Susquehanna Area Regional Airport Authority

Auditor's Report and Financial Statements

December 31, 2012

Susquehanna Area Regional Airport Authority

December 31, 2012

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Susquehanna Area Regional Airport Authority
Middletown, Pennsylvania

We have audited the accompanying basic financial statements, which are comprised of a balance sheet as of December 31, 2012, and statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, as listed in the table of contents, of Susquehanna Area Regional Airport Authority (SARAA).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Susquehanna Area Regional Airport Authority as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective January 1, 2012, SARAA changed its accounting method for certain infrastructure assets from the modified approach to depreciating said assets. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Supplementary Information

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

BKD, LLP

Indianapolis, Indiana
April 19, 2013

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis
December 31, 2012
(Unaudited)

Management's Discussion & Analysis (MD&A) of the financial performance and activity of the Susquehanna Area Regional Airport Authority (SARAA) is to provide the reader with an introduction to SARAA's basic financial statements as of and for the year ended December 31, 2012. 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; each of the two townships appoints one board member. The board members cannot be recalled during their term. After their term expires, they continue to serve until their sponsoring county, city or township replaces them or until they resign.

SARAA owns and operates four airports: 1) Harrisburg International Airport (HIA), primarily located in Lower Swatara Township, Dauphin County, Pennsylvania 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 January to November 2012 U.S. total domestic revenue passenger enplanements increased slightly, up 0.7 percent, in 2012 compared to 2011. 2012 domestic capacity, measured by available seat-miles, increased even less, up by just 0.3 percent.

In January 2013, BTS reported that 3rd quarter 2012 domestic air fares, the most recent quarter for which data is available, rose to an average of $367—an increase of 1.8 percent compared to $361 in the third quarter of 2011. Not adjusted for inflation, the $367 third-quarter 2012 average fare is the fifth-highest average fare for any quarter since BTS began collecting air fare records in 1995.

The industry trade group Airlines for America reported that while U.S. airlines delivered one of their best years ever for operational performance, the 10 largest U.S. passenger airlines reported a narrow net profit of $152 million in 2012, about 0.1 percent of total revenues. 2012's results represented a 64% decline from the $418 million earned by these same airlines in 2011. 2012 total airline operating revenue grew 4.5 percent but expenses increased 4.7 percent. Fuel costs increased 5.9 percent compared with 2011. Fuel remained the industry's largest cost at $50 billion or approximately 36 percent of total operating expenses, an all-time annual high. 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 2012 performance can be provided.

At HIA, there were 658,034 total enplaned passengers in 2012 representing an increase of 1.1 percent compared to 2011. American (+4.9 percent), Delta (+2.1 percent) and Air Canada (+0.7 percent) all posted increases in traffic while AirTran (-31.2 percent), United (-3.3 percent) and US Airways (-2.6 percent) posted decreases in year-over-year traffic.

The major change at HIA in 2012 was loss of AirTran Airways and the addition of both Frontier Airlines and Allegiant. In January 2012, resulting from its purchase and merger with AirTran, Southwest Airlines announced they would end AirTran's popular nonstop service to Orlando in August 2012. In February, Frontier announced new summer seasonal three times a week service to Denver and year round service to Orlando between three and five times a week. Frontier initiated both new routes in May.

In November, Allegiant began nonstop service between two and four times a week to Orlando Sanford International Airport and two times a week service to St. Petersburg Clearwater International Airport.

Combined, the addition of new Frontier and Allegiant passengers generated a net increase of 27,112 passengers. Frontier and Allegiant added 58,864 and AirTran had 31,752 less passengers than their full year of 2011.

Total 2012 departing seat capacity at HIA decreased by 2.6 percent compared to 2011. Frontier (+100.0 percent), Allegiant (+100.0 percent), Air Canada (+11.9 percent), Delta (+4.8 percent) and American (+2.9 percent) all increased capacity, while AirTran (-35.1 percent), US Airways (-11.0 percent) and United/Continental Express (-6.0 percent) reduced seat capacity in 2012. 2012's increased traffic and reduced seat capacity generated an overall departing passenger load factor of 78.2 percent—an increase of 2.9 points over 2011 and the second highest yearly average in the airport's history. HIA's average one way fare increased 7.8 percent to an average of $289.

There were 51,435 tons of cargo flown into and out of Harrisburg International Airport in 2012 representing a 5.4 percent decrease compared to 2011. Federal Express posted the largest decline in tonnage (-9.6 percent) as fuel costs and a slight change in shipping strategies to closer destinations saw a slight shift to more trucked cargo than in 2012. Also, other cargo (-26.1 percent) declined significantly as the Susquehanna River Valley region was hit with severe flooding in September 2011. Flood recovery efforts generated a number of special charter cargo operations.

