

**SEDONA-OAK CREEK AIRPORT
AUTHORITY**

**FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012**

TABLE OF CONTENTS

Independent Auditors' Report

Statements of Financial Position

Statement of Revenues, Expenses, and Changes in Net Assets – 2013

Statement of Revenues, Expenses, and Changes in Net Assets – 2012

Statements of Cash Flows

Notes to Financial Statements

Additional Information:

Independent Auditors' Report on Additional Information

Management's Discussion and Analysis

Schedule of Revenue and Expenses by Division – 2013

Schedule of Revenue and Expenses by Division – 2012

Schedule of General and Administrative Expenses by Division – 2013

Schedule of General and Administrative Expenses by Division – 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sedona-Oak Creek Airport Authority

We have audited the accompanying financial statements of Sedona-Oak Creek Airport Authority (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 the entity'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 the Authority'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 Sedona-Oak Creek Airport Authority as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Guest, Schutte, Cospers & Ledbetter
Flagstaff, Arizona

April 30, 2014

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 709,702	\$ 829,763
Accounts receivable	38,933	26,641
Inventories	40,621	36,771
Prepaid expenses	19,296	15,353
Deposits	1,557	1,476
TOTAL CURRENT ASSETS	810,109	910,004
 PROPERTY & EQUIPMENT		
net of accumulated depreciation	2,832,712	2,839,972
 TOTAL ASSETS	 \$ 3,642,821	 \$ 3,749,976

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable - trade	\$ 8,423	\$ 2,823
Accrued compensated absences	25,055	30,746
Accrued payroll	1,790	764
Credit card payable	982	5,640
Deferred rental income	8,848	5,960
Payroll taxes payable	4,263	44
Sales taxes payable	1,356	1,008
Other accrued liabilities	-	650
Current portion - capital lease	11,680	11,680
TOTAL CURRENT LIABILITIES	62,397	59,315
 LONG-TERM LIABILITIES		
Rental security deposits	33,062	31,275
Deferred revenue	861,636	885,243
Capital lease payable	26,315	36,964
Current portion - capital lease	(11,680)	(11,680)
TOTAL LONG-TERM LIABILITIES	909,333	941,802
TOTAL LIABILITIES	971,730	1,001,117
 NET ASSETS		
Unrestricted	2,671,091	2,748,859
TOTAL NET ASSETS	2,671,091	2,748,859
 TOTAL LIABILITIES AND NET ASSETS	 \$ 3,642,821	 \$ 3,749,976

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted		TOTAL
	Unrestricted	Board-designated	
OPERATING REVENUES			
Rents	\$ 669,643	\$ -	\$ 669,643
Fuel and oil sales	1,609,014	-	1,609,014
Fees, catering and miscellaneous income	28,875	-	28,875
Total revenues	<u>2,307,532</u>	<u>-</u>	<u>2,307,532</u>
COST OF SALES			
Fuel and oil	1,270,387	-	1,270,387
Catering and miscellaneous	12,736	-	12,736
Total cost of sales	<u>1,283,123</u>	<u>-</u>	<u>1,283,123</u>
GROSS PROFIT	1,024,409	-	1,024,409
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,138,724</u>	<u>-</u>	<u>1,138,724</u>
EXCESS OF EXPENDITURES OVER REVENUES FROM OPERATIONS	(114,315)	-	(114,315)
NON-OPERATING REVENUES (EXPENSES)			
Donations - Scenic Overlook	59,104	-	59,104
Interest income	840	-	840
Special events	(23,397)	-	(23,397)
Total non-operating revenues	<u>36,547</u>	<u>-</u>	<u>36,547</u>
EXCESS EXPENDITURES OVER REVENUES	(77,768)	-	(77,768)
NET ASSETS RELEASED FROM BOARD-DESIGNATED RESTRICTIONS	24,686	(24,686)	-
TOTAL NET ASSETS, beginning of year	<u>2,423,831</u>	<u>325,028</u>	<u>2,748,859</u>
TOTAL NET ASSETS, end of year	<u>\$ 2,370,749</u>	<u>\$ 300,342</u>	<u>\$ 2,671,091</u>

