

SEDONA-OAK CREEK AIRPORT AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022



SEDONA-OAK CREEK AIRPORT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2023 and 2022, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sedona-Oak Creek Airport Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sedona-Oak Creek Airport Authority's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

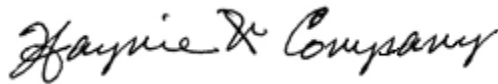
In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

INDEPENDENT AUDITORS' REPORT (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sedona-Oak Creek Airport Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sedona-Oak Creek Airport Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Haynie & Company
Flagstaff, Arizona

April 29, 2024

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,403,673	\$ 1,520,163
Restricted cash	-	2,598,316
Investments in U.S. Treasury Bills	998,666	492,662
Accounts receivable	136,815	69,472
Inventories	124,004	97,853
Prepaid expenses	49,386	45,076
TOTAL CURRENT ASSETS	2,712,544	4,823,542
NON-CURRENT ASSETS		
Right-of-use assets, net of accumulated amortization	47,149	92,375
Property and equipment net of accumulated depreciation	14,004,720	11,209,561
TOTAL NON-CURRENT ASSETS	14,051,869	11,301,936
TOTAL ASSETS	\$ 16,764,413	\$ 16,125,478

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable - trade	\$ 193,301	\$ 1,107,419
Accrued compensated absences	35,597	19,931
Accrued payroll liabilities	22,903	21,850
Deferred rental income	21,129	29,080
Sales taxes payable	654	578
Current portion - lease obligations	57,829	71,151
Current portion - long-term debt	205,429	197,764
TOTAL CURRENT LIABILITIES	536,842	1,447,773
LONG-TERM LIABILITIES		
Rental security deposits	29,734	30,120
Deferred revenue	625,571	649,177
Other liabilities	5,301	5,301
Lease obligations, less current portion	8,985	53,818
Long-term debt, less current portion	3,335,014	3,537,110
TOTAL LONG-TERM LIABILITIES	4,004,605	4,275,526
TOTAL LIABILITIES	4,541,447	5,723,299
NET ASSETS		
Without donor restrictions	12,222,966	10,402,179
TOTAL NET ASSETS	12,222,966	10,402,179
TOTAL LIABILITIES AND NET ASSETS	\$ 16,764,413	\$ 16,125,478

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Rents	\$ 1,314,981	\$ 1,341,138
Fuel and oil sales	2,853,696	3,137,708
Fees, catering and miscellaneous income	307,175	305,793
Parking fees and donations - Scenic Overlook	431,553	398,158
Total revenues	<u>4,907,405</u>	<u>5,182,797</u>
 COST OF SALES		
Fuel and oil	1,625,504	1,845,483
Catering and miscellaneous	17,103	12,747
Total cost of sales	<u>1,642,607</u>	<u>1,858,230</u>
 GROSS PROFIT	 3,264,798	 3,324,567
 GENERAL AND ADMINISTRATIVE EXPENSES	 <u>2,827,682</u>	 <u>3,071,074</u>
 EXCESS OF REVENUES OVER EXPENDITURES FROM OPERATIONS	 437,116	 253,493
 NON-OPERATING REVENUES		
Contributions in kind	1,341,102	121,597
Contributions - FAA and EIDL Grants	-	32,000
Payroll Protection Loan forgiveness	-	151,917
Settlement reimbursement	-	130,000
Interest income	40,133	290
Special events income, net of expense	4,192	(11,717)
Loss on disposal of equipment	(1,756)	150
Total non-operating revenues	<u>1,383,671</u>	<u>424,237</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 1,820,787	 677,730
 TOTAL NET ASSETS, beginning of year	 <u>10,402,179</u>	 <u>9,724,449</u>
 TOTAL NET ASSETS, end of year	 <u>\$ 12,222,966</u>	 <u>\$ 10,402,179</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 1,820,787	\$ 677,730
Adjustments to reconcile excess of revenues over expenditures to net cash provided by operating activities:		
Depreciation and amortization	613,282	533,388
Contributions in kind	(1,315,447)	(108,397)
Loss on disposal of equipment	1,756	-
Payroll Protection Plan Loan forgiveness	-	(151,917)
Noncash changes in operating lease assets and liabilities	(12,929)	32,594
(Increase) decrease in:		
Accounts receivable	(67,343)	79,586
Inventories	(26,151)	(14,133)
Prepaid expenses	(4,310)	16,215
Increase (decrease) in:		
Accounts payable - trade	(914,118)	840,749
Accrued compensated absences	15,666	(386)
Accrued payroll liabilities	1,053	703
Deferred rental income	(7,951)	19,946
Sales taxes payable	76	(400)
Rental security deposits	(386)	5,344
Deferred revenue	(23,606)	(23,607)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>80,379</u>	<u>1,907,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of U.S. Treasury Bills	(1,965,920)	(492,662)
Maturities of U.S. Treasury Bills	1,459,916	-
Purchase of property and equipment	(2,091,417)	(2,913,033)
Restricted cash held for fuel farm construction	2,598,316	(2,598,316)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>895</u>	<u>(6,004,011)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings - Long-term debt	-	3,953,000
Repayments of Long-term debt	(197,764)	(220,904)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(197,764)</u>	<u>3,732,096</u>
Decrease in cash and cash equivalents	(116,490)	(364,500)
Cash and cash equivalents, beginning of year	<u>1,520,163</u>	<u>1,884,663</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,403,673</u></u>	<u><u>\$ 1,520,163</u></u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

