



Timothy J. Edwards
Executive Director

RECEIVED
JUN 26 2012

June 21, 2012

Mr. William Brown, Chairman
Fairview Township Board of Supervisors
599 Lewisberry Road
New Cumberland, PA 17070

RE: 2011 ANNUAL MUNICIPAL AUTHORITIES REPORT

Dear Chairman Brown:

COPY TO:	
<input checked="" type="checkbox"/>	Board of Supervisors
<input checked="" type="checkbox"/>	Manager
<input checked="" type="checkbox"/>	Asst. Manager
<input type="checkbox"/>	Code Enforcement
<input type="checkbox"/>	Public Works
<input type="checkbox"/>	Police Dept.
<input type="checkbox"/>	Solicitor
<input type="checkbox"/>	Engineer
<input type="checkbox"/>	_____

Please find attached the required filing of the DCED-CLGS-04, Annual Report of Municipal Authorities for 2011, along with 2011 audited financial statements of the Susquehanna Area Regional Airport Authority. If any questions arise, please feel free to contact me at (717) 948-3900 ext. 4626.

For the Authority,

Thomas C. Peiffer
Deputy Director of Finance & Administration
tomp@saraa.org

Enclosures

ANNUAL REPORT OF MUNICIPAL AUTHORITIES 2011
 Commonwealth of Pennsylvania
 Department of Community and Economic Development
 Governor's Center for Local Government Services
 4th Floor Commonwealth Keystone Building
 Harrisburg, Pennsylvania 17120-0225
 1-888-223-6837
 FAX # 717-783-1402

FACE SHEET

	Current Information	Corrected Information
Authority Name	SUSQUEHANNA AREA REGIONAL	_____
	AIRPORT AUTHORITY	_____
Authority Address	HARRISBURG INTERNTL	_____
	AIRPORT	_____
	ONE TERMINAL DRIVE, SUITE 300	_____
	MIDDLETOWN, PA	_____
	17057	_____
Telephone Number	(717) 948-3900	_____
Fax Number	7179484636	_____
Name of Contact Person	THOMAS PEIFFER	_____
E-Mail Address	tomp@saraa.org	_____
Title	FINANCE DIRECTOR	<u>DEPUTY DIRECTOR OF FINANCE & ADMINISTRATION</u>

Filing Status

1 Active 1

2 Inactive _____

5 Terminated _____

Authority Type

01 Airport

Date Authority Organized (year) 1997

Fiscal Year Ends (month/day) 12/31

Date Authority Terminates (year) 2047

Number of Employees

(full time equivalent) 90

(part time equivalent) 10

SIGNATURE Thomas C. Peiffer

TITLE DEP. DIR. OF FINANCE & ADMIN.

PHONE (717) 948-3900

(SEE REVERSE SIDE FOR GEOGRAPHICAL AREAS SERVED BY AUTHORITY)

Geographical Areas Served

Mun Code	Municipal Name	County
210001	CUMBERLAND COUNTY	CUMBERLAND
220001	DAUPHIN COUNTY	DAUPHIN
670425	FAIRVIEW TWP	YORK
220302	HARRISBURG CITY	DAUPHIN
220514	LOWER SWATARA TWP	DAUPHIN
672072	YORK CITY	YORK
670001	YORK COUNTY	YORK

AIRPORT
OPERATING AUTHORITIES
STATEMENT OF INCOME AND EXPENDITURES
FISCAL YEAR ENDING DECEMBER 31, 2011

OPERATING REVENUES

Sales of Services/user charges	\$15,528,832	
Operating Grants - State	-	
- Federal	111,004	
Local government operating subsidies	-	
Interest income	-	
Lease rental payments	8,135,341	
Other operating revenues	2,289,723	
TOTAL OPERATING REVENUES		\$26,064,900

OPERATING EXPENSES

Cost of sales and services	10,946,209	
Administrative -- Salaries	964,386	
- Other costs	2,281,117	
Depreciation	10,662,964	
Other operating expenses	-	
TOTAL OPERATING EXPENSES		24,854,676

OPERATING INCOME (LOSS) \$ 1,210,224

NONOPERATING REVENUES

Capital Grants -- State	178,603	
- Federal	8,036,450	
Proceeds of sale of fixed assets	(1,320,817)	
Proceeds of borrowings	-	
Other non-operating revenues	1,015,074	
TOTAL NONOPERATING REVENUES		7,909,310

NONOPERATING EXPENSES

Debt service payments	(10,156,420)	
Constructions/extension of system	-	
Major equipment purchased	-	
Other non-operating expenses	(1,260,701)	
TOTAL NONOPERATING EXPENSES		(11,417,121)

TOTAL NONOPERATING REVENUE (LOSS) -3,507,811

NET INCOME BEFORE EXTRAORDINARY ITEMS

-2,297,587

EXTRAORDINARY GAIN (LOSS)

NET INCOME

\$ (2,297,587)

RETAINED EARNINGS (beginning of year)

\$80,207,986

RETAINED EARNINGS (end of year)

\$77,910,399

OPERATING AUTHORITIES BALANCE SHEET
FISCAL YEAR ENDING DECEMBER 31, 2011

ASSETS			
CURRENT ASSETS			
Cash	\$720,312		
Investments	<u>1,936,851</u>		
Accounts Receivable	<u>1,328,890</u>		
Inventories	<u>676,424</u>		
Other Current Assets	<u>559,760</u>		
TOTAL CURRENT ASSETS		<u>\$5,222,237</u>	
RESTRICTED ASSETS/TRUST FUNDS		<u>21,489,055</u>	
DEFERRED CHARGES		<u>6,590,923</u>	
FIXED ASSETS			
Property, plant & equipment, at cost	<u>390,243,434</u>		
Less Accumulated depreciation	<u>(133,996,180)</u>		
Construction work in progress	<u>5,877,467</u>		
Other fixed assets	<u>0</u>		
NET FIXED ASSETS		<u>262,124,721</u>	
TOTAL ASSETS			<u><u>\$295,426,937</u></u>
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts payable	1,009,629		
Accrued payroll & withholdings	<u>446,435</u>		
Accrued interest payable	<u>4,775,277</u>		
Current portion of long-term debt	<u>3,492,121</u>		
Other current liabilities	<u>172,291</u>		
TOTAL CURRENT LIABILITIES		<u>9,895,753</u>	
LONG-TERM DEBT – less current portion		<u>170,732,270</u>	
TOTAL LIABILITIES			<u>180,628,023</u>
FUND EQUITY			
CONTRIBUTED CAPITAL			
Government grants	19,157,236		
Other contributions	<u>17,731,279</u>		
TOTAL CONTRIBUTED CAPITAL		<u>36,888,515</u>	
RETAINED EARNINGS			
Reserved	0		
Unreserved	<u>77,910,399</u>		
TOTAL RETAINED EARNINGS		<u>77,910,399</u>	
TOTAL FUND EQUITY			<u>114,798,914</u>
TOTAL LIABILITIES & FUND EQUITY			<u><u>\$295,426,937</u></u>

DEBT STATEMENT
FISCAL YEAR ENDING DECEMBER 31, 2011
OUTSTANDING BONDS AND NOTES

Listed below are all currently outstanding bond and note issues according to our files, excluding bond issues redeemed or refunded and defeased. Please show the principal payments and make any other necessary corrections and additions.

