

WILLIAMS GATEWAY AIRPORT AUTHORITY  
ANNUAL FINANCIAL REPORT  
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors  
Williams Gateway Airport Authority

We have audited the accompanying financial statements of the business-type activities of Williams Gateway Airport Authority (WGAA) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of William Gateway Airport Authority's management. Our responsibility is to express an opinion 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 reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Williams Gateway Airport Authority, as of June 30, 2008 and 2007, 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.

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 WGAA'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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2008 on our consideration of William 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.

*Cronstrom, Osuch + Company, P.C.*

Cronstrom, Osuch & Company, P.C.

October 20, 2008

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

The management of Williams Gateway Airport Authority (WGAA) offers readers this overview and analysis of WGAA's financial statements and activities for the fiscal years ended June 30, 2008 and June 30, 2007. In the following discussion, references to "WGAA" relate to Williams Gateway Airport Authority and references to "the Airport" relate to Phoenix-Mesa Gateway Airport, which WGAA manages and operates.

**Financial Highlights**

- WGAA's assets exceeded liabilities at the end of the fiscal year by \$127,271,994 (net assets). Total net assets included \$119,030,879 in capital assets, net of related debt. An additional \$65,075 of the total net assets were restricted for specific uses, and \$8,176,040 were unrestricted net assets. During the year, total net assets increased by \$4,113,354.
- During the year, member government loans to WGAA increased by \$8,003,720 to \$60,288,696 and accrued interest relating to that debt increased by \$1,881,496 to \$12,313,050. (The first of these notes comes due in the year 2020.)
- Total liabilities (primarily member loans) increased by \$ 9,884,726 (14.4%) to \$78,462,920.
- Sales in WGAA's fueling operation were down 37% in dollars to \$7,758,454 but up 53% in volume, due to Allegiant Airlines starting passenger service. Gross margin (gross revenues less cost of goods sold) was up \$1,243,128 (32%). Much of this change was due to a shift in the way WGAA sells fuel to the federal government. Previously, it was purchased by WGAA and sold. Fuel is now purchased directly from the supplier by the government and WGAA is paid an increased fee to upload the fuel. As a result, both revenues and cost of sales relating to this activity are down, but gross margin is up.
- WGAA's operations produced a loss of \$9,584,957 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, WGAA 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 WGAA's financial statements. WGAA's basic financial statements have two components, 1) fund financial statements, and 2) notes to the financial statements. Since WGAA 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, WGAA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of WGAA's activities are business-type activities and are accounted for in a single proprietary fund.

*Proprietary funds.* WGAA 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 WGAA'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 WGAA is improving or deteriorating.

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

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 - 27 of this report.

**Financial Analysis**

Net assets may serve as a useful indicator of a government's financial position. At the end of the fiscal year, WGAA's assets exceeded liabilities by \$127,271,994.

Airports are capital-intensive enterprises. 93.5% of WGAA's net assets are invested in capital assets (net of any outstanding debt used to acquire those assets). WGAA 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 WGAA'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.

**Williams Gateway Airport Authority's Net Assets**

	2008	2007	2006
Current and other assets	\$ 11,045,532	\$ 7,921,016	\$ 10,008,869
Capital assets, net of accumulated depreciation	<u>194,689,382</u>	<u>183,815,818</u>	<u>182,916,820</u>
Total assets	<u>205,734,914</u>	<u>191,736,834</u>	<u>192,925,689</u>
Long-term liabilities	75,839,822	65,977,201	59,683,508
Other liabilities	<u>2,623,098</u>	<u>2,600,993</u>	<u>3,325,883</u>
Total liabilities	<u>78,462,920</u>	<u>68,578,194</u>	<u>63,009,391</u>
Net assets:			
Invested in capital assets, net of related debt	119,030,879	117,811,717	122,987,750
Restricted	65,075	341,777	3,225,292
Unrestricted	<u>8,176,040</u>	<u>5,005,146</u>	<u>3,703,256</u>
Total net assets	<u>\$ 127,271,994</u>	<u>\$ 123,158,640</u>	<u>\$ 129,916,298</u>

\$65,075 (0.1%) of WGAA's net assets represents resources that are subject to external restrictions on how they may be used. Restricted assets generally represent deposits and grant funds received that have not yet been spent for the intended purposes. Unrestricted net assets represent funds available for WGAA's ongoing operations. The remaining net assets are invested in capital assets. Capital assets are shown net of any unpaid debts used to purchase capital assets, including member governments' investments in both the operations and infrastructure of the airport. Member loans and accrued interest are payable beginning June 30, 2020.

At the end of the fiscal year and the previous year, all three categories of net assets had positive balances.

Net assets increased by \$4,113,354 (3.3%) from the previous fiscal year-end. This was primarily due to an increase in capital contributions from the Federal Aviation Administration and Arizona Department Of Transportation for capital projects. Member loans increased in fiscal year 2007-08 by \$8,003,720, which is higher than the amount received in fiscal year 2006-07. This included an extra \$4,083,719 contributions from the City of Phoenix to fund capital projects.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

Net assets invested in capital assets, net of related debt increased by 1.0%. New investments in capital assets (less asset dispositions) were \$10,873,564 more than the year's depreciation expense on capital assets. Most of the \$276,702 decrease in restricted net assets was due to spending of borrowed funds for construction of a hangar now leased to Arizona State University.