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 the U.S. 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 consist 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 records financial transactions using the accrual method. 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 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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Cash and Cash Equivalents

The Authority considers cash to be cash on hand, demand bank accounts, money markets, mutual funds, and certificates of deposit with an original maturity of six months or less. Cash accounts at December 31, 2023 and 2022 consisted of cash on hand and cash deposits in bank accounts.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Pursuant to the Bond Purchase and Loan Agreement (Note 11), the Authority maintained cash from loan proceeds in a restricted cash account until authorized for expenditure for construction of the fuel farm. The fuel farm was completed during 2023.

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 credit losses is based upon management's estimates of uncollectible accounts and the Authority's historical collection experience as well as current and forecasted economic factors. Receivables are written off and the allowance account is adjusted when collection efforts have been exhausted.

Inventories

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

Prepaid Expenses

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

Property and Equipment

Fixed assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Assets funded by pass-through grants or other contributions are recorded at their fair values on the date of gift. Assets purchased with a useful life of greater than one year and a cost in excess of \$1,500 are capitalized. Costs incurred for maintenance and repairs are charged against operations. 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. 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, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases - Lessee

The Authority recognizes a right-of-use asset and liability for all operating leases with terms in excess of 12 months, including periods from any renewal or extension options that the Authority is reasonably certain to exercise. The lease liability is recorded at the present value of minimum lease payments at the rate implicit in the lease, if known, or an incremental borrowing rate. The lease liability is reduced as lease payments are made throughout the life of the lease. The right-of-use asset is reduced as lease expense is recognized on a straight-line basis throughout the life of the lease. The total lease expense will be equal to the total lease component payments made for the lease.

Revenues from Contracts with Customers

The Authority recognizes revenues from fuel sales and other services at the time the fuel or other performance obligation is delivered to the customer. Customers pay by credit card at the time of service, and generally payments are collected from the merchant processor within three business days.

Contributions

In accordance with the Financial Accounting Standards Board Accounting Standards Codification *Not-for-Profit Entities, Presentation of Financial Statements*, contributions received are recorded depending on the existence or absence of any donor-imposed restrictions.

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.

Sales Taxes

The Authority collects sales taxes on jet fuel and remits them to the state of Arizona. Fuel sales are presented gross, including related sales taxes of \$11,977 and \$12,522 at for the years ended December 31, 2023 and 2022, respectively.

Functional Allocation of Expenses

The costs of supporting the Authority's programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the program and supporting management and general categories. Such allocations are determined by management on an equitable basis. Wages, payroll taxes and benefits are allocated based upon time and effort. Administrative expenses and supplies are allocated based upon estimated usage. Utilities are based upon an allocation of square footage and estimated usage. Telephone is allocated based upon estimated usage.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Date of Management's Review

Management has reviewed events subsequent to December 31, 2023 up through April 29, 2024, 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, 2023 that are required to be disclosed in order to present fairly the financial position and changes in net assets of the Authority as of December 31, 2023.

