

**WILKES-BARRE/SCRANTON INTERNATIONAL
AIRPORT**

Single Audit Report

For the Years Ended

December 31, 2017 and 2016

Rainey & Rainey
Certified Public Accountants

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**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The following narrative overview and analysis is provided by the management of the Wilkes-Barre/Scranton Airport (Airport) and is intended to serve only as an introduction to the Airport's basic financial statements and is made part of this audit report for the years ended December 31, 2017 and 2016. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**FINANCIAL HIGHLIGHTS
2017**

The Airport retained a strong financial position for the year ended December 31, 2017. Airport assets exceeded liabilities by \$94,262 (net assets) at December 31, 2017 and \$94,168 at December 31, 2016; an increase of \$(.1%). Of this amount, the unrestricted net assets which may be used to meet the Airport's ongoing financial capital projects obligations, operational obligations, and stated priorities was \$1,670 in 2017 and \$1,733 in 2016. The Airport had an operating surplus before depreciation of \$590 in 2017 as compared to a loss of \$329 in 2016; the surplus is primarily attributable to the reduction of legal expenses and increased revenue. Additionally, marketing efforts have continued at a level of significance, which management believes will increase enplanements and revenue in the future.

In 2017, the Airport continued to pay close attention to expenses on the operational budget by closely monitoring purchasing decisions, maintaining departmental communications regarding budget availability on a monthly basis, and reducing costs where possible. Rising utilities costs previously had a large impact on the operational budget. However, that overall impact was maintained under control by the Airport's continued diligence regarding utility contracts for natural gas and electricity and favorable above normal temperatures, plus the continued replacement of lighting fixtures with new high efficiency fixtures to minimize any increases. In 2017 the Airport's expenses were impacted by an aggressive marketing effort to increase ridership (enplanements) and Airport awareness along with also implementing a series of customer amenity improvements including the replacement of way finding signage.

Operationally, the Airport's financial performance was impacted by the dynamics of the constantly changing airline industry, regional economics, and fluctuating travel market demands. 2017's passenger enplanements increased by 15% over the calendar year 2016. This increase was primarily attributable to the seasonal fluctuations of flights by the existing airlines, less flight cancellations due to weather, the addition of larger capacity aircraft, and the implementation of new service to Tampa/St. Pete (PIE).

The Airport continued to commit significant effort and financial resources to advertising and marketing in an attempt to increase passenger enplanements, expand current services, and attract new services.

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
FINANCIAL OBJECTIVES
2018**

Airport management continues to face significant challenges in 2018 as the Airport faces a challenging national economy, continuing multiple capital projects, uncertain Federal airport capital improvement project funding availability, unfunded TSA and FAA mandates, replacement and upgrading of aging equipment, a constantly changing air transportation industry with unprecedented market dynamics and the loss of service to Orlando and Tampa.

Airport management has three main objectives for 2018. The first priority is to attract additional air service, which is imperative to maintaining existing facilities and ensuring the financial resources to continue an aggressive capital improvement schedule. The second priority is to complete several design/construction projects including: completion of the demolition of the old terminal building, the rehabilitation of the parking garage, and the rehab of Taxiway B and D. Additionally, we plan to break ground on a new hangar in approximately the middle of the year. The third priority is to maintain operating budget controls already set in place and endeavor to achieve a better than break-even operating budget. Airport management will consider revenue price increases to the areas where needed to help maintain at least a break-even operating budget going forward.

Recognizing the basic need to maintain necessary cash assets, management has committed to reducing and containing cost growth related to insurance, security, utilities, and services while attempting to maintain high standards and efficiencies during the anticipated period of slow growth. Utilizing the existing Small Community Air Service Development Grant, the Airport will continue attempts to attract and gain additional air service in 2018 and 2019.

Airport management is looking to continue to improve the public's image of the airport by improving customer service and by providing more customer amenities desired by the majority of the traveling public. The challenge will be to make these improvements without significantly affecting the operation budget.

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Airport's basic financial statements consist of the Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets, Cash Flow, and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

By far the largest portion of the Airport's net assets (86%) reflect its investment in capital assets (land, buildings, equipment) with no debt being incurred to acquire those assets.

