

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

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1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
TABLE OF CONTENTS
Fiscal Years Ended June 30, 2012 and 2011

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets – Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund	12
Notes to the Basic Financial Statements	15
Supplementary Information	
Statement of Revenues and Expenses (Budget Basis)	31

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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, 2012 and 2011, 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.

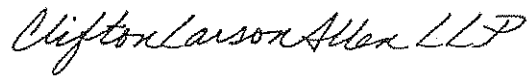
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Phoenix-Mesa Gateway Airport Authority, as of June 30, 2012 and 2011, and the respective changes in financial position and cash 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 October 1, 2012 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Phoenix-Mesa Gateway Airport Authority's basic financial statements. The Statement of Revenues and Expenses (Budget Basis) presented on page 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Mesa, Arizona
October 1, 2012

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2012 and 2011**

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, 2012 and June 30, 2011.

Financial Highlights

- PMGAA's assets exceeded liabilities at the end of the fiscal year by \$134,118,238 (net assets). Total net assets included \$119,339,487 in capital assets, net of related debt, and \$13,899,974 in unrestricted net assets. During the year, total net assets increased by \$807,432.
- PMGAA earned \$2,718,231 in Passenger Facility Charges.
- During the year, member government loans to PMGAA increased by \$3,920,000 to \$76,143,977 principal, and accrued interest relating to that debt increased by \$2,748,928 to \$22,155,890, for a total of \$98,299,867. (The first of these notes comes due in the year 2020.)
- In February, 2012, \$19,220,000 in Series 2012 bonds were issued, not including an Original Issue Premium of \$653,627.
- Total liabilities increased by \$27,069,348 (27.4%), to \$125,789,448. Most of this was due to the bond issue.
- Sales in PMGAA's fueling operation were up 16% in dollars to \$8,601,439. The number of gallons uploaded was up 15%, due primarily to an increase in the number of Allegiant Air flights and the start-up of Spirit Airlines service in February, 2012. Gross margin for all fueling sales (gross revenues less cost of goods sold) was up 9%, less than the % increase in sales due to increased fuel costs.
- PMGAA's operations produced a loss of \$10,373,525 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, 2012 and 2011

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 - 30 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 \$134,118,238.

Airports are capital-intensive enterprises. 89% 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

	2012	2011	2010
Current and other assets	\$ 34,014,117	\$ 13,697,752	\$ 12,290,525
Capital assets, net of accumulated depreciation	225,893,569	218,333,154	210,832,288
Total assets	<u>259,907,686</u>	<u>232,030,906</u>	<u>223,122,813</u>
Long-term liabilities	121,182,363	94,719,313	88,827,258
Other liabilities	4,607,085	4,000,787	3,722,583
Total liabilities	<u>125,789,448</u>	<u>98,720,100</u>	<u>92,549,841</u>
Net assets:			
Invested in capital assets, net of related debt	119,339,487	123,400,786	121,201,771
Restricted	878,777	-	-
Unrestricted	13,899,974	9,910,020	9,371,201
Total net assets	<u>\$ 134,118,238</u>	<u>\$ 133,310,806</u>	<u>\$ 130,572,972</u>

\$13,899,974 (10.4%) 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 and restricted net 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 \$807,432 (.6%) 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 2011-12 by \$3,920,000, which is lower than the amount received in fiscal year 2010-11.

Net assets invested in capital assets, net of related debt decreased by 3.3%. New investments in capital assets (less asset dispositions) were \$7,560,415 more than the year's depreciation expense on capital assets.

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 21% (\$3,024,065). (Grant funds are recognized as revenue when all eligibility requirements imposed by the

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2012 and 2011**

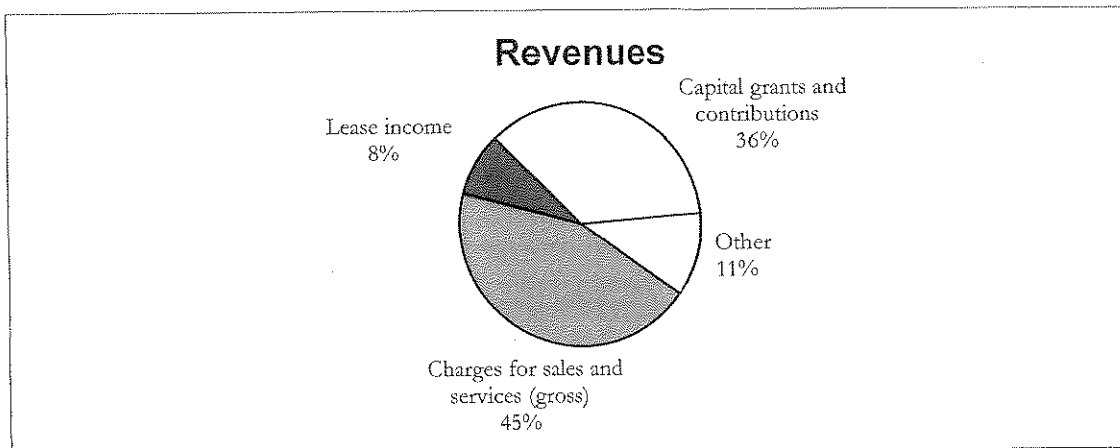
provider have been met.) Fuel sales were up 16%, and related costs of sales were up 30%. Taken together, the resulting gross margin was up 9%. The change in net assets came about as indicated by the following elements of the revenues and expenses:

