

Susquehanna Area Regional Airport Authority

Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014

Susquehanna Area Regional Airport Authority

December 31, 2015 and 2014

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Susquehanna Area Regional Airport Authority
Middletown, Pennsylvania

We have audited the accompanying basic financial statements, which are comprised of balance sheets as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents, of Susquehanna Area Regional Airport Authority (SARAA).

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 entity'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 Susquehanna Area Regional Airport Authority as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise SARAA's basic financial statements. The schedule of capital and noncapital revenues and expenses listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

BKD, LLP

Indianapolis, Indiana
April 22, 2016

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

Management's Discussion & Analysis (MD&A) of the financial performance and activity of the Susquehanna Area Regional Airport Authority (SARAA) is to provide the reader with an introduction to SARAA's basic financial statements as of and for the years ended December 31, 2015 and 2014. The information contained in the basic financial statements, including the notes, is essential to a full understanding of the financial statement data.

SARAA is a joint municipal authority created in 1997 under the Pennsylvania Municipality Authorities Act. SARAA is governed by representatives from the counties of Dauphin, Cumberland and York, the cities of Harrisburg and York and the townships of Lower Swatara (Dauphin County) and Fairview (York County). SARAA is an independent entity governed by a board of directors who are not compensated. Each of the municipalities appoints representatives to serve for 5-year terms on the board that consists of 15 directors. Each county appoints three board members; each city appoints two board members; each of the two townships appoints one board member. The board members cannot be recalled during their term. After their term expires, they continue to serve until their sponsoring county, city or township replaces them or until they resign.

SARAA owns and operates four airports: 1) Harrisburg International Airport (HIA), primarily located in Lower Swatara Township, Dauphin County, Pennsylvania (Harrisburg International Airport is known as the MDT airport code. The airport is adjacent to the Borough of Middletown, PA) 2) Capital City Airport (CXY), located in Fairview Township, York County, Pennsylvania 3) the Franklin County Regional Airport (FCRA), located near Chambersburg, Pennsylvania, and 4) the Gettysburg Regional Airport (GRA), located near Gettysburg, Pennsylvania.

SARAA and the Harrisburg International Airport have no financial ties with the City of Harrisburg or any of the other appointing counties, cities or townships.

This MD&A is a section of the annual report required by Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34).

Industry Headlines and SARAA's Activities and Highlights

The U.S. Department of Transportation's Bureau of Transportation Statistics (BTS) reported that 2015 U.S. total domestic revenue passenger miles flown increased by 2.5 percent when compared to 2014. 2015 domestic scheduled capacity, measured by available seat-miles, increased less than one percent. The annual 2015 load factor was 83.8 percent, the highest for any year to date.

In January 2016, BTS reported the 3rd quarter 2015 domestic average roundtrip fare; the most recent quarter for which data is available was \$371, down from a \$396 average fare during the third quarter of 2014.

At HIA, 2015 passenger traffic declined 9.0 percent when compared to 2014 as 1,173,938 total passengers used the facility. The airlines enplaned a total of 590,262 passengers in 2015 off 9.1 percent from 2014. The major driver in the decline of passenger traffic was the decision by new Frontier Airlines ownership to end service at Harrisburg and a number of medium and smaller stations to concentrate on expanded service in larger markets—many of which were former hubs like Cincinnati, Cleveland and Memphis. While Allegiant picked up some of Frontier’s Orlando traffic (+21.0 percent) and both Air Canada (+9.8 percent) and Delta (+4.5 percent) posted traffic gains, their growth was not enough to offset declines by Frontier (-75.9 percent), United (-13.1 percent) and the merging American and US Airways (-8.1 percent).

Total 2015 departing seat capacity at HIA decreased 8.7 percent compared to 2014. Nearly 60 percent of the decline was due to the loss of Frontier Airlines. Allegiant (+22.6 percent), Delta (+1.7 percent) and Air Canada (+2.5 percent) increased 2015 seat capacity, while Frontier (-76.1 percent), United (-11.7 percent) and the merging American and US Airways (-8.4 percent) all made fewer seats available for sale to HIA travelers. While both passenger traffic and seat capacity declined in 2015, the airports average annual departing load factor remained essentially flat at 81.5 percent; it was 81.9 percent in 2014. According to Sabre Airline Solutions, HIA’s estimated 2015 full year average one-way booked fare was \$272, down from \$287 in 2014.

There were 51,401 tons of cargo flown into and out of Harrisburg International Airport in 2015 representing a 5.1 percent increase compared to 2014. Both FedEx (+19.8 percent) and UPS (+11.8 percent) posted significant cargo tonnage increases over 2014 levels. The Federal Aviation Administration (FAA) reported there were 47,289 total 2015 airport operations at HIA, which was a decline of 6.0 percent compared to 2014.

The following table shows the 2015 percentage fluctuation from 2014 for change in seats, change in enplanement passengers and passenger market share: (List ranked by 2015 passenger market share):

	Change in Seats	Change in Enplaned Passengers	Market Share
American/US Airways	-8.4%	-8.5%	38.3%
Delta Air Lines	1.7%	4.3%	27.9%
United Airlines	-11.7%	-12.9%	22.3%
Allegiant	22.6%	21.1%	8.6%
Air Canada	2.5%	4.3%	1.0%
Frontier	-76.1%	-75.6%	1.9%
Total Passenger Airlines	-8.7%	-1.7%	100.0%

The following table shows a summary of various activities at HIA:

	2015	2014	% Change
Enplanements	590,262	649,543	-9.1%
Air carrier operations	29,305	31,370	-6.6%
Landed weight (passenger airlines only)	689,203,491	747,909,756	-7.8%
Cargo tons	51,401	48,922	5.1%
Parking revenue	\$ 7,647,058	\$ 7,618,817	0.4%

Financial Highlights

Anticipating that Frontier Airlines would be ceasing service in April, SARAA presented a budget for 2015 compensating for this loss of revenue. 605,000 enplanements were anticipated. Changes were expected as new amendments of the Airline Operating Agreement and Rental Car Agreement allowed an expansion of revenues. Vehicle parking rates were increased for the first time since 2010.

Better than expected performance in airline revenues produced a much better than expected year, as Net Operating Revenue (excluding depreciation) was 2.6 percent ahead of the budgeted expectations.

- Operating revenues were 2.0 percent ahead of 2014 and ended 1.9 percent above the budget. Operating expenses (excluding depreciation) were 3.8 percent more than 2014 and was 1.5 percent more than the budget.
- The required bond coverage ratios were met and maintained for 2015. More information is available in the Long-Term Debt section of the Management's Discussion and Analysis
- All monthly debt service payments required by the bond trustee were made.

Overview of Financial Statements

SARAA only engages in business-type activities. These are activities that are intended to recover all or a significant portion of their costs through user fee charges to external parties for goods or services. SARAA reports its business-type activities in a single enterprise fund, meaning that its activities are operated and reported like a private-sector business.

SARAA's financial report includes Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. Comparative financial statements with fiscal year 2014 are presented.

The net position of SARAA is comprised of these categories:

- *Net investment in capital assets* - reflects SARAA's investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. SARAA uses these capital assets to provide services to the public; consequently, these assets are not available for future spending.
- *Restricted* - represents resources that are subject to external restrictions on how they may be used.
- *Unrestricted* - represents resources that may be used to meet SARAA's ongoing obligations to the public and creditors.

2015 to 2014 Comparative Statements of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reflect the operating activity of SARAA for the years using the accrual basis of accounting, similar to private sector companies. The change in net position is an indicator of whether the overall fiscal condition of SARAA has improved or worsened during the year.

The change in net position for the years ended December 31, 2015 and 2014 was \$(2.3) million and \$(4.0) million, respectively. The comparative analysis is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2015 and 2013.

