

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

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**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY**  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Phoenix-Mesa Gateway Airport Authority (PMGAA) as of and for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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 September 20, 2011 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  
September 20, 2011

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2011 and 2010**

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, 2011 and June 30, 2010.

**Financial Highlights**

- PMGAA's assets exceeded liabilities at the end of the fiscal year by \$133,310,806 (net assets). Total net assets included \$123,400,786 in capital assets, net of related debt, and \$9,910,020 in unrestricted net assets. During the year, total net assets increased by \$2,737,834.
- PMGAA earned \$1,971,523 in Passenger Facility Charges.
- During the year, member government loans to PMGAA increased by \$4,005,921 to \$72,223,977 and accrued interest relating to that debt increased by \$2,552,185 to \$19,406,962. (The first of these notes comes due in the year 2020.)
- Total liabilities (primarily member loans) increased by \$6,170,259 (6.7%), to \$98,720,100.
- Sales in PMGAA's fueling operation were up 4% in dollars to \$7,442,528. The number of gallons uploaded was up 17%, 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 down 2%, due mostly to increased fuel costs.
- PMGAA's operations produced a loss of \$10,292,213 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, 2011 and 2010**

**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 \$133,310,806.

Airports are capital-intensive enterprises. 92.6% 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>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 13,697,752	\$ 12,290,525	\$ 8,983,958
Capital assets, net of accumulated depreciation	218,333,154	210,832,288	206,652,798
Total assets	<u>232,030,906</u>	<u>223,122,813</u>	<u>215,636,756</u>
Long-term liabilities	94,719,313	88,827,258	83,769,731
Other liabilities	4,000,787	3,722,583	2,884,917
Total liabilities	<u>98,720,100</u>	<u>92,549,841</u>	<u>86,654,648</u>
Net assets:			
Invested in capital assets, net of related debt	123,400,786	121,201,771	122,435,419
Unrestricted	9,910,020	9,371,201	6,546,689
Total net assets	<u>\$ 133,310,806</u>	<u>\$ 130,572,972</u>	<u>\$ 128,982,108</u>

\$9,910,020 (7.4%) 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. 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 \$2,737,834 (2.1%) 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 2010-11 by \$4,005,921, which is higher than the amount received in fiscal year 2009-10.

Net assets invested in capital assets, net of related debt increased by 1.8%. New investments in capital assets (less asset dispositions) were \$7,500,866 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, 2011 and 2010**

**Business-type activities**

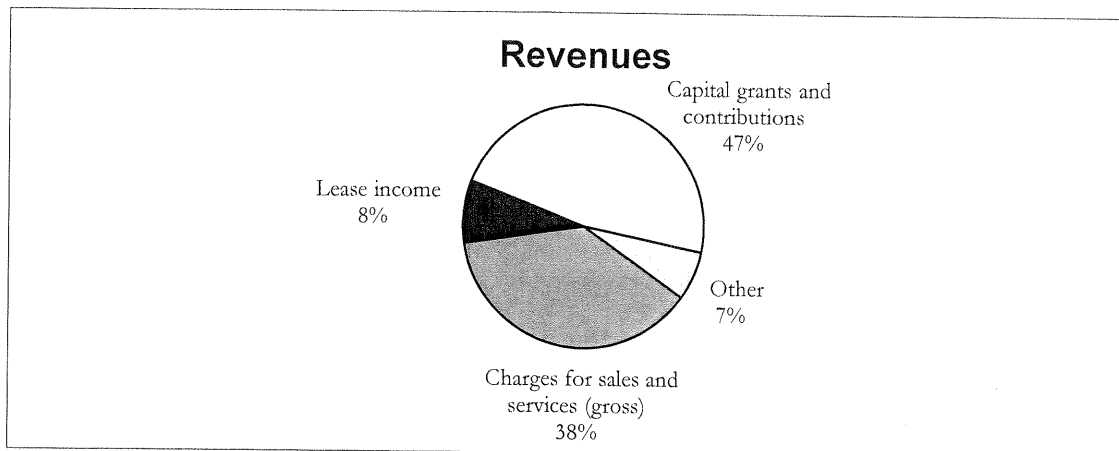
All of PMGAA's activities are classified as business-type activities. Significant changes in the financial operations of PMGAA included increases in capital grants and contributions, which were up 15% (\$1,801,464). (Grant funds are recognized as revenue when all eligibility requirements imposed by the provider have been met.) Fuel sales were up 4%, and related costs of sales were up 20%. Taken together, the resulting gross margin was down (2%) due primarily to increased fuel costs. 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**