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

	2012	2011	2010
Revenues:			
Charges for sales and services (gross)	\$ 13,672,874	\$ 11,385,061	\$ 9,900,589
Lease income	2,572,859	2,485,809	2,583,435
Capital grants and contributions	11,153,091	14,177,156	12,375,692
Other	3,400,137	1,934,469	2,063,598
Total revenues	<u>30,798,961</u>	<u>29,982,495</u>	<u>26,923,314</u>
Expenses			
Cost of sales	3,109,399	2,402,606	2,014,501
Depreciation	10,249,505	9,635,085	8,906,605
Other operating expenses	13,260,354	12,125,392	11,580,431
Interest expense on loans from member governments	2,748,928	2,552,185	2,363,675
Interest expense - other	298,038	526,393	467,238
Other nonoperating expenses	325,305	-	-
Total expenses	<u>29,991,529</u>	<u>27,241,661</u>	<u>25,332,450</u>
Increase (decrease) in net assets	807,432	2,737,834	1,590,864
Net assets at prior year-end	<u>133,310,806</u>	<u>130,572,972</u>	<u>128,982,108</u>
Net assets at year-end	<u>\$134,118,238</u>	<u>\$ 133,310,806</u>	<u>\$ 130,572,972</u>

Revenues:

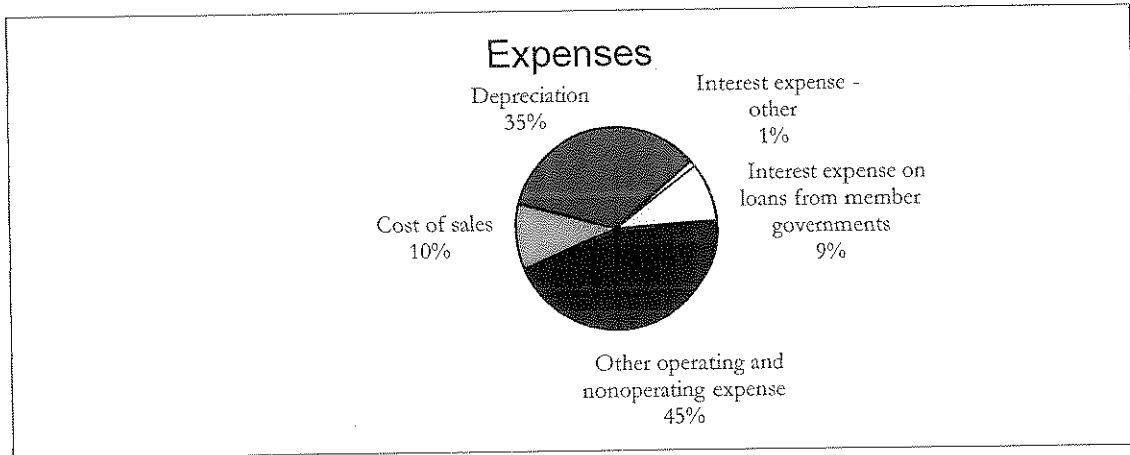
Charges for sales and services increased by \$2,287,813. Gains were primarily due to the increased number of Allegiant Air flights and passengers which resulted in increased airport usage fees. This includes domestic passenger airline landing fees, parking fees, and rental car fees. Other income increased by \$1,465,668 mostly because of increased PFC and CFC revenues. Capital contributions decreased by \$3,024,065 due to the closeout of several grant funded projects. In addition, capital contributions for \$996,000 were recognized in the prior year to record the receipt of land from the U.S. Air Force, and no similar transaction occurred in the current year.



**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2012 and 2011**

Expenses:

Other operating expenses increased by \$1,134,962 (9%). This is due mostly to increased costs for advertising and professional services related to parking. Interest expense on loans from member governments increased by \$196,743, 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.) Cost of sales increased \$706,793 (29%) due to the increased cost of fuel. Other nonoperating expenses includes a \$320,693 loss on disposition of assets. Interest expense - other decreased \$228,355 (43%) from the prior year due to the payoff of the Allegiant Air loan in October, 2011.



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, 2012, PMGAA's capital assets totaled \$225,893,569 (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 3.5% during the fiscal year.

Capital assets (net of depreciation)

	2012	2011	2010
Land	\$ 86,128,271	\$ 86,129,911	\$ 85,133,911
Buildings and improvements	116,966,901	116,399,834	114,440,194
Machinery and equipment	3,945,023	3,717,640	3,726,756
Construction in progress	18,853,374	12,085,769	7,531,427
Total capital assets, net	<u>\$ 225,893,569</u>	<u>\$ 218,333,154</u>	<u>\$ 210,832,288</u>

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2012 and 2011**

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

- Design/Construct West Terminal Expansion: Spent in FY12: \$9.4 million
- Design/Construct MRO Facility: Spent in FY12: \$4.2 million
- Fuel Farm Tank Capacity Expansion: Spent in FY12: \$1.6 million
- Economy Parking Lot Construction: Spent in FY11: \$1.1 million

Long-term debt.

