

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY

Financial Statements

December 31, 2017

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LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Lehigh-Northampton Airport Authority
Allentown, PA

Report on the Financial Statements

We have audited the accompanying financial statements of the Lehigh-Northampton Airport Authority (the Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lehigh-Northampton Airport Authority as of December 31, 2017, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis, the schedules of changes in net pension liability and related ratios, schedule of Authority contributions and the schedule investment returns as shown on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 Authority's basic financial statements. The accompanying schedule of expenditures of federal awards 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 other supplementary information as show in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2018 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



Crowe Horwath LLP

Indianapolis, Indiana
May 22, 2018

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017

Management's Discussion and Analysis (MD&A) of the Lehigh-Northampton Airport Authority (Authority) provides a brief introduction to its organizational structure, facilities, major activities affecting the operations of the facilities, as well as an overview to the financial performance and statements of the Authority for the year ended December 31, 2017.

AUTHORITY

The Authority is a public instrumentality of the Commonwealth of Pennsylvania and a body politic and corporate organized by the counties under the Municipality Authorities Act, 53 PA. C. S. as amended and supplemented. It is the oldest airport authority in the Commonwealth, organized in 1946, and was initially sponsored by the Cities of Allentown and Bethlehem and the County of Lehigh. Shortly after the Authority was organized, the City of Easton and the County of Northampton became additional sponsors, and the name of the Airport was changed from Allentown-Bethlehem to Allentown-Bethlehem-Easton, and the name of the Authority became Lehigh-Northampton Airport Authority. In 1968, the two counties assumed the entire sponsorship. In 1994, the name of the Airport was changed to Lehigh Valley International Airport. On December 3, 1999, the Authority acquired Braden Airpark in Forks Township, Northampton County. On November 1, 2000, the Authority acquired Queen City Municipal Airport in Allentown, Lehigh County.

AIRPORT

Lehigh Valley International Airport (LVIA) is a commercial service airport occupying about 2,629 acres of land east of the Lehigh River, at its closest point, in Lehigh and Northampton counties. It is located approximately four miles northeast of Allentown, four miles northwest of Bethlehem and twelve miles west of Easton.

- The Major Airfield Facilities consist of two runways and associated taxiways providing access to the air carrier parking ramp to the east, a light general aviation area to the northeast and north, general/corporate aviation terminal facilities to the southwest, and cargo to the west. The primary runway is 7,599 feet long and the crosswind runway is 5,800 feet long. Both are equipped with Category 1 precision instrument landing systems (ILS) and are also equipped with high intensity runway edge lights.
- The Passenger Terminal Building contains a total of approximately 175,000 square feet of floor space consisting of three levels and an underground passenger walkway which leads to a separate ground level satellite facility containing ground and second level passenger hold rooms with access to nine passenger loading bridge parking positions and six regional/commuter parking positions. The airport currently has 1,128 public surface automobile spaces allocated among for short and long term parking, as well as spaces for the car rental agencies. The General Aviation facilities at the Airport consists of 267,116 square feet of aircraft storage space and 68,062 square feet of associated office/shop space provided in 7 bulk hangars and 56 T-hangars. The Authority has an additional 63 T-hangars and 5 bulk hangars at Queen City Municipal Airport and Braden Airpark.
- The Authority operates a consolidated airport maintenance facility located in the north central quadrant of the airfield consisting of a 23,400 square foot facility and associated storage facilities for equipment and material storage.
- The Authority also operates a 13,000 square foot aircraft rescue and firefighting facility located in the northeast quadrant of the airfield. LVIA is served by a 24-hour Air Traffic control tower operated by the FAA.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017**

AIRLINES

Scheduled Passenger Airlines

Allegiant Air

American Airlines

- Piedmont Airlines Inc.
- PSA
- Air Wisconsin

Delta Airlines

- ExpressJet
- Endeavor Airlines
- Skywest

United Express

- Trans States Airlines
- ExpressJet
- United Bus

Charter Routes

Sun Country

Xtra Airways

Cargo Airlines

ABX Air

Air Transport International

Atlas Air

Federal Express

- Wiggins Airways

At the conclusion of FY 2017 the airport was served primarily by 4 airlines; American Airlines, United Airlines, Delta Airlines and Allegiant Air. These airlines offered 10 non-stop flights and provided regular service to 10 cities with an average of 17 flights a day. Top destinations continue to be the Florida leisure markets but we also have excellent service to major hubs including; Chicago, Philadelphia, Charlotte, Detroit, Atlanta and Newark.

After reaching a 20 year low in passenger traffic in 2014, passenger traffic has increased three straight years. A 14.6% increase in fourth quarter traffic lead to a modest .5% overall increase in year over year passenger traffic for 2017. The beginning of 2018 has continued the positive increase in passenger traffic with a 13.5% increase in passenger traffic for January and February. The 13.5% increase in passenger traffic is much higher than the forecasted 2-3% overall increase in passenger traffic for FY18. Allegiant, after adding additional flights and a new route to Fort Lauderdale, FL became the new market share leader with 35% of the passenger traffic and Delta maintained a strong presence at 29%.

The major airlines continue to follow the "hub and spoke" system of operating, moving the majority of their traffic through central hubs. The "hub and spoke" system coupled with LVIA's proximity to Philadelphia and Newark airports makes increasing service from legacy carriers a challenge; however, LVIA is doing well compared to other regional airports. LVIA increased passenger service with Allegiant again in 2017 and continues to solicit both major airlines and low cost carriers for additional service. LVIA's CPE (cost per enplaned passenger) was \$17.52 for 2017 reflecting a commitment to reinvest in the airport long term which will lead to long term savings for most of its long term stakeholders. The major "reinvestments" in 2017 included opening the Multimodal Transportation Center, Expansion of Cargo Apron, Replacement of Terminal Switchgear, and Rehabilitation of the Parking Lot. LVIA continues to focus on expanding non aeronautical revenue opportunities which will lead to lower costs.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017

Increased cargo activity propelled LVIA over one billion pounds of landed weight for the first time since 2004. Cargo increased 64% from FY16 to a total of 103,591 tons carried through LVIA. FedEx, Atlas Air, and Air Transport International all increased their presence at LVIA in 2017. Atlas Air and Air Transport International deliver consumer goods. The outlook for increased growth in cargo is strong as the e-commerce business continues to grow.

LVIA's vision remains clear, which is to remain a customer-centric organization, while operating our facilities safely and efficiently; growing and developing an innovative, agile and competitive manner; and working closely with our stakeholders and partners to make our region the community of choice for business and residents.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles disseminated by the Governmental Accounting Standards Board. Revenues are recognized when earned, and expenses are recognized when incurred. Capital assets are recorded in Land, Building and Equipment accounts and except for land are depreciated over their useful lives. See notes to the financial statements for a summary of the Authority's organization and significant financial policies.

The basic financial statements of the Authority, including notes, follow the Management Discussion and Analysis. The notes are essential for a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's financial position and activities.

- The **Statement of Net Position** presents information on all of the Authority's assets and liabilities, and deferred outflows and inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Authority's financial position.
- The **Statement of Revenues, Expenses and Changes in Net Position** presents information showing the change in the Authority's net position during the fiscal year. All changes in Net Position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.
- The **Statement of Cash Flows** relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. Reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017**

FINANCIAL POSITION SUMMARY

The Authority's financial position can be analyzed from its changes in Net Position over the years. As of December 31, 2017, the Authority's assets exceeded liabilities by \$200.6 million as compared to \$196.5 million in 2016.