Beginning January 1, 2012, the Federal Aviation Administration (FAA) revised how they count certain aircraft operations at and around the airport. As a result, the FAA reported a total of 56,405 airport operations (-31.1 percent) at Harrisburg in 2012.

The following table shows the 2012 percentage fluctuation from 2011 for change in seats, change in total passengers and passenger market share:

	Change in Seats	Change in Passengers	Market Share
US Airways	-11.0%	-2.6%	29.0%
United Airlines	-6.0%	-3.3%	28.7%
Delta Air Lines	4.8%	2.1%	25.3%
American Eagle	2.9%	4.9%	6.4%
AirTran Airways	-35.1%	-31.2%	5.3%
Frontier	100.0%	100.0%	3.8%
Air Canada	11.9%	0.7%	0.7%
Allegiant	100.0%	100.0%	0.8%
Total Passenger Airlines	-2.6%	1.1%	100.0%

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

	2012	2011	% Change
Enplanements	658,034	650,714	1.1%
Air carrier operations	38,859	41,382	-6.1%
Landed weight (passenger airlines only)	779,990,734	798,739,878	-2.3%
Cargo tons	51,435	54,344	-5.4%
Parking revenue	7,478,604	7,264,273	3.0%

Financial Highlights

After a good year in 2011 and a very successful year in 2010, SARAA presented a budget for 2012 that was cautious with only 642,000 enplanements planned since much uncertainty existed about the fate of AirTran Airways service at HIA. No major fees were changed, but water and sewer fees were raised to meet the systems' expenses. An unusually mild winter and the replacement of AirTran's Florida air service produced a much better than expected year as Net Operating Revenue (excluding depreciation) was 10.5% ahead of the budgeted expectations.

- Operating revenues were 1.8% better than 2011 and ended 2.5% better than the budget.
- Operating expenses (excluding depreciation) were slightly less than 2011 and ended 3.5% better than the budget.
- The accounting policy about depreciation of HIA's airfield pavement was changed from the modified approach to regular depreciation. The catch-up depreciation causes the large one-time increase in that expense item. (See Significant Variances below.)
- Over three hundred thousand dollars were added to SARAA's managed liquid reserves.
- Three notes were paid off early with the surplus cash generated during the year.
- The required bond coverage ratios were met and improved from 2011.
- All monthly debt service payments required by the bond trustee were made.
- At the end of the year, the 2003 Bonds were refunded with the 2012 Bond issue at a significant savings with 100% cash funding of all the Debt Service Reserve Funds.

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 a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. Comparative financial statements with fiscal year 2011 were not presented as the effect of the change in accounting policy related to depreciation makes the statements not readily comparable. 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 position of SARAA is comprised of these categories:

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

2012 to 2011 Comparison of Statements of Revenues, Expenses and Changes in Net Position

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

The change in net position for the year ended December 31, 2012 was $(14.3) million. The comparative analysis below is a summary of the Statement of Revenues, Expenses and Changes in Net Position for 2012.

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. See the depreciation discussion below under Significant Variances to explain the exceedingly large depreciation change.

	2012	2011	Dollar Change	Percent Change
Operating Revenues				
Facilities revenue	$ 8,373,959	$ 8,135,341	$ 238,618	2.9%
Parking fees	7,478,604	7,264,273	214,331	3.0%
Vehicle rental fees and customer facility charges	3,913,506	3,864,889	48,617	1.3%
Landing fees	3,817,480	4,012,290	(194,810)	-4.9%
Apron and gate use fees	1,133,215	1,147,442	(14,227)	-1.2%
Concession fees	402,173	387,380	14,793	3.8%
Fuel flowage and other commissions	416,213	419,775	(3,562)	-0.8%
Other income	990,273	833,510	156,763	18.8%
Total operating revenues	26,525,423	26,064,900	460,523	1.8%
Operating Expenses				
Salaries, wages, payroll taxes and benefits	5,749,595	5,645,582	104,013	1.8%
Professional and consulting fees	260,508	489,967	(229,459)	-46.8%
Marketing	813,194	641,181	172,013	26.8%
Insurance	497,379	471,634	25,745	5.5%
Utilities	1,763,691	1,765,416	(1,725)	-0.1%
Parking facility	2,240,050	2,273,746	(33,696)	-1.5%
Repairs and maintenance	1,362,227	1,312,489	49,738	3.8%
Supplies, parts and other	1,496,315	1,591,697	(95,382)	-6.0%
Depreciation	23,489,522	10,662,964	12,826,558	120.3%
Total operating expenses	37,672,481	24,854,676	12,817,805	51.6%
Income (Loss) From Operations	(11,147,058)	1,210,224	(12,357,282)	-1021.1%
Nonoperating Expenses Net of Revenues	(7,271,673)	(8,863,283)	1,591,610	-18.0%
Capital Contributions and Grants	4,085,760	5,355,476	(1,269,716)	-23.7%
Decrease in Net Position	(14,332,971)	(2,297,583)	(12,035,388)	523.8%
Net Position, Beginning of Year	114,798,914	117,096,497	(2,297,583)	-2.0%
Net Position, End of Year	$ 100,465,943	$ 114,798,914	$ (14,332,971)	-12.5%