See Accompanying Notes and Independent Auditors' Report

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted		TOTAL
	<u>Unrestricted</u>	<u>Board-designated</u>	
OPERATING REVENUES			
Rents	\$ 480,880	\$ 180,000	\$ 660,880
Fuel and oil sales	1,584,089	-	1,584,089
Fees, catering and miscellaneous income	37,784	-	37,784
Total revenues	<u>2,102,753</u>	<u>180,000</u>	<u>2,282,753</u>
COST OF SALES			
Fuel and oil	1,264,873	-	1,264,873
Catering and miscellaneous	10,273	-	10,273
Total cost of sales	<u>1,275,146</u>	<u>-</u>	<u>1,275,146</u>
GROSS PROFIT	827,607	180,000	1,007,607
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,015,465</u>	<u>-</u>	<u>1,015,465</u>
EXCESS (SHORT) REVENUES OVER EXPENDITURES FROM OPERATIONS	(187,858)	180,000	(7,858)
NON-OPERATING REVENUES (EXPENSES)			
Contributions - Corporate Project	-	75,000	75,000
Donations - Scenic Overlook	63,358	-	63,358
Interest income	1,260	-	1,260
Special events	(19,210)	-	(19,210)
Unrealized loss	(60)	-	(60)
Realized loss	(7,613)	-	(7,613)
Total non-operating revenues	<u>37,735</u>	<u>75,000</u>	<u>112,735</u>
EXCESS (SHORT) REVENUES OVER EXPENDITURES	(150,123)	255,000	104,877
NET ASSETS RELEASED FROM BOARD-DESIGNATED RESTRICTIONS	14,972	(14,972)	-
TOTAL NET ASSETS, beginning of year	<u>2,558,982</u>	<u>85,000</u>	<u>2,643,982</u>
TOTAL NET ASSETS, end of year	<u>\$ 2,423,831</u>	<u>\$ 325,028</u>	<u>\$ 2,748,859</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (short) revenues over expenditures	\$ (77,768)	\$ 104,877
Adjustments to reconcile excess (short) revenues over expenditures to net cash provided by operating activities:		
Depreciation	154,325	163,846
Unrealized (Gain) Loss	-	60
Realized (Gain) Loss	-	7,613
(Increase) decrease in:		
Accounts receivable	(12,292)	(4,669)
Inventories	(3,850)	6,100
Prepaid expenses	(3,943)	15,695
Deposits	(81)	1,808
Increase (decrease) in:		
Accounts payable - trade	5,600	(7,170)
Accrued compensated absences	(5,691)	(17,798)
Accrued payroll	1,026	(6,660)
Credit card payable	(4,658)	(1,491)
Deferred rental income	2,888	(4,079)
Line of credit	-	(227,392)
Payroll taxes payable	4,219	(5,141)
Sales taxes payable	348	(103)
Other accrued liabilities	(650)	(100)
Rental security deposits	1,787	534
Deferred revenue	(23,607)	885,243
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>37,653</u>	<u>911,173</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property & equipment	(157,525)	(391,562)
Principal payments on capital lease	(7,575)	(1,946)
Proceeds from sale of property & equipment	7,386	-
Purchase of investment, net	-	(248,991)
Reinvested investment income	-	(920)
Proceeds from sale of securities	-	242,238
NET CASH USED IN INVESTING ACTIVITIES	<u>(157,714)</u>	<u>(401,181)</u>
Increase (Decrease) in cash and cash equivalents	(120,061)	509,992
Cash and cash equivalents, beginning of year	<u>829,763</u>	<u>319,771</u>
Cash and cash equivalents, end of year	<u><u>\$ 709,702</u></u>	<u><u>\$ 829,763</u></u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the nature of operations of Sedona-Oak Creek Airport Authority and its significant accounting policies applied in the preparation of the accompanying financial statements follows:

Nature of Operations

Sedona-Oak Creek Airport Authority is a non-profit Authority incorporated in the State of Arizona. The Sedona-Oak Creek Airport Authority (the "Authority") was formed in 1978 under Title 10, Chapter 1, Article 16 of the Arizona Revised Statutes (A.R.S.) to operate the Sedona Airport located in Sedona, Arizona.

The Sedona Airport began on February 6, 1957 when the United States of America, through the Secretary of Agriculture, and approved by US Attorney General, issued a patent (land easement) to Yavapai County and/or its successors in function or interest. This patent deeded those certain lands for public airport purposes in perpetuity. The land can only be used for public airport purposes. The Authority has a lease with Yavapai County to manage operations of the land, buildings, and improvements until June 30, 2050.

During 2005, the Internal Revenue Service recognized the Authority as a tax-exempt entity pursuant to Internal Revenue Code Section 501 (c) (3). A.R.S. Article 28-8423 provides for the tax-exempt status of the Authority from state property taxes.

Reporting Activities

The Authority's reporting activities consists of two divisions, which are Airport Operations and Red Rock Aviation.