Restricted assets increased \$5,986 or 49% due to the Airport recognizing the revenue from grants received at year end. The activity corresponds with the increase in liabilities payable from restricted assets. As grants are awarded, the receivable is recorded along with a corresponding liability. Therefore, as the Airport is awarded federal and state grants for future projects, the liability is increased and the corresponding receivable is increased.

Condensed Statement of Net Position (in thousands)
As of December 31, 2017 and 2016

ASSETS:	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	2,357	2,310	47	2%
Restricted Assets	12,141	6,155	5,986	97%
Capital Assets, Net of Depreciation	<u>92,704</u>	<u>93,021</u>	<u>(317)</u>	<u>0%</u>
Total Assets	<u>107,202</u>	<u>101,486</u>	<u>5,716</u>	<u>6%</u>
LIABILITIES:				
Current Liabilities	398	704	(306)	-43%
Noncurrent Liabilities	401	459	(58)	-13%
Liabilities Payable from Restricted Assets	<u>12,141</u>	<u>6,155</u>	<u>5,986</u>	<u>97%</u>
Total Liabilities	<u>12,940</u>	<u>7,318</u>	<u>5,622</u>	<u>77%</u>
NET POSITION:				
Investment in Capital Assets	92,589	92,906	(317)	0%
Restricted for Capital Assets	2,160	2,026	134	7%
Unrestricted	<u>(487)</u>	<u>(764)</u>	<u>277</u>	<u>-36%</u>
Total Net Position	<u>94,262</u>	<u>94,168</u>	<u>94</u>	<u>0%</u>
Total Net Position and Liabilities	<u>107,202</u>	<u>101,486</u>	<u>5,716</u>	<u>6%</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)
For the Years Ending December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenue:				
Terminal	\$ 2,376	\$ 2,222	\$ 154	7%
Parking Lot	2,582	2,278	304	13%
Landing Field	1,096	974	122	13%
Other Land and Building Rental	529	530	(1)	0%
Investment Income	<u>9</u>	<u>8</u>	<u>1</u>	<u>13%</u>
Total Operating Revenues	\$ 6,592	\$ 6,012	\$ 580	10%
Operating Expenses	<u>\$ 6,001</u>	<u>\$ 6,341</u>	<u>\$ (340)</u>	<u>-5%</u>
Operating Income (loss) before Depreciation	591	(329)	920	-280%
County Subsidy	\$ 285	\$ 320	\$ (35)	-11%
Other Income	283	-	283	100%
Interest Expense	(5)	(5)	-	0%
Depreciation	<u>(6,014)</u>	<u>(6,068)</u>	<u>54</u>	<u>-1%</u>
Operating Loss	<u>\$ (4,860)</u>	<u>\$ (6,082)</u>	<u>\$ 1,222</u>	<u>-20%</u>
Capital Contributions				
Federal Grants	3,240	3,011	229	8%
State Grants	296	171	125	73%
Passenger Facility Charge Income	<u>1,418</u>	<u>937</u>	<u>481</u>	<u>51%</u>
Total Nonoperating Revenues	<u>4,954</u>	<u>4,119</u>	<u>835</u>	<u>20%</u>
(Decrease) Increase in Net Assets	94	(1,963)	2,057	-105%
Net Position, Beginning	<u>94,168</u>	<u>96,131</u>	<u>(1,963)</u>	<u>-2%</u>
Net Position, End of Year	<u>\$ 94,262</u>	<u>\$ 94,168</u>	<u>\$ 94</u>	<u>0%</u>

CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA
Richard P. Rainey, CPA

Independent Auditor's Report

To the Board of Directors
Wilkes-Barre/Scranton International Airport

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Wilkes-Barre/Scranton International Airport, as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Wilkes-Barre/Scranton International Airport, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

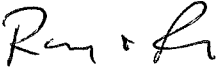
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airport's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Governmental Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated April 26, 2018 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Airport's internal control over financial reporting and compliance.



