

Susquehanna Area Regional Airport Authority

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Susquehanna Area Regional Airport Authority

December 31, 2019 and 2018

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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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise SARAA's basic financial statement 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, 2019 and 2018, 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 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 purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

Indianapolis, Indiana
April 24, 2020

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis

December 31, 2019 and 2018

(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, 2019 and 2018. 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) 2019 U.S. total domestic revenue passenger miles flown increased by 4.4% when compared to PY 2018. Domestic scheduled capacity, measured by available seat-miles, increased 3.7% as well resulting in a load factor of 82.7%, increased from 2018's 81.7%.

In January 2020, BTS reported the 3rd quarter 2019 domestic average roundtrip fare (the most recent quarter for which data is available) was \$345, down from a \$349 average fare during the third quarter of 2018.

At HIA, 2019 set a passenger traffic record as 1,512,515 passengers used the airport, up 16.8% when compared to 2018. The airlines enplaned a total of 761,842 passengers in 2019, up 16.8% from 2018. American (+18.2%), Delta (+5.8%), United (+4.9%), Allegiant (+38.7%) and Frontier (+142.5) all enplaned more passengers in 2019 when compared to 2018.

American increased capacity to Charlotte, Chicago and Philadelphia and began daily nonstop service to Dallas/Ft. Worth in June. Allegiant increase capacity to Orlando-Sanford, Punta Gorda and St. Petersburg/Clearwater and began new twice weekly service to Sarasota in April and Nashville in June.

Total 2019 departing seat capacity at HIA increased 10.6% compared to 2018. American (+11.1%), Delta (+0.4%), United (+0.8%), Allegiant (+43.3%) and Frontier (+118.0%) all added seats when compared to 2018. The airports average 2019 annual departing load factor increased 4.4 points setting a new record of 86.2%.

A total of 55,268 tons of cargo were flown into and out of Harrisburg International Airport in 2019 representing an 3.6% decrease compared to 2018. UPS tonnage increased 2.8%, FedEx tonnage decreased 8.9% while commercial airline belly cargo increased 56.8%. The Federal Aviation Administration (FAA) reported there were 47,412 total 2019 airport operations at HIA, a decrease of 7.4% compared to 2018.

The following table shows the 2019 percentage fluctuation from 2018 for change in seats, change in enplanement passengers and passenger market share: (List ranked by 2019 passenger market share):

	Change in Seats	Change in Enplaned Passengers	Market Share
American Airlines	11.1%	18.2%	41.5%
Delta Air Lines	0.4%	5.8%	21.5%
United Airlines	0.8%	4.9%	17.1%
Allegiant	43.3%	38.7%	14.7%
Frontier	118.0%	142.5%	5.0%
Charters	n/a	41.9%	0.2%
Total Passenger Airlines	10.6%	16.7%	100.0%

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

	2019	2018	% Change
Enplanements	761,842	652,301	16.8%
Air carrier operations	27,968	28,244	-1.0%
Landed weight (passenger airlines only)	822,931,668	765,012,656	7.6%
Cargo tons	55,268	57,303	-3.6%
Parking revenue	\$ 9,149,860	\$ 8,058,216	13.5%

Financial Highlights

The Authority passed a balanced \$33.5 million revenue and expense budget for 2019 to meet all maintenance and operations, capital and debt service obligations. 2019 enplanements were forecast for about 665,000, 8% above budgeted 2018 levels. Actual 2019 enplanements were 14.6% better than expected. Improved performance, primarily in non-airline revenues, produced a better than expected year, as Net Operating Revenue (excluding depreciation) was 8.6% ahead of the budgeted expectations.

- Operating revenues were 9.4% ahead of the 2019 budget and 10.6% better than 2018. Operating expenses (excluding depreciation) were 5.5% more than budget and were 5.2% more than 2018.
- SARAA owed the airlines for revenue sharing under the Airline Operating Agreement. For 2019, the liability was for \$1.7 million. These payments are deducted 50% each from Facilities Revenue and Landing Fee revenue.
- The required bond coverage ratio was met and maintained for 2019. 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 2018 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.

2019 to 2018 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, 2019 and 2018 was \$7.3 million and \$35.9 million, respectively. The comparative analysis is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2019 and 2018.

	2019	2018	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 8,719,290	\$ 8,800,775	\$ (81,485)	-0.9%
Parking fees	9,149,860	8,058,216	1,091,644	13.5%
Vehicle rental fees and customer facility charges	4,668,882	4,237,422	431,460	10.2%
Landing fees	3,163,745	4,064,456	(900,711)	-22.2%
Apron and gate use fees	1,530,901	1,408,556	122,345	8.7%
Concession fees	672,138	534,018	138,120	25.9%
Fuel flowage and other commissions	495,206	464,273	30,933	6.7%
Other income	759,959	675,915	84,044	12.4%
Total operating revenues	<u>29,159,981</u>	<u>28,243,631</u>	<u>916,350</u>	<u>3.2%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	8,432,836	7,873,942	558,894	7.1%
Professional and consulting fees	624,373	486,005	138,368	28.5%
Marketing	560,569	580,664	(20,095)	-3.5%
Insurance	573,110	527,628	45,482	8.6%
Utilities	1,458,260	1,417,836	40,424	2.9%
Parking facility	2,053,596	2,062,987	(9,391)	-0.5%
Repairs and maintenance	2,389,156	2,121,446	267,710	12.6%
Supplies, parts and other	3,421,237	3,482,275	(61,038)	-1.8%
Depreciation	15,579,700	14,612,373	967,327	6.6%
Total operating expenses	<u>35,092,837</u>	<u>33,165,156</u>	<u>1,927,681</u>	<u>5.8%</u>
Loss From Operations	(5,932,856)	(4,921,525)	(1,011,331)	20.5%
Nonoperating Expenses				
Net of Revenues	(1,805,216)	(2,656,971)	851,755	-32.1%
Capital Contributions, Grants and Contributions From Lessees				
	<u>15,044,800</u>	<u>43,433,707</u>	<u>(28,388,907)</u>	<u>-65.4%</u>
Increase in Net Position	7,306,728	35,855,211	(28,548,483)	-79.6%
Net Position, Beginning of Year	<u>122,203,942</u>	<u>86,348,731</u>	<u>35,855,211</u>	<u>41.5%</u>
Net Position, End of Year	<u>\$ 129,510,670</u>	<u>\$ 122,203,942</u>	<u>\$ 7,306,728</u>	<u>6.0%</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 2019 to 2018