	2015	2014	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 8,180,879	\$ 7,627,954	\$ 552,925	7.2%
Parking fees	7,647,058	7,618,817	28,241	0.4%
Vehicle rental fees and customer facility charges	3,910,428	4,013,911	(103,483)	-2.6%
Landing fees	3,711,534	3,585,158	126,376	3.5%
Apron and gate use fees	1,155,277	1,064,397	90,880	8.5%
Concession fees	440,133	438,976	1,157	0.3%
Fuel flowage and other commissions	442,322	479,632	(37,310)	-7.8%
Other income	662,472	798,197	(135,725)	-17.0%
Total operating revenues	<u>26,150,103</u>	<u>25,627,042</u>	<u>523,061</u>	<u>2.0%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	6,700,934	6,321,078	379,856	6.0%
Professional and consulting fees	606,182	451,670	154,512	34.2%
Marketing	431,113	635,584	(204,471)	-32.2%
Insurance	561,586	535,644	25,942	4.8%
Utilities	1,519,326	1,518,135	1,191	0.1%
Parking facility	2,387,317	2,386,147	1,170	0.0%
Repairs and maintenance	1,553,828	1,397,905	155,923	11.2%
Supplies, parts and other	1,955,487	1,895,578	59,909	3.2%
Depreciation	14,799,338	15,397,752	(598,414)	-3.9%
Total operating expenses	<u>30,515,111</u>	<u>30,539,493</u>	<u>(24,382)</u>	<u>-0.1%</u>
Loss From Operations	(4,365,008)	(4,912,451)	547,443	-11.1%
Nonoperating Expenses				
Net of Revenues	(4,754,584)	(4,625,345)	(129,239)	2.8%
Capital Contributions and Grants	<u>6,819,503</u>	<u>5,554,277</u>	<u>1,265,226</u>	<u>22.8%</u>
Decrease in Net Position	(2,300,089)	(3,983,519)	1,683,430	-42.3%
Net Position, Beginning of Year	<u>84,034,525</u>	<u>88,018,044</u>	<u>(3,983,519)</u>	<u>-4.5%</u>
Net Position, End of Year	<u>\$ 81,734,436</u>	<u>\$ 84,034,525</u>	<u>\$ (2,300,089)</u>	<u>-2.7%</u>

Loss From Operations: Depreciation is a noncash expense so the loss does not reflect the cash position. The Statements of Cash Flows present an accurate portrayal of cash activity. Also, the Schedule of Capital and Noncapital Revenues and Expenses, which is presented as supplementary information, is more reflective of SARAA's annual fiscal operations.

Significant Variances for 2015 to 2014

- **Operating Revenues:** In 2015, Facilities revenue increased as new amended agreements went into effect for the airlines and the rental car companies. Increased rentals were realized from non-aviation properties adjacent to HIA. With the decrease in enplanements activity, related revenues decreased. These decreases were offset by increased parking rates and new concession agreements.
- **Operating Expenses (other than depreciation):** Professional and consulting fees were more than 2014 because of the negotiations with new /prospective tenants and the write off of project costs capitalized in a prior year. Loading bridge repairs drove up repairs and maintenance expenses. The Marketing Department spent less as there were no new flight routes added in 2015. Health care costs increased 20 percent.
- **Capital Contributions & Grants:** The amounts recorded vary year-to-year with the level of construction activity at SARAA's four airports. When there is more construction or other capital activity, there are more grant dollars reimbursing those costs. In 2015, a snow removal equipment storage building was constructed and baggage screening equipment was replaced at HIA. Renovations on a hangar and an office building (which was the former terminal building) at CXY were completed.

2014 to 2013 Comparative Statements of Revenues, Expenses and Changes in Net Position

The change in net position for the years ended December 31, 2014 and 2013 was \$(4.0) million and \$(4.9) million, respectively. The comparative analysis below is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2014 and 2013.

	2014	2013	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 7,627,954	\$ 7,793,001	\$ (165,047)	-2.1%
Parking fees	7,618,817	7,566,200	52,617	0.7%
Vehicle rental fees and customer facility charges	4,013,911	3,912,690	101,221	2.6%
Landing fees	3,585,158	3,867,761	(282,603)	-7.3%
Apron and gate use fees	1,064,397	1,012,715	51,682	5.1%
Concession fees	438,976	417,352	21,624	5.2%
Fuel flowage and other commissions	479,632	448,231	31,401	7.0%
Other income	798,197	839,829	(41,632)	-5.0%
Total operating revenues	<u>25,627,042</u>	<u>25,857,779</u>	<u>(230,737)</u>	<u>-0.9%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	6,321,078	6,051,433	269,645	4.5%
Professional and consulting fees	451,670	418,031	33,639	8.0%
Marketing	635,584	632,601	2,983	0.5%
Insurance	535,644	523,262	12,382	2.4%
Utilities	1,518,135	1,561,797	(43,662)	-2.8%
Parking facility	2,386,147	2,315,066	71,081	3.1%
Repairs and maintenance	1,397,905	1,370,919	26,986	2.0%
Supplies, parts and other	1,895,578	1,778,706	116,872	6.6%
Depreciation	15,397,752	15,536,708	(138,956)	-0.9%
Total operating expenses	<u>30,539,493</u>	<u>30,188,523</u>	<u>350,970</u>	<u>1.2%</u>
Loss From Operations	(4,912,451)	(4,330,744)	(581,707)	-13.4%
Nonoperating Expenses				
Net of Revenues	(4,625,345)	(4,807,961)	182,616	-3.8%
Capital Contributions and Grants	<u>5,554,277</u>	<u>4,212,559</u>	<u>1,341,718</u>	<u>31.9%</u>
Decrease in Net Position	(3,983,519)	(4,926,146)	942,627	19.1%
Net Position, Beginning of Year	<u>88,018,044</u>	<u>92,944,190</u>	<u>(4,926,146)</u>	<u>-5.3%</u>
Net Position, End of Year	<u>\$ 84,034,525</u>	<u>\$ 88,018,044</u>	<u>\$ (3,983,519)</u>	<u>-4.5%</u>

Significant Variances for 2014 to 2013

- Operating Revenues:** In 2014, Federal Express decreased their frequency and size of aircraft regularly using HIA thus reducing Landing fees. A long time Commonwealth of Pennsylvania tenant ceased their building lease in 2014. These losses were offset by increases in most other income categories, the largest being vehicle rentals, which increased \$101,000.
- Operating Expenses (other than depreciation):** The winter of 2014 was more severe than 2013 with more frequent ice and snow events. More expense was required for winter service materials, overtime, vehicle fuels and the snow removal contractor for the parking facilities. Electricity costs decreased \$81,000 due to energy saving practices and reduced prices. One information technology position was added to the organization in 2014. Other departments filled vacancies and were more completely staffed than in 2013.
- Capital Contributions & Grants:** The amounts recorded vary year-to-year with the level of construction activity at SARAA's four airports. When there is more construction or other capital activity, there are more grant dollars reimbursing those costs. In 2014, Building 510, the old passenger terminal, was demolished to make way for future aviation development.

Balance Sheet Summary

A condensed summary of SARAA's balance sheets at year-end is shown below:

	2015	2014	2013
Assets			
Assets			
Current assets	\$ 17,088,387	\$ 16,052,786	\$ 15,157,450
Noncurrent restricted cash and investments	15,120,668	15,115,337	15,163,647
Capital assets, net	<u>217,825,388</u>	<u>224,939,808</u>	<u>233,691,624</u>
Total assets	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>	<u>\$ 264,012,721</u>
Liabilities			
Current liabilities	\$ 11,937,780	\$ 10,884,715	\$ 10,449,278
Long-term liabilities	<u>156,362,227</u>	<u>161,188,691</u>	<u>165,545,399</u>
Total liabilities	<u>168,300,007</u>	<u>172,073,406</u>	<u>175,994,677</u>
Net Position			
Net investment in capital assets	68,175,702	70,738,889	75,653,511
Restricted	7,422,279	7,304,997	7,162,346
Unrestricted	<u>6,136,455</u>	<u>5,990,639</u>	<u>5,202,187</u>
Total net position	<u>81,734,436</u>	<u>84,034,525</u>	<u>88,018,044</u>
Total liabilities and net position	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>	<u>\$ 264,012,721</u>

Balance Sheet Discussion - 2015 vs. 2014

Current assets: Overall, current assets increased, as in evaluating the individual elements, the increases outweighed the declines. The cash balance decreased from 2014 year end. Grants receivable increased from 2014 as we are expecting a reimbursement from the Transportation Security Administration for an upgrade to the screening equipment of the baggage handling system as well as monies from the Commonwealth of PA for the CXY renovations project. As we had to temporarily fund capital projects, waiting for grant reimbursement resulted in a decrease in investments. The grant funds were received in the first quarter of 2016.