Significant Variances for 2012 to 2011

Operating Revenues: Properties at CXY and FCRA reverted to SARAA in 2011 and increased rentals as these buildings could now be rented along with the land. Vacant lands owned by SARAA adjacent to HIA were rented to non-aviation tenants. Passenger parking in the Long Term/Economy lot increased 5.5%. Landing fees declined as AirTran ceased service in August 2012 and US Airways and United decreased their landed weight compared to the previous year. Other income increased as water and sewer rates to tenants increased to meet the cost of providing the utility service. For the first time, the US Immigration and Customs Enforcement (ICE) agency shared a portion of two property seizures with the HIA Police Department, the proceeds of which were used to purchase a new police vehicle.

Operating Expenses (other than depreciation): The extremely mild winter saved an excess of $350,000 (combined) in five different expense accounts. That savings was spent later in the year as we accelerated other operating and maintenance expense into 2012, thus the savings are not readily apparent in the year end expense totals. In 2011, legal fees drove up professional fees as a claim was pursued against the TSA for grant monies for construction of the terminal building. The obligation to these attorneys were capped so there was no expense in 2012. With the departure of AirTran Airways, increased marketing expense was necessary to introduce two new airlines, Frontier & Allegiant to our service market.

Depreciation: Effective January 1, 2012, SARAA changed its method of accounting for the HIA airfield pavement that was previously accounted for under the modified approach and began depreciating those assets. The current method of depreciating all runways, taxiways and ramps at HIA provides a consistent approach for accounting for all SARAA's assets, as well as provides consistency with industry standards.

This change in accounting method resulted in SARAA recording approximately $13 million of depreciation expense on assets previously accounted for under the modified approach. Furthermore, SARAA capitalized approximately $3.9 million of improvements during 2012 that would have otherwise been expensed in accordance with the modified approach.

It is projected with the current capital assets, the annual depreciation will be $14.7 million for 2013.

Nonoperating Revenues (Expenses): A loss on disposal was recorded for design work for a train station on the rail line adjacent to HIA that was written off in 2011 for $1.3 million. The money was spent originally in 2002 to 2005. No comparable item was recorded in 2012.

Capital Contributions and Grants: The amounts recorded vary year-to-year with the level of construction activity at SARAA's four airports. When there is more construction, there are more grant dollars reimbursing those costs.

Balance Sheet Summary

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

	2012	2011
Assets		
Current assets	$ 14,164,262	$ 13,554,621
Noncurrent restricted cash and investments	15,058,904	13,156,672
Capital assets, net	244,279,384	262,124,721
Other assets	2,438,575	6,590,923
Total assets	$ 275,941,125	$ 295,426,937
Liabilities		
Current liabilities	$ 10,724,594	$ 9,895,754
Long-term liabilities	164,750,588	170,732,269
Total liabilities	175,475,182	180,628,023
Net Position		
Net investment in capital assets	89,696,742	104,589,426
Restricted	6,488,476	6,466,878
Unrestricted	4,280,725	3,742,610
Total net position	100,465,943	114,798,914
Total liabilities and net position	$ 275,941,125	$ 295,426,937

Balance Sheet Discussion - 2012 vs. 2011

Current assets: Overall, current assets increased, but in evaluating the individual elements, the increases outweighed the declines. The cash balance declined from 2011 year end, however, last year-end cash was inflated but restricted by the terms of a bank loan. Accounts receivable was reduced to more normal year-end balance as collections were better. Grants receivable had a larger balance than normal as there was active construction at year end. Investments increased as reserves increased to a healthier level to withstand unforeseen financial storms.

Noncurrent cash and investments: The debt service reserve funds are all cash funded now. The 2012 Bonds that refunded the 2003 Bonds fully funded the reserve. This accounts for the increase this year. All other balances remained constant or increased slightly. Prior to the 2012 Bond issuance, some of the reserves were funded with an irrevocable letter of credit.