**Business-type activities**

All of WGAA's activities are classified as business-type activities. Significant changes in the financial operations of WGAA included increases in capital grants and contributions, which were up \$12,316,003 (335%). Capital grant revenue was up because of increased spending on capital projects. (Grant funds are recognized as revenue when all eligibility requirements imposed by the provider have been met.) Fuel sales and related cost of sales taken together (gross margin) were up \$1,243,128, an increase of 32%. The change came about as indicated by the following elements of the revenues and expenses:

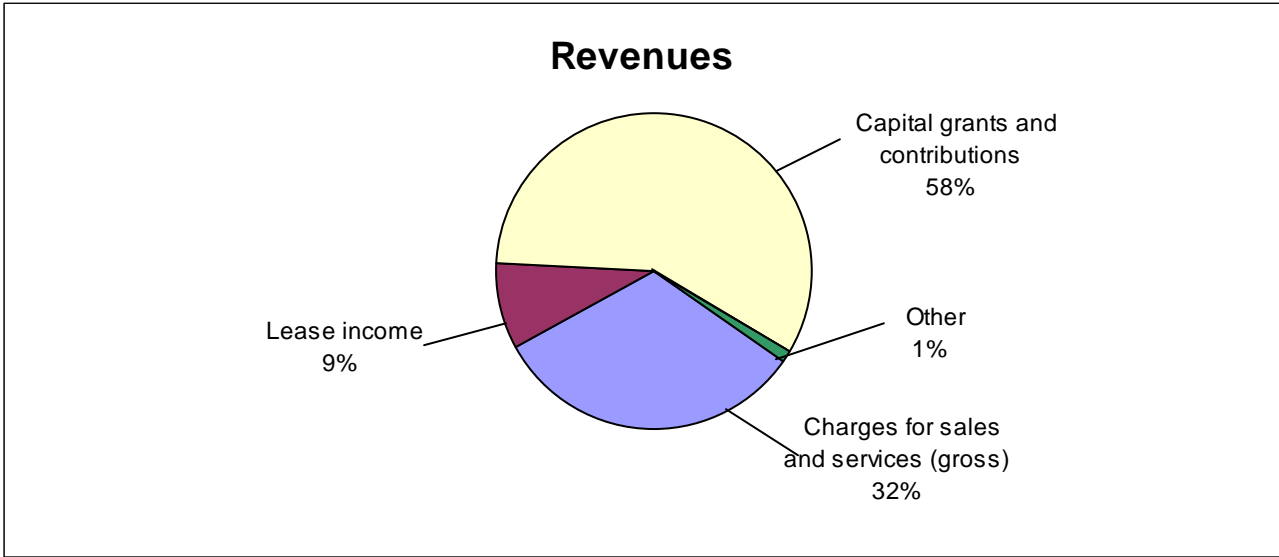
**Williams Gateway Airport Authority's Changes in Net Assets**

	2008	2007	2006
<b>Revenues:</b>			
Charges for sales and services (gross)	\$ 8,818,571	\$ 13,047,806	\$ 14,618,487
Lease income	2,485,384	2,702,719	2,532,710
Capital grants and contributions	15,995,163	3,679,160	9,107,225
Operating grants and contributions	-	-	130,000
Other	304,581	435,020	271,960
Total revenues	<u>27,603,699</u>	<u>19,864,705</u>	<u>26,660,382</u>
<b>Expenses</b>			
Cost of sales	2,668,884	8,463,708	10,503,245
Depreciation	7,099,278	6,690,074	6,897,986
Other operating expenses	11,120,750	9,652,931	8,629,987
Interest expense on loans from member governments	1,881,496	1,691,520	1,543,515
Other non-operating expenses	719,937	124,130	53,115
Total expenses	<u>23,490,345</u>	<u>26,622,363</u>	<u>27,627,848</u>
Increase (decrease) in net assets	4,113,354	(6,757,658)	(967,466)
Net assets at prior year-end (as restated)	<u>123,158,640</u>	<u>129,916,298</u>	<u>130,883,764</u>
Net assets at year-end	<u>\$127,271,994</u>	<u>\$123,158,640</u>	<u>\$129,916,298</u>