	<u>2017</u>	<u>2016</u>	<u>Changes</u>
Assets and Deferred Outflows of Resources			
Current and Other Assets	\$ 22,001,491	\$ 21,865,941	\$ 135,550
Capital Assets	237,069,387	227,849,002	9,220,385
Deferred Outflows of Resources - Pension	1,111,843	769,793	342,050
Total Assets and Deferred Outflows of Resources	<u>260,182,721</u>	<u>250,484,736</u>	<u>9,697,985</u>
Liabilities and Deferred Inflows of Resources			
Current Liabilities	13,646,112	7,008,178	6,637,934
Long-term Debt Outstanding	44,357,457	46,171,006	(1,813,549)
Net Pension Liability	1,348,131	682,918	665,213
Deferred Inflows of Resources - Pension	256,345	70,407	185,938
Total Liabilities and Deferred Inflows of Resources	<u>59,608,045</u>	<u>53,932,509</u>	<u>5,675,536</u>
Net Position	<u>\$ 200,574,676</u>	<u>\$ 196,552,227</u>	<u>\$ 4,022,449</u>

A condensed summary of the Authority's financial position follows

The Authority's overall financial position was impacted by several factors in 2017:

1. The continued growth cargo operations in 2017 increased landing fees, fuel sales, and ground handling services.
2. The completion of the Multimodal Transportation Center in 2017 and purchase of new Fire Truck increased the amount of grant revenue in 2017.
3. The Authority refinanced its bonds in 2015 saving approximately \$900,000 of annual debt service for the next ten (10) years.
4. The final payment of the WBF settlement in January 2016 allows the Authority to focus on infrastructure improvement and improving its operations.

The largest portion of the Authority's net position is net investment in capital assets (\$191.6 million) representing capital assets less related debt to acquire those capital assets. The change in net investment in capital assets was an increase of \$8.5 million. These assets are available to the airlines, passengers and service providers at the airport and are financed by the funds received from federal grants, state grants, and annual operating income.

The restricted portion of the Authority's net position totaling \$3.7 million represents bond funds earmarked for specific use and restricted by bond resolutions, PFC funds also restricted by PFC regulations, an Operation & Maintenance Reserve Fund used only for deficiencies in the Operating Funds and a Renewal/Replacement Fund for major repairs, replacement or reconstruction of the Airport's facilities as required by Bond Indenture. The remaining \$7.4 million of unrestricted net position may be used to meet the Authority's ongoing obligations without restriction.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Operating Revenues	\$ 30,667,629	\$ 25,352,161	\$ 5,315,468
Operating Expenses	22,494,607	19,494,618	2,999,989
Depreciation and Amortization Expense	<u>9,450,087</u>	<u>8,884,753</u>	<u>565,334</u>
Total expenses	<u>31,944,694</u>	<u>28,379,371</u>	<u>3,565,323</u>
Operating Income (Loss)	(1,277,065)	(3,027,210)	1,750,145
Non-Operating Revenues (Expenses), Net	(933,781)	(1,550,104)	616,323
Income (Loss) before Capital Contributions	(2,210,846)	(4,577,314)	2,366,468
Capital Contributions	<u>6,233,295</u>	<u>2,929,829</u>	<u>3,303,466</u>
Increase (Decrease) in Net Position	<u>\$ 4,022,449</u>	<u>\$ (1,647,485)</u>	<u>\$ 5,669,934</u>

The significant items affecting the 2017 Changes in Net Position are as follows:

Operating revenue increased for the fourth straight year, increasing \$5,315,468, or 21%, in 2017:

1. The 2017 aircraft landing fee was \$4.94 per 1,000 pounds, down 3.1% from 2016.
2. Ground handling revenue increased \$2.7 million or 81.6% higher than 2016 due to additional cargo handling.
3. Landed weight increased by 169,892 tons or 46%. 89% of the increase in landed weight was due to the increase in cargo activity. Cargo represented 64% of total landed weight at LVIA as compared to only 52% of total landed weight in 2016. 2017 is the first year since 2014 LVIA has had over 500,000 tons of landed weight. In 2004, Cargo represented 24% of total landed weight.
4. Terminal revenue increased by 7.2% due to a 5.5% increase in the terminal rate and a change in the allocation of Allegiant's turn rate. Rental car concessions revenue decreased 2% due to construction on the Multimodal Transportation Project in 2017. The completion of the Multimodal Transportation Project allowed LVIA to partner with Trans-Bridge Bus Lines in December 2017.
5. Aviation and Non-Aviation rental revenue increased \$294K or 10.4% as larger hangars continue to be reallocated to fit growing tenant demands.
6. Aviation Services gross revenue increased \$894K or 24.1% from last year based largely on increased fuel sales and into-plane fees.
7. Overall 2017 parking revenue increased \$23K or .5% consistent with passenger traffic.
8. Capital Contributions from Federal sources and State Grant income increased 112.8% from last year attributed to the completion of the Multimodal project.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017**

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION (Continued)

Operating expenses including depreciation increased \$3,565,323 or 12.6% from 2016 to 2017:

1. Labor costs increased \$1.75 million, or 14.7%, due to additional cargo operations, increased staffing to accommodate previously delayed projects, and increasing employee benefit costs.
2. Equipment rental expenses increased by \$318K, or 28.5% due to the additional infrastructure needed to support the additional cargo operations and leasing new equipment versus continuing to repair outdated and inefficient equipment.
3. Maintenance repairs increased \$76K, or 9.5%.
4. Material & supplies increased \$66K, or 15.7%.
5. Professional services decreased \$92K or 32.4% over last year.
6. Legal Fees increased by \$171K, or 19.6%, due to various union negotiations, real estate transactions, and an increase in more specialized legal services.
7. Audit and Financial services decreased by \$26K or 32.1% as the expertise of the accounting staff has led to less need for outside consultants.
8. Contract Services increased \$83K or 12.7% due to increased engineering required on new capital projects.

The following is a summary of total operating revenues and total revenues before capital contributions at Lehigh Valley International Airport by cost center and the percentage of the total for both 2017 and 2016:

LVIA Only				
Operating Revenues	2017	%	2016	%
Airfield	\$ 5,573,968	18.74%	\$ 4,612,708	18.75%
Terminal	5,421,285	18.23%	5,059,474	20.57%
Parking & Roadways	4,443,155	14.94%	4,419,854	17.97%
Aviation Leased Areas	2,598,206	8.74%	2,568,243	10.44%
Non-Aviation Leased Areas	518,521	1.74%	254,099	1.03%
Ground Handling	6,103,551	20.52%	3,362,065	13.67%
Aviation Services	4,610,831	15.50%	3,717,001	15.11%
Advertising	292,010	0.98%	209,114	0.85%
Total Operating Revenues	29,561,527	99.39%	24,202,558	98.40%
Investment Income	86,125	0.29%	30,459	0.12%
Other	95,928	0.32%	363,561	1.48%
Total Revenues before Capital Contributions	<u>\$ 29,743,580</u>	<u>100.00%</u>	<u>\$ 24,596,578</u>	<u>100.00%</u>

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION (Continued)

A summary of expenses, excluding depreciation expense, at Lehigh Valley International Airport by cost center and the percentage of the total for both 2017 and 2016:

LVIA Only					
Operating Expenses	2017	%	2016	%	
Airfield	\$ 3,962,635	18.42%	\$ 3,722,039	20.25%	
Terminal	4,563,092	21.21%	3,881,866	21.12%	
Parking & Roadways	1,146,283	5.33%	1,096,906	5.97%	
Aviation Leased Areas	837,493	3.89%	900,682	4.90%	
Non-Aviation Leased Areas	267,772	1.24%	168,227	0.92%	
Ground Handling	4,790,320	22.27%	3,413,892	18.57%	
Aviation Services	3,020,423	14.04%	2,547,338	13.86%	
Advertising	131,928	0.61%	91,264	0.50%	
Administrative	2,790,277	12.97%	2,561,271	13.93%	
Total Operating Expenses *	<u>\$ 21,510,223</u>	<u>100.00%</u>	<u>\$ 18,383,485</u>	<u>100.00%</u>	

* Includes events and credit for bond prof fees

CAPITAL ASSETS

The following reflects changes on capital assets:

	2017	2016	Change
Capital Assets:			
Land	\$ 61,906,635	\$ 61,906,635	\$ -
Property and Avigation Easements	44,307,392	44,297,526	9,866
Construction in Progress	7,357,817	4,352,343	3,005,474
Land Improvements	124,732,419	120,915,125	3,817,294
Buildings, Systems and Equipment	133,865,002	124,241,047	9,623,955
Capital Planning and Studies	1,465,752	1,651,046	(185,294)
Total Capital Assets	<u>373,635,017</u>	<u>357,363,722</u>	<u>16,271,295</u>
Less: Accumulated Depreciation	<u>(136,565,630)</u>	<u>(129,514,723)</u>	<u>(7,050,907)</u>
Capital Assets, Net (Note 5)	<u>\$ 237,069,387</u>	<u>\$ 227,848,999</u>	<u>\$ 9,220,388</u>

A signification portion of the increase in Buildings, Systems, and Equipment is due to the completion of the Multimodal Project and the addition of a state of the art fire truck. More information is available in Note 5.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2017**

LONG TERM DEBT

Changes in long term debt during 2017 are reflected below:

	Balance January 1, 2017	Additions	Deductions/ Payments	Balance December 31, 2017
Bonds Payable - Series 2015	\$ 43,065,000	\$ -	\$ 2,200,000	40,865,000
Capital Leases	4,949,594	1,918,298	883,144	5,984,748
Notes Payable	1,097,419	13,692	250,035	861,076
Net Pension Liability	682,918	2,789,925	2,124,712	1,348,131
Total	\$ 49,794,931	\$ 4,721,915	\$ 5,457,891	\$ 49,058,955

During 2015, the Authority issued revenue bonds and revenue refunding bonds to refinance all bonds payable and provide proceeds for capital related settlements. In addition, the Authority entered into notes and capital lease transactions to finance system improvements, equipment, and various environmental assessments in 2016 and 2017. See Note 7 and 8 for more detail. Net Pension Liability detail is in Note 10 of the financial statements.

Notes Payable primarily consist of debt secured by the properties deeded to LNAA in conjunction with the sale to The Rockefeller Group.

CURRENTLY KNOWN FACTS

In January, 2018, the Authority sold two pieces of property located in Allen Township to Rock-Lehigh Valley LLC. The net financial proceeds were approximately \$3.5 million. \$337K of the proceeds was used to fund the purchase of two houses on Willowbrook Rd. The residual will be used to fund future capital projects at the Airport. Other than the uncertainty of general economic indicators on the Authority, Airlines, and its customers, there are no other facts, decisions or conditions management believes will have a significant impact on the financial position or results of operations.

This financial report was designed to provide our stakeholders, patrons, and other interested parties with a general overview of the Lehigh Northampton Airport Authority's finances and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact the Authority at (610) 266-6001.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
STATEMENT OF NET POSITION
December 31, 2017

Assets and Deferred Outflows of Resources

Current Assets

Unrestricted Assets:

Cash and Cash Equivalents (Note 2 and 3)	\$ 5,864,908
Accounts Receivable, Net of Allowance of \$57,358	2,241,572
Capital Grants Receivable (Note 4)	1,678,501
Inventory and Prepaids	<u>1,134,217</u>
Total Unrestricted Assets	<u>10,919,198</u>

Restricted Assets:

Cash and Cash Equivalents - Debt Service and Bond Proceeds (Note 2)	<u>7,116,835</u>
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Total Current Assets	<u>18,036,033</u>
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Non-Current Assets

Restricted Assets:

Cash and Cash Equivalents-Restricted and Designated (Note 2)	<u>3,965,458</u>
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Capital Assets:

Land	61,906,635
Property and Avigation Easements	44,307,392
Construction in Progress	<u>7,357,817</u>
Total non-depreciable capital assets	<u>113,571,844</u>

Land Improvements	124,732,419
Buildings, Systems and Equipment	133,865,002
Capital Planning and Studies	<u>1,465,752</u>
Total depreciable capital assets	<u>260,063,173</u>

Total Capital Assets	373,635,017
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Less: Accumulated Depreciation	<u>(136,565,630)</u>
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Capital Assets, Net (Note 5)	<u>237,069,387</u>
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Total Non-Current Assets	<u>241,034,845</u>
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Deferred Outflows of Resources:

Pension Related (Note 10)	<u>1,111,843</u>
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Total Assets and Deferred Outflows of Resources	<u>\$ 260,182,721</u>
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See independent auditors' report and accompanying notes to financial statements.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
STATEMENT OF NET POSITION
December 31, 2017

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Payable from Unrestricted:	
Accounts Payable-Operations	\$ 2,140,008
Accounts and Retainages Payable -Capital	6,520,944
Unearned Revenues	137,299
Payroll Related Liabilities	584,507
Notes Payable - Current Portion (Note 7)	322,645
Capital Lease - Current Portion (Note 8)	1,159,344
Total Unrestricted Liabilities	<u>10,864,747</u>
 Current Liabilities Payable from Restricted Assets:	
Bonds Payable - Current Portion (Note 7)	2,255,000
Accrued Bond Interest Payable	526,365
Total Current Restricted Liabilities	<u>2,781,365</u>
 Total Current Liabilities	<u>13,646,112</u>

Non-Current Liabilities

Payable from Unrestricted:	
Unearned Revenues	165,655
Notes Payable (Note 7)	538,431
Capital Lease, Net (Note 8)	4,825,404
Bonds Payable, Net (Note 7)	38,610,000
Net Pension Liability (Note 10)	1,348,131
Total Payable from Unrestricted Liabilities	<u>45,487,621</u>
 Payable from Restricted and Designated:	
Leasehold Deposits	<u>217,967</u>
 Total Non-Current Liabilities	<u>45,705,588</u>

Deferred Inflows of Resources

Pension Related (Note 10)	<u>256,345</u>
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Net Position

Net Investment in Capital Assets (Note 9)	189,423,358
Restricted (Note 9)	3,752,222
Unrestricted	7,399,096
Total Net Position	<u>200,574,676</u>

Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 260,182,721</u>
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See independent auditors' report and accompanying notes to financial statements.