Capital assets, net of accumulated depreciation, decreased as annual depreciation expense exceeded new capital projects added during the year. In 2012, this effect was much more severe than normal as noted in depreciation discussed on the previous page due to the change in accounting method.

Other assets: Other assets decreased by almost two thirds. This is the result of the 2012 Bond refunding. When the 2003 Bonds were issued, a large amount was paid for bond insurance. It was being amortized over the life of the bonds. As the bonds were refunded, the remaining balance of this bond issuance cost was reclassified as deferred loss on refunding. Please see Note 7 to see how this loss offsets the 2012 bond debt.

Long-term liabilities decreased as the bond obligations were restructured and the regular annual debt service principal shifted to current liabilities. Three notes were paid off early during 2012 removing $895,605 of long-term debt.

Net assets serve as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by $100 million at December 31, 2012. This is a decrease from the prior year as depreciation decreases capital assets at a greater rate than we can invest in new capital assets. This is especially true in a year when much more depreciation was recorded than normal due to the accounting change.

The largest component of SARAA's net position (89% as of December 31, 2012) is invested in capital assets (e.g., land, infrastructure, buildings, improvements and equipment), net of the related debt outstanding used to acquire those capital assets. Although SARAA's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided annually from operations since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

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

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

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

Cash and Investment Management

	2012	2011
Cash and cash equivalents	$ 400,118	$ 720,312
Maintenance and operations reserve	2,443,671	2,408,562
Renewal and replacement reserve	504,889	501,209
Coverage account	1,420,995	1,435,691
Capital improvement account	801,542	501,160
	$ 5,571,215	$ 5,566,934

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 calculating the bond covenant. 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:

	2012	2011
Debt service funds	$ 8,064,855	$ 7,977,526
Debt service reserve funds	12,047,242	10,177,991
	$ 20,112,097	$ 18,155,517

The trustee, Manufacturers Traders and Trust Co., holds the above funds. They are invested under direction of SARAA according to Section 4.07(h) in the First Supplemental Trust Indenture with respect to SARAA's 2003A and 2003B Bonds. Permitted investments are defined in the Senior Master Indenture and in the Fourth Supplemental Trust Indenture.

With the issuance of the 2012 Bonds, SARAA terminated an irrevocable letter of credit. Prior to its termination, SARAA replaced $7,100,000 of the Debt Service Reserve Funds with an irrevocable letter of credit. It is not included in the balances above.

Capital Asset Activity

The following are projects underway or completed in 2012:

- Taxiway rehabilitation at HIA
- Cargo apron rehabilitation at HIA
- Parking revenue control system at HIA
- Maintenance radio system replacement at HIA
- Three new emergency vehicles, and a bucket truck at HIA
- Guidance system installation at FCRA
- South parking apron under design at GRA
- Runway 8-26 rehabilitation at CXY
- Runway lights rehabilitation underway at CXY

Cash paid for capital projects was $4.4 million. SARAA received $3.3 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 purchased in the borough of Middletown and the houses were demolished or scheduled to be demolished. The tenants of rental properties were relocated. The Noise Relocation Project includes expenditures for survey, evaluation, appraisal, property acquisition, demolition and relocation expenditures under a program approved by the Federal Aviation Administration (FAA). Should this land be sold, proceeds will revert to the FAA. Therefore, expenditures are recorded on the Statements of Revenues, Expenses and Changes in Net Position as nonoperating expenses. Related FAA grants are recorded as nonoperating revenues.

Long-Term Debt

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

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

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

The following debts were paid off early in 2012:

- Unsecured bank debt issued in 2011 for a replacement of the parking revenue control system
- A secured capital lease issued in 2011 for three parking shuttle buses at HIA
- A secured capital lease issued in 2012 to replace the maintenance radio system at HIA

Debt service coverage covenants must be maintained at 125% of Senior debt service and 110% 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.

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 the 2011 report or requests for additional information should be addressed in writing to the Deputy Director, Finance & Administration, Harrisburg International Airport, One Terminal Drive, Suite 300, Middletown, PA 17057 or via SARAA's website www.flyhia.com.