- **Operating Revenues:** In 2019, the Total Operating Revenues increased 3.2%. The increase of enplanements drove a substantial increase in Parking fees and Vehicle rental fees and customer facility charges. Despite a 7.6% increase in landed weight, Landing fees decreased 22.2%. This was caused by a decrease in the Landing fee rate from \$3.71 to \$3.17. Apron and gate use fees and Concession fees increased due to increased flight and enplanement activity respectively.
- **Operating Expenses (other than depreciation):** The operating expenses increased 5.2% or \$960,000.
 - New full-time positions were added to handle increased security demands, operations and ongoing maintenance concerns.
 - Consulting fees increased as we renegotiated our airline operating agreement and rental car agreement.
 - Repairs and maintenance increased due to the construction of temporary PFAS water treatment facility adjacent to one of the airport wells.
- **Operating Expenses (depreciation):** Depreciation increased 6.6% or \$967,000.
 - HIA has a single large runway that is undergoing a three year rehabilitation process, 2017-2019. The previous rehabilitation occurred in 1997. Depreciation recorded in 2019 for the '17, '18 & '19 phases is \$1,311,000 vs. \$718,000 recorded in 2018.
 - Commercial development constructed by tenants at HIA totaled \$26.3 million. It included a hotel, two hangars and two other buildings. 2019 depreciation recorded for these assets totaled \$524,000 vs. \$381,000 recorded in 2018.
- **Nonoperating Expenses Net of Revenue:**
 - Passenger Facility Charges (PFC) increased 17.2%, or \$467,000, as a byproduct of our increased enplanements.
 - Investment income increased 49% with the more attractive market rates prevalent in 2019.
 - Interest expense decreased \$179,000 on schedule in 2019. As a result of the refinancing of the 2008A bonds with the 2017 bonds, annual interest savings are approximately \$891,000 per year, 2018 through 2032.
- **Capital Contributions and 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 2019, construction dollar volume was less than 2018 (\$15.0 million vs. \$17.2 million).
 - Commercial development constructed by tenants at HIA totaled \$26.3 million in 2018. It included a hotel, two hangars and two other buildings.

2018 to 2017 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, 2018 and 2017 was \$35.9 million and \$6.2 million, respectively. The comparative analysis is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2018 and 2017.

	2018	2017	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 8,800,775	\$ 8,988,686	\$ (187,911)	-2.1%
Parking fees	8,058,216	7,528,151	530,065	7.0%
Vehicle rental fees and customer facility charges	4,237,422	4,033,805	203,617	5.0%
Landing fees	4,064,456	3,828,610	235,846	6.2%
Apron and gate use fees	1,408,556	1,325,342	83,214	6.3%
Concession fees	534,018	499,803	34,215	6.8%
Fuel flowage and other commissions	464,273	432,568	31,705	7.3%
Other income	675,915	657,151	18,764	2.9%
Total operating revenues	<u>28,243,631</u>	<u>27,294,116</u>	<u>949,515</u>	<u>3.5%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	7,873,942	7,332,038	541,904	7.4%
Professional and consulting fees	486,005	532,976	(46,971)	-8.8%
Marketing	580,664	452,626	128,038	28.3%
Insurance	527,628	569,174	(41,546)	-7.3%
Utilities	1,417,836	1,493,561	(75,725)	-5.1%
Parking facility	2,062,987	2,316,605	(253,618)	-10.9%
Repairs and maintenance	2,121,446	1,508,281	613,165	40.7%
Supplies, parts and other	3,482,275	2,689,511	792,764	29.5%
Depreciation	14,612,373	13,877,413	734,960	5.3%
Total operating expenses	<u>33,165,156</u>	<u>30,772,185</u>	<u>2,392,971</u>	<u>7.8%</u>
Loss From Operations	(4,921,525)	(3,478,069)	(1,443,456)	-41.5%
Nonoperating Expenses				
Net of Revenues	(2,656,971)	(2,967,383)	310,412	-10.5%
Capital Contributions and Grants	<u>43,433,707</u>	<u>12,666,762</u>	<u>30,766,945</u>	<u>242.9%</u>
Increase in Net Position	35,855,211	6,221,310	29,633,901	-476.3%
Net Position, Beginning of Year	<u>86,348,731</u>	<u>80,127,421</u>	<u>6,221,310</u>	<u>7.8%</u>
Net Position, End of Year	<u>\$ 122,203,942</u>	<u>\$ 86,348,731</u>	<u>\$ 35,855,211</u>	<u>41.5%</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 2018 to 2017

- **Operating Revenues:** In 2018, the Total Operating Revenues increased 3.5%. The increase of enplanements drove a substantial increase in Parking fees and Vehicle rental fees and customer facility charges. Also, Apron and gate use fees increased for two reasons: 1) additional exclusive cargo ramp rented by UPS and, 2) Avflight, the only general aviation Fixed Base Operator, built a new facility west of the terminal and was charged for the use of the ramp.
- **Operating Expenses (other than depreciation):** The operating expenses increased 9.8% or \$1.6 million.
 - Three new full time positions and a part time position were added to handle increased security demands and ongoing maintenance concerns. SARAA's retirement contributions increased from a 4% match to a 6% match.
 - Paving repairs were made to a road and gate area at HIA.
 - Building automation system software was updated for the terminal at HIA.
 - More was spent on deicing and other winter materials for the airfield than the prior year or what was programmed in the budget due to enable weather preparedness.
 - The loading bridge repair project escalated to full scale and more repair materials were purchased.
 - Safety gear for the fire department was replaced for HIA.
 - Airfield signs and lighting, LED lighting upgrades, radios and water leak detection equipment were purchased.
- **Operating Expenses (depreciation):** Depreciation increased 5.3% or \$735,000.
 - HIA has a single large runway that is undergoing a three year rehabilitation process, 2017-2019. The previous rehabilitation occurred in 1997. Depreciation recorded in 2018 for the '17 & '18 phases is \$718,000.
 - Commercial development constructed by tenants at HIA totaled \$26.3 million. It included a hotel, two hangars and two other buildings. 2018 depreciation recorded for these assets totaled \$381,000.
- **Nonoperating Expenses Net of Revenue:**
 - Overall interest expense decreased after a temporary increase in 2017 to a more normal level in 2018. As a result of the refinancing of the 2008A bonds with the 2017 bonds, annual interest savings are approximately \$891,000 per year, 2018 through 2032.
- **Capital Contributions and 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 2018, construction activity was much more than 2017 (\$17.2 million vs. \$12.7 million). The eastern end of the lone runway at HIA was rehabilitated.
 - Commercial development constructed by tenants at HIA totaled \$26.3 million. It included a hotel, two hangars and two other buildings.

