

# **Susquehanna Area Regional Airport Authority**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

# Susquehanna Area Regional Airport Authority

December 31, 2016 and 2015

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## Independent Auditor's Report

Board of Directors  
Susquehanna Area Regional Airport Authority  
Middletown, Pennsylvania

We have audited the accompanying financial statements of the Susquehanna Area Regional Airport Authority (SARAA) as of and for the years ended December 31, 2016 and 2015, and the related notes to financial statements, which collectively comprise SARAA's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 the Susquehanna Area Regional Airport Authority as of December 31, 2016 and 2015, 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was 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. The schedule of capital and noncapital revenues and expenses 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 schedule of capital and noncapital revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***BKD, LLP***

Indianapolis, Indiana  
April 21, 2017

# Susquehanna Area Regional Airport Authority

## Management's Discussion and Analysis

### December 31, 2016 and 2015

#### (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, 2016 and 2015. 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 December 2015 to November 2016 U.S. total domestic revenue passenger miles flown increased by 3.4 percent when compared to December 2014 to November 2015. Domestic scheduled capacity, measured by available seat-miles, increased 3.8 percent. The load factor was 83.4 percent, down slightly from the 2015's record of 83.8 percent.

In January 2017, BTS reported the 3rd quarter 2016 domestic average roundtrip fare (the most recent quarter for which data is available) was \$344, down from a \$377 average fare during the third quarter of 2015.

At HIA, 2016 passenger traffic increased 2.4 percent when compared to 2015, as 1,205,442 total passengers used the facility. The airlines enplaned a total of 607,324 passengers in 2016, up 2.9 percent from 2015. Allegiant generated the largest increase in passengers at 36.8 percent as new nonstop service to Punta Gorda/Ft. Myers and summer seasonal service to Myrtle Beach was offered for the first time from HIA. American (+6.6 percent) and Air Canada (+12.5 percent) both served more passengers during 2016, while United (-4.1 percent) and Delta (-2.3 percent) served a few less. Due to delays associated with pilot training, Southern Airway Express new nonstop service to Pittsburgh did not have any impact on 2016 passenger traffic. SARAA is hopeful these issues will be resolved so Pittsburgh service can become viable in 2017.

Total 2016 departing seat capacity at HIA increased 1.6 percent compared to 2015. Allegiant (+38.9 percent), American (+7.2 percent) and Air Canada (+3.0 percent) added capacity in the market while United (-9.0 percent) and Delta (-2.0 percent) offered less. The airports average 2016 annual departing load factor increased almost one point to 82.4 percent.

There were 52,807 tons of cargo flown into and out of Harrisburg International Airport in 2016 representing a 2.7 percent increase compared to 2015. FedEx (+9.9 percent) and commercial airline belly cargo (+22.4 percent) were up while UPS tonnage was down (-4.4 percent). The Federal Aviation Administration (FAA) reported there were 50,430 total 2016 airport operations at HIA, an increase of 6.6 percent compared to 2015.

The following table shows the 2016 percentage fluctuation from 2015 for change in seats, change in enplanement passengers and passenger market share: (List ranked by 2016 passenger market share):

	<b>Change in Seats</b>	<b>Change in Enplaned Passengers</b>	<b>Market Share</b>
American Airlines	7.2%	6.6%	39.9%
Delta Air Lines	-2.0%	-2.3%	26.6%
United Airlines	-9.0%	-4.1%	20.8%
Allegiant	38.9%	36.8%	11.5%
Air Canada	3.0%	12.5%	1.2%
Frontier	-100.0%	-100.0%	0.0%
Total Passenger Airlines	1.6%	2.5%	100.0%

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

	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Enplanements	607,324	590,262	2.9%
Air carrier operations	29,741	29,305	1.5%
Landed weight (passenger airlines only)	694,996,652	689,203,491	0.8%
Cargo tons	52,807	51,401	2.7%
Parking revenue	\$ 7,560,682	\$ 7,647,058	-1.1%

## Financial Highlights

SARAA planned for a modest 585,000 enplanements despite higher achieved enplanement levels in immediate prior years. As such, we budgeted with a balanced budget covering our expense, capital and debt service needs. 2016 is the second year of the amended Airline Operating and Rental Car Agreements. This allowed for some revenue enhancement as the agreement has an escalating schedule of terminal rents and fees for each year. New tenants of our landside areas at HIA also provided increased expectations of revenue.

Improved performance in airline revenues produced a much better than expected year, as Net Operating Revenue (excluding depreciation) was 3.7 percent ahead of the budgeted expectations.