**Revenues:**

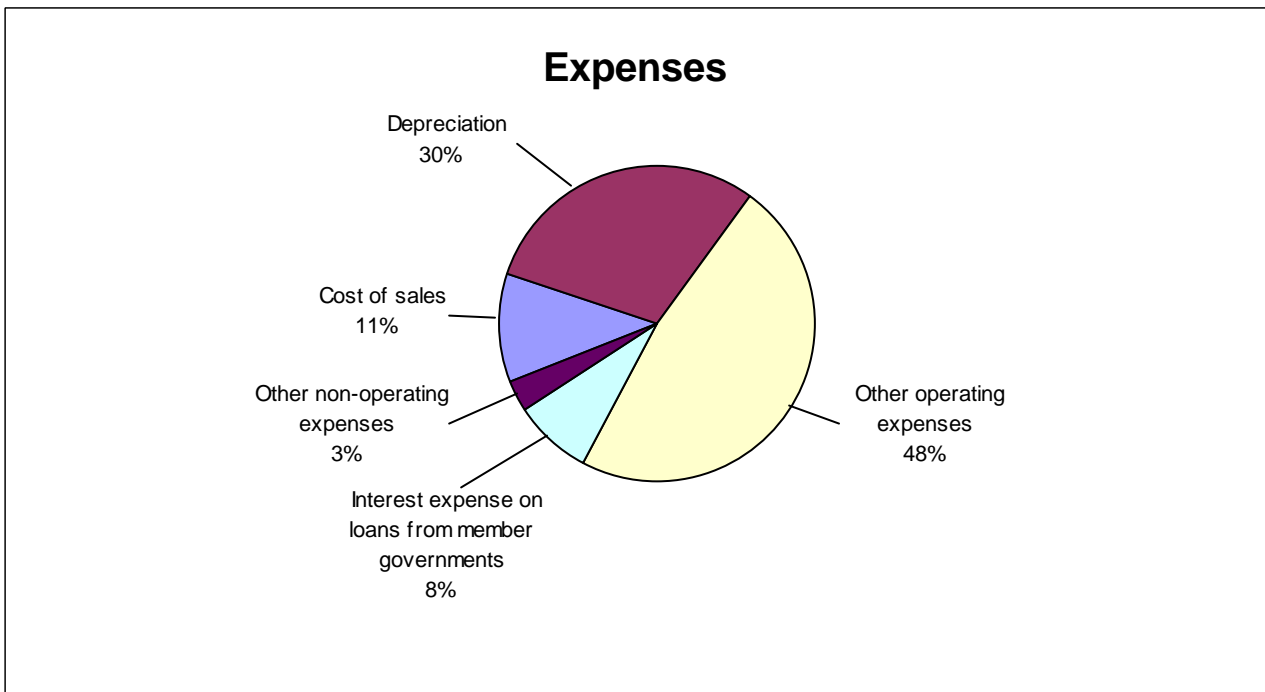
Capital grants and contributions increased by \$12,316,003 (335%). Charges for sales and services decreased by \$4,229,235 , primarily due to a change in the way we sell fuel to the federal government, our largest customer. Previously, WGAA purchased fuel and sold it to the government. Now, the government purchases their fuel from a supplier and WGAA is paid for uploading the fuel into their aircraft. This has reduced both sales and cost of sales, but has provided an increase in gross profit to the airport. The volume of fuel sold was 53% more than the prior year, due mostly to Allegiant Airlines starting passenger service. Lease income was down \$217,335 (8%), primarily due to the end of several Boeing leases.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**



**Expenses:**

Cost of sales decreased by \$5,794,824 (68%), reflecting the change in method of selling fuel (discussed on page 5). Other operating expenses increased by \$1,467,819 (15%). Most of the increase represents increases in personnel costs, including salaries, health care insurance and required contributions to the state retirement system, repair and maintenance, and advertising. Interest expense on loans from member governments increased by \$189,976, 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.)



**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Budget**

WGAA 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, 2008, WGAA's capital assets totaled \$194,689,382 (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 5.9% during the fiscal year.

**Capital assets (net of depreciation)**

	2008	2007	2006
Land	\$ 84,703,586	\$ 83,017,074	\$ 83,017,074
Buildings and improvements	91,779,882	89,933,990	89,061,422
Machinery and equipment	2,763,351	2,439,924	2,671,596
Construction in progress	15,442,563	8,424,830	8,166,728
Total capital assets, net	\$ 194,689,382	\$ 183,815,818	\$ 182,916,820

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

- Construct Taxiway B between H and G: Spent in FY08: \$7.5 million
- Construct Sossaman Road parking: Spent in FY08: \$2.1 million
- Construct code upgrades for Hangar 31: Spent in FY08: \$1.6 million
- Construct cul-de-sac road in the north tract: Spent in FY08: \$1.2 million
- Pave airfield perimeter road: Spent in FY08: \$1 million
- Airfield drainage improvements: Spent in FY08: \$.8 million
- Nineteen acres were deeded from the Air Force at a value of \$1.6 million

**Long-term debt.**

At the end of the current fiscal year, WGAA had total debt outstanding of \$75,658,503. \$72,601,746 (96%) 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 WGAA Board of Directors determines that WGAA has sufficient funds for repayments. WGAA reduced its capital lease obligations by \$163,003 (97%) by making regularly scheduled principal and interest payments.

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Years Ended June 30, 2008 and 2007**

**Williams Gateway Airport Authority's Outstanding Debt**

	2008	2007	2006
Loans from Member Governments (including accrued interest)	\$ 72,601,746	\$ 62,716,530	\$ 56,384,010
ADOT Loan (including accrued interest)	3,051,229	3,119,040	3,025,947
Capital Leases	5,528	168,531	519,114
	<u>\$ 75,658,503</u>	<u>\$ 66,004,101</u>	<u>\$ 59,929,071</u>

Loans from member governments (principal) increased by \$8,003,720 (15%) during the fiscal year, compared to the \$4,641,000 increase in loans during the previous year. \$4,083,719 of the current year increase is an extra amount received from the City of Phoenix. (The City of Phoenix agreed to make available \$5,000,000 for capital improvements as a condition of it becoming a member of WGAA.) The accrued interest component of member government loans increased by \$1,881,496 compared to \$1,691,520 in the previous year. Member loans carry an interest rate of 3% per year.

