Susquehanna Area Regional Airport Authority

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Susquehanna Area Regional Airport Authority

December 31, 2017 and 2016

Contents

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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 Susquehanna Area Regional Airport Authority (SARAA), as of and for the years ended December 31, 2017 and 2016, and the related notes to the 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 Susquehanna Area Regional Airport Authority as of December 31, 2017 and 2016, 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 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 audits 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 supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as whole.

BKD, LLP

Indianapolis, Indiana
April 20, 2018

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis
December 31, 2017 and 2016
(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, 2017 and 2016. 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 Calendar Year (CY) 2017 U.S. total domestic revenue passenger miles flown increased by 4.4% when compared to CY 2016. Domestic scheduled capacity, measured by available seat-miles, increased 4.4% as well resulting in a load factor of 82.5%, virtually the same as 2016's 82.4%.

In January 2017, BTS reported the 3rd quarter 2017 domestic average roundtrip fare (the most recent quarter for which data is available) was $336, down from a $349 average fare during the third quarter of 2016.

At HIA, 2017 passenger traffic was down less than 1% when compared to 2016, as 1,195,763 total passengers used the facility. The airlines enplaned a total of 600,443 passengers in 2017, down 1.1% from 2016. American (+2.0%), Delta (+0.8%) and Air Canada (+14.5%) all served more passengers in 2017 when compared to 2016, while United (-9.3%) and Allegiant (-1.2%) served fewer passengers. Due to continued delays associated with pilot training, Southern Airway Express nonstop service to Pittsburgh did not fly during most of the year and had a minimal impact on traffic levels.

Total 2017 departing seat capacity at HIA increased 1.1% compared to 2016. United (-6.2%) was the only airline at Harrisburg International Airport to offer fewer seats for sale in 2017 when compared to 2016. Summer "fleet optimization" was the main reason for the decline. Air Canada (+28.7%) added a third daily flight to Toronto while American (+3.6%) and Allegiant (+2.8%) added a few more flights to their scheduled late in 2017. The airports average 2017 annual departing load factor declined 1.7 points to 80.7%.

A total of 51,886 tons of cargo were flown into and out of Harrisburg International Airport in 2017 representing a 1.7% decline compared to 2016. UPS (+1.1%) tonnage increased slightly what FedEx (-3.0%) and commercial airline belly cargo (-19.5%) declined. The Federal Aviation Administration (FAA) reported there were 49,959 total 2017 airport operations at HIA, a decrease of 0.9% compared to 2016.

The following table shows the 2017 percentage fluctuation from 2016 for change in seats, change in enplanement passengers and passenger market share: (List ranked by 2017 passenger market share):

	Change in Seats	Change in Enplaned Passengers	Market Share
American Airlines	3.6%	1.8%	40.9%
Delta Air Lines	0.3%	0.3%	26.9%
United Airlines	-6.2%	-8.6%	19.0%
Allegiant	2.8%	-1.1%	11.5%
Air Canada	28.7%	-16.0%	1.4%
Southern Airways Express	164.3%	78.2%	0.0%
Charters	n/a	-48.0%	0.3%
Total Passenger Airlines	1.1%	-1.3%	100.0%

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

	2017	2016	% Change
Enplanements	600,443	607,335	-1.1%
Air carrier operations	29,323	29,741	-1.4%
Landed weight (passenger airlines only)	709,280,689	695,005,152	2.1%
Cargo tons	51,886	52,807	-1.7%
Parking revenue	$ 7,528,151	$ 7,560,682	-0.4%

Financial Highlights

The Authority passed a balanced $30 million revenue and expense budget for 2017 to meet all maintenance and operations, capital and debt service obligations. 2017 enplanements were forecast for about 588,000, similar to budgeted 2016 levels. Actual 2017 enplanements were 2% better than expected. While airline revenue sharing took place in 2015 and 2016, no airline revenue sharing was planned for 2017. Improved performance, primarily in airline revenues, produced a better than expected year, as Net Operating Revenue (excluding depreciation) was 7.6% ahead of the budgeted expectations.

- Operating revenues were 1.9% ahead of the 2017 budget and ended even with 2016. Operating expenses (excluding depreciation) were 1.5% less than budget but were 1.7% more than 2016.
- Again SARAA owed the airlines for revenue sharing under the Airline Operating Agreement. For 2017, the liability was for $514,754. These payments are deducted 50% each from Facilities Revenue and Landing Fee revenue.
- The most significant financial event of the year was the refunding of the 2008A bonds with the newly issued 2017 bonds. The refunding will save SARAA $20.8 million over the life of the bonds (through 2038). The net present value of the savings is $13.0 million. Annual interest savings will be approximately $891,000 per year 2018 through 2032.
- Another significant financial event was the sale of the former Bethlehem Steel property, which was close but not contiguous to the Airport (separated by a railroad line). The property was sold for $3.3 million recognizing a $2.0 million gain. The funds were deposited in the Capital Improvement Account.
- In early January 2017, the Authority paid in full its outstanding Subordinate Airport System Revenue Bonds, Series 2012C (Non-AMT). No other subordinated obligations are outstanding.
- The required bond coverage ratio was met and maintained for 2017. 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 2016 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.