- Operating revenues were 4.3 percent ahead of 2015 and ended 3.7 percent above the budget. Operating expenses (excluding depreciation) were 7.0 percent more than 2015 and was 3.8 percent more than the budget.
- For a second consecutive year SARAA owed the airlines for revenue sharing under the Airline Operating Agreement. For 2016, the liability was for \$666,350. These payments are deducted 50% each from Facilities Revenue and Landing Fee revenue.
- The required bond coverage ratios were met and maintained for 2016. 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 Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. Comparative financial statements with fiscal year 2015 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.

## 2016 to 2015 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, 2016 and 2015 was \$(1.6) million and \$(2.3) million, respectively. The comparative analysis is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2016 and 2015.

	2016	2015	Dollar Change	Percent Change
<b>Operating Revenues</b>				
Facilities revenue	\$ 8,819,504	\$ 8,180,879	\$ 638,625	7.8%
Parking fees	7,560,682	7,647,058	(86,376)	-1.1%
Vehicle rental fees and customer facility charges	4,105,690	3,910,428	195,262	5.0%
Landing fees	3,843,564	3,711,534	132,030	3.6%
Apron and gate use fees	1,243,532	1,155,277	88,255	7.6%
Concession fees	498,262	440,133	58,129	13.2%
Fuel flowage and other commissions	452,150	442,322	9,828	2.2%
Other income	776,934	662,472	114,462	17.3%
Total operating revenues	<u>27,300,318</u>	<u>26,150,103</u>	<u>1,150,215</u>	<u>4.4%</u>
<b>Operating Expenses</b>				
Salaries, wages, payroll taxes and benefits	6,954,043	6,700,934	253,109	3.8%
Professional and consulting fees	520,254	606,182	(85,928)	-14.2%
Marketing	548,535	431,113	117,422	27.2%
Insurance	582,184	561,586	20,598	3.7%
Utilities	1,503,883	1,519,326	(15,443)	-1.0%
Parking facility	2,416,851	2,387,317	29,534	1.2%
Repairs and maintenance	1,761,318	1,553,828	207,490	13.4%
Supplies, parts and other	2,464,308	1,955,487	508,821	26.0%
Depreciation	15,141,581	14,799,338	342,243	2.3%
Total operating expenses	<u>31,892,957</u>	<u>30,515,111</u>	<u>1,377,846</u>	<u>4.5%</u>
<b>Loss From Operations</b>	(4,592,639)	(4,365,008)	(227,631)	5.2%
<b>Nonoperating Expenses</b>				
<b>Net of Revenues</b>	(3,899,670)	(4,754,584)	854,914	-18.0%
<b>Capital Contributions, Grants and Contributions From Lessees</b>				
	<u>6,885,294</u>	<u>6,819,503</u>	<u>65,791</u>	<u>1.0%</u>
<b>Decrease in Net Position</b>	(1,607,015)	(2,300,089)	693,074	-30.1%
<b>Net Position, Beginning of Year</b>	<u>81,734,436</u>	<u>84,034,525</u>	<u>(2,300,089)</u>	<u>-2.7%</u>
<b>Net Position, End of Year</b>	<u>\$ 80,127,421</u>	<u>\$ 81,734,436</u>	<u>\$ (1,607,015)</u>	<u>-2.0%</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 2016 to 2015

- **Operating Revenues:** In 2016, Facilities revenue increased as (1) new tenants rented previously vacant areas; (2) buildings reverted to Authority ownership for which we could charge additional rent; and (3) the airline rentals increased in accordance with the airline operating agreement. Vehicle rental activity increased from the previous year by 7%, reaping more revenue from the seven car rental firms. Cargo airlines increased landed weight from the previous year netting us more landing fees.
- **Operating Expenses (other than depreciation):** Operating expenses increased 7%, some planned and some unplanned.
  - We had budgeted for two new positions to facilitate succession and reduce overtime. We started a parking garage preventative maintenance program of sealing joints. Two new pieces of snow removal equipment were leased greatly aiding airfield snow removal at HIA & CXY. They replaced obsolete equipment. We started an environmental treatment program of our ground water to filter out PFOS contaminants.
  - A record snow fall in January caused extra overtime and the purchase of additional winter treatment chemicals. SARAA recovered \$140,000 in a FEMA grant which is in Other Revenue above.
  - As the extra revenues of the year were realized, we accelerated spending on safety supplies, small equipment and furniture. Deferred maintenance was addressed increasing various expenses. An extra round of joint sealing in the garage was undertaken.
- **Nonoperating Expenses Net of Revenue:** SARAA sold 50 year easements and renewed 30 year easements with four agreements with Sunoco Pipeline netting \$653,500. The properties involved were the old Bethlehem Steel property and the west end of the airfield at HIA. Interest expense decreases about \$100,000 each year as we continue to pay off our bonds. Approximately \$4 million dollars of principal is paid each year.
- **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 2016, construction activity was less than 2015 (\$3.1 million vs. \$6.8 million) but not in amount of activity. The northern half of the runway at GRA was rebuilt. A fence was installed at CXY adjacent to a cemetery. At FCRA, a parallel taxiway with run-up pad and turn-around was constructed.
  - Buildings constructed by tenants on long-term land leases reverted to SARAA. In 2016, ten buildings at CXY and one at HIA were recorded in SARAA's fixed assets for almost \$3.8 million. The buildings are customarily leased again to the same tenant with the tenant bearing most of the maintenance responsibility.

