PHOENIX-MESA GATEWAY AIRPORT AUTHORITY

ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the PMGAA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PMGAA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PMGAA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Phoenix-Mesa Gateway Airport Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Phoenix-Mesa Gateway Airport Authority as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Phoenix-Mesa Gateway Airport Authority's basic financial statements. The Statement of Revenues and Expenses (Budget Basis) are presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subject 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the Phoenix-Mesa Gateway Airport Authority's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Phoenix, Arizona
September 30, 2014

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, 2014 and June 30, 2013.

Financial Highlights

- PMGAA's assets exceeded liabilities at the end of the fiscal year by $132,225,738 (net position). Total net position included $113,319,675 in capital assets and $14,610,265 in unrestricted net position. During the year, total net position decreased by $1,904,755.
- PMGAA earned $2,771,132 in Passenger Facility Charges.
- During the year, member government loans to PMGAA increased by $4,460,000 to $84,523,977 principal, and accrued interest relating to that debt increased by $3,155,066 to $28,259,952, for a total of $112,783,929. (The first of these notes comes due in the year 2020.)
- Total liabilities increased by $6,811,523 (5.2%), to $139,050,978. Most of this was due to the member government loans.
- Sales in PMGAA's fueling operation were up 2% in dollars to $7,756,174. The number of gallons uploaded was down 3%, due primarily to decreased passenger service. Gross margin for all fueling sales (gross revenues less cost of goods sold) was down 1%.
- PMGAA's operations produced a loss of $9,042,112 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 position* presents information on PMGAA's assets and liabilities, with the difference between the two being shown as *net position.* Over time, increases or decreases in net position 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 position* presents information on how PMGAA's net position changed during the fiscal year. All changes in net position 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.

The *statement of cash flows* presents PMGAA's cash flow (sources and uses) related to operating activities, non-capital financing activities, capital and financing activities, and investing activities during the year.

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 position 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 $132,225,738.

Airports are capital-intensive enterprises. 86% of PMGAA's net position is 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 Position

	2014	2013	2012
Current and other assets	$ 24,750,299	$ 22,430,373	$ 34,014,117
Capital assets, net of accumulated depreciation	246,526,417	243,939,575	225,893,569
Total assets	271,276,716	266,369,948	259,907,686
Long-term liabilities	135,128,423	127,903,277	121,182,363
Other liabilities	3,922,555	4,336,178	4,607,085
Total liabilities	139,050,978	132,239,455	125,789,448
Net position:			
Net investment in capital assets	113,319,675	118,600,334	119,339,487
Restricted	4,295,438	4,031,356	878,777
Unrestricted	14,610,625	11,498,803	13,899,974
Total net position	$ 132,225,738	$ 134,130,493	$ 134,118,238

$14,610,265 (11.0%) of PMGAA's net position is unrestricted and represents funds available for PMGAA's ongoing operations. The remaining net position is invested in capital assets and restricted net position. 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 position decreased by $1,904,755 (1.4%) from the previous fiscal year-end. This was primarily due to a decrease in capital grant revenues. Member loans increased in fiscal year 2013-14 by $4,460,000, which is $540,000 more than the amount received in fiscal year 2012-13.

Net position for PMGAA's net investment in capital assets decreased by 4.5%. New investments in capital assets (less asset dispositions) were $2,586,842 more than the year's depreciation expense on capital assets.