2017 to 2016 Comparative Statements of Revenues, Expenses and Changes in Net Position

The Statements 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, 2017 and 2016 was $6.2 million and $(1.6) million, respectively. The comparative analysis is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2017 and 2016.

	2017	2016	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	$ 8,767,732	$ 8,819,504	$ (51,772)	-0.6%
Parking fees	7,528,151	7,560,682	(32,531)	-0.4%
Vehicle rental fees and customer facility charges	4,033,805	4,105,690	(71,885)	-1.8%
Landing fees	4,049,564	3,843,564	206,000	5.4%
Apron and gate use fees	1,325,342	1,243,532	81,810	6.6%
Concession fees	499,803	498,262	1,541	0.3%
Fuel flowage and other commissions	432,568	452,150	(19,582)	-4.3%
Other income	657,151	776,934	(119,783)	-15.4%
Total operating revenues	27,294,116	27,300,318	(6,202)	0.0%
Operating Expenses				
Salaries, wages, payroll taxes and benefits	7,332,038	6,954,043	377,995	5.4%
Professional and consulting fees	532,976	520,254	12,722	2.4%
Marketing	452,626	548,535	(95,909)	-17.5%
Insurance	569,174	582,184	(13,010)	-2.2%
Utilities	1,493,561	1,503,883	(10,322)	-0.7%
Parking facility	2,316,605	2,416,851	(100,246)	-4.1%
Repairs and maintenance	1,508,281	1,761,318	(253,037)	-14.4%
Supplies, parts and other	2,689,511	2,464,308	225,203	9.1%
Depreciation	13,877,413	15,141,581	(1,264,168)	-8.3%
Total operating expenses	30,772,185	31,892,957	(1,120,772)	-3.5%
Loss From Operations	(3,478,069)	(4,592,639)	1,114,570	-24.3%
Nonoperating Expenses Net of Revenues	(2,967,383)	(3,899,670)	932,287	-23.9%
Capital Contributions, Grants and Contributions From Lessees	12,666,762	6,885,294	5,781,468	84.0%
Increase (Decrease) in Net Position	6,221,310	(1,607,015)	7,828,325	-487.1%
Net Position, Beginning of Year	80,127,421	81,734,436	(1,607,015)	-2.0%
Net Position, End of Year	$ 86,348,731	$ 80,127,421	$ 6,221,310	7.8%

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 2017 to 2016

- **Operating Revenues:** In 2017, the Total Operating Revenues decreased a very small amount. Increased landing fees and apron and gate use fees from the airlines offset the loss of rent from the former Bethlehem Steel property, which was sold in April. Also, other income was reduced from 2016 as SARAA received a FEMA grant for clearing of a record January 2016 snowstorm.
- **Operating Expenses (other than depreciation):** These operating expenses increased less than 1%. We increased four new staff positions to facilitate succession and increase essential building maintenance staff for the airports. Snow costs were down from the prior year (when a record snowfall was recorded in January 2016).
- **Operating Expenses (depreciation):** Depreciation decreased 8.3% or $1.3 million.
    - Capitalized interest (financing cost during construction) was incurred for a group of projects placed in service in 2004 & 2005. These included the terminal building, parking garage, parallel taxiway and other associated projects for which SARAA originally used bond financing. The depreciation of capitalized interest was completed in 2017. $233,000 of depreciation was recorded. Last year's depreciation was $1.6 million thus the large reduction of depreciation expense.
- **Nonoperating Expenses Net of Revenue:**
    - SARAA sold the former Bethlehem Steel property, which was close but not contiguous to the Airport (separated by a railroad line). The property was sold for $3.3 million recognizing a $2.0 million gain.
    - Interest expense increased temporarily as replacement bonds were issued in mid-November for the 2008A bonds. The 2008A bonds were retired at the start of 2018. The issuance costs of $384,000 are recognized in 2017. Annual interest savings will be approximately $891,000 per year, 2018 through 2032.
- **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 2017, construction activity was much more than 2016 ($12.7 million vs. $3.1 million). The western end of the lone runway at HIA was rehabilitated. The southern half of the runway at GRA was rebuilt. An oil/water separator was installed at CXY to improve drainage.

2016 to 2015 Comparative Statements of Revenues, Expenses and Changes in Net Position

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 Statements of Revenues, Expenses and Changes in Net Position for 2016 and 2015.