Noncurrent cash and investments: Little changed in the Debt Service Reserve, Renewal and Replacement Reserve and Maintenance and Operation Reserve funds, as these funds are required to be maintained at certain prescribed levels to be in compliance with the bond indenture.

Capital assets, net of accumulated depreciation, decreased as annual depreciation expense exceeded new capital projects added during the year.

Current liabilities increased because of bills outstanding for the capital construction and monies owed for revenue sharing with the airlines.

Long-term liabilities decreased as the regular annual debt service principal was paid. Two notes were paid off early and another had a significant unscheduled principal payment.

Net position serves as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by \$82 million at December 31, 2015. This is a decrease from the prior year as depreciation decreases capital assets at a greater rate than we can invest in new capital assets.

The largest component of SARAA's net position (83 percent as of December 31, 2015) is invested in capital assets (e.g., land, infrastructure, buildings, improvements and equipment), net of the related debt outstanding used to acquire those capital assets. Although SARAA's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided annually from operations since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

The components of restricted net position are limited to their use by external sources as described below:

- Bond resolution requires funds be put aside to ensure the continued operation of the airports.
- The FAA requires the use of passenger facility charges (PFC's) collected from passengers by the airlines only for approved capital projects including debt service thereon.

Unrestricted net position may be used for any lawful airport system purpose.

Balance Sheet Discussion - 2014 vs. 2013

Current assets: Overall, current assets increased, as in evaluating the individual elements, the increases outweighed the declines. The cash balance decreased from 2013 year end. Grants receivable increased from 2013 as we are expecting a reimbursement from the Transportation Security Administration for an upgrade to the screening equipment of the baggage handling system. Investments increased as reserves increased \$497,000 to a healthier level to help finance the future capital program and provide adequate liquidity during winter.

Noncurrent cash and investments: Little changed in the Debt Service Reserve, Renewal and Replacement Reserve and Maintenance and Operation Reserve funds, as these funds are required to be maintained at certain prescribed levels to be in compliance with the bond indenture.

Capital assets, net of accumulated depreciation, decreased as annual depreciation expense exceeded new capital projects added during the year.

Long-term liabilities decreased as the regular annual debt service principal was paid. Three new notes were added:

- For LED lighting in the long-term parking lot. The long-term portion is \$56,916.
- For LED lighting in the parking garage. The long-term portion is \$67,331.
- A construction type loan for development of the North 29 area. The long-term portion is \$145,528.

Net position serves as a useful indicator of SARAA’s financial position. SARAA’s total assets exceeded total liabilities by \$84 million at December 31, 2014. This is a decrease from the prior year as depreciation decreases capital assets at a greater rate than we can invest in new capital assets.

The largest component of SARAA’s net position (84% as of December 31, 2014) is invested in capital assets (e.g., land, infrastructure, buildings, improvements and equipment), net of the related debt outstanding used to acquire those capital assets. Although SARAA’s investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided annually from operations since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

The components of restricted net position are limited to their use by external sources as described below:

- Bond resolution requires funds be put aside to ensure the continued operation of the airports.
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Unrestricted net position may be used for any lawful airport system purpose.

Cash and Investment Management

	2015	2014	2013
Cash and cash equivalents	\$ 171,713	\$ 239,862	\$ 437,289
Maintenance and operations reserve	2,568,884	2,520,561	2,521,312
Renewal and replacement reserve	441,017	456,865	507,748
Coverage account	1,838,373	1,828,653	1,827,900
Capital improvement account	1,647,929	2,002,549	1,506,190
Passenger facility charge	65,150	127,119	131,341
Accrued interest	95,977	90,576	76,110
	<u>\$ 6,829,043</u>	<u>\$ 7,266,185</u>	<u>\$ 7,007,890</u>

The above funds are invested according to the Commonwealth of Pennsylvania Municipal Authorities Act Section 5611 as described in Note 4, Cash and Investments, of the financial statements. All funds are secure as they are insured by the FDIC or collateralized by the respective financial institution as permitted by Act 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors.

The Maintenance and Operations Reserve is set by the Master Trust Indenture for the 2008 and 2012 Bonds at one sixth of the current year’s operating budget.

The Renewal and Replacement Reserve is set by the Master Trust Indenture at a minimum of \$500,000. A two-year payback is allowed for any use of the Renewal and Replacement Reserve. In 2015, two scissor lifts, a police vehicle, public address system, chiller and a crew cab pickup were purchased for which the reserve was used.

The Coverage Account has a beneficial effect in calculating the bond covenant. Capital Improvement Account represents remaining revenues to be used by SARAA for any lawful aviation purpose.

Further details may be found in Note 5 of the financial statements.

SARAA's restricted debt service funds at December 31 were as follows:

	2015	2014	2013
Debt service funds	\$ 8,033,176	\$ 7,972,680	\$ 8,064,855
Debt service reserve funds	<u>12,014,790</u>	<u>12,047,335</u>	<u>12,047,242</u>
	<u>\$ 20,047,966</u>	<u>\$ 20,020,015</u>	<u>\$ 20,112,097</u>

The trustee, Manufacturers Traders and Trust Co., holds the above funds. They are invested under direction of SARAA according to Section 4.07(h) in the applicable Supplemental Trust Indenture with respect to SARAA's Senior Bonds and Section 4.04(g) in the Third Supplemental Subordinate Trust Indenture with respect to SARAA's Subordinate Bonds. Permitted investments are defined in the Senior Master Indenture and in the Fourth Supplemental Trust Indenture.

Capital Asset Activity

The following are projects underway or completed in 2015:

- Construction of Snow Removal Equipment Storage Building completed at HIA
- Renovation of hangar and office building (old terminal building) at CXY
- Master Plan development near completion at HIA
- Master Plan development underway at CXY
- Replacement of Baggage Handling Explosive Detection System machines near completion at HIA
- Construction of parallel taxiway underway at FCRA
- Four new vehicles, and brine mixing tanks acquired at HIA
- Design of Runway 13-31 rehabilitation underway at HIA
- Rehabilitation of taxiways A & D at HIA completed

Cash paid for capital projects was \$7.4 million. SARAA received \$6.2 million in capital grants toward the capital additions. See Note 6 to the financial statements for a summary of capital asset activity.

As part of the Noise Relocation Project at HIA, properties were purchased in the borough of Middletown and the houses were demolished. The tenants of rental properties were relocated. The Noise Relocation Project includes expenditures for survey, evaluation, appraisal, property acquisition, demolition and relocation expenditures under a program approved by the Federal Aviation Administration (FAA). Should this land be sold, proceeds will revert to the FAA. Therefore, expenditures are recorded on the Statements of Revenues, Expenses and Changes in Net Position as nonoperating expenses. Related FAA grants are recorded as nonoperating revenues.

Long-Term Debt

Capital acquisitions are funded using a variety of financing mechanisms, including federal and state grants, passenger facility charges (PFC), public debt issues, the renewal and replacement account, capital improvement account and airport operating revenue.

The use of PFC's is fully explained in Note 2, Passenger Facility Charges, of the financial statements. Currently and for the foreseeable future, all PFC's are pledged as an offset to the debt service requirements of the 2008A and 2008B bonds and thereafter, the 2012A, 2012B and 2012C bonds.

