



Yuma County Airport Authority, Inc.
Basic Financial Statements

Year Ended September 30, 2010

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Independent Auditor's Report

To the Board of Directors
Yuma County Airport Authority, Inc.

We have audited the accompanying financial statements of the business-type activities and each major fund of Yuma County Airport Authority, Inc., (the Authority) as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Yuma County Airport Authority, Inc.'s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Yuma County Airport Authority, Inc., as of September 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis (MD&A) on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2011, on our consideration of Yuma County Airport Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Walker + Armstrong LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
January 6, 2011

YUMA COUNTY AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2010

As management of the Yuma County Airport Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the following financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$35,337,626 (net assets).
- The Authority's cash balance at September 30, 2010 was \$1,383,539 representing an increase of \$430,064 from September 30, 2009.
- The Authority had intergovernmental revenues of \$589,910, operating revenues (charges for services) of \$2,898,546 and operating expenses of the enterprise fund totaling \$3,878,974 for the year ended September 30, 2010.
- The Authority's capital outlays for the year ended September 30, 2010 totaled \$2,414,171 which includes costs of \$1,620,364 in construction in progress.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority operates using only enterprise funds and has no governmental fund reporting activities.

The *fund financial statements* focus on individual parts of the government and reporting the Authority's operations. Fund financial statements include the following funds:

- Enterprise funds which are used to account for the Authority's business-type activities.

YUMA COUNTY AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 20 of this report.

FUND FINANCIAL ANALYSIS

The following is a discussion of the Authority's completed and capitalized projects and significant changes in operations from the prior year:

Significant capital outlays included in construction in progress for the year included

1. **GA Apron Rehabilitation.** Capital outlays of \$193,166 were expended during the year on the rehabilitation of all General Aviation ramps on the airfield. This project was funded by an FAA AIP Grant and is scheduled to be completed in February of 2011 at a total cost of about \$2.2 million. This project was essential to replace and rehabilitate the apron which was 30 to 40 years old in some areas.
2. **Defense Contractor Complex Apron (Phase 1).** Capital outlays of \$195,082 were expended to complete the construction of the concrete apron at the DCC. The project was completed and capitalized at a total cost of \$2,299,536. The improvements were funded with an FAA AIP Grant.
3. **Defense Contractor Hangar Building.** Capital outlays of \$4,410 were expended toward the completion of this project during the year. This building was completed in October of 2009 and capitalized with a total cost of \$2,210,822. This 15,000 square foot building was leased to a government contractor working with NASA to design and test parachute systems for the next generation of manned space vehicles.
4. **Yuma Pilot Center Remodel.** Capital outlays of \$1,018,762 were expended on the design and construction of this project. This project includes the remodel of a 30 year old FBO facility and related fuel farm into a state of the art facility the community can be proud of. Funding for this project is being provided through long term debt financing and contributions toward the project cost made directly by the future tenant Freeman Holdings, dba Million Air. The total cost of this remodel is estimated to be \$2 million.

YUMA COUNTY AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2010

FUND FINANCIAL ANALYSIS – CONTINUED

5. **Fencing and Security System Improvements.** Capital outlays of \$125,347 were also expended during the year for fencing and security system improvements. These projects were vital to ensure that the Airport continues to provide state of the art security

Capital grants and contributions of \$439,964 which are reported as intergovernmental revenue decreased by \$3,314,463. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$35,337,626 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets reflects its investment in capital assets (e.g., land, construction in progress, improvements, buildings, furniture, fixtures, and equipment). The Authority uses these capital assets to provide the means to create and maintain facilities necessary to support the continued growth of civil aviation in Yuma, Arizona; consequently, these assets are not available for future spending. The unrestricted net assets of the Authority are available for future use to provide services.