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**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year ended December 31, 2017**

Operating Revenues	
Airfield	\$ 5,573,968
Terminal	3,330,884
Concessions and Advertising	2,382,112
Parking and Roadways	4,443,155
Hangar, Building and Land Rents	3,116,727
Ground Handling	6,103,850
Fuel and Handling Sales	4,610,831
General Aviation	1,106,102
Total Operating Revenues	30,667,629
Operating Expenses	
Wages and Related Benefits	13,619,249
Contract Services, Advertising and Other	3,995,633
Materials, Supplies, Repairs and Maintenance	1,515,349
Utilities, Taxes and Insurance	2,005,634
Cost of Sale - Fuel	1,358,742
Depreciation and Amortization	9,450,087
Total Operating Expenses	31,944,694
Operating Loss	(1,277,065)
Non-Operating Revenues (Expenses)	
Environmental Assessment	(61,693)
Investment Income	86,125
Other Income	95,928
Interest Expense	(1,054,141)
Total Non-Operating Revenues (Expenses)	(933,781)
Loss before Capital Contributions	(2,210,846)
Capital Contributions	
Passenger Facility Charges	1,403,545
Car Rental Customer Facility Charges	331,034
Federal Grants	2,202,200
State Grants	2,046,516
County Grants	250,000
Total Capital Contributions	6,233,295
Increase in Net Position	4,022,449
Total Net Position, Beginning of Year	196,552,227
Total Net Position, End of Year	\$ 200,574,676

See independent auditors' report and accompanying notes to financial statements.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
Year ended December 31, 2017

Cash Flows from Operating Activities:

Operating Cash Receipts from Customers	\$ 30,072,463
Cash Paid to Suppliers for Goods and Services	(8,116,136)
Cash Paid to Employees for Services and Benefits	<u>(13,219,188)</u>
Net Cash Provided by Operating Activities	<u>8,737,139</u>

Cash Flows from Capital and Related Financing Activities:

Capital Grants Received	4,094,070
Passenger Facility Charges	1,403,545
Car Rental Facility Charges	331,034
Acquisition of Capital Assets	(13,100,606)
Principal Paid on Notes Payable	(250,035)
Interest Paid on Notes Payable	(1,412)
Proceeds from Capital Leases	1,918,298
Interest Paid on Capital Leases	(182,306)
Principal paid on Capital Leases	(883,144)
Principal paid on Bonds	(2,200,000)
Interest paid on Bonds	<u>(1,077,928)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(9,948,484)</u>

Cash Flows from Investing Activities:

Interest Received	<u>86,125</u>
Net Cash Provided by Investing Activities	<u>86,125</u>

Net Increase in Cash and Cash Equivalents (1,125,220)

Cash and Cash Equivalents, Beginning of Year	<u>18,072,421</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,947,201</u>

See independent auditors' report and accompanying notes to financial statements.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
Year ended December 31, 2017

Reconciliation of Operating Income (Loss) to
Net Cash Provided by Operating Activities:

Operating Loss	\$ (1,277,065)
Adjustments to Reconcile Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	9,450,087
Provision for Bad Debt	(1,975)
Changes in Assets and Liabilities:	
Accounts Receivable	(676,226)
Inventory and Prepaid Expenses	(177,923)
Net Pension Liability and Deferrals	509,101
Unearned Revenues	99,122
Accounts Payable	921,058
Accrued Payroll Expenses	(109,040)
Total Adjustments	<u>10,014,204</u>
Net Cash Provided by Operating Activities	\$ 8,737,139
Non-Cash Items from capital and related financing activities	
Accounts and Retainage Payable in Capital Assets	<u>\$ 6,520,944</u>
Cash and Cash Equivalents	
<u>Current Assets</u>	
Unrestricted Assets	\$ 5,864,908
Restricted Assets	7,116,835
<u>Noncurrent Assets</u>	
Restricted and Designated	3,965,458
Total Cash and Cash Equivalents	<u>\$ 16,947,201</u>

See independent auditors' report and accompanying notes to financial statements.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Authority Operations

The Lehigh-Northampton Airport Authority (the "Authority") was created pursuant to the Pennsylvania Municipality Authorities Act of 1945. The affairs of the Authority are conducted by a 15-member Board who are appointed by the executive officers of Lehigh and Northampton Counties. The Authority owns and operates the Lehigh Valley International Airport (LVIA), Braden Airpark and Queen City Airport, all located in Lehigh Valley, Pennsylvania.

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Net Position

The Authority's net position is classified as follows:

- *Net Investment in Capital Assets:* The Authority's investment in capital assets, net of outstanding debt obligations related to the acquisition, construction, or improvement of those assets.
- *Restricted Net Position:* Net position is reported as restricted when constraints placed on use are imposed externally. External restrictions are imposed by creditors, grantors, contributors, laws, or regulations of other governments. The Authority's restricted assets are expendable.
- *Unrestricted Net Position:* Net position whose use by the Authority is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board.

When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, then unrestricted resources as they are needed.

Revenue and Expense Classifications

The Authority classifies revenues and expenses as operating or non-operating.

Operating consists of revenue and expenses sources that constitute the principal ongoing activities of the Authority's operations and excludes infrequent operations and/or events. The major components of the Authority's operating revenue consist of landing fees, terminal, hangar, building and land rentals, concession fees, parking fees, ground handling fee, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the LVIA airfield and terminal areas. Hangar, building and land rentals are based on leases for various terms with fixed rates. Concession fees are determined as a percentage of gross monthly revenues as well as minimum rental guarantees.

The major components of the Authority's operating expenses consist of wages and benefits, contract services, advertising, materials, supplies, repairs and maintenance, utilities, taxes and insurance.

Non-operating and capital contributions consist of financing, investing and other activities, which do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of non-operating revenue are interest income, passenger and customer facility charges, and federal and state grant revenues. The major component of non-operating expenses is interest expense.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Concentrations

The primary source of net revenues is the Operating Agreements between the Authority and the airlines. The four major airlines at the Authority are Allegiant, American, Delta, and United. The financial results of the Authority are largely dependent upon conditions in the national economy and the U.S. airline industry. Accounts receivable have been adjusted for all known doubtful accounts.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash-on-hand, demand and time deposits, liquid investments, and debt instruments purchased with a maturity of three months or less, including restricted assets.

Restricted Assets

Funds are set aside as restricted assets, and they are not available for current expenses, when constraints placed on their use are legally enforceable due to either:

- *Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors.*
- *Laws or regulations of other governments.*
- *Constitutional provisions or enabling legislation.*

Restricted assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. When expenditures are incurred for which both restricted and unrestricted resources are available, it is the policy to apply restricted resources first, then unrestricted resources as needed.

Accounts Receivable and Allowance policy

Accounts Receivables are reported at present value less the estimated portion that is expected to be uncollectible. The Authority uses a specific identification method for its estimate of the allowance. As of December 31, 2017, the allowance for uncollectible accounts was \$57,358.

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the first-in, first-out (FIFO) method of accounting. Inventories are comprised of aviation fuel and fluids.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Assets acquired are stated at historical cost and include the expense of federal grants to construct and improve the facilities of the Authority. The capitalization threshold is \$5,000. Depreciation on property and equipment are computed under the straight-line method with rates varying based on the assets' estimated useful lives ranging from three to fifty years. Provision for depreciation has been calculated using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	3 - 15
Building and Systems	20 - 40
Master Plan	15 - 20
Land Improvements	5 - 40

The costs of property and aviation easements are not amortized as they have indefinite useful lives. Costs of studies for noise compatibility and roadways as well as master plan updates are amortized over the life of the plan.

Evaluation of Long-Lived Assets

The Authority accounts for long-lived assets under GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. This Statement requires the Authority to report the effects of capital asset impairments in its financial statements when they occur and to account for insurance recoveries in the same manner.

Compensated Absences

The Authority accounts for compensated absences by accruing a liability for employees' compensation of future absences in accordance with GASB No. 16 *Accounting for Compensated Absences*. Employees accrue vacation in varying amounts based on classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays. Paid time off (PTO), compensatory time, and sick pay vests as earned based on years of service. Sick time payout varies to a maximum of \$20 per day depending on job classification. As of December 31, 2017, the liability for the compensated absences was \$361,800.