Susquehanna Area Regional Airport Authority
Balance Sheet
December 31, 2012

Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 400,118	
Accounts receivable, net of allowance of $70,000	1,016,973	
Grants receivable	1,260,155	
Prepaids and other assets	134,545	
Inventory	737,518	
Investments	2,222,537	
Total unrestricted current assets		$ 5,771,846
Restricted Assets		
Cash and investments	8,147,005	
Passenger facility charge receivables	245,411	
Total restricted current assets		8,392,416
Total current assets		14,164,262
Noncurrent Assets		
Cash and investments, restricted	15,058,904	
Bond issue costs and other	2,438,575	
Capital assets		
Nondepreciable capital assets	25,210,066	
Depreciable capital assets	219,069,318	
Net capital assets	244,279,384	
Total noncurrent assets		261,776,863
Total assets		$ 275,941,125

Liabilities and Net Position

Current Liabilities		
Accounts payable	$ 713,360	
Accounts payable - construction	1,098,443	
Accrued interest payable	4,852,500	
Accrued expenses	530,075	
Unearned revenue	160,216	
Current portion of long-term debt	3,370,000	
Total current liabilities		$ 10,724,594
Noncurrent Liabilities		
Estimated costs of remediation	850,000	
Deferred revenue	47,085	
Bond and other deposits	40,385	
Long-term debt, less current portion	163,813,118	
Total noncurrent liabilities		164,750,588
Total liabilities		175,475,182
Net Position		
Net investment in capital assets	89,696,742	
Restricted	6,488,476	
Unrestricted	4,280,725	
Total net position		100,465,943
Total liabilities and net position		$ 275,941,125

Susquehanna Area Regional Airport Authority

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

Operating Revenues		
Facilities revenue	$ 8,373,959	
Parking fees	7,478,604	
Vehicle rental fees and customer facility charges	3,913,506	
Landing fees	3,817,480	
Apron and gate use fees	1,133,215	
Concession fees	402,173	
Fuel flowage and other commissions	416,213	
Other income	990,273	
Total operating revenues		$ 26,525,423
Operating Expenses		
Salaries, wages, payroll taxes and benefits	5,749,595	
Professional and consulting fees	260,508	
Marketing	813,194	
Insurance	497,379	
Utilities	1,763,691	
Parking facility	2,240,050	
Repairs and maintenance	1,362,227	
Supplies, parts and other	1,496,315	
Depreciation	23,489,522	
Total operating expenses		37,672,481
Loss From Operations		(11,147,058)
Nonoperating Revenues (Expenses)		
Passenger facility charges	2,623,502	
Noise relocation project disbursements	(395,538)	
Noise relocation project grants	383,888	
Investment income	140,895	
Interest expense	(10,028,482)	
Gain on disposal of capital assets	4,062	
Total nonoperating expenses		(7,271,673)
Decrease in Net Position Before Capital Contributions and Grants		(18,418,731)
Capital Contributions and Grants		
Federal, state and local grants		4,085,760
Decrease in Net Position		(14,332,971)
Net Position, Beginning of Year		114,798,914
Net Position, End of Year		$ 100,465,943

Susquehanna Area Regional Airport Authority

Statement of Cash Flows
Year Ended December 31, 2012

Cash Flows From Operating Activities		
Cash received from customers	$ 26,817,431	
Cash paid to employees for services	(5,692,805)	
Cash paid to suppliers for goods and services	(8,435,378)	
Net cash provided by operating activities		$ 12,689,248
Cash Flows From Noncapital Financing Activities		
Noise relocation grants received	339,003	
Noise relocation project costs	(425,607)	
Net cash used in noncapital financing activities		(86,604)
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of bonds	124,099,812	
Bonds refunded	(121,100,000)	
Bond issue costs paid	(1,034,422)	
Principal paid on long-term debt	(4,215,000)	
Interest paid	(9,845,185)	
Net principal payment on loans	(365,873)	
Proceeds from note payable, net of issuance costs	170,652	
Passenger facility charges received	2,599,370	
Acquisition and construction of capital assets	(4,394,782)	
Proceeds from sale of capital assets	4,062	
Capital grants received	3,241,447	
Net cash used in capital and related financing activities		(10,839,919)
Cash Flows From Investing Activities		
Investment income	112,523	
Purchase of investment securities	(26,544,744)	
Proceeds from sales of investment securities	24,349,302	
Net cash used in investing activities		(2,082,919)
Net Decrease in Cash and Cash Equivalents		(320,194)
Cash and Cash Equivalents, Beginning of Year		720,312
Cash and Cash Equivalents, End of Year		$ 400,118

Susquehanna Area Regional Airport Authority
Statement of Cash Flows (Continued)
Year Ended December 31, 2012

Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities	
Loss from operations	$ (11,147,058)
Item not requiring cash	
Depreciation of capital assets	23,489,522
Change in assets and liabilities	
Accounts receivable	311,917
Inventory	(61,094)
Prepaids and other assets	54,258
Deferred revenue	(19,914)
Bond and other deposits	(4,858)
Accounts payable and accrued expenses	66,475
Net cash provided by operating activities	$ 12,689,248
Noncash Capital and Related Financing Activities	
Capital assets included in accounts payable at end of year	$ 1,098,443

Note 1: Reporting Entity

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

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

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Measurement Focus

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

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

Investments

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

Inventories

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

Restricted Assets

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

Capital Assets

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

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

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

Prior to 2012, SARAA used the modified approach to report the runway, six taxiways and three ramps at HIA. Under this approach, SARAA did not record depreciation expense. In addition, amounts expended in connection with improvements to those assets were not capitalized unless the improvements expand the capacity or efficiency of the asset. Utilization of this approach required 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 was 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.