Statements of Net Position Summary

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

	2019	2018	2017
Assets			
Current assets	\$ 22,105,943	\$ 23,683,814	\$ 22,543,960
Noncurrent restricted cash and investments	14,679,109	14,562,988	14,695,099
Noncurrent other assets	760,727	801,668	410,619
Capital assets, net	<u>242,141,779</u>	<u>240,052,545</u>	<u>210,050,949</u>
Total assets	<u><u>\$ 279,687,558</u></u>	<u><u>\$ 279,101,015</u></u>	<u><u>\$ 247,700,627</u></u>
Liabilities			
Current liabilities	\$ 14,306,251	\$ 15,495,414	\$ 14,911,245
Long-term liabilities	<u>135,870,637</u>	<u>141,401,659</u>	<u>146,440,651</u>
Total liabilities	<u><u>150,176,888</u></u>	<u><u>156,897,073</u></u>	<u><u>161,351,896</u></u>
Net Position			
Net investment in capital assets	111,728,266	102,463,474	66,372,842
Restricted	8,663,174	8,211,914	8,138,973
Unrestricted	<u>9,119,230</u>	<u>11,528,554</u>	<u>11,836,916</u>
Total net position	<u><u>129,510,670</u></u>	<u><u>122,203,942</u></u>	<u><u>86,348,731</u></u>
Total liabilities and net position	<u><u>\$ 279,687,558</u></u>	<u><u>\$ 279,101,015</u></u>	<u><u>\$ 247,700,627</u></u>

Statements of Net Position Discussion - 2019 vs. 2018

Current assets: Overall, current assets decreased \$1.6 million. The cash balance increased from 2018 year end. Grants receivable decreased \$686,000 from 2018 as the runway rehabilitation project is more up to date in grant activity than it was a year ago. Investments decreased \$1.3 million as the capital improvement investment account decreased. It was used to fund the paving of Airport Drive at HIA (\$1.7 million) and three other capital projects (\$.6 million). The Authority received \$1.0 million from the Transportation Security Administration's second year of reimbursement of the Electronic Baggage Screening Program. Restricted cash and investments increased as prescribed on the bond debt service schedule.

Noncurrent cash and investments: The Debt Service Reserve funds (DSRF) were maintained, decreasing slightly by \$34,000. The Renewal and Replacement Reserve fund was increased \$71,000 and the Maintenance and Operation Reserve fund was increased \$80,000. 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 increased \$2.1 million:

- Work in Progress inventory increased \$3.0 million. Substantial projects in the balance include the HIA Cargo Apron, Flood Dike, Flight Information Displays (FIDS), GRA's South Parking Apron and FCRA's Parallel Taxiway.

Current liabilities decreased by \$1.2 million. The dollar volume of capital construction activity decreased by \$1,900,000 from 2018 to 2019. The liability to the airlines for the revenue sharing required by the Airline Operating Agreement increased from \$1,115,000 to \$1,704,000.

Noncurrent Liabilities:

The \$5.5 million decrease in noncurrent liabilities was caused by the annual routine reduction of bond principal (\$4.9 million) and the annual offsetting of bond premiums to interest expense (\$671,000).

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 \$130 million at December 31, 2019. This is an increase from the prior year of \$122 million. Assets increased only slightly but liabilities decreased by the scheduled payment of bond debt primarily.

The largest component of SARAA's net position (86.3% as of December 31, 2019) 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 - 2018 vs. 2017

Current assets: Overall, current assets increased \$1.1 million. The cash balance increased from 2017 year end. Grants receivable decreased \$1.2 million from 2017 as the runway rehabilitation project is more to date in grant activity than it was a year ago. Investments increased \$470,000 as the capital improvement investment account increased with the Transportation Security Administration's first year of reimbursement of the Electronic Baggage Screening Program. Restricted cash and investments increased as funds set aside in the debt service funds bond principal and interest returned to a normal level after the 2008A bond refunding the prior year.

Noncurrent cash and investments: The Debt Service Reserve funds (DSRF) were maintained, increasing slightly by \$67,500. The Renewal and Replacement Reserve fund was decreased \$329,000 and the Maintenance and Operation Reserve fund was increased \$157,000. 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 increased \$30 million:

- Commercial development constructed by tenants at HIA totaled \$26.3 million. It included a hotel, two hangars and two other buildings.
- The eastern end of the lone runway at HIA was rehabilitated with a project cost of \$16 million.

Current liabilities increased to \$15.5 million. The liability to the airlines for the revenue sharing required by the Airline Operating Agreement increased by \$600,000 to \$1,115,000.

Noncurrent Liabilities:

The \$5 million decrease in noncurrent liabilities was caused by the annual routine reduction of bond principal (\$4.6 million) and the annual offsetting of bond premiums to interest expense (\$721,000).

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 \$122 million at December 31, 2018. This is an increase from the prior year of \$36 million. A primary reason assets increased was the tenants' commercial development at HIA and the rehabilitation of the eastern end of HIA's runway. The primary reason liabilities decreased was the scheduled payment of bond debt.