At the end of the current fiscal year, PMGAA had total debt outstanding of \$120,918,914. \$98,299,867 (81%) 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.

Phoenix-Mesa Gateway Airport Authority's Outstanding Debt

	2012	2011	2010
Loans from Member Governments (including accrued interest)	\$ 98,299,867	\$ 91,630,939	\$ 85,072,833
ADOT and Allegiant Loans (including accrued interest)	2,745,420	3,301,429	4,555,960
Capital Leases	-	-	1,725
Bonds payable (including bond premium)	19,873,627	-	-
	<u>\$ 120,918,914</u>	<u>\$ 94,932,368</u>	<u>\$ 89,630,518</u>

Loans from member governments (principal) increased by \$3,920,000 (5%) during the fiscal year, compared to the \$4,005,921 increase in loans during the previous year. The accrued interest component of member government loans increased by \$2,748,928 compared to \$2,552,185 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 was repaid based on the number of enplaned passengers at the rate of \$4.00 each (\$3.00 principal and \$1.00 interest) and was repaid in full in October, 2011. On February 29, 2012, PMGAA issued \$19,220,000 in Special Facility Revenue Bonds Series 2012 at a premium of \$653,627. The interest rates on these bonds range from 3% to 5% and they mature between July 1, 2014 and July 1, 2038. These funds will be used to construct an aircraft maintenance repair and overhaul facility which will be leased to the City of Mesa. Mesa, in turn, will sublease the building to Able Engineering. These lease payments will be sufficient to pay the principal and interest on the bonds as they come due. Additionally, the City of Mesa pledged a portion of its excise taxes as security for payment of the lease payments.

Additional information on PMGAA's long-term debt can be found in note 3.D. on pages 23 - 27.

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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2012 and 2011**

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 Chief Financial Officer, 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, 2012 and 2011

	Business-type Activities - Enterprise Fund	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,339,562	\$ 10,386,490
Restricted cash	15,946,827	-
Accounts receivable, net	1,145,271	884,475
Due from other governments	1,250,589	1,799,548
Prepaid costs	66,208	79,828
Inventories	219,883	168,866
Total current assets	<u>31,968,340</u>	<u>13,319,207</u>
Noncurrent assets:		
Restricted assets	1,690,671	378,545
Unamortized Bond Issuance Costs	355,106	-
Capital assets:		
Nondepreciable	104,981,645	98,215,680
Depreciable	120,911,924	120,117,474
Total noncurrent assets	<u>227,939,346</u>	<u>218,711,699</u>
Total assets	<u>259,907,686</u>	<u>232,030,906</u>
Liabilities		
Current liabilities:		
Accounts payable	3,042,709	2,314,549
Accrued liabilities	243,010	208,771
Accrued bond interest payable	305,136	-
Vacation benefits payable	483,247	441,416
Retirement sick leave payable	51,383	38,106
Allegiant loan	-	474,036
ADOT loan	85,954	81,973
Unearned revenue	62,498	63,391
Total current liabilities	<u>4,273,936</u>	<u>3,622,242</u>
Current liabilities payable from restricted assets:		
Tenant deposits	333,148	378,545
Noncurrent liabilities:		
Loans payable to member governments	76,143,976	72,223,977
Accrued interest payable to member governments	22,155,890	19,406,962
Bonds Payable	19,873,627	-
ADOT loan	2,659,466	2,745,420
Retirement sick leave payable	349,404	342,954
Total noncurrent liabilities	<u>121,182,363</u>	<u>94,719,313</u>
Total liabilities	<u>125,789,448</u>	<u>98,720,100</u>
Net assets		
Invested in capital assets, net of related debt	119,339,487	123,400,786
Restricted for capital outlay	878,777	-
Unrestricted net assets	13,899,974	9,910,020
Total net assets	<u>\$ 134,118,238</u>	<u>\$ 133,310,806</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, 2012 AND 2011

	Business-type Activities Enterprise Fund	
	2012	2011
Operating revenues		
Fueling operations	\$ 8,601,439	\$ 7,442,528
Lease income	2,572,859	2,485,809
Maintenance services	260,447	215,983
Airport usage fees	4,810,988	3,726,550
Total operating revenues	<u>16,245,733</u>	<u>13,870,870</u>
Operating expenses		
Personnel costs	6,921,764	6,727,100
Professional services	3,261,189	2,416,070
Cost of goods sold - fueling operations	3,081,580	2,370,592
Costs of maintenance services sold	27,819	32,014
Repair and maintenance	905,752	910,483
Utilities	697,188	609,117
Insurance	255,164	262,630
Other expense	1,219,572	1,199,992
Depreciation	10,249,230	9,635,085
Total operating expenses	<u>26,619,258</u>	<u>24,163,083</u>
Operating loss	<u>(10,373,525)</u>	<u>(10,292,213)</u>
Nonoperating revenues (expenses)		
Investment income	153,533	101,303
PFC income	2,718,231	1,971,523
CFC income	389,863	348,996
Other income	35,902	44,205
Gain/(loss) on disposition of assets	(320,693)	(643,966)
Amortization of bond issuance costs	(4,612)	-
Intergovernmental revenue	102,608	112,408
Interest expense - notes payable to member governments	(2,748,928)	(2,552,185)
Interest expense - bonds	(6,611)	-
Interest expense - other	(291,427)	(529,393)
Total nonoperating revenues (expenses)	<u>27,866</u>	<u>(1,147,109)</u>
Loss before contributions and transfers	(10,345,659)	(11,439,322)
Capital contributions	<u>11,153,091</u>	<u>14,177,156</u>
Change in net assets	807,432	\$2,737,834
Net assets, beginning of year	<u>133,310,806</u>	<u>130,572,972</u>
Net assets, end of year	<u>\$ 134,118,238</u>	<u>\$ 133,310,806</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, 2012 AND 2011