Type Purpose	Bond (B) Note (N)	Issue Date (mm/yy)	Original Amount Of Issue	Outstanding Beginning of year	Principal Paid this Year	Outstanding at Year End	Final Year
2003A Bonds	B	May-03	55,025,000	55,025,000	0	55,025,000	2028
2003B Bonds	B	May-03	48,845,000	48,845,000	0	48,845,000	2033
2003C-1 Bonds	B	May-03	15,125,000	0	0	0	2010
2003C-2 Bonds	B	May-03	16,450,000	0	0	0	2010
2003D Bonds	B	May-03	20,685,000	20,685,000	0	20,685,000	2018
2003E Bonds	B	May-03	20,000,000	6,205,000	3,075,000	3,130,000	2012
2004A Bonds	B	Aug-04	27,800,000	0	0	0	2034
2004B Bonds	B	Aug-04	1,875,000	0	0	0	2011
2008A Bonds	B	Apr-08	43,535,000	43,535,000	0	43,535,000	2038
2008B Bonds	B	Apr-08	1,280,000	1,280,000	0	1,280,000	2034
Sovereign Park.Rev.Cont.Sys.Loan	N		1,000,000	0	0	1,000,000	2012
Sovereign Kinsley Sales Tax Note	N	May-10	395,000	233,074	197,864	35,210	2012

Total bonds and notes outstanding	<u>173,535,210</u>
Capitalized lease obligations	<u>139,016</u>
Other debt	<u>550,165</u>
TOTAL OUTSTANDING DEBT	<u>174,224,391</u>
Minus assets held in debt service funds, bond reserve funds and bond redemption funds	<u>18,155,517</u>
Minus lease rental payments receivable	<u>0</u>
NET DEBT	<u>\$156,068,874</u>

Susquehanna Area Regional Airport Authority

Accountants' Reports and Financial Statements

December 31, 2011 and 2010

Susquehanna Area Regional Airport Authority

December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Susquehanna Area Regional Airport Authority
Middletown, Pennsylvania

We have audited the accompanying basic financial statements of Susquehanna Area Regional Airport Authority (SARAA) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of SARAA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of SARAA as of and for the year ended December 31, 2010, were audited by other accountants whose report dated April 21, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Susquehanna Area Regional Airport Authority as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of capital and noncapital revenues and expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

April 20, 2012

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis

December 31, 2011 and 2010

(Unaudited)

The following 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, 2011 and 2010. 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 1998 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; while each of the two townships appoints one board member. The board members serve their term and 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 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 No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34).

Industry Headlines and SARAA's Activities and Highlights

The U.S. Department of Transportation's Bureau of Transportation Statistics (BTS) reported that preliminary 2011 traffic data showed that U.S. airlines carried 1.3 percent more total system passengers in 2011 than in 2010. 2011 domestic capacity, measured by available seat-miles, increased 1.1 percent.

The industry trade group Airlines for America reported the 11 key U.S. passenger airlines reported a net profit of \$390 million in 2011 representing an 86 percent drop from the \$2.7 billion net profit that these same carriers earned in 2010. Total airline operating revenue grew 12.6 percent but expenses increased 15.5 percent. Fuel costs jumped 36.1 percent compared with 2010. Fuel remained the industry's largest cost at about 35 percent of total operating expenses, up from 30 percent in 2010.

As a result of increasing airline industry costs, Sabre estimates that the 2011 average one way U.S. airfare increased about 15 percent to \$264. In addition, as 2011 progressed, the early impacts of the United/Continental and Southwest/AirTran mergers were beginning to be felt at airports nationwide. It is against this backdrop of increasing airfares, increasing costs, lower profits, flat passenger traffic and flat airline seat capacity, that a review of SARAA's 2011 performance can be provided.

At HIA, there were 650,714 total enplaned passengers in 2011 representing a decline of 3.1 percent compared to 2010. While American, US Airways and Air Canada all reported increases in passenger traffic, Continental, Delta, United and AirTran all reported declines in passenger traffic. Led by US Airways and American, total departing seat capacity increased 1.3 percent to its highest level since 2006. 2011's overall departing passenger load factor declined 0.9 points to 75.2 percent. HIA's average one-way fare increased nearly 24 percent to \$269. The average fare increase was a significant factor in HIA's slight decline in total passenger traffic and departing load factor.

There was 54,344 tons of cargo flown into and out of Harrisburg International Airport in 2011 representing a one percent increase over 2010. This was the fourth highest total in the airport's history and the most since 2000. Both Federal Express (2.0 percent) and UPS (4.6 percent) posted slight increases in 2011 cargo activity.

The Federal Airport Administration reported a total of 81,715 airport operations at HIA in 2011. While operations were down 1.9 percent compared with 2010, 2011 represented the fourth highest total since 1996.

The following table shows the 2011 percentage fluctuation from 2010 for change in seats, change in total passengers and passenger market share:

	Change in Seats	Change in Passengers	Market Share
US Airways	11.2%	3.6%	30.1%
Delta Air Lines	-4.5%	-7.4%	25.1%
United Airlines	-4.5%	-5.4%	23.2%
AirTran Airways	-8.6%	-7.7%	7.9%
Continental Express	-3.1%	-14.6%	6.8%
American Eagle	21.6%	21.8%	6.2%
Air Canada	-7.8%	0.9%	0.7%
Total Passenger Airlines	1.3%	-2.9%	100.0%

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

	2011	2010	% Change
Enplanements	650,714	671,479	-3.1%
Air carrier operations	41,382	39,499	4.8%
Landed weight (passenger airlines only)	798,739,878	779,478,413	2.5%
Cargo tons	54,344	53,789	1.0%
Parking revenue	7,264,273	7,474,433	-2.8%

Financial Highlights

After a very successful year in 2010 and the recession year of 2009, SARAA presented a budget for 2011 that was still conservative as only 650,000 enplanements were planned even though in 2010 we had over 671,000. No major fees were changed, but water and sewer fees were raised to meet the systems' expenses. This produced a second consecutive good year for SARAA's finances.

- Operating revenues were 3.4% better than 2010 and ended just slightly better than the budget.
- Operating expenses (excluding depreciation) were 6% more than 2010 and ended a small margin better than the budget.
- Over half a million dollars were added to SARAA's managed liquid reserves.
- The required bond coverage ratios were met and maintained at the same level as 2010.
- All monthly debt service payments required by the bond trustee were made as required.

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 comparative Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows. Also included are notes to the financial statements that provide more detailed data. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The net assets of SARAA are comprised of these categories:

- *Invested in capital assets, net of related debt* - 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 net assets* - represent resources that are subject to external restrictions on how they may be used.
- *Unrestricted net assets* - represent resources that may be used to meet SARAA's ongoing obligations to the public and creditors.

2011 to 2010 Comparative Statements of Revenues, Expenses and Changes in Net Assets

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

The change in net assets for the years ended December 31, 2011 and 2010 was \$(1.5) million and \$(5.7) million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Assets for 2011 and 2010.

Income 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.

	2011	2010	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 8,135,341	\$ 7,445,081	\$ 690,260	9.3%
Parking fees	7,264,273	7,474,433	(210,160)	-2.8%
Vehicle rental fees and customer facility charges	3,864,889	3,448,688	416,201	12.1%
Landing fees	4,012,290	3,919,669	92,621	2.4%
Apron and gate use fees	1,147,442	1,148,661	(1,219)	-0.1%
Concession fees	387,380	373,740	13,640	3.6%
Fuel flowage and other commissions	419,775	424,432	(4,657)	-1.1%
Other income	833,510	978,884	(145,374)	-14.9%
Total operating revenues	<u>26,064,900</u>	<u>25,213,588</u>	<u>851,312</u>	<u>3.4%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	5,645,582	5,361,555	284,027	5.3%
Professional and consulting fees	489,967	329,122	160,845	48.9%
Marketing	641,181	671,188	(30,007)	-4.5%
Insurance	471,634	412,225	59,409	14.4%
Utilities	1,765,416	1,821,551	(56,135)	-3.1%
Parking facility	2,273,746	2,229,195	44,551	2.0%
Repairs and maintenance	1,312,489	1,342,629	(30,140)	-2.2%
Supplies, parts and other	1,591,697	1,192,595	399,102	33.5%
Depreciation	10,662,964	11,103,628	(440,664)	-4.0%
Total operating expenses	<u>24,854,676</u>	<u>24,463,688</u>	<u>390,988</u>	<u>1.6%</u>
Income From Operations	1,210,224	749,900	460,324	61.4%
Nonoperating Expenses				
Net of Revenues	(8,863,283)	(7,932,617)	(930,666)	11.7%
Capital Contributions and Grants	<u>5,355,476</u>	<u>1,482,833</u>	<u>3,872,643</u>	<u>261.2%</u>
Decrease in Net Assets	(2,297,583)	(5,699,884)	3,402,301	-59.7%
Net Assets, Beginning of Year	<u>117,096,497</u>	<u>122,796,381</u>	<u>(5,699,884)</u>	<u>-4.6%</u>
Net Assets, End of Year	<u>\$ 114,798,914</u>	<u>\$ 117,096,497</u>	<u>\$ (2,297,583)</u>	<u>-2.0%</u>