SARAA's annual debt service for their five bond issues is scheduled at approximately \$12 million annually through 2037. Principal payments will now be focused on the 2012C bonds through 2017. The 2012C bonds are the final outstanding subordinate bonds. No new bond issues except possible refundings are anticipated in the immediate future.

SARAA, through its Master Trust Indentures, has covenants to maintain a debt service coverage ratio of not less than 1.25 for senior lien debt and 1.10 for senior and subordinate debt. Debt service coverage is calculated based on a formula included in the bond indentures and the airline agreements. Historically, the Authority has maintained a coverage ratio higher than its requirement.

	2015	2014
Senior Bond debt service coverage	2.27	2.39
Senior + Subordinate Bond debt service coverage	1.24	1.27

The covenants are more fully described in Note 7, Covenants, in the financial statements.

Requests for Information

This financial report is designed to provide a general overview of SARAA's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Deputy Director, Finance & Administration, Harrisburg International Airport, One Terminal Drive, Suite 300, Middletown, PA 17057 or via SARAA's website www.flyhia.com.

Susquehanna Area Regional Airport Authority

Balance Sheets December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	\$ 171,713	\$ 239,862
Accounts receivable, net of allowance of \$70,000	1,524,396	990,721
Grants receivable	2,397,397	1,773,879
Prepays and other assets	471,439	168,993
Inventory	696,949	732,970
Investments	3,486,302	3,831,202
Total unrestricted current assets	<u>8,748,196</u>	<u>7,737,627</u>
Restricted Assets		
Cash and investments	8,098,326	8,099,799
Passenger facility charge receivables	241,865	215,360
Total restricted current assets	<u>8,340,191</u>	<u>8,315,159</u>
Total current assets	<u>17,088,387</u>	<u>16,052,786</u>
Noncurrent Assets		
Cash and investments, restricted	15,120,668	15,115,337
Capital assets		
Nondepreciable capital assets	31,244,464	29,549,353
Depreciable capital assets	<u>186,580,924</u>	<u>195,390,455</u>
Net capital assets	<u>217,825,388</u>	<u>224,939,808</u>
Total noncurrent assets	<u>232,946,056</u>	<u>240,055,145</u>
Total assets	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>

	2015	2014
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 1,488,649	\$ 976,118
Accounts payable - construction	1,375,618	1,134,845
Accrued interest payable	3,927,813	3,987,588
Accrued expenses	660,543	557,461
Unearned revenue	357,504	151,726
Current portion of notes payable	22,653	91,977
Current portion of bonds payable	4,105,000	3,985,000
Total current liabilities	<u>11,937,780</u>	<u>10,884,715</u>
Noncurrent Liabilities		
Estimated costs of remediation	850,000	850,000
Unearned revenue	23,523	31,413
Bond and other deposits	81,522	30,270
Notes payable, less current portion	142,807	335,938
Bonds payable, less current portion	155,264,375	159,941,070
Total noncurrent liabilities	<u>156,362,227</u>	<u>161,188,691</u>
Total liabilities	<u>168,300,007</u>	<u>172,073,406</u>
Net Position		
Net investment in capital assets	68,175,702	70,738,889
Restricted	7,422,279	7,304,997
Unrestricted	6,136,455	5,990,639
Total net position	<u>81,734,436</u>	<u>84,034,525</u>
Total liabilities and net position	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>

Susquehanna Area Regional Airport Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Facilities revenue	\$ 8,180,879	\$ 7,627,954
Parking fees	7,647,058	7,618,817
Vehicle rental fees and customer facility charges	3,910,428	4,013,911
Landing fees	3,711,534	3,585,158
Apron and gate use fees	1,155,277	1,064,397
Concession fees	440,133	438,976
Fuel flowage and other commissions	442,322	479,632
Other income	662,472	798,197
Total operating revenues	<u>26,150,103</u>	<u>25,627,042</u>
Operating Expenses		
Salaries, wages, payroll taxes and benefits	6,700,934	6,321,078
Professional and consulting fees	606,182	451,670
Marketing	431,113	635,584
Insurance	561,586	535,644
Utilities	1,519,326	1,518,135
Parking facility	2,387,317	2,386,147
Repairs and maintenance	1,553,828	1,397,905
Supplies, parts and other	1,955,487	1,895,578
Depreciation	14,799,338	15,397,752
Total operating expenses	<u>30,515,111</u>	<u>30,539,493</u>
Loss From Operations	<u>(4,365,008)</u>	<u>(4,912,451)</u>
Nonoperating Revenues (Expenses)		
Passenger facility charges	2,352,359	2,613,741
Noise relocation project disbursements	(145,261)	(140,880)
Noise relocation project grants	135,761	134,546
Investment income	142,681	145,545
Interest expense	(7,290,706)	(7,389,442)
Gain on disposal of capital assets	50,582	11,145
Total nonoperating expenses	<u>(4,754,584)</u>	<u>(4,625,345)</u>
Decrease in Net Position Before Capital Contributions and Grants	(9,119,592)	(9,537,796)
Capital Contributions and Grants		
Federal, state and local grants	<u>6,819,503</u>	<u>5,554,277</u>
Decrease in Net Position	(2,300,089)	(3,983,519)
Net Position, Beginning of Year	<u>84,034,525</u>	<u>88,018,044</u>
Net Position, End of Year	<u>\$ 81,734,436</u>	<u>\$ 84,034,525</u>

Susquehanna Area Regional Airport Authority
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Cash received from customers	\$ 25,814,316	\$ 25,489,196
Cash paid to employees for services	(6,546,600)	(6,383,715)
Cash paid to suppliers for goods and services	(8,768,733)	(8,409,690)
Net cash provided by operating activities	10,498,983	10,695,791
Cash Flows From Noncapital Financing Activities		
Noise relocation grants received	135,761	134,546
Noise relocation project costs	(145,261)	(140,880)
Net cash used in noncapital financing activities	(9,500)	(6,334)
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(3,985,000)	(3,775,000)
Interest paid	(7,922,176)	(8,035,350)
Principal payment on loans	(262,455)	(61,038)
Proceeds from notes payable	-	337,528
Passenger facility charges received	2,325,854	2,625,179
Acquisition and construction of capital assets	(7,393,563)	(6,380,868)
Capital grants received	6,195,985	4,855,020
Net cash used in capital and related financing activities	(11,041,355)	(10,434,529)
Cash Flows From Investing Activities		
Investment income	142,681	145,545
Purchase of investment securities	(15,374,533)	(17,022,428)
Proceeds from sales of investment securities	15,715,575	16,424,528
Net cash provided by (used in) investing activities	483,723	(452,355)
Net Decrease in Cash and Cash Equivalents	(68,149)	(197,427)
Cash and Cash Equivalents, Beginning of Year	239,862	437,289
Cash and Cash Equivalents, End of Year	\$ 171,713	\$ 239,862

Susquehanna Area Regional Airport Authority
Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of Loss From Operations to Net Cash		
Provided by Operating Activities		
Loss from operations	\$ (4,365,008)	\$ (4,912,451)
Item not requiring cash		
Depreciation of capital assets	14,799,338	15,397,752
Change in assets and liabilities		
Accounts receivable	(533,675)	20,764
Inventory	36,021	(13,228)
Prepays and other assets	(302,446)	233,730
Unearned revenue	197,888	(158,610)
Bond and other deposits	51,252	(1,318)
Accounts payable and accrued expenses	615,613	129,152
Net cash provided by operating activities	\$ 10,498,983	\$ 10,695,791
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	\$ 1,375,618	\$ 1,134,845

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Note 1: Reporting Entity

On January 2, 1998, the Commonwealth of Pennsylvania (Commonwealth), acting through the Pennsylvania Department of Transportation (PennDOT), transferred operation and ownership of the Harrisburg International Airport (HIA), primarily located in Lower Swatara Township, Dauphin County, Pennsylvania and Capital City Airport (CXY), located in Fairview Township, York County, Pennsylvania (Airports), to the Susquehanna Area Regional Airport Authority (SARAA), a joint municipal authority duly created under the Pennsylvania Municipality Authorities Act. The assets and obligations of the Airports, as well as the assignment of all leases, agreements, permits and approvals, were transferred to SARAA in consideration of a one-dollar payment to the Commonwealth.