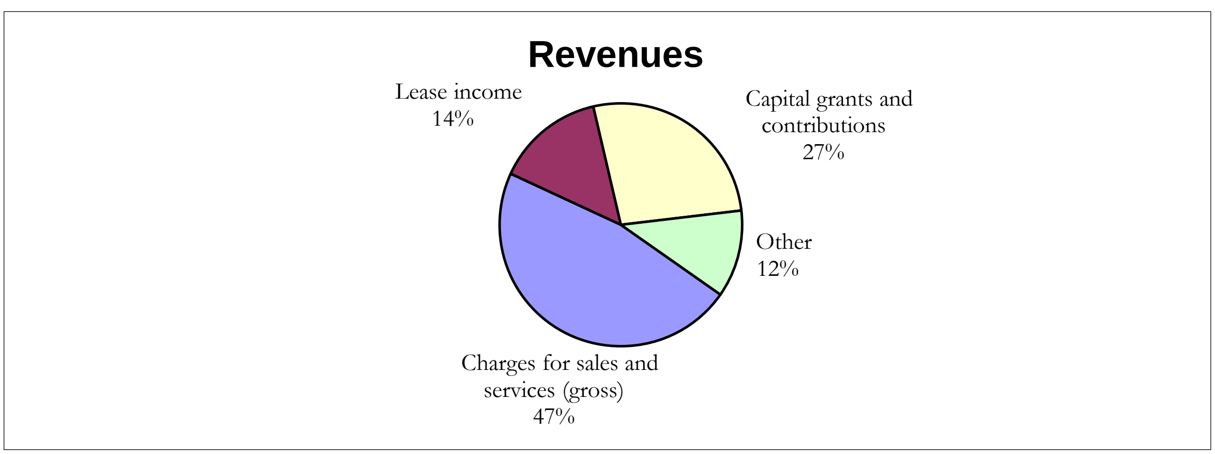
Business-type activities
All of PMGAA's activities are classified as business-type activities. Significant changes in the financial operations of PMGAA included decreases in capital grants and contributions, which were down 25% ($2,680,762). (Grant funds are recognized as revenue when all eligibility requirements imposed by the

provider have been met.) Fuel sales were up 2%, and related costs of sales were up 6%. The change in net position came about as indicated by the following elements of the revenues and expenses:

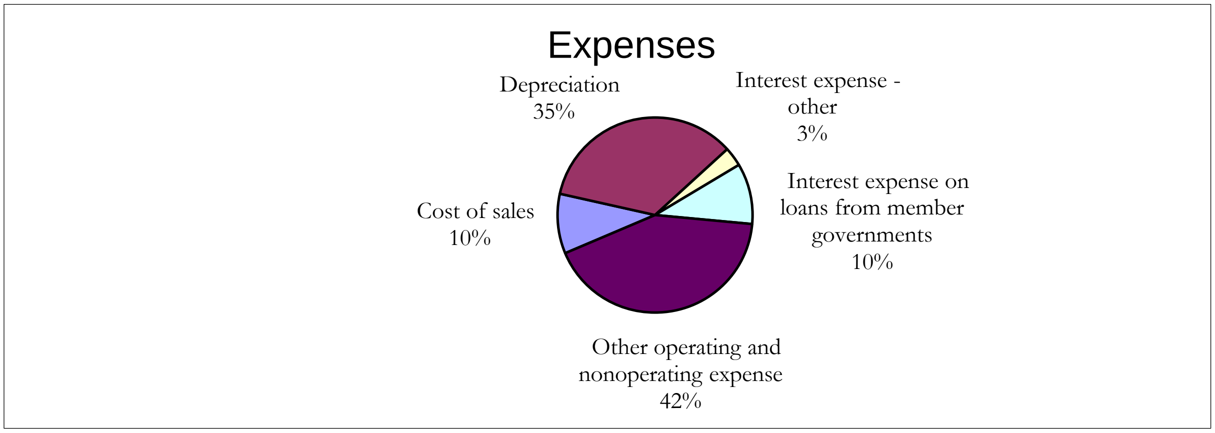
Mesa Gateway Airport Authority's Changes in Net Position

	2014	2013	2012
Revenues:			
Charges for sales and services (gross)	$ 13,889,440	$ 13,752,785	$ 13,672,874
Lease income	4,252,868	2,878,236	2,572,859
Capital grants and contributions	7,879,641	10,560,403	11,153,091
Other	3,415,930	3,899,225	3,400,137
Total revenues	29,437,879	31,090,649	30,798,961
Expenses			
Cost of sales	3,098,783	2,919,724	3,109,399
Depreciation	10,882,770	10,573,488	10,249,230
Other operating expenses	13,202,867	13,941,078	13,260,629
Interest expense on loans from member governments	3,155,066	2,948,996	2,748,928
Interest expense - other	999,515	337,460	298,038
Other nonoperating expenses	3,633	357,648	325,305
Total expenses	31,342,634	31,078,394	29,991,529
Increase (decrease) in net position	(1,904,755)	12,255	807,432
Net position at prior year-end	134,130,493	134,118,238	133,310,806
Net position at year-end	132,225,738	$ 134,130,493	$ 134,118,238

Revenues:
Charges for sales and services increased by $136,655 compared to the $79,911 increase in FY13. Lease income increased $1,374,632 due mostly to payments received from the City of Mesa for lease of the Able Engineering building. These revenues were used to service the Series 2012 Special Facility Revenue bonds. Other income decreased by $483,295 mostly because of decreased PFC revenues. Capital contributions decreased by $2,680,762 due to the completion of several grant funded projects.