Significant Variances for 2011 to 2010

Operating Revenues: Facilities revenue increased as American Eagle and Air Tran airlines were charged rentals for the terminal building. Air Tran is on a phased incentive program where they pay more each year. American Eagle resumed service in April 2010 and were forgiven rent for 2010 as they had paid rent after they suspended service in October 2008. Properties at CXY and FCRA reverted to the authority and increased rentals as these buildings could now be rented along with the land which was always rented. Parking revenue from the Long-Term Parking lot declined as enplanements decreased. Vehicle rental fees and customer facility charges had a significant increase as sales and the number of days cars were rented rose 7 and 19%, respectively, from the previous year. This was primarily driven by increased business travelers and FEMA personnel assisting with flood recovery in the region. Other income declined as an operating grant program, the Small Community Air Service Development expired in 2010. Also in 2010, SARAA received grant money from FEMA to assist with a record snowfall in February.

Operating Expenses: Personnel costs increased as two positions were restored after 2009 layoffs and an employee benefit, the deductible reimbursement for health care, was reinstated. Legal fees drove up professional fees as a claim was pursued against the TSA for grant monies for construction of the terminal building. Supply costs rose as winter materials, primarily deicing liquid, were used to combat frequent small icing events. More fuel was used for vehicles and the prices increased. Some of the elements of the current terminal building reached their useful life and were fully depreciated, causing a decline in overall depreciation.

Capital Contributions and Grants: FAA grants for construction increased. With 2011, SARAA started substantial construction activity at HIA and at two of SARAA's other general aviation airports. In 2010, no substantial construction activity occurred. Also, two buildings reverted to SARAA resulting in the recognition of significant lessee financed improvements during 2011.

2010 to 2009 Comparative Statements of Revenues, Expenses and Changes in Net Assets

The change in net assets for the years ended December 31, 2010 and 2009 was \$(5.7) million and \$(1.2) million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Assets for 2010 and 2009.

Income (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.

	2010	2009	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	\$ 7,445,081	\$ 7,984,393	\$ (539,312)	-6.8%
Parking fees	7,474,433	6,179,639	1,294,794	21.0%
Vehicle rental fees and customer facility charges	3,448,688	3,139,527	309,161	9.8%
Landing fees	3,919,669	3,308,358	611,311	18.5%
Apron and gate use fees	1,148,661	1,091,000	57,661	5.3%
Concession fees	373,740	357,200	16,540	4.6%
Fuel flowage and other commissions	424,432	428,273	(3,841)	-0.9%
Other income	978,884	1,285,953	(307,069)	-23.9%
Total operating revenues	<u>25,213,588</u>	<u>23,774,343</u>	<u>1,439,245</u>	<u>6.1%</u>
Operating Expenses				
Salaries, wages, payroll taxes and benefits	5,361,555	5,817,469	(455,914)	-7.8%
Professional and consulting fees	329,122	171,035	158,087	92.4%
Marketing	671,188	704,459	(33,271)	-4.7%
Insurance	412,225	481,032	(68,807)	-14.3%
Utilities	1,821,551	1,772,844	48,707	2.7%
Parking facility	2,229,195	2,178,518	50,677	2.3%
Repairs and maintenance	1,342,629	1,688,482	(345,853)	-20.5%
Supplies, parts and other	1,192,595	1,082,582	110,013	10.2%
Depreciation	11,103,628	10,958,254	145,374	1.3%
Total operating expenses	<u>24,463,688</u>	<u>24,854,675</u>	<u>(390,987)</u>	<u>-1.6%</u>
Income (Loss) From Operations	749,900	(1,080,332)	1,830,232	169.4%
Nonoperating Expenses				
Net of Revenues	(7,932,617)	(7,729,203)	(203,414)	2.6%
Capital Contributions and Grants	<u>1,482,833</u>	<u>7,643,081</u>	<u>(6,160,248)</u>	<u>-80.6%</u>
Decrease in Net Assets	(5,699,884)	(1,166,454)	(4,533,430)	-388.7%
Net Assets, Beginning of Year	<u>122,796,381</u>	<u>123,962,835</u>	<u>(1,166,454)</u>	<u>-0.9%</u>
Net Assets, End of Year	<u>\$ 117,096,497</u>	<u>\$ 122,796,381</u>	<u>\$ (5,699,884)</u>	<u>-4.6%</u>

Significant Variances for 2010 to 2009

Operating Revenues: Terminal facilities rentals decreased as the airlines returned surplus space when they renewed their operating agreements for the new rental term. Some of this was a result of the merger of Delta and Northwest Airlines. Vehicle parking charges were increased in 2010 to \$20 per day for garage parking and \$8.50 per day for the long-term remote surface lot. Landing fees increased as landed weight increased 7% and the fee was raised 6.5%. Operating grant revenue decreased as SARAA benefited in 2009 from a FAA grant for the rehabilitation of terminal apron pavement.

Operating Expenses: Operating expenses declined \$391,000 (1.6%). Personnel savings of \$456,000 were accomplished after 2009's mid-year layoffs and reduction of employee benefits. In 2009, an insurance refund was received offsetting prior year litigation costs. No major airfield rehabilitation was completed in 2010, thus repairs and maintenance decreased from 2009.

Income (Loss) from Operations: The 169% reduction of loss resulted from the lessons learned in 2009; spending restraint was the theme in 2010. As 2010 began, SARAA management was wary of the post-recession business and travel environment. The budget reflected no increase in enplanement activity and increased fees for airline activity (6%) and nonairline activity via increased fees for vehicle parking. Revenues were 6% better than 2009 and expenses 2% less than 2009.

Capital Contributions and Grants: FAA grants for construction decreased. In 2009, SARAA completed a large construction project at HIA, the new \$9 million Wastewater Treatment Plant. In 2010, no substantial construction activity occurred.

Balance Sheet Summary

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

	2011	2010	2009
Assets			
Current assets	\$ 13,554,621	\$ 12,328,712	\$ 13,241,068
Noncurrent restricted cash and investments	13,156,672	13,147,854	12,785,126
Capital assets, net	262,124,721	267,601,391	278,384,908
Other assets	6,590,923	7,049,318	7,224,942
Total assets	\$ 295,426,937	\$ 300,127,275	\$ 311,636,044
Liabilities			
Current liabilities	\$ 9,895,754	\$ 9,961,201	\$ 12,306,882
Long-term liabilities	170,732,269	173,069,577	176,532,781
Total liabilities	180,628,023	183,030,778	188,839,663
Net Assets			
Invested in capital assets, net of related debt	104,589,426	108,360,843	113,972,865
Restricted	6,466,878	6,189,849	5,749,762
Unrestricted	3,742,610	2,545,805	3,073,754
Total net assets	114,798,914	117,096,497	122,796,381
Total liabilities and net assets	\$ 295,426,937	\$ 300,127,275	\$ 311,636,044

Balance Sheet Discussion - 2011 vs. 2010

Current assets increased \$1.2 million as cash, accounts receivable and investments increased significantly. Reserves were filled to prescribed levels in the bond indentures and the coverage account was funded to the maximum beneficial level.

Capital assets, net of accumulated depreciation decreased as annual depreciation expense exceeded new capital projects added (including the reversion of two lessee financed improvements) during the year.

Other assets are made up primarily of bond issuance costs, which decrease each year as an allocable part is expensed as amortization. Amortization is part of the interest expense.