Scranton, Pennsylvania
April 26, 2018

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT

STATEMENT OF NET POSITION DECEMBER 31, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,670,866	\$ 1,733,604
Accounts receivable	550,939	425,812
Prepaid expenses	134,720	150,523
Total Current assets	2,356,525	2,309,939
RESTRICTED ASSETS		
Cash	2,160,162	2,026,485
Government capital grants receivable	9,981,376	4,128,367
Total restricted assets	12,141,538	6,154,852
CAPITAL ASSETS, Net	92,704,309	93,021,271
TOTAL	\$ 107,202,372	\$ 101,486,062
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 151,011	\$ 443,106
Accrued expenses and other current liabilities	220,817	235,842
Capital lease - current	26,142	25,194
Deferred revenue- government capital grants	9,981,376	4,128,367
Deferred revenue- customer facility charge	823,593	380,510
Deferred revenue- passenger facility charge	1,336,569	1,645,975
Total current liabilities	12,539,508	6,858,994
NONCURRENT LIABILITY		
Compensated absences	311,508	343,375
Capital Lease - non current	89,452	115,594
Total non-current liabilities	400,960	458,969
Total Liabilities	12,940,468	7,317,963
NET POSITION		
Net investment in capital assets, net of related debt	92,588,715	92,905,677
Restricted for capital assets	2,160,162	2,026,486
Unrestricted	(486,973)	(764,064)
Total net position	94,261,904	94,168,099
TOTAL	\$ 107,202,372	\$ 101,486,062

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Terminal Area	\$ 2,376,002	\$ 2,221,547
Parking Lot	2,581,837	2,277,856
Landing Field	1,095,949	974,433
Other land and building rental	529,119	530,295
Investment income	8,822	7,659
Total Operating Revenues	6,591,729	6,011,790
OPERATING EXPENSES		
Administrative	1,934,564	2,275,199
Terminal Area	1,794,010	1,809,218
Landing Field	742,240	749,981
Other land and building rental	356,579	380,061
Garage	437,494	444,641
Emergency equipment	364,586	359,817
Parking Lot	371,398	321,843
Total operating expenses	6,000,871	6,340,760
OPERATING INCOME BEFORE OTHER EXPENSES	590,858	(328,970)
County Subsidy	285,220	319,445
Other Income	350,000	-
Airshow (net)	(67,500)	-
Interest Expense	(4,785)	(4,687)
Depreciation	(6,013,526)	(6,067,557)
OPERATING LOSS	(4,859,733)	(6,081,769)
CAPITAL CONTRIBUTIONS		
Federal Grants	3,240,173	3,010,671
State Grants	295,569	171,490
Passenger facility charge income	1,417,796	937,097
Total capital contributions	4,953,538	4,119,258
(DECREASE) INCREASE IN NET POSITION	93,805	(1,962,511)
NET POSITION, BEGINNING	94,168,099	96,130,610
NET POSITION, ENDING	\$ 94,261,904	\$ 94,168,099

See Notes to Financial Statements and Independent Auditor's Report

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Landing field and terminal area	\$ 3,346,824	\$ 3,305,865
Parking lot and other rental	3,126,759	2,798,979
Other operating revenues	635,220	319,445
Interest received	8,822	7,659
Payments to vendors	(3,371,962)	(3,336,781)
Payments to employees	(3,040,181)	(2,911,384)
Net Cash provided by operating activities	705,482	183,783
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition and construction of capital assets	(5,696,564)	(4,818,985)
Net cash used by investing activities	(5,696,564)	(4,818,985)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from government capital grants	3,535,742	\$ 3,181,944
Change in restricted cash	(133,677)	(441,721)
Proceeds from passenger facility charge	1,551,473	1,378,822
Proceeds from capital debt	-	161,083
Capital Lease payments	(25,194)	(20,295)
Net cash provided by capital and related financing activities	4,928,344	4,259,833
NET (DECREASE) INCREASE IN CASH	(62,738)	(375,369)
CASH BEGINNING	1,733,604	2,108,973
CASH, END	\$ 1,670,866	\$ 1,733,604
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (4,859,733)	\$ (6,081,769)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,013,526	6,067,557
Change in assets and liabilities:		
Accounts receivable, trade	(125,127)	109,885
Prepaid expenses and other current assets	15,803	(9,172)
Accounts payable, trade	(292,095)	(92,118)
Accrued expenses and other current liabilities	(15,025)	164,824
Compensated absences	(31,867)	24,576
Total Adjustments	5,565,215	6,265,552
Net cash provided by operating activities	\$ 705,482	\$ 183,783