	2011	2010	2009
<b>Revenues:</b>			
Charges for sales and services (gross)	\$ 11,385,061	\$ 9,900,589	\$ 8,644,160
Lease income	2,485,809	2,583,435	2,454,007
Capital grants and contributions	14,177,156	12,375,692	12,763,042
Other	1,934,469	2,063,598	1,098,024
<b>Total revenues</b>	<b>29,982,495</b>	<b>26,923,314</b>	<b>24,959,233</b>
<b>Expenses</b>			
Cost of sales	2,402,606	2,014,501	2,102,348
Depreciation	9,635,085	8,906,605	7,472,145
Other operating expenses	12,125,392	11,580,431	11,228,380
Interest expense on loans from member governments	2,552,185	2,363,675	2,178,052
Interest expense - other	529,393	467,238	268,194
<b>Total expenses</b>	<b>27,244,661</b>	<b>25,332,450</b>	<b>23,249,119</b>
Increase (decrease) in net assets	2,737,834	1,590,864	1,710,114
Net assets at prior year-end	130,572,972	128,982,108	127,271,994
<b>Net assets at year-end</b>	<b>\$ 133,310,806</b>	<b>\$ 130,572,972</b>	<b>\$ 128,982,108</b>

**Revenues:**

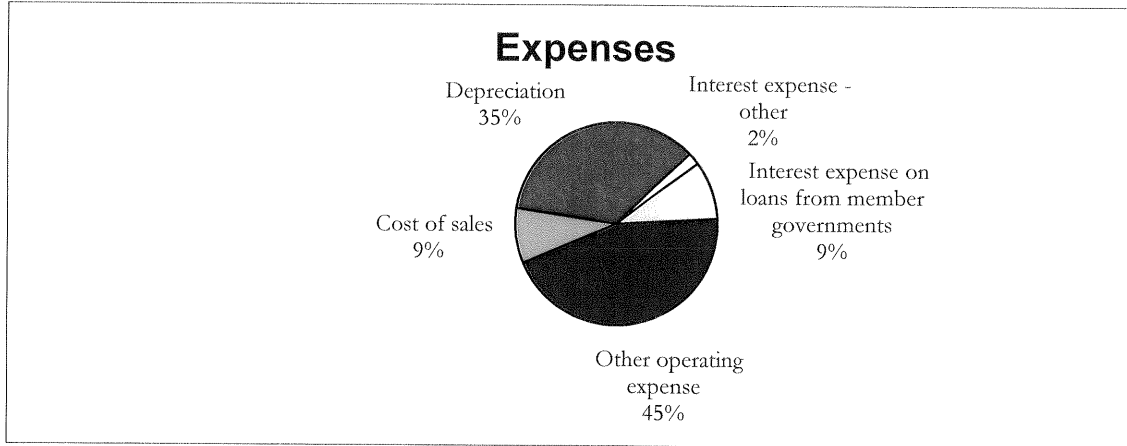
Charges for sales and services increased by \$1,484,472. Gains were primarily due to the increased number of Allegiant Air flights which resulted in increased airport usage fees. This includes domestic passenger airline landing fees, parking fees, and rental car fees. Other income decreased by \$129,129 mostly because of the loss recorded when the old fire station was demolished, offset by increases in CFC and PFC revenues.



**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2011 and 2010**

Expenses:

Other operating expenses increased by \$544,961 (5%). This is due mostly to increased costs for supplies, repairs and maintenance, and professional services related to parking. Interest expense on loans from member governments increased by \$188,510, 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.)



**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, 2011, PMGAA's capital assets totaled \$218,333,154 (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 3.6% during the fiscal year.

**Capital assets (net of depreciation)**

	2011	2010	2009
Land	\$ 86,129,911	\$ 85,133,911	\$ 85,133,911
Buildings and improvements	116,399,834	114,440,194	112,817,286
Machinery and equipment	3,717,640	3,726,756	4,097,518
Construction in progress	12,085,769	7,531,427	4,604,083
Total capital assets, net	\$ 218,333,154	\$ 210,832,288	\$ 206,652,798

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2011 and 2010**

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

- Construct West Terminal Phase 1B: Spent in FY11: \$4.6 million
- North Parking Lot Construction Phase I & II: Spent in FY11: \$4.3 million
- Drainage Improvements: Spent in FY11: \$2.8 million
- Cargo Apron Expansion: Spent in FY11: \$2.0 million

**Long-term debt.**

At the end of the current fiscal year, PMGAA had total debt outstanding of \$94,932,368. \$91,630,939 (97%) 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 \$1,725 (100%) by making regularly scheduled principal and interest payments.