The following is a summary analysis of the net assets and changes in net assets of the Authority:

Net Assets		
September 30, 2010 and 2009		
	2010	2009
		(as restated)
Assets:		
Current and other assets	\$ 1,999,901	\$ 1,489,491
Capital assets	39,901,154	38,988,913
Total assets	41,901,055	40,478,404
Liabilities:		
Current	1,392,927	637,899
Non-current	5,170,502	4,199,905
Total liabilities	6,563,429	4,837,804
Net assets:		
Invested in capital assets, net of related debt	34,634,873	34,715,975
Unrestricted	702,753	924,625
Total net assets	\$ 35,337,626	\$ 35,640,600

YUMA COUNTY AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2010

FUND FINANCIAL ANALYSIS – CONTINUED

Changes in Net Assets		
Year ended September 30, 2010 and 2009		
	2010	2009
		(as restated)
Program revenues:		
Charges for services	\$ 2,898,546	\$ 2,013,554
Intergovernmental	589,910	3,754,429
General revenues:		
Passenger facility charges	300,567	278,153
Structure received through reversion	-	1,875,000
Interest income	8,628	15,422
Total revenues	3,797,651	7,936,558
Expenses:		
Airport operations	3,878,974	3,268,820
Other – Masterplan	-	153,953
Interest expense	221,651	156,527
Total expenses	4,100,625	3,579,300
Change in net assets	(302,974)	4,357,258
Net assets, beginning of year	35,640,600	31,283,342
Net assets, end of year	\$35,337,626	\$35,640,600

YUMA COUNTY AIRPORT AUTHORITY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2010 the Authority's investment in capital assets was \$34,634,873 (net of accumulated depreciation and related debt). This investment in capital assets includes land, construction in progress, buildings, improvements, furniture, fixtures and equipment.

Major capital asset additions include the completion of the DCC Apron and the DCC Hangar which was subsequently dedicated to Pappy Boyington and leased to NASA. The Authority has the next DCC Apron expansion design on the shelf and is in the process of rehabilitating all of the ramp space on the inside of the fence.

- Capital expenditures of \$334,837 were made to purchase equipment and furniture for the Authority's operations.
- Capital expenditures of \$49,900 were made for the purchase of vehicles.
- There were no significant capital expenditures for the purchase of land.

Additional information on the Authority's capital assets can be found in Note 4 on pages 15 and 16 of this report.

Long-Term Debt

The Authority has a single note payable. The detail of this note is discussed in Note 5 on pages 16 and 17 of this report.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 2191 E. 32nd Street, Suite 218, Yuma, AZ 85365 or call (928) 726-5882.

Yuma County Airport Authority
Statement of Net Assets - Enterprise Funds
September 30, 2010

	Airport Operations
Assets	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 1,383,539
Accounts receivable, net	22,255
Intergovernmental receivable	247,322
Prepaid items	41,376
Deposits	6,924
Total current assets	1,701,416
<i>Noncurrent assets:</i>	
Restricted cash	298,485
<i>Capital assets:</i>	
Capital assets, not being depreciated	8,290,233
Capital assets, being depreciated, net	31,610,921
Total noncurrent assets	40,199,639
Total assets	41,901,055
Liabilities	
<i>Current liabilities:</i>	
Accounts payable	279,097
Accrued expenses	120,947
Other liabilities	525
Deferred revenue	798,137
Refundable deposits	98,442
Current portion of long-term liabilities	95,779
Total current liabilities	1,392,927
<i>Noncurrent liabilities:</i>	
Noncurrent portion of long-term liabilities	5,170,502
Total noncurrent liabilities	5,170,502
Total liabilities	6,563,429
Net Assets	
Invested in capital assets, net of related debt	34,634,873
Unrestricted	702,753
Total net assets	\$ 35,337,626

The accompanying notes are an integral part of these financial statements.

Yuma County Airport Authority
Statement of Revenues, Expenses and Changes in Net Assets
Enterprise Funds
Year ended September 30, 2010

	Airport Operations
Operating revenues:	
Aeronautical	\$ 1,770,810
Non-aeronautical	1,127,736
Total operating revenues	2,898,546
Operating expenses:	
Personnel expenses	1,115,871
Operating expenses	1,261,173
Depreciation	1,501,930
Total operating expenses	3,878,974
Operating loss	(980,428)
Nonoperating revenues (expenses):	
Interest income	8,628
Intergovernmental	589,910
Passenger facility charges	300,567
Interest expense	(221,651)
Total nonoperating revenues (expenses)	677,454
Changes in net assets	(302,974)
Total net assets - beginning of year, as restated	35,640,600
Total net assets - end of year	\$ 35,337,626

The accompanying notes are an integral part of these financial statements.

