

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2015

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FISCAL YEAR ENDED June 30, 2015

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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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of PMGAA as of June 30, 2015, and the change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2015, PMGAA adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result of the implementation of GASBS No. 68 and 71, PMGAA reported a restatement for the change in accounting principle (see Note 1.D.13.) Our auditors' opinion was not modified with respect to the restatement.

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 5 – 10 and the schedule of PMGAA's proportionate share of the net pension liability and contributions on page 39 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 PMGAA's basic financial statements. The Statement of Revenues and Expenses (Budget Basis) is 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.

Board of Directors
Phoenix-Mesa Gateway Airport Authority

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2015, on our consideration of the PMGAA'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 Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
October 9, 2015

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**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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, 2015 and June 30, 2014.

Financial Highlights

- PMGAA's assets exceeded liabilities at the end of the fiscal year by \$244,355,824 (net position). Total net position included \$230,167,724 in capital assets and \$7,290,629 in unrestricted net position. During the year, total net position increased by \$121,784,959.
- Member governments forgave \$112,783,929 in loans made through June 30, 2014, including principal and interest, to PMGAA. These amounts are reported as an extraordinary gain and account for most of the increase in net position.
- Total liabilities decreased by \$103,196,834 (74.2%), to \$35,854,145. Most of this was attributable to the member loan recharacterization.
- PMGAA adopted GASB 68, Accounting and Financial Reporting for Pensions, and recognized a prior period adjustment of \$9,654,873, a pension liability in the amount of \$7,855,199, deferred outflows of resources of \$913,469, and deferred inflows of resources of \$2,309,090.
- During the current year, member governments contributed an additional \$4,060,000.
- PMGAA earned \$2,851,116 in Passenger Facility Charges.
- Sales in PMGAA's fueling operation were down 2% in dollars to \$7,585,338. The number of gallons uploaded was down 1%, due primarily to decreased government operations. Gross margin for all fueling sales (gross revenues less cost of goods sold) was up 1%.
- PMGAA's operations produced a loss of \$9,220,742 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 three components, 1) fund financial statements, 2) notes to the financial statements, and 3) required supplementary information. 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 13 - 16 of this report.

The *statement of net position* presents information on PMGAA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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 17 - 35 of this report.

Required Supplementary Information

Required supplementary information includes pension related information required by the Governmental Accounting Standards Board (GASB) to supplement information in the notes to the financial statements.

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 \$244,355,824.

Airports are capital-intensive enterprises. 94.2% 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

	2015	2014
Current and other assets	\$ 29,286,792	\$ 24,750,299
Capital assets, net of accumulated depreciation	250,009,708	246,526,417
Total assets	279,296,500	271,276,716
Deferred outflows of resources	913,469	-
Long-term liabilities	29,555,797	135,128,423
Other liabilities	3,989,258	3,922,555
Total liabilities	33,545,055	139,050,978
Deferred inflows of resources	2,309,090	-
Net position:		
Net investment in capital assets	230,167,724	113,319,675
Restricted	6,897,471	4,295,438
Unrestricted	7,290,629	14,610,625
Total net position	\$ 244,355,824	\$ 132,225,738

\$7,290,629 (3.0%) 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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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.

Net position increased by \$112,130,085 (84.8%) from the previous fiscal year-end. This was primarily due to the recharacterization of \$112,783,929 of member government loans to contributions. Member contributions increased in fiscal year 2014-15 by \$4,060,000.

Net position for PMGAA's net investment in capital assets increased by 1.4%. New investments in capital assets (less asset dispositions) were \$3,483,292 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 increases in capital grants and contributions, which were up 79% (\$6,199,657). (Grant funds are recognized as revenue when all eligibility requirements imposed by the provider have been met.) Capital contributions increased by \$6,199,657 due to activity on several grant-funded runway and taxiway projects and current year capital-related member contributions. Other income was up 48% (\$1,643,017), mostly because current year member contributions not used for capital expenses were recorded as other non-operating income. An extraordinary item of \$112,783,929 was recognized as a result of member governments recharacterizing loans as contributions. Previously, loans had been documented by formal promissory notes stating that payments were to be repaid on specified dates or at such later time as PMGAA's board of directors deemed appropriate, with 3% interest (compounded annually). During fiscal year 2015 all member loans and accrued interest were formally forgiven by each member government. The change in net position came about as indicated by the following elements of the revenues and expenses:

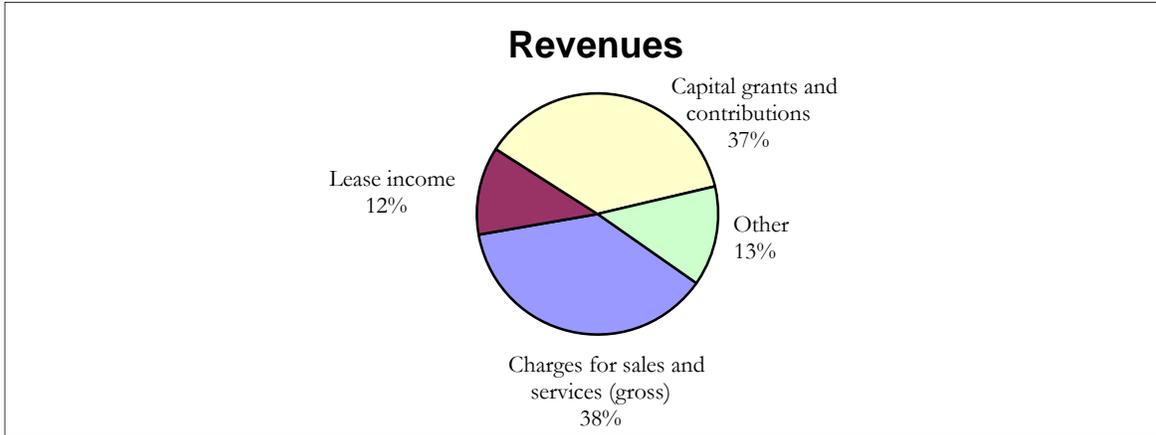
Mesa Gateway Airport Authority's Changes in Net Position

	2015	2014
Revenues:		
Charges for sales and services (gross)	\$ 14,171,046	\$ 13,889,440
Lease income	4,454,244	4,252,868
Capital grants and contributions	14,079,298	7,879,641
Other	5,058,947	3,415,930
Total revenues	<u>37,763,535</u>	<u>29,437,879</u>
Expenses		
Cost of sales	2,887,601	3,098,783
Depreciation	11,662,130	10,882,770
Other operating expenses	13,296,301	13,202,867
Interest expense on loans from member governments	-	3,155,066
Interest expense - other	912,166	999,515
Other nonoperating expenses	4,307	3,633
Total expenses	<u>28,762,505</u>	<u>31,342,634</u>
Increase (decrease) in net position	9,001,030	(1,904,755)
Extraordinary Item	112,783,929	-
Restatement of prior year	(9,654,873)	-
Net position at prior year-end	<u>132,225,738</u>	<u>134,130,493</u>
Net position at year-end	<u>244,355,824</u>	<u>\$ 132,225,738</u>

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

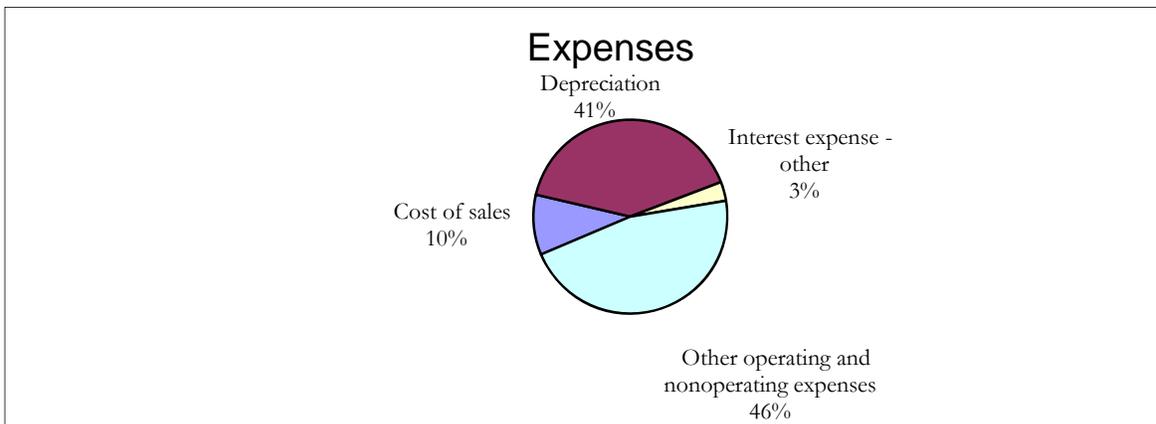
Revenues:

Charges for sales and services increased by \$281,606 and lease income increased \$201,376. Fuel sales were down 2%, and related costs of sales were down 6.7%.