	Business-type Activities - Enterprise Funds	
	2012	2011
Cash flows from operating activities		
Receipts from customers	\$ 16,042,804	\$ 14,164,695
Payments to employees	(6,825,968)	(6,722,821)
Payments to suppliers	(9,589,391)	(8,098,173)
Customer deposits	(45,397)	75,339
Net cash flows from operating activities	(417,952)	(580,960)
Cash flows from non-capital financing activities		
Loans from member governments	3,920,000	4,005,921
Operating grants from other governments	111,751	98,415
Net cash flows from non-capital financing activities	4,031,751	4,104,336
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(17,002,359)	(15,738,478)
Proceeds from bond sale	19,873,627	-
Payments on bond issuance costs	(359,718)	-
Payments on loans	(556,009)	(1,254,531)
Passenger Facility Charges received	2,570,298	1,914,909
Customer Facility Charges received	389,361	352,944
Cash from sale of equipment	2,160	17,585
Principal paid on capital leases	-	(1,725)
Interest paid on ADOT loan	(291,427)	(529,329)
Interest paid on capital leases	-	(64)
Capital grants received	11,781,154	13,141,319
Net cash flows from capital and financing activities	16,407,087	(2,097,370)
Cash flows from investing activities		
Investment income	109,111	101,257
Investment gain (loss)	7,434	-
Other income/expense	74,594	30,399
Net cash flows from investing activities	191,139	131,656
Net change in cash and cash equivalents	20,212,025	1,557,662
Cash and cash equivalents, beginning of year	10,765,035	9,207,373
Cash and cash equivalents, end of year	\$ 30,977,060	\$ 10,765,035

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

Cash and cash equivalents	\$ 29,286,389	\$ 10,386,490
Restricted assets	1,690,671	378,545
Total	\$ 30,977,060	\$ 10,765,035

(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, 2012 AND 2011

	Business-type Activities - Enterprise Funds	
	2012	2011
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (\$10,373,525)	\$ (10,292,213)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	10,249,230	9,635,085
Change in assets/liabilities:		
Accounts receivable	(202,036)	280,793
Prepaid costs	13,620	(13,754)
Inventories	(51,017)	(10,062)
Accounts payable and accrued liabilities	(69,492)	(247,275)
Unearned revenue	(893)	13,032
Tenant deposits	(45,397)	75,339
Compensated absences payable	61,558	(21,905)
Net cash used by operating activities	\$ (\$417,952)	\$ (580,960)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized \$2,748,928 and \$2,552,185 of interest payable on loans from member governments during fiscal years 2012 and 2011, respectively. In addition, the Authority amortized \$4,612 in issuance costs on the outstanding bonds.

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, 2012 and 2011

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, 2007. 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, and fuel flowage 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 and parking services, 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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. 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, PFC number 08-01-C-00-IWA. 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 expired in May 2011 when the approved amount of \$3,585,510 had been collected. Since PMGAA had already paid for and completed the approved capital projects, the PFC's reimbursed past costs and are not shown as current restricted assets. PMGAA received a second PFC award, number 11-02-C-00-IWA on January 5, 2011 in the amount of \$34,555,545 that began when the first PFC award was fully collected. It expires on July 1, 2017 or as soon as the approved amount has been collected. As of June 30, 2012, \$3,340,535 has been earned under the second application, and \$379,355 is reported as restricted assets. These monies are recorded as non-operating revenues.

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 Wells Fargo Bank, and highly liquid investments with maturities of three months or less from the date of acquisition. Bond proceeds held by the trustee, U.S. Bank, are comprised of cash and investments in U.S. Treasury Bills and U.S. Treasury Notes. Some of these investments have maturities of greater than three months but less than one year.

Arizona Revised Statutes authorize PMGAA to invest public monies in instruments including the following: the State and County Treasurer's investment pools; U.S. Treasury obligations; specified state, county, and local government bonds and notes; 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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

are not included in this analysis. Over the last two years, this allowance has ranged from 5% to 5.2% of accounts receivable.

3. Inventories and prepaid items

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

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

4. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets. Capital assets are defined by 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. Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
 Fiscal Years Ended June 30, 2012 and 2011

7. 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. PMGAA reports restricted net assets for unspent passenger facility charges restricted for capital. Unrestricted net assets are the remaining net assets not included in the previous two categories.

8. 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.

9. 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.