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.

NOTE 4 - CASH AND CASH EQUIVALENTS

At December 31, 2023 and 2022, cash and cash equivalents included the following:

	2023	2022
Cash on hand	\$ 4,360	\$ 7,468
Checking	1,078,493	691,909
Savings	320,820	820,786
Total cash and cash equivalents	<u>\$ 1,403,673</u>	<u>\$ 1,520,163</u>

NOTE 5 - RESTRICTED CASH

Pursuant to the Bond Purchase and Loan Agreement (Note 11), the Authority maintained cash from loan proceeds in a restricted cash account until authorized for expenditure for construction of the fuel farm. The fuel farm was completed in 2023.

	2023	2022
Restricted Cash	<u>\$ -</u>	<u>\$ 2,598,316</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 6 - INVESTMENT IN U.S. TREASURY BILLS

The Authority purchased a \$1,000,000 par U.S. Treasury bill on September 12, 2023, which matured on January 9, 2024. The investment is stated at amortized cost of \$998,666 at December 31, 2023 and has an effective interest rate of 5.39%.

The Authority purchased a \$500,000 par U.S. Treasury bill on December 20, 2022, which matured on April 18, 2023. The investment is stated at cost of \$492,662 and has an effective interest rate of 4.69% at December 31, 2022.

NOTE 7 - ACCOUNTS RECEIVABLE

At December 31, 2023 and 2022, accounts receivable consisted of the following:

		2023		2022
Accounts receivable from tenants	\$	<u>136,815</u>	\$	<u>69,472</u>

Management considers all accounts to be fully collectible. Therefore, no allowance for credit losses has been recorded. Management has based this estimate on their experience with the tenants and prior collection history as well as current and forecasted economic conditions. As a result, it is reasonably possible that this estimate may change.

NOTE 8 - PROPERTY AND EQUIPMENT

At December 31, 2023 and 2022, property and equipment consisted of the following:

		2023		2022
Building, land and ground improvements	\$	<u>5,282,059</u>	\$	<u>5,242,225</u>
Equipment		200,576		147,550
Fuel farm		5,039,693		3,095,262
Furniture and fixtures		39,800		38,496
Hangars		117,314		117,314
Taxiway, runway and heliport		8,572,880		7,229,794
Vehicles		<u>82,378</u>		<u>82,378</u>
		19,334,700		15,953,019
Less accumulated depreciation		<u>(5,329,980)</u>		<u>(4,743,458)</u>
Total property & equipment, net	\$	<u>14,004,720</u>	\$	<u>11,209,561</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 8 - PROPERTY AND EQUIPMENT (Continued)

As of December 31, 2022, fuel farm assets included \$2,708,061 in construction costs that were not yet in service or being depreciated. These assets were placed in service in 2023. Depreciation expense was \$609,949 and \$530,610 for the years ended December 31, 2023 and 2022, respectively.

NOTE 9 - 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 but not used must be paid upon termination of employment. Accrued sick leave is paid to the employee at each year end for the unused portion accrued during the year. The amounts accumulated were \$35,597 and \$19,931 for vacation and sick pay at December 31, 2023 and 2022.

NOTE 10 - DEFERRED REVENUE

In 2012 the Authority received advanced payments totaling \$900,000 for two cell tower leases. The revenue is being recognized on a straight-line basis over the respective lease terms of approximately 39 years.

NOTE 11 - LONG-TERM DEBT

The Authority entered into a Bond Purchase and Loan Agreement with its lender, National Bank of AZ, for \$4,003,000 on February 15, 2022. The proceeds were used to construct a new fuel farm. Monthly payments of \$33,885 are required through 2022 and \$28,203 thereafter until the maturity date, July 1, 2037. The initial interest rate is 3.81% through January 31, 2032. At that time, the interest rate will be adjusted to the lower of the 5-year Constant Maturity Treasury rate or 5%. Cash was held in a restricted escrow account until expended for project construction. The loan is collateralized by the Authority's gross business revenues and furniture and fixtures. Loan covenants include maintenance of a debt service coverage ratio of 1.35 to 1.0. Also, audited financial statements are required 150 days after year end.