Expenses:

Other operating expenses increased by \$93,434 (1%). This is due mostly to increased repair and maintenance and professional services costs, offset by decreased personnel costs. Interest expense decreased \$87,349 (9%) mostly because of the capitalization of interest on construction-type projects. (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 decreased \$211,182 (7%) due to decreased 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 42 for a presentation of the budget as supplementary information.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

Capital Assets and Debt Administration

Capital assets (net of depreciation)

At June 30, 2015, PMGAA's capital assets totaled \$250,009,708 (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 1.4% during the fiscal year.

Capital assets (net of depreciation)

	2015	2014
Land	\$ 86,128,271	\$ 86,128,271
Buildings and improvements	153,093,555	148,962,616
Machinery and equipment	5,158,524	5,027,805
Construction in progress	5,629,358	6,407,725
Total capital assets, net	\$ 250,009,708	\$ 246,526,417

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

- Runway 30L 3,000' Reconstruction: Spent in FY15: \$6.0 million
- Runway 12R 1,000' Reconstruction: Spent in FY14: \$3.3 million
- Administrative Building Renovation: Spent in FY15: \$1.4 million

Long-term debt.

At the end of the current fiscal year, PMGAA had total debt outstanding of \$22,038,632. During the year, \$112,783,929 in member government loans were recharacterized as contributions.

Phoenix-Mesa Gateway Airport Authority's Outstanding Debt

	2015	2014
Loans from Member Governments (including accrued interest)	\$ -	\$ 112,783,929
ADOT Loan (including accrued interest)	2,474,835	2,569,339
Capital Leases	162,460	199,631
Bonds payable (including bond premium)	19,401,337	19,847,482
	\$ 22,038,632	\$ 135,400,381

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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

Additional information on PMGAA's long-term debt can be found in note 3.D. on pages 26 - 27.

Economic Factors

PMGAA depends on annual contributions 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

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PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Business-type Activities - Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 14,672,646
Restricted cash	8,839,385
Accounts receivable, net	1,084,477
Due from other governments	4,052,108
Prepaid costs	165,691
Inventories	172,392
Total current assets	28,986,699
Noncurrent assets:	
Restricted assets	300,093
Capital assets:	
Nondepreciable	91,757,629
Depreciable	158,252,079
Total noncurrent assets	250,309,801
Total assets	279,296,500
Deferred outflows of resources	913,469
Liabilities	
Current liabilities:	
Accounts payable	1,871,234
Accrued liabilities	272,191
Bond interest payable	443,900
Bond principal payable	430,000
Vacation benefits payable	429,444
Capital lease obligations payable	38,501
Retirement sick leave payable	26,488
ADOT loan	99,093
Unearned revenue	78,314
Total current liabilities	3,689,165
Current liabilities payable from restricted assets:	
Tenant deposits	300,093
Noncurrent liabilities:	
Bonds payable	18,971,337
Pension liability	7,855,199
ADOT loan	2,375,742
Capital leases	123,959
Retirement sick leave payable	229,560
Total noncurrent liabilities	29,555,797
Total liabilities	33,545,055
Deferred inflows of resources	2,309,090
Net position	
Net investment in capital assets	230,167,724
Restricted for capital outlay	6,897,471
Unrestricted	7,290,629
Total net position	\$ 244,355,824

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

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FISCAL YEARS ENDED JUNE 30, 2015