Expenses:
Other operating expenses decreased by $738,211 (5%). This is due mostly to decreased personnel costs and repair and maintenance costs. Interest expense on loans from member governments increased by $206,070, 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 $179,059 (6%) due to increased fuel sales and fuel prices.



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 33 for a presentation of the budget as supplementary information.

Capital Assets and Debt Administration

Capital assets (net of depreciation)
At June 30, 2014, PMGAA's capital assets totaled $246,526,417 (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 1.1% during the fiscal year.

Capital assets (net of depreciation)

	2014	2013	2012
Land	$ 86,128,271	$ 86,128,271	$ 86,128,271
Buildings and improvements	148,962,616	145,416,050	116,966,901
Machinery and equipment	5,027,805	4,820,606	3,945,023
Construction in progress	6,407,725	7,574,648	18,853,374
Total capital assets, net	$ 246,526,417	$ 243,939,575	$ 225,893,569

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

- Design/Construct West Terminal Expansion Phase III: Spent in FY14: $5.1 million
- Taxiway V Reconstruction: Spent in FY14: $3.3 million
- North Apron Expansion: Spent in FY14: $.8 million

Long-term debt.
At the end of the current fiscal year, PMGAA had total debt outstanding of $135,400,381. $112,783,929 (83%) 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

	2014	2013	2012
Loans from Member Governments			
(including accrued interest)	$ 112,783,929	$ 105,168,863	$ 98,299,867
ADOT Loan			
(including accrued interest)	2,569,339	2,659,466	2,745,420
Capital Leases	199,631	-	-
Bonds payable			
(including bond premium)	19,847,482	19,873,627	19,873,627
	$ 135,400,381	$ 127,701,956	$ 120,918,914

Loans from member governments (principal) increased by $4,460,000 (6%) during the fiscal year, $540,000 more than the $3,920,000 increase in loans during the previous year. The accrued interest component of member government loans increased by $3,155,066 compared to $2,948,996 in the previous year. Member loans carry an interest rate of 3% per year. 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 were used to construct an aircraft maintenance repair and overhaul facility which was leased to the City of Mesa. Mesa, in turn, subleased 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 24 - 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.

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
STATEMENTS OF NET POSITION
PROPRIETARY FUND
June 30, 2014 and 2013

	Business-type Activities - Enterprise Fund 2014	Business-type Activities - Enterprise Fund 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 13,747,793	$ 11,978,989
Restricted cash	6,237,860	5,902,243
Accounts receivable, net	1,050,343	1,438,594
Due from other governments	3,016,865	2,487,457
Prepaid costs	165,977	110,524
Inventories	214,872	170,376
Total current assets	24,433,710	22,088,183
Noncurrent assets:		
Restricted assets	316,589	342,190
Capital assets:		
Nondepreciable	92,535,996	93,702,919
Depreciable	153,990,421	150,236,656
Total noncurrent assets	246,843,006	244,281,765
Total assets	271,276,716	266,369,948
Liabilities		
Current liabilities:		
Accounts payable	1,704,494	2,618,621
Accrued liabilities	245,105	243,875
Accrued bond interest payable	450,200	450,200
Accrued bond principal payable	420,000	-
Vacation benefits payable	454,062	475,048
Capital lease obligations payable	37,172	-
Retirement sick leave payable	31,080	45,538
ADOT loan	94,504	90,127
Unearned revenue	169,349	70,578
Total current liabilities	3,605,966	3,993,987
Current liabilities payable from restricted assets:		
Tenant deposits	316,589	342,191
Noncurrent liabilities:		
Loans payable to member governments	84,523,977	80,063,977
Accrued interest payable to member governments	28,259,952	25,104,886
Bonds payable	19,427,482	19,873,627
ADOT loan	2,474,835	2,569,339
Capital leases	162,459	-
Retirement sick leave payable	279,718	291,448
Total noncurrent liabilities	135,128,423	127,903,277
Total liabilities	139,050,978	132,239,455
Net position		
Net investment in capital assets	113,319,675	118,600,334
Restricted for capital outlay	4,295,438	4,031,356
Unrestricted	14,610,625	11,498,803
Total net position	$ 132,225,738	$ 134,130,493