The Airport Operations division consists of the activities related to the airport administration and management, including the administration of all sub-leasing activity. The Red Rock Aviation division consists of the operation of a fuel farm and normal line service activities.

Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues and other increases in net assets are recognized when they are earned, and expenses and other decreases in net assets are recognized when they are incurred.

Basis of Presentation

Financial statement presentation is in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification *Not-for-Profit Entities, Presentation of Financial Statements*. Accordingly, the Authority is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Designation of Unrestricted Net Assets

It is the policy of the Board of Directors of the Authority to review its plans for future property improvements and expansion from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such improvements and expansion.

Contributions

Financial statement presentation is in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification *Not-for-Profit Entities, Presentation of Financial Statements*. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Donated Property and Equipment

Donated property and equipment is recorded at fair value as determined by the Board of Directors on the date the gift is placed in service. Donated property and equipment would be reflected under Gifts in Kind in the Statement of Revenues, Expenses and Changes in Net Assets.

Cash and Cash Equivalents

The Authority considers cash to be cash on hand, demand bank accounts, money markets, mutual funds, and certificates of deposits with an original maturity of six months or less. Cash accounts at December 31, 2013 consisted of cash on hand and cash deposits in bank accounts. As of December 31, 2012, cash accounts also included money markets and mutual funds.

Investments

Investments in marketable securities with readily determinable fair values in active markets are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets for which the investment relates.

Accounts Receivable

Accounts receivable consists of amounts owed the Authority for both rents and fuel sales on short-term credit. Accounts are considered past due when payment is not received within 30 days of origination. Any allowance for doubtful accounts is based upon management's estimates of uncollectible accounts and the Authority's historical collection experience.

Property & Equipment

Fixed assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Generally, items with a useful life of greater than one year and a cost in excess of \$500 are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current non-operating revenues.

Inventories

Inventories, consisting mainly of aviation fuel, are valued at the lower of cost (first-in, first-out) or market value.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

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

Advertising Costs

Advertising costs are charged to operations as incurred.

Income Taxes

The Authority has been granted tax exempt status under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for income tax has been included in the financial statements.

The Authority files information tax returns with the U.S. federal and Arizona state governments. With few exceptions, the organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2010 (federal) and 2009 (Arizona). Arizona tax year 2008 was open as of December 31, 2012.

Sales Taxes

The Authority collects sales taxes on fuel and oil sales and rent payments for non-aviation activities; these sales are presented net of related sales taxes.

Date of Management's Review

Management has reviewed events subsequent to December 31, 2013 up through April 30, 2014, the date the financial statements were available to be issued, to evaluate their effect on the fair presentation of the financial statements. As of the date the financial statements were available to be issued, there have been no events subsequent to December 31, 2013 that are required to be disclosed in order to present fairly the financial position and changes in net assets of the Authority.

NOTE 2 - USE OF ESTIMATES

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

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Authority has bank accounts with balances that sometimes exceed the \$250,000 federally insured limit, which exposes the company to risk in the event of a bank failure. Management monitors this regularly to keep this potential risk to a minimum.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 4 - CASH AND CASH EQUIVALENTS

At December 31, 2013 and 2012, cash and cash equivalents included the following:

	2013	2012
Cash on hand	\$ 559	\$ 556
Checking	94,450	415,087
Savings	614,693	171,976
Money market & mutual funds	-	242,144
Total cash and cash equivalents	<u>\$ 709,702</u>	<u>\$ 829,763</u>

NOTE 5 - ACCOUNTS RECEIVABLE

At December 31, 2013 and 2012, accounts receivable consisted of the following:

	2013	2012
Current to 30 days	\$ 38,933	\$ 26,641
Total accounts receivable	<u>\$ 38,933</u>	<u>\$ 26,641</u>

Management considers all accounts to be fully collectible. Therefore, no allowance for doubtful accounts has been recorded. Management has based this estimate on their prior experience with the customers and prior collection history. As a result, it is reasonably possible that this estimate may change in the near future.