Additional information on WGAA's long-term debt can be found in note 3.D. on pages 23 - 24.

**Economic Factors**

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

WGAA 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.

**Other Potentially Significant Matters**

In August 2008, Allegiant Airlines agreed to loan WGAA \$3,000,000 to expand the passenger terminal to accommodate more passengers due to increased operations. This loan will be repaid along with \$1,000,000 in interest out of future Passenger Facility Charge (PFC) revenues. The FAA approved WGAA's application to impose PFC's beginning November 1, 2008.

**Requests for Information**

This financial report is designed to provide a general overview of WGAA'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 Director of Finance, Williams Gateway Airport Authority, 5835 S. Sossaman Road, Mesa, AZ 85212.

## **BASIC FINANCIAL STATEMENTS**

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**June 30, 2008 and 2007**

	Business-type Activities - Enterprise Fund	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,286,698	\$ 5,946,477
Accounts receivable, net	482,040	572,694
Due from other governments	2,668,078	439,298
Prepaid costs	44,123	102,229
Inventories	173,894	315,222
Total current assets	10,654,833	7,375,920
Noncurrent assets:		
Restricted assets	390,699	545,096
Capital assets:		
Nondepreciable	100,146,149	91,441,904
Depreciable	94,543,233	92,373,914
Total noncurrent assets	195,080,081	184,360,914
Total assets	205,734,914	191,736,834
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,581,768	1,468,374
Accrued liabilities	140,606	105,834
Vacation benefits payable	419,392	396,782
Capital lease obligations payable	1,845	163,003
Retirement sick leave payable	13,869	13,594
ADOT loan	19,874	-
Accrued interest payable to ADOT	51,229	67,811
Unearned revenue	68,891	182,276
Total current liabilities	2,297,474	2,397,674
Current liabilities payable from restricted assets:		
Tenant deposits	325,624	203,319
Noncurrent liabilities:		
Loans payable to member governments	60,288,696	52,284,976
Accrued interest payable to member governments	12,313,050	10,431,554
ADOT loan	2,980,126	3,000,000
Accrued interest payable to ADOT	-	51,229
Capital leases	3,683	5,528
Retirement sick leave payable	254,267	203,914
Total noncurrent liabilities	75,839,822	65,977,201
Total liabilities	78,462,920	68,578,194
<b>Net assets</b>		
Invested in capital assets, net of related debt	119,030,879	117,811,717
Restricted net assets	65,075	341,777
Unrestricted net assets	8,176,040	5,005,147
Total net assets	\$ 127,271,994	\$ 123,158,640

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

**WILLIAMS GATEWAY AIRPORT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

	Business-type Activities Enterprise Fund	
	2008	2007
Operating revenues		
Fueling operations	\$ 7,758,454	\$ 12,313,072
Lease income	2,485,384	2,702,719
Maintenance services	734,803	467,940
Airport usage fees	325,314	266,794
Total operating revenues	<u>11,303,955</u>	<u>15,750,525</u>
Operating expenses		
Personnel costs	6,585,977	5,900,980
Professional services	1,358,903	1,231,214
Cost of goods sold - fueling operations	2,629,549	8,427,295
Costs of maintenance services sold	39,335	36,413
Repair and maintenance	909,145	723,747
Utilities	386,511	342,013
Insurance	270,790	273,149
Other expense	1,609,424	1,181,828
Depreciation	7,099,278	6,690,074
Total operating expenses	<u>20,888,912</u>	<u>24,806,713</u>
Operating loss	<u>(9,584,957)</u>	<u>(9,056,188)</u>
Nonoperating revenues (expenses)		
Operating grants from other governments	-	-
Investment income	274,067	368,674
Other income	27,631	30,052
Recovery of prior loss - AZ State - Local Govt Investment Pool	2,883	36,294
Gain/(loss) on disposition of assets	(605,078)	-
Interest expense - notes payable to member governments	(1,881,496)	(1,691,520)
Interest expense - other	(114,859)	(124,130)
Total nonoperating revenues (expenses)	<u>(2,296,852)</u>	<u>(1,380,630)</u>
Loss before contributions and transfers	(11,881,809)	(10,436,818)
Capital contributions	<u>15,995,163</u>	<u>3,679,160</u>
Change in net assets	4,113,354	(6,757,658)
Net assets, beginning of year (as restated)	<u>123,158,640</u>	<u>129,916,298</u>
Net assets, end of year	<u>\$ 127,271,994</u>	<u>\$ 123,158,640</u>