Effective January 1, 2012, SARAA changed its method of accounting for the infrastructure assets described in the preceding paragraph and began depreciating those assets. The current method of depreciating all runways, taxiways and ramps provides a consistent approach for accounting for all SARAA's capital assets, as well as provides consistency with industry standards.

This change in accounting method resulted in SARAA recording approximately $13 million of depreciation expense in 2012 on assets previously accounted for under the modified approach. Furthermore, SARAA capitalized approximately $3.9 million of improvements during 2012 that would have otherwise been expensed in accordance with the modified approach.

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 the year ended December 31, 2012 amounted to $521,624.

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 Position

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

Federal and State Grants

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

Rental Income

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

Operating Versus Nonoperating and Net 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, navaids and runway lighting and parallel taxiway and related work. From 2009 to 2012, 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. From 2013 to 2018, PFCs associated with the first $4.50 per eligible passenger are to be deposited monthly to pay debt service on the 2008A and 2008B bonds up to their maximum annual debt service and, thereafter, are to be deposited monthly to pay debt service on the 2012A and 2012B bonds up to their maximum annual debt service.

SARAA's PFCs are recognized as earned as nonoperating revenues and amounted to $2,623,502 for 2012.

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 $1,872,400 for 2012, and is included in operating revenues on the statement of revenues, expenses and change in net position.

Note 3: Major Customers

Major customers of SARAA represent the following percentages in SARAA operating revenues and passengers for the year ended December 31, 2012:

	Revenues	Number of Passengers
U.S. Airways	14%	29%
United Airlines	12%	29%
Delta Airlines	12%	25%

Note 4: Cash and Investments

The fair values of deposits and investment securities by type of investment as of December 31, 2012 are:

	Operating Cash and Cash Equivalents	Restricted Cash and Investments	Unrestricted Investments	Total
Money market/cash	$ 400,118	$ 2,013,333	$ 2,222,537	$ 4,635,988
Certificates of deposit	-	1,017,379	-	1,017,379
Money market trusts	-	16,330,444	-	16,330,444
Municipal obligations	-	3,781,651	-	3,781,651
Accrued investment income	-	63,102	-	63,102
	$ 400,118	$ 23,205,909	$ 2,222,537	$ 25,828,564

Deposits

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

At December 31, 2012, the carrying value and the bank balances of SARAA's deposits were as follows:

	2012	
	Book Balance	Bank Balance
Money market/cash	$ 4,635,988	$ 4,754,269
Certificates of deposit	1,017,379	1,017,379

Of the bank balances in 2012, $3,037,465 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.

SARAA had the following investments and maturities as of December 31, 2012:

	2012		
	Carrying Value	Investment Maturity (in years) Less than 1	1 to 5
Certificates of deposit	$ 1,017,379	$ 772,379	$ 245,000
Mutual funds - Pennsylvania Local Government Investment Trust	2,547,127	2,547,127	-
Treasury obligations	13,783,317	13,783,317	-
Municipal obligations	3,781,651	1,754,580	2,027,071
Accrued investment income	63,102	63,102	-
	$ 21,192,576	$ 18,920,505	$ 2,272,071

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. 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.

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, 2012, 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 treasury obligations are not collateralized. The U.S. Government 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 $735,000 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, 2012, SARAA had the following concentration in its investment portfolio:

	Percentage of Investment Portfolio
Certificates of deposit	5%
Mutual funds - Pennsylvania Local Government Investment Trust	12%
Treasury obligations	65%
Municipal obligations	18%

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, 2012

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 as of December 31, 2012 is as follows:

Maintenance and operating reserve account	$ 2,443,671
Renewal and replacement account	504,889
Passenger facility charges	82,150
Debt service settlement account	9,577
Debt service reserve	12,047,242
Debt service fund	8,055,278
Total	23,142,807
Accrued income	63,102
Total restricted investments	23,205,909
Less current portion	(8,147,005)
Noncurrent portion	$ 15,058,904

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, 2012. 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.