Long-term liabilities decreased by the planned debt service principal payments of \$3.2 million, but increased for a bank loan for the parking revenue control system replacement of \$1 million (\$800,000 long-term).

The margin between SARAA's current assets and current liabilities increased for the third consecutive year to \$3.7 million.

Net assets serve as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by \$116 million at December 31, 2011. This is a decrease from the prior year as depreciation decreases SARAA's capital assets at a greater rate than it can invest in new capital assets.

The largest component of SARAA's net assets (91% as of December 31, 2011) 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 assets 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 assets may be used for any lawful airport system purpose.

Balance Sheet Discussion - 2010 vs. 2009

Current assets decreased \$0.9 million overall. Grants receivable declined \$1.7 million. A balance of \$2.2 million was the balance on December 31, 2009 reflected as a few large construction projects were in the midst of the reimbursement process. At year end 2010, construction activity level was much less and construction was completed thus reducing the grant receivable. Reserve investments were filled to prescribed levels in the bond indentures and the coverage account was funded to the maximum beneficial level.

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

Current liabilities declined \$2.3 million as accounts payable - construction were paid off.

Long-term liabilities decreased by the debt service principal payments of \$3.5 million.

Net assets serve as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by \$117 million at December 31, 2010. This is a decrease from the prior year as depreciation decreases SARAA's capital assets at a greater rate than it can invest in new capital assets.

As previously noted, the largest component of SARAA's net assets (93% as of December 31, 2010) 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.

Cash and Investment Management

	2011	2010	2009
Cash and cash equivalents	\$ 720,312	\$ 209,383	\$ 220,006
Maintenance and operations reserve	2,408,562	2,254,570	2,104,267
Renewal and replacement reserve	501,209	500,042	371,846
Coverage account	1,435,691	1,385,845	1,134,332
Capital improvement account	501,160	201,173	1,168
	<u>\$ 5,566,934</u>	<u>\$ 4,551,013</u>	<u>\$ 3,831,619</u>

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

The Maintenance and Operations Reserve is set by the Master Trust Indenture for the 2003 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. Further details may be found in Note 5 of the financial statements. The Coverage Account has a beneficial effect in the coverage ratio calculation up to 25% of the Senior Bonds annual debt service. Capital Improvement Account represents remaining revenues to be used by SARAA for any lawful aviation purpose.

The cash and equivalents at December 31, 2011 include \$442 thousand of unexpended loan funds required to be held by the bank and used only for the loan's purpose, the parking revenue control system.

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

	2011	2010	2009
Debt service funds	\$ 7,977,526	\$ 7,907,924	\$ 7,845,465
Debt service reserve funds	10,177,991	10,360,932	10,282,321
	<u>\$ 18,155,517</u>	<u>\$ 18,268,856</u>	<u>\$ 18,127,786</u>

The trustee is Manufacturers Traders and Trust Co. The above funds are invested under direction of SARAA according to Section 4.07(h) in permitted investments as defined in the First Supplemental Trust Indenture with respect to the Authority's 2003A and 2003B Bonds.

SARAA replaced \$7,100,000 of the Debt Service Reserve Funds with an irrevocable letter of credit as described in Note 7, Long-Term Debt, of the financial statements. It is not included in the balances above.

Capital Asset Activity

The following are projects underway or completed in 2011:

- Reconfigure runway edge lights at HIA
- Cargo apron rehabilitation underway at HIA
- Flood pump motors refurbished and electrical controls upgraded at HIA
- Runway and taxiway lights replaced at FCRA
- South parking apron under design at GRA
- Runway 8-26 rehabilitation underway at CXY

Cash paid for capital projects was \$5.8 million and \$2.5 million in 2011 and 2010, respectively. SARAA received \$4.5 million and \$2.9 million in capital grants toward the capital additions. See Note 6 to the financial statements for a summary of capital asset activity.

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

Long-Term Debt

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

The use of PFC's is fully explained in Note 2, Passenger Facility Charges, of the financial statements. Currently and for the foreseeable future, all PFC's are pledged as an offset to the debt service requirements of the 2008A and 2008B bonds and thereafter, the 2003A and 2003B bonds.

SARAA's annual debt service for their six bond issues is scheduled at \$12.7 million annually through 2032. The final debt service was paid on the 2003E bonds in January, 2012. Principal payments will now be focused on the 2003D bonds through 2018. The 2003D bonds are the final outstanding subordinate bonds. No new bond issues are anticipated in the immediate future.

New long-term unsecured bank debt was issued in 2011 for a replacement of the parking revenue control system. The total loan is for \$1 million. A secured capital lease was issued for three parking shuttle buses for \$173 thousand. A note financing terminal construction work issued in 2010 has been paid off in March 2012.

Debt service coverage covenants must be maintained at 125% of Senior debt service and 110% of the Senior and Subordinate bonds. A covenant for SARAA's open bank instruments must be maintained at 100% of the Senior and Subordinate bonds. SARAA meets these thresholds and funds are managed as to not go below the covenant levels. The covenants are more fully described in Note 7, Covenants, in the financial statements.

Modified Approach Accounting for Infrastructure Assets

As allowed by GASB 34, SARAA has adopted an alternative method to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, SARAA expenses certain maintenance and preservation costs and does not report depreciation expense for these selected assets. Assets accounted for under the modified approach include approximately 6.7 million square feet of airfield pavement at HIA that SARAA is responsible to maintain. This includes one runway, six taxiways and three ramps. SARAA has not adopted the modified approach for the runway and related infrastructure at CXY, FCRA or GRA. SARAA will continue to depreciate these assets over their useful lives. It is SARAA's policy to maintain all airfield pavement at HIA at a "good" or better condition level. SARAA will perform condition assessments of eligible infrastructure assets at least every three years.

The overall score for all airfield pavement at HIA was rated as "very good" in the last condition assessment performed. The most recent condition assessment was the result of a Commonwealth of Pennsylvania inspection, which was completed in 2009.

Further information on the "Modified Approach" use on airfield infrastructure can be found in the Required Supplementary Information to the financial statements.

Requests for Information

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

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 751,091	\$ 654,242
Accounts payable - construction	248,893	425,034
Accrued interest payable	4,775,277	4,844,543
Accrued expenses	456,079	477,096
Deferred revenue	172,293	287,463
Note payable	277,121	197,823
Current portion of long-term debt	3,215,000	3,075,000
Total current liabilities	<u>9,895,754</u>	<u>9,961,201</u>
Noncurrent Liabilities		
Estimated costs of remediation	450,000	450,000
Deferred revenue	54,921	62,757
Bond and other deposits	45,243	21,569
Note payable, less current portion	897,105	35,251
Long-term debt, less current portion	169,285,000	172,500,000
Total noncurrent liabilities	<u>170,732,269</u>	<u>173,069,577</u>
Total liabilities	<u>180,628,023</u>	<u>183,030,778</u>
Net Assets		
Invested in capital assets, net of related debt	104,589,426	108,360,843
Restricted net assets	6,466,878	6,189,849
Unrestricted	3,742,610	2,545,805
Total net assets	<u>114,798,914</u>	<u>117,096,497</u>
 Total liabilities and net assets	 <u>\$ 295,426,937</u>	 <u>\$ 300,127,275</u>