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

**1. NATURE OF OPERATIONS AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF OPERATIONS

The Wilkes-Barre/Scranton International Airport (the "Airport"), located in Avoca, Pennsylvania, is owned jointly by the Counties of Luzerne and Lackawanna, Pennsylvania (the "Counties") and is controlled by the Joint Board of Control, which consists of the county commissioners from Lackawanna County. Until such time as the agreement between the counties of Luzerne and Lackawanna is amended or renegotiated, Luzerne County's representatives on the Joint Airport Board for the administration of the Wilkes-Barre/Scranton International Airport shall consist of the County Manager, the Chair of County Council or his/her designee from among Council's other members, and a member of the County Council selected by resolution adopted by an affirmative vote of at least a majority of its current members. The member of the Joint Airport Board appointed by County Council shall serve for a term of four years. Upon the expiration of the term or when the position filled by the member of County Council selected by its members is declared vacant by County Council, County Council shall make the appointment or fill the vacancy within 60 days by resolution adopted by an affirmative vote of at least a majority of its current members. If County Council fails to do so, any resident of Luzerne County may petition the Court of Common Pleas to do so. In such a case, the Court by a majority vote of its members shall make the appointment(s) or fill the vacancy within 30 days after receiving such a petition. The Airport is the basic level of government, which has financial accountability and control over all activities related to the Airport. The Airport's primary source of revenues is user fees and terminal space and other airport facility leases. These leases require a fixed minimum lease payment and/or contingent rentals based on sales over a specific minimum dollar amount.

REPORTING ENTITY

The reporting entity has been defined in accordance with the criteria established in Statement 39, an amendment to Statement 14 issued by the Government Accounting Standard Board "GASB". The specific criteria used in determining whether the Airport should be included in another organization's financial reporting entity are financial accountability, fiscal dependency and legal separation.

As defined above, the Airport should not be included in another organization's financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND BASIS OF PRESENTATION**

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The Airport applies only the Financial Accounting Standards Board pronouncements issued before November 30, 1989, except for those that conflict with GASB pronouncements.

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

CAPITAL ASSETS

Capital assets are stated at cost. Depreciation is computed over the estimated life of the assets using the straight-line method. The estimated depreciable lives for the major asset categories are as follows:

<u>CATEGORY</u>	<u>LIFE</u>
Runways, taxiways, and other land improvements	15-25 Years
Buildings and building improvements	20-40 Years
Equipment	5-10 Years
Furniture & Fixtures	5-10 Years

GRANTS

Grants are recorded when they are approved by a governmental agency. Expenditures incurred are subject to audit and possible adjustment by the respective governmental agencies. Under the terms and conditions of such grants, the Airport and/or county governments are required to contribute a specific amount for each project and absorb any and all unallowable costs incurred with respect to such projects.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RESTRICTED CASH

The Airport had cash of \$2,160,162 and \$2,026,485 at December 31, 2017 and 2016, respectively, that was restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Passenger and customer facility charges available for eligible expenses on certain airport projects as approved by the Federal Aviation Administration	<u>\$ 2,160,162</u>	<u>\$ 2,026,485</u>
Total restricted cash	<u>\$ 2,160,162</u>	<u>\$ 2,026,485</u>

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

ACCOUNTS RECEIVABLE

Accounts receivable are reported at net realized value. Accounts are written off when they are determined to be uncollectible based on management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the Airport's historical losses and periodic review of individual accounts.

REVENUES

Operating revenues of the Airport consist of terminal, landing field, parking lot and land and building rentals, operating grant revenue and investment income, while non operating income includes subsidies. Transactions related to passenger facility charges, capital activities, and federal, state and county capital grants are components of capital contributions.

2. CASH

The Airport's investment policy states that funds may be invested under the following criteria:

Monies shall be invested from time to time as the monthly estimate of expenditures and receipts make a temporary surplus available.

Such investments shall be temporary in nature and shall in all respects conform to the provisions of all applicable statutes and regulations. All investments must be ratified/approved by the Joint Board of Control at its next regularly scheduled public meeting.

The investment policy of the Airport adheres to the state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Airport.

DEPOSITS

At December 31, 2017, the Airport's cash includes deposits with a local financial institution. Custodial credit risk is the risk that in the event of a bank failure, the Airport's deposits may not be returned to it. At December 31, 2017 and 2016, \$3,470,079 and \$3,578,936, respectively, of the Airport's bank balance was exposed to custodial credit risk since the balance was not insured through the Federal Depository Insurance Corporation but collateralized with securities held by the financial institution's trust department not in the Airport's name under the provisions of the Commonwealth of Pennsylvania Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to cover public funds on deposit in excess of federal insurance.