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, 2012 and 2011 consist of the following:

	2012	2011
Cash on hand	\$ 6,950	\$ 6,950
Deposits		
Cash in bank	5,845,224	286,043
Investments		
Savings Account	7,756,720	-
State Treasurer's Investment Pool	5,538,977	10,472,042
Cash with Trustee	11,829,189	-
Total deposits and investments	<u>30,977,060</u>	<u>10,765,035</u>
Less: restricted cash	<u>(17,637,498)</u>	<u>(378,545)</u>
Total cash and equivalents	<u>\$ 13,339,562</u>	<u>\$ 10,386,490</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

Deposits - PMGAA's deposits at June 30, 2012, were covered by federal depository insurance or by collateral held by PMGAA's custodial bank in PMGAA's name.

Investments - PMGAA's investments (detailed below) include deposits with the Arizona State Treasurer's Local Government Investment Pool (LGIP) 700 and Wells Fargo Bank. In addition, some of the funds held by our bond trustee, U.S. Bank, are invested in U.S. Treasury Bills and Notes.

PMGAA's Board of Directors approved Resolution No. 12-30 on May 14, 2012, authorizing and including the following: 1) The closing of PMGAA's Arizona State Treasurer's short-term Local Government Investment Pool (LGIP) 5 and medium-term LGIP 500 accounts, and 2) The moving of all cash from the closed LGIP 5 and LGIP 500 accounts into Wells Fargo Bank's fully collateralized Exception Rate Savings account and the Arizona State Treasurer's LGIP 700 medium-term fund.

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. The value of investments in LGIP 700 has been adjusted to fair market value at June 30, 2012. 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 LGIP 700 is rated AA+.

The Wells Fargo Bank Exception Rate Savings Account is a Business Premium Rate Public Funds savings account which has an exception rate applied. The first \$250,000 of deposits in this account are insured by the FDIC. The entire account is collateralized by Wells Fargo's Collateralization Program, which is designed to comply with all regulatory requirements securing public funds deposits. The FDIC insurance and public funds collateralization program securitize PMGAA's deposits in the event of an overall Wells Fargo Bank default. Collateral having a market value at June 30, 2012 of \$7,933,781.77 was pledged to cover deposits in excess of the federal depository insurance coverage.

On April 16, 2012 the PMGAA Board of Directors approved Resolution 12-26 authorizing the investment of proceeds from the PMGAA Series 2012 Special Facility Revenue Bonds (Mesa Project). During April 2012, various proceeds deposited into the Acquisition and Construction fund were invested in U.S. Treasury Bills and U.S. Treasury Notes, backed by the full faith and credit of the U.S. Government.

PMGAA's Board of Directors approved Resolution No. 12-42 on June 18, 2012, adopting and authorizing implementation of a formal PMGAA investment policy. The policy applies to the investment of all PMGAA funds excluding employee retirement funds and proceeds from bond issues and is consistent with Government Finance Officers Association's best practices, where applicable, and in accordance with all appropriate federal and State of Arizona guidelines including, but not limited to, Arizona Revised Statutes ("ARS") section 28-8522 defining the Authority as: 1) A special purpose district for purposes of Article IX, Section 19, Constitution of Arizona, 2) A tax levying public improvement district for purposes of Article XIII, Section 7, Constitution of Arizona, and 3) A municipal corporation for all purposes, including the purposes of Title 35, Chapter 3, Articles 3.2, 3.3, 4, 5, and 7, as well as ARS Title 35, Chapter 2 titled "Handling of Public Funds," under which the definition and investment of public monies is defined.

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. However, collateralization is addressed in the investment policy.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

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. However, diversification of portfolio assets is addressed in the investment policy. PMGAA decreased its concentration risk significantly by diversifying its investments between the State Treasurer’s LGIP 700 fund and Wells Fargo Bank’s Business Premium Rate Public Funds savings account. Diversification of investments is addressed in PMGAA’s investment policy. Concentration percentages are shown below. As of June 30, 2012, PMGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
Wells Fargo Business Premium Rate Public Funds			7,756,720	30.87%
State Treasurer's Investment Pool 700	AA+		5,538,977	22.05%
US Bank (US Treasury Bills and Notes)			11,829,189	47.08%
Total investments			<u>\$ 25,124,886</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 is 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
Wells Fargo Business Premium Rate Public Funds	\$ 7,756,720	\$ 7,756,720
State Treasurer's Investment Pool 700	5,538,977	5,538,977
US Bank (US Treasury Bills and Notes)	11,829,189	11,829,189
	<u>\$ 25,124,886</u>	<u>\$ 25,124,886</u>

2. Restricted assets

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

	2012	2011
Customer deposits	\$ 333,148	\$ 378,545
Passenger Facility Charges (PFC's)	379,355	-
Cash with Trustee	16,924,995	-
Total restricted assets	<u>\$17,637,498</u>	<u>\$ 378,545</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

3. Receivables

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

	2012	2011
Trade receivables - governments	\$ 198,412	\$ 119,308
Grants receivable	1,052,177	1,680,240
Total due from other governments	\$ 1,250,589	\$ 1,799,548
Total accounts receivable	\$ 1,205,935	\$ 933,469
Less allowance for uncollectible accounts	(60,664)	(48,994)
Accounts receivable, net	\$ 1,145,271	\$ 884,475