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

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 below is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2015 and 2014.

	2015	2014	Dollar Change	Percent Change
<b>Operating Revenues</b>				
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>
<b>Operating Expenses</b>				
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>
<b>Loss From Operations</b>	(4,365,008)	(4,912,451)	547,443	11.1%
<b>Nonoperating Expenses</b>				
Net of Revenues	(4,754,584)	(4,625,345)	(129,239)	2.8%
<b>Capital Contributions and Grants</b>	<u>6,819,503</u>	<u>5,554,277</u>	<u>1,265,226</u>	<u>22.8%</u>
<b>Decrease in Net Position</b>	(2,300,089)	(3,983,519)	1,683,430	42.3%
<b>Net Position, Beginning of Year</b>	<u>84,034,525</u>	<u>88,018,044</u>	<u>(3,983,519)</u>	<u>-4.5%</u>
<b>Net Position, End of Year</b>	<u>\$ 81,734,436</u>	<u>\$ 84,034,525</u>	<u>\$ (2,300,089)</u>	<u>-2.7%</u>

## 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.

## Statements of Net Position Summary

A condensed summary of SARAA's statements of net position at year-end is shown below:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Assets			
Current assets	\$ 17,532,241	\$ 17,088,387	\$ 16,052,786
Noncurrent restricted cash and investments	15,289,755	15,120,668	15,115,337
Capital assets, net	<u>210,797,540</u>	<u>217,825,388</u>	<u>224,939,808</u>
Total assets	<u>\$ 243,619,536</u>	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>
<b>Liabilities</b>			
Current liabilities	\$ 11,929,107	\$ 11,937,780	\$ 10,884,715
Long-term liabilities	<u>151,563,008</u>	<u>156,362,227</u>	<u>161,188,691</u>
Total liabilities	<u>163,492,115</u>	<u>168,300,007</u>	<u>172,073,406</u>
<b>Net Position</b>			
Net investment in capital assets	66,827,468	68,175,702	70,738,889
Restricted	7,735,617	7,422,279	7,304,997
Unrestricted	<u>5,564,336</u>	<u>6,136,455</u>	<u>5,990,639</u>
Total net position	<u>80,127,421</u>	<u>81,734,436</u>	<u>84,034,525</u>
Total liabilities and net position	<u>\$ 243,619,536</u>	<u>\$ 250,034,443</u>	<u>\$ 256,107,931</u>

## Statements of Net Position Discussion - 2016 vs. 2015

**Current assets:** Overall, current assets increased, as in evaluating the individual elements, the increases outweighed the declines. The cash balance increased from 2015 year end. Grants receivable decreased from 2015 as we collected 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 FAA and the Commonwealth of Pennsylvania for the snow removal equipment storage building at HIA and a CXY renovations project. Both the HIA building and CXY renovations were completed in 2015. The grant funds were received in the first quarter of 2016. With the collection of the grant funds, investment funds were replenished. Also, funds in surplus of operating needs were added to investments. Funds from the sale of easements were placed in the Coverage Account investments.

**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 and contributions from lessees added during the year.

**Current liabilities** stayed the same at \$11.9 million. Capital construction debt was lower at the end of 2016 but the monies owed for revenue sharing with the airlines increased.

**Long-term liabilities** decreased as the regular annual debt service principal was paid. Two notes were paid off early but another was opened to finance a shuttle bus for HIA.

**Net position** serves as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by \$80 million at December 31, 2016. 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, 2016) 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.