The long-term debt balance is shown net of bond issuance costs of \$50,000, net of accumulated amortization of \$6,111 and \$2,778 at December 31, 2023 and 2022, respectively.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 11 - LONG-TERM DEBT (Continued)

Long-term debt maturing subsequent to December 31, 2023 is as follows:

	2024 \$	205,429
	2025	213,396
	2026	211,670
	2027	230,265
	2028	239,193
	Thereafter	<u>2,484,379</u>
		3,584,332
Less bond issuance costs, net		<u>(43,889)</u>
	\$	<u><u>3,540,443</u></u>
Long-term debt commitments - current portion	\$	205,429
Long-term debt commitments - long-term portion		<u>3,335,014</u>
	\$	<u><u>3,540,443</u></u>

NOTE 12 - PAYROLL PROTECTION PLAN LOANS

Due to the impact of the COVID-19 pandemic, on March 13, 2021, the Authority obtained a second Payroll Protection Plan (PPP) loan from its lender, backed by the Small Business Administration (SBA) in the principal amount of \$151,917, bearing interest at 1%. These funds were used to maintain payroll and pay other operational expenses in accordance with the rules of the program. On January 18, 2022, the Authority received notice from its lender that this loan and accrued interest has been fully forgiven by the SBA, at which time it was recognized into income. This decision is subject to review or audit by the SBA for six years after the date of forgiveness.

NOTE 13 - LEASE OBLIGATIONS

The Authority entered into a lease agreement on April 21, 2022 with its fuel supplier for a jet fuel truck and an Avgas refueler. Lease payments are due monthly at \$3,000 and \$1,000 per month, respectively, after a twelve-month period of no payments. The lease provides for renewal options in one-year increments upon 90-120 days notice prior to the expiration of the current lease term. As exercise of the renewal options were not reasonably certain at the inception of the lease, renewal options were not considered in the determination of the liability at December 31, 2023 or 2022.

On April 1, 2022, the Authority entered into a lease for a modular building for a twenty-four month term requiring monthly payments of \$1,703.46.

At December 31, 2023 and 2022, assets recorded under operating leases were \$135,673, and accumulated amortization associated with operating leases was \$88,524 and \$43,298, respectively. Operating lease cost was \$66,473 and \$72,762 for the years ended December 31, 2023 and 2022, respectively.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 13 - LEASE OBLIGATIONS (Continued)

Components of operating lease expense:

	2023	2022
Operating lease cost	\$ 66,473	\$ 72,762
Supplementary cash flow information related to operating leases:		
Cash paid for amounts included in the measurement of lease liabilities	\$ -	-
Operating cash flows paid for operating leases	(60,942)	(15,331)
Right of use assets obtained in exchange for lease obligations:	-	135,673
Weighted average remaining lease term as of December 31:	1.15	1.85
Weighted average discount rate as of December 31:	3.81%	3.81%

Future minimum lease payments as of December 31, 2023:

		Operating
	2024 \$	59,110
	2025	9,000
		68,110
	Less imputed interest	(1,296)
	\$	66,814
		Operating
Lease commitments - current portion	\$	57,829
Lease commitments - long-term portion		8,985
	\$	66,814

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 14 - AGREEMENTS AND COMMITMENTS WITH YAVAPAI COUNTY

On January 18, 1971, Yavapai County entered into an agreement with the Authority's predecessor in interest, the "Sedona Airport Authority." Subsequently, on February 1, 2003, the Sedona-Oak Creek Airport Authority entered into an amended 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.

NOTE 15 - CONTRIBUTIONS IN KIND

For the years ended December 31, 2023 and 2022, the Authority was the beneficiary of federal and state grants awarded to Yavapai County for Runway 3/21 and Taxiway A improvements, the design of the drainage of the airfield and for the mill and overlay of Taxiway B. Additionally, the Authority received \$25,655 and \$13,200 in donated professional services in 2023 and 2022, respectively. Accordingly, contributions in kind of \$1,341,102 and \$121,597 were recognized in the accompanying financial statements in 2023 and 2022, respectively.