The largest component of SARAA's net position (83.8% as of December 31, 2018) 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

	2019	2018	2017
Cash and cash equivalents	\$ 1,294,584	\$ 1,075,872	\$ 676,181
Maintenance and operations reserve	3,106,379	3,026,804	2,869,403
Renewal and replacement reserve	243,366	172,849	501,379
Coverage account	2,023,395	2,122,678	2,501,167
Capital improvement account	4,491,053	5,704,620	4,856,417
Passenger facility charge	230,920	201,651	24,904
Accrued interest	63,483	115,920	144,354
	<u>\$ 11,453,180</u>	<u>\$ 12,420,394</u>	<u>\$ 11,573,805</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, 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 \$500,000 maximum. The payback shall be made in the year following the use of the Renewal and Replacement Reserve. In 2019, a shuttle bus and three maintenance trucks were replaced, for which the reserve was used.

The Coverage Account has a beneficial effect in calculating the bond covenant's debt service coverage.

Capital Improvement Account represents remaining revenues to be used by SARAA for any lawful aviation purpose. The Capital Improvement Account decreased as it was used to fund the paving of Airport Drive at HIA (\$1.7 M) and three other capital projects (\$.6 M). The Authority received \$1.0 M from the Transportation Security Administration's second year of reimbursement of the Electronic Baggage Screening Program. 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>2019</u>	<u>2018</u>	<u>2017</u>
Debt service funds	\$ 7,991,627	\$ 7,882,553	\$ 7,068,576
Debt service reserve funds	<u>11,265,881</u>	<u>11,247,415</u>	<u>11,179,963</u>
	<u>\$ 19,257,508</u>	<u>\$ 19,129,968</u>	<u>\$ 18,248,539</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.

In 2018, both the debt service and debt service reserve funds increased as a result of the refinancing of the 2008A bonds with the 2017 bonds in November 2017.

Capital Asset Activity

The following are projects underway or were completed in 2019:

- Phase 5 of the runway 13/31 rehabilitation was completed at HIA. It involved upgrades to airfield lighting among other improvements.
- Airport Drive, the main artery that runs the length of HIA was rehabilitated and repaved.
- Work began for the multi-year project to develop the South Parking Apron at GRA.
- The FIDS for HIA was completed at year end with only security furnishings to be added.
- A new Parallel Taxiway was begun at FCRA with completion scheduled for 2020.
- Eight new vehicles, a loader and a shuttle bus were acquired for HIA
- A parking lot for the PA Air National Guard was constructed at HIA.
- A new plow truck with a spreader was acquired for CXY.

Cash paid for capital projects was \$19.5 million. SARAA received \$15.7 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 assigned as an offset to the debt service requirements of the 2017, 2008B, 2012A and 2012B bonds through 2019. 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 four bond issues is scheduled at approximately \$11.1 million annually through 2032. In 2033 through 2037, debt service decreases to \$9.3 million annually. Principal payments beginning in 2018 are focused on the 2012A bonds. No new bond issues except possible refundings are anticipated in the immediate future.

SARAA, through its Master Trust Indentures, has covenants to maintain a debt service coverage ratio of not less than 1.25 for senior lien debt and 1.10 for senior and subordinate debt. Debt service coverage is calculated based on a formula included in the bond indentures and the airline agreements. Historically, the Authority has maintained a coverage ratio higher than its requirement. Starting in 2017, only senior lien debt is outstanding.

The debt service coverage calculation follows on the next page.

	2019	2018
Total operating revenues	\$ 29,159,981	\$ 28,243,631
Additions:		
Revenue sharing to airlines	1,691,275	1,115,004
Investment income	<u>610,627</u>	<u>406,487</u>
Total revenues	31,461,883	29,765,122
Less: Management and operating expenses	<u>(19,513,137)</u>	<u>(18,552,783)</u>
Airport System net revenues	11,948,746	11,212,339
Add: Coverage account balances ¹	<u>2,005,613</u>	<u>2,101,834</u>
Net revenues plus coverage account balances	<u>13,954,359</u>	<u>13,314,173</u>
Annual Senior Bonds debt service	11,117,450	11,123,950
Less: PFC Revenues	(3,095,000)	(2,657,700)
Less: Escrow Earnings	-	(58,915)
Net Senior Bonds debt service	<u>8,022,450</u>	<u>8,407,335</u>
Senior Bonds Debt Service Coverage ²	1.74	1.58
Adjusted Senior Bonds Debt Service Coverage ³	1.35	1.25

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.

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, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	\$ 1,294,584	\$ 1,075,872
Accounts receivable, net of allowance of \$70,000	1,369,883	1,456,235
Grants receivable	2,723,594	3,409,680
Tenant improvement allowance	40,942	40,132
Prepays and other assets	725,552	541,311
Inventory	992,286	1,074,050
Investments	6,514,448	7,827,298
Total unrestricted current assets	13,661,289	15,424,578
Restricted Assets		
Cash and investments	8,222,547	8,084,204
Passenger facility charge receivables	222,107	175,032
Total restricted current assets	8,444,654	8,259,236
Total current assets	22,105,943	23,683,814
Noncurrent Assets		
Cash and investments, restricted	14,679,109	14,562,988
Tenant improvement allowance	760,727	801,668
Capital assets		
Nondepreciable capital assets	28,015,289	24,898,155
Depreciable capital assets	214,126,490	215,154,390
Net capital assets	242,141,779	240,052,545
Total noncurrent assets	257,581,615	255,417,201
Total assets	\$ 279,687,558	\$ 279,101,015