NOTE 6 - PROPERTY AND EQUIPMENT

Capital assets of the Authority are recorded at cost. Costs incurred for maintenance and repairs are charged against operations. Generally, assets purchased for \$500 or more, and renewals and betterments that materially extend the life of the assets are capitalized. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, by major capital asset classifications are as follows:

Building and ground improvements	6 - 50 years
Equipment	3 - 7 years
Fuel farm	20 years
Furniture and fixtures	5 - 20 years
Hangars	7 - 20 years
Taxi, runway and heliport	20 years
Vehicles	5 years

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 6 - PROPERTY AND EQUIPMENT (Continued)

At December 31, 2013 and 2012, property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Building, land and ground improvements	\$ 3,822,853	\$ 3,743,352
Equipment	60,547	58,331
Fuel farm	103,992	103,992
Furniture and fixtures	236,278	217,034
Hangar	87,204	68,729
Taxiway, runway and heliport	507,456	479,826
Vehicles	102,185	102,185
	<u>4,920,515</u>	<u>4,773,449</u>
Less accumulated depreciation	<u>(2,087,803)</u>	<u>(1,933,477)</u>
Total property & equipment, net	<u>\$ 2,832,712</u>	<u>\$ 2,839,972</u>

NOTE 7 - FAIR VALUE MEASUREMENTS

Fair Values of assets measured on a recurring basis at December 31, 2012 consisted of money market and mutual funds included in cash and cash equivalents (as stated in note 4).

Fair values for money market and mutual funds are determined by reference to Level 1 inputs. These include quoted prices in active markets as obtained from the principal of the money market and mutual funds at the date of the statement of financial position.

NOTE 8 - AGREEMENTS AND COMMITMENTS WITH YAVAPAI COUNTY

On January 18, 1971, the Sedona-Oak Creek Airport Authority entered into an agreement with Yavapai County to lease all buildings, structures, improvements, and personal property of the Sedona Airport for one dollar per year. The term of the lease, as amended, extends through June 30, 2050. The lease provides for the operation of the property in accordance with the provisions stated in the land patent by the U.S. Government on May 13, 1946.

During the term of the lease agreement, the Authority will operate and manage the property. All personal property acquired belongs to the Authority and may be sold, traded, or disposed of. However, upon termination of the lease agreement, all real and personal property passes to Yavapai County.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 9 - LINE OF CREDIT

In April 2012, the Authority obtained a \$150,000, 12 month line of credit with Chase Bank which expires June 15, 2014. The interest rate was 6.35%, and there were no funds drawn at December 31, 2013 or 2012.

NOTE 10 - RENTAL REVENUE

The Authority derives revenue from the leasing of airplane hangars and various buildings onsite at the Sedona Airport. These leases have various terms and payments and are subject to various renewal options. Investment in property and equipment held for lease at December 31, 2013 and 2012 is as follows:

	2013	2012
Structure and grounds improvement	\$ 1,609,770	\$ 1,590,580
Less accumulated depreciation	(110,171)	(73,125)
	\$ 1,499,599	\$ 1,517,455

Rental revenue for the years ended December 31, 2013 and 2012 consisted of the following:

	2013	2012
Sky Ranch Lodge	\$ 177,750	\$ 173,049
Mesa Grill	87,810	81,247
Hangars	156,252	163,968
Communications sites	41,740	57,235
Terminals	27,099	37,508
Commercial building space	60,307	29,674
Other rents, parking & miscellaneous	118,685	118,199
Total	\$ 669,643	\$ 660,880

During 2013 and 2012, the Authority received \$330,012 and \$315,094, respectively from commercial leases with an additional requirement of a payment of a percentage of gross income. The amount collected varies from year to year and is contingent on the tenant's income. Contingent rental income is recognized when earned.

NOTE 11 - RISK PROTECTION

The Authority purchases commercial insurance to cover risks of damage claims and loss of personal properties, buildings and improvements. This insurance is mandated in the Authority's lease with Yavapai County. Lessees of the Authority's improvements are required to keep minimum coverage as stipulated in the related lease agreements.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 12 - MAJOR CUSTOMERS AND TENANTS

For the years ended December 31, 2013 and 2012, there were five major customers and/or tenants that comprised the following percentages of gross revenues.

	<u>Rent</u>		<u>Fuel</u>		<u>Contract</u>
	2013	2012	2013	2012	<u>Expires</u>
AHA, LLC	3.0%	6.5%	7.2%	6.7%	11/30/2014
Sky Treks	3.0%	3.8%	4.5%	5.2%	2/28/2015
Mesa Grill	13.1%	12.3%	0.0%	0.0%	7/31/2016
Dakota Territory	5.5%	12.3%	16.1%	16.4%	6/30/2015
Sky Ranch Lodge	26.5%	26.1%	0.0%	0.0%	6/30/2050

Accounts receivable concentration from major customers: two customers comprised 69% and 65% of total accounts receivable at December 31, 2013 and 2012, respectively.