NOTE 16 - LEASES - LESSOR

The Authority derives revenue from the leasing of its property to various third parties who use the space to conduct their operations on the Airport grounds, the terms of which expire 2024 through June 30, 2050. These leases have various terms and payments and are subject to various renewal options. Commercial leases consist of the Sky Ranch Lodge, the Mesa Grill, various airplane and helicopter tour operators, and rental car providers. Some leases contain a provision for a base rent, but the majority of lease requirements is based on an airport recovery fee, which is variable based upon the gross revenues of the tenants. Due to the prevalence of variable lease payments which cannot be reasonably estimated at the inception of the lease, the Authority has classified the leases as operating leases under the provisions of ASU 2016-02, *Leases*.

Authority-owned hangar leases are generally for short terms of twenty four months expiring at various dates through August 2025, and lease requirements are based upon square footage and an established rate, subject to an annual pricing adjustments based on the consumer price index. Due to the short-term nature of these leases, the Authority has classified the Authority-owned hangar leases as operating leases under the provisions of ASU 2016-02, *Leases*.

The Authority also provides ground leases for tenant-owned hangars with terms to June 30, 2050. These lease requirements are at an established rate, subject to annual pricing adjustments based on the consumer price index. Due to the indefinite life of the underlying asset, the Authority has classified these ground leases as operating leases under the provisions of ASU 2016-02, *Leases*.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 16 - LEASES – LESSOR (Continued)

Investment in property and equipment held for lease at December 31, 2023 and 2022 is as follows:

	2023	2022
Structure and grounds improvement	\$ 1,625,848	\$ 1,625,848
Less accumulated depreciation	(467,016)	(460,725)
	<u>\$ 1,158,832</u>	<u>\$ 1,165,213</u>

Rental revenue for the years ended December 31, 2023 and 2022 consisted of the following:

	2023	2022
Sky Ranch Lodge	\$ 508,282	\$ 474,128
Mesa Grill	337,710	329,444
Hangars	197,941	199,511
Communications sites	55,863	55,515
Terminals	15,366	15,532
Commercial building space	150,850	73,581
Forest Service agreements	6,518	135,000
Other airport recovery fees & miscellaneous	42,451	58,427
	<u>\$ 1,314,981</u>	<u>\$ 1,341,138</u>

During 2023 and 2022, the Authority received \$875,492 and \$850,247, respectively from commercial leases with an additional requirement of an airport recovery fee, which is assessed for conducting commercial activity at, to, or from the airport. The amount collected varies from year to year and is contingent on the tenant's gross income. Contingent rental income is recognized when the tenant earnings are reported, which is generally at the time of payment of the contingent rent.

NOTE 17 - 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.

NOTE 18 - MAJOR CUSTOMERS AND TENANTS

For the years ended December 31, 2023 and 2022, there were two major customers and/or tenants that comprised 64.3% and 59.9% of gross revenues from rents.

Accounts receivable concentration from major customers: three customers comprised 44.8% and 64.4% of total accounts receivable at December 31, 2023 and 2022, respectively.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 19 - NET ASSETS

The Authority had net assets without donor restrictions at December 31, 2023 and 2022 comprised of the following:

	2023	2022
Unrestricted funds	\$ (2,042,485)	\$ (2,838,982)
Board designated for future expansion	260,731	2,031,600
Invested in capital assets	14,004,720	11,209,561
	\$ 12,222,966	\$ 10,402,179

NOTE 20 - BOARD-DESIGNATED FUNDS

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 net assets without donor restrictions to assure adequate financing of such improvements and expansion. The Authority is obligated under grant match programs for future expansions. As of December 31, 2023 and 2022, the board had designated \$260,731 and \$2,031,600 of net assets without donor restrictions to this account, respectively. Designated funds include \$217,040 for an Emergency Standby Generator Project and \$43,691 for the Authority’s portion of grant matching funds required for projects that were in progress at December 31, 2023. Designated funds included \$1,976,600 for fuel farm improvements and \$55,000 for the Authority’s portion of grant matching funds required for projects that were in progress at December 31, 2022.