3. GOVERNMENT GRANTS RECEIVABLE-RESTRICTED

Government capital grants receivable are restricted for Airport Improvement Projects at December 31, 2017 and 2016 and are summarized as follows:

	<u>2017</u>	<u>2016</u>	
Federal-FAA	\$ 9,186,143	\$ 4,018,488	
State-PennDot	<u>795,233</u>	<u>109,879</u>	
Total	<u>\$ 9,981,376</u>	<u>\$ 4,128,367</u>	

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital Assets Continued:

	2017			
	1/1/2017	Additons and Transfers In	Disposals and Tranfers Out	12/31/2017
Capital assets not being depreciated:				
Land	\$ 1,572,422	\$ -	\$ -	1,572,422
Construction in Progress	<u>17,735,697</u>	<u>5,127,896</u>	<u>53,859</u>	<u>22,809,734</u>
Total capital assets not being depreciated	<u>19,308,119</u>	<u>5,127,896</u>	<u>53,859</u>	<u>24,382,156</u>
Capital assets being depreciated:				
Runway, taxiway and land improvements	97,065,879	145,488	-	97,211,367
Building and improvements	62,797,276	-	-	62,797,276
Equipment	8,741,229	477,035	-	9,218,264
Garage	8,798,342	-	-	8,798,342
Furniture and Fixtures	<u>930,553</u>	<u>-</u>	<u>-</u>	<u>930,553</u>
Total capital assets being depreciated	<u>178,333,279</u>	<u>622,523</u>	<u>-</u>	<u>178,955,802</u>
Less accumulated depreciation for:				
Runway, taxiway and land improvements	69,813,267	3,665,636	-	73,478,903
Building and improvements	24,184,863	1,461,792	-	25,646,655
Equipment	5,400,950	499,774	-	5,900,724
Garage	4,534,415	347,714	-	4,882,129
Furniture and Fixtures	<u>686,628</u>	<u>38,610</u>	<u>-</u>	<u>725,238</u>
Total accumulated depreciation	<u>104,620,123</u>	<u>6,013,526</u>	<u>-</u>	<u>110,633,649</u>
Total capital assets being depreciated, net	<u>73,713,156</u>	<u>(5,391,003)</u>	<u>-</u>	<u>68,322,153</u>
Total capital assets, net	<u>\$ 93,021,275</u>	<u>\$ (263,107)</u>	<u>\$ 53,859</u>	<u>\$ 92,704,309</u>

WILKES- BARRE/SCRANTON INTERNATIONAL AIRPORT
 NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

A summary of changes in capital assets:

	2016			
	1/1/2016	Additons and Transfers In	Disposals and Tranfers Out	12/31/2016
Capital assets not being depreciated:				
Land	\$ 1,572,422	\$ -	\$ -	\$ 1,572,422
Construction in Progress	<u>14,386,315</u>	<u>3,831,431</u>	<u>482,053</u>	<u>17,735,693</u>
Total capital assets not being depreicated	<u>15,958,737</u>	<u>3,831,431</u>	<u>482,053</u>	<u>19,308,115</u>
Capital assets being depreciated:				
Runway, taxiway and land improvements	96,569,682	496,196	-	97,065,878
Building and improvements	62,797,276	-	-	62,797,276
Equipment	7,767,818	973,411	-	8,741,229
Garage	8,798,342	-	-	8,798,342
Furniture and Fixtures	<u>930,554</u>	<u>-</u>	<u>-</u>	<u>930,554</u>
Total capital assets being depreciated	<u>176,863,672</u>	<u>1,469,607</u>	<u>-</u>	<u>178,333,279</u>
Less accumulated depreciation for:				
Runway, taxiway and land improvements	66,140,439	3,672,827	-	69,813,266
Building and improvements	22,632,759	1,552,104	-	24,184,863
Equipment	4,944,648	456,302	-	5,400,950
Garage	4,186,702	347,713	-	4,534,415
Furniture and Fixtures	<u>648,018</u>	<u>38,611</u>	<u>-</u>	<u>686,629</u>
Total accumulated depreciation	<u>98,552,566</u>	<u>6,067,557</u>	<u>-</u>	<u>104,620,123</u>
Total capital assets being depreciated, net	<u>78,311,106</u>	<u>(4,597,950)</u>	<u>-</u>	<u>73,713,156</u>
Total capital assets, net	<u>\$ 94,269,843</u>	<u>\$ (766,519)</u>	<u>\$ 482,053</u>	<u>\$ 93,021,271</u>

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

5. CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred to date on the uncompleted portion of the various projects undertaken by the Airport. These various projects are funded with federal, state and local capital grants. The federal government generally funds 90% of total eligible costs with the remaining balance funded by the state, the counties and the Airport. During 2017 and 2016, federal expenditures were \$4,615,106 and \$3,417,066 and state expenditures were \$512,790 and \$414,365 related to these various projects.