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

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

	Business-type Activities - Enterprise Funds	
	2008	2007
Cash flows from operating activities		
Receipts from customers	\$ 10,302,417	\$ 16,595,966
Payments to employees	(6,477,966)	(5,832,770)
Payments to suppliers	(7,296,368)	(12,351,251)
Customer deposits	122,305	65,883
Net cash flows from operating activities	<u>(3,349,612)</u>	<u>(1,522,172)</u>
Cash flows from non-capital financing activities		
Loans from member governments	8,003,720	4,641,000
Net cash flows from non-capital financing activities	<u>8,003,720</u>	<u>4,641,000</u>
Cash flows from capital and financing activities		
Acquisition of capital assets (net)	(16,537,583)	(7,373,325)
Principal paid on capital leases	(163,003)	(350,583)
Interest paid on ADOT loan	(215,389)	(53,848)
Interest paid on capital leases	(2,081)	(12,870)
Capital grants received	13,145,191	3,528,130
Net cash flows from capital and financing activities	<u>(3,772,865)</u>	<u>(4,262,496)</u>
Cash flows from investing activities		
Investment income	274,067	368,674
Investment gain	2,883	36,294
Other income/expense	27,631	30,052
Net cash flows from investing activities	<u>304,581</u>	<u>435,020</u>
Net change in cash and cash equivalents	1,185,824	(708,648)
Cash and cash equivalents, beginning of year	<u>6,491,573</u>	<u>7,200,221</u>
Cash and cash equivalents, end of year	<u>\$ 7,677,397</u>	<u>\$ 6,491,573</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	\$ 7,286,698	\$ 5,946,477
Restricted assets	390,699	545,096
Total	<u>\$ 7,677,397</u>	<u>\$ 6,491,573</u>

(Continued)

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

**WILLIAMS GATEWAY AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

	Business-type Activities - Enterprise Funds	
	2008	2007
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (9,584,957)	\$ (9,056,188)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	7,099,278	6,690,074
Change in assets/liabilities:		
Accounts receivable	(888,153)	796,070
Prepaid costs	58,106	19,105
Inventories	141,328	94,325
Accounts payable and accrued liabilities	(257,372)	(248,416)
Unearned revenue	(113,385)	49,371
Tenant deposits	122,305	65,883
Compensated absences payable	73,238	67,604
Net cash used by operating activities	\$ <u>(\$3,349,612)</u>	\$ <u>(1,522,172)</u>

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

The Authority recognized \$1,881,496 and \$1,691,520 of interest payable on loans from member governments during fiscal years 2008 and 2007, respectively. The Authority capitalized \$34,800 of interest during the year. Included in capital contributions is \$1,600,000 of land deeded to WGAA by the Air Force.

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

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**WILLIAMS GATEWAY AIRPORT AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Fiscal Years Ended June 30, 2008 and 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of Williams Gateway Airport Authority (WGAA) 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**

Williams 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. It operates 3,005 acres as Phoenix-Mesa Gateway Airport ("the Airport"). WGAA is overseen by a five-person board of directors, which is comprised of a representative from each of the member governments. The members of WGAA 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 WGAA'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, WGAA cannot legally transfer revenues to its member governments except in exchange for fair value received.

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

WGAA earns revenue from leases of land and airport facilities. Fees received for use of the airport include landing fees, tie down fees, terminal usage fees, fuel flowage, and fixed base operator (FBO) fees. WGAA 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 WGAA only engages in business-type activities. WGAA 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 WGAA'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. WGAA 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.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and investments**

WGAA'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 WGAA 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. WGAA 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 9% to 12% 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 WGAA 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.

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

**7. Income taxes**

WGAA is exempt from federal and state income taxes as a political subdivision under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

**8. Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

WGAA 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, 2008 and 2007 consist of the following:

	2008	2007
Cash on hand	\$ 1,780	\$ 7,482
Deposits		
Cash in bank	7,187	7,749
Investments		
Overnight Sweep Account	27,147	289,425
State Treasurer's Investment Pool	7,641,283	6,186,917
Total deposits and investments	7,677,397	6,491,573
Less: restricted cash	(390,699)	(545,096)
Total cash and equivalents	\$ 7,286,698	\$ 5,946,477

**Deposits** - WGAA's deposits at June 30, 2008, were covered by federal depository insurance or by collateral held by WGAA's custodial bank in WGAA's name.

WGAA's bank accounts are covered up to \$100,000 by federal depository insurance. In addition, WGAA's bank has pledged collateral having a market value at June 30, 2008 of \$2,088,257 to cover deposits in excess of the federal depository insurance coverage. WGAA's bank balance was \$225,044 .

**Investments** - WGAA's investments (detailed below) only include deposits with the Arizona State Treasurer's Local Government Investment Pool and overnight sweep investments of its bank deposits. WGAA 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, 2008, according to the Arizona State Treasurer's Office, the fair market value of the underlying securities in its Local Government Investment Pool (LGIP) was \$1.00 per \$1.00 of carrying value in the Pool. The LGIP shares are not identified with specific investments held for WGAA in physical or book entry form. Investments in the State Treasurer's Local Government Investment Pool are not insured or collateralized. The most recent rating for these funds is AA Af.