Susquehanna Area Regional Airport Authority
Statements of Revenues, Expenses and Changes in Net Assets
December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Facilities revenue	\$ 8,135,341	\$ 7,445,081
Parking fees	7,264,273	7,474,433
Vehicle rental fees and customer facility charges	3,864,889	3,448,688
Landing fees	4,012,290	3,919,669
Apron and gate use fees	1,147,442	1,148,661
Concession fees	387,380	373,740
Fuel flowage and other commissions	419,775	424,432
Other income	833,510	978,884
Total operating revenues	26,064,900	25,213,588
Operating Expenses		
Salaries, wages, payroll taxes and benefits	5,645,582	5,361,555
Professional and consulting fees	489,967	329,122
Marketing	641,181	671,188
Insurance	471,634	412,225
Utilities	1,765,416	1,821,551
Parking facility	2,273,746	2,229,195
Repairs and maintenance	1,312,489	1,342,629
Supplies, parts and other	1,591,697	1,192,595
Depreciation	10,662,964	11,103,628
Total operating expenses	24,854,676	24,463,688
Income From Operations	1,210,224	749,900
Nonoperating Revenues (Expenses)		
Passenger facility charges	2,606,096	2,746,556
Noise relocation project disbursements	(1,260,701)	(1,540,117)
Noise relocation project grants	1,229,109	939,663
Investment income	39,449	222,869
Interest expense	(10,156,419)	(10,289,085)
Loss on disposals of capital assets and other	(1,320,817)	(12,503)
Total nonoperating expenses	(8,863,283)	(7,932,617)
Decrease in Net Assets Before Capital Contributions and Grants	(7,653,059)	(7,182,717)
Capital Contributions and Grants		
Federal, state and local grants	4,379,848	1,482,833
Lessee financed improvements	975,628	-
	5,355,476	1,482,833
Decrease in Net Assets	(2,297,583)	(5,699,884)
Net Assets, Beginning of Year	117,096,497	122,796,381
Net Assets, End of Year	\$ 114,798,914	\$ 117,096,497

Susquehanna Area Regional Airport Authority

Statements of Cash Flows December 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Cash received from customers	\$ 25,596,046	\$ 24,646,513
Cash paid to employees for services	(5,623,340)	(5,517,202)
Cash paid to suppliers for goods and services	(8,504,262)	(8,324,786)
Net cash provided by operating activities	11,468,444	10,804,525
Cash Flows From Noncapital Financing Activities		
Noise relocation grants received	1,222,883	837,858
Noise relocation project costs	(1,287,321)	(859,974)
Net cash used in noncapital financing activities	(64,438)	(22,116)
Cash Flows From Capital and Related Financing Activities		
Proceeds from note payable, net of issuance costs	1,162,080	389,415
Net principal payment on loans	(39,150)	(37,368)
Passenger facility charges received	2,630,369	2,719,956
Principal paid on long-term debt	(3,272,864)	(3,749,354)
Interest paid	(9,751,206)	(9,880,540)
Acquisition and construction of capital assets	(5,720,700)	(2,604,279)
Proceeds from sale of capital assets	13,075	2,500
Capital grants received	4,481,395	3,033,339
Net cash used in capital and related financing activities	(10,497,001)	(10,126,331)
Cash Flows From Investing Activities		
Investment income	37,031	217,250
Net purchase of investment securities	(433,107)	(883,951)
Net cash used in investing activities	(396,076)	(666,701)
Net Increase (Decrease) in Cash and Cash Equivalents	510,929	(10,623)
Cash and Cash Equivalents, Beginning of Year	209,383	220,006
Cash and Cash Equivalents, End of Year	\$ 720,312	\$ 209,383

Susquehanna Area Regional Airport Authority
Statements of Cash Flows (Continued)
December 31, 2011 and 2010

	2011	2010
Reconciliation of Loss From Operations to Net Cash		
Provided by Operating Activities		
Income from operations	\$ 1,210,224	\$ 749,900
Item not requiring cash		
Depreciation of capital assets	10,662,964	11,103,628
Change in assets and liabilities		
Accounts receivable	(345,851)	(267,375)
Inventory	430	(20,654)
Prepays and other assets	(62,444)	7,443
Deferred revenue	(123,006)	(299,699)
Bond and other deposits	23,674	7,499
Accounts payable and accrued expenses	102,453	(476,217)
Net cash provided by operating activities	\$ 11,468,444	\$ 10,804,525
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	\$ 248,893	\$ 425,034

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

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.

Basis of Presentation

Effective January 1, 2011, SARAA adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that Statement for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on SARAA's net assets, changes in net assets or financial reporting disclosures.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

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 balance sheets, statements of revenues, expenses and changes in net assets using a specified format, which 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.

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 collectibility 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.

Investments

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

Inventories

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

Restricted Assets

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

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

Capital Assets

Capital assets, such as land, buildings, equipment and infrastructure assets are stated at cost (or estimated historical cost). Contributed assets are recorded at fair value at the date of contribution. SARAA capitalizes assets with an expected useful life of more than one year and a cost greater than \$5,000. 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

Except as noted below, 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, except certain infrastructure assets as noted below, are capitalized, including interest during the period of construction.

SARAA has elected to use the modified approach to report the runway, six taxiways and three ramps at HIA. Under this approach, SARAA does not record depreciation expense. In addition, amounts expended in connection with improvements to these assets are not capitalized unless the improvements expand the capacity or efficiency of the asset. Utilization of this approach requires SARAA to commit to: 1) maintain and preserve the assets at or above a condition level established by SARAA; 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being sustained; and 3) make annual estimates of the amounts that must be expended to maintain and preserve such assets at the predetermined condition levels. See the required supplementary information presented later in these financial statements for further discussion and disclosure.

SARAA has not adopted the modified approach for the runway and related infrastructure at CXY, FCRA or GRA. SARAA will continue to depreciate these assets over their useful lives.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

Lessee-Financed Improvements

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

Debt Issuance Costs

Debt issuance costs are deferred and are amortized to interest expense using the interest method over the term of the associated loan. Amortization expense for years ended December 31, 2011 and 2010 amounted to \$461,655 and \$466,348, respectively.

Compensated Absences

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

Net Assets

Net assets are categorized into three components: invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt 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 assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets consist of net assets that do 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.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

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 Asset 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, nav aids and runway lighting and parallel taxiway and related work. From 2009 to 2013, PFCs associated with the first \$4.50 per eligible passenger are to be deposited monthly to pay debt service on the 2008A and 2008B bonds up to their maximum annual debt service and, thereafter, are to be deposited monthly to pay debt service on the 2003A and 2003B bonds up to their maximum annual debt service.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to \$2,606,096 and \$2,746,556 for 2011 and 2010, 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 \$1,824,634 and \$1,537,470 for 2011 and 2010, respectively, and is included in operating revenues on the statement of revenues, expenses and changes in net assets.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

Note 3: Major Customers

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

	2011		2010	
	Revenues	Number of Passengers	Revenues	Number of Passengers
U.S. Airways	15%	30%	15%	28%
United Airlines	13%	23%	13%	24%
Delta Airlines	12%	25%	14%	26%

Note 4: Cash and Investments

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

	2011			
	Operating Cash	Restricted Investments	Unrestricted Investments	Total
Money market/cash	\$ 720,312	\$ 1,662,271	\$ 1,936,851	\$ 4,319,434
Certificates of deposit	-	1,381,080	-	1,381,080
Money market trusts	-	9,137,337	-	9,137,337
Municipal obligations	-	3,835,039	-	3,835,039
Commercial paper	-	1,394,311	-	1,394,311
U.S. Government agencies	-	3,788,830	-	3,788,830
Accrued investment income	-	68,910	-	68,910
	<u>\$ 720,312</u>	<u>\$ 21,267,778</u>	<u>\$ 1,936,851</u>	<u>\$ 23,924,941</u>

	2010			
	Operating Cash	Restricted Investments	Unrestricted Investments	Total
Money market/cash	\$ 209,383	\$ 1,659,219	\$ 1,414,212	\$ 3,282,814
Certificates of deposit	-	1,221,699	172,806	1,394,505
Money market trusts	-	16,522,320	-	16,522,320
U.S. Government agencies	-	1,746,536	-	1,746,536
Accrued investment income	-	32,310	-	32,310
	<u>\$ 209,383</u>	<u>\$ 21,182,084</u>	<u>\$ 1,587,018</u>	<u>\$ 22,978,485</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 and 2010, the carrying value and the bank balances of SARAA's deposits were as follows:

	2011		2010	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Money market/cash	\$ 4,319,434	\$ 4,575,039	\$ 3,282,814	\$ 3,384,615
Certificates of deposit	1,381,080	1,381,080	1,394,505	1,394,505

Of the bank balances in 2011 and 2010, \$4,794,137 and \$1,358,701 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balances were uninsured and collateralized by financial institutions via single collateral pool arrangements as permitted by Act No. 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors.