	Business-type Activities Enterprise Fund
Operating revenues	
Fueling operations	\$ 7,585,338
Lease income	4,454,244
Maintenance services	419,518
Airport usage fees	6,166,190
Total operating revenues	18,625,290
Operating expenses	
Personnel costs	5,979,993
Professional services	4,367,625
Cost of goods sold - fueling operations	2,854,378
Costs of maintenance services sold	33,223
Repair and maintenance	766,767
Utilities	788,091
Insurance	295,133
Other expense	1,098,692
Depreciation	11,662,130
Total operating expenses	27,846,032
Operating loss	(9,220,742)
Nonoperating revenues (expenses)	
Investment income	93,578
PFC income	2,851,116
CFC income	395,875
Other income	1,616,769
Gain/(loss) on disposition of assets	(4,307)
Intergovernmental revenue	101,609
Interest expense - bonds	(861,655)
Interest expense - other	(50,511)
Total nonoperating revenues (expenses)	4,142,474
Loss before contributions and extraordinary item	(5,078,268)
Capital contributions	14,079,298
Extraordinary Item	112,783,929
Change in net position	121,784,959
Net position, beginning of year, as restated	122,570,865
Net position, end of year	\$ 244,355,824

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 YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds
Cash flows from operating activities	
Receipts from customers	\$ 18,537,353
Payments to employees	(6,436,328)
Payments to suppliers	(10,079,922)
Customer deposits	(16,496)
Net cash flows from operating activities	2,004,607
Cash flows from non-capital financing activities	
Operating member government contributions	1,598,505
Operating grants from other governments	90,482
Net cash flows from non-capital financing activities	1,688,987
Cash flows from capital and financing activities	
Acquisition of capital assets (net)	(14,907,004)
Loans from member governments	2,461,495
Payments on loans	(94,504)
Passenger Facility Charges received	2,847,600
Customer Facility Charges received	395,308
Cash from sale of equipment	2,671
Principal paid on capital leases	(37,171)
Principal paid on bonds	(420,000)
Interest paid on bonds	(894,100)
Interest paid on ADOT loan	(120,884)
Interest paid on capital leases	(7,137)
Capital grants received	10,478,172
Net cash flows from capital and financing activities	(295,554)
Cash flows from investing activities	
Investment income	93,578
Other income/expense	18,264
Net cash flows from investing activities	111,842
Net change in cash and cash equivalents	3,509,882
Cash and cash equivalents, beginning of year	20,302,242
Cash and cash equivalents, end of year	\$ 23,812,124

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

Cash and cash equivalents	\$ 14,672,646
Restricted assets	9,139,478
Total	\$ 23,812,124

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 YEAR ENDED JUNE 30, 2015

Business-type Activities -
Enterprise Funds

(Concluded)

Reconciliation of operating income (loss) to net cash provided by operating activities

Operating loss \$ (\$9,220,742)

Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:

Depreciation	11,662,130
Adjustment to pension expense	(404,053)
Allowance for uncollectible accounts	82,000
Change in assets/liabilities:	
Accounts receivable	(78,902)
Prepaid costs	286
Inventories	42,480
Accounts payable and accrued liabilities	108,307
Unearned revenue	(91,035)
Tenant deposits	(16,496)
Compensated absences payable	(79,368)
Net cash provided by operating activities	<u>\$ 2,004,607</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Authority recognized \$112,783,928 extraordinary gain on extinguishment of debt related to member government loans.

The Authority amortized \$26,145 in bond premiums during the fiscal year.

The Authority received an asset donation in the amount of \$82,366

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

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

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.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015, \$4,452,708 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, 2015, \$932,283 has been earned under the third application. For the second and third applications, \$6,642,737 is reported as restricted assets. These monies are recorded as non-operating revenues.

For the fiscal year ending June 30, 2015, PMGAA implemented GASB 68, Accounting and Financial Reporting for Pensions. As a result of GASB 68, PMGAA recognized a prior period adjustment of (\$9,654,873).

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

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 Bills. 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.

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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. In fiscal year 2015, this allowance was 8.5% 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. Deferred outflows of resources

PMGAA recognizes the consumption of net assets that are applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

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6. 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.

7. 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.

8. Deferred inflows of resources

PMGAA recognizes the acquisition of net assets that are applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

9. 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.

10. Pensions

For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. 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.

12. 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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13. Change in Accounting Principle

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Business-type Activities
Beginning net position as previously reported at June 30, 2014	\$ 132,225,738
Restatement adjustment - Implementation GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(10,166,921)
Deferred outflows - PMGAA contributions made during fiscal year 2014	512,048
Total restatement adjustment	(9,654,873)
Net position as restated, July 1, 2014	\$ 122,570,865

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, 2015 consist of the following:

	2015
Cash on hand	\$ 2,810
Deposits	
Cash in bank	16,810,661
Investments	
State Treasurer's Investment Pool	5,675,904
U.S. Treasury Bills	1,322,749
Total deposits and investments	23,812,124
Less: restricted cash	(9,139,478)
Total cash and equivalents	\$ 14,672,646

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Deposits - PMGAA's deposits at June 30, 2015, were covered by federal depository insurance or by collateral held by PMGAA's custodial bank in PMGAA's name.