	2016	2015	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	$ 8,819,504	$ 8,051,331	$ 768,173	9.5%
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	3,841,082	2,482	0.1%
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	27,300,318	26,150,103	1,150,215	4.4%
Operating Expenses				
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	31,892,957	30,515,111	1,377,846	4.5%
Loss From Operations	(4,592,639)	(4,365,008)	(227,631)	-5.2%
Nonoperating Expenses Net of Revenues	(3,899,670)	(4,754,584)	854,914	-18.0%
Capital Contributions and Grants	6,885,294	6,819,503	65,791	1.0%
Decrease in Net Position	(1,607,015)	(2,300,089)	693,074	30.1%
Net Position, Beginning of Year	81,734,436	84,034,525	(2,300,089)	-2.7%
Net Position, End of Year	$ 80,127,421	$ 81,734,436	$ (1,607,015)	-2.0%

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.

Statements of Net Position Summary

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

	2017	2016	2015
Assets			
Assets			
Current assets	$ 22,543,960	$ 17,532,241	$ 17,088,387
Noncurrent restricted cash and investments	14,695,099	15,289,755	15,120,668
Noncurrent other assets	410,619	-	-
Capital assets, net	210,050,949	210,797,540	217,825,388
Total assets	$ 247,700,627	$ 243,619,536	$ 250,034,443
Liabilities			
Current liabilities	$ 14,911,245	$ 11,929,107	$ 11,937,780
Long-term liabilities	146,440,651	151,563,008	156,362,227
Total liabilities	161,351,896	163,492,115	168,300,007
Net Position			
Net investment in capital assets	66,372,842	66,827,468	68,175,702
Restricted	8,138,973	7,735,617	7,422,279
Unrestricted	11,836,916	5,564,336	6,136,455
Total net position	86,348,731	80,127,421	81,734,436
Total liabilities and net position	$ 247,700,627	$ 243,619,536	$ 250,034,443

Statements of Net Position Discussion - 2017 vs. 2016

Current assets: Overall, current assets increased $5.0 million. The cash balance decreased from 2016 year end. Grants receivable increased $3.9 million from 2016 as three significant construction projects were substantially completed in 2017 but the final wrap up of the projects will not be completed until the first half of 2018. Investments increased $2.9 million as the capital improvement investment account increased with the proceeds from the sale of the former Bethlehem Steel property. Restricted cash and investments were reduced as the 2008A bonds were refunded in 2017. Funds set aside in the related debt service fund for the 2008A bond interest were no longer needed and transferred to the escrow fund under the authority of the trustee.

Noncurrent cash and investments: The Debt Service Reserve funds (DSRF) were reduced $839,000, which parallels the reduction of bond debt. The 2017 $38.8 million bonds replaced the 2008A $43.5 million bonds causing the reduction of the DSRF. Little changed in the Renewal and Replacement Reserve fund. The Maintenance and Operation Reserve fund was increased $202,000 as SARAA's approved budget increased for 2017. 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 the former Bethlehem Steel property was sold in April of 2017.

Current liabilities increased substantially to $15.0 million. Capital construction debt increased $4.2 million from 2016 as project costs were accrued for three major construction projects among others. Accrued interest payable for bond debt decreased $1.2 million as the 2008A bonds were refunded during the year.

Long-Term liabilities:

The $5.1 million decrease in long-term liabilities was impacted by the following:

- Principal started being paid on the 2012A senior bonds. The first $4.4 million principal was paid January 2017.
- The 2012C subordinate bonds were paid off in January 2017. This was the last subordinate debt of SARAA.
- The $38.8 million 2017 bonds were issued to replace the 2008A $43.5 million bonds. A premium of $4.3 million was collected upon the sale of 2017 bonds. It will be used to offset future interest expense through amortization over the life of the bonds.

Note 8 Bonds Payable provides complete details.

Net position serves as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by $86 million at December 31, 2017. This is an increase from the prior year of $6.2 million. A primary reason assets increased was the sale of the former Bethlehem Steel property. The primary reason liabilities decreased was the scheduled payment of bond debt and the refinancing of the 2008A bonds.

The largest component of SARAA's net position (76.9% as of December 31, 2017) 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 - 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% 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.

Cash and Investment Management

	2017	2016	2015
Cash and cash equivalents	$ 676,181	$ 1,087,229	$ 171,713
Maintenance and operations reserve	2,869,403	2,667,645	2,568,884
Renewal and replacement reserve	501,379	501,232	441,017
Coverage account	2,501,167	2,419,624	1,838,373
Capital improvement account	4,856,417	2,087,277	1,647,929
Passenger facility charge	24,904	178,839	65,150
Accrued interest	144,354	101,608	95,977
	$ 11,573,805	$ 9,043,454	$ 6,829,043

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, 2012 and 2017 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. The Capital Improvement Account increased from the sale proceeds of the former Bethlehem Steel property.

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:

	2017	2016	2015
Debt service funds	$ 7,068,576	$ 8,092,840	$ 8,033,176
Debt service reserve funds	11,179,963	12,019,270	12,014,790
	$ 18,248,539	$ 20,112,110	$ 20,047,966

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.