6. LEASING OPERATIONS AND COMMITMENTS

The Airport's leasing operations consist principally of terminal areas and other airport facilities, under short-term and long-term lease agreements and are classified as operating leases. Such operating leases primarily require a fixed minimum lease payment and/or contingent rentals based on sales over a specified minimum dollar amount. For the years ended December 31, 2017 and 2016, minimum lease revenues amounted to \$2,473,922 and \$2,317,552, respectively, and contingent rentals amounted to \$2,951,798 and \$2,645,576, respectively.

The following is a schedule by year of future revenue lease revenues on leases that have an initial or remaining non cancelable lease term in excess of one year.

<u>YEAR ENDING DECEMBER 31</u>	
2018	\$ 117,640
2019	91,940
2020	86,440
2021	85,600
2022	85,000
Thereafter	<u>495,500</u>
Total	<u>\$ 962,120</u>

7. COMPENSATED ABSENCES

Union employees of the Airport required to work at least sixteen full work days in a month are credited with up to one sick day per month at rates which vary during the contract period. Sick days may be taken or accumulated within certain limits. No vacation days are permitted to be accumulated.

Full-time nonunion employees of the Airport are credited with sick and vacation at rates which vary with length of service or job classification. Unused vacation or accumulated sick may be paid prior to retirement or termination of the employee's current rate of pay.

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

8. CAPITAL LEASE OBLIGATION

The Airport entered into a capital lease agreement for equipment. The following is a summary of changes in the capital lease obligation:

Balance, January 1, 2017	\$ 140,788
Additions	-0-
Decreases	<u>(25,194)</u>
Balance, December 31, 2017	115,594
Less current portion	<u>26,142</u>
Long-term portion of capital lease obligation	<u>\$ 89,452</u>

The following is a summary of the future minimum lease payments required under the capital leases along with the present value of the net minimum lease payments as of December 31, 2017:

2018	\$ 29,978
2019	29,978
2020	29,978
2021	29,978
2022	<u>4,999</u>
Total minimum lease payments	124,911
Less amounts representing interest	<u>(9,317)</u>
Present value of net minimum lease payments	<u>\$ 115,594</u>

9. RETIREMENT PLANS

The Airport participates in both Luzerne and Lackawanna counties' defined benefit plans in which substantially all full-time employees are eligible for participation. In addition, the Airport participated in both Luzerne and Lackawanna counties' deferred compensation plans in which all full-time employees may elect to participate. The counties have funded the airport's annual required contribution, the amounts \$266,961 in 2017 and \$265,949 in 2016 are reported as subsidy revenue and pension expense.

10. CONCENTRATION OF CREDIT RISK

The Airport services the Northeastern Pennsylvania region and ultimately depends on the area's economic health for the continued success of its operations. Its revenues are generated through lease agreements with local concessions and vendors and national airlines including landing fee charges.

11. COMMITMENTS AND CONTINGENCIES

FEDERAL AND STATE GRANTS

The Airport participates in a number of federal and state programs that are fully or partially funded by grants received from other grantor agencies. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures disallowed due to noncompliance with grant program regulations, the Airport may be required to reimburse the grantor agencies. The Airport believes that disallowed expenditures, if any, based on subsequent audits, will not have a material effect on the financial position of the Airport.