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

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, 2015. 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.

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 2015.

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, 2015, PMGAA had the following investments:

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Investment Type	Rating	Rating Agency	Amount	%
State Treasurer's Investment Pool 700	AAA	Moody's	\$ 5,675,904	81.10%
US Treasury Bills	AAA	Fitch	<u>1,322,749</u>	<u>18.90%</u>
Total investments			<u>\$ 6,998,653</u>	<u>100.00%</u>

Interest rate risk – Due to the short maturities of PMGAA’s investments, the risk of losses due to market interest rate changes is minimal. PMGAA does not have a formal policy regarding interest rate risk. The following table shows the investment maturities by year and type of security:

Investment Type	Amount	<u>Investment Maturities</u>	
		Less than 1 year	1-3 Years
State Treasurer's Investment Pool 700	\$ 5,675,904	\$ -	\$ 5,675,904
US Treasury Bills	<u>1,322,749</u>	<u>1,322,749</u>	-
	<u>\$ 6,998,653</u>	<u>\$ 1,322,749</u>	<u>\$ 5,675,904</u>

2. Restricted assets

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

	<u>2015</u>
Customer deposits	\$ 300,093
Passenger Facility Charges (PFC's)	6,642,737
Current and Future Debt Service Reserves	<u>2,196,648</u>
Total restricted assets	<u>\$ 9,139,478</u>

3. Receivables

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

Trade receivables - governments	\$ 182,272
Grants receivable	3,869,836
Total due from other governments	<u>\$ 4,052,108</u>
Total accounts receivable	\$ 1,184,626
Less allowance for uncollectible accounts	(100,149)
Accounts receivable, net	<u>\$ 1,084,477</u>

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4. Capital assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 86,128,271	\$ -	\$ -	\$ 86,128,271
Construction in progress	6,407,725	14,772,027	(15,550,394)	5,629,358
Total capital assets not being depreciated	92,535,996	14,772,027	(15,550,394)	91,757,629
Capital assets being depreciated				
Buildings and improvements	270,663,619	15,079,826	(30,759)	285,712,686
Machinery and equipment	11,899,448	850,940	(59,671)	12,690,717
Total capital assets being depreciated	282,563,067	15,930,766	(90,430)	298,403,403
Less accumulated depreciation for:				
Buildings and improvements	121,701,003	10,941,909	(23,781)	132,619,131
Machinery and equipment	6,871,643	720,221	(59,671)	7,532,193
Total accumulated depreciation	128,572,646	11,662,130	(83,452)	140,151,324
Total capital assets being depreciated, net	153,990,421	4,268,636	(6,978)	158,252,079
Business-type activities capital assets, net	\$ 246,526,417	\$ 19,040,663	\$ (15,557,372)	\$ 250,009,708

Interest expense in the amount of \$77,510 was capitalized and applied to construction-type projects based on the weighted average of the rates on outstanding borrowings during fiscal year 2015.

B. Purchase commitments

As of June 30, 2015, PMGAA had entered into various contracts and commitments for purchases of goods and consulting and construction/renovation services, both on its own account and under grant programs.

	<u>June 30, 2015</u>
Open purchase commitments (net of cost of goods and services received against these commitments)	\$ 5,359,000
Portion of above funded by grants	\$ 3,880,000

PMGAA had 32 active design or construction projects at June 30, 2015. These projects are expected to cost a total of \$31 million, of which \$21.7 million has been committed and \$17 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:

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Project	Spent-to-date on uncompleted contracts	Remaining Contract
Design & Construct Rwy 30C	\$ 931	\$ 3,301,179
Rwy 12R 1,000 Threshold /Reconstruct	3,333,943	542,177
Taxiway C Ph II & III	712,850	99,241
Eastside Development EA/EIS	630,195	53,402
WTO & Parking Lot Improvements	37,538	212,458
Planning Area Study	31,006	162,994
CR-Hgr 1084 Fire Sprinkler & Riser Replace	-	166,299
Other	994,460	174,395
Total	<u>\$ 5,740,923</u>	<u>\$ 4,712,145</u>