In 2017, both the debt service and debt service reserve funds decreased as a result of the refinancing of the 2008A bonds with the 2017 bonds.

Capital Asset Activity

The following are projects underway or were completed in 2017:

- The southern half of the runway at GRA was rebuilt
- An oil/water separator was installed at CXY on the south side of the airport
- Phase 3 of the runway 13/31 rehabilitation was completed. It involved work on the western end of the airport. Two more phases are scheduled to be done in 2018 and 2019.
- Master Plan development is underway at CXY.
- Two new vehicles and five new pieces of equipment were acquired for HIA
- A used rescue truck was acquired for the HIA fire department
- A new vehicle was acquired for CXY
- Our main IT server system has been replaced at HIA
- The Flight Information Display System (FIDS) is in process of being replaced

Cash paid for capital projects was $10 million. SARAA received $8.8 million in capital grants toward the capital additions. See Note 6, Capital Assets, to the financial statements for a summary of capital asset activity.

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's management fully intends to continue to use the PFCs to offset bond debt service requirements into the foreseeable future.

SARAA's annual debt service for their five bond issues is scheduled at approximately $11.0 million annually through 2032. In 2033 through 2037, debt service decreases to $9.1 million annually. 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. Starting in 2017, only senior lien debt is outstanding.

The debt service coverage calculation follows on the next page.

	2017	2016
Total operating revenues	$ 27,294,116	$ 27,300,318
Additions:		
Revenue sharing to airlines	514,754	666,349
Investment income	228,463	171,863
Total revenues	28,037,333	28,138,530
Less: Management and operating expenses	(16,894,772)	(16,751,376)
Airport System net revenues	11,142,561	11,387,154
Add: Coverage account balances [1]	2,466,377	1,299,206
Net revenues plus coverage account balances	13,608,938	12,686,360
Annual Senior Bonds debt service	12,253,009	7,605,725
Less: PFC Revenues	(2,387,500)	(2,408,900)
Net Senior Bonds debt service	9,865,509	5,196,825
Senior Bonds Debt Service Coverage [2]	1.38	2.44
Adjusted Senior Bonds Debt Service Coverage [3]	1.10	1.81
Airport System net revenues	11,142,561	11,387,154
Add: Coverage account balances [1]	2,466,377	1,299,206
Net revenues plus coverage account balances	13,608,941	12,686,365
Net Senior Bonds debt service	9,865,509	5,196,825
Subordinate Bonds debt service	-	4,351,750
Annual aggregate net debt service	9,865,509	9,548,575
Aggregate debt service coverage [4]	n/a	1.33
Adjusted aggregate debt service coverage [5]	n/a	1.15

[1] Limited to 25% of net Senior Bond debt service.

[2] Coverage calculated as required by the Indenture, which incorporates the coverage account balance (which can total up to a maximum of 25% of Senior Debt Service) as part of the numerator and accounts for PFC revenue as an offset to debt service in the denominator. Minimum debt service coverage requirement for Bonds per the Indenture is 1.25.

[3] Calculated as Net Revenues plus PFC Revenues divided by Senior Debt Service.

[4] Coverage calculated as required by the Subordinate Indenture, which incorporates the coverage account balance (which can total up to a maximum of 25% of Senior Debt Service) as part of the numerator and accounts for PFC revenue as an offset to debt service in the denominator. Minimum aggregate debt service coverage requirement under the Subordinate Indenture is 1.10.

[5] Calculated as the sum of Net Revenues and PFC Revenues, divided by the sum of Bonds Debt Service and Subordinated Obligations Debt Service, less LOI Grants, if any.

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

Statements of Net Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 676,181	$ 1,087,229
Accounts receivable, net of allowance of $70,000	996,979	1,384,706
Grants receivable	4,592,132	730,100
Prepaids and other assets	527,585	519,309
Inventory	995,052	871,018
Investments	7,357,584	4,506,901
Total unrestricted current assets	15,145,513	9,099,263
Restricted Assets		
Cash and investments	7,093,480	8,271,679
Passenger facility charge receivables	304,967	161,299
Total restricted current assets	7,398,447	8,432,978
Total current assets	22,543,960	17,532,241
Noncurrent Assets		
Cash and investments, restricted	14,695,099	15,289,755
Tenant improvement allowance	410,619	-
Capital assets		
Nondepreciable capital assets	24,538,583	28,348,026
Depreciable capital assets	185,512,366	182,449,514
Net capital assets	210,050,949	210,797,540
Total noncurrent assets	225,156,667	226,087,295
Total assets	$ 247,700,627	$ 243,619,536