**Phoenix-Mesa Gateway Airport Authority's Outstanding Debt**

	2011	2010	2009
Loans from Member Governments (including accrued interest)	\$ 91,630,939	\$ 85,072,833	\$ 78,789,158
ADOT and Allegiant Loans (including accrued interest)	3,301,429	4,555,960	5,609,242
Capital Leases	-	1,725	3,687
	<u>\$ 94,932,368</u>	<u>\$ 89,630,518</u>	<u>\$ 84,402,087</u>

Loans from member governments (principal) increased by \$4,005,921 (6%) during the fiscal year, compared to the \$3,920,000 increase in loans during the previous year. The accrued interest component of member government loans increased by \$2,552,185 compared to \$2,363,675 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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2011 and 2010**

**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, 2011 and 2010**

	Business-type Activities - Enterprise Fund	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,386,490	\$ 8,904,167
Accounts receivable, net	884,475	895,509
Due from other governments	1,799,548	1,962,765
Prepaid costs	79,828	66,074
Inventories	168,866	158,804
Total current assets	<u>13,319,207</u>	<u>11,987,319</u>
Noncurrent assets:		
Restricted assets	378,545	303,206
Capital assets:		
Nondepreciable	98,215,680	92,665,338
Depreciable	120,117,474	118,166,950
Total noncurrent assets	<u>218,711,699</u>	<u>211,135,494</u>
Total assets	<u>232,030,906</u>	<u>223,122,812</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	2,314,549	1,538,791
Accrued liabilities	208,771	182,586
Vacation benefits payable	441,416	448,112
Capital lease obligations payable	-	1,725
Retirement sick leave payable	38,106	39,627
Allegiant loan	474,036	1,080,000
ADOT loan	81,973	78,177
Unearned revenue	63,391	50,359
Total current liabilities	<u>3,622,242</u>	<u>3,419,377</u>
Current liabilities payable from restricted assets:		
Tenant deposits	<u>378,545</u>	<u>303,206</u>
Noncurrent liabilities:		
Loans payable to member governments	72,223,977	68,218,056
Accrued interest payable to member governments	19,406,962	16,854,777
Allegiant loan	-	570,390
ADOT loan	2,745,420	2,827,393
Retirement sick leave payable	342,954	356,642
Total noncurrent liabilities	<u>94,719,313</u>	<u>88,827,258</u>
Total liabilities	<u>98,720,100</u>	<u>92,549,841</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	123,400,786	121,201,771
Unrestricted net assets	9,910,020	9,371,201
Total net assets	<u>\$ 133,310,806</u>	<u>\$ 130,572,972</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, 2011 AND 2010**

	Business-type Activities Enterprise Fund	
	2011	2010
Operating revenues		
Fueling operations	\$ 7,442,528	\$ 7,172,992
Lease income	2,485,809	2,583,435
Maintenance services	215,983	217,103
Airport usage fees	3,726,550	2,510,494
Total operating revenues	<u>13,870,870</u>	<u>12,484,024</u>
Operating expenses		
Personnel costs	6,727,100	6,731,493
Professional services	2,416,070	2,201,135
Cost of goods sold - fueling operations	2,370,592	1,974,113
Costs of maintenance services sold	32,014	40,388
Repair and maintenance	910,483	789,206
Utilities	609,117	540,615
Insurance	262,630	298,831
Other expense	1,199,992	1,019,151
Depreciation	9,635,085	8,906,605
Total operating expenses	<u>24,163,083</u>	<u>22,501,537</u>
Operating loss	<u>(10,292,213)</u>	<u>(10,017,513)</u>
Nonoperating revenues (expenses)		
Investment income	101,303	160,802
PFC income	1,971,523	1,523,299
CFC income	348,996	289,849
Other income	44,205	11,187
Gain/(loss) on disposition of assets	(643,966)	(35,141)
Intergovernmental revenue	112,408	113,602
Interest expense - notes payable to member governments	(2,552,185)	(2,363,675)
Interest expense - other	(529,393)	(467,238)
Total nonoperating revenues (expenses)	<u>(1,147,109)</u>	<u>(767,315)</u>
Loss before contributions and transfers	(11,439,322)	(10,784,828)
Capital contributions	<u>14,177,156</u>	<u>12,375,692</u>
Change in net assets	2,737,834	1,590,864
Net assets, beginning of year	<u>130,572,972</u>	<u>128,982,108</u>
Net assets, end of year	<u>\$ 133,310,806</u>	<u>\$ 130,572,972</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, 2011 AND 2010**