C. Obligations under 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. The leased asset has been recorded at cost. The asset acquired through this capital lease is as follows:

	<u>2015</u>
Asset type:	
Machinery and equipment	\$ 243,940
Less: Accumulated depreciation	<u>(25,825)</u>
Total	<u>\$ 218,115</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, 2015, 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>2015</u>
2016	\$ 44,309
2017	44,309
2018	44,309
2019	<u>44,309</u>
Total minimum lease payments	177,236
Less: amounts representing interest	<u>(14,776)</u>
Present value of minimum lease payments	<u>\$ 162,460</u>

D. Long-term obligations

Long-Term Loans

PMGAA previously had long-term loans payable from its member governments to provide funds for its shortfall in operating revenues and for capital improvements. During FY2015, these loans were forgiven and reclassified as contributions. 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.

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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, 2015, total principal and interest on the bonds was \$1,314,100 which was equal to the lease income received during the current fiscal year pledged to make the principal and interest payments.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding Amount</u>
Business-type Activities:				
Special Facility Revenue Bonds:				
Series 2012	3.00-5.00%	07/01/14-38	<u>\$ 19,220,000</u>	<u>\$ 18,800,000</u>

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Changes in long-term obligations for the year ended June 30, 2015 are as follows:

	June 30, 2014	Increases	Decreases	June 30, 2015	Due Within One Year
Loans payable					
Principal on member loans	\$ 84,523,977	\$ -	\$ (84,523,977)	\$ -	\$ -
Accrued Interest on member loans	28,259,952	-	(28,259,952)	-	-
Member loans	112,783,929	-	(112,783,929)	-	-
Other Loans	2,569,339	-	(94,504)	2,474,835	99,093
Bonds payable - Series 2012					
Principal on bonds	19,220,000	-	(420,000)	18,800,000	430,000
Unamortized premium	627,482	-	(26,145)	601,337	-
Bonds	19,847,482	-	(446,145)	19,401,337	430,000
Other Liabilities					
Capital Leases	199,631	-	(37,171)	162,460	38,501
Compensated absences	764,860	417,078	(496,446)	685,492	455,932
Business-type long-term liabilities	<u>\$ 136,165,241</u>	<u>\$ 417,078</u>	<u>\$ (113,858,195)</u>	<u>\$ 22,724,124</u>	<u>\$ 1,023,526</u>

Debt service requirements on long-term debt at June 30, 2015, including future interest based on current repayment schedules, are as follows:

Year Ending June 30	Loans Payable		Series 2012 Special Facility Bonds	
	Principal	Interest	Principal	Interest
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	119,789	95,599	490,000	809,350
2021-2025	692,059	384,880	2,770,000	3,706,200
2026-2030	877,222	199,717	3,505,000	2,925,000
2031-2035	359,575	17,355	4,465,000	1,909,000
2036-2039	-	-	5,765,000	545,000
Total	<u>\$ 2,474,835</u>	<u>\$ 1,132,912</u>	<u>\$ 18,800,000</u>	<u>\$ 13,307,700</u>

E. Contributions from member governments:

Member governments provide contributions to PMGAA to invest in the operation and development of the airport for the benefit of the citizens of their communities. On October 21, 2014, the Joint Powers Airport Authority Agreement entered into by the members of PMGAA was amended to recharacterize all previous payments made to PMGAA by the members from loans to contributions. The effective date of this change was July 1, 2014. Prior to this amendment, loans had been documented by formal promissory notes stating that payments were to be repaid on specified dates or at such later time as PMGAA's board of directors deemed appropriate, with 3% interest (compounded annually). This change was ratified by each respective council or

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community, and the loan agreements and promissory notes were canceled. The total amount of canceled loans and accrued interest during fiscal year 2015 is as follows:

	2015
City of Mesa	\$ 70,907,780
City of Phoenix	17,545,029
Gila River Indian Community	11,112,023
Town of Gilbert	10,162,625
Town of Queen Creek	2,526,472
City of Apache Junction	530,000
Member government loans canceled	\$ 112,783,929

In addition, member governments have by agreement provided annual funding for operations and capital expenditures for fiscal year 2015 as follows:

	2015
City of Mesa	\$ 1,700,000
City of Phoenix	1,300,000
Gila River Indian Community	450,000
Town of Gilbert	350,000
Town of Queen Creek	130,000
City of Apache Junction	130,000
Member government contributions at June 30	\$ 4,060,000

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.