	<u>2019</u>	<u>2018</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 3,170,168	\$ 2,483,290
Accounts payable - construction	1,810,083	3,757,611
Accrued interest payable	3,131,225	3,246,975
Accrued expenses	969,983	1,000,165
Unearned revenue	303,607	306,704
Current portion of notes payable	66,185	70,669
Current portion of bonds payable	4,855,000	4,630,000
Total current liabilities	<u>14,306,251</u>	<u>15,495,414</u>
Noncurrent Liabilities		
Estimated costs of remediation	920,000	850,000
Bond and other deposits	57,359	65,733
Notes payable, less current portion	750,599	816,779
Bonds payable, less current portion	134,142,679	139,669,147
Total noncurrent liabilities	<u>135,870,637</u>	<u>141,401,659</u>
Total liabilities	<u>150,176,888</u>	<u>156,897,073</u>
Net Position		
Net investment in capital assets	111,728,266	102,463,474
Restricted	8,663,174	8,211,914
Unrestricted	9,119,230	11,528,554
Total net position	<u>129,510,670</u>	<u>122,203,942</u>
Total liabilities and net position	<u>\$ 279,687,558</u>	<u>\$ 279,101,015</u>

Susquehanna Area Regional Airport Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Facilities revenue	\$ 8,719,290	\$ 8,800,775
Parking fees	9,149,860	8,058,216
Vehicle rental fees and customer facility charges	4,668,882	4,237,422
Landing fees	3,163,745	4,064,456
Apron and gate use fees	1,530,901	1,408,556
Concession fees	672,138	534,018
Fuel flowage and other commissions	495,206	464,273
Other income	759,959	675,915
Total operating revenues	<u>29,159,981</u>	<u>28,243,631</u>
Operating Expenses		
Salaries, wages, payroll taxes and benefits	8,432,836	7,873,942
Professional and consulting fees	624,373	486,005
Marketing	560,569	580,664
Insurance	573,110	527,628
Utilities	1,458,260	1,417,836
Parking facility	2,053,596	2,062,987
Repairs and maintenance	2,389,156	2,121,446
Supplies, parts and other	3,421,237	3,482,275
Total operating expenses before depreciation	<u>19,513,137</u>	<u>18,552,783</u>
Income From Operations Before Depreciation	9,646,844	9,690,848
Depreciation expense	<u>15,579,700</u>	<u>14,612,373</u>
Loss From Operations	<u>(5,932,856)</u>	<u>(4,921,525)</u>
Nonoperating Revenues (Expenses)		
Passenger facility charges	3,171,344	2,704,443
Investment income	610,627	409,049
Interest expense	(5,608,581)	(5,787,130)
Gain on disposal of capital assets and sale of easements	21,394	16,667
Total nonoperating expenses	<u>(1,805,216)</u>	<u>(2,656,971)</u>
Decrease in Net Position Before Capital Contributions and Grants	(7,738,072)	(7,578,496)
Capital Contributions and Grants		
Federal, state and local grants	15,044,800	17,174,415
Contributions from lessees	-	26,259,292
Increase in Net Position	7,306,728	35,855,211
Net Position, Beginning of Year	<u>122,203,942</u>	<u>86,348,731</u>
Net Position, End of Year	<u>\$ 129,510,670</u>	<u>\$ 122,203,942</u>

Susquehanna Area Regional Airport Authority
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Cash received from customers	\$ 29,243,236	\$ 27,720,575
Cash paid to employees for services	(8,471,392)	(7,810,236)
Cash paid to suppliers for goods and services	(10,495,900)	(10,224,176)
Net cash provided by operating activities	10,275,944	9,686,163
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(4,630,000)	(4,405,000)
Interest paid	(6,395,800)	(5,891,619)
Principal payment on loans	(70,663)	(55,383)
Proceeds from notes payable	-	443,855
Tenant improvement allowance	40,131	(431,181)
Passenger facility charges received	3,124,269	2,834,378
Acquisition and construction of capital assets	(19,546,462)	(19,235,778)
Proceeds from sale of easements	6,667	3,333
Proceeds from sale of capital assets	14,727	13,334
Capital grants received	15,730,886	18,356,867
Net cash used in capital and related financing activities	(11,726,245)	(8,367,194)
Cash Flows From Investing Activities		
Investment income	610,627	409,049
Purchase of investment securities	(23,654,963)	(19,700,269)
Proceeds from sales of investment securities	24,713,349	18,371,942
Net cash provided by (used in) investing activities	1,669,013	(919,278)
Net Increase in Cash and Cash Equivalents	218,712	399,691
Cash and Cash Equivalents, Beginning of Year	1,075,872	676,181
Cash and Cash Equivalents, End of Year	\$ 1,294,584	\$ 1,075,872

Susquehanna Area Regional Airport Authority
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Loss From Operations to Net Cash		
Provided by Operating Activities		
Loss from operations	\$ (5,932,856)	\$ (4,921,525)
Item not requiring cash		
Depreciation of capital assets	15,579,700	14,612,373
Change in assets and liabilities		
Accounts receivable	86,352	(459,256)
Inventory	81,764	(78,998)
Prepays and other assets	(184,241)	(13,726)
Unearned revenue	(3,097)	(63,800)
Bond and other deposits	(8,374)	(28,411)
Accounts payable and accrued expenses	656,696	639,506
Net cash provided by operating activities	\$ 10,275,944	\$ 9,686,163
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	\$ 1,810,083	\$ 3,757,611
Contributions from lessees	-	26,259,292

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2019 and 2018

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Investments

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

Inventories

Inventories of supplies 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, 2019 and 2018

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.

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, 2019 and 2018

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, 2019 and 2018

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 2008B, 2012A, 2012B and 2017.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to \$3,171,344 and \$2,704,443 for 2019 and 2018, 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 \$2,013,964 and \$1,809,259 for 2019 and 2018, 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:

	2019		2018	
	Revenues	Number of Passengers	Revenues	Number of Passengers
Delta Airlines	8%	22%	9%	24%
American Airlines	12%	42%	13%	42%
United Airlines	7%	17%	8%	19%

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

Note 4: Deposits and Investments

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

	2019			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Cash and cash equivalents	\$ 1,294,584	\$ 2,008,113	\$ 4,594,113	\$ 7,896,810
Money market funds	-	8,378,211	-	8,378,211
Certificates of deposit	-	11,872,726	1,920,335	13,793,061
U.S. Government- sponsored enterprises	-	579,123	-	579,123
Accrued investment income	-	63,483	-	63,483
	<u>\$ 1,294,584</u>	<u>\$ 22,901,656</u>	<u>\$ 6,514,448</u>	<u>\$ 30,710,688</u>