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**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. WGAA is not subject to custodial credit risk since its investments are not identified with specific investments held by others for WGAA in physical or book entry form. WGAA 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. WGAA does not have a formal policy for concentration of credit risk. Concentration percentages are shown below. As of June 30, 2008, WGAA had the following investments:

Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 5	Aaaf	Standard & Poor's	\$ 7,641,283	99.65%
Overnight sweep account	Aaa	Moody's	27,147	0.35%
Total investments			<u>\$ 7,668,430</u>	<u>100.00%</u>

**Foreign Currency Risk** – Foreign currency risk is the chance that changes in exchange rates will adversely affect the fair market value of investments and deposits. WGAA has no investments or deposits denominated in a foreign currency. WGAA does not have a formal policy for foreign currency risk.

**Interest rate risk** – Due to the short maturities of WGAA's investments, the risk of losses due to market interest rate changes are minimal. WGAA 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	\$ 7,641,283	\$ 7,641,283
Overnight sweep account	27,147	27,147
	<u>\$ 7,668,430</u>	<u>\$ 7,668,430</u>

**2. Restricted assets**

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

	2008	2007
Customer deposits	\$ 325,624	\$ 203,319
ADOT loan and related earned interest	-	183,217
State appropriation and related interest	65,075	158,560
Total restricted assets	<u>\$ 390,699</u>	<u>\$ 545,096</u>

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**3. Receivables**

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

	<u>2008</u>	<u>2007</u>
Trade receivables - governments	\$ 1,005,775	\$ 26,967
Grants receivable	1,662,303	412,331
Total due from other governments	<u>\$ 2,668,078</u>	<u>\$ 439,298</u>
Total accounts receivable	\$ 531,993	\$ 651,372
Less allowance for uncollectible accounts	(49,953)	(78,678)
Accounts receivable, net	<u>\$ 482,040</u>	<u>\$ 572,694</u>

**4. Capital assets**

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

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

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**B. Purchase commitments**

As of June 30, 2008, WGAA 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, 2008</u>	<u>June 30, 2007</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 3,500,000	\$ 5,400,000
Portion of above funded by grants	\$ 1,600,000	\$ 4,641,000

WGAA had 35 active design or construction projects at June 30, 2008. These projects are expected to cost a total of \$28.6 million, of which \$18 million has been committed and \$15 million has been spent, including closed and open commitments. At fiscal year end, WGAA'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>
Airfield Perimeter Road	\$940,931	\$175,084
Airport Capital Proj & Financial Plan	427,086	131,514
Airport Master Plan	48,295	176,956
Construct Code Upgrades Hangar 31	1,354,646	115,371
Construct Perimeter Rd/ Rel Fence	54,933	290,937
Construct Taxiway B - Phase II	2,811,470	698,076
Design W. Terminal Expansion	139,763	29,623
Drainage Improvements (Airfield) - Phase I	711,358	279,067
Drainage Improvements (North) - Phase II	57,703	30,731
Drainage Improvements (South) - Phase I	114,909	41,839
Electric meter entrances	0	195,095
Parking Bldg 19 & 33	20,014	686,851
Revenue Controls Terminal Parking	107,763	161,644
Taxiway B Phase II	52,129	3,159
Weather Canopy Fire Pumps	11,565	81,436
Other	4,397	44,855
Total	<u>6,856,962</u>	<u>3,142,238</u>

**C. Obligations under leases**

**Operating leases**

WGAA has leased land to a tenant who constructed a building on the property and in 2000 leased the building to WGAA for 15 years. The total rent due from WGAA over the remaining life of the lease is \$1,584,374 plus agreed upon escalation factors. WGAA 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, 2008 and 2007 were \$216,051 and \$210,781 respectively.

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The future minimum operating lease payments as of June 30, 2008 and June 30, 2007 were payable as follows:

<u>Year ending June 30,</u>	<u>2008</u>	<u>2007</u>
2008	\$ -	\$ 210,781
2009	231,860	210,782
2010	231,860	210,782
2011	231,860	210,782
2012	231,860	210,781
2013	231,860	210,781
2014-2015	425,074	386,433
Minimum operating lease payments	<u>\$ 1,584,374</u>	<u>\$ 1,651,122</u>

**Capital leases**

WGAA 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:

<u>Asset type:</u>	<u>2008</u>	<u>2007</u>
Machinery and equipment	\$ 2,618,120	\$ 2,618,120
Less: Accumulated depreciation	<u>(495,333)</u>	<u>(361,182)</u>
Total	<u>\$ 2,122,787</u>	<u>\$ 2,256,938</u>

Capital leases result in purchases of capital assets, which are funded by outside entities. Such assets are pledged as collateral against the full payment of the lease obligations. As of June 30, 2008 and June 30, 2007, the future minimum capital lease obligations and the net present value of these minimum lease payments were payable as follows:

<u>Year ending June 30,</u>	<u>2008</u>	<u>2007</u>
2008	\$ -	\$ 165,084
2009	2,126	2,126
2010	2,126	2,126
2011	1,773	1,773
Total minimum lease payments	<u>6,025</u>	<u>171,109</u>
Less: amounts representing interest	<u>(497)</u>	<u>(2,578)</u>
Present value of minimum lease payments	<u>\$ 5,528</u>	<u>\$ 168,531</u>