	Business-type Activities - Enterprise Funds	
	2011	2010
Cash flows from operating activities		
Receipts from customers	\$ 14,164,695	\$ 12,046,424
Payments to employees	(6,722,821)	(6,693,742)
Payments to suppliers	(8,098,173)	(6,631,466)
Customer deposits	75,339	(40,006)
Net cash flows from operating activities	<u>(580,960)</u>	<u>(1,318,790)</u>
Cash flows from non-capital financing activities		
Loans from member governments	4,005,921	3,920,000
Operating grants from other governments	98,415	45,452
Net cash flows from non-capital financing activities	<u>4,104,336</u>	<u>3,965,452</u>
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(15,738,478)	(12,604,441)
Payments on loans	(1,254,531)	(1,053,282)
Passenger Facility Charges received	1,914,909	1,445,640
Customer Facility Charges received	352,944	277,986
Cash from sale of equipment	17,585	-
Principal paid on capital leases	(1,725)	(1,962)
Interest paid on ADOT loan	(529,329)	(467,074)
Interest paid on capital leases	(64)	(164)
Capital grants received	13,141,319	11,532,068
Net cash flows from capital and financing activities	<u>(2,097,370)</u>	<u>(871,229)</u>
Cash flows from investing activities		
Investment income	101,257	109,723
Other income/expense	30,399	54,626
Net cash flows from investing activities	<u>131,656</u>	<u>164,349</u>
Net change in cash and cash equivalents	1,557,662	1,939,782
Cash and cash equivalents, beginning of year	<u>9,207,373</u>	<u>7,267,591</u>
Cash and cash equivalents, end of year	<u>\$ 10,765,035</u>	<u>\$ 9,207,373</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 10,386,490	\$ 8,904,167
Restricted assets	378,545	303,206
Total	<u>\$ 10,765,035</u>	<u>\$ 9,207,373</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, 2011 AND 2010**

	Business-type Activities - Enterprise Funds	
	2011	2010
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (\$10,292,213)	\$ (10,017,513)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	9,635,085	8,906,605
Change in assets/liabilities:		
Accounts receivable	280,793	(360,813)
Prepaid costs	(13,754)	6,554
Inventories	(10,062)	(18,592)
Accounts payable and accrued liabilities	(247,275)	250,540
Unearned revenue	13,032	(76,787)
Tenant deposits	75,339	(40,006)
Compensated absences payable	(21,905)	31,222
Net cash used by operating activities	\$ (\$580,960)	\$ (1,318,790)

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

The Authority recognized \$2,552,185 and \$2,363,675 of interest payable on loans from member governments during fiscal years 2011 and 2010, respectively. The Authority also received a \$996,000 land contribution recorded as capital contribution.

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, 2011 and 2010

**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, 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, 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.

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. 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, 2011, \$622,305 has been earned under the second application and is considered reimbursement for past costs. 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 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 5% of accounts receivable.

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**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. 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.

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**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.

**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, 2011 and 2010 consist of the following:

	2011	2010
Cash on hand	\$ 6,950	\$ 4,300
Deposits		
Cash in bank	286,043	284,827
Investments		
State Treasurer's Investment Pool	10,472,042	8,918,246
Total deposits and investments	10,765,035	9,207,373
Less: restricted cash	(378,545)	(303,206)
Total cash and equivalents	\$ 10,386,490	\$ 8,904,167

**Deposits** - PMGAA's deposits at June 30, 2011, were covered by federal depository insurance or by collateral held by PMGAA's custodial bank in PMGAA's name.