	2018			
	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Cash and cash equivalents	\$ 1,075,872	\$ 952,083	\$ 2,962,298	\$ 4,990,253
Money market funds	-	11,588,900	-	11,588,900
Certificates of deposit	-	9,864,120	4,865,000	14,729,120
U.S. Government- sponsored enterprises	-	126,169	-	126,169
Accrued investment income	-	115,920	-	115,920
	<u>\$ 1,075,872</u>	<u>\$ 22,647,192</u>	<u>\$ 7,827,298</u>	<u>\$ 31,550,362</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, 2019 and 2018

At December 31, 2019 and 2018, the carrying value and the bank balances of SARAA's deposits were as follows:

	2019		2018	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	\$ 7,896,810	\$ 8,731,224	\$ 4,990,253	\$ 5,381,673
Certificates of deposit	13,793,061	13,793,061	14,729,120	14,729,120

Of the bank balances in 2019, \$1 million 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.

SARAA had the following investments and maturities as of December 31, 2019 and 2018:

	Moody's Rating	Carrying Value	2019 Investment Maturity (in years)	
			Less than 1	1 to 5
Money market funds	Aaa-mf	\$ 8,378,211	\$ 8,373,182	\$ 5,029
Certificates of deposit	Not Rated	13,793,061	7,681,331	6,111,730
U.S. Government-sponsored enterprises	Aaa	579,123	579,123	-
Accrued investment income	n/a	63,483	63,483	-
		<u>\$ 22,813,878</u>	<u>\$ 16,697,119</u>	<u>\$ 6,116,759</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

	Moody's Rating	Carrying Value	2018 Investment Maturity (in years)	
			Less than 1	1 to 5
Money market funds	Aaa-mf	\$ 11,588,900	\$ 11,588,900	\$ -
Certificates of deposit	Not Rated	14,729,120	10,653,711	4,075,409
U.S. Government-sponsored enterprises	Aaa	126,169	126,169	-
Accrued investment income	n/a	115,920	115,920	-
		<u>\$ 26,560,109</u>	<u>\$ 22,484,700</u>	<u>\$ 4,075,409</u>

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, 2019, 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, 2019 and 2018, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio	
	2019	2018
Money market funds	37%	44%
Certificates of deposit	60%	55%
U.S. Government-sponsored enterprises	3%	1%

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, 2019 and 2018

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:

	2019	2018
Maintenance and operating reserve account	\$ 3,106,379	\$ 3,026,804
Renewal and replacement account	243,366	172,849
Passenger facility charges	230,920	201,651
Debt service fund	7,991,627	7,882,553
Debt service reserve	11,265,881	11,247,415
Total	22,838,173	22,531,272
Accrued income	63,483	115,920
Total restricted investments	22,901,656	22,647,192
Less current portion	(8,222,547)	(8,084,204)
Noncurrent portion	\$ 14,679,109	\$ 14,562,988

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, 2019 and 2018. 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.

	2019	2018
Capital improvement account	\$ 4,491,053	\$ 5,704,620
Coverage account	2,023,395	2,122,678
	\$ 6,514,448	\$ 7,827,298

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

Note 6: Capital Assets

Capital assets consist of the following:

	Balance December 31, 2018	Additions	Transfers	Disposals	Balance December 31, 2019
Capital assets not being depreciated:					
Land and improvements	\$ 22,222,547	\$ 70,000	\$ -	\$ -	\$ 22,292,547
Construction in progress	2,675,608	17,657,574	(14,547,700)	(62,740)	5,722,742
Total capital assets not being depreciated	<u>24,898,155</u>	<u>17,727,574</u>	<u>(14,547,700)</u>	<u>(62,740)</u>	<u>28,015,289</u>
Capital assets being depreciated:					
Buildings, including parking facility	187,816,469	-	21,276	-	187,837,745
Land improvements	11,212,146	-	15,555	-	11,227,701
Runways, taxiways and aprons	144,407,403	102,818	7,442,693	(102,817)	151,850,097
Utilities and sewers	20,147,175	-	-	-	20,147,175
Roads and parking areas	22,751,249	-	3,971,227	-	26,722,476
Heavy equipment, furniture and fixtures	32,344,813	-	208,389	(315,774)	32,237,428
Vehicles	10,620,401	40,000	793,497	(142,098)	11,311,800
Facility planning, design and other studies	4,863,400	-	-	-	4,863,400
Tenant construction	26,259,292	14,623	2,095,063	(14,623)	28,354,355
Total capital assets being depreciated	<u>460,422,348</u>	<u>157,441</u>	<u>14,547,700</u>	<u>(575,312)</u>	<u>474,552,177</u>
Less accumulated depreciation for:					
Buildings, including parking facility	96,807,330	4,419,530	-	-	101,226,860
Land improvements	7,750,645	464,898	-	-	8,215,543
Runways, taxiways and aprons	71,899,418	7,137,531	-	-	79,036,949
Utilities and sewers	9,954,857	352,451	-	-	10,307,308
Roads and parking areas	20,173,920	503,069	-	-	20,676,989
Heavy equipment, furniture and fixtures	26,289,314	1,159,112	-	(306,371)	27,142,055
Vehicles	8,655,841	438,625	-	(135,355)	8,959,111
Facility planning, design and other studies	3,347,928	227,782	-	-	3,575,710
Tenant construction	388,705	896,457	-	-	1,285,162
Total accumulated depreciation	<u>245,267,958</u>	<u>15,599,455</u>	<u>-</u>	<u>(441,726)</u>	<u>260,425,687</u>
Total capital assets being depreciated, net	<u>215,154,390</u>	<u>(15,442,014)</u>	<u>14,547,700</u>	<u>(133,586)</u>	<u>214,126,490</u>
Capital assets, net	<u>\$ 240,052,545</u>	<u>\$ 2,285,560</u>	<u>\$ -</u>	<u>\$ (196,326)</u>	<u>\$ 242,141,779</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