4. Capital assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance 6/30/2011	Increases	Decreases	Ending Balance 6/30/2012
Capital assets not being depreciated				
Land	\$ 86,129,911	\$ -	\$ (1,640)	\$ 86,128,271
Construction in progress	12,085,769	17,822,187	(11,054,582)	18,853,374
Total capital assets not being depreciated	\$ 98,215,680	\$ 17,822,187	\$ (11,056,222)	\$ 104,981,645
Capital assets being depreciated				
Buildings and improvements	\$ 208,547,176	10,605,446	(677,500)	218,475,122
Machinery and equipment	8,861,300	759,447	(46,184)	9,574,563
Total capital assets being depreciated	\$ 217,408,476	\$ 11,364,893	\$ (723,684)	\$ 228,049,685
Less accumulated depreciation for:				
Buildings and improvements	\$ 92,147,342	9,726,729	(365,850)	101,508,221
Machinery and equipment	5,143,660	522,501	(36,621)	5,629,540
Total accumulated depreciation	\$ 97,291,002	\$ 10,249,230	\$ (402,471)	\$ 107,137,761
Total capital assets being depreciated, net	\$ 120,117,474	\$ 1,115,663	\$ (321,213)	\$ 120,911,924
Business-type activities capital assets, net	\$ 218,333,154	\$ 18,937,850	\$ (11,377,435)	\$ 225,893,569

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance <u>6/30/2010</u>	Increases	Decreases	Ending Balance <u>6/30/2011</u>
Capital assets not being depreciated				
Land	\$ 85,133,911	\$ 996,000	\$ -	\$ 86,129,911
Construction in progress	7,531,427	16,578,336	(12,023,994)	12,085,769
Total capital assets not being depreciated	\$ 92,665,338	\$ 17,574,336	\$(12,023,994)	\$ 98,215,680
Capital assets being depreciated				
Buildings and improvements	\$ 198,102,408	11,738,217	(1,293,449)	208,547,176
Machinery and equipment	8,435,947	495,137	(69,784)	8,861,300
Total capital assets being depreciated	\$ 206,538,355	\$ 12,233,354	\$ (1,363,233)	\$ 217,408,476
Less accumulated depreciation for:				
Buildings and improvements	\$ 83,662,214	9,130,832	(645,704)	92,147,342
Machinery and equipment	4,709,191	504,253	(69,784)	5,143,660
Total accumulated depreciation	\$ 88,371,405	\$ 9,635,085	\$ (715,488)	\$ 97,291,002
Total capital assets being depreciated, net	\$ 118,166,950	\$ 2,598,269	\$ (647,745)	\$ 120,117,474
Business-type activities capital assets, net	\$ 210,832,288	\$ 20,172,605	\$ (12,671,739)	\$ 218,333,154

B. Purchase commitments

As of June 30, 2012, 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, 2012</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 17,218,000
Portion of above funded by grants	\$ 3,000,000

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

PMGAA had 30 active design or construction projects at June 30, 2012. These projects are expected to cost a total of \$56 million, of which \$42 million has been committed and \$26 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
Design/Construct MRO Facility	\$ 3,474,866	\$ 12,473,126
Design/Construct West Terminal Expansion Ph II	9,639,753	2,539,495
Construct West Terminal Phase 1B	7,371,699	87,761
Design Fuel Farm Tank Capacity Expansion	1,562,278	61,440
e-ALP/GIS Improvement	99,758	499,491
West Terminal Phase III	11,318	628,744
Other	306,501	148,800
Total	<u>\$ 22,466,173</u>	<u>\$ 16,438,857</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 \$678,746 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, 2012 and 2011 were \$239,557 and \$233,143 respectively.

The future minimum operating lease payments as of June 30, 2012 were payable as follows:

<u>Year ending June 30,</u>	<u>2012</u>
2013	239,557
2014	239,557
2015	199,632
Minimum operating lease payments	<u>\$ 678,746</u>

D. Long-term obligations

Long-Term Loans

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 paid \$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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011**

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 was \$4/enplaned passenger (\$3 principal and \$1 interest). The interest rate was variable depending on how quickly the loan was repaid. The loan was paid in full in October 2011. For the year ending June 30, 2012, \$158,012 in interest and \$474,036 in principal was repaid.

Series 2012 Special Facility Revenue Bonds

PMGAA issued \$19,220,000 in Special Facility Revenue Bonds (Mesa Project) Series 2012 (the Deal), on February 29, 2012. The bonds are rated A1 by Moody's and AA+ by Standard & Poor's. The proceeds were deposited with U.S. Bank National Association, the Trustee. On March 21, 2011, PMGAA entered into a Memorandum of Understanding (MOU) with the City of Mesa (the City) and Able Engineering and Component Services for the development, construction and lease of an aircraft maintenance repair and overhaul facility at Phoenix-Mesa Gateway Airport. In general, the MOU addresses PMGAA issuing Special Facility Revenue Bonds, constructing the facility and leasing the facility to the City of Mesa. Mesa, in turn, will sublease the facility to Able.