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	Business-type Activities Enterprise Fund	
	2014	2013
Operating revenues		
Fueling operations	$ 7,756,174	$ 7,630,724
Lease income	4,252,868	2,878,236
Maintenance services	350,512	318,037
Airport usage fees	5,782,754	5,804,024
Total operating revenues	18,142,308	16,631,021
Operating expenses		
Personnel costs	6,701,600	7,159,280
Professional services	3,773,606	3,737,313
Cost of goods sold - fueling operations	3,058,427	2,882,398
Costs of maintenance services sold	40,356	37,326
Repair and maintenance	561,852	737,994
Utilities	781,033	783,166
Insurance	282,213	272,074
Other expense	1,102,563	1,251,251
Depreciation	10,882,770	10,573,488
Total operating expenses	27,184,420	27,434,290
Operating loss	(9,042,112)	(10,803,269)
Nonoperating revenues (expenses)		
Investment income	123,578	71,104
PFC income	2,771,132	3,269,934
CFC income	412,239	430,578
Other income	26,668	19,971
Gain/(loss) on disposition of assets	(3,633)	(2,542)
Amortization of bond issuance costs	-	(355,106)
Intergovernmental revenue	82,313	107,638
Interest expense - notes payable to member governments	(3,155,066)	(2,948,996)
Interest expense - bonds	(874,255)	(208,026)
Interest expense - other	(125,260)	(129,434)
Total nonoperating revenues (expenses)	(742,284)	255,121
Loss before contributions and transfers	(9,784,396)	(10,548,148)
Capital contributions	7,879,641	10,560,403
Change in net position	(1,904,755)	12,255
Net position, beginning of year	$134,130,493	134,118,238
Net position, end of year	$ 132,225,738	$ $134,130,493

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	Business-type Activities - Enterprise Funds 2014	2013
Cash flows from operating activities		
Receipts from customers	$ 18,415,664	$ 16,422,525
Payments to employees	(6,747,544)	(7,230,414)
Payments to suppliers	(9,943,938)	(9,440,624)
Customer deposits	(25,602)	9,043
Net cash flows from operating activities	1,698,580	(239,470)
Cash flows from non-capital financing activities		
Operating grants from other governments	155,981	104,716
Net cash flows from non-capital financing activities	155,981	104,716
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(13,899,493)	(28,360,291)
Loans from member governments	4,460,000	3,920,000
Payments on loans	(90,127)	(85,954)
Passenger Facility Charges received	3,011,159	3,278,111
Customer Facility Charges received	419,483	423,185
Principal paid on capital leases	(44,309)	-
Interest paid on bonds	(900,400)	(755,336)
Interest paid on ADOT loan	(125,260)	(129,434)
Capital grants received	7,241,286	8,995,176
Net cash flows from capital and financing activities	72,339	(12,714,543)
Cash flows from investing activities		
Investment income	81,496	113,106
Investment gain (loss)	43,756	74,316
Other income/expense	26,668	(91,763)
Net cash flows from investing activities	151,920	95,659
Net change in cash and cash equivalents	2,078,820	(12,753,638)
Cash and cash equivalents, beginning of year	18,223,422	30,977,060
Cash and cash equivalents, end of year	$ 20,302,242	$ 18,223,422

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

	2014	2013
Cash and cash equivalents	$ 13,747,793	$ 11,978,989
Restricted assets	6,554,449	6,244,433
Total	$ 20,302,242	$ 18,223,422

(Continued)

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	Business-type Activities - Enterprise Funds	
	2014	2013
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	$ ($9,042,112)	$ (10,803,269)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	10,882,770	10,573,488
Change in assets/liabilities:		
Accounts receivable	174,585	(216,575)
Prepaid costs	(55,453)	(44,316)
Inventories	(44,496)	49,506
Accounts payable and accrued liabilities	(242,709)	256,573
Unearned revenue	98,771	8,079
Tenant deposits	(25,602)	9,043
Compensated absences payable	(47,174)	(71,999)
Net cash provided by operating activities	$ $1,698,580	$ (239,470)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized $3,155,066 and $2,948,996 of interest payable on loans from member governments during fiscal years 2014 and 2013, respectively. The Authority acquired an asset for $243,940 through a capital lease agreement.