Yuma County Airport Authority
Statement of Cash Flows - Enterprise Funds
Year ended September 30, 2010

	Airport Operations
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,874,204
Payments to suppliers	(1,348,760)
Payments to employees	(1,115,871)
	409,573
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,414,170)
Proceeds from vendor for construction costs	798,137
Receipts of passenger facilities charges	300,567
Capital grants received	645,973
Increase in restricted assets	(90,336)
Acquisition of long-term debt	1,069,319
Principal paid on long-term debt	(75,976)
Interest paid on long-term debt	(221,651)
	11,863
Cash flows from investing activities:	
Interest and dividends	8,628
	430,064
Cash and cash equivalents, beginning of year	953,475
Cash and cash equivalents, end of year	\$ 1,383,539
 Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (980,428)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,501,930
Changes in assets and liabilities:	
Increase in accounts receivable	(5,210)
Increase in prepaid items	(474)
Decrease in accounts payable	(80,572)
Decrease in accrued expenses	(6,541)
Decrease in refundable deposits	(19,132)
	409,573
Net cash provided by operating activities	\$ 409,573

The accompanying notes are an integral part of these financial statements.

Yuma County Airport Authority, Inc.
Notes to the Financial Statements
September 30, 2010

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Yuma County Airport Authority conform to generally accepted accounting principles applicable to governmental entities adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

Yuma County Airport Authority, Inc. is a validly organized and existing body politic incorporated in the State of Arizona. Yuma County Airport Authority, Inc. (the Authority) was formed to operate the Yuma International Airport located in Yuma, Arizona under a lease authorized by Arizona Revised Statute Section 28-8411, *et seq.*, which provides for tax exempt status of the Authority. Accordingly, no provision is made for Federal or Arizona income taxes.

The Authority has no governmental funds. All of the Authority's activities are reported in one enterprise fund related to Airport operations.

B. Fund Financial Statements

Financial statements are provided for proprietary funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Under the terms of grant agreements, the Authority funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Authority applies grant resources to such programs before using general revenues.

The Authority follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Authority has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and service. Operating expenses of the Authority's enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Concentration of credit risk - the Authority's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable. The Authority places its cash with high credit worthy institutions. At times such cash may be in excess of the FDIC insurance limit. All amounts in excess of FDIC coverage are fully collateralized in accordance with State Law. The Authority routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

2. Receivables and Payables

All trade receivables are shown net of an allowance for uncollectibles.

Federal and state grants and contracts are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. That portion of reimbursement in excess of expenditures is offset in the deferred revenue account.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

D. Assets, Liabilities and Net Assets - Continued

4. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects as constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed.

Property and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Furniture, fixtures and equipment	3 to 50 years
Vehicles	5 to 7 years

5. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon termination of employment, all unused vacation and sick leave benefits are paid to employees with more than six months length of employment. Accordingly, vacation and sick leave benefits are accrued as a liability in the financial statements.

6. Estimates

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

Notes to Financial Statements – Continued

Note 2 – Cash and Investments

At September 30, 2010, the Authority's cash consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on hand	\$ 200	\$ -	\$ 200
Cash in bank	1,383,339	298,485	1,681,824
Total	<u>\$ 1,383,539</u>	<u>\$ 298,485</u>	<u>\$ 1,682,024</u>

At September 30, 2010, the carrying amount of the Authority's total cash in bank was \$1,681,824 and the bank balance was \$1,682,782. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,432,782 was covered by collateral held by the pledging institution's trust department.

Restricted Cash

The restricted cash at September 30, 2010 was held in a demand deposit bank account. This account represents passenger facility charges that have been collected by the Authority. These funds are restricted in that they can only be used for projects authorized by the Federal Aviation Administration.