A Property and Special Facility Lease Agreement between PMGAA and the City, dated February 1, 2012 (Agreement), stipulates that PMGAA will lease certain real property and improvements comprising the Special Facility to the City. Under the terms of the lease, the City will pay rent to PMGAA, comprised of Base Rent for the building and Premises Rent for the property. The City's Base Rent payments due under the terms of the Agreement will be in sums sufficient to pay, amongst other things, the principal of and interest on the Series 2012 Special Facility Revenue Bonds as they come due, as well as all charges and expenses of the Trustee. The City pledged a portion of its excise taxes, defined in the Series 2012 Special Facility Revenue Bond Official Statement, as security for payment of the Base Rent. The pledge of such excise taxes will be a junior lien, subordinate to certain outstanding senior obligations. On March 19, 2012 the PMGAA Board of Directors passed Resolution 12-20 adopting issuance and post-issuance compliance procedures relating to tax exempt bonds and other tax-exempt financings for PMGAA.

Annual principal and interest payments on the bonds are expected to require 100% of revenues pledged for base rent less all charges and expenses of the trustee. Interest is paid semi-annually based upon the principal amount of the bonds outstanding during such period. The bonds are payable from the future lease revenues from the City of Mesa through 2038. During that time frame total principal and interest to be paid on the bonds will be \$35,216,300. During the fiscal year ended June 30, 2012, total principal and interest on the bonds was \$305,136 and no revenue was subject to the pledge.

The maturity schedule for the PMGAA Series 2012 Special Facility Revenue Bonds is as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding Amount</u>
Business-type Activities:				
Special Facility Revenue Bonds:				
Series 2012	3.00-5.00%	07/01/14-38	<u>\$ 19,220,000</u>	<u>\$ 19,220,000</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

Changes in long-term obligations for the year ended June 30, 2012 are as follows:

	June 30, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Loans payable					
Principal on member loans	\$ 72,223,977	\$ 3,920,000	\$ -	\$ 76,143,977	\$ -
Accrued Interest on member loans	19,406,962	2,748,928	-	22,155,890	-
Member loans	91,630,939	6,668,928	-	98,299,867	-
Other Loans	3,301,429	-	(556,009)	2,745,420	85,954
Bonds payable - Series 2012					
Principal on bonds	-	19,220,000	-	19,220,000	-
Unamortized premium	-	653,627	-	653,627	-
Bonds	-	19,873,627	-	19,873,627	-
Other Liabilities					
Compensated absences	822,476	491,939	(430,381)	884,034	534,630
Business-type long-term liabilities	<u>\$ 95,754,844</u>	<u>\$ 27,034,494</u>	<u>\$ (986,390)</u>	<u>\$ 121,802,948</u>	<u>\$ 620,584</u>

Changes in long-term obligations for the year ended June 30, 2011 are as follows:

	June 30, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Loans payable					
Principal on member loans	\$ 68,218,056	\$ 4,005,921	\$ -	\$ 72,223,977	\$ -
Accrued Interest on member loans	16,854,777	2,552,185	-	19,406,962	-
Member loans	85,072,833	6,558,106	-	91,630,939	-
Other Loans	4,555,960	-	(1,254,531)	3,301,429	556,009
Other Liabilities					
Capital Leases	1,725	-	(1,725)	-	-
Compensated absences	844,381	476,338	(498,243)	822,476	479,522
Business-type long-term liabilities	<u>\$ 90,474,899</u>	<u>\$ 7,034,444</u>	<u>\$ (1,754,499)</u>	<u>\$ 95,754,844</u>	<u>\$ 1,035,531</u>

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

Debt service requirements on long-term debt at June 30, 2012, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Loans Payable		Series 2012 Special Facility Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 85,954	\$ 129,434	\$ -	\$ 900,400
2014	90,127	125,260	420,000	900,400
2015	94,504	120,884	430,000	887,800
2016	99,093	116,295	445,000	874,900
2017	103,905	111,483	460,000	861,550
2018-2022	44,854,269	36,380,865	2,550,000	4,042,750
2023-2027	8,791,904	6,789,915	3,180,000	3,426,250
2028-2032	24,769,640	19,345,461	4,055,000	2,547,750
2033-2037			5,165,000	1,428,750
2038			2,515,000	125,750
Total	<u>\$ 78,889,396</u>	<u>\$ 63,119,596</u>	<u>\$ 19,220,000</u>	<u>\$ 15,996,300</u>

Loans from member governments:

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

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>
City of Mesa	43.4%	42.5%
City of Phoenix	33.2%	34.6%
Gila River Indian Community	11.5%	11.2%
Town of Gilbert	8.9%	8.7%
Town of Queen Creek	<u>3.0%</u>	<u>3.0%</u>
	<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 \$2,748,928 in accrued interest in fiscal year 2012 and by \$4,005,921 in principal and \$2,552,185 in accrued interest in fiscal year 2011:

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
City of Mesa	\$ 63,584,485	\$ 60,082,024
City of Phoenix	14,050,361	12,378,992
Gila River Indian Community	9,613,086	8,896,200
Town of Gilbert	8,909,534	8,310,228
Town of Queen Creek	<u>2,142,400</u>	<u>1,963,495</u>
Loans Payable to member governments at June 30	<u>\$ 98,299,866</u>	<u>\$ 91,630,939</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 \$1,388,000 and \$916,000 of such contingent rents in the fiscal years ending June 30, 2012 and 2011, respectively.