From July 1, 2010 to December 31, 2010, PMGAA's bank accounts were covered up to \$250,000 by federal depository insurance. In addition, PMGAA's bank pledged collateral having a market value at December 31, 2010 of \$3,388,434 to cover deposits in excess of the federal depository insurance coverage. Effective January 1, 2011 through December 31, 2012, these accounts are covered under unlimited protection by the FDIC.

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**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, 2011, 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, 2011. LGIP shares are not identified with specific investments held for PMGAA in physical or book entry form. Investments in the State Treasurer's Local Government Investment Pools are not insured or collateralized. The most recent rating for LGIP 5 is AAAF/S1+, 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, 2011, PMGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 5	AAAF/S1+	Standard & Poor's	\$ 5,069,608	48.40%
State Treasurer's Investment Pool 500	Not Rated		5,402,434	51.60%
Total investments			<u>\$ 10,472,042</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:

Investment Type	Amount	Investment Maturities Less than 1 year
State Treasurer's Investment Pool 5	\$ 5,069,608	\$ 5,069,608
State Treasurer's Investment Pool 500	5,402,434	5,402,434
	<u>\$ 10,472,042</u>	<u>\$ 10,472,042</u>

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**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:

	2011	2010
Customer deposits	\$ 378,545	\$ 303,206
Total restricted assets	\$ 378,545	\$ 303,206

**3. Receivables**

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

	2011	2010
Trade receivables - governments	\$ 119,308	\$ 322,362
Grants receivable	1,680,240	1,640,403
Total due from other governments	\$ 1,799,548	\$ 1,962,765
Total accounts receivable	\$ 933,469	\$ 937,032
Less allowance for uncollectible accounts	(48,994)	(41,523)
Accounts receivable, net	\$ 884,475	\$ 895,509

**4. Capital assets**

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

	Beginning Balance 6/30/2010	Increases	Decreases	Ending Balance 6/30/2011
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
<b>Total capital assets not being depreciated</b>	<b>\$ 92,665,338</b>	<b>\$ 17,574,336</b>	<b>\$ (12,023,994)</b>	<b>\$ 98,215,680</b>
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
<b>Total capital assets being depreciated, net</b>	<b>\$ 118,166,950</b>	<b>\$ 2,598,269</b>	<b>\$ (647,745)</b>	<b>\$ 120,117,474</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 210,832,288</b>	<b>\$ 20,172,605</b>	<b>\$ (12,671,739)</b>	<b>\$ 218,333,154</b>

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

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

**B. Purchase commitments**

As of June 30, 2011, 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, 2011</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 2,645,000
Portion of above funded by grants	\$ 1,800,000

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PMGAA had 27 active design or construction projects at June 30, 2011. These projects are expected to cost a total of \$37 million, of which \$23 million has been committed and \$21 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	\$ 7,350,182	\$ 123,957
North Parking Lot Construction - Ph 1	3,126,209	1,072,680
Cargo Apron Expansion	2,700,440	154,804
North Parking Lot Construction - Ph 2	1,113,242	368,879
West Terminal Expansion - Phase II Design	864,039	194,798
Northeast Area Development	345,937	4,063
East Terminal Master Drainage Plan	192,831	92,872
Design Fuel Farm Tank Capacity Expansion	134,645	34,681
Other	269,823	114,024
Total	<u>\$ 16,097,348</u>	<u>\$ 2,160,758</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 \$918,303 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, 2011 and 2010 were \$233,143 and \$231,860 respectively.

The future minimum operating lease payments as of June 30, 2011 were payable as follows:

<u>Year ending June 30,</u>	<u>2011</u>
2012	239,557
2013	239,557
2014	239,557
2015	199,632
Minimum operating lease payments	<u>\$ 918,303</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:

	2011	2010
Asset type:		
Machinery and equipment	\$ -	\$ 9,145
Less: Accumulated depreciation	-	(7,621)
Total	\$ -	\$ 1,524

PMGAA made the final lease payment during the fiscal year ended June 30, 2011.