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Salaries and Wages	\$ 2,123,141	\$ 2,237,938
Group Health Insurance	706,686	703,233
Pension	266,961	265,949
Payroll Taxes	163,462	159,611
 Total payroll and related expenses	 <u>3,260,250</u>	 <u>3,366,731</u>
 Utilities	 574,738	 631,988
Materials and Supplies	423,328	372,238
Professional fees	357,372	395,833
Insurance	286,912	236,618
Security	265,936	252,270
Advertising and public relations	132,827	394,777
Equipment rental and servicing	129,052	120,830
Outside services	93,228	111,554
Repairs and maintenance	90,229	38,429
Refuse and snow removal	68,384	100,147
Fuel and oil	53,756	40,228
Travel and meetings	47,548	35,037
Cleaning supplies	47,318	45,837
Security and fire systems	46,677	76,531
Trainings and Seminars	26,355	25,242
Dues and subscriptions	25,047	28,621
Office supplies	23,471	24,513
Telephone	21,733	15,224
Taxes and Licenses	16,553	16,222
Miscellaneous	6,861	4,059
Service fees	3,296	7,830
 TOTAL	 <u>\$ 6,000,871</u>	 <u>\$ 6,340,759</u>

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	AWARD	FEDERAL CFDA NUMBER	GRANT/CONTRACT NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION:				
Passed through Federal Aviation Administration:				
Update Airport Master Plan Summary	755,485	20.106	AIP-3-42-0105-061-2015	251,554
Taxiway B Extension	2,568,928	20.106	AIP-3-42-0105-063-2016	1,251,193
Taxiway B & D (West) Rehab Extension	628,564	20.106	AIP-3-42-0105-062-2016	517,746
Taxiway B & D (West) Rehab Extension	8,423,514	20.106	AIP-3-42-0105-064-2017	1,143,790
Small Community Air Service Development Program	<u>575,000</u>	20.930	2013-0120-0069	<u>69,990</u>
Total U.S. Department Of Transportation	<u>\$ 12,951,491</u>			<u>\$ 3,234,273</u>

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2017 AND 2016**

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Wilkes-Barre/Scranton International Airport. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

Scope of the audit pursuant to the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance):

- a) All major and non-major federal grant activity of the Wilkes-Barre/Scranton International Airport is included in the accompanying Schedule of Expenditures of Federal Awards.
- b) The Airport is a sub-recipient of Federal Funds from the U.S. Department of Transportation.
- c) The Airport is a sub-recipient of Federal Funds from the Federal Aviation Administration. The federal cognizant agency is the U.S. Department of Transportation.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in the notes to the Airport's financial statements.

Indirect Cost Rate

The Airport has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
SUMMARY OF AUDITOR'S RESULTS
DECEMBER 31, 2017 AND 2016

Part I - Summary of Auditors Results

Financial Statement Section

Type of auditors' report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u>	No
Reportable condition(s) identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u>	No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u>	No

Federal Awards Section

Dollar threshold used to determine Type A programs:	<u>\$750,000</u>		
Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u>	No
Type of auditor's report on compliance for major programs:	<u>Unmodified</u>		
Internal Control over compliance:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u>	No
Were reportable condition(s) identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u>	No
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	<u> </u> Yes	<u> X </u>	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program

**WILKES-BARRE/SCRANTON INTERNATIONAL AIRPORT
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016**

There were no prior year audit findings.

CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA
Richard P. Rainey, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Wilkes-Barre/Scranton International Airport

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Wilkes-Barre/Scranton International Airport (the "Airport"), as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements, and have issued our report thereon dated April 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wilkes-Barre/Scranton International Airport's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

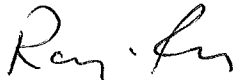
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wilkes-Barre/Scranton International Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scranton, Pennsylvania

April 26, 2018

CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA
Richard P. Rainey, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Wilkes-Barre/Scranton International Airport

Report on Compliance for Each Major Federal Program

We have audited the Wilkes-Barre/Scranton International Airport's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Wilkes-Barre/Scranton International Airport's major federal programs for the year ended December 31, 2017 and 2016. Wilkes-Barre/Scranton International Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Wilkes-Barre/Scranton International Airport's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Wilkes-Barre/Scranton International Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Wilkes-Barre/Scranton International Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, the Wilkes-Barre/Scranton International Airport's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017 and 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Wilkes-Barre/Scranton International Airport's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Wilkes-Barre/Scranton International Airport's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

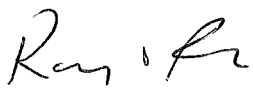
Report on Internal Control over Compliance

Management of the Wilkes-Barre/Scranton International Airport's, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Wilkes-Barre/Scranton International Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Wilkes-Barre/Scranton International Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Scranton, Pennsylvania
April 26, 2018