NOTE 21 - 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. Benefits are established by state statute. 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.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 21 - RETIREMENT PLAN (Continued)

Employee and employer matching contribution rates as a percentage of compensation are actuarially determined and adjusted at each annual actuarial valuation date. For the year ended June 30, 2024, ASRS members and the Authority are required by statute to contribute at the rate of 12.29% (12.14% retirement and 0.15% long-term disability) of the member's annual covered payroll. For the plan's fiscal year ending June 30, 2023, both ASRS members and the Authority were required by statute to contribute at the rate of 12.17% (12.03% retirement and 0.14% long-term disability) of the member's annual covered payroll. The contributions paid by the Authority were equal to the required contributions of \$102,908 and \$82,359, respectively in 2023 and 2022.

The ASRS plan's financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB), and an actuarial valuation is conducted annually. As of June 30, 2023 and 2022, the pension portion of the Plan was 73.1% and 72.7% funded, respectively. The long-term disability plan was 94.0% and 91.5% funded, respectively, at June 30, 2023 and 2022. The Authority's contributions did not represent more than 5% of total plan contributions in 2023 or 2022.

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. The unfunded portion of the net pension liability, net of deferred outflows and deferred inflows of resources, as of June 30, 2023 and 2022 allocated to the Authority under ASRS's reporting under GASB 68 and 75, would be as follows:

	2023	2022
Pension Liability	\$ 840,411	\$ 714,265
Health Benefit Supplement	(17,116)	(12,148)
Long-Term Disability	836	1,036
	\$ 824,131	\$ 703,153

NOTE 22 - CASH FLOW INFORMATION

The Authority received non-cash contributions in kind of \$1,341,102 and \$121,597 for the years ended December 31, 2023 and 2022, respectively.

Cash paid for interest was \$140,669 and \$117,941 for the years ended December 31, 2023 and 2022, respectively, and \$129,235 and \$117,941 was capitalized as construction in progress for the fuel farm project. No cash was paid for income taxes during the years ended December 31, 2023 or 2022.

See note 13 for additional cash flow information regarding lease liabilities and right of use assets.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 23 - CONTINGENCIES

Periodically, the Authority may be contingently liable with respect to claims incidental to the ordinary course of operations. In the view of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters would not have a material adverse effect on the Authority's financial statements for the years ended December 31, 2023 and 2022. Accordingly, no provision has been made in the accompanying financial statements for losses, if any, which might result from the ultimate disposition of these matters. Due to the inherent uncertainty in predicting outcomes of trials and court actions, it is at least reasonably possible that the ultimate outcome of such matters could have an adverse effect on the operations of future periods.

NOTE 24 - LIQUIDITY AND AVAILABILITY OF CASH

The following represents the Authority's financial assets at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,403,673	\$ 1,530,163
Investments in U.S. Treasury Bills	998,666	492,662
Accounts receivable	<u>136,815</u>	<u>69,472</u>
	2,539,154	2,092,297
Current portion - lease obligations	(57,829)	(71,151)
Current portion - long-term debt	(205,429)	(197,764)
Board designated restrictions for grant match	<u>(260,731)</u>	<u>(55,000)</u>
Financial assets available to meet cash needs for general expenditures next year	<u>\$ 2,015,165</u>	<u>\$ 1,768,382</u>

Additionally, restricted cash balances of \$2,598,316 were available to meet the funding of the fuel farm construction project in 2023.

NOTE 25 - RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current presentation. Such reclassifications had no effect on the previously reported deficiency of revenues over expenditures.