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**D. Long-term obligations**

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

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

Debt service requirements on long-term loans payable at June 30, 2008, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Principal	Interest
2009	\$ 19,874	\$ 195,514
2010	74,556	140,832
2011	78,177	137,211
2012	81,973	133,415
2013	85,954	129,434
2014-2018	496,581	580,358
2019-2023	44,883,419	36,351,715
2024-2028	16,832,573	15,709,572
2029-2032	735,589	72,115
Total	<u>\$ 63,288,696</u>	<u>\$ 53,450,166</u>

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**Loans from member governments:**

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

	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
City of Mesa	43.4%	43.6%
City of Phoenix	33.1%	33.3%
Gila River Indian Community	11.5%	11.5%
Town of Gilbert	8.9%	9.0%
Town of Queen Creek	<u>3.1%</u>	<u>2.6%</u>
	<u>100.0%</u>	<u>100.0%</u>

As a condition of joining the Airport Authority, the City of Phoenix agreed to make available to WGAA \$5,000,000 toward capital needs of the airport, in addition to its share of annual funding (shown). During FY08, WGAA received \$4,083,719 of the \$5,000,000, which is not reflected in the above percentages.

Based on the Joint Powers Airport Authority Agreement entered into by the members of WGAA, all payments made to WGAA by the members are considered loans to be repaid to the members. The intent of the members in providing funds to WGAA 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 WGAA's right to eventually repay contributions made by its members, WGAA 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 WGAA's board of directors deems appropriate, with 3% interest (compounded annually).

Loans payable to member governments increased by \$8,003,719 in principal and \$1,881,496 in accrued interest in fiscal year 2008 and by \$4,641,000 in principal and \$1,691,520 in accrued interest in fiscal year 2007:

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

	<u>2008</u>	<u>2007</u>
City of Mesa	\$ 50,174,924	\$ 47,063,033
City of Phoenix	7,485,949	2,041,000
Gila River Indian Community	6,868,408	6,231,464
Town of Gilbert	6,615,022	6,082,545
Town of Queen Creek	<u>1,457,443</u>	<u>1,298,488</u>
Loans Payable to member governments at June 30	<u>\$ 72,601,746</u>	<u>\$ 62,716,530</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 WGAA to consult with its management, attend meetings and provide other services.

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**E. Operating lease revenue**

WGAA leases out various facilities on the airport. Leases are primarily for office buildings and hangars, but also include ground leases for tenant development. Occasionally WGAA's lease agreements provide for rents based on the tenants' operating revenues or other criteria. Lease income included \$208,000 and \$118,000 of such contingent rents in the fiscal years ending June 30, 2008 and 2007, respectively.

The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2008 and June 30, 2007:

Fiscal Years Ending June 30:	2008	2007
2008	\$ -	\$ 1,683,656
2009	1,953,066	775,324
2010	1,450,584	650,614
2011	1,466,031	544,740
2012	1,426,889	588,898
2013	1,447,445	605,395
2014 and thereafter	51,289,889	11,706,594
Totals	\$59,033,904	\$16,555,221

With few exceptions, WGAA'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. Several long-term land leases were signed during the year, accounting for the increase from 2007.

**NOTE 4 - OTHER INFORMATION**

**A. Risk management**

In addition to safety efforts, WGAA's risk management activities include purchase of commercial insurance for all significant risks. Risks retained by WGAA 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, 2008 and 2007.

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 WGAA a quitclaim deed for 2,931 acres of real property for the purpose of developing a public airport. Since then, portions of the leased property have been deeded to the airport as environmental clearances have been completed, including nineteen acres in March, 2008. Thirty-one acres remain under the 25-year lease, which WGAA 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.

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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 \$117,811,778 (net of accumulated depreciation) that are subject to certain restrictions contained in an indenture between the United States of America and WGAA. Under the terms of the deed, this property cannot be sold or transferred and the Property must be operated as a public airport. 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 \$42,354,080 (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**

WGAA 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**

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

	<u>WGAA Revenues</u>	<u>WGAA Expenses</u>	<u>WGAA Capital Projects</u>	<u>Sales Taxes Collected/ Remitted</u>
<u>Fiscal Year ended June 30, 2008</u>				
City of Mesa	\$ 8,687	\$ 757,278	\$ 4,017	\$ 99,191
Town of Gilbert	-	225	-	-
<u>Fiscal Year ended June 30, 2007</u>				
City of Mesa	\$ 8,114	\$ 700,693	\$ 24,224	\$ 137,121
Town of Gilbert	-	-	-	-

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

**D. Retirement plans**

**Arizona State Retirement System – Plan Description**

WGAA 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,

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
Fiscal Years Ended June 30, 2008 and 2007**

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 WGAA's contribution rates. For the year ended June 30, 2008, active plan members and WGAA were each required by statute to contribute at the actuarially determined rate of 9.60 percent (9.10 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. WGAA's contributions to the System for the years ended June 30, 2008, 2007, and 2006 were \$481,573, \$406,831, and \$324,171, respectively, which were equal to the required contributions for the year.