## Statements of Net Position 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.

### Cash and Investment Management

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 1,087,229	\$ 171,713	\$ 239,862
Maintenance and operations reserve	2,667,645	2,568,884	2,520,561
Renewal and replacement reserve	501,232	441,017	456,865
Coverage account	2,419,624	1,838,373	1,828,653
Capital improvement account	2,087,277	1,647,929	2,002,549
Passenger facility charge	178,839	65,150	127,119
Accrued interest	101,608	95,977	90,576
	<u>\$ 9,043,454</u>	<u>\$ 6,829,043</u>	<u>\$ 7,266,185</u>

The above funds are invested according to the Commonwealth of Pennsylvania Municipal Authorities Act Section 5611 as described in Note 4, Deposits 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, Restricted and Unrestricted Cash and Investments, of the financial statements.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt service funds	\$ 8,092,840	\$ 8,033,176	\$ 8,064,855
Debt service reserve funds	<u>12,019,270</u>	<u>12,014,790</u>	<u>12,047,242</u>
	<u>\$ 20,112,110</u>	<u>\$ 20,047,966</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 were completed in 2016:

- The northern half of the runway at GRA was rebuilt
- A fence was installed at CXY adjacent to the Mt. Olivet Cemetery
- A cooling tower for the terminal HVAC system at HIA was replaced
- Master Plan development completed at HIA
- Master Plan development underway at CXY
- Replacement of Baggage Handling Explosive Detection System machines completed at HIA
- Construction of parallel taxiway completed at FCRA
- Three new vehicles, five new pieces of equipment were acquired and two systems were replaced or upgraded at HIA
- A new vehicle and a new piece of equipment were acquired for CXY
- Our main IT server system is in process of being replaced at HIA
- Design of Runway 13-31 rehabilitation underway at HIA

Cash paid for capital projects was \$5.3 million. SARAA received \$4.8 million in capital grants toward the capital additions. See Note 6, Capital Assets, 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, all PFC's are irrevocably committed as an offset to the debt service requirements of the 2008A, 2008B, 2012A and 2012B bonds through 2018. SARAA management fully intends to continue to use the PFC's to offset bond debt service requirements into the foreseeable future.

SARAA's annual debt service for their five bond issues is scheduled at approximately \$12 million annually through 2037. Principal payments beginning in January 2018 will be focused on the 2012A bonds. The 2012C bonds, the final outstanding subordinate bonds, were paid off in January 2017. 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.

	<u>2016</u>	<u>2015</u>
Senior Bond debt service coverage	2.44	2.27
Senior + Subordinate Bond debt service coverage	1.33	1.24

The covenants are more fully described in Note 8, Bonds Payable, 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](http://www.flyhia.com).

# Susquehanna Area Regional Airport Authority

## Statements of Net Position December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
<b>Unrestricted Assets</b>		
Cash and cash equivalents	\$ 1,087,229	\$ 171,713
Accounts receivable, net of allowance of \$70,000	1,384,706	1,524,396
Grants receivable	730,100	2,397,397
Prepays and other assets	519,309	471,439
Inventory	871,018	696,949
Investments	4,506,901	3,486,302
Total unrestricted current assets	9,099,263	8,748,196
<b>Restricted Assets</b>		
Cash and investments	8,271,679	8,098,326
Passenger facility charge receivables	161,299	241,865
Total restricted current assets	8,432,978	8,340,191
Total current assets	17,532,241	17,088,387
<b>Noncurrent Assets</b>		
Cash and investments, restricted	15,289,755	15,120,668
Capital assets		
Nondepreciable capital assets	28,348,026	31,244,464
Depreciable capital assets	182,449,514	186,580,924
Net capital assets	210,797,540	217,825,388
Total noncurrent assets	226,087,295	232,946,056
Total assets	\$ 243,619,536	\$ 250,034,443

	<b>2016</b>	<b>2015</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,090,217	\$ 1,488,649
Accounts payable - construction	407,955	1,375,618
Accrued interest payable	3,866,238	3,927,813
Accrued expenses	851,328	660,543
Unearned revenue	457,343	357,504
Current portion of notes payable	31,026	22,653
Current portion of bonds payable	4,225,000	4,105,000
Total current liabilities	<u>11,929,107</u>	<u>11,937,780</u>
<b>Noncurrent Liabilities</b>		
Estimated costs of remediation	850,000	850,000
Unearned revenue	15,682	23,523
Bond and other deposits	120,357	81,522
Notes payable, less current portion	91,172	142,807
Bonds payable, less current portion	150,485,797	155,264,375
Total noncurrent liabilities	<u>151,563,008</u>	<u>156,362,227</u>
Total liabilities	<u>163,492,115</u>	<u>168,300,007</u>
<b>Net Position</b>		
Net investment in capital assets	66,827,468	68,175,702
Restricted	7,735,617	7,422,279
Unrestricted	5,564,336	6,136,455
Total net position	<u>80,127,421</u>	<u>81,734,436</u>
Total liabilities and net position	<u>\$ 243,619,536</u>	<u>\$ 250,034,443</u>