Capital improvement account	$ 801,542
Coverage account	1,420,995
	$ 2,222,537

Susquehanna Area Regional Airport Authority
Notes to Financial Statements
December 31, 2012

Note 6: Capital Assets

Capital assets consist of the following:

	Balance January 1, 2012	Additions	Transfers	Disposals	Balance December 31, 2012
Capital assets not being depreciated:					
Land and improvements	$ 20,191,833	$ 400,000	$ -	$ -	$ 20,591,833
Construction in progress	5,877,467	5,301,667	(6,530,601)	(30,300)	4,618,233
Total capital assets not being depreciated	26,069,300	5,701,667	(6,530,601)	(30,300)	25,210,066
Capital assets being depreciated:					
Buildings, including parking facility	177,201,270	-	18,308	-	177,219,578
Land improvements	10,101,363	-	-	-	10,101,363
Runways, taxiways and aprons	103,874,369	319	4,823,928	-	108,698,616
Utilities and sewers	18,664,063	-	-	-	18,664,063
Roads and parking areas	22,990,945	-	-	-	22,990,945
Heavy equipment, furniture and fixtures	24,484,953	-	1,281,400	-	25,766,353
Vehicles	9,626,391	-	261,920	(14,887)	9,873,424
Facility planning, design and other studies	3,108,247	-	145,045	(27,500)	3,225,792
Total capital assets being depreciated	370,051,601	319	6,530,601	(42,387)	376,540,134
Less accumulated depreciation for:					
Buildings, including parking facility	59,150,346	4,789,117	-	-	63,939,463
Land improvements	5,183,166	438,843	-	-	5,622,009
Runways, taxiways and aprons	22,625,050	14,763,495	-	-	37,388,545
Utilities and sewers	6,651,375	553,764	-	-	7,205,139
Roads and parking areas	13,974,915	952,691	-	-	14,927,606
Heavy equipment, furniture and fixtures	17,211,871	1,417,286	-	-	18,629,157
Vehicles	6,821,456	487,468	-	(14,886)	7,294,038
Facility planning, design and other studies	2,378,001	86,858	-	-	2,464,859
Total accumulated depreciation	133,996,180	23,489,522	-	(14,886)	157,470,816
Total capital assets being depreciated, net	236,055,421	(23,489,203)	6,530,601	(27,501)	219,069,318
Capital assets, net	$ 262,124,721	$ (17,787,536)	$ -	$ (57,801)	$ 244,279,384

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, 2012 comprised the following:

Senior airport system revenue bonds:	
Series A of 2008. Consists of term bonds with an interest rate of 6.500% with final maturity in 2038	$ 43,535,000
Series B of 2008. Consists of term bonds with an interest rate of 9.875% with final maturity in 2034	1,280,000
Series A of 2012. Consists of serial bonds with an interest rate of 5.000% and term bonds with a 5.000% interest rate with final maturity in 2027	53,375,000
Unamortized bond premium	5,587,325
Deferred loss on refunding	(2,195,130)
Total Series A of 2012	56,767,195
Series B of 2012. Consists of term bonds with an interest rate of 4.000% with final maturity in 2033	49,520,000
Unamortized bond discount	(671,802)
Deferred loss on refunding	(2,683,249)
Total Series B of 2012	46,164,949
Subordinate airport system revenue bonds:	
Series D of 2003. Consists of serial bonds with interest rates from 2.400% to 4.790% with final maturity in 2013	3,370,000
Series C of 2012. Consists of term bonds with an interest rate of 3.000% with final maturity in 2017	16,090,000
Unamortized bond premium	180,773
Deferred loss on refunding	(204,799)
Total Series C of 2012	16,065,974
	167,183,118
Current portion of long-term debt	(3,370,000)
	$ 163,813,118

In December 2012, SARAA issued the 2012A, 2012B and 2012C Revenue Bonds (Series 2012 Bonds) in the amounts of $53,375,000, $49,520,000 and $16,090,000, respectively. The Series 2012 Bonds were issued as a current refunding of all of SARAA's then outstanding 2003A, 2003B, and 2003D Revenue Bonds. The Series 2012 Bonds were issued at a net premium of $5,114,811 and resulted in deferred loss on refunding of $5,097,213. The economic gain that resulted from the refunding was approximately $5.4 million. As a result of the bond issue, all debt service reserve funds are cash funded and the letter of credit was terminated.

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, navaids 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.

Letter of Credit

In conjunction with the issuance of the 2012 Bonds, the Letter of Credit held by SARAA was terminated as it was no longer needed to meet the debt service reserve requirements.