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 26 - SCHEDULE OF FUNCTIONAL EXPENSES

Program and support service expenses for the year ended December 31, 2023 are as follows:

	<u>Program Services</u>	<u>Support Services</u>	<u>Totals</u>
Advertising	\$ 8,645	\$ -	\$ 8,645
Bank charges	172	-	172
Credit card fees	89,176	-	89,176
Depreciation and amortization	609,949	-	609,949
Dues and subscriptions	2,893	-	2,893
Fees, permits, & licenses	870	-	870
Employee benefits	100,341	66,894	167,235
Equipment rental	66,473	-	66,473
Insurance	102,508	-	102,508
Interest expense	14,766	-	14,766
Legal and professional	441,413	-	441,413
Miscellaneous	2,474	-	2,474
Office supplies	-	5,846	5,846
Outside services	44,790	-	44,790
Overlook parking	26,246	-	26,246
Payroll tax expense	61,861	41,241	103,102
Postage and freight	611	-	611
Repair and maintenance	53,930	2,838	56,768
Supplies	35,455	-	35,455
Taxes-jet fuel	11,977	-	11,977
Taxes-personal property	1,011	-	1,011
Taxes-sales	1,673	-	1,673
Travel and entertainment	4,442	2,962	7,404
Telephone	4,188	4,188	8,376
Utilities	61,621	3,243	64,864
Vehicle expense	8,439	-	8,439
Wages	566,236	377,491	943,727
Website	778	41	819
Total	<u>\$ 2,322,938</u>	<u>\$ 504,744</u>	<u>\$ 2,827,682</u>

SEDONA-OAK CREEK AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 26 - SCHEDULE OF FUNCTIONAL EXPENSES (Continued)


Program and support service expenses for the year ended December 31, 2022 are as follows:

	<u>Program Services</u>	<u>Support Services</u>	<u>Totals</u>
Advertising	\$ 8,939	\$ -	\$ 8,939
Bad debt recovery	(109)	-	(109)
Bank charges	155	-	155
Credit card fees	97,724	-	97,724
Depreciation and amortization	533,388	-	533,388
Dues and subscriptions	1,332	-	1,332
Fees, permits, & licenses	1,328	-	1,328
Employee benefits	95,912	63,942	159,854
Equipment rental	72,762	-	72,762
Insurance	96,930	-	96,930
Legal and professional	979,371	-	979,371
Miscellaneous	1,837	-	1,837
Office supplies	-	5,318	5,318
Outside services	37,634	-	37,634
Overlook parking	24,373	-	24,373
Payroll tax expense	55,154	36,770	91,924
Postage and freight	519	-	519
Repair and maintenance	27,305	1,437	28,742
Supplies	31,244	-	31,244
Taxes-jet fuel	12,522	-	12,522
Taxes-personal property	1,057	-	1,057
Taxes-sales	1,749	-	1,749
Travel and entertainment	6,026	4,018	10,044
Telephone	4,203	4,203	8,406
Utilities	52,628	2,770	55,398
Vehicle expense	3,681	-	3,681
Wages	481,206	320,802	802,008
Website	2,797	147	2,944
Total	<u>\$ 2,631,667</u>	<u>\$ 439,407</u>	<u>\$ 3,071,074</u>


SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY 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 year ended December 31, 2023 and 2022, and have issued our report thereon dated April 29, 2024, 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 is presented for the purposes of additional analysis and is 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.

Haynie & Company
Flagstaff, Arizona

April 29, 2024

**SEDONA-OAK CREEK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023 and 2022**

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, 2023. Please read it in conjunction with the comparative financial statements. Financial statements for 2022 are included for further comparison and analysis; this discussion will primarily address financial information for the year ended December 31, 2023.

The financial statements, including the statements of financial position, the statements of activities 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 year. These statements include all assets and liabilities using generally accepted accounting principles in the United States, which is the basis of accounting used by most for-profit companies. All of the current year's revenues are recognized when earned and expenses are recorded when incurred 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. A significant portion of the Airport's assets are invested in the maintenance of its facilities.

The Authority's net assets increased by \$437,116 as a result of operations for the year ended 2023. Additionally, the Authority received \$1,315,447 in support from pass-through grants for improvements to Runway 3/21 and Taxiway A and \$25,655 in donated professional fees, which are recorded as Contributions In Kind in the financial statements totaling \$1,341,102. In total, net assets increased by \$1,820,787 for the year ended December 31, 2023.