F. 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 \$1,841,000 of such contingent rents in the fiscal year ending June 30, 2015.

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The following schedule shows contracted future revenue from noncancelable lease agreements in place at June 30, 2015:

Fiscal Years Ending June 30:	2015
2016	\$ 4,361,532
2017	3,625,869
2018	3,241,020
2019	3,050,821
2020	2,899,624
2021 - 2030	28,569,433
2031 - 2040	27,050,497
2041 - 2050	24,496,817
2051 - 2060	7,291,322
2061 - 2070	1,980,549
2071 - 2073	291,997
Totals	\$ 106,859,481

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 \$50,165,421 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.

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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 \$98,723,294 (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 \$106,929,267 (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:

<u>Fiscal Year ended June 30, 2015</u>	<u>PMGAA Revenues</u>	<u>PMGAA Expenses</u>	<u>PMGAA Capital Projects</u>	<u>Sales Taxes Collected/ Remitted</u>
City of Mesa	\$ 3,206,683	\$ 1,828,832	\$ 16,927	\$ 124,174
Gila River Indian Community	459,807	-	-	-
City of Phoenix	1,300,000	17,193	-	-
City of Apache Junction	130,000	1,227	-	-
Town of Gilbert	350,000			
Town of Queen Creek	130,000	584	-	-

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 City of Mesa expenses is \$208,731 in accounts payable at June 30, 2015. During the fiscal year ended June 30, 2015, PMGAA member loans and accrued interest were forgiven. See Note 3.E. for a summary of the loan forgiveness by member.

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

D. Retirement plans

PMGAA contributes to the Arizona State Retirement System (ASRS) Plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2015, PMGAA reported the following aggregate amounts related to pensions for the plan to which it contributes:

Statement of Net Position and Statement of Activities	Business-Type Activities
Net pension liabilities	\$ 7,855,199
Deferred outflows of resources	913,469
Deferred inflows of resources	2,309,090
Pension expense	110,192

Arizona State Retirement System – Plan Description

PMGAA employees participate in the Arizona State Retirement System. The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and PMGAA was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, PMGAA was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for PMGAA in positions that would typically be filled by an employee who contributes to the ASRS. Contributions to the pension plan for the year ended June 30, 2015, were \$514,245. PMGAA's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Years ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 27,861	\$ 5,667
2014	30,949	11,427
2013	34,098	12,590

Pension Liability – At June 30, 2015, PMGAA reported a liability of \$7,855,199 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. PMGAA's proportion of the net pension liability was based on \$14,796,602,153. At June 30, 2014, PMGAA's proportion was 0.053088 percent, which was a decrease of 0.008069 percent from its proportion measured as of June 30, 2013.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, PMGAA recognized pension expense for ASRS of \$110,192. At June 30, 2015, PMGAA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 399,224	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,373,632
Changes in proportion and differences between PMGAA contributions and proportionate share of contributions	-	935,458
PMGAA contributions subsequent to the measurement date	514,245	-
Total	<u>\$ 913,469</u>	<u>\$ 2,309,090</u>

The \$514,245 reported as deferred outflows of resources related to ASRS pensions resulting from PMGAA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2016	\$ (576,553)
2017	(576,553)
2018	(413,352)
2019	(343,408)

**PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

Actuarial assumptions- The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS

Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS	Target	Long-Term
Asset Class	Allocation	Expected Real
		Rate of Return
Equity	63%	4.43%
Fixed income	25%	0.80%
Real estate	8%	0.38%
Commodities	4%	0.18%
Total	<u>100%</u>	

Discount Rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015**

members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the PMGAA's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate—The following table presents PMGAA's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what PMGAA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
PMGAA's proportionate share of the net pension liability	\$ 9,928,569	\$ 7,855,199	\$ 6,730,292

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
Required Supplementary Information
Schedule of PMGAA's Proportionate Share of Net Pension Liability and Contributions
Cost-Sharing Pension Plans
June 30, 2015