	2017	2016
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 1,935,901	$ 2,090,217
Accounts payable - construction	4,638,712	407,955
Accrued interest payable	2,630,256	3,866,238
Accrued expenses	908,048	851,328
Unearned revenue	362,664	457,343
Current portion of notes payable	30,664	31,026
Current portion of bonds payable	4,405,000	4,225,000
Total current liabilities	14,911,245	11,929,107
Noncurrent Liabilities		
Estimated costs of remediation	850,000	850,000
Unearned revenue	7,840	15,682
Bond and other deposits	94,144	120,357
Notes payable, less current portion	468,312	91,172
Bonds payable, less current portion	145,020,355	150,485,797
Total noncurrent liabilities	146,440,651	151,563,008
Total liabilities	161,351,896	163,492,115
Net Position		
Net investment in capital assets	66,372,842	66,827,468
Restricted	8,138,973	7,735,617
Unrestricted	11,836,916	5,564,336
Total net position	86,348,731	80,127,421
Total liabilities and net position	$ 247,700,627	$ 243,619,536

Susquehanna Area Regional Airport Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Facilities revenue	$ 8,767,732	$ 8,819,504
Parking fees	7,528,151	7,560,682
Vehicle rental fees and customer facility charges	4,033,805	4,105,690
Landing fees	4,049,564	3,843,564
Apron and gate use fees	1,325,342	1,243,532
Concession fees	499,803	498,262
Fuel flowage and other commissions	432,568	452,150
Other income	657,151	776,934
Total operating revenues	27,294,116	27,300,318
Operating Expenses		
Salaries, wages, payroll taxes and benefits	7,332,038	6,954,043
Professional and consulting fees	532,976	520,254
Marketing	452,626	548,535
Insurance	569,174	582,184
Utilities	1,493,561	1,503,883
Parking facility	2,316,605	2,416,851
Repairs and maintenance	1,508,281	1,761,318
Supplies, parts and other	2,689,511	2,464,308
Total operating expenses before depreciation	16,894,772	16,751,376
Income From Operations Before Depreciation	10,399,344	10,548,942
Depreciation expense	13,877,413	15,141,581
Loss From Operations	(3,478,069)	(4,592,639)
Nonoperating Revenues (Expenses)		
Passenger facility charges	2,377,210	2,442,022
Noise relocation project disbursements	-	(5,861)
Noise relocation project grants	-	5,318
Investment income	284,817	171,863
Bond issue costs	(384,284)	-
Interest expense	(7,289,336)	(7,186,008)
Gain on disposal of capital assets and sale of easements	2,044,210	672,996
Total nonoperating expenses	(2,967,383)	(3,899,670)
Decrease in Net Position Before Capital Contributions and Grants	(6,445,452)	(8,492,309)
Capital Contributions and Grants		
Federal, state and local grants	12,666,762	3,126,294
Contributions from lessees	-	3,759,000
Increase (Decrease) in Net Position	6,221,310	(1,607,015)
Net Position, Beginning of Year	80,127,421	81,734,436
Net Position, End of Year	$ 86,348,731	$ 80,127,421

Susquehanna Area Regional Airport Authority

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Cash received from customers	$ 27,579,322	$ 27,532,006
Cash paid to employees for services	(7,301,531)	(6,724,423)
Cash paid to suppliers for goods and services	(9,849,360)	(9,417,704)
Net cash provided by operating activities	10,428,431	11,389,879
Cash Flows From Noncapital Financing Activities		
Noise relocation grants received	-	5,318
Noise relocation project costs	-	(5,861)
Net cash used in noncapital financing activities	-	(543)
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(4,225,000)	(4,105,000)
Proceeds from bond issuance	43,038,690	-
Bonds refunded	(43,535,000)	-
Bond issue costs	(384,284)	-
Interest paid	(9,089,450)	(7,801,161)
Principal payment on loans	(33,839)	(146,137)
Proceeds from notes payable	410,617	102,875
Tenant improvement allowance	(410,619)	-
Passenger facility charges received	2,233,542	2,522,588
Acquisition and construction of capital assets	(10,037,312)	(5,302,900)
Proceeds from sale of easements	13,167	653,500
Proceeds from sale of capital assets	3,168,290	-
Capital grants received	8,804,730	4,793,591
Net cash used in capital and related financing activities	(10,046,468)	(9,282,644)
Cash Flows From Investing Activities		
Investment income	284,817	171,863
Purchase of investment securities	(26,170,549)	(18,601,336)
Proceeds from sales of investment securities	25,092,721	17,238,297
Net cash used in investing activities	(793,011)	(1,191,176)
Net Increase (Decrease) in Cash and Cash Equivalents	(411,048)	915,516
Cash and Cash Equivalents, Beginning of Year	1,087,229	171,713
Cash and Cash Equivalents, End of Year	$ 676,181	$ 1,087,229

Susquehanna Area Regional Airport Authority

Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities		
Loss from operations	$ (3,478,069)	$ (4,592,639)
Item not requiring cash		
Depreciation of capital assets	13,877,413	15,141,581
Change in assets and liabilities		
Accounts receivable	387,727	139,690
Inventory	(124,034)	(174,069)
Prepaids and other assets	(8,276)	(47,870)
Unearned revenue	(102,521)	91,998
Bond and other deposits	(26,213)	38,835
Accounts payable and accrued expenses	(97,596)	792,353
Net cash provided by operating activities	$ 10,428,431	$ 11,389,879
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	$ 4,638,712	$ 407,955

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 that distinguishes between operating and nonoperating revenues and expenses and statements of cash flows using the direct method.