	Balance December 31, 2017	Additions	Transfers	Disposals	Balance December 31, 2018
Capital assets not being depreciated:					
Land and improvements	\$ 22,222,547	\$ -	\$ -	\$ -	\$ 22,222,547
Construction in progress	2,316,036	18,347,843	(17,988,271)	-	2,675,608
Total capital assets not being depreciated	<u>24,538,583</u>	<u>18,347,843</u>	<u>(17,988,271)</u>	<u>-</u>	<u>24,898,155</u>
Capital assets being depreciated:					
Buildings, including parking facility	187,504,597	12,882	298,990	-	187,816,469
Land improvements	10,707,141	-	505,005	-	11,212,146
Runways, taxiways and aprons	128,335,399	-	16,072,004	-	144,407,403
Utilities and sewers	20,147,175	-	-	-	20,147,175
Roads and parking areas	22,751,249	-	-	-	22,751,249
Heavy equipment, furniture and fixtures	31,927,030	-	417,783	-	32,344,813
Vehicles	10,318,452	-	439,015	(137,066)	10,620,401
Facility planning, design and other studies	4,607,926	-	255,474	-	4,863,400
Tenant construction	-	26,259,292	-	-	26,259,292
Total capital assets being depreciated	<u>416,298,969</u>	<u>26,272,174</u>	<u>17,988,271</u>	<u>(137,066)</u>	<u>460,422,348</u>
Less accumulated depreciation for:					
Buildings, including parking facility	92,401,027	4,406,303	-	-	96,807,330
Land improvements	7,318,229	432,416	-	-	7,750,645
Runways, taxiways and aprons	65,477,384	6,422,034	-	-	71,899,418
Utilities and sewers	9,602,403	352,454	-	-	9,954,857
Roads and parking areas	19,687,400	486,520	-	-	20,173,920
Heavy equipment, furniture and fixtures	24,814,069	1,475,245	-	-	26,289,314
Vehicles	8,353,174	436,733	-	(134,066)	8,655,841
Facility planning, design and other studies	3,132,917	215,011	-	-	3,347,928
Tenant construction	-	388,705	-	-	388,705
Total accumulated depreciation	<u>230,786,603</u>	<u>14,615,421</u>	<u>-</u>	<u>(134,066)</u>	<u>245,267,958</u>
Total capital assets being depreciated, net	<u>185,512,366</u>	<u>11,656,753</u>	<u>17,988,271</u>	<u>(3,000)</u>	<u>215,154,390</u>
Capital assets, net	<u>\$ 210,050,949</u>	<u>\$ 30,004,596</u>	<u>\$ -</u>	<u>\$ (3,000)</u>	<u>\$ 240,052,545</u>

Note 7: Line of Credit

SARAA has a \$1 million bank line of credit, the line of credit does not have a maturity date and any outstanding borrowings are due on demand. At December 31, 2019, 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 4.75%, and is payable monthly.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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, 2019 and 2018 comprised the following:

	2019	2018
Senior airport system revenue bonds:		
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	44,340,000	48,970,000
Unamortized bond premium	1,717,933	2,194,268
Total Series A of 2012	46,057,933	51,164,268
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	(402,547)	(441,012)
Total Series B of 2012	49,117,453	49,078,988
Series 2017. Consists of term bonds with an interest rate of 5.000% with final maturity in 2038	38,765,000	38,765,000
Unamortized bond premium	3,777,293	4,010,891
Total Series 2017	42,542,293	42,775,891
	138,997,679	144,299,147
Current portion of long-term debt	(4,855,000)	(4,630,000)
	\$ 134,142,679	\$ 139,669,147

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.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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, 2019 are summarized as follows:

Years Ending December 31	Senior Airport System Revenue Bonds		Total
	Principal	Interest	
2020	\$ 4,855,000	\$ 6,262,450	\$ 11,117,450
2021	5,100,000	6,019,700	11,119,700
2022	5,355,000	5,764,700	11,119,700
2023	5,620,000	5,496,950	11,116,950
2024	5,905,000	5,215,950	11,120,950
2025 - 2029	34,150,000	21,457,900	55,607,900
2030 - 2034	40,075,000	13,675,250	53,750,250
2035 - 2038	32,845,000	4,206,000	37,051,000
	<u>\$ 133,905,000</u>	<u>\$ 68,098,900</u>	<u>\$ 202,003,900</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 2019 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, 2019, there were no subordinate bonds outstanding.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

Changes in Long-Term Liabilities

	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019	Current Portion
Long-term debt					
Senior revenue bonds	\$ 138,535,000	\$ -	\$ 4,630,000	\$ 133,905,000	\$ 4,855,000
Bond premium/(discount), net	5,764,147	-	671,468	5,092,679	-
Total long-term debt	<u>144,299,147</u>	<u>-</u>	<u>5,301,468</u>	<u>138,997,679</u>	<u>4,855,000</u>
Other long-term liabilities					
Notes payable	887,448	-	70,664	816,784	66,185
Estimated costs of remediation	850,000	70,000	-	920,000	-
Unearned revenue	306,704	305,707	308,804	303,607	303,607
Security deposits	65,733	1,725	10,099	57,359	-
Total long-term liabilities	<u>\$ 146,409,032</u>	<u>\$ 377,432</u>	<u>\$ 5,691,035</u>	<u>\$ 141,095,429</u>	<u>\$ 5,224,792</u>
	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018	Current Portion
Long-term debt					
Senior revenue bonds	\$ 142,940,000	\$ -	\$ 4,405,000	\$ 138,535,000	\$ 4,630,000
Bond premium/(discount), net	6,485,355	-	721,208	5,764,147	-
Total long-term debt	<u>149,425,355</u>	<u>-</u>	<u>5,126,208</u>	<u>144,299,147</u>	<u>4,630,000</u>
Other long-term liabilities					
Note payable	498,976	443,855	55,383	887,448	70,669
Estimated costs of remediation	850,000	-	-	850,000	-
Unearned revenue	370,504	246,489	310,289	306,704	306,704
Security deposits	94,144	11,350	39,761	65,733	-
Total long-term liabilities	<u>\$ 151,238,979</u>	<u>\$ 701,694</u>	<u>\$ 5,531,641</u>	<u>\$ 146,409,032</u>	<u>\$ 5,007,373</u>