Investments

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

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

SARAA had the following investments and maturities as of December 31, 2011 and 2010:

	Carrying Value	2011	
		Investment Maturity Less than 1	Investment Maturity (in years) 1 to 15
Certificates of deposit	\$ 1,381,080	\$ 1,141,080	\$ 240,000
Mutual funds - Pennsylvania Local Government Investment Trust	738,930	738,930	-
Treasury obligations	8,398,407	8,398,407	-
U.S. Government agencies	3,788,830	2,167,301	1,621,529
Municipal obligations	3,835,039	-	3,835,039
Commercial paper	1,394,311	1,394,311	-
Accrued investment income	68,910	68,910	-
	<u>\$ 19,605,507</u>	<u>\$ 13,908,939</u>	<u>\$ 5,696,568</u>

	Carrying Value	2010	
		Investment Maturity Less than 1	Investment Maturity (in years) 1 to 15
Certificates of deposit	\$ 1,394,505	\$ 785,804	\$ 608,701
Mutual funds - Pennsylvania Local Government Investment Trust	474	474	-
Treasury obligations	16,521,846	16,521,846	-
U.S. Government agencies	1,746,536	-	1,746,536
Accrued investment income	32,310	32,310	-
	<u>\$ 19,695,671</u>	<u>\$ 17,340,434</u>	<u>\$ 2,355,237</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 investments in Treasury obligations hold an AAAM rating from Standard & Poor's and an Aaa rating from Moody's. U.S. Government Agencies were rated AAA by Fitch. SARAA's investment in the Pennsylvania Local Government Investment Trust was rated AAAM by Standard & Poor's. Municipal obligations are rated A2 by Moody's and the commercial paper is rated A-1 by Standard & Poor's.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

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, 2011 and 2010, SARAA's investments were not exposed to custodial credit risk. SARAA participates in the Pennsylvania Local Government Investment Trust (PLGIT), which collateralizes funds on a pooled basis for participating municipalities. These amounts are classified as investments but are not categorized because securities are not used as evidence of the investment. The U.S. government agency securities and the treasury obligations are not collateralized. The U.S. government agency securities, treasury obligations and PLGIT are held in SARAA's name by M&T Investment Group, the trustee. Certificates of deposit were insured by FDIC up to a level of \$1,098,701 with a majority of the uninsured balance being collateralized.

Concentration of Credit Risk: SARAA's investment policy does not address the concentration of credit risk. As of December 31, 2011, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio
Certificates of deposit	7%
Mutual funds - Pennsylvania Local Government Investment Trust	4%
Treasury obligations	43%
U.S. Government agencies	19%
Municipal obligations	20%
Commercial paper	7%

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, 2011 and 2010

Note 5: Investments

Restricted Cash and Investments

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

	<u>2011</u>	<u>2010</u>
Maintenance and operating reserve account	\$ 2,408,562	\$ 2,254,570
Renewal and replacement account	501,209	500,042
Passenger facility charges	133,580	126,306
Debt service reserve	10,177,991	10,360,932
Debt service fund	<u>7,977,526</u>	<u>7,907,924</u>
Total	21,198,868	21,149,774
Accrued income	<u>68,910</u>	<u>32,310</u>
Total restricted investments	21,267,778	21,182,084
Less current portion	<u>(8,111,106)</u>	<u>(8,034,230)</u>
Noncurrent portion	<u>\$ 13,156,672</u>	<u>\$ 13,147,854</u>

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, 2011 and 2010. 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.

	<u>2011</u>	<u>2010</u>
Capital improvement account	\$ 501,160	\$ 201,173
Coverage account	<u>1,435,691</u>	<u>1,385,845</u>
Noncurrent portion	<u>\$ 1,936,851</u>	<u>\$ 1,587,018</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

Note 6: Capital Assets

Capital assets consist of the following:

	Balance January 1, 2011	Additions	Transfers	Disposals	Balance December 31, 2011
Capital assets not being depreciated:					
Land and improvements	\$ 20,190,398	\$ 1,435	\$ -	\$ -	\$ 20,191,833
Construction in progress	3,160,546	5,252,043	(1,201,230)	1,333,892	5,877,467
Runway, taxiways and aprons - HIA	63,649,936	15,654	-	-	63,665,590
Total capital assets not being depreciated	<u>87,000,880</u>	<u>5,269,132</u>	<u>(1,201,230)</u>	<u>1,333,892</u>	<u>89,734,890</u>
Capital assets being depreciated:					
Buildings, including parking facility	175,952,294	1,061,890	187,086	-	177,201,270
Land improvements	10,101,363	-	-	-	10,101,363
Runways, taxiways and aprons	39,318,114	11,613	879,052	-	40,208,779
Utilities and sewers	18,664,063	-	-	-	18,664,063
Roads and parking areas	22,987,309	3,636	-	-	22,990,945
Heavy equipment, furniture and fixtures	24,371,564	-	113,389	-	24,484,953
Vehicles	9,702,956	173,915	21,703	272,183	9,626,391
Facility planning, design and other studies	3,108,247	-	-	-	3,108,247
Total capital assets being depreciated	<u>304,205,910</u>	<u>1,251,054</u>	<u>1,201,230</u>	<u>272,183</u>	<u>306,386,011</u>
Less accumulated depreciation for:					
Buildings, including parking facility	54,339,027	4,811,319	-	-	59,150,346
Land improvements	4,743,931	439,235	-	-	5,183,166
Runways, taxiways and aprons - depreciated	12,372,108	1,676,793	-	-	14,048,901
Runways, taxiways and aprons - nondepreciated	8,576,149	-	-	-	8,576,149
Utilities and sewers	6,099,104	552,271	-	-	6,651,375
Roads and parking areas	13,021,772	953,143	-	-	13,974,915
Heavy equipment, furniture and fixtures	15,557,772	1,654,099	-	-	17,211,871
Vehicles	6,600,516	493,123	-	272,183	6,821,456
Facility planning, design and other studies	-	-	-	-	-
Total accumulated depreciation	<u>123,605,399</u>	<u>10,662,964</u>	<u>-</u>	<u>272,183</u>	<u>133,996,180</u>
Total capital assets being depreciated, net	<u>180,600,511</u>	<u>(9,411,910)</u>	<u>1,201,230</u>	<u>-</u>	<u>172,389,831</u>
Capital assets, net	<u>\$ 267,601,391</u>	<u>\$ (4,142,778)</u>	<u>\$ -</u>	<u>\$ 1,333,892</u>	<u>\$ 262,124,721</u>