Retainage Payable

The Authority enters into construction contracts that may include retainage provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Authority. The Authority's policy is to record the retainage payable only after completion of the work and acceptance of the contractor invoices have occurred. Retainage payable on completed and uncompleted contracts are included with accounts and retainages payable – capital on the accompanying statements of net position. As of December 31, 2017, the liability for Retainage was \$383,094.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period. The Authority's activities are related to recognition of changes in its defined benefit plans' net pension liability that will be amortized in future periods.

Net Pension Liability

The Authority has recorded a net pension liability reflecting the difference between the total pension liabilities and the fiduciary net positions of its' two single employer defined benefit plans. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position, and additions and deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the single employer defined benefit plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Grant Revenue Policy

Capital funding provided under government grants and agreements are considered earned as the related allowable expenses are incurred. Certain expenses for airport capital improvements are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA), with certain matching funds provided by the Authority. Grants and related agreements for the acquisition and construction of land, property and certain types of equipment are reported in the Statements of Revenues, Expenses and Changes in Net Position, after non-operating revenue and expenses, as capital contributions.

Passenger Facility Revenue and Customer Facility Charges

The Passenger Facility Charges and Customer Facility Charges are recognized as revenue in the financial statements when collected from airlines. There is no receivable recorded as there is no reasonable method of determining the amount.

New GASB Pronouncements

During 2017, the following GASB Pronouncements became effective:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

These new statements had no effect on the Authority's net position or changes therein.

Note 2 - Cash and Cash Equivalents - Restricted and Designated

Certain cash and cash equivalents are segregated from the Authority's operating cash to reflect certain requirements as follows as of December 31, 2017:

<u>Restricted</u>	
Operations and Maintenance Reserve - Noncurrent	\$ 3,233,106
Renewal and Replacement - Noncurrent	500,000
Bond Project Account - Current	4,330,739
Debt Service Fund - Current	2,786,096
	10,849,941
<u>Designated</u>	
AEP Scholarship Fund - Noncurrent	14,283
Leasehold Security Deposits - - Noncurrent	218,069
	232,352
	\$ 11,082,293

Operations and Maintenance Reserve Fund - The Authority is required by the continuing Bond Indenture to maintain at the end of each year a reserve fund of cash equal to 1/6 of the current year's original operating budget. These funds may only be utilized to make up any deficiencies in the Operating Fund.

Renewal and Replacement Fund - The Authority is required by the Series 1993 Bond Indenture to maintain, at the end of each year, a reserve fund of cash in the amount of \$500,000 which may be applied to pay the cost of major replacement, reconstruction, or repairs of the Authority's airport facilities.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2 - Cash and Cash Equivalents - Restricted and Designated (Continued)

Debt Service Fund - In 2015, the Authority issued 2015 series bonds. The set-up of the bonds required the establishment of several accounts such as construction project fund, a cost of issuance fund and an escrow holding fund for pending payments.

AEP Scholarship Fund - In 2013, the Authority established the Aviation & Aerospace Exposure and Education Program (AEP) Scholarship Fund. Beginning in 2016, the fund will pay a maximum of \$2,000 annually to Lehigh Valley area students interested in pursuing careers in aviation and aerospace. The AEP Scholarship Fund is a by-product of the Aviation & Aerospace Exposure and Education Program launched in late 2014. The program has exposed Lehigh Valley students to aviation and aerospace related careers, aeronautical facilities and equipment, including aircraft, spacecraft, ground vehicles, cooperative education projects and on-the-job training experiences.

Leasehold Security Deposits - Various tenants, as required by lease agreements, have deposited funds with the Authority as security on leased space.

Note 3 - Cash and Investments

Cash

Deposits in savings accounts or time deposits or share accounts of institutions are insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, approved collateral as provided by law is pledged by the depository. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions and small amounts of cash on hand at December 31, 2017. The difference between the carrying value and the bank balance is principally caused by outstanding checks and deposits in-transit. At December 31, 2017, the Authority's deposits consisted of the following:

	Carrying Value	Bank Balance
Demand Deposits	\$ 9,816,084	\$ 9,915,029
Money Market Funds	7,131,117	7,129,933
	\$ 16,947,201	\$ 17,044,963

Note 4 - Capital Grants Receivable

Capital Grants receivable represent reimbursable amounts for eligible grant expenditures:

U.S. Department of Transportation	\$ 1,590,459
Pennsylvania Department of Transportation	88,042
	\$ 1,678,501

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 5 - Capital Assets

A summary of changes in capital assets for the year ending December 31, 2017 are as follows:

	Balance January 1, 2017	Transfers and Additions	Transfers and Retirements	Balance December 31, 2017
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 61,906,635	\$ -	\$ -	\$ 61,906,635
Property and Avigation Easements	44,297,526	9,866	-	44,307,392
Construction in Progress	4,352,343	16,873,699	13,868,225	7,357,817
Total Capital Assets not Being Depreciated	110,556,504	16,883,565	13,868,225	113,571,844
<u>Other Capital Assets:</u>				
Land Improvements:				
Drainage and Landscaping	3,920,173	-	-	3,920,173
Landing Area Improvements	108,199,707	2,992,540	213,290	110,978,957
Road Improvements	3,547,312	192,657	-	3,739,969
Parking Facilities	5,247,933	845,387	-	6,093,320
	120,915,125	4,030,584	213,290	124,732,419
Buildings, Systems and Equipment:				
Terminal	63,386,400	7,949,571	599,788	70,736,183
Hangars	21,442,976	457,646	402,636	21,497,986
Property Acquisitions	1,605,420	-	-	1,605,420
Maintenance Building	2,493,284	41,259	-	2,534,543
Government Building	500,727	-	-	500,727
Fire Station	5,223,509	14,424	403,449	4,834,484
Equipment and Furnishings	29,588,731	3,504,325	937,397	32,155,659
	124,241,047	11,967,225	2,343,270	133,865,002
Capital Planning and Studies	1,651,046	389,298	574,592	1,465,752
Total Other Capital Assets	246,807,218	16,387,107	3,131,152	260,063,173
Total Capital Assets	357,363,722	33,270,672	16,999,377	373,635,017
<u>Less Accumulated Depreciation:</u>				
Noise Mitigation Easements	492,378	-	-	492,378
Land Improvements:				
Drainage and Landscaping	3,427,138	208,664	-	3,635,802
Landing Area Improvements	50,021,354	3,926,408	26,463	53,921,299
Road Improvements	3,243,075	71,322	-	3,314,397
Parking Facilities	3,488,012	137,693	-	3,625,705
Buildings, Systems and Equipment:				
Terminal	31,477,440	2,418,925	609,593	33,286,772
Hangars	11,523,509	583,078	325,669	11,780,918
Property Acquisitions	994,099	39,295	-	1,033,394
Maintenance Building	2,045,985	71,434	-	2,117,419
Government Building	213,983	21,392	-	235,375
Fire Station	1,685,771	141,025	403,449	1,423,347
Equipment and Furnishings	19,652,843	1,574,774	464,949	20,762,668
Capital Planning and Studies	1,249,136	256,077	569,057	936,156
Total Accumulated Depreciation	129,514,723	9,450,087	2,399,180	136,565,630
Total Other Capital Assets, Net	117,292,495	6,937,020	731,972	123,497,543
Total Capital Assets, Net	\$ 227,848,999	\$ 23,820,585	\$ 14,600,197	\$ 237,069,387

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 6 - Passenger Facility Charge Fund and Customer Facility Charge Fund

The Passenger Facility Charge (PFC) was established under the Aviation Safety and Capacity Expansion Act of 1990. The Act authorizes airports to impose a charge of \$4.50 on each fare-paying passenger enplaning at the facility. Charges are collected by the air carriers and remitted to the airport. Their use is restricted to eligible airport projects which will:

- a. Preserve or enhance capacity, safety, or security;
- b. Reduce noise resulting from an airport; or
- c. Furnish opportunities for enhanced competition between or among air carriers.