Note 3 – Receivables

Accounts receivable consisted of the following at September 30, 2010:

Accounts receivable	\$ 22,755
Less allowance for uncollectibles	(500)
Net total receivables	<u>\$ 22,255</u>

Intergovernmental receivables consisted of the following at September 30, 2010:

Federal Aviation Administration	\$ 183,508
US Department of Homeland Security	63,814
Total intergovernmental receivables	<u>\$ 247,322</u>

Notes to Financial Statements – Continued

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2010 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land and easements	\$ 6,485,651	\$ -	\$ -	\$ 6,485,651
Construction in progress	4,694,576	1,620,364	(4,510,358)	1,804,582
Total capital assets, not being depreciated	11,180,227	1,620,364	(4,510,358)	8,290,233
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	37,446,292	4,919,428	-	42,365,720
Furniture, fixtures and equipment	1,274,767	334,837	-	1,609,604
Vehicles	276,909	49,900	-	326,809
Total capital assets, being depreciated	38,997,968	5,304,165	-	44,302,133
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(10,548,969)	(1,342,854)	-	(11,891,823)
Furniture, fixtures and equipment	(393,523)	(139,869)	-	(533,392)
Vehicles	(246,790)	(19,207)	-	(265,997)
Total accumulated depreciation	(11,189,282)	(1,501,930)	-	(12,691,212)
Total capital assets, being depreciated, net	27,808,686	3,802,235	-	31,610,921
Business-type activities capital assets, net	<u>\$ 38,988,913</u>	<u>\$ 5,422,599</u>	<u>\$(4,510,358)</u>	<u>\$ 39,901,154</u>

Depreciation expense of \$1,501,930 was charged to the airport operation enterprise fund.

Notes to Financial Statements – Continued

Note 4 – Capital Assets – Continued

Construction in Progress

At September 30, 2010, the Authority had the following projects still in progress:

<u>Project</u>	<u>Balance, Oct. 1, 2009</u>	<u>Additions</u>	<u>Completed Projects</u>	<u>Balance, Sept. 30, 2010</u>
Land Acquisition	\$ 38,750	\$ -	\$ -	\$ 38,750
Yuma Pilot Center	-	1,018,762	-	1,018,762
DCC Apron Phase I	2,104,454	195,082	2,299,536	-
DCC Hangar	2,206,412	4,410	2,210,822	-
Taxiway Y Phase I	172,332	81,147	-	253,479
GA Apron Re-hab	-	193,166	-	193,166
DCC Apron Phase II	132,870	-	-	132,870
Security System	39,758	57,353	-	97,111
Fencing Improvement	-	67,994	-	67,994
Sterile Area Remodel	-	2,450	-	2,450
Total	<u>\$ 4,694,576</u>	<u>\$ 1,620,364</u>	<u>\$ 4,510,358</u>	<u>\$ 1,804,582</u>

Note 5 – Long-Term Debt

Long-term debt of the Authority at September 30, 2010, consists of:

Tax Exempt Note Payable (unsecured) to 1st Bank Yuma, with monthly payments of \$28,655 including interest. The variable interest rate is 4.75% until July 21, 2013. The interest rate is determined by prime rate published in the West Coast edition of *The Wall Street Journal* less .25%, adjusted every five years. The note has a no negative amortization clause and matures on July 21, 2038. The Authority has pledged general airport revenues, as collateral for the note.

\$ 5,266,281

Notes to Financial Statements – Continued

Note 5 – Long-Term Debt – Continued

Debt service requirements (at current interest rates) at September 30, 2010 were as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 95,779	\$ 248,081	\$ 343,860
2012	100,429	243,431	343,860
2013	105,304	238,556	343,860
2014	110,417	233,443	343,860
2015	115,777	228,083	343,860
2016-2020	668,882	1,050,418	1,719,300
2021-2025	847,795	871,505	1,719,300
2026-2030	1,074,563	644,737	1,719,300
2031-2035	1,361,988	357,312	1,719,300
2036-2038	785,347	47,573	832,920
	<u>\$ 5,266,281</u>	<u>\$ 4,163,139</u>	<u>\$ 9,942,420</u>