Arizona State Retirement System

	<u>Fiscal Year</u>		2013 through 2006
	2015	2014	
PMGAA's proportion of the net pension liability	0.053088%	0.061157%	Information
PMGAA's proportionate share of the net pension liability	\$ 7,855,199	\$ 10,166,921	not available
PMGAA's covered-employee payroll	\$ 4,761,393	\$ 5,245,907	
PMGAA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.61%	51.60%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	63.58%	

Arizona State Retirement System

	<u>Fiscal Year</u>		
	2015	2014	2013
Statutorily required contribution	\$ 514,245	\$ 512,048	\$ 537,706
PMGAA's contributions in relation to the statutorily required contribution	514,245	512,048	537,706
PMGAA's contribution deficiency (excess)	\$ -	\$ -	\$ -
PMGAA's covered-employee payroll	\$ 4,722,184	\$ 4,761,393	\$ 5,245,907
PMGAA's contributions as a percentage of covered-employee payroll	10.89%	10.75%	10.25%

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
Required Supplementary Information
Schedule of PMGAA's Proportionate Share of Net Pension Liability and Contributions
Cost-Sharing Pension Plans
June 30, 2015

Fiscal Year						
2012	2011	2010	2009	2008	2007	2006
\$ 508,808	\$ 439,579	\$ 417,079	\$ 418,387	\$ 404,822	\$ 338,430	not available
508,808	439,579	417,079	418,387	404,822	338,430	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 5,152,977	\$ 5,130,260	\$ 5,233,951	\$ 5,285,789	\$ 5,016,388	\$ 4,470,664	
9.87%	8.57%	7.97%	7.92%	8.07%	7.57%	

PHOENIX-MESA GATEWAY AIRPORT AUTHORITY
Notes to Required Supplementary Information
June 30, 2015

Note 1 - Actuarially Determined Contribution Rates

Actuarial determined contribution rates for ASRS are calculated as of June 30 one year prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

ASRS

Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

SUPPLEMENTARY INFORMATION

Phoenix-Mesa Gateway Airport Authority
Statement of Revenues and Expenses

Unaudited (Budget Basis)
 Fiscal Year Ended June 30, 2015

AIRPORT - All Operations

	2015 Budget	Fiscal YTD Actual	% of Budget YTD = 100.0	YTD Actual Over(Under) Ann'l Budget
AERONAUTICAL OPERATING REVS				
Aircraft Parking	\$ 158,744	\$ 221,264	139%	\$ 62,520
Fuel Flowage Fees	539,400	562,284	104%	22,884
Landing Fees	869,326	797,138	92%	(72,188)
Lease Income Aero	2,270,974	2,038,326	90%	(232,648)
Fuel Sales	4,053,030	4,109,547	101%	56,517
Services Sold - Aero	3,050,212	3,408,871	112%	358,659
NON AERONAUTICAL OPERATING REVS				
Concessions	626,315	544,449	87%	(81,866)
Lease Income Non-Aero	916,456	1,101,360 (a)	120%	184,904
Parking & Ground Transportation	2,462,747	2,586,950	105%	124,203
Rental Car Fees	1,490,512	1,828,288	123%	337,776
Services Sold - Non Aero	114,137	112,255	98%	(1,882)
Total operating revenues (net of CGS)	<u>16,551,853</u>	<u>17,310,732</u>	<u>105%</u>	<u>758,879</u>
OPERATING EXPENSES				
Costs of Goods Sold	3,170,611	2,887,601	91%	(283,010)
Personnel Compensation & Benefits	7,145,127	6,384,046 (b)	89%	(761,081)
Communications & Utilities	976,850	788,091	81%	(188,759)
Contractual Services	4,260,598	4,367,625	103%	107,027
Insurance	300,000	295,133	98%	(4,867)
Other	398,751	455,965	114%	57,214
Repair & Maintenance	819,636	766,767	94%	(52,869)
Supplies & Materials	751,883	642,727	85%	(109,156)
Total operating expenses before Depr	<u>17,823,456</u>	<u>16,587,955</u>	<u>93%</u>	<u>(1,235,501)</u>
Operating income (loss) before Depreciation	(1,271,603)	722,777	-57%	1,994,380

(a) Non-Aero Lease income on a budget basis does not include \$1,314,558 of income designated for Series 2012 bond payments.

(b) Personnel Compensation & Benefits on a budget basis does not include (\$404,053) GASB 68 adjustment for pension expense.