In March, 2005, the Authority was approved to impose and use up to \$27,940,236 of PFC revenue to fund the local share of various airport improvement projects. In 2017, the fund collected \$1,403,366. As of December 31, 2017, \$19,359,537 of PFC revenues have been collected and spent under this project. The current approved charge expires August 1, 2020.

The Customer Facility Charge (CFC) was established in October 2015 to fund capital improvements specific to the rental car concessionaires. In 2017, the fund collected \$331,034. The majority of the funds are being used to help fund the Multi-Modal Transportation project.

There are no cash balances for CFC account and a \$4,047 balance for the PFC account at December 31, 2017.

Note 7 - Long-Term Debt

A) Bonds Payable

On November 5, 2015, the Authority issued \$43,065,000 of Airport Revenue Refunding Bonds, Series 2015A, 2015B, 2015C and 2015D and the Airport Revenue Bonds Series 2015E (collectively the "Series 2015 Bonds") with maturities through January 1, 2035. The Series 2015A-D bonds totaling \$36,025,000, with an average interest rate of 2.41%, along with other available funds of the Authority, were used to (i) refund all of the Authority's outstanding Airport Revenue Bonds Series 2000 and Airport Revenue Refunding Bonds Series 2005, with an average interest rate of 5.81%, and (ii) pay the costs of issuance of the Series 2015 Bonds. The Series 2015E bonds in the amount of \$7,040,000 were used to fund capital purchases and pay issuance costs. The Authority refunded the Series 2000 and 2005 bonds to improve cash flow by refinancing at a lower interest rate to reduce overall debt service. The aggregate difference in debt service between the refunding debt and refunded debt was a savings of \$20,123,429 and the net present value savings from the change in debt service was \$16,825,167.

At December 31, 2017, the refunded Series 2000 and 2005 bonds being paid from escrow accounts had outstanding balances of \$27,765,000 and \$10,890,000, respectively.

The Bond Resolutions require the Authority to maintain several funds to meet specified requirements regarding debt service, costs of issuance and project costs. These funds are presently maintained by US Bank, N.A. The Authority reported they were in compliance at December 31, 2017.

Interest charged to expense on bond debt, amounted to \$1,052,729 in 2017.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 7 - Long-Term Debt (Continued)

A) Bonds Payable (Continued)

Bonds Payable consisted of the following at December 31, 2017:

2.44% Airport Revenue Refunding Bonds, Series 2015A, Due in Annual Installments on Each January 1, Beginning 2018 at \$125,000 Increasing to a Final Payment of \$2,990,000 in 2030.	\$ 24,645,000
2.50% Airport Revenue Refunding Bonds, Series 2015B, Due in Annual Installments on January 1, 2017 at \$430,000 and Final Payment of \$295,000 January 1, 2018.	295,000
2.24% Airport Revenue Refunding Bonds, Series 2015C, Due in Annual Installments on Each January 1, Beginning 2017 at \$1,230,000 Decreasing to a Final Payment of \$940,000 in 2023.	6,230,000
2.24% Airport Revenue Refunding Bonds, Series 2015D, Due in Annual Installments on Each January 1, Beginning 2017 at \$540,000 Decreasing to a Final Payment of \$370,000 in 2023.	2,655,000
3.48% Airport Revenue Bonds, Series 2015E, Due in Annual Installments on Each January 1, Beginning 2031 at \$1,310,000 Increasing to a Final Payment of \$1,510,000 in 2035.	7,040,000
	40,865,000
Less: Current Portion	(2,255,000)
Bonds Payable, Net of Current Portion	\$ 38,610,000

The future annual payments required to retire bond debt obligations are:

Year Ending December 31,	Series 2015		Total Debt Service
	Principal	Interest	
2018	\$ 2,255,000	\$ 1,023,277	\$ 3,278,277
2019	2,305,000	974,939	3,279,939
2020	2,360,000	921,221	3,281,221
2021-2025	12,650,000	3,738,329	16,388,329
2026-2030	14,255,000	2,111,351	16,366,351
2031-2035	7,040,000	629,706	7,669,706
Total	\$ 40,865,000	\$ 9,398,823	\$ 50,263,823

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 7 - Long-Term Debt (Continued)

B) Notes Payable

Rockefeller Property Loan

Payable in full upon the sale of property under agreement with Rockefeller
 Payable is \$776,615, including interest at zero percent. \$ 776,615

People's Security Bank & Trust Rent Credit

Capital Improvements credit valued at \$125,000 as a monthly rent
 credit over a 10 year period starting September 4, 2014 83,320

Van Allen - Queen City Rent Credit

Capital Improvements credit valued at \$13,692 as a monthly rent
 credit over a 1 year period starting February 1, 2017 1,141

Total Notes Payable	861,076
Less: Current Portion	(322,645)
Notes Payable, Net of Current Portion	\$ 538,431

Future annual scheduled principal payments on the notes payable during the next five years and thereafter are as follows:

Years Ending December 31:	
2018	\$ 790,260
2019	12,504
2020	12,504
2021	12,504
2022	12,504
Thereafter	20,800
	\$ 861,076

Interest charged to expense on notes payable amounted to \$1,411 in 2017. The \$3,100,000 credit note was paid off in full in 2017.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 7 - Long-Term Debt (Continued)

C) Changes in Long-Term Debt

	Balance January 1, 2017	Additions	Deductions/ Payments	Balance December 31, 2017	Amount Due In One Year
Bonds Payable - Series 2015	\$ 43,065,000	\$ -	\$ 2,200,000	40,865,000	\$ 2,255,000
Capital Leases	4,949,594	1,918,298	883,144	5,984,748	1,159,344
Notes Payable	1,097,419	13,692	250,035	861,076	(861,076)
Net Pension Liability	682,918	2,789,925	2,124,712	1,348,131	-
Total	<u>\$ 49,794,931</u>	<u>\$ 4,721,915</u>	<u>\$ 5,457,891</u>	<u>\$ 49,058,955</u>	<u>\$ 2,553,268</u>

Note 8 - Lease Commitments

Obligations Under Capital Lease

The Authority is obligated under certain leases accounted for as capital leases. Future minimum lease payments pertaining to these capitalized leases are due as follows:

Year Ending December 31,		
	2018	\$ 1,335,461
	2019	1,059,901
	2020	1,240,453
	2021	543,781
	2022-2025	1,301,252
	2026-2030	<u>1,384,125</u>
Total Minimum Lease Payments		6,864,973
Less: Amount Representing Interest		<u>(880,225)</u>
Present Value of Minimum Lease Payments		5,984,748
Less: Current Portion		<u>(1,159,344)</u>
Obligations Under Capital Lease - Noncurrent		<u>\$ 4,825,404</u>

Interest expense on capitalized leases amounted to \$182,306 in 2017.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 8 - Lease Commitments (Continued)

Property held under capital leases, included with building, systems and equipment on the statement of net position, consists of the following at December 31, 2017:

<u>Classification:</u>	
Equipment	\$ 3,997,354
Building Improvements	<u>3,661,584</u>
Total	7,658,938
Less: Accumulated Depreciation	<u>(1,674,190)</u>
Property and Equipment Under Capital Lease, Net	<u>\$ 5,984,748</u>

The Authority has an open lease that has not been finalized. The maximum value of this lease is \$1,100,000 and it will be finalized once all related capital assets have been purchased.