**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, 2011, \$392,118 in interest and \$1,176,354 in principal was repaid, leaving a loan balance of \$474,036. Projected principal and interest payments for the year ending June 30, 2012 are \$632,048. 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	\$ 90,474,899	\$ 7,034,444	\$ (1,754,499)	\$ 95,754,843	\$ 1,035,531

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Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	<u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
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>

Debt service requirements on long-term loans payable at June 30, 2011, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	<u>Principal</u>	<u>Interest</u>
2012	\$ 556,009	\$ 291,427
2013	85,954	129,434
2014	90,127	125,260
2015	94,504	120,884
2016	99,093	116,295
2017-2021	44,826,469	36,408,665
2022-2026	4,115,665	3,083,991
2027-2031	25,499,820	19,971,333
2032-2033	157,765	3,778
Total	<u>\$ 75,525,406</u>	<u>\$ 60,251,067</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, 2011</u>	<u>Year Ended June 30, 2010</u>
City of Mesa	42.5%	43.4%
City of Phoenix	34.6%	33.1%
Gila River Indian Community	11.2%	11.5%
Town of Gilbert	8.7%	8.9%
Town of Queen Creek	3.0%	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

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members in providing funds to PMGAA is to invest in the operation and development of the airport for the benefit of the citizens of their communities.

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

Loans payable to member governments increased by \$4,005,921 in principal and \$2,552,185 in accrued interest in fiscal year 2011 and by \$3,920,000 in principal and \$2,363,675 in accrued interest in fiscal year 2010:

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

	<u>2011</u>	<u>2010</u>
City of Mesa	\$ 60,082,024	\$ 56,681,577
City of Phoenix	12,378,992	10,672,885
Gila River Indian Community	8,896,200	8,200,194
Town of Gilbert	8,310,228	7,728,376
Town of Queen Creek	<u>1,963,495</u>	<u>1,789,801</u>
Loans Payable to member governments at June 30	<u>\$ 91,630,939</u>	<u>\$ 85,072,833</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 \$916,000 and \$606,000 of such contingent rents in the fiscal years ending June 30, 2011 and 2010, respectively.

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The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2011:

Fiscal Years Ending June 30:	2011
2012	\$ 2,215,163
2013	2,047,625
2014	1,663,107
2015	1,637,936
2016	1,627,868
2017 - 2026	12,052,153
2027 - 2036	11,549,717
2037 - 2046	10,440,526
2047 - 2056	4,350,624
2057 - 2066	2,146,771
2067 - 2073	1,311,579
Totals	\$ 51,043,069

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, 2011 and 2010.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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 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 \$76,226,755 (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, 2011</u>				
City of Mesa	\$ 16,637	\$ 1,493,197	\$ 17,554	\$ 122,801
Town of Queen Creek	-	1,500	-	-
<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	-	-	-

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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Fiscal Years Ended June 30, 2011 and 2010**

**D. Retirement plans**

**Arizona State Retirement System – Plan Description**

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and PMGAA's contribution rates. For the year ended June 30, 2011, active plan members and PMGAA were each required by statute to contribute at the actuarially determined rate of 9.85 percent (8.57 percent retirement, 1.03 percent for health insurance premium, and 0.25 percent long-term disability) of the members' annual covered payroll. PMGAA's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$439,579	\$52,842	\$12,826
2010	417,079	53,910	20,936
2009	418,387	54,444	26,429

**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.

SUPPLEMENTARY INFORMATION

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Phoenix-Mesa Gateway Airport Authority  
**Statement of Revenues and Expenses**  
 Unaudited (Budget Basis)  
 Fiscal Year Ended June 30, 2011