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2012:

Fiscal Years Ending June 30:	<u>2012</u>
2013	\$ 2,395,480
2014	1,915,644
2015	1,786,692
2016	1,736,964
2017	1,337,441
2018 - 2027	11,438,485
2028 - 2037	10,937,992
2038 - 2047	9,595,513
2048 - 2057	3,266,464
2058 - 2067	1,624,008
2068 - 2077	955,132
Totals	<u>\$ 46,989,815</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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

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, 2012 and 2011.

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 \$104,633,756 (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.

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 \$84,900,050 (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.

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

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, 2012</u>				
City of Mesa	\$ 18,581	\$ 1,519,101	\$ 642,278	\$ 147,522
Town of Gilbert	-	2,500	-	-
<u>Fiscal Year ended June 30, 2011</u>				
City of Mesa	\$ 16,637	\$ 1,493,197	\$ 17,554	\$ 122,801
Town of Queen Creek	-	1,500	-	-

PMGAA revenues above consist of real property leases, utilities billings and minor maintenance work. PMGAA expenses include airport rescue and firefighting and police 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 System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and PMGAA's contribution rates. For the year ended June 30, 2012, active plan members and PMGAA were each required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent retirement, .63 percent for health insurance premium, and 0.24 percent long-term disability) of the members' annual covered payroll. PMGAA's contributions to the System for the years ended June 30, 2012, 2011, and 2010 were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2012	\$508,808	\$32,477	\$12,372
2011	439,579	52,842	12,826
2010	417,079	53,910	20,936

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2012 and 2011

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.

Phoenix-Mesa Gateway Airport Authority
Statement of Revenues and Expenses
 Unaudited (Budget Basis)
 Fiscal Year Ended June 30, 2012

AIRPORT - All Operations

	2012 Budget	Fiscal YTD Actual YTD =	% of Budget 100.0	YTD Actual Over(Under) Ann'l Budget
AERONAUTICAL OPERATING REVS				
Aircraft Parking	229,847	300,431	131%	70,584
Fuel Flowage Fees	627,600	751,033	120%	123,433
Landing Fees	741,977	820,159	111%	78,182
Lease Income Aero	2,060,868	1,690,552	82%	(370,316)
Fuel Sales (net of CGS)	938,080	980,345	105%	42,265
Services Sold - Aero (net of CGS)	3,699,646	4,114,220	111%	414,574
NON AERONAUTICAL OPERATING REVS				
Concessions	318,555	369,406	116%	50,851
Lease Income Non-Aero	969,891	882,307	91%	(87,584)
Parking & Ground Transportation	1,909,497	2,061,555	108%	152,058
Rental Car Fees	797,951	1,080,200	135%	282,249
Services Sold - Non Aero (net of CGS)	124,572	86,126	69%	(38,446)
Total operating revenues (net of CGS)	<u>12,418,484</u>	<u>13,136,334</u>	<u>106%</u>	<u>717,850</u>
OPERATING EXPENSES				
Personnel Compensation & Benefits	7,015,708	6,921,764	99%	(93,944)
Communications & Utilities	709,115	697,188	98%	(11,927)
Contractual Services	3,055,754	3,261,189	107%	205,435
Insurance	309,000	255,164	83%	(53,836)
Other	597,594	487,644	82%	(109,950)
Repair & Maintenance	857,815	905,752	106%	47,937
Supplies & Materials	718,039	731,653	102%	13,614
Total operating expenses before Depr	<u>13,263,025</u>	<u>13,260,354</u>	<u>100%</u>	<u>(2,671)</u>
Operating income (loss) before Depreciation	(844,541)	(124,020)	15%	720,521
Depreciation	10,327,083	10,249,230	99%	(77,853)
Operating income (loss)	<u>(11,171,624)</u>	<u>(10,373,250)</u>	<u>93%</u>	<u>798,372</u>
Nonoperating revenues (expenses)				
Operating Grant Income	125,000	102,608	82%	(22,392)
CFC Income	449,688	389,863	87%	(59,825)
PFC Income	2,256,134	2,718,231	120%	462,097
Investment Income	135,000	107,683	80%	(27,317)
Other Income (Expense)	7,250	76,865	1060%	69,615
Loss (Gain) on Disposition of Assets	(312,550)	(320,693)	103%	(8,143)
Interest Expense - Member Govts	(2,746,351)	(2,748,928)	100%	(2,577)
Interest Expense - Other	(323,705)	(298,038)	92%	25,667
Total nonoperating rev (exp)	<u>(409,534)</u>	<u>27,591</u>	<u>-7%</u>	<u>437,125</u>
Income Before Contributions and Transfers	(11,581,158)	(10,345,659)	89%	1,235,499
Capital Contributions (Capital Grants Earned)	24,490,679	11,153,091	46%	(13,337,588)
Change in Net Assets	<u>12,909,521</u>	<u>807,432</u>	<u>6%</u>	<u>(12,102,089)</u>