**Susquehanna Area Regional Airport Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Facilities revenue	\$ 8,819,504	\$ 8,180,879
Parking fees	7,560,682	7,647,058
Vehicle rental fees and customer facility charges	4,105,690	3,910,428
Landing fees	3,843,564	3,711,534
Apron and gate use fees	1,243,532	1,155,277
Concession fees	498,262	440,133
Fuel flowage and other commissions	452,150	442,322
Other income	776,934	662,472
Total operating revenues	<u>27,300,318</u>	<u>26,150,103</u>
<b>Operating Expenses</b>		
Salaries, wages, payroll taxes and benefits	6,954,043	6,700,934
Professional and consulting fees	520,254	606,182
Marketing	548,535	431,113
Insurance	582,184	561,586
Utilities	1,503,883	1,519,326
Parking facility	2,416,851	2,387,317
Repairs and maintenance	1,761,318	1,553,828
Supplies, parts and other	2,464,308	1,955,487
Total operating expenses before depreciation	<u>16,751,376</u>	<u>15,715,773</u>
<b>Income From Operations Before Depreciation</b>	10,548,942	10,434,330
Depreciation expense	<u>15,141,581</u>	<u>14,799,338</u>
<b>Loss From Operations</b>	<u>(4,592,639)</u>	<u>(4,365,008)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Passenger facility charges	2,442,022	2,352,359
Noise relocation project disbursements	(5,861)	(145,261)
Noise relocation project grants	5,318	135,761
Investment income	171,863	142,681
Interest expense	(7,186,008)	(7,290,706)
Gain on disposal of capital assets and sale of easements	672,996	50,582
Total nonoperating expenses	<u>(3,899,670)</u>	<u>(4,754,584)</u>
<b>Decrease in Net Position Before Capital Contributions and Grants</b>	(8,492,309)	(9,119,592)
<b>Capital Contributions and Grants</b>		
Federal, state and local grants	3,126,294	6,819,503
Contributions from lessees	<u>3,759,000</u>	<u>-</u>
<b>Decrease in Net Position</b>	(1,607,015)	(2,300,089)
<b>Net Position, Beginning of Year</b>	<u>81,734,436</u>	<u>84,034,525</u>
<b>Net Position, End of Year</b>	<u>\$ 80,127,421</u>	<u>\$ 81,734,436</u>

# Susquehanna Area Regional Airport Authority

## Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 27,532,006	\$ 25,814,316
Cash paid to employees for services	(6,724,423)	(6,546,600)
Cash paid to suppliers for goods and services	(9,417,704)	(8,768,733)
Net cash provided by operating activities	11,389,879	10,498,983
<b>Cash Flows From Noncapital Financing Activities</b>		
Noise relocation grants received	5,318	135,761
Noise relocation project costs	(5,861)	(145,261)
Net cash used in noncapital financing activities	(543)	(9,500)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(4,105,000)	(3,985,000)
Interest paid	(7,801,161)	(7,922,176)
Principal payment on loans	(146,137)	(262,455)
Proceeds from notes payable	102,875	-
Passenger facility charges received	2,522,588	2,325,854
Acquisition and construction of capital assets	(5,302,900)	(7,393,563)
Proceeds from sale of easements	653,500	-
Capital grants received	4,793,591	6,195,985
Net cash used in capital and related financing activities	(9,282,644)	(11,041,355)
<b>Cash Flows From Investing Activities</b>		
Investment income	171,863	142,681
Purchase of investment securities	(18,601,336)	(15,374,533)
Proceeds from sales of investment securities	17,238,297	15,715,575
Net cash provided by (used in) investing activities	(1,191,176)	483,723
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	915,516	(68,149)
<b>Cash and Cash Equivalents, Beginning of Year</b>	171,713	239,862
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,087,229	\$ 171,713

**Susquehanna Area Regional Airport Authority**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Reconciliation of Loss From Operations to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Loss from operations	\$ (4,592,639)	\$ (4,365,008)
Item not requiring cash		
Depreciation of capital assets	15,141,581	14,799,338
Change in assets and liabilities		
Accounts receivable	139,690	(533,675)
Inventory	(174,069)	36,021
Prepays and other assets	(47,870)	(302,446)
Unearned revenue	91,998	197,888
Bond and other deposits	38,835	51,252
Accounts payable and accrued expenses	792,353	615,613
Net cash provided by operating activities	\$ 11,389,879	\$ 10,498,983
<b>Noncash Capital and Related Financing Activities</b>		
Capital assets included in accounts payable at end of year	\$ 407,955	\$ 1,375,618
Contributions from lessees	3,759,000	-

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

### 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 statements of net position, 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, 2016 and 2015

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.