Net assets totaled \$12,222,966 and \$10,402,179 at December 31, 2023 and 2022, respectively. Of the \$12,222,966 in net assets at December 31, 2023, \$14,004,720 was invested in capital assets. The Authority, with the assistance of federal and state grants, has invested significantly in the upgrading of its taxiways and runways and other facilities in the past few years. Additionally, the Authority entered into a \$4,003,000 Bond Purchase and Loan Agreement in February 2022 exclusively for the reconstruction of its fuel farm, which was completed in 2023. The Board has designated net assets totaling \$217,040 for an Emergency Standby Generator Project, and \$43,691 for its cost sharing portion of state grants for the reconstruction of a portion of Taxiway A and to replace its AWOS. Because of the long-term debt, the Authority had unrestricted undesignated net assets of (\$2,042,485) at December 31, 2023.

SEDONA-OAK CREEK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023 and 2022

The Authority's current assets exceeded its current liabilities by \$2,175,702 as of December 31, 2023. The Authority's long-term debt as of December 31, 2023 consists of \$3,540,443 from the 2022 Bond Purchase and Loan Agreement. The Authority additionally has lease liabilities totaling \$66,814 for the rental of its refueler trucks and a modular building.

Total operating revenue for the Authority decreased by \$275,392 for the year ended December 31, 2023. The net decrease was comprised of a decrease in fuel and oil sales of \$284,012, largely driven by a decrease in global fuel costs. Jet fuel sales volume decreased by approximately 16,000 gallons, and AvGas sales increased by approximately 5,500 gallons in 2023. Operating revenues also includes a decrease in rent revenue of \$26,157 due a small decrease in airport recovery fee assessments as some tour operator tenants experienced revenue decreases. Fees, catering and miscellaneous income increased by \$1,382, due to increases in lavatory and GPU service fees in 2023. Additionally, the Authority collected \$431,553 in parking fees and donations from the scenic overlook, which was a \$33,395 increase over the prior year.

The Authority's combined gross margin on operations, including all rent, fuel and oil sales, was approximately 67% for the year ended December 31, 2023 as compared to 64% for the prior year. General and administrative expenses decreased in 2023 by \$243,392, due primarily to the following: a \$537,958 decrease in legal and professional fees as legal claims of the past several years have been largely resolved in 2022 and 2023. The decrease is offset by increases including a \$79,339 increase in depreciation expense largely due to fixed assets additions related to the fuel farm being placed in service during the year, a \$160,278 increase in wages, employee benefits and payroll taxes combined to meet the effects of wage inflation and an effort to retain employees, a \$28,026 increase in repairs and maintenance including repairs to the terminal HVAC and fire sprinkler systems, parts for the AWOS system, and repairs to hangars due to wind damage that were in excess of insurance proceeds. Additionally, there was a \$8,548 decrease in credit card processing fees commensurate with lower sales, and a \$5,578 increase in insurance costs.

Capital projects in 2023 were financed by \$434,706 of Authority funding, \$1,656,711 by bank financing, and \$1,315,447 from pass-through federal and state grant funding for the construction of the fuel farm, runway and taxiway improvements, terminal building structural repairs and the purchase of field equipment. Other capital projects included structural improvements on the terminal building roof. The relocation and upgrade of the fuel farm required \$4,003,000 million in funding from a Bond Purchase and Loan Agreement, which closed on February 15, 2022, and the project was completed and placed into service in 2023.

**SEDONA-OAK CREEK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023 and 2022**

Cash flows provided by operations totaled \$80,379 for the year ended December 31, 2023. Cash flows used by investing activities were \$895, which included \$506,004 in net investments in treasury securities, cash payments for purchases of property and equipment of \$2,091,417, largely funded from the release of cash of \$2,598,316 which had been set aside in a restricted cash account for the completion of the fuel farm. Cash flows provided by financing activities in 2023 consisted of repayments on long-term debt of \$197,764.

Periodically, the Authority may be contingently liable with respect to claims incidental to the ordinary course of operations. In the view of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters would not have a material adverse effect on the Authority's financial statements for the years ended December 31, 2023 and 2022. Accordingly, no provision has been made in the accompanying financial statements for losses, if any, which might result from the ultimate disposition of these matters.

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Sedona-Oak Creek 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 the Airport Business Manager, 235 Air Terminal Dr., Sedona, Arizona, 86336.