SARAA is organized under the Municipal Authorities Act (Act) as a joint authority by the Counties of Dauphin, Cumberland and York; the Cities of Harrisburg and York; and the Townships of Fairview and Lower Swatara. Under the Act, SARAA is an independent entity governed by a board of directors. Each of the municipalities appoints representatives to serve for 5-year terms on the board that consists of 15 directors. Each county appoints three board members, each city appoints two board members, while each of the two townships appoints one board member. An Executive Director of Aviation and a Deputy Executive Director of Aviation are employed to act on behalf of the board in connection with administration of the operational responsibilities retained by SARAA.

SARAA also owns and operates the Franklin County Regional Airport (FCRA), located near Chambersburg, Pennsylvania and the Gettysburg Regional Airport (GRA), located near Gettysburg, Pennsylvania.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Measurement Focus

The financial statements of SARAA have been prepared using the accrual basis of accounting and economic resources measurement focus. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

SARAA follows the reporting requirements for special-purpose governments involved in business-type activities, which provide an entity-wide perspective in the financial statement presentation. These standards require presentation of management's discussion and analysis, as required supplementary information and financial statements consisting of the balance sheets, statements of revenues, expenses and changes in net position using a specified format, which distinguishes between operating and nonoperating revenues and expenses and statements of cash flows using the direct method.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2015 and 2014

Management of SARAA has made a number of estimates and assumptions relating to the reporting of assets and liabilities, recognition of revenue and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from the estimates.

Revenue Recognition

Revenue is recognized on an accrual basis with the establishment of corresponding accounts receivable. The allowance method for accounts receivable is used to measure bad debts. The allowance for doubtful accounts is determined based upon management's historical analysis and estimation of collectability of such accounts.

Cash and Cash Equivalents

SARAA considers all highly liquid investments (including restricted investments) with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of money market accounts.

Investments

Investments are stated at fair value based on estimates from external investment managers and quoted market prices.

Inventories

Inventories of supplies and aviation fuel are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method.

Restricted Assets

Proceeds from debt and funds set aside for payment of debt are classified as restricted assets since their use is limited by applicable debt agreements. It is SARAA's policy to first apply restricted resources when a cost is incurred for which both restricted and unrestricted net position are available.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2015 and 2014

Capital Assets

Capital assets, such as land, buildings, equipment and infrastructure assets are stated at cost (or estimated historical cost). Contributed assets are recorded at fair value at the date of contribution. SARAA capitalizes assets with an expected useful life of more than one year and a cost greater than \$10,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings, including parking facility	3 to 35
Land improvements	5 to 25
Runways, taxiways and aprons	3 to 30
Utilities and sewers	10 to 50
Roads and parking areas	4 to 20
Heavy equipment, furniture and fixtures	3 to 25
Vehicles	3 to 15
Facility planning, design and other studies	5 to 20

Expenditures for capital assets and for major renewals and betterments that extend the estimated useful life of the assets are capitalized, while routine maintenance and repairs are charged to expense as incurred. At the time capital assets are sold, retired, or disposed of, the costs of such assets and related accumulated depreciation are removed and any gain or loss on disposal is reflected as nonoperating activity. All costs relating to the construction of property and equipment are capitalized, including interest during the period of construction.

Lessee-Financed Improvements

Certain leases include provisions whereby lessee-financed improvements become the property of SARAA. Prior to the adoption of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, SARAA recorded lessee-financed improvements only upon leasehold reversion or lease termination, at which time the improvements were capitalized at fair value and recorded as a capital contribution. With the adoption of GASB Statement No. 33, SARAA now recognizes lessee-financed improvements at cost or estimated cost upon completion of construction, or upon the asset being placed in service, whichever occurs first. However, lessee-financed improvements placed in service prior to the adoption of GASB Statement No. 33 continue to be recognized only upon leasehold reversion or lease termination.

Compensated Absences

In accordance with the vesting method provided under GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated vacation and personal time is accrued based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Net Position

Net position is categorized into three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets. Restricted net position represents resources that are subject to external restrictions on how they may be used. Unrestricted net position consists of net position that does not meet the definition of the two preceding categories.

Federal and State Grants

Outlays for airport capital improvements and certain airport operating expenses, primarily those relating to airport security, are subject to reimbursement from federal grant programs. Funds are also received for airport development from the Commonwealth. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency. Capital funding is recorded as capital contributions and earned as allowable capital expenditures are incurred, whereas funding for the Noise Relocation Project is recorded as nonoperating revenues as related expenses are incurred.

Rental Income

All leases wherein SARAA is the lessor are accounted for as operating leases. Rental income is generally recognized as it becomes receivable over the respective lease terms.

Operating Versus Nonoperating and Net Position Recognition

The policy of SARAA is to report as operating revenues and expenses items that result from providing services in connection with the principal ongoing activities of the airport. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Passenger Facility Charges

Passenger facility charges (PFCs) are fees imposed on enplaned passengers by airports (and collected by airlines) for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. PFCs are restricted for use in the acquisition of real estate, construction of certain airport improvements (including payment of debt service) and other costs, as approved by the FAA.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

SARAA has received approval from the Federal Aviation Administration (FAA) to impose and use a passenger facility charge of \$4.50 per eligible enplaned passenger up to approximately \$129 million. Among the projects to be financed by SARAA's PFCs are portions of the construction of the new terminal building, terminal loop road, terminal aprons, nav aids and runway lighting and parallel taxiway and related work. From 2009 to 2012, PFCs associated with the first \$4.50 per eligible passenger were to be deposited monthly to pay debt service on the 2008A and 2008B bonds up to their maximum annual debt service and, thereafter, were to be deposited monthly to pay debt service on the 2003A and 2003B bonds up to their maximum annual debt service. From 2013 to 2018, PFCs associated with the first \$4.50 per eligible passenger are to be deposited monthly to pay debt service on the 2008A and 2008B bonds up to their maximum annual debt service and, thereafter, are to be deposited monthly to pay debt service on the 2012A and 2012B bonds up to their maximum annual debt service.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to \$2,352,359 and \$2,613,741 for 2015 and 2014, respectively.

Customer Facility Charges

SARAA collects a customer facility charge (CFC) from all rental car concessionaires that operate facilities on the airport. The CFC is \$3.75 per rental car transaction per day. CFC's may be used in the following priority: (1) payment of annual debt service on the Airport System Revenue Bonds used to fund the design and construction of the multi-modal transportation center/ground transportation center; and (2) payment of operating and maintenance costs for the rental car portions of the multi-modal transportation center/ground transportation center. CFC revenue totaled \$1,721,741 and \$1,721,543 for 2015 and 2014, respectively, and is included in operating revenues on the statements of revenues, expenses and change in net position.