SARAA adopted and implemented GASB Statement No. 72, *Fair Value Measurement and Application* effective for SARAA's year ended December 31, 2016. The implementation of GASB Statement No. 72 did not impact net position or the change in net position of SARAA as of or for the year ended December 31, 2016.

### **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, 2016 and 2015

### Capital Assets

Capital assets, such as land, buildings, equipment and infrastructure assets are stated at cost (or estimated historical cost). Donated capital assets are measured at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date or the amount at which a liability could be liquidated with the counterparty at the acquisition date. 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.

Donated capital assets are measured at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

### 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 acquisition value and recorded as a capital contribution. With the adoption of GASB Statement No. 33, SARAA now recognizes lessee-financed improvements 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.

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

### ***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, 2016 and 2015

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. PFCs are deposited on a pro-rata basis monthly to pay debt service on the 2008A, 2008B, 2012A and 2012B.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to \$2,442,022 and \$2,352,359 for 2016 and 2015, 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 \$1,847,377 and \$1,721,741 for 2016 and 2015, 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:

	2016		2015	
	Revenues	Number of Passengers	Revenues	Number of Passengers
American Airlines	16%	32%	15%	30%
Delta Airlines	14%	27%	13%	28%
United Airlines	12%	21%	14%	22%

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

### Note 4: Deposits and Investments

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

	2016			Total
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	
Cash and cash equivalents	\$ 1,087,229	\$ 2,692,365	\$ 4,056,901	\$ 7,836,495
Money market funds	-	9,349,024	-	9,349,024
Certificates of deposit	-	6,650,546	450,000	7,100,546
Municipal obligations	-	1,834,304	-	1,834,304
U.S. Government - sponsored enterprises	-	2,933,587	-	2,933,587
Accrued investment income	-	101,608	-	101,608
	<u>\$ 1,087,229</u>	<u>\$ 23,561,434</u>	<u>\$ 4,506,901</u>	<u>\$ 29,155,564</u>

	2015			Total
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	
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>

### 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, 2016 and 2015

At December 31, 2016 and 2015, the carrying value and the bank balances of SARAA's deposits were as follows:

	2016		2015	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	\$ 7,836,495	\$ 7,888,855	\$ 5,235,125	\$ 5,428,046
Certificates of deposit	7,100,546	7,100,546	6,600,884	6,600,884

Of the bank balances in 2016 and 2015, \$500,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balances were 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, 2016 and 2015

SARAA had the following investments and maturities as of December 31, 2016 and 2015:

	Moody's Rating	Carrying Value	2016 Investment Maturity (in years)	
			Less than 1	1 to 5
Money market funds	Aaa-mf	\$ 9,349,024	\$ 9,349,024	\$ -
Certificates of deposit	Not Rated	7,100,546	4,071,007	3,029,539
Municipal obligations	Aa1	71,651	71,651	-
	Aa2	195,026	195,026	-
	Aa3	140,978	140,978	-
	A1	70,242	70,242	-
	A2	392,572	392,572	-
	A3	501,420	501,420	-
	Baa2	50,006	50,006	-
	Not Rated	412,409	80,005	332,404
Subtotal - Municipal obligations		<u>1,834,304</u>	<u>1,501,900</u>	<u>332,404</u>
U.S. Government-sponsored enterprises	Aaa	2,933,587	2,026,400	907,187
Accrued investment income	n/a	<u>101,608</u>	<u>101,608</u>	<u>-</u>
		<u>\$ 21,319,069</u>	<u>\$ 17,049,939</u>	<u>\$ 4,269,130</u>

	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>

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

**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, 2016, 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, 2016 and 2015, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio	
	2016	2015
Money market funds	44%	38%
Certificates of deposit	33%	31%
Municipal obligations	9%	20%
U.S. Government-sponsored enterprises	14%	11%

**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, 2016 and 2015

### Note 5: Restricted and Unrestricted Cash and 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:

	<b>2016</b>	<b>2015</b>
Maintenance and operating reserve account	\$ 2,667,645	\$ 2,568,884
Renewal and replacement account	501,232	441,017
Passenger facility charges	178,839	65,150
Debt service fund	8,092,840	8,033,176
Debt service reserve	12,019,270	12,014,790
Total	23,459,826	23,123,017
Accrued income	101,608	95,977
Total restricted investments	23,561,434	23,218,994
Less current portion	(8,271,679)	(8,098,326)
Noncurrent portion	\$ 15,289,755	\$ 15,120,668

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, 2016 and 2015. 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.