**AIRPORT - All Operations**

	2011 Budget	Fiscal YTD Actual	% of Budget YTD = 100.0	YTD Actual Over(Under) Ann'l Budget
<b>AERONAUTICAL OPERATING REVS</b>				
Aircraft Parking	364,405	380,579 *	104%	16,174
Fuel Flowage Fees	577,170	636,588	110%	59,418
Landing Fees	629,364	656,224	104%	26,860
Lease Income Aero	1,841,198	1,507,594	82%	(333,604)
Fuel Sales (net of CGS)	988,056	903,677	91%	(84,379)
Services Sold - Aero (net of CGS)	3,548,278	3,807,578	107%	259,300
<b>NON AERONAUTICAL OPERATING REVS</b>				
Concessions	122,160	239,519	196%	117,359
Lease Income Non-Aero	885,342	978,215	110%	92,873
Parking & Ground Transportation	1,358,576	1,495,921	110%	137,345
Rental Car Fees	718,638	779,841	109%	61,203
Services Sold - Non Aero (net of CGS)	98,907	82,528	83%	(16,379)
Total operating revenues (net of CGS)	<u>11,132,094</u>	<u>11,468,264</u>	<u>103%</u>	<u>336,170</u>
<b>OPERATING EXPENSES</b>				
Personnel Compensation & Benefits	6,862,538	6,727,100	98%	(135,438)
Communications & Utilities	712,214	609,117	86%	(103,097)
Contractual Services	2,485,992	2,416,070	97%	(69,922)
Insurance	357,790	262,630	73%	(95,160)
Other	530,273	496,058	94%	(34,215)
Repair & Maintenance	907,767	910,483	100%	2,716
Supplies & Materials	658,901	703,934	107%	45,033
Total operating expenses before Depr	<u>12,515,475</u>	<u>12,125,392</u>	<u>97%</u>	<u>(390,083)</u>
Operating income (loss) before Depreciation	(1,383,381)	(657,128)	48%	726,253
Depreciation	<u>10,276,087</u>	<u>9,635,085</u>	<u>101%</u>	<u>(641,002)</u>
Operating income (loss)	<u>(11,659,468)</u>	<u>(10,292,213)</u>	<u>88%</u>	<u>1,367,255</u>
<b>Nonoperating revenues (expenses)</b>				
Operating Grant Income	189,353	112,408	59%	(76,945)
CFC Income	504,325	348,996	69%	(155,329)
PFC Income	1,864,414	1,971,523	106%	107,109
Investment Income	150,000	101,303	68%	(48,697)
Other Income (Expense)	9,165	44,205	482%	35,040
Loss (Gain) on Disposition of Assets	0	(643,966)	0%	(643,966)
Interest Expense - Member Govts	(2,554,831)	(2,552,185)	100%	2,646
Interest Expense - Other	<u>(562,277)</u>	<u>(529,393)</u>	<u>94%</u>	<u>32,884</u>
Total nonoperating rev (exp)	<u>(399,851)</u>	<u>(1,147,109)</u>	<u>287%</u>	<u>(747,258)</u>
Income Before Contributions and Transfers	(12,059,319)	(11,439,322)	95%	619,997
Capital Contributions (Capital Grants Earned)	14,677,919	14,177,156	97%	(500,763)
Change in Net Assets	<u>2,618,600</u>	<u>2,737,834</u>	<u>105%</u>	<u>119,234</u>

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**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY**  
**SINGLE AUDIT ACT REPORTS**  
**FOR THE**  
**FISCAL YEAR ENDED JUNE 30, 2011**

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
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FISCAL YEAR ENDED JUNE 30, 2011

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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, 2011 and 2010, and have issued our report thereon dated September 20, 2011. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

**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.

*Larson Allen LLP*

LarsonAllen LLP

Mesa, Arizona  
September 20, 2011

## INDEPENDENT AUDITORS' 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, 2011. 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, 2011.

### 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.

#### **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, 2011 and 2010, and have issued our report thereon dated September 20, 2011. 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.

*Larson Allen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
September 20, 2011

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2011

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued:

*Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes X no

***Federal Awards***

Internal Control over major programs:

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

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

*Unqualified*

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

\_\_\_\_\_ yes X no

Identification of major 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:

\$385,127

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, 2011

**SECTION II—FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**SECTION IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**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.

**Status:** A similar finding was not noted in the current fiscal year.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Contract Number	Expenditures
<b>U.S. Department of Transportation</b>			
Direct Grants			
Airport Improvement Program	20.106	AIP3-04-0078-20	\$ 94,825
Airport Improvement Program	20.106	AIP3-04-0078-23	3,532
Airport Improvement Program	20.106	AIP3-04-0078-24	4,079,389
Airport Improvement Program	20.106	AIP3-04-0078-25	3,039,568
Airport Improvement Program	20.106	AIP3-04-0078-26	4,549,406
Airport Improvement Program	20.106	AIP3-04-0078-27	1,401
Airport Improvement Program	20.106	AIP3-04-0078-28	1,066,846
Airport Improvement Program	20.106	AIP3-04-0078-29	2,593
<b>TOTAL FEDERAL AWARDS</b>			<b><u>\$ 12,837,560</u></b>

See accompanying notes to the schedule of federal expenditures.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Phoenix-Mesa Gateway Airport Authority (Authority). The Authority's reporting entity is defined in Note A to the Authority's basic financial statements for the year ended June 30, 2011. All federal awards received directly from federal agencies are included in the schedule.

**NOTE 2 BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note A to the Authority's basic financial statements for the year ended June 30, 2011.