Note 3: Major Customers

Major customers of SARAA represent the following percentages in SARAA operating revenues and passengers:

	2015		2014	
	Revenues	Number of Passengers	Revenues	Number of Passengers
U.S. Airways	15%	30%	11%	30%
Delta Airlines	14%	28%	13%	24%
United Airlines	12%	22%	14%	23%

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Note 4: Cash and Investments

The fair values of deposits and investment securities by type of investment are:

	2015			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Cash and cash equivalents	\$ 171,713	\$ 1,802,110	\$ 3,261,302	\$ 5,235,125
Money market funds	-	8,310,907	-	8,310,907
Certificates of deposit	-	6,375,884	225,000	6,600,884
Municipal obligations	-	4,228,052	-	4,228,052
U.S. Government - sponsored enterprises	-	2,406,064	-	2,406,064
Accrued investment income	-	95,977	-	95,977
	<u>\$ 171,713</u>	<u>\$ 23,218,994</u>	<u>\$ 3,486,302</u>	<u>\$ 26,877,009</u>

	2014			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Cash and cash equivalents	\$ 239,862	\$ 1,847,147	\$ 3,606,202	\$ 5,693,211
Money market funds	-	8,896,452	-	8,896,452
Certificates of deposit	-	5,428,935	225,000	5,653,935
Municipal obligations	-	4,989,915	-	4,989,915
U.S Government - sponsored enterprises	-	1,962,111	-	1,962,111
Accrued investment income	-	90,576	-	90,576
	<u>\$ 239,862</u>	<u>\$ 23,215,136</u>	<u>\$ 3,831,202</u>	<u>\$ 27,286,200</u>

Deposits

Commonwealth of Pennsylvania law requires that SARAA's deposits be placed in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Insurance Fund. To the extent that such accounts are so insured, and for any amounts above the insured maximum, the approved collateral as provided by law shall be pledged by the depository.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

At December 31, 2015 and 2014, the carrying value and the bank balances of SARAA's deposits were as follows:

	2015		2014	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	\$ 5,235,125	\$ 5,428,046	\$ 5,693,211	\$ 5,796,703
Certificates of deposit	6,600,884	6,600,884	5,653,935	5,653,935

Of the bank balances in 2015 and 2014, \$500,000 and \$648,130 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balances were uninsured and collateralized by financial institutions via single collateral pool arrangements as permitted by Act No. 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors.

Investments

SARAA's practice is to follow Section 5611 of the Commonwealth of Pennsylvania Municipality Authorities Act. In accordance with their investment policy, SARAA is authorized to invest in (1) U.S. Treasury bills; (2) short-term obligations of the U.S. government or its agencies or instrumentalities; (3) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision; and (4) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 if the only investments of that company are in the authorized investments for authority funds listed (1) through (3) above.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

SARAA had the following investments and maturities as of December 31, 2015 and 2014:

	Moody's Rating	Carrying Value	2015 Investment Maturity (in years)		
			Less than 1	1 to 5	
Money market funds	Aaa-mf	\$ 8,310,907	\$ 8,310,907	\$ -	
Certificates of deposit	Not Rated	6,600,884	3,765,539	2,835,345	
Municipal obligations	Aa1	124,529	50,798	73,731	
	Aa2	200,885	50,659	150,226	
	Aa3	969,542	826,320	143,222	
	A1	341,608	268,426	73,182	
	A2	312,688	-	312,688	
	A3	531,820	-	531,820	
	Baa1	139,567	-	139,567	
	Baa2	372,386	372,386	-	
	Ba1	81,366	-	81,366	
	Ba2	504,970	504,970	-	
	Not Rated	648,691	79,730	568,961	
	Subtotal - Municipal obligations		<u>4,228,052</u>	<u>2,153,289</u>	<u>2,074,763</u>
	U.S. Government - sponsored enterprises	Aaa	2,406,064	709,547	1,696,517
Accrued investment income	n/a	<u>95,977</u>	<u>95,977</u>	<u>-</u>	
		<u>\$ 21,641,884</u>	<u>\$ 15,035,259</u>	<u>\$ 6,606,625</u>	

	Moody's Rating	Carrying Value	2014 Investment Maturity (in years)	
			Less than 1	1 to 5
Money market funds	Aaa-mf	\$ 8,896,452	\$ 8,896,452	\$ -
Certificates of deposit	Not rated	5,653,935	2,478,391	3,175,544
Municipal obligations	Aa1	141,625	64,563	77,062
	Aa2	1,109,526	-	1,109,526
	Aa3	981,568	133,972	847,596
	A1	1,259,538	77,464	1,182,074
	A2	1,071,573	152,743	918,830
	Baa2	85,398	-	85,398
	Not rated	340,687	-	340,687
	Subtotal - Municipal obligations		<u>4,989,915</u>	<u>428,742</u>
U.S. Government - sponsored enterprises	Aaa	1,962,111	-	1,962,111
Accrued investment income	n/a	<u>90,576</u>	<u>90,576</u>	<u>-</u>
		<u>\$ 21,592,989</u>	<u>\$ 11,894,161</u>	<u>\$ 9,698,828</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Interest Rate Risk: The risk that changes in interest rates of debt securities will adversely affect the value of an investment. SARAA does not have an investment policy that manages exposure to fair value losses arising from increasing interest rates.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of SARAA's various investment securities is presented in the previous table.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, SARAA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2015, SARAA's investments were not exposed to custodial credit risk. The U.S. Government - sponsored enterprise securities are not collateralized. The municipal obligations and U.S. Government - sponsored enterprise securities are held in SARAA's name by M&T Investment Group, the trustee. Certificates of deposit were insured by FDIC or collateralized.

Concentration of Credit Risk: SARAA's investment policy does not address the concentration of credit risk. As of December 31, 2015 and 2014, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio	
	2015	2014
Money market funds	38%	42%
Certificates of deposit	31%	26%
Municipal obligations	20%	23%
U.S. Government - sponsored enterprises	11%	9%

Foreign Currency Risk: This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. SARAA's investment policy prohibits investments in foreign investments.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Investments

Restricted Cash and Investments

SARAA is required to restrict assets for various purposes in accordance with the terms of airline use agreements, bond ordinances and other contractual agreements. A summary of the restricted assets consists of the following:

	2015	2014
Maintenance and operating reserve account	\$ 2,568,884	\$ 2,520,561
Renewal and replacement account	441,017	456,865
Passenger facility charges	65,150	127,119
Debt service fund	8,033,176	7,972,680
Debt service reserve	12,014,790	12,047,335
Total	23,123,017	23,124,560
Accrued income	95,977	90,576
Total restricted investments	23,218,994	23,215,136
Less current portion	(8,098,326)	(8,099,799)
Noncurrent portion	\$ 15,120,668	\$ 15,115,337

The maintenance and operation reserve fund must be maintained at a balance at least equal to one-sixth of SARAA's current operating and maintenance budget as a contingency reserve for payment of operation and maintenance expenses. Assets of the renewal and replacement fund must be maintained to pay for repairs or replacement of property not provided for by monies available in other funds including repairs and replacements done on an emergency basis. Passenger facility charges represent monies collected by SARAA not yet expended in accordance with the Federal Aviation Administration approval. The debt service fund is to pay principal and interest on the outstanding bonds. Amounts in the debt service reserve fund are available to pay debt service on the bonds if the amounts held in the debt service fund are insufficient to pay in full any principal and interest then due.

Unrestricted Investments

The following are unrestricted investments that are held by SARAA at December 31, 2015 and 2014. The capital improvement account represents all remaining revenues to be used by SARAA for any lawful aviation purposes. The coverage account can be used by SARAA to accumulate reserves of up to 25% of aggregate annual senior debt service.

	2015	2014
Capital improvement account	\$ 1,647,929	\$ 2,002,549
Coverage account	1,838,373	1,828,653
	\$ 3,486,302	\$ 3,831,202

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Note 6: Capital Assets

Capital assets consist of the following:

	Balance December 31, 2014	Additions	Transfers	Disposals	Balance December 31, 2015
Capital assets not being depreciated:					
Land and improvements	\$ 21,342,404	\$ -	\$ 2,073,580	\$ -	\$ 23,415,984
Construction in progress	8,206,949	7,704,696	(8,083,165)	-	7,828,480
Total capital assets not being depreciated	<u>29,549,353</u>	<u>7,704,696</u>	<u>(6,009,585)</u>	<u>-</u>	<u>31,244,464</u>
Capital assets being depreciated:					
Buildings, including parking facility	179,187,400	-	4,581,185	-	183,768,585
Land improvements	10,341,209	-	-	-	10,341,209
Runways, taxiways and aprons	110,556,937	-	902,501	-	111,459,438
Utilities and sewers	20,147,175	-	-	-	20,147,175
Roads and parking areas	22,751,249	-	-	-	22,751,249
Heavy equipment, furniture and fixtures	26,875,297	-	171,245	(995)	27,045,547
Vehicles	9,733,886	-	354,654	(430,539)	9,658,001
Facility planning, design and other studies	3,331,991	-	-	-	3,331,991
Total capital assets being depreciated	<u>382,925,144</u>	<u>-</u>	<u>6,009,585</u>	<u>(431,534)</u>	<u>388,503,195</u>
Less accumulated depreciation for:					
Buildings, including parking facility	76,196,445	5,716,167	-	-	81,912,612
Land improvements	6,017,632	436,392	-	-	6,454,024
Runways, taxiways and aprons	48,507,880	5,584,274	-	-	54,092,154
Utilities and sewers	8,332,606	462,448	-	-	8,795,054
Roads and parking areas	17,272,368	869,458	-	-	18,141,826
Heavy equipment, furniture and fixtures	21,062,302	1,119,602	-	(995)	22,180,909
Vehicles	7,432,724	504,032	-	(410,761)	7,525,995
Facility planning, design and other studies	2,712,732	106,965	-	-	2,819,697
Total accumulated depreciation	<u>187,534,689</u>	<u>14,799,338</u>	<u>-</u>	<u>(411,756)</u>	<u>201,922,271</u>
Total capital assets being depreciated, net	<u>195,390,455</u>	<u>(14,799,338)</u>	<u>6,009,585</u>	<u>(19,778)</u>	<u>186,580,924</u>
Capital assets, net	<u>\$ 224,939,808</u>	<u>\$ (7,094,642)</u>	<u>\$ -</u>	<u>\$ (19,778)</u>	<u>\$ 217,825,388</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

	Balance December 31, 2013	Additions	Transfers	Disposals	Balance December 31, 2014
Capital assets not being depreciated:					
Land and improvements	\$ 21,139,846	\$ 202,558	\$ -	\$ -	\$ 21,342,404
Construction in progress	3,092,215	6,442,887	(1,328,153)	-	8,206,949
Total capital assets not being depreciated	<u>24,232,061</u>	<u>6,645,445</u>	<u>(1,328,153)</u>	<u>-</u>	<u>29,549,353</u>
Capital assets being depreciated:					
Buildings, including parking facility	179,029,505	-	157,895	-	179,187,400
Land improvements	10,341,209	-	-	-	10,341,209
Runways, taxiways and aprons	110,559,173	-	(2,236)	-	110,556,937
Utilities and sewers	19,968,177	-	178,998	-	20,147,175
Roads and parking areas	22,751,249	-	-	-	22,751,249
Heavy equipment, furniture and fixtures	26,182,362	-	692,935	-	26,875,297
Vehicles	9,558,242	-	221,863	(46,219)	9,733,886
Facility planning, design and other studies	3,253,293	-	78,698	-	3,331,991
Total capital assets being depreciated	<u>381,643,210</u>	<u>-</u>	<u>1,328,153</u>	<u>(46,219)</u>	<u>382,925,144</u>
Less accumulated depreciation for:					
Buildings, including parking facility	70,197,886	5,998,559	-	-	76,196,445
Land improvements	5,579,259	438,373	-	-	6,017,632
Runways, taxiways and aprons	42,933,035	5,574,845	-	-	48,507,880
Utilities and sewers	7,755,266	577,340	-	-	8,332,606
Roads and parking areas	16,345,379	926,989	-	-	17,272,368
Heavy equipment, furniture and fixtures	19,796,761	1,265,541	-	-	21,062,302
Vehicles	6,972,831	506,603	-	(46,710)	7,432,724
Facility planning, design and other studies	2,603,230	109,502	-	-	2,712,732
Total accumulated depreciation	<u>172,183,647</u>	<u>15,397,752</u>	<u>-</u>	<u>(46,710)</u>	<u>187,534,689</u>
Total capital assets being depreciated, net	<u>209,459,563</u>	<u>(15,397,752)</u>	<u>1,328,153</u>	<u>491</u>	<u>195,390,455</u>
Capital assets, net	<u>\$ 233,691,624</u>	<u>\$ (8,752,307)</u>	<u>\$ -</u>	<u>\$ 491</u>	<u>\$ 224,939,808</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Note 7: Bonds Payable

SARAA has issued the following debt instruments to provide funds for the construction of major capital facilities.

Senior and Subordinate Airport System Revenue Bonds

Bonds outstanding at December 31, 2015 and 2014 comprised the following:

	2015	2014
Senior airport system revenue bonds:		
Series A of 2008. Consists of term bonds with an interest rate of 6.500% with final maturity in 2038	\$ 43,535,000	\$ 43,535,000
Series B of 2008. Consists of term bonds with an interest rate of 9.875% with final maturity in 2034	1,280,000	1,280,000
Series A of 2012. Consists of serial bonds with an interest rate of 5.000% and term bonds with a 5.000% interest rate with final maturity in 2027	53,375,000	53,375,000
Unamortized bond premium	3,867,136	4,440,532
Total Series A of 2012	57,242,136	57,815,532
Series B of 2012. Consists of term bonds with an interest rate of 4.000% with final maturity in 2033	49,520,000	49,520,000
Unamortized bond discount	(556,407)	(594,872)
Total Series B of 2012	48,963,593	48,925,128
Subordinate airport system revenue bonds:		
Series C of 2012. Consists of term bonds with an interest rate of 3.000% with final maturity in 2017	8,330,000	12,315,000
Unamortized bond premium	18,646	55,410
Total Series C of 2012	8,348,646	12,370,410
	159,369,375	163,926,070
Current portion of long-term debt	(4,105,000)	(3,985,000)
	\$ 155,264,375	\$ 159,941,070

In December 2012, SARAA issued the 2012A, 2012B and 2012C Revenue Bonds (Series 2012 Bonds) in the amounts of \$53,375,000, \$49,520,000 and \$16,090,000, respectively. The Series 2012 Bonds were issued as a current refunding of all of SARAA's then outstanding 2003A, 2003B, and 2003D Revenue Bonds. As a result of the bond issue, all debt service reserve funds are cash funded.

The purpose of the Series 2008 Bonds was to provide funds to refinance certain variable rate bonds of SARAA, refinance an unsecured line of credit and to pay the costs of issuance of the bonds.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Annual Debt Service Requirements to Maturity

The annual requirements to pay principal and interest to maturity on the senior and subordinate airport revenue bonds outstanding at December 31, 2015 are summarized as follows:

Years Ending December 31	Senior Airport System Revenue Bonds		Subordinate Airport System Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2016	\$ -	\$ 7,605,725	\$ 4,105,000	\$ 249,900	\$ 11,960,625
2017	-	7,605,725	4,225,000	126,750	11,957,475
2018	4,405,000	7,605,725	-	-	12,010,725
2019	4,630,000	7,385,475	-	-	12,015,475
2020	4,855,000	7,153,975	-	-	12,008,975
2021 - 2025	28,180,000	31,875,625	-	-	60,055,625
2026 - 2030	35,690,000	24,374,475	-	-	60,064,475
2031 - 2035	41,365,000	16,265,075	-	-	57,630,075
2036 - 2038	28,585,000	3,794,050	-	-	32,379,050
	<u>\$ 147,710,000</u>	<u>\$ 113,665,850</u>	<u>\$ 8,330,000</u>	<u>\$ 376,650</u>	<u>\$ 270,082,500</u>

Covenants

Senior Bonds

Net revenues for each fiscal year shall be at least equal to the senior bonds debt service required to be funded by SARAA, plus required deposits to the debt service reserve funds and transfers to the maintenance and operations reserve fund and renewal and replacement fund. Net revenues together with the amount in the coverage account shall also equal 125% of senior bond's debt service. In addition, SARAA has irrevocably committed to use a portion of the PFC receipts through 2018 for senior bond debt service.