	<b>2016</b>	<b>2015</b>
Capital improvement account	\$ 2,087,277	\$ 1,647,929
Coverage account	2,419,624	1,838,373
	\$ 4,506,901	\$ 3,486,302

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

### Note 6: Capital Assets

Capital assets consist of the following:

	Balance December 31, 2015	Additions	Transfers	Disposals	Balance December 31, 2016
Capital assets not being depreciated:					
Land and improvements	\$ 23,415,984	\$ 12,461	\$ -	\$ -	\$ 23,428,445
Construction in progress	7,828,480	4,503,039	(7,274,159)	(137,779)	4,919,581
Total capital assets not being depreciated	<u>31,244,464</u>	<u>4,515,500</u>	<u>(7,274,159)</u>	<u>(137,779)</u>	<u>28,348,026</u>
Capital assets being depreciated:					
Buildings, including parking facility	183,768,585	3,736,012	-	-	187,504,597
Land improvements	10,341,209	-	347,756	-	10,688,965
Runways, taxiways and aprons	111,459,438	-	1,954,601	-	113,414,039
Utilities and sewers	20,147,175	-	-	-	20,147,175
Roads and parking areas	22,751,249	-	-	-	22,751,249
Heavy equipment, furniture and fixtures	27,045,547	-	3,259,946	(41,100)	30,264,393
Vehicles	9,658,001	-	439,194	(21,631)	10,075,564
Facility planning, design and other studies	3,331,991	-	1,272,662	-	4,604,653
Total capital assets being depreciated	<u>388,503,195</u>	<u>3,736,012</u>	<u>7,274,159</u>	<u>(62,731)</u>	<u>399,450,635</u>
Less accumulated depreciation for:					
Buildings, including parking facility	81,912,612	5,845,929	-	-	87,758,541
Land improvements	6,454,024	436,964	-	-	6,890,988
Runways, taxiways and aprons	54,092,154	5,663,974	-	-	59,756,128
Utilities and sewers	8,795,054	393,198	-	-	9,188,252
Roads and parking areas	18,141,826	865,158	-	-	19,006,984
Heavy equipment, furniture and fixtures	22,180,909	1,301,885	-	(41,100)	23,441,694
Vehicles	7,525,995	471,765	-	(21,631)	7,976,129
Facility planning, design and other studies	2,819,697	162,708	-	-	2,982,405
Total accumulated depreciation	<u>201,922,271</u>	<u>15,141,581</u>	<u>-</u>	<u>(62,731)</u>	<u>217,001,121</u>
Total capital assets being depreciated, net	<u>186,580,924</u>	<u>(11,405,569)</u>	<u>7,274,159</u>	<u>-</u>	<u>182,449,514</u>
Capital assets, net	<u>\$ 217,825,388</u>	<u>\$ (6,890,069)</u>	<u>\$ -</u>	<u>\$ (137,779)</u>	<u>\$ 210,797,540</u>

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

	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, 2016 and 2015

### Note 7: Line of Credit

SARAA has a \$1 million bank line of credit. At December 31, 2016, there were no borrowings against this line. The line of credit is secured by a pledge of net revenues and is junior and subordinate to SARAA's senior debt obligations. Interest varies with the bank's prime rate, which was 4.00%, and is payable monthly.

### Note 8: 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, 2016 and 2015 comprised the following:

	<u>2016</u>	<u>2015</u>
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	3,293,739	3,867,136
Total Series A of 2012	<u>56,668,739</u>	<u>57,242,136</u>
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	(517,942)	(556,407)
Total Series B of 2012	<u>49,002,058</u>	<u>48,963,593</u>
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	4,225,000	8,330,000
Unamortized bond premium	-	18,646
Total Series C of 2012	<u>4,225,000</u>	<u>8,348,646</u>
	154,710,797	159,369,375
Current portion of long-term debt	<u>(4,225,000)</u>	<u>(4,105,000)</u>
	<u>\$ 150,485,797</u>	<u>\$ 155,264,375</u>

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

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.