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

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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 six-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; Town of Queen Creek, Arizona; and City of Apache Junction, 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 aeronautical and non-aeronautical activities. Fees received for use of the airport include, but are not limited to, landing fees, tie down fees, terminal usage fees, fuel flowage fees, parking fees, rental car fees, and concession fees. PMGAA also owns and operates a fixed base 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 position, the statement of revenues, expenses and changes in net position 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 position and statement of revenues, expenses and changes in fund net position 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.

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. This award was revised to $25,693,135 on October 11, 2013. As of June 30, 2014, $4,448,797 has been earned under the second application. On October 11, 2013, PMGAA received a third PFC award, number 13-03-C-00-IWA in the amount of $24,172,916. It expires on the date on which the total net PFC revenue collected plus interest thereon equals the allowable cost of the approved projects or the charge expiration date is reached, whichever comes first. This date is estimated to be January 1, 2023. As of June 30, 2014, $667,133 has been earned under the third application. For the second and third applications, $4,044,221 is reported as restricted assets. These monies are recorded as non-operating revenues.

For the fiscal year ending June 30, 2013, PMGAA implemented GASB 63, Financial Reporting of Deferred Outflows/Inflows of Resources and Net Position and GASB 65, Items Previously Reported as Assets and Liabilities. As a result of GASB 65, PMGAA recognized $355,106 of deferred issuance costs related to the Series 2012 bond as expense. GASB 60, Accounting and Financial Reporting for Service Concession Arrangements, was also implemented. However, there are currently no Service Concession Arrangements in existence at PMGAA.

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

D. Assets, liabilities, and net position 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 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 are not included in this analysis. Over the last two years, this allowance has ranged from 1.7% to 4.5% 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 position 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 are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

7. Net position

In the statement of net position, net position is reported in three categories: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is reported separately because it makes up a significant portion of total net position. Restricted is the portion of net position restricted by parties outside PMGAA. PMGAA reports restricted net position for unspent passenger facility charges restricted for capital. Unrestricted is the remaining net position 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. However, certain budget changes require board approval per certain PMGAA board policies and organizational policies and procedures.

NOTE 3 - DETAILED NOTES

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2014 and 2013 consist of the following:

	2014	2013
Cash on hand	$ 1,050	$ 15,833
Deposits		
Cash in bank	13,369,706	10,336,241
Investments		
State Treasurer's Investment Pool	5,610,456	5,513,354
U.S. Treasury Notes	1,321,030	2,357,994
Total deposits and investments	20,302,242	18,223,422
Less: restricted cash	(6,554,449)	(6,244,433)
Total cash and equivalents	$ 13,747,793	$ 11,978,989

Deposits - PMGAA's deposits at June 30, 2014, 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 Pools (LGIP) 700 and 5. In addition, some of the funds held by our bond trustee, U.S. Bank, are invested in U.S. Treasury Notes.

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, 2014. 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+.

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 consistently utilized the same investment strategy for Acquisition and Construction fund monies invested throughout fiscal year 2014.

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.

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, 2014, PMGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 700	AA+	S&P	$ 5,595,272	80.72%
State Treasurer's Investment Pool 5	AA	S&P	15,184	0.22%
US Treasury Notes	AAA	Moody's	1,321,030	19.06%
Total investments			$ 6,931,486	100.00%

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 Maturities	
Investment Type	Amount	Less than 1 year	1-3 Years
State Treasurer's Investment Pool 700	$ 5,595,272	$ -	$ 5,595,272
State Treasurer's Investment Pool 5	15,184	15,184	-
US Treasury Notes	1,321,030	1,321,030	-
	$ 6,931,486	$ 1,336,214	$ 5,595,272

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:

