885	9,099,888
Gila River Indian Community	8,200,194	7,524,460
Town of Gilbert	7,728,376	7,163,472
Town of Queen Creek	1,789,801	1,621,166
Loans Payable to member governments at June 30	<u>\$ 85,072,833</u>	<u>\$ 78,789,158</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 \$606,000 and \$367,000 of such contingent rents in the fiscal years ending June 30, 2010 and 2009, respectively.

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The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2010:

Fiscal Years Ending June 30:	2010
2011	\$ 2,157,553
2012	1,746,462
2013	1,747,173
2014	1,667,729
2015	1,640,487
2016 - 2025	13,772,466
2026 - 2035	12,902,370
2036 - 2045	12,074,138
2046 - 2055	5,560,365
2056 - 2065	2,625,642
2066 - thereafter	2,416,584
Totals	\$ 58,310,969

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, 2010 and 2009.

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. 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 \$111,524,055 (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

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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.

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 \$69,649,936 (net of accumulated depreciation) in improvements to real property that were paid for (in part) with funds from 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

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:

	PMGAA Revenues	PMGAA Expenses	PMGAA Capital Projects	Sales Taxes Collected/ Remitted
<u>Fiscal Year ended June 30, 2010</u>				
City of Mesa	\$ 9,273	\$1,419,501	\$ 154,908	\$ 107,047
Town of Gilbert	500	-	-	-
Town of Queen Creek	1,000	-	-	-
<u>Fiscal Year ended June 30, 2009</u>				
City of Mesa	\$ 8,832	\$ 750,905	\$ 68,020	\$ 97,931
Town of Gilbert	-	300	-	-

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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2010 and 2009**

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.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and PMGAA's contribution rates. For the year ended June 30, 2010, active plan members and PMGAA were each required by statute to contribute at the actuarially determined rate of 9.4 percent (7.92 percent retirement, 1.03 percent for health insurance premium, and 0.40 percent long-term disability) of the members' annual covered payroll. PMGAA's contributions to the System for the years ended June 30, 2010, 2009, and 2008 were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	\$417,079	\$53,910	\$20,936
2009	418,387	54,444	26,429
2008	404,822	51,669	25,082

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

On October 12, 2010, after the City of Mesa completed its new fire station, PMGAA began work to demolish its old fire station. The land will be paved for additional terminal parking. It is estimated that the recorded write-off of this asset will result in a loss of approximately \$635,000.

SUPPLEMENTARY INFORMATION

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Phoenix-Mesa Gateway Airport Authority
Statement of Revenues and Expenses
 Unaudited (Budget Basis)
 Fiscal Year Ended June 30, 2010

AIRPORT - All Operations

	2010 Budget	Fiscal YTD Actual	% of Budget	YTD Actual Over(Under) Ann'l Budget
		YTD =	100.0	
AERONAUTICAL OPERATING REVS				
Aircraft Parking	167,515	346,973	207%	179,458
Fuel Flowage Fees	739,628	589,069	80%	(150,559)
Landing Fees	432,651	447,001	103%	14,350
Lease Income Aero	928,641	505,467	54%	(423,174)
Fuel Sales (net of CGS)	732,686	933,331	127%	200,645
Services Sold - Aero (net of CGS)	4,349,166	3,901,501	90%	(447,665)
NON AERONAUTICAL OPERATING REVS				
Concessions	69,580	59,614	86%	(9,966)
Lease Income Non-Aero	2,065,935	2,077,968	101%	12,033
Parking & Ground Transportation	940,892	950,195	101%	9,303
Rental Car Fees	475,051	551,040	116%	75,989
Services Sold - Non Aero (net of CGS)	135,481	107,364	79%	(28,117)
Total operating revenues (net of CGS)	<u>11,037,226</u>	<u>10,469,523</u>	<u>95%</u>	<u>(567,703)</u>
OPERATING EXPENSES				
Personnel Compensation & Benefits	6,882,414	6,731,493	98%	(150,921)
Communications & Utilities	683,141	540,615	79%	(142,526)
Contractual Services	2,721,488	2,201,135	81%	(520,353)
Insurance	310,000	298,831	96%	(11,169)
Other	540,431	422,933	78%	(117,498)
Repair & Maintenance	1,007,892	789,206	78%	(218,686)
Supplies & Materials	746,295	596,218	80%	(150,077)
Total operating expenses before Depr	<u>12,891,661</u>	<u>11,580,431</u>	<u>90%</u>	<u>(1,311,230)</u>
Operating income (loss) before Depreciation	(1,854,435)	(1,110,908)	60%	743,527
Depreciation	8,814,192	8,906,605	101%	92,413
Operating income (loss)	<u>(10,668,627)</u>	<u>(10,017,513)</u>	<u>94%</u>	<u>651,114</u>
Nonoperating revenues (expenses)				
Operating Grant Income	152,880	113,602	74%	(39,278)
CFC Income	293,481	289,849	99%	(3,632)
PFC Income	1,374,278	1,523,299	111%	149,021
Investment Income	120,000	160,802	134%	40,802
Other Income (Expense)	5,484	11,187	204%	5,703
Loss (Gain) on Disposition of Assets	0	(35,141)	0%	(35,141)
Interest Expense - Member Govts	(2,366,244)	(2,363,675)	100%	2,569
Interest Expense - Other	(457,658)	(467,238)	102%	(9,580)
Total nonoperating rev (exp)	<u>(877,779)</u>	<u>(767,315)</u>	<u>87%</u>	<u>110,464</u>
Income Before Contributions and Transfers	(11,546,406)	(10,784,828)	93%	761,578
Capital Contributions (Capital Grants Earned)	15,973,690	12,375,692	77%	(3,597,998)
Change in Net Assets	<u>4,427,284</u>	<u>1,590,864</u>	<u>36%</u>	<u>(2,836,420)</u>

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PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SINGLE AUDIT ACT REPORTS
FOR THE
FISCAL YEAR ENDED JUNE 30, 2010

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
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FISCAL YEAR ENDED JUNE 30, 2010**

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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 Phoenix-Mesa Gateway Airport Authority (Authority) as of and for the year ended June 30, 2010 and 2009, and have issued our report thereon dated November 17, 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 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.