NOTE 13 - CAPITAL LEASE

The Authority acquired a modular building under the provisions of a long-term lease at zero percent interest during 2012. For financial reporting purposes, minimum lease payments relating to the modular building have been capitalized. The lease expires September 2015. The leased property under capital lease as of December 31, 2013 and 2012 had a cost of \$58,555. Depreciation of the leased property included in depreciation expense was \$3,111 for the year ended December 31, 2013.

The capital lease at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Total capital lease	\$ 26,315	\$ 36,964
Current portion	(11,680)	(11,680)
Long-term capital lease obligation	<u>\$ 14,635</u>	<u>\$ 25,284</u>

Minimum future lease payments under this capital lease are:

2014	\$ 11,680
2015	<u>14,635</u>
	<u>\$ 26,315</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 14 - OPERATING LEASE

The Authority entered into lease agreements during 2008 with a supplier for a jet fuel truck and an Avgas refueler. Both leases contained an initial five-year term, beginning February 1, 2008 and have continued month-to-month subsequently. The jet fuel truck requires monthly payments of \$1,295 and the Avgas refueler requires monthly payments of \$495. Rental expense, which includes sales tax, for the years ended December 31, 2013 and 2012 was \$24,972 and \$23,059, respectively.

NOTE 15 - COMPENSATED ABSENCES

Employees are entitled to certain compensated absences based on their length of employment. These compensated absences are fully vested when earned and are accumulated to the employee's credit. Vacation time accrued must be paid upon termination of employment, while sick leave is forfeited upon termination of employment. It is management's estimate that sick pay is more likely to be used than forfeited; therefore an accrual has been included in these financial statements. The amounts accumulated were \$12,079 and \$16,842, respectively, for vacation pay, and \$11,884 and \$13,905, respectively, for sick pay at December 31, 2013 and 2012. An additional accrual of \$1,093 represents overtime earned to be taken as additional compensated time off at December 31, 2013.

NOTE 16 - RETIREMENT PLAN

During 2000, the Board entered into an agreement with the Arizona State Retirement System (ASRS) for the Board to administer a retirement and long term disability plan pursuant to Section 38-729 of the Arizona Revised Statutes. The plan is described as cost-sharing, multiple employer, public employee, tax qualified, defined benefit retirement plan. The employee and the employer contribute to the member's retirement a qualified percentage of compensation paid.

Generally, all employees of the Authority who are engaged to work at least twenty (20) weeks in a fiscal year for at least twenty (20) hours per week become members in the retirement plan upon employment. Membership is mandatory for those employees who meet the membership criteria. Employee and employer matching contribution rates as a percentage of compensation are actuarially determined and adjusted at each annual actuarial valuation date. The contributions paid by the Authority were \$43,160 and \$32,264, respectively in 2013 and 2012.

The risks of participating in a multi-employer plan are different from single employer plans. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. The Authority's agreement to participate in ASRS is irrevocable. In the event the Authority is dissolved or otherwise ceases to participate, the ASRS would allocate a liability to the Authority equal to the sum of the Authority's actuarially accrued liability multiplied by the ASRS plan's total deficit percentage and the Authority's actuarially accrued liability for the long term disability plan multiplied by the long-term disability plan's total deficit percentage.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 16 - RETIREMENT PLAN (Continued)

The ASRS plan's financial statements are prepared in accordance with the Governmental Accounting Standards Board, and an actuarial valuation is conducted annually. As of June 30, 2013 and 2012, the Plan was 75.9% and 75.7% funded, respectively. The Authority's contributions did not represent more than 5% of total plan contributions in 2013 or 2012.

NOTE 17 - NET ASSETS

The Authority had \$2,671,091 and \$2,748,859 of unrestricted net assets at December 31, 2013 and 2012, respectively. Unrestricted net assets were comprised of the following:

	<u>2013</u>	<u>2012</u>
Unrestricted funds	\$ (461,963)	\$ (416,141)
Board designated for future expansion	300,342	325,028
Invested in capital assets	<u>2,832,712</u>	<u>2,839,972</u>
	<u>\$ 2,671,091</u>	<u>\$ 2,748,859</u>

The deficit balance in Unrestricted funds for 2013 and 2012 is due to the Authority's spending more on future expansions than had been designated by the Board in prior years.

NOTE 18 - CASH FLOW INFORMATION

The Authority had a non-cash financing transaction of \$38,910 for a capital lease in 2012 and a forgiveness of capital lease payments of \$3,073 in 2013.

The Authority paid cash for interest of \$973 and \$1,383 for the years ended December 31, 2013 and 2012, respectively.