Obligations under Operating Leases

The Authority has several obligations for various equipment rentals which are accounted for as operating leases. The following is a schedule of future minimum rental payments for those operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2017.

Year Ending December 31,	
2018	\$ 705,059
2019	318,235
2020	168,178
2021	<u>625</u>
	<u>\$ 1,192,097</u>

Total rental expense under all operating leases reported in the accompanying Statement of Activities was \$1,090,806 for the year ended December 31, 2017.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 9 – Net Investment in Capital Assets and Restricted Net Position

Elements of Net Position consist of the following at December 31, 2017:

Net Investment in Capital Assets:

Capital Assets:

Land	\$ 61,906,635
Property and Avigation Easements	44,307,392
Construction in Progress	7,357,817
Land Improvements	124,732,419
Building, Systems & Equipment	133,865,002
Capital Planning and Studies	<u>1,465,752</u>
Total Capital Assets	373,635,017
Less: Accumulated Depreciation	<u>(136,565,630)</u>
Total Capital Assets, Net	237,069,387

Less: Related Liabilities and Proceeds:

Accounts and Retainage Payable - Capital	6,520,944
Notes Payable	861,076
Bonds Payable, Net	38,610,000
Less: Capital Related Bond Proceeds	(4,330,739)
Obligations Under Capital Leases	<u>5,984,748</u>
Total Related Liabilities and Proceeds	<u>47,646,029</u>
Net Investment in Capital Assets	<u><u>\$ 189,423,358</u></u>

Restricted Net Position:

Cash and Cash Equivalents, Restricted and Designated (Note 2)	\$ 3,965,458
Cash and Cash Equivalents - Debt Service Funds (Note 2)	<u>2,786,096</u>
Total Assets	<u>6,751,554</u>
Less: Related Liabilities from Restricted Assets:	
Bonds Payable - Current Portion (Note 7)	2,255,000
Accrued Bond Interest Payable	526,365
Leasehold Deposits	<u>217,967</u>
Total Related Liabilities	<u>2,999,332</u>
Restricted Net Position	<u><u>\$ 3,752,222</u></u>

None of the Authority's restricted net position is considered restricted by enabling legislation.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans

Defined Benefit Plan Descriptions

The Lehigh Northampton Airport Authority Non-Union Employees' Retirement Plan and the Lehigh Northampton Airport Authority Union Employees' Retirement Plan are single-employer defined benefit pension plans controlled by the provisions of the plan documents. The plans are governed by the Authority Pension Board which is made up of board and employee representatives. The employee representatives consist of a member of the Non-Union, a member of the Union and a member of the current retirees. The representatives are selected by the Board of Governors. The Pension Board may amend the plan provisions, and are responsible for management of the assets of the plans. The Pension Board has delegated custodial services and management of certain assets of the plans to outside advisors.

The Authority filed actuarial valuation reports Form 203C with the Public Employee Retirement Commission for each of the plans. The reports dated January 1, 2017, were the most recently certified by the municipality's chief administrative officer for the Non-Union and Union Plans. The reports indicated the municipality maintains pension plans to provide pension or retirement benefits for Non-Union and Union employees.

Plan Status	Non-Union	Union
Active Employees	75	60
Retirees and beneficiaries currently receiving benefits	30	38
Terminated employees entitled to benefits but not yet receiving them	36	19
Total	141	117

The plans prepare financial statements on the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. The pension plans' investments are reported at fair value. The plans do not issue separate audited financial statements.

Benefits Provided

The plans cover all full-time non-union and union employees upon completion of ninety days of credited service. The Pension Boards make determinations on benefit provisions.

The Non-Union plan's normal retirement date is at age 65 with five years of service and contains early retirement date clauses for age 60 and ten years of service or age 50 and twenty years of service. The Union plan's normal retirement date is at age 65 with ten years of service for Police and Firemen and 5 years for Teamsters; and contains an early retirement date clause for age 60 and ten years of service. Postponement of retirement dates and disability retirement are also allowed.

Retirement benefits vest 100% after 5 years of service under the Non-union plan and after 10 years of service under the Union Plan. Normal retirement benefits are computed at 3/4 of 1% of compensation for each year of credited service, plus 20% compensation in excess of covered compensation. Early retirement, disability, and death benefits are available under both plans. Other benefit plan provisions are similar for each plan.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans (Continued)

Contributions

The Pennsylvania Recovery Program for Municipal Pension Systems, Act 2015, requires that annual contributions to the plan be based upon the Minimum Municipal Obligation (MMO). The MMO is based on each plans' biennial actuarial valuation. In accordance with the governing documents of the plans, employees are not required to contribute to the plan.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

2017 Employer contributions to the Non-Union plan was \$367,310 and the Union plan was \$185,577. At December 31, the Authority did not have a payable to the plans.

Total Pension Liability

The components of the liability of the Authority to plan members for benefits provided through the pension plans (the net pension liability) was as follows:

	Non-Union	Union	Total
Total Pension Liability	\$ 7,587,948	\$ 6,849,993	\$ 14,437,941
Plan Fiduciary Net Position	6,861,144	6,228,666	13,089,810
Net Pension Liability	\$ 726,804	\$ 621,327	\$ 1,348,131
 Plan Fiduciary Net Position as a percentage of Total Pension Liability	 90.4%	 90.9%	 90.7%

The Authority's total pension liability was determined as part of a biennial actuarial valuation at January 1, 2017. The measurement date of the total pension liability was December 31, 2017. Update procedures were used to roll forward to the plan's fiscal year ended December 31, 2017. Total pension liability as of December 31, 2015 was determined using the following actuarial assumptions:

- Salary Increases – 4.50%
- Investment Return – 7.50% per year, net of investment expenses
- Mortality - The RP-2000 Mortality Table projected to 2017 using Scale AA
- Form of Annuity - Straight Life
- Retirement Age - Normal retirement age, or age on valuation date if greater
- Disability - None assumed
- COLA – None assumed
- Actuarial Cost Method – Entry Age Normal Cost

The actuarial assumptions were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2017.

For the January 1, 2017 actuarial valuations, both plans changed Salary Increases from 5.00% to 4.50% and Investment Return from 8.00% to 7.50%. In addition, both plans changed the mortality assumption from the RP-2000 Table to the RP-2000 Table projected to 2017 using Scale AA.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the investments of both pension plans was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 2.25%) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The two plans have similar targeted allocations and expected real rate of return. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Nonunion</u>		<u>Union</u>	
	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic Equity:				
Large Cap	40%	6.58%	40%	6.58%
Mid Cap	0%	7.39%	0%	7.39%
Small Cap	10%	7.39%	10%	7.39%
International Equity	10%	7.34%	10%	7.34%
Fixed Income	37%	2.84%	38%	2.84%
Emerging Markets	0%	10.68%	0%	10.68%
Cash	3%	0.50%	2%	0.50%
	<u>100%</u>		<u>100%</u>	

The annual money weighted rate of return on pension plan investments, net of pension plan investment expense, for the Non-Union plan was 7.11% and the Union plan was 7.10%. The Plan Fiduciary Net Position consisted of the following:

<u>Plan Fiduciary Net Position</u>	<u>Total of Both Plans</u>		
	<u>Non-Union</u>	<u>Union</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 197,073	\$ 130,701	\$ 327,774
Mutual Funds	<u>6,664,071</u>	<u>6,097,965</u>	<u>12,762,036</u>
Total	<u>\$ 6,861,144</u>	<u>\$ 6,228,666</u>	<u>\$ 13,089,810</u>