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

	Balance January 1, 2010	Additions	Transfers	Disposals	Balance December 31, 2010
Capital assets not being depreciated:					
Land and improvements	\$ 19,580,142	\$ 80	\$ 610,176	\$ -	\$ 20,190,398
Construction in progress	4,517,320	683,037	(2,039,811)	-	3,160,546
Runway, taxiways and aprons - HIA	63,649,334	602	-	-	63,649,936
Total capital assets not being depreciated	<u>87,746,796</u>	<u>683,719</u>	<u>(1,429,635)</u>	<u>-</u>	<u>87,000,880</u>
Capital assets being depreciated:					
Buildings, including parking facility	176,133,360	11,515	-	192,581	175,952,294
Land improvements	10,101,363	-	-	-	10,101,363
Runways, taxiways and aprons	38,637,689	14,449	665,976	-	39,318,114
Utilities and sewers	18,165,051	47,320	451,692	-	18,664,063
Roads and parking areas	22,791,897	157	200,365	5,110	22,987,309
Heavy equipment, furniture and fixtures	24,405,199	-	-	33,635	24,371,564
Vehicles	9,702,956	-	-	-	9,702,956
Facility planning, design and other studies	3,390,750	-	111,602	394,105	3,108,247
Total capital assets being depreciated	<u>303,328,265</u>	<u>73,441</u>	<u>1,429,635</u>	<u>625,431</u>	<u>304,205,910</u>
Less accumulated depreciation for:					
Buildings, including parking facility	49,461,031	4,877,996	-	-	54,339,027
Land improvements	4,305,522	438,409	-	-	4,743,931
Runways, taxiways and aprons - depreciated	10,687,250	1,684,858	-	-	12,372,108
Runways, taxiways and aprons - nondepreciated	8,576,149	-	-	-	8,576,149
Utilities and sewers	5,541,724	557,380	-	-	6,099,104
Roads and parking areas	12,064,569	957,203	-	-	13,021,772
Heavy equipment, furniture and fixtures	13,632,377	1,937,347	-	11,952	15,557,772
Vehicles	6,120,627	479,889	-	-	6,600,516
Facility planning, design and other studies	2,300,903	170,546	-	176,429	2,295,020
Total accumulated depreciation	<u>112,690,152</u>	<u>11,103,628</u>	<u>-</u>	<u>188,381</u>	<u>123,605,399</u>
Total capital assets being depreciated, net	<u>190,638,113</u>	<u>(11,030,187)</u>	<u>1,429,635</u>	<u>437,050</u>	<u>180,600,511</u>
Capital assets, net	<u>\$ 278,384,909</u>	<u>\$ (10,346,468)</u>	<u>\$ -</u>	<u>\$ 437,050</u>	<u>\$ 267,601,391</u>

During 2011 and 2010, construction in progress related to the runway lighting work at Harrisburg International Airport, rehabilitation of a runway and runway lights at Capital City Airport, airfield lighting and navigation system at Franklin County Regional Airport and aircraft parking apron design and obstruction removal at the Gettysburg Regional Airport.

During 2011, SARAA wrote off the \$1,333,892 of design and infrastructure improvement costs associated with the Amtrak Station project. These costs were previously included in construction in progress.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

Note 7: Long-Term Debt

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, 2011 and 2010 comprised the following:

	2011	2010
Senior airport system revenue bonds:		
Series A of 2003. Consists of serial bonds with interest rates from 4.875% to 5.500% and term bonds with a 5.000% interest rate with final maturity in 2028	\$ 55,025,000	\$ 55,025,000
Series B of 2003. Consists of term bonds with an interest rate of 5.000% with final maturity in 2033	48,845,000	48,845,000
Series A of 2008. Consists of term bonds with an interest rate of 6.500% with final maturity in 2038	43,535,000	43,535,000
Series B of 2008. Consists of term bonds with an interest rate of 9.875% with final maturity in 2034	1,280,000	1,280,000
Subordinate airport system revenue bonds:		
Series D of 2003. Consists of term bonds with an interest rate of 5.375% with final maturity in 2018	20,685,000	20,685,000
Series E of 2003. Consists of serial bonds with interest rates from 2.400% to 4.790% with final maturity in 2012	3,130,000	6,205,000
	172,500,000	175,575,000
Current portion of long-term debt	(3,215,000)	(3,075,000)
	\$ 169,285,000	\$ 172,500,000

The purpose of the Series 2003 bonds was to finance a portion of the construction costs of the new terminal building, multimodal transportation facility, terminal loop road, nav aids and runway lighting and parallel taxiway and related work. The bonds were also used to refund prior notes and bonds held by SARAA and to pay the costs of issuance of the 2003 bonds.

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

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

Note Payable

During 2010, SARAA established a note payable with a regional bank in the amount of \$395,000. The interest rate is LIBOR, adjusted daily, plus 4%. The note was paid off on April 9, 2012. This loan was used to finance the payment of an existing Commonwealth of Pennsylvania sales tax liability relating to certain construction work. The outstanding balance of the note payable at December 31, 2011 and 2010 totaled \$35,210 and \$233,074, respectively.

During 2011, SARAA established a note payable with a regional bank in the amount of \$1,000,000. The interest rate is a tax free rate of 70% of the following: LIBOR, adjusted monthly, plus 3%. The purpose of the loan was to finance hardware and software for SARAA's parking operation, the parking revenue control system. It is a construction loan that allowed draws through December 31, 2011. Payments were for interest only for 2011. Thereafter, monthly payments of interest and principal will be made until maturity on January 2, 2017. The outstanding balance of the note payable at December 31, 2011 is \$1,000,000.

During 2011, SARAA entered into a lease-purchase agreement for three Chevrolet/Champion Shuttle Buses to be used in the parking operation. It is a four-year agreement with monthly payments and an interest rate of 4.23%. The outstanding balance of the lease-purchase agreement at December 31, 2011 is \$139,017.

Line of Credit

During 2009, a line of credit of \$4,000,000 was established in anticipation of not receiving certain Airport Improvement Program grants on multi-phased qualifying construction projects. The interest rate was LIBOR plus 2%. These funds were not accessed and the line of credit terminated on May 27, 2010.

Letter of Credit

As allowed by the trust indenture, SARAA replaced part of its required debt service reserve accounts with a letter of credit. The reserve accounts were previously drawn upon to make required debt service payments. The irrevocable standby letter of credit totals \$7,100,000 and is secured from a regional bank, which was enhanced by a national bank. The letter of credit serves as a credit facility as defined in the master trust indentures and is used to meet the funding requirements of the debt service reserve accounts related to the 2003 subordinate bonds. The maturity date of the letter of credit agreement is June 21, 2015.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 are summarized as follows:

Years Ending December 31	Senior Airport System Revenue Bonds		Subordinate Airport System Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2012	\$ -	\$ 8,263,306	\$ 3,215,000	\$ 1,261,745	\$ 12,740,051
2013	-	8,263,306	3,370,000	1,107,250	12,740,556
2014	-	8,263,306	3,550,000	926,112	12,739,418
2015	-	8,263,306	3,745,000	735,300	12,743,606
2016	-	8,263,306	3,945,000	534,006	12,742,312
2017 - 2021	17,175,000	40,120,555	5,990,000	420,593	63,706,148
2022 - 2026	30,065,000	33,639,662	-	-	63,704,662
2027 - 2031	38,435,000	25,282,125	-	-	63,717,125
2032 - 2036	43,360,000	14,505,675	-	-	57,865,675
2037 - 2039	19,650,000	1,936,025	-	-	21,586,025
	<u>\$ 148,685,000</u>	<u>\$ 156,800,572</u>	<u>\$ 23,815,000</u>	<u>\$ 4,985,006</u>	<u>\$ 334,285,578</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 2013 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.

Line of Credit and Letter of Credit

Net revenues plus any PFC receipts and federal letter of intent receipts received by SARAA together with the amounts on deposit in SARAA's coverage account divided by all bond and debt service payments made shall not be less than 100% of the senior and subordinate bonds debt service computed on a rolling four-quarter basis as of the last day of each fiscal quarter. Interest expense on all bond obligations of SARAA shall be calculated at the higher of the benchmark index rate under the indentures or the actual interest rates on the bonds.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements

December 31, 2011 and 2010

Changes in Long-Term Liabilities

	Balance January 1, 2011	Additions	Payments	Balance December 31, 2011	Current Portion
Long-term debt					
Senior revenue bonds	\$ 148,685,000	\$ -	\$ -	\$ 148,685,000	\$ -
Subordinate revenue bonds	26,890,000	-	3,075,000	23,815,000	3,215,000
Total long-term debt	<u>175,575,000</u>	<u>-</u>	<u>3,075,000</u>	<u>172,500,000</u>	<u>3,215,000</u>
Other long-term liabilities					
Note payable	233,074	1,173,225	232,073	1,174,226	277,121
Estimated costs of remediation	450,000	-	-	450,000	-
Deferred revenue	350,220	164,457	287,463	227,214	172,293
Security deposits	21,569	23,800	126	45,243	-
Total long-term liabilities	<u>\$ 176,629,863</u>	<u>\$ 1,361,482</u>	<u>\$ 3,594,662</u>	<u>\$ 174,396,683</u>	<u>\$ 3,664,414</u>