No cash was paid for income taxes during the years ended December 31, 2013 or 2012.

NOTE 19 - BOARD-DESIGNATED FUNDS

The Authority has a grant match program for future expansions. As of December 31, 2013 and 2012, the board had designated \$157,314 and \$180,000 of unrestricted funds to this account.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 20 - DEFERRED REVENUE

In 2012 the Authority received advanced payments totaling \$900,000 for two cell tower leases. The revenue is being recognized in equal monthly amounts over the respective lease terms of approximately 39 years.

NOTE 21 - RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current presentation.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 22 - SCHEDULE OF FUNCTIONAL EXPENSES

Program and support service expenses for the year ended December 31, 2013 are as follows:

	<u>Program Services</u>	<u>Support Services</u>	<u>Totals</u>
Advertising	\$ 2,135	\$ -	\$ 2,135
Bank charges	103	-	103
Contributions	-	905	905
Credit card fees	46,847	-	46,847
Depreciation	154,325	-	154,325
Dues and subscriptions	1,872	-	1,872
Fees, permits, & licenses	2,132	-	2,132
Fundraising	1,775	-	1,775
Employee benefits	55,484	36,999	92,483
Equipment rental	24,972	-	24,972
Insurance	26,968	-	26,968
Interest	973	-	973
Legal and professional	51,535	-	51,535
Miscellaneous	2,653	-	2,653
Office supplies	-	7,629	7,629
Outside services	11,764	-	11,764
Payroll tax expense	30,590	20,394	50,984
Postage and freight	459	-	459
Repair and maintenance	55,836	2,939	58,775
Security	16,087	-	16,087
Supplies	19,484	-	19,484
Taxes-jet fuel	7,428	-	7,428
Taxes-personal property	1,504	-	1,504
Travel and entertainment	10,218	6,812	17,030
Telephone	7,876	7,876	15,752
Utilities	56,320	2,964	59,284
Vehicle expense	13,336	-	13,336
Wages	268,137	180,472	448,609
Website	875	46	921
Total	<u>\$ 871,688</u>	<u>\$ 267,036</u>	<u>\$ 1,138,724</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 22 - SCHEDULE OF FUNCTIONAL EXPENSES (Continued)

Program and support service expenses for the year ended December 31, 2012 are as follows:

	<u>Program Services</u>	<u>Support Services</u>	<u>Totals</u>
Advertising	\$ 4,528	\$ -	\$ 4,528
Bank charges	329	-	329
Contributions	-	800	800
Credit card fees	36,705	-	36,705
Depreciation	163,846	-	163,846
Dues and subscriptions	1,835	-	1,835
Fees, permits, & licenses	3,991	-	3,991
Fundraising	1,350	-	1,350
Employee benefits	48,333	32,222	80,555
Equipment rental	23,098	-	23,098
Insurance	32,189	-	32,189
Interest	1,838	-	1,838
Investment management fees	1,314	-	1,314
Legal and professional	56,638	-	56,638
Miscellaneous	-	228	228
Office supplies	-	6,014	6,014
Outside services	606	-	606
Payroll tax expense	20,104	13,403	33,507
Postage and freight	3,431	381	3,812
Repair and maintenance	21,241	1,118	22,359
Security	21,214	-	21,214
Supplies	12,037	-	12,037
Taxes-jet fuel	-	7,251	7,251
Taxes-personal property	155	-	155
Travel and entertainment	8,228	5,486	13,714
Telephone	5,562	5,563	11,125
Utilities	52,664	2,772	55,436
Vehicle expense	8,623	-	8,623
Wages	245,759	163,839	409,598
Website	732	38	770
Total	<u>\$ 776,350</u>	<u>\$ 239,115</u>	<u>\$ 1,015,465</u>

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

To the Board of Directors of
Sedona-Oak Creek Airport Authority

We have audited the financial statements of Sedona-Oak Creek Airport Authority as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated April 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis and the schedules of revenue and expenses by division and general and administrative expenses by division are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Guest Schutte Cospers & Ledbetter

Guest, Schutte, Cospers & Ledbetter
Flagstaff, Arizona

April 30, 2014

**SEDONA-OAK CREEK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013 and 2012**

Our discussion and analysis of Sedona-Oak Creek Airport Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2013. Please read it in conjunction with the comparative financial statements. Financial statements for 2012 are included for further comparison and analysis; this discussion will primarily address financial information for the year ended December 31, 2013.