	2014	2013
Customer deposits	$ 316,589	$ 342,190
Passenger Facility Charges (PFC's)	4,044,221	3,539,528
Current and Future Debt Service Reserves	2,193,639	2,362,715
Total restricted assets	$ 6,554,449	$ 6,244,433

3. Receivables

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

	2014	2013
Trade receivables - governments	$ 204,294	$ 313,241
Grants receivable	2,812,571	2,174,216
Total due from other governments	$ 3,016,865	$ 2,487,457
Total accounts receivable	$ 1,068,492	$ 1,505,866
Less allowance for uncollectible accounts	(18,149)	(67,272)
Accounts receivable, net	$ 1,050,343	$ 1,438,594

4. Capital assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance 6/30/2013	Increases	Decreases	Ending Balance 6/30/2014
Capital assets not being depreciated				
Land	$ 86,128,271	$ -	$ -	$ 86,128,271
Construction in progress	7,574,648	13,440,964	(14,607,887)	6,407,725
Total capital assets not being depreciated	**93,702,919**	**13,440,964**	**(14,607,887)**	**92,535,996**
Capital assets being depreciated				
Buildings and improvements	256,907,872	13,765,748	(10,001)	270,663,619
Machinery and equipment	11,025,028	874,420	-	11,899,448
Total capital assets being depreciated	267,932,900	14,640,168	(10,001)	282,563,067
Less accumulated depreciation for:				
Buildings and improvements	111,491,822	10,215,549	(6,368)	121,701,003
Machinery and equipment	6,204,422	667,221	-	6,871,643
Total accumulated depreciation	117,696,244	10,882,770	(6,368)	128,572,646
Total capital assets being depreciated, net	**150,236,656**	**3,757,398**	**(3,633)**	**153,990,421**
Business-type activities capital assets, net	**$ 243,939,575**	**$ 17,198,362**	**$ (14,611,520)**	**$ 246,526,417**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance 6/30/2012	Increases	Decreases	Ending Balance 6/30/2013
Capital assets not being depreciated				
Land	$ 86,128,271	$ -	$ -	$ 86,128,271
Construction in progress	18,853,374	28,485,752	(39,764,478)	7,574,648
Total capital assets not being depreciated	**104,981,645**	**28,485,752**	**(39,764,478)**	**93,702,919**
Capital assets being depreciated				
Buildings and improvements	218,475,122	38,439,212	(6,462)	256,907,872
Machinery and equipment	9,574,563	1,461,550	(11,085)	11,025,028
Total capital assets being depreciated	228,049,685	39,900,762	(17,547)	267,932,900
Less accumulated depreciation for:				
Buildings and improvements	101,508,221	9,987,521	(3,920)	111,491,822
Machinery and equipment	5,629,540	585,967	(11,085)	6,204,422
Total accumulated depreciation	107,137,761	10,573,488	(15,005)	117,696,244
Total capital assets being depreciated, net	**120,911,924**	**29,327,274**	**(2,542)**	**150,236,656**
Business-type activities capital assets, net	**$ 225,893,569**	**$ 57,813,026**	**$ (39,767,020)**	**$ 243,939,575**

B. Purchase commitments

As of June 30, 2014, PMGAA had entered into various contracts and commitments for purchases of goods and consulting and construction/renovation services, both on its own account and under grant programs.

	June 30, 2014
Open purchase commitments (net of cost of goods and services received against these commitments)	$ 8,998,088
Portion of above funded by grants	$ 6,217,000

PMGAA had 26 active design or construction projects at June 30, 2014. These projects are expected to cost a total of $42 million, of which $39 million has been committed and $30 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
Rwy 30L 3,000' Reconstruct	$ 227,540	$ 6,225,228
Construct West Terminal Expansion Ph III	2,548,870	432,767
Drainage Improvements Detention Mid - Ph 1	132,468	770,027
Car Care Center	9,479	622,010
Eastside Development EA/EIS	414,263	241,391
Txy V Reconstruction	3,065,242	76,776
Other	924,788	245,662
Total	$ 7,322,650	$ 8,613,861

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 $199,631 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, 2014 and 2013 were $239,557 and $239,557 respectively.