The Board of Directors of the
Phoenix-Mesa Gateway Airport Authority
November 17, 2010

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the schedule of findings and questioned costs as item 2010-1 to be a significant deficiency.

Phoenix-Mesa Gateway Airport Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Phoenix-Mesa Gateway Airport Authority's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

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 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.

Mesa, Arizona
November 17, 2010

LarsonAllen LLP

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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

We have audited Phoenix-Mesa Gateway Airport Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Phoenix-Mesa Gateway Airport Authority's major federal program for the year ended June 30, 2010. Phoenix-Mesa Gateway Airport Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of Phoenix-Mesa Gateway Airport Authority's management. Our responsibility is to express an opinion on 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 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 of Phoenix-Mesa Gateway Airport Authority's compliance with those requirements.

In our opinion, Phoenix-Mesa Gateway Airport Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2.

Internal Control Over Compliance

Management of Phoenix-Mesa Gateway Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Phoenix-Mesa Gateway Airport Authority's internal control over compliance with the 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, 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 Phoenix-Mesa Gateway Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2009-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Phoenix-Mesa Gateway Airport Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Phoenix-Mesa Gateway Airport Authority's responses and, accordingly, we express no opinion on the responses.

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 years ended June 30, 2010 and 2009, and have issued our report thereon dated November 17, 2010. 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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2010

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? X yes _____ 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
- Significant deficiency(ies) identified not considered to be material weaknesses? X yes _____ 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 program:

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: \$362,595

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, 2010**

SECTION II—FINANCIAL STATEMENT FINDINGS

2010-1 – Year End Cut-Off Procedures

Condition: Capital expenses incurred prior to the end of the fiscal year were incorrectly recorded in the fiscal year 2010-11 and were not accrued in fiscal year 2009-10. This relates directly to the Authority's internal controls over financial reporting.

Context: A construction invoice in the amount of \$463,358 was incorrectly recorded in the fiscal year 2010-11 and was not accrued at year end.

Criteria: Internal controls over financial reporting.

Cause: The Authority has an internal control structure that requires the review and approval of invoices prior to payment. This approval process includes the review of the invoice and other supporting documentation to ensure the invoice is posted to the proper fiscal year. In addition, all costs incurred on federal grants require a second approval process. This invoice related to a federal grant and therefore was overlooked in both review processes.

Recommendation: We recommend the Authority review the implementation of its controls to ensure similar instances do not occur in the future. The Authority appears to have adequately designed controls; however, the controls did not appear to be properly implemented.

Response: The Authority concurs with this recommendation and will remind employees of the importance of following the designed controls to prevent a similar instance in the future.

Contact: Casey Denny, Deputy Director

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2010**

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**U.S. Department of Transportation
Airport Improvement Program
Direct Grant
CFDA No. 20.106**

2010-2

Condition: Capital expenses incurred prior to the end of the fiscal year were incorrectly recorded in the fiscal year 2010-11 and were not accrued in fiscal year 2009-10. This relates directly to the Authority's internal controls over financial reporting.

Context: A construction invoice in the amount of \$463,358 paid with federal funds was incorrectly recorded in the fiscal year 2010-11 and was not accrued at year end.

Criteria: Internal controls over financial reporting.

Cause: The Authority has an internal control structure that requires the review and approval of invoices prior to payment. This approval process includes the review of the invoice and other supporting documentation to ensure the invoice is posted to the proper fiscal year. In addition, all costs incurred on federal grants require a second approval process. This invoice related to a federal grant and therefore was overlooked in both review processes.

Recommendation: We recommend the Authority review the implementation of its controls to ensure similar instances do not occur in the future. The Authority appears to have adequately designed controls; however, the controls did not appear to be properly implemented.

Corrective Action Plan: The Authority concurs with this recommendation and will remind employees of the importance of following the designed controls to prevent a similar instance in the future. The Authority has controls in place and has been enforcing those controls in fiscal year 2010-11.

Contact: Casey Denny, Deputy Director

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, 2010**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Contract Number	Disbursements/ Expenditures
U.S. Department of Transportation			
Airport Improvement Program	20.106	AIP3-04-0078-19	\$ 878,461
Airport Improvement Program	20.106	AIP3-04-0078-20	1,353,262
Airport Improvement Program	20.106	AIP3-04-0078-22	240,135
Airport Improvement Program	20.106	AIP3-04-0078-23	4,873,154
Airport Improvement Program	20.106	AIP3-04-0078-24	4,189,090
Airport Improvement Program	20.106	AIP3-04-0078-25	219,204
Airport Improvement Program	20.106	AIP3-04-0078-26	333,208
TOTAL FEDERAL AWARDS			\$ 12,086,514

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