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 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.

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:

	Years
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.

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.

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, navaids and runway lighting and parallel taxiway and related work. PFCs are deposited on a pro-rata basis monthly to pay debt service on the 2008B, 2012A, 2012 and 2017.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to $2,377,210 and $2,442,022 for 2017 and 2016, 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 $1,764,661 and $1,847,377 for 2017 and 2016, respectively, and is included in operating revenues on the statements of revenues, expenses and changes in net position.

Note 3: Major Customers

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

	2017		2016	
	Revenues	Number of Passengers	Revenues	Number of Passengers
Delta Airlines	14%	27%	14%	27%
American Airlines	13%	33%	16%	32%
United Airlines	11%	19%	12%	21%

Susquehanna Area Regional Airport Authority

Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Deposits and Investments

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

	2017			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Cash and cash equivalents	$ 676,181	$ 2,113,039	$ 6,907,584	$ 9,696,804
Money market funds	-	12,008,549	-	12,008,549
Certificates of deposit	-	7,422,563	450,000	7,872,563
U.S. Government - sponsored enterprises	-	100,074	-	100,074
Accrued investment income	-	144,354	-	144,354
	$ 676,181	$ 21,788,579	$ 7,357,584	$ 29,822,344

	2016			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
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
	$ 1,087,229	$ 23,561,434	$ 4,506,901	$ 29,155,564

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.

At December 31, 2017 and 2016, the carrying value and the bank balances of SARAA's deposits were as follows:

	2017		2016	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	$ 9,696,804	$ 11,659,547	$ 7,836,495	$ 7,888,855
Certificates of deposit	7,872,563	7,872,563	7,100,546	7,100,546

Of the bank balances in 2017 and 2016, $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, 2017 and 2016

SARAA had the following investments and maturities as of December 31, 2017 and 2016:

2017

	Moody's Rating	Carrying Value	Investment Maturity (in years) Less than 1	1 to 5
Money market funds	Aaa-mf	$ 12,008,549	$ 12,008,549	$ -
Certificates of deposit	Not Rated	7,872,563	4,759,716	3,112,847
U.S. Government-sponsored enterprises	Aaa	100,074	19,907	80,167
Accrued investment income	n/a	144,354	144,354	-
		$ 20,125,540	$ 16,932,526	$ 3,193,014

2016

	Moody's Rating	Carrying Value	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		1,834,304	1,501,900	332,404
U.S. Government-sponsored enterprises	Aaa	2,933,587	2,026,400	907,187
Accrued investment income	n/a	101,608	101,608	-
		$ 21,319,069	$ 17,049,939	$ 4,269,130

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, 2017, 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, 2017 and 2016, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio	
	2017	**2016**
Money market funds	60%	44%
Certificates of deposit	39%	33%
Municipal obligations	0%	9%
U.S. Government-sponsored enterprises	1%	14%

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.

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:

	2017	2016
Maintenance and operating reserve account	$ 2,869,403	$ 2,667,645
Renewal and replacement account	501,379	501,232
Passenger facility charges	24,904	178,839
Debt service settlement fund	30,702	-
Debt service fund	7,037,874	8,092,840
Debt service reserve	11,179,963	12,019,270
Total	21,644,225	23,459,826
Accrued income	144,354	101,608
Total restricted investments	21,788,579	23,561,434
Less current portion	(7,093,480)	(8,271,679)
Noncurrent portion	$ 14,695,099	$ 15,289,755

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, 2017 and 2016. 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.

	2017	2016
Capital improvement account	$ 4,856,417	$ 2,087,277
Coverage account	2,501,167	2,419,624
	$ 7,357,584	$ 4,506,901

Note 6: Capital Assets

Capital assets consist of the following:

	Balance December 31, 2016	Additions	Transfers	Disposals	Balance December 31, 2017
Capital assets not being depreciated:					
Land and improvements	$ 23,428,445	$ -	$ -	$ (1,205,898)	$ 22,222,547
Construction in progress	4,919,581	14,339,767	(16,943,312)	-	2,316,036
Total capital assets not being depreciated	28,348,026	14,339,767	(16,943,312)	(1,205,898)	24,538,583
Capital assets being depreciated:					
Buildings, including parking facility	187,504,597	-	-	-	187,504,597
Land improvements	10,688,965	-	18,176	-	10,707,141
Runways, taxiways and aprons	113,414,039	-	14,921,360	-	128,335,399
Utilities and sewers	20,147,175	-	-	-	20,147,175
Roads and parking areas	22,751,249	-	-	-	22,751,249
Heavy equipment, furniture and fixtures	30,264,393	-	1,676,446	(13,809)	31,927,030
Vehicles	10,075,564	-	324,057	(81,169)	10,318,452
Facility planning, design and other studies	4,604,653	-	3,273	-	4,607,926
Total capital assets being depreciated	399,450,635	-	16,943,312	(94,978)	416,298,969
Less accumulated depreciation for:					
Buildings, including parking facility	87,758,541	4,642,486	-	-	92,401,027
Land improvements	6,890,988	427,241	-	-	7,318,229
Runways, taxiways and aprons	59,756,128	5,721,256	-	-	65,477,384
Utilities and sewers	9,188,252	414,151	-	-	9,602,403
Roads and parking areas	19,006,984	680,416	-	-	19,687,400
Heavy equipment, furniture and fixtures	23,441,694	1,386,184	-	(13,809)	24,814,069
Vehicles	7,976,129	455,167	-	(78,122)	8,353,174
Facility planning, design and other studies	2,982,405	150,512	-	-	3,132,917
Total accumulated depreciation	217,001,121	13,877,413	-	(91,931)	230,786,603
Total capital assets being depreciated, net	182,449,514	(13,877,413)	16,943,312	(3,047)	185,512,366
Capital assets, net	$ 210,797,540	$ 462,354	$ -	$ (1,208,945)	$ 210,050,949

	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	31,244,464	4,515,500	(7,274,159)	(137,779)	28,348,026
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	388,503,195	3,736,012	7,274,159	(62,731)	399,450,635
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	201,922,271	15,141,581	-	(62,731)	217,001,121
Total capital assets being depreciated, net	186,580,924	(11,405,569)	7,274,159	-	182,449,514
Capital assets, net	$ 217,825,388	$ (6,890,069)	$ -	$ (137,779)	$ 210,797,540

Note 7: Line of Credit

SARAA has a $1 million bank line of credit. At December 31, 2017, 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 4.50%, 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, 2017 and 2016 comprised the following:

	2017	2016
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
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	2,720,342	3,293,739
Total Series A of 2012	56,095,342	56,668,739
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	(479,477)	(517,942)
Total Series B of 2012	49,040,523	49,002,058
Series 2017. Consists of term bonds with an interest rate of 5.000% with final maturity in 2038	38,765,000	-
Unamortized bond premium	4,244,490	-
Total Series 2017	43,009,490	-
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
Total Series C of 2012	-	4,225,000
	149,425,355	154,710,797
Current portion of long-term debt	(4,405,000)	(4,225,000)
	$ 145,020,355	$ 150,485,797

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.

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.

In November 2017, SARAA issued the 2017 Revenue Bonds (Series 2017 Bonds) in the amount of $38,765,000, including an original issue premium of $4,273,690. The Series 2017 Bonds were issued as a current refunding of all of SARAA's then outstanding Series 2008A Bonds. As a result of the bond issue, all debt service reserve funds are cash funded.

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, 2017 are summarized as follows:

Years Ending December 31	Senior Airport System Revenue Bonds Principal	Senior Airport System Revenue Bonds Interest	Total
2018	$ 4,405,000	$ 5,877,231	$ 10,282,231
2019	4,630,000	6,378,200	11,008,200
2020	4,855,000	6,141,075	10,996,075
2021	5,100,000	5,892,200	10,992,200
2022	5,355,000	5,630,825	10,985,825
2023 - 2027	31,070,000	23,762,950	54,832,950
2028 - 2032	38,770,000	16,063,450	54,833,450
2033 - 2037	39,930,000	7,256,550	47,186,550
2038	8,825,000	220,625	9,045,625
	$ 142,940,000	$ 77,223,106	$ 220,163,106

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. At December 31, 2017, there were no subordinate bonds outstanding.

Changes in Long-Term Liabilities

	Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017	Current Portion
Long-term debt					
Senior revenue bonds	$ 147,710,000	$ 38,765,000	$ 43,535,000	$ 142,940,000	$ 4,405,000
Subordinate revenue bonds	4,225,000	-	4,225,000	-	-
Bond premium/(discount), net	2,775,797	4,273,690	564,132	6,485,355	-
Total long-term debt	154,710,797	43,038,690	48,324,132	149,425,355	4,405,000
Other long-term liabilities					
Notes payable	122,198	410,617	33,839	498,976	30,664
Estimated costs of remediation	850,000	-	-	850,000	-
Unearned revenue	473,025	405,441	507,962	370,504	362,664
Security deposits	120,357	40,837	67,050	94,144	-
Total long-term liabilities	$ 156,276,377	$ 43,895,585	$ 48,932,983	$ 151,238,979	$ 4,798,328

	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016	Current Portion
Long-term debt					
Senior revenue bonds	$ 147,710,000	$ -	$ -	$ 147,710,000	$ -
Subordinate revenue bonds	8,330,000	-	4,105,000	4,225,000	4,225,000
Bond premium/(discount), net	3,329,375	-	553,578	2,775,797	-
Total long-term debt	159,369,375	-	4,658,578	154,710,797	4,225,000
Other long-term liabilities					
Note payable	165,460	102,875	146,137	122,198	31,026
Estimated costs of remediation	850,000	-	-	850,000	-
Unearned revenue	381,027	473,025	381,027	473,025	457,343
Security deposits	81,522	38,835	-	120,357	-
Total long-term liabilities	$ 160,847,384	$ 614,735	$ 5,185,742	$ 156,276,377	$ 4,713,369

Note 9: 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.