### ***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, 2016 are summarized as follows:

Years Ending December 31	Senior Airport System Revenue Bonds		Subordinate Airport System Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
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	5,100,000	6,911,225	-	-	12,011,225
2022 - 2026	29,590,000	30,466,625	-	-	60,056,625
2027 - 2031	37,235,000	22,833,825	-	-	60,068,825
2032 - 2036	42,245,000	14,161,525	-	-	56,406,525
2037 - 2038	19,650,000	1,936,025	-	-	21,586,025
	<u>\$ 147,710,000</u>	<u>\$ 106,060,125</u>	<u>\$ 4,225,000</u>	<u>\$ 126,750</u>	<u>\$ 258,121,875</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, 2016 and 2015

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

	<b>Airline Agreements</b>	<b>Other Leases</b>	<b>Total</b>
2017	\$ 1,940,208	\$ 3,675,669	\$ 5,615,877
2018	1,940,208	3,507,232	5,447,440
2019	1,940,208	3,148,240	5,088,448
2020	-	1,055,408	1,055,408
2021	-	1,034,193	1,034,193
2022 - 2026	-	4,428,272	4,428,272
2027 - 2031	-	2,784,987	2,784,987
2032 - 2036	-	1,640,702	1,640,702
2037 - 2041	-	380,269	380,269
2042 - 2045	-	84,085	84,085
	<u>\$ 5,820,624</u>	<u>\$ 21,739,057</u>	<u>\$ 27,559,681</u>

### Note 10: 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 \$180,143 in 2016 and \$179,746 in 2015. There are no employee contributions to the Plan.

### Note 11: 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 2016, and there have been no settlements in excess of the described insurance coverage from 2013 - 2016.

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 12: 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 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements December 31, 2016 and 2015

### Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2016</b>				
Investments				
Money market funds	\$ 9,349,024	\$ 9,349,024	\$ -	\$ -
Municipal obligations	1,834,304	-	1,834,304	-
U.S. Government-sponsored enterprises	2,933,587	-	2,933,587	-
<b>December 31, 2015</b>				
Investments				
Money market funds	\$ 8,310,907	\$ 8,310,907	\$ -	\$ -
Municipal obligations	4,228,052	-	4,228,052	-
U.S. Government-sponsored enterprises	2,406,064	-	2,406,064	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of net position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

# Susquehanna Area Regional Airport Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### **Note 14: Commitments and Contingencies**

SARAA is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net position and cash flows of SARAA. 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, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Noncapital Related Revenues</b>		
Facilities revenue	\$ 8,819,504	\$ 8,180,879
Parking fees	7,560,682	7,647,058
Vehicle rental fees and customer facility charges	4,105,690	3,910,428
Landing fees	3,843,564	3,711,534
Apron and gate use fees	1,243,532	1,155,277
Concession fees	498,262	440,133
Fuel flowage and other commissions	452,150	442,322
Other income	616,304	586,297
Investment income	26,143	7,183
Total noncapital related revenues	27,165,831	26,081,111
<b>Noncapital Related Expenses Net of Operating Grant Revenue</b>		
Salaries, wages, payroll taxes and benefits	6,954,043	6,700,934
Professional and consulting fees	520,254	606,182
Marketing	548,535	431,113
Insurance	582,184	561,586
Utilities	1,503,883	1,519,326
Parking facility	2,416,851	2,387,317
Repairs and maintenance	1,761,318	1,553,828
Supplies, parts and other	2,464,308	1,955,487
Operating grant revenue	(160,630)	(76,175)
Total noncapital related expenses, net of operating grant revenue	16,590,746	15,639,598
<b>Excess of Noncapital Related Revenues Over Noncapital Related Expenses</b>		
	10,575,085	10,441,513
<b>Capital Related Revenues (Expenses)</b>		
Restricted investment income	145,720	135,498
Passenger facility charges	2,442,022	2,352,359
Noise relocation project disbursements	(5,861)	(145,261)
Noise relocation project grants	5,318	135,761
Federal, state and local grants	3,126,294	6,819,503
Contributions from lessees	3,759,000	-
Depreciation	(15,141,581)	(14,799,338)
Interest expense	(7,186,008)	(7,290,706)
Gain on disposal of capital assets and sale of easements	672,996	50,582
Deficit capital related revenues under capital related expenses	(12,182,100)	(12,741,602)
<b>Decrease in Net Position</b>	(1,607,015)	(2,300,089)
<b>Net Position, Beginning of Year</b>	81,734,436	84,034,525
<b>Net Position, End of Year</b>	\$ 80,127,421	\$ 81,734,436