The financial statements, including the statements of financial position, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows, provide information about the Authority as a whole and its activities in a way that helps the users of these financial statements understand how the Authority's financial position compares to the prior years. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most for-profit companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the Authority's net assets and changes in them. The user of the financial statements can think of the Authority's net assets, which are the difference between assets and liabilities, as one way to measure the Authority's financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether the Authority's financial position is improving or deteriorating. The user of the financial statements will need to consider other non-financial factors, however, such as changes in the Authority's tenant base and the condition of the Authority's facilities and equipment.

The Authority's net assets decreased by \$77,768 as a result of operations for the year ended 2013. Net assets totaled \$2,671,091 and \$2,748,859 at December 31, 2013 and 2012, respectively. Of the \$2,671,091 of net assets in the current year, \$2,832,712 was invested in capital assets and \$300,342 was Board designated for future expansion. Therefore, the Authority had an unrestricted deficit of \$(461,963) at December 31, 2013. The Authority's current assets exceeded its current liabilities by \$747,712 as of December 31, 2013. This is a good indicator of the Authority's operating strength and stability.

The Authority's only debt is a long-term capital lease with a remaining balance of \$26,315 at December 31, 2013, which is expected to be repaid in 2015.

Total revenue for the Authority increased by \$24,779 for the year ended December 31, 2013. The net increase was comprised of an increase in fuel and oil sales of \$24,925, an increase in rent revenue of \$8,763, and a decrease in fees and miscellaneous income of (\$8,909).

**SEDONA-OAK CREEK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013 and 2012**

The Authority's combined gross margin on the operations of both divisions, including all rent, fuel and oil sales, was approximately 44% for the year ended December 31, 2013, consistent with the prior year. General and administrative expenses increased in 2013 by \$123,259, due primarily to increases in wages, benefits and related payroll expense totaling \$45,285 and a \$36,416 increase in repairs and maintenance expenses.

The Authority completed a major renovation and expansion project of its terminal building/restaurant in 2012. Capital projects in 2013 totaled \$157,525 and included the construction of modular complex infrastructure \$61,735, taxiway and apron improvements totaling \$27,629, hangar improvements totaling \$18,475, and upgrades to the main terminal including conference center furniture, carpeting and furnace improvements totaling \$28,855.

Cash flows provided by operations totaled \$37,653 for the year ended December 31, 2013. Cash flows from operations in 2012 were significantly higher at \$911,173, largely due to the prepayment of two 39-year leases which were recognized as deferred revenue. The deferred revenue is being recognized pro rata over the lease term in accordance with accounting principles generally accepted in the United States.

The Authority has a stable, professional and responsible staff to handle the day-to-day affairs of managing the Airport.

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Sedona Airport Authority's finances and to show the Authority's accountability for the money it receives and the assets it manages. If you have questions about this report or need additional financial information, contact Rod Propst, Airport General Manager, 235 Air Terminal Dr., Sedona, Arizona, 86336.