	Balance January 1, 2010	Additions	Payments	Balance December 31, 2010	Current Portion
Long-term debt					
Senior revenue bonds	\$ 148,685,000	\$ -	\$ -	\$ 148,685,000	\$ -
Subordinate revenue bonds	29,840,000	-	2,950,000	26,890,000	3,075,000
Total long-term debt	<u>178,525,000</u>	<u>-</u>	<u>2,950,000</u>	<u>175,575,000</u>	<u>3,075,000</u>
Other long-term liabilities					
Capital leases	37,368	-	37,368	-	-
Sales tax liability - contractor	637,428	-	637,428	-	-
Note payable	-	395,000	161,926	233,074	197,823
Estimated costs of remediation	450,000	-	-	450,000	-
Deferred revenue	362,919	279,627	292,326	350,220	287,463
Security deposits	14,068	11,090	3,589	21,569	-
Total long-term liabilities	<u>\$ 180,026,783</u>	<u>\$ 685,717</u>	<u>\$ 4,082,637</u>	<u>\$ 176,629,863</u>	<u>\$ 3,560,286</u>

Note 8: Special Facility Revenue Bonds

In 1999, SARAA issued \$7,685,000 of special facility revenue bonds (conduit debt obligations) to fund the refinancing of the acquisition and rehabilitation costs of a long-term leasehold interest in two air cargo facilities totaling approximately 75,000 square feet at HIA. The bonds do not constitute a debt or pledge of the faith and credit of SARAA and are, therefore, not reported in the accompanying financial statements.

At December 31, 2011, the special facility revenue bonds outstanding were \$5,495,000.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

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, 2014. 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 follow:

	Airline Agreements	Other Leases	Total
2012	\$ 2,477,732	\$ 3,621,294	\$ 6,099,026
2013	648,387	3,134,522	3,782,909
2014	648,387	2,837,880	3,486,267
2015	-	1,707,779	1,707,779
2016	-	1,334,880	1,334,880
2017 - 2021	-	3,476,542	3,476,542
2022 - 2026	-	3,480,530	3,480,530
2027 - 2031	-	3,091,878	3,091,878
2032 - 2036	-	1,914,288	1,914,288
2037 - 2039	-	7,200	7,200
	\$ 3,774,506	\$ 24,606,793	\$ 28,381,299

SARAA has agreements with seven airlines through 2012. Thereafter, only one airline has an agreement through 2014, with the others having options for 2013 and 2014.

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 \$157,485 in 2011 and \$146,870 in 2010. There are no employee contributions to the Plan.

Susquehanna Area Regional Airport Authority

Notes to Financial Statements December 31, 2011 and 2010

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 2011, and there have been no settlements in excess of the described insurance coverage from 2009 - 2011.

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 \$450,000 for the years ended December 31, 2011 and 2010. 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 and off-airport tenants as potable water.

Note 13: Commitments and Contingencies

SARAA is involved in various legal matters in the normal course of business, including construction claims. Considering available information, management does not believe that resolution of any such matters will have a material impact on the financial statements.

Required Supplementary Information

Susquehanna Area Regional Airport Authority
Required Supplementary Information
Information About Infrastructure Assets Reported
Using the Modified Approach
December 31, 2011 and 2010
(Unaudited)

As allowed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, SARAA has adopted, effective for 2003 and thereafter, an alternative process to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, SARAA expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 6.7 million square feet of airfield pavement at the HIA that SARAA is responsible to maintain. This includes the runway, six taxiways and three ramps. SARAA has not adopted the modified approach for the runway and related infrastructure at CXY, FCRA and GRA. SARAA will continue to depreciate these assets over their estimated useful lives.

The condition of SARAA's pavement is measured using the Pavement Condition Index (PCI) system, which is based on the extent and severity of various pavement distresses that are visually observed. The PCI system uses a measurement scale that is based on a condition index ranging from 0 for very poor pavement to 100 for pavement in very good condition.

It is SARAA's policy to maintain its entire airfield pavement at HIA at a good (61 – 75) or better condition level. Airfield pavement assessments are conducted at least on a triennial basis. The Bureau of Aviation of the Pennsylvania Department of Transportation surveyed all state airports through a contractor. They completed their inspection in 2009. This has been revised with subsequent observations by Airport personnel who have been trained to do interim inspections. Random inspections are currently done regularly on an as needed basis and in conjunction with major pavement rehabilitation projects. The 2011 PCI ratings are presented below compared to the prior two ratings.

Pavement Condition Index (PCI) Ratings Scale

Very good	76 to 100
Good	61 to 75
Fair	51 to 60
Poor	26 to 50
Very poor	0 to 25

HIA Airfield Pavement PCI Ratings

	2009	2010	2011
Runway #13-31	72	74	74
Taxiway - Main	81	69	69
Taxiways - Connector - 5	78	88	88
Ramps - 3	88	86	93
Overall score	80	79	81

Susquehanna Area Regional Airport Authority
Required Supplementary Information (Continued)
Information About Infrastructure Assets Reported
Using the Modified Approach
December 31, 2011 and 2010
(Unaudited)

Actual Airfield Pavement Maintenance/Preservation Costs

2011	\$	2,316
2010		4,487
2009		387,629
2008		4,989
2007		14,353

For the years ended December 31, 2011 and 2010, SARAA was awarded grants to reimburse the costs of airfield pavement maintenance and preservation in the amounts of \$310,906 and \$3,512,587, respectively. The grants will be used for rehabilitation of the main taxiway and cargo apron. The costs will be recorded in 2012 as the rehabilitations are completed.

Supplementary Information

Susquehanna Area Regional Airport Authority
Schedule of Capital and Noncapital Revenues and Expenses
December 31, 2011 and 2010

	2011	2010
Noncapital Related Revenues		
Facilities revenue	\$ 8,135,341	\$ 7,445,081
Parking fees	7,264,273	7,474,433
Vehicle rental fees and customer facility charges	3,864,889	3,448,688
Landing fees	4,012,290	3,919,669
Apron and gate use fees	1,147,442	1,148,661
Concession fees	387,380	373,740
Fuel flowage and other commissions	419,775	424,432
Other income	722,506	674,815
Investment income	5,961	43,601
Total noncapital related revenues	25,959,857	24,953,120
Noncapital Related Expenses Net of Operating Grant Revenue		
Salaries, wages, payroll taxes and benefits	5,645,582	5,361,555
Professional and consulting fees	489,967	329,122
Marketing	641,181	671,188
Insurance	471,634	412,225
Utilities	1,765,416	1,821,551
Parking facility	2,273,746	2,229,195
Repairs and maintenance	1,312,489	1,342,629
Supplies, parts and other	1,591,697	1,192,595
Operating grant revenue	(111,004)	(304,069)
Total noncapital related expenses net of operating grant revenue	14,080,708	13,055,991
Excess of Noncapital Related Revenues Over Noncapital Related Expenses	11,879,149	11,897,129
Capital Related Revenues (Expenses)		
Restricted investment income	33,488	179,268
Passenger facility charges	2,606,096	2,746,556
Noise relocation project disbursements	(1,260,701)	(1,540,117)
Noise relocation project grants	1,229,109	939,663
Federal, state and local grants	4,379,848	1,482,833
Lessee financed improvements	975,628	-
Depreciation	(10,662,964)	(11,103,628)
Interest expense	(10,156,419)	(10,289,085)
Loss on disposals of capital assets and other	(1,320,817)	(12,503)
Deficit capital related revenues under capital related expenses	(14,176,732)	(17,597,013)
Decrease in Net Assets	(2,297,583)	(5,699,884)
Net Assets, Beginning of Year	117,096,497	122,796,381
Net Assets, End of Year	\$ 114,798,914	\$ 117,096,497