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

	Airline Agreements	Other Leases	Total
2018	$ 2,629,402	$ 4,318,159	$ 6,947,561
2019	2,633,340	3,487,427	6,120,767
2020	-	1,612,774	1,612,774
2021	-	1,575,900	1,575,900
2022	-	1,264,221	1,264,221
2023 - 2027	-	5,820,597	5,820,597
2028 - 2032	-	3,597,699	3,597,699
2033 - 2037	-	2,929,524	2,929,524
2038 - 2042	-	1,599,815	1,599,815
2043 - 2047	-	1,123,898	1,123,898
	$ 5,262,742	$ 27,330,014	$ 32,592,756

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 $212,156 in 2017 and $180,143 in 2016. 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 2017, and there have been no settlements in excess of the described insurance coverage from 2014 - 2017.

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

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, 2017 and 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments				
Money market funds	$ 12,008,549	$ 12,008,549	$ -	$ -
U.S. Government-sponsored enterprises	100,074	-	100,074	-
December 31, 2016				
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	-

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, 2017.

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.

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, 2017 and 2016

	2017	2016
Noncapital Related Revenues		
Facilities revenue	$ 8,767,732	$ 8,598,550
Parking fees	7,528,151	7,560,682
Vehicle rental fees and customer facility charges	4,033,805	4,105,690
Landing fees	4,049,564	4,064,518
Apron and gate use fees	1,325,342	1,243,532
Concession fees	499,803	498,262
Fuel flowage and other commissions	432,568	452,150
Other income	657,151	616,304
Investment income	19,168	26,143
Total noncapital related revenues	27,313,284	27,165,831
Noncapital Related Expenses, Net of Operating Grant Revenue		
Salaries, wages, payroll taxes and benefits	7,332,038	6,954,043
Professional and consulting fees	532,976	520,254
Marketing	452,626	548,535
Insurance	569,174	582,184
Utilities	1,493,561	1,503,883
Parking facility	2,316,605	2,416,851
Repairs and maintenance	1,508,281	1,761,318
Supplies, parts and other	2,689,511	2,464,308
Operating grant revenue	-	(160,630)
Total noncapital related expenses, net of operating grant revenue	16,894,772	16,590,746
Excess of Noncapital Related Revenues Over Noncapital Related Expenses	10,418,512	10,575,085
Capital Related Revenues (Expenses)		
Restricted investment income	265,649	145,720
Passenger facility charges	2,377,210	2,442,022
Noise relocation project disbursements	-	(5,861)
Noise relocation project grants	-	5,318
Federal, state and local grants	12,666,762	3,126,294
Contributions from lessees	-	3,759,000
Depreciation	(13,877,413)	(15,141,581)
Bond issue costs	(384,284)	-
Interest expense	(7,289,336)	(7,186,008)
Gain on disposal of capital assets and sale of easements	2,044,210	672,996
Deficit capital related revenues under capital related expenses	(4,197,202)	(12,182,100)
Increase (Decrease) in Net Position	6,221,310	(1,607,015)
Net Position, Beginning of Year	80,127,421	81,734,436
Net Position, End of Year	$ 86,348,731	$ 80,127,421

Susquehanna Area Regional Airport Authority

Schedules of Airline and Non-Airline Revenues

Years Ended December 31, 2017 and 2016

	2017	2016
Passenger Airline Revenues		
Facilities revenue	$ 5,895,252	$ 5,788,880
Landing fees	2,569,833	2,388,010
Apron and gate use fees	954,611	908,503
Fuel flowage and other commissions	69,886	75,311
Total passenger airline revenues	9,489,582	9,160,704
Cargo Airline Revenues		
Landing fees	1,288,816	1,260,716
Apron and gate use fees	358,402	312,564
Fuel flowage and other commissions	38,210	40,143
Total cargo airline revenues	1,685,428	1,613,423
Non-Airline Revenues		
Parking fees	7,528,151	7,560,682
Vehicle rental fees and customer facility charges	4,033,805	4,105,690
Facilities rental	2,872,480	3,030,624
Landing and apron fees - general aviation	203,244	217,303
Fuel flowage and other commissions	324,472	336,696
Concessions fees	499,803	498,262
Other income	657,151	776,934
Total non-airline revenues	16,119,106	16,526,191
Total Operating Revenues	$ 27,294,116	$ 27,300,318