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.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2019 and 2018

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

	Other Leases
2020	\$ 5,085,746
2021	4,826,631
2022	4,524,138
2023	4,526,095
2024	4,500,398
2025 - 2029	5,261,959
2030 - 2034	3,771,196
2035 - 2039	2,696,734
2040 - 2044	2,156,590
2045 - 2048	802,475
	<hr/>
	\$ 38,151,962

SARAA has entered into an Airline Operating Agreement and Terminal Building Lease (Airline Agreement) with certain passenger, charter and cargo airlines serving the airport (collectively, the Signatory Airlines). Other airlines operate under an airport use permit that generally has a term of no more than two years. The Airline Agreement's hybrid residual rate-making features are designed to ensure that the Authority's debt service and related coverage obligations, including the rate covenant, will be met. The Airline Agreement authorizes SARAA to implement new fees and charges as necessary. In the event of an airline bankruptcy, SARAA may adjust the rates and charges for all Signatory Airlines in the current rate period to recover the rates and charges due from the bankrupt carrier. However, there can be no assurance that such other airlines will be financially able to absorb the additional costs. Rental rates under these agreements are determined annually.

The Airline Agreement expired as of December 31, 2019. Subsequent to that date, the signatory airlines are operating under carryover provisions of the existing Airline Agreement.

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 January 1, 2018, full-time employees have up to 6% 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 \$337,249 in 2019 and \$315,792 in 2018. There are no employee contributions to the Plan.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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 2019, and there have been no settlements in excess of the described insurance coverage from 2016 - 2019.

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 \$920,000 and \$850,000 as of December 31, 2019 and 2018, respectively. 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.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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, 2019 and 2018:

	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)
December 31, 2019				
Investments				
Money market funds	\$ 8,378,211	\$ 8,378,211	\$ -	\$ -
U.S. Government-sponsored enterprises	579,123	-	579,123	-
December 31, 2018				
Investments				
Money market funds	\$ 11,588,900	\$ 11,588,900	\$ -	\$ -
U.S. Government-sponsored enterprises	126,169	-	126,169	-

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2019 and 2018

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, 2019.

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

Litigation

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.

Investments

SARAA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

Economic Volatility

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of SARAA, including significant declines in passenger traffic. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act includes \$10 billion in funds to be awarded as economic relief to eligible U.S. airports affected by the prevention of, preparation for, and response to the COVID-19 pandemic. The CARES Act provides funds to increase the federal share to 100 percent for Airport Improvement Program and supplemental discretionary grants already planned for fiscal year 2020. Additionally, the CARES Act provides new funds distributed by various formulas for all airports that are part of the national airport system, including SARAA.

Supplementary Information

Susquehanna Area Regional Airport Authority
Schedules of Capital and Noncapital Revenues and Expenses
Years Ended December 31, 2019 and 2018

	2019	2018
Noncapital Related Revenues		
Facilities revenue	\$ 8,719,290	\$ 8,800,775
Parking fees	9,149,860	8,058,216
Vehicle rental fees and customer facility charges	4,668,882	4,237,422
Landing fees	3,163,745	4,064,456
Apron and gate use fees	1,530,901	1,408,556
Concession fees	672,138	534,018
Fuel flowage and other commissions	495,206	464,273
Other income	758,497	673,529
Investment income	54,081	52,326
Total noncapital related revenues	29,212,600	28,293,571
Noncapital Related Expenses, Net of Operating Grant Revenue		
Salaries, wages, payroll taxes and benefits	8,432,836	7,873,942
Professional and consulting fees	624,373	486,005
Marketing	560,569	580,664
Insurance	573,110	527,628
Utilities	1,458,260	1,417,836
Parking facility	2,053,596	2,062,987
Repairs and maintenance	2,389,156	2,121,446
Supplies, parts and other	3,421,237	3,482,275
Operating grant revenue	(1,462)	(2,386)
Total noncapital related expenses, net of operating grant revenue	19,511,675	18,550,397
Excess of Noncapital Related Revenues Over Noncapital Related Expenses	9,700,925	9,743,174
Capital Related Revenues (Expenses)		
Restricted investment income	556,546	356,723
Passenger facility charges	3,171,344	2,704,443
Federal, state and local grants	15,044,800	17,174,415
Contributions from lessees	-	26,259,292
Depreciation	(15,579,700)	(14,612,373)
Interest expense	(5,608,581)	(5,787,130)
Gain on disposal of capital assets and sale of easements	21,394	16,667
Deficit capital related revenues under capital related revenues (expenses)	(2,394,197)	26,112,037
Increase in Net Position	7,306,728	35,855,211
Net Position, Beginning of Year	122,203,942	86,348,731
Net Position, End of Year	\$ 129,510,670	\$ 122,203,942

Susquehanna Area Regional Airport Authority
Schedules of Airline and Non-Airline Revenues
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Passenger Airline Revenues		
Facilities revenue	\$ 5,646,777	\$ 5,756,024
Landing fees	1,927,741	2,471,775
Apron and gate use fees	1,026,623	949,160
Fuel flowage and other commissions	96,264	76,987
Total passenger airline revenues	<u>8,697,405</u>	<u>9,253,946</u>
Cargo Airline Revenues		
Landing fees	1,038,393	1,392,624
Apron and gate use fees	434,678	413,508
Fuel flowage and other commissions	28,804	39,493
Total cargo airline revenues	<u>1,501,875</u>	<u>1,845,625</u>
Non-Airline Revenues		
Parking fees	9,149,860	8,058,216
Vehicle rental fees and customer facility charges	4,668,882	4,237,422
Facilities rental	3,072,513	3,044,751
Landing and apron fees - general aviation	267,211	245,945
Fuel flowage and other commissions	370,138	347,793
Concessions fees	672,138	534,018
Other income	759,959	675,915
Total non-airline revenues	<u>18,960,701</u>	<u>17,144,060</u>
Total Operating Revenues	<u>\$ 29,159,981</u>	<u>\$ 28,243,631</u>