The future minimum operating lease payments as of June 30, 2014 were payable as follows:

Year ending June 30,	2014
2015 Minimum operating lease payments	$ 199,631

Capital leases

PMGAA has entered into a lease agreement as lessee for financing the acquisition of a fuel truck. This lease agreement qualifies as a capital lease for accounting purposes. As of June 30, 2014, the leased asset was not yet ready for use, and costs incurred were recorded in nondepreciable capital assets until it is placed into service. The asset acquired through this capital lease is as follows:

	2014	2013
Asset type:		
Machinery and equipment	$ 243,940	$ -
Less: Accumulated depreciation	-	-
Total	$ 243,940	$ -

Capital leases result in purchases of capital assets, which are funded by outside entities. Such assets are pledged as collateral against the full payment of the lease obligations. As of June 30, 2014 and June 30, 2013, the future minimum capital lease obligations and the net present value of these minimum lease payments were payable as follows:

Year ending June 30,	2014
2015	$ 44,309
2016	44,309
2017	44,309
2018	44,309
2019	44,309
Total minimum lease payments	221,545
Less: amounts representing interest	(21,914)
Present value of minimum lease payments	$ 199,631

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.

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, 2014, total principal and interest on the bonds was $900,400 and no revenue was subject to the pledge.

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

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

Changes in long-term obligations for the year ended June 30, 2014 are as follows:

	June 30, 2013	Increases	Decreases	June 30, 2014	Due Within One Year
Loans payable					
Principal on member loans	$ 80,063,977	$ 4,460,000	$ -	$ 84,523,977	$ -
Accrued Interest on member loans	25,104,886	3,155,066	-	28,259,952	-
Member loans	105,168,863	7,615,066	-	112,783,929	-
Other Loans	2,659,466	-	(90,127)	2,569,339	94,504
Bonds payable - Series 2012					
Principal on bonds	19,220,000	-	-	19,220,000	420,000
Unamortized premium	653,627	-	(26,145)	627,482	-
Bonds	19,873,627	-	(26,145)	19,847,482	420,000
Other Liabilities					
Capital Leases	-	243,940	(44,309)	199,631	37,172
Compensated absences	812,035	466,274	(513,449)	764,860	485,142
Business-type long-term liabilities	$ 128,513,991	$ 8,325,280	$ (674,030)	$ 136,165,241	$ 1,036,818

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	June 30, 2012	Increases	Decreases	June 30, 2013	Due Within One Year
Loans payable					
Principal on member loans	$ 76,143,977	$ 3,920,000	$ -	$ 80,063,977	$ -
Accrued Interest on member loans	22,155,890	2,948,996	-	25,104,886	-
Member loans	98,299,867	6,868,996	-	105,168,863	-
Other Loans	2,745,420	-	(85,954)	2,659,466	90,127
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	884,034	516,185	(588,184)	812,035	520,586
Business-type long-term liabilities	$ 121,802,948	$ 7,385,181	$ (674,138)	$ 128,513,991	$ 610,713

Debt service requirements on long-term debt at June 30, 2014, including future interest based on current repayment schedules, are as follows:

	Loans Payable		Series 2012 Special Facility Bonds	
Year Ending June 30	Principal	Interest	Principal	Interest
2015	$ 94,504	$ 120,884	$ 420,000	$ 887,800
2016	99,093	116,295	430,000	874,900
2017	103,905	111,483	445,000	861,550
2018	108,951	106,437	460,000	847,750
2019	114,241	101,146	470,000	828,950
2020-2024	44,913,985	36,321,149	2,655,000	3,828,800
2025-2029	20,880,676	16,398,100	3,340,000	3,100,250
2030-2034	20,777,961	16,344,620	4,255,000	2,132,250
2035-2039			6,745,000	833,250
Total	$ 87,093,316	$ 69,620,114	$ 19,220,000	$ 14,195,500

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

	Year Ended June 30, 2014	Year Ended June 30, 2013
City of Mesa	38.1%	43.4%
City of Phoenix	29.1%	33.2%
Gila River Indian Community	10.1%	11.5%
Town of Gilbert	7.9%	8.9%
Town of Queen Creek	2.9%	3.0%
City of Apache Junction	11.9%	0.0%
	100.0%	100.0%

Based on the Joint Powers Airport Authority Agreement entered into by the members of PMGAA, all payments made to PMGAA by the members are considered loans to be repaid to the members. The intent of the members in providing funds to PMGAA is to invest in the operation and development of the airport for the benefit of the citizens of their communities.