**Deferred Compensation Plans**

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

WGAA provides its employees the opportunity to participate in two plans: one administered by ING Insurance & Annuity Company and the other by the International City Management Association.

**E. Subsequent Events**

In August 2008, Allegiant Airlines agreed to loan WGAA \$3,000,000 to expand the passenger terminal to accommodate more passengers due to increased operations. This loan will be repaid along with \$1,000,000 in interest out of future Passenger Facility Charge (PFC) revenues. The FAA approved WGAA's application to impose PFC's beginning November 1, 2008.

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**SUPPLEMENTARY INFORMATION**

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**AIRPORT - All Operations**

	Original 2008 Budget	Revised 2008 Budget	Fiscal YTD Actual	% of Budget YTD = 100.0	YTD Actual Over(Under) Ann'l Budget
<b>Operating revenues</b>					
Fueling Sales	8,562,533	8,562,533	7,147,262	83%	(1,520,881)
Flowage Fees	611,804	611,804	611,192	100%	(612)
Landing Fees	245,252	245,252	180,110	73%	(65,142)
Lease Income	2,893,002	2,893,002	2,485,384	86%	(407,618)
Misc. Services	546,801	546,801	734,803	134%	293,612
Tie Down / Hangaring Income	119,936	119,936	145,204	121%	25,268
Total operating revenues	<u>12,979,328</u>	<u>12,979,328</u>	<u>11,303,955</u>	<u>87%</u>	<u>(1,675,373)</u>
<b>Cost of Goods Sold</b>					
Cost of Goods Sold re Service Work	36,134	36,134	39,335	109%	3,201
Cost of Fueling Sales	4,231,331	4,231,331	2,629,549	62%	(1,601,782)
Total Cost of Sales	<u>4,267,465</u>	<u>4,267,465</u>	<u>2,668,884</u>	<u>63%</u>	<u>(1,598,581)</u>
Gross Margin	<u>8,711,863</u>	<u>8,711,863</u>	<u>8,635,071</u>	<u>99%</u>	<u>(76,792)</u>
<b>Operating expenses</b>					
Advertising	374,280	388,280	323,507	83%	(64,773)
Bad Debt Expense	12,000	12,000	12,000	100%	0
Bank/Credit Card Fees	77,809	77,809	79,757	103%	1,948
Equipment - Office	82,600	82,600	107,126	130%	24,526
Equipment - Operating	26,950	26,950	26,998	100%	48
Equipment - Rent	176,236	176,236	152,510	87%	(23,726)
Fringe Benefits	1,941,950	1,941,950	1,875,444	97%	(66,506)
Fuel	82,488	82,488	110,425	134%	27,937
Insurance	309,000	309,000	270,790	88%	(38,210)
Lease Expense (Real Estate)	215,259	215,259	216,626	101%	1,367
Office Supplies	93,700	93,700	85,846	92%	(7,854)
Operating Supplies	100,503	100,503	96,885	96%	(3,618)
Other	91,352	91,352	90,022	99%	(1,330)
Postage & Shipping	25,065	25,065	16,716	64%	(9,349)
Printing	76,548	86,548	65,167	75%	(21,381)
Professional Services	1,565,938	1,565,938	1,358,903	87%	(207,035)
Repair & Maintenance	744,865	890,350	909,145	102%	18,795
Salaries	4,633,549	4,633,549	4,710,533	102%	76,984
Telephone/Radio	99,866	99,866	88,670	89%	(11,196)
Training	86,611	86,611	64,615	75%	(21,996)
Travel	123,381	123,381	72,554	59%	(50,827)
Utilities	375,142	375,142	386,511	103%	11,369
Total operating expenses	<u>11,315,092</u>	<u>11,485,577</u>	<u>11,120,750</u>	<u>97%</u>	<u>(364,827)</u>
Operating income (loss) before Depreciation	(2,603,229)	(2,773,714)	(2,485,679)	90%	288,035
Depreciation	7,247,029	7,247,029	7,099,278	98%	(147,751)
Operating income (loss)	<u>(9,850,258)</u>	<u>(10,020,743)</u>	<u>(9,584,957)</u>	<u>96%</u>	<u>435,786</u>
<b>Nonoperating revenues (expenses)</b>					
Investment income	124,750	124,750	274,067	220%	149,317
Other income	4,587	4,587	27,631	602%	23,044
Loss on disposition of assets	0	0	(605,078)	--	(605,078)
Interest expense - member govts	(1,904,266)	(1,904,266)	(1,881,496)	99%	22,770
Interest expense - other	(177,062)	(177,062)	(114,859)	65%	62,203
Other non-operating expense	0	0	2,883	--	2,883
Total nonoperating rev (exp)	<u>(1,951,991)</u>	<u>(1,951,991)</u>	<u>(2,296,852)</u>	<u>118%</u>	<u>(344,861)</u>
Income before contributions and transfers	(11,802,249)	(11,972,734)	(11,881,809)	99%	90,925
Capital contributions (capital grants earned)	11,805,733	11,805,733	15,995,163	135%	4,189,430
Change in net assets	<u>3,484</u>	<u>(167,001)</u>	<u>4,113,354</u>	<u>-2463%</u>	<u>4,280,355</u>

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