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, 2012 are summarized as follows:

Years Ending	Senior Airport System Revenue Bonds		Subordinate Airport System Revenue Bonds		
December 31	Principal	Interest	Principal	Interest	Total
2013	$ -	$ 7,605,725	$ 3,370,000	$ 482,700	$ 11,458,425
2014	-	7,605,725	3,775,000	369,450	11,750,175
2015	-	7,605,725	3,985,000	249,900	11,840,625
2016	-	7,605,725	4,105,000	126,750	11,837,475
2017	4,405,000	7,605,725	4,225,000	-	16,235,725
2018 - 2022	25,560,000	34,495,375	-	-	60,055,375
2023 - 2027	32,610,000	27,454,025	-	-	60,064,025
2028 - 2032	40,320,000	19,745,675	-	-	60,065,675
2033 - 2037	44,815,000	9,153,600	-	-	53,968,600
	$ 147,710,000	$ 128,877,300	$ 19,460,000	$ 1,228,800	$ 297,276,100

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.

Changes in Long-Term Liabilities

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012	Current Portion
Long-term debt					
Senior revenue bonds	$ 148,685,000	$ 102,895,000	$ 103,870,000	$ 147,710,000	$ -
Subordinate revenue bonds	23,815,000	16,090,000	20,445,000	19,460,000	3,370,000
Bond premium/(discount), net	-	5,114,811	18,515	5,096,296	-
Deferred loss on refunding	-	(5,097,213)	(14,035)	(5,083,178)	-
Total long-term debt	172,500,000	119,002,598	124,319,480	167,183,118	3,370,000
Other long-term liabilities					
Note payable	1,174,226	-	1,174,226	-	-
Estimated costs of remediation	450,000	400,000	-	850,000	-
Deferred revenue	227,214	-	19,913	207,301	160,216
Security deposits	45,243	3,669	8,527	40,385	-
Total long-term liabilities	$ 174,396,683	$ 119,406,267	$ 125,522,146	$ 168,280,804	$ 3,530,216

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.

During 2012, the special outstanding facility revenue bonds were fully redeemed.

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
2013	$ 2,501,269	$ 3,342,223	$ 5,843,492
2014	648,387	3,049,654	3,698,041
2015	-	888,720	888,720
2016	-	815,177	815,177
2017	-	643,719	643,719
2018 - 2022	-	2,718,559	2,718,559
2023 - 2027	-	2,264,423	2,264,423
2028 - 2032	-	1,906,810	1,906,810
2033 - 2037	-	1,166,148	1,166,148
2038 - 2042	-	367,245	367,245
	$ 3,149,656	$ 17,162,678	$ 20,312,334

SARAA has agreements with seven airlines through 2013. Thereafter, only one airline has an agreement through 2014, with the others having options for 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 $159,445 in 2012. There are no employee contributions to the Plan.

Note 11: Risk Management

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

There was no significant reduction of coverage in 2012, and there have been no settlements in excess of the described insurance coverage from 2009 - 2012.

Note 12: Pollution Remediation Obligation

SARAA has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. SARAA has identified pollution clean-up obligations relating to asbestos and PCB at its facilities and has recorded estimated costs of remediation of $850,000 of which $400,000 was recorded during the year ended December 31, 2012. 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. Events could occur that would change this estimate materially in the near term.

Supplementary Information

Susquehanna Area Regional Airport Authority
Schedule of Capital and Noncapital Revenues and Expenses
Year Ended December 31, 2012

Noncapital Related Revenues	
Facilities revenue	$ 8,373,959
Parking fees	7,478,604
Vehicle rental fees and customer facility charges	3,913,506
Landing fees	3,817,480
Apron and gate use fees	1,133,215
Concession fees	402,173
Fuel flowage and other commissions	416,213
Other income	839,944
Investment income	15,837
Total noncapital related revenues	26,390,931
Noncapital Related Expenses Net of Operating Grant Revenue	
Salaries, wages, payroll taxes and benefits	5,749,595
Professional and consulting fees	260,508
Marketing	813,194
Insurance	497,379
Utilities	1,763,691
Parking facility	2,240,050
Repairs and maintenance	1,362,227
Supplies, parts and other	1,496,315
Operating grant revenue	(150,329)
Total noncapital related expenses net of operating grant revenue	14,032,630
Excess of Noncapital Related Revenues Over Noncapital Related Expenses	12,358,301
Capital Related Revenues (Expenses)	
Restricted investment income	125,058
Passenger facility charges	2,623,502
Noise relocation project disbursements	(395,538)
Noise relocation project grants	383,888
Federal, state and local grants	4,085,760
Lessee financed improvements	-
Depreciation	(23,489,522)
Interest expense	(10,028,482)
Gain on disposal of capital assets	4,062
Deficit capital related revenues under capital related expenses	(26,691,272)
Decrease in Net Position	(14,332,971)
Net Position, Beginning of Year	114,798,914
Net Position, End of Year	$ 100,465,943