Subordinate Bonds

Net revenues for each fiscal year shall be at least equal to the senior and subordinate bonds debt service required to be funded by SARAA, plus required deposits to the debt service reserve funds, maintenance and operations reserve fund and renewal and replacement fund. Net revenues together with the amount in the coverage account shall also equal 110% of senior and subordinate bonds debt service.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Changes in Long-Term Liabilities

	Balance December 31, 2014	Additions	Deductions	Balance December 31, 2015	Current Portion
Long-term debt					
Senior revenue bonds	\$ 147,710,000	\$ -	\$ -	\$ 147,710,000	\$ -
Subordinate revenue bonds	12,315,000	-	3,985,000	8,330,000	4,105,000
Bond premium/(discount), net	3,901,070	-	571,695	3,329,375	-
Total long-term debt	163,926,070	-	4,556,695	159,369,375	4,105,000
Other long-term liabilities					
Notes payable	427,915	128,183	390,638	165,460	22,653
Estimated costs of remediation	850,000	-	-	850,000	-
Unearned revenue	183,139	381,027	183,139	381,027	357,504
Security deposits	30,270	51,252	-	81,522	-
Total long-term liabilities	\$ 165,417,394	\$ 560,462	\$ 5,130,472	\$ 160,847,384	\$ 4,485,157

	Balance December 31, 2013	Additions	Deductions	Balance December 31, 2014	Current Portion
Long-term debt					
Senior revenue bonds	\$ 147,710,000	\$ -	\$ -	\$ 147,710,000	\$ -
Subordinate revenue bonds	16,090,000	-	3,775,000	12,315,000	3,985,000
Bond premium/(discount), net	4,490,353	-	589,283	3,901,070	-
Total long-term debt	168,290,353	-	4,364,283	163,926,070	3,985,000
Other long-term liabilities					
Note payable	151,425	337,528	61,038	427,915	91,977
Estimated costs of remediation	850,000	-	-	850,000	-
Unearned revenue	341,749	183,139	341,749	183,139	151,726
Security deposits	31,588	-	1,318	30,270	-
Total long-term liabilities	\$ 169,665,115	\$ 520,667	\$ 4,768,388	\$ 165,417,394	\$ 4,228,703

Note 8: Operating Leases

Rental Income From Operating Leases

SARAA leases space at HIA, CXY, FCRA and GRA on a fixed fee as well as contingent rental basis. Six on-airport rental car companies at HIA guarantee minimum commissions for the term of their agreements through December 31, 2019. Many of the leases provide for a periodic review and redetermination of the rental amounts. Substantially all of SARAA's capital assets are held for the purpose of rental or related use.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2015 and 2014

Minimum future rentals on noncancelable leases to be received in the future are as follows:

	Airline Agreements	Other Leases	Total
2016	\$ 1,940,208	\$ 4,011,302	\$ 5,951,510
2017	1,940,208	3,836,807	5,777,015
2018	1,940,208	3,504,616	5,444,824
2019	1,940,208	3,345,618	5,285,826
2020	-	815,672	815,672
2021 - 2025	-	4,001,352	4,001,352
2026 - 2030	-	3,255,541	3,255,541
2031 - 2035	-	2,062,068	2,062,068
2036 - 2040	-	489,332	489,332
2041 - 2044	-	153,060	153,060
	<u>\$ 7,760,832</u>	<u>\$ 25,475,368</u>	<u>\$ 33,236,200</u>

Note 9: Retirement Benefits

SARAA has established a 457(b) defined-contribution plan for the benefit of all of its employees. This plan allows for employees to elect contributions either in a dollar amount or percentage not exceeding 15% of the employee's total salary or wages. SARAA does not make any employer contributions to this plan.

SARAA has also established a 401(a) retirement plan (Plan) for its employees, which is entirely funded through SARAA contributions. All full-time employees are eligible to participate. Effective July 1, 2009, full-time employees have up to 4% of employee salaries and wages contributed as a match of the employees' contributions to the 457(b) plan. SARAA's contributions to the Plan amounted to \$179,746 in 2015 and \$181,274 in 2014. There are no employee contributions to the Plan.

Note 10: Risk Management

Risk management is the responsibility of SARAA. Operationally, SARAA is exposed to various risks of loss related to the theft of, damage to and destruction of assets, natural disasters as well as certain tort liabilities for which commercial insurance is carried. The commercial insurance policies carry deductibles ranging from \$500 to \$100,000. Insurance policies procured, including commercial general liability and commercial property damage, are inclusive of limited coverage for acts of terrorism. Coverage terms, limits, and deductibles have each been benchmarked in comparison with those maintained at other comparable airports and found to be within the range of our peers. Although coverage limits are significant, no assurance can be given that such coverage will continue to be available at such amounts and/or at a reasonable cost.

There was no significant reduction of coverage in 2015, and there have been no settlements in excess of the described insurance coverage from 2012 - 2015.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2015 and 2014

Note 11: Pollution Remediation Obligation

SARAA has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. SARAA has identified pollution clean-up obligations relating to asbestos and PCB at its facilities and has recorded estimated costs of remediation of \$850,000. Clean-up costs are capitalized when they are incurred to prepare property for sale, prepare property for use when acquired with pollution obligations, or restore pollution-caused decline in service capacity; in all other cases, they are expensed. The accruals are not reduced by possible recoveries from federal and state grants. The measurement of environmental liabilities by SARAA is based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration SARAA's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities and the professional judgment of SARAA's environmental experts in consultation with outside environmental specialists, when necessary.

On April 16, 1997, PennDOT, the Pennsylvania Department of Environmental Protection (DEP) and the U.S. Department of Environmental Protection entered into a Memo of Understanding (MOU) that required PennDOT to operate a water treatment facility and comply with other institutional controls. SARAA must operate the water plant and pump a minimum volume of ground water from several wells on airport property to control a plume of ground water contamination that exists on the property. Well water that is pumped is treated and subsequently sold to airport tenants as potable water.

Note 12: Commitments and Contingencies

SARAA is involved in various legal matters in the normal course of business, including construction claims. Considering available information, management does not believe that resolution of any such matters will have a material impact on the financial statements. Events could occur that would change this estimate materially in the near term.

Supplementary Information

Susquehanna Area Regional Airport Authority
Schedules of Capital and Noncapital Revenues and Expenses
Years Ended December 31, 2015 and 2014

	2015	2014
Noncapital Related Revenues		
Facilities revenue	\$ 8,180,879	\$ 7,627,954
Parking fees	7,647,058	7,618,817
Vehicle rental fees and customer facility charges	3,910,428	4,013,911
Landing fees	3,711,534	3,585,158
Apron and gate use fees	1,155,277	1,064,397
Concession fees	440,133	438,976
Fuel flowage and other commissions	442,322	479,632
Other income	586,297	701,023
Investment income	7,183	16,333
Total noncapital related revenues	26,081,111	25,546,201
Noncapital Related Expenses Net of Operating Grant Revenue		
Salaries, wages, payroll taxes and benefits	6,700,934	6,321,078
Professional and consulting fees	606,182	451,670
Marketing	431,113	635,584
Insurance	561,586	535,644
Utilities	1,519,326	1,518,135
Parking facility	2,387,317	2,386,147
Repairs and maintenance	1,553,828	1,397,905
Supplies, parts and other	1,955,487	1,895,578
Operating grant revenue	(76,175)	(97,174)
Total noncapital related expenses, net of operating grant revenue	15,639,598	15,044,567
Excess of Noncapital Related Revenues Over Noncapital Related Expenses	10,441,513	10,501,634
Capital Related Revenues (Expenses)		
Restricted investment income	135,498	129,212
Passenger facility charges	2,352,359	2,613,741
Noise relocation project disbursements	(145,261)	(140,880)
Noise relocation project grants	135,761	134,546
Federal, state and local grants	6,819,503	5,554,277
Depreciation	(14,799,338)	(15,397,752)
Interest expense	(7,290,706)	(7,389,442)
Gain on disposal of capital assets	50,582	11,145
Deficit capital related revenues under capital related expenses	(12,741,602)	(14,485,153)
Decrease in Net Position	(2,300,089)	(3,983,519)
Net Position, Beginning of Year	84,034,525	88,018,044
Net Position, End of Year	\$ 81,734,436	\$ 84,034,525