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

Loans payable to member governments increased by $4,460,000 in principal and $3,155,066 in accrued interest in fiscal year 2014 and by $3,920,000 in principal and $2,948,996 in accrued interest in fiscal year 2013.

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

	2014	2013
City of Mesa	$ 70,907,780	$ 67,192,019
City of Phoenix	17,545,029	15,771,872
Gila River Indian Community	11,112,023	10,351,479
Town of Gilbert	10,162,625	9,526,821
Town of Queen Creek	2,526,472	2,326,672
City of Apache Junction	530,000	-
Loans Payable to member governments at June 30	$ 112,783,929	$ 105,168,863

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, Queen Creek, and Apache Junction 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 $1,664,000 and $1,702,000 of such contingent rents in the fiscal years ending June 30, 2014 and 2013, respectively.

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2014:

Fiscal Years Ending June 30:	2014
2015	$ 4,581,552
2016	4,282,980
2017	3,456,416
2018	3,144,173
2019	2,926,153
2020 - 2029	28,026,931
2030 - 2039	26,573,786
2040 - 2049	24,390,250
2050 - 2059	8,351,161
2060 - 2069	1,634,706
2070 - 2073	455,356
Totals	$ 107,823,464

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. These future lease revenues include $51,484,517 in base rent from the City of Mesa that will be used to service the debt on the Series 2012 bonds.

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, 2014 and 2013.

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 $100,431,835 (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 (ADOT)

Property and Equipment includes $101,634,136 (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
Fiscal Year ended June 30, 2014				
City of Mesa	$ 1,445,817	$ 1,885,309	$ 170	$ 129,240
City of Phoenix		18,669		
City of Apache Junction		1,000		
Fiscal Year ended June 30, 2013				
City of Mesa	$ 19,339	$ 1,584,411	$ 150,325	$ 142,512

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. Included in those amounts is $150,857 of accounts payable.

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, 2014, active plan members and PMGAA were each required by statute to contribute at the actuarially determined rate of 11.54 percent (10.65 percent retirement, .65 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, 2014, 2013, and 2012 were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	$507,089	$30,949	$11,427
2013	537,706	34,098	12,590
2012	508,808	32,477	12,372

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, 2014

AIRPORT - All Operations

	2014 Budget	Fiscal YTD Actual	% of Budget	YTD Actual Over(Under) Ann'l Budget
		YTD =	100.0	
AERONAUTICAL OPERATING REVS				
Aircraft Parking	149,720	163,108	109%	13,388
Fuel Flowage Fees	547,920	628,442	115%	80,522
Landing Fees	902,400	764,620	85%	(137,780)
Lease Income Aero	1,952,893	2,033,652	104%	80,759
Fuel Sales (net of CGS)	878,527	949,839	108%	71,312
Services Sold - Aero (net of CGS)	3,061,396	3,623,647	118%	562,251
NON AERONAUTICAL OPERATING REVS				
Concessions	551,289	540,686	98%	(10,603)
Lease Income Non-Aero	980,557	906,248	92%	(74,309)
Parking & Ground Transportation	2,685,675	2,499,051	93%	(186,624)
Rental Car Fees	1,627,980	1,543,372	95%	(84,608)
Services Sold - Non Aero (net of CGS)	87,497	77,894	89%	(9,603)
Total operating revenues (net of CGS)	13,425,854	13,730,559	102%	304,705
OPERATING EXPENSES				
Personnel Compensation & Benefits	7,049,574	6,701,600	95%	(347,974)
Communications & Utilities	910,172	781,033	86%	(129,139)
Contractual Services	4,097,777	3,773,606	92%	(324,171)
Insurance	283,285	282,213	100%	(1,072)
Other	464,367	396,609	85%	(67,758)
Repair & Maintenance	758,896	561,852	74%	(197,044)
Supplies & Materials	701,077	705,954	101%	4,877
Total operating expenses before Depr	14,265,148	13,202,867	93%	(1,062,281)
Operating income (loss) before Depreciation	(839,294)	527,692	-63%	1,366,986

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