Changes in long-term debt for the year ended September 30, 2010, were as follows:

	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2010</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 4,272,938</u>	<u>\$ 1,069,319</u>	<u>\$ 75,976</u>	<u>\$ 5,266,281</u>	<u>\$ 95,779</u>

Note 6 – Commitments and Contingency

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

On January 17, 1966 the Yuma County Airport Authority, Inc. entered into an agreement with the County of Yuma, whereby the Authority would lease all buildings, structures, improvements and personal property of the Yuma International Airport for a nominal fee. Effective December 1, 2007, the Authority and Yuma County entered into an amendment of this agreement which extends the agreement another 25 years to November 30, 2032 in addition to allowing for the option to renew for another 25 years. On March 18, 2008, the Authority exercised the option to renew for the additional 25 years which brings the termination of the agreement to November 30, 2057.

Notes to Financial Statements – Continued

Note 6 – Commitments and Contingency – Continued

Title to all real property acquired by the Yuma County Airport Authority, Inc. vests in the County of Yuma. 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 or traded by it. However, upon termination of the lease agreement, the personal property passes to the County of Yuma.

Note 7 – Rental Revenues and Landing Fees

The Authority derives revenue from the leasing of property and equipment. A schedule of minimum future rentals under non-cancelable operating leases as of the end of the last fiscal year is as follows:

<u>Year Ending September 30,</u>	
2011	\$ 1,877,389
2012	1,813,829
2013	1,605,442
2014	1,008,616
2015	575,832
Thereafter	<u>1,788,645</u>
Total	<u>\$ 8,669,753</u>

Landing fees received by the Authority are a contingent rental based on a charge per thousand pounds of certified gross weight of the aircraft for each landing. The Authority is also receiving contingent rental revenue from various car rental agencies and Republic Parking Systems, based on a percentage of gross revenue.

The amount of contingent rentals for the past four fiscal years follows:

	<u>Year Ended September 30,</u>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Aircraft landing fees	\$ 158,791	\$ 127,767	\$ 173,564	\$ 197,203
Car rental and parking fees	<u>864,090</u>	<u>752,164</u>	<u>769,602</u>	<u>767,644</u>
Total	<u>\$ 1,022,881</u>	<u>\$ 879,931</u>	<u>\$ 943,166</u>	<u>\$ 964,847</u>

Notes to Financial Statements – Continued

Note 8 – Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9 – Pension Plan

Plan Description - the Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium; and a cost-sharing, multiple-employer defined benefits long-term disability that covers general employees of the Authority. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the plan.

ASRS

3300 N. Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

Funding Policy - The Arizona State Legislature establishes and may amend active Plan members' and the Authority's contribution rates.

Cost-sharing plans – For the year ended September 30, 2010, active ASRS members and the Authority were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll. The Authority's contributions to ASRS for the years ended September 2010, 2009, and 2008 were \$144,506, \$131,359, and \$126,153 respectively, which were equal to the required contributions for the year. Contributions came from equal amounts of employee withholdings and operating resources of the Authority.

Notes to Financial Statements – Continued

Note 10 – Restatement of Beginning Net Assets

Total net assets at the beginning of the year have been restated to correct an error for the overstatement of revenue billed but not earned until the subsequent year. Had the error not been made, the change in total net assets for fiscal year 2009 would have decreased by \$182,902.

Total net assets as of September 30, 2009 as originally reported	\$ 35,823,502
Decrease for overstatement of revenue recognized	<u>(182,902)</u>
Total net asset as of October 1, 2009, as restated	<u>\$ 35,640,600</u>

**Report on Internal Control
in Accordance with *Government Auditing Standards***

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors
Yuma County Airport Authority, Inc.

We have audited the financial statements of the business-type activities and each major fund of Yuma County Airport Authority, Inc. (the Authority) as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Yuma County Airport Authority, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a significant deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
January 6, 2011

Walker + Armstrong LLP