SEDONA-OAK CREEK AIRPORT AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Airport Operations</u>	<u>Red Rock Aviation</u>	<u>Totals</u>
OPERATING REVENUES			
Rents	\$ 669,643	\$ -	\$ 669,643
Fuel and oil sales	-	1,609,014	1,609,014
Fees, catering and miscellaneous income	16,915	11,960	28,875
Total revenues	<u>686,558</u>	<u>1,620,974</u>	<u>2,307,532</u>
COST OF SALES			
Fuel and oil	-	1,270,387	1,270,387
Catering and miscellaneous	9	12,727	12,736
Total cost of sales	<u>9</u>	<u>1,283,114</u>	<u>1,283,123</u>
GROSS PROFIT	686,549	337,860	1,024,409
GENERAL AND ADMINISTRATIVE EXPENSES	<u>736,532</u>	<u>402,192</u>	<u>1,138,724</u>
LOSS FROM OPERATIONS	(49,983)	(64,332)	(114,315)
NON-OPERATING REVENUES (EXPENSES)			
Donations - Scenic Overlook	59,104	-	59,104
Interest income	840	-	840
Special events	(23,397)	-	(23,397)
Total non-operating revenues	<u>36,547</u>	<u>-</u>	<u>36,547</u>
EXCESS EXPENDITURES OVER REVENUES	<u>\$ (13,436)</u>	<u>\$ (64,332)</u>	<u>\$ (77,768)</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Airport Operations</u>	<u>Red Rock Aviation</u>	<u>Totals</u>
OPERATING REVENUES			
Rents	\$ 660,452	\$ 428	\$ 660,880
Fuel and oil sales	-	1,584,089	1,584,089
Fees, catering and miscellaneous income	<u>26,848</u>	<u>10,936</u>	<u>37,784</u>
Total revenues	687,300	1,595,453	2,282,753
COST OF SALES			
Fuel and oil	1,077	1,263,796	1,264,873
Catering and miscellaneous	<u>15</u>	<u>10,258</u>	<u>10,273</u>
Total cost of sales	<u>1,092</u>	<u>1,274,054</u>	<u>1,275,146</u>
GROSS PROFIT	686,208	321,399	1,007,607
GENERAL AND ADMINISTRATIVE EXPENSES	<u>666,283</u>	<u>349,182</u>	<u>1,015,465</u>
INCOME (LOSS) FROM OPERATIONS	19,925	(27,783)	(7,858)
NON-OPERATING REVENUES (EXPENSES)			
Contributions - Capital Project	75,000	-	75,000
Donations - Scenic Overlook	63,358	-	63,358
Interest income	1,260	-	1,260
Special events	(19,210)	-	(19,210)
Unrealized loss	(60)	-	(60)
Realized loss	<u>(7,613)</u>	-	<u>(7,613)</u>
Total non-operating revenues	<u>112,735</u>	<u>-</u>	<u>112,735</u>
EXCESS (SHORT) REVENUES OVER EXPENDITURES	<u><u>\$ 132,660</u></u>	<u><u>\$ (27,783)</u></u>	<u><u>\$ 104,877</u></u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Airport Operations</u>	<u>Red Rock Aviation</u>	<u>Totals</u>
GENERAL AND ADMINISTRATIVE EXPENSES			
Advertising	\$ 2,026	\$ 109	\$ 2,135
Bank charges	103	-	103
Contributions	502	403	905
Credit card fees	1,273	45,574	46,847
Depreciation	134,411	19,914	154,325
Dues and subscriptions	1,437	435	1,872
Fees, permits, & licenses	1,847	285	2,132
Fundraising	1,775	-	1,775
Employee benefits	29,817	62,666	92,483
Equipment rental	-	24,972	24,972
Insurance	26,968	-	26,968
Interest	973	-	973
Legal and professional	51,535	-	51,535
Miscellaneous	1,338	1,315	2,653
Office supplies	6,714	915	7,629
Outside services	11,764	-	11,764
Payroll tax expense	28,442	22,542	50,984
Postage and freight	459	-	459
Repair and maintenance	52,275	6,500	58,775
Security	16,087	-	16,087
Supplies	16,319	3,165	19,484
Taxes-jet fuel	-	7,428	7,428
Taxes-personal property	1,504	-	1,504
Travel and entertainment	13,036	3,994	17,030
Telephone	10,151	5,601	15,752
Utilities	57,426	1,858	59,284
Vehicle expense	699	12,637	13,336
Wages	266,730	181,879	448,609
Website	921	-	921
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	<u>\$ 736,532</u>	<u>\$ 402,192</u>	<u>\$ 1,138,724</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Airport Operations</u>	<u>Red Rock Aviation</u>	<u>Totals</u>
GENERAL AND ADMINISTRATIVE EXPENSES			
Advertising	\$ 3,071	\$ 1,457	\$ 4,528
Bank charges	329	-	329
Contributions	800	-	800
Credit card fees	981	35,724	36,705
Depreciation	144,854	18,992	163,846
Dues and subscriptions	1,750	85	1,835
Fees, permits, & licenses	2,356	1,635	3,991
Fundraising	1,350	-	1,350
Employee benefits	30,258	50,297	80,555
Equipment rental	-	23,098	23,098
Insurance	32,189	-	32,189
Interest	1,838	-	1,838
Investment management fees	1,314	-	1,314
Legal and professional	56,398	240	56,638
Miscellaneous	184	44	228
Office supplies	5,145	869	6,014
Outside services	606	-	606
Payroll tax expense	18,539	14,968	33,507
Postage and freight	3,804	8	3,812
Repair and maintenance	21,021	1,338	22,359
Security	21,214	-	21,214
Supplies	10,082	1,955	12,037
Taxes-jet fuel	-	7,251	7,251
Taxes-personal property	155	-	155
Travel and entertainment	12,982	732	13,714
Telephone	6,448	4,677	11,125
Utilities	53,395	2,041	55,436
Vehicle expense	344	8,279	8,623
Wages	234,106	175,492	409,598
Website	770	-	770
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	<u>\$ 666,283</u>	<u>\$ 349,182</u>	<u>\$ 1,015,465</u>