Under GASB, the investments are measured at fair value using Level 1.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for both plans. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans (Continued)

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Total for Both Plans		
		Plan	Net
	Total Pension Liability	Fiduciary Net Position	Pension Liability
Balances at 12/31/16	\$ 12,398,866	\$ 11,715,948	\$ 682,918
Changes for the year:			
Service cost	469,805	-	469,805
Interest	1,031,903	-	1,031,903
Differences Between Expected and Actual Experience	202,726	-	202,726
Changes in Assumptions	1,039,988	-	1,039,988
Employer contributions	-	552,887	(552,887)
Net investment income	-	1,571,825	(1,571,825)
Benefit payments	(705,347)	(705,347)	-
Administrative expenses	-	(45,503)	45,503
Balances at 12/31/17	<u>\$ 14,437,941</u>	<u>\$ 13,089,810</u>	<u>\$ 1,348,131</u>

	Non-Union Plan			Union Plan		
		Plan	Net		Plan	Net
	Total Pension Liability	Fiduciary Net Position	Pension Liability	Total Pension Liability	Fiduciary Net Position	Pension Liability
Balances at 12/31/16	\$ 6,418,378	\$ 6,112,103	\$ 306,275	\$ 5,980,488	\$ 5,603,845	\$ 376,643
Changes for the year:						
Service cost	300,532	-	300,532	169,273	-	169,273
Interest	543,886	-	543,886	488,017	-	488,017
Differences Between Expected and Actual Experience	202,686		202,686	40		40
Changes in Assumptions	537,977		537,977	502,011		502,011
Employer contributions	-	367,310	(367,310)	-	185,577	(185,577)
Net investment income	-	819,152	(819,152)	-	752,673	(752,673)
Benefit payments	(415,511)	(415,511)	-	(289,836)	(289,836)	-
Administrative expenses	-	(21,910)	21,910	-	(23,593)	23,593
Balances at 12/31/17	<u>\$ 7,587,948</u>	<u>\$ 6,861,144</u>	<u>\$ 726,804</u>	<u>\$ 6,849,993</u>	<u>\$ 6,228,666</u>	<u>\$ 621,327</u>

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Net Pension Liability (Asset):			
Non-Union Plan	\$ 1,643,347	\$ 726,804	\$ (43,503)
Union Plan	1,383,829	621,327	(29,809)
Total Net Pension Liability (Asset)	<u>\$ 3,027,176</u>	<u>\$ 1,348,131</u>	<u>\$ (73,312)</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Authority plans recognized pension expense of \$1,061,978, which included \$634,459 for Non-Union plan and \$427,519 for the Union plan. On December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Total of Both Plans</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 191,348	\$ 43,082
Changes in Assumptions	920,495	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	213,263
Total	<u>\$ 1,111,843</u>	<u>\$ 256,345</u>

	<u>Non-Union</u>		<u>Union</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Individual Plans				
Differences Between Expected and Actual Experience	\$ 191,348	\$ -	\$ -	\$ 43,082
Changes in Assumptions	480,005	-	440,490	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	115,662	-	97,601
Total	<u>\$ 671,353</u>	<u>\$ 115,662</u>	<u>\$ 440,490</u>	<u>\$ 140,683</u>

(Continued)

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10 - Retirement Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	<u>Total</u>	<u>Non-Union</u>	<u>Union</u>
2018	\$ 233,487	\$ 142,970	\$ 90,517
2019	194,740	116,686	78,054
2020	19,006	16,533	2,473
2021	9,670	7,197	2,473
2022	592	7,197	(6,605)
Thereafter	398,003	265,108	132,895
	<u>\$ 855,498</u>	<u>\$ 555,691</u>	<u>\$ 299,807</u>

Investment related deferrals are amortized over a 5-year period and other deferrals are amortized over the remaining service lives of plan members.

Defined Contribution Plan

Lehigh-Northampton Airport Authority Union Employee Retirement Plan sponsors defined contribution plans for each of the Fire, Police and Teamsters employees. These plans cover all full-time unionized employees after 90 days of service. The Authority is required to contribute \$.47 per hour for each hour a Teamster employee works and \$.18 per hour for each hour a Fire or Police employee works. Employer contributions to the plans were \$32,123 for the year ended December 31, 2017.

Lehigh-Northampton Airport Authority Non-Union Employee Retirement Plan sponsors a defined contribution plan for severance benefits to terminated regular, full-time non-union employees. Benefits accrue based upon length of service, currently at \$300 per each full year of service. Employer contributions to the plan were \$28,665 for the year ended December 31, 2017.

The Plans benefit provision and contribution rates are determined by the respective Authority Pension Boards. The Plans do not issue stand-alone financial statements.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 11 - Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees, permits employees to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is available to employees at termination, retirement, death or unforeseeable emergency.

Assets of the Plan are held in trust with Mass Mutual Insurance Company and accordingly are not included in the Authority's assets and liabilities. Investments are managed for participants by Mass Mutual under various investment funds selected by the participant. The choices of investments are held in trust by Mass Mutual.

Note 12 - Lease Revenues

The Authority leases certain of its capital assets, such as terminal space, hangars, and land to airlines and other tenants under operating leases. The airline terminal space rents are determined annually based upon actual operating costs of the related airport space. Such costs are allocated pro rata to each tenant based upon factors such as square footage. A majority of the airline terminal space leases, as well as other leases, are on a month-to-month basis and accordingly are not reflected in the schedule below. The minimum future lease payments to be received under the non-cancellable lease agreements as of December 31st are as follows:

Year Ending December 31,		
2018	\$	4,375,338
2019		3,762,321
2020		3,090,367
2021		1,412,834
2022		1,381,624
Thereafter		3,598,590
		\$ 17,621,074

The Authority leases hangars to New World Aviation under a lease expiring March, 2024 at approximately \$63,000 per month.

Some tenants have operating lease agreements for terminal space and/or hangar rentals and also have concessionaire contracts whereby they remit a portion of their revenues to the Authority.

The Authority leases land and building space located at Queen City Airport to the City of Allentown under a lease expiring Oct, 2025 at approximately \$10,397 per month.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 13 - Commitments and Contingencies

The Authority has elected to be a Self-Insured Reimbursable Employer in the Pennsylvania Unemployment Insurance Program. If any employees become eligible for unemployment insurance benefits, the Authority will be required to fund such benefits at that time.

The Authority has Self-Insurance Medical Plan for their full-time employees. The Authority has purchased a 115% aggregate stop loss protection and \$45,000 individual stop loss protection to wrap around the plan. In 2017, the Authority spent \$1,744,592 on this plan.

The Authority is under numerous facility construction and improvement contracts for which they are committed to 100% of the estimated costs of these projects. The majority of costs of the projects are funded through Federal and State grants and bond proceeds. The majority of contract commitments as of December 31, 2016 are already reflected in the balance sheet under Accounts and Retainage Payable-Capital.

The Authority has an agreement with the Catasauqua School District and Hanover Township to make payments in lieu of taxes levied at 7% and 3% of net parking revenue respectively.

REQUIRED SUPPLEMENTARY INFORMATION

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NON-UNION EMPLOYEES RETIREMENT PLAN
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS ENDED DECEMBER 31, 2017**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service Cost	\$ 153,664	\$ 186,571	\$ 195,900	\$ 300,532
Interest	442,607	469,249	490,465	543,886
Differences Between Expected and Actual Experience	-	14,821	-	202,686
Changes in Assumptions	-	-	-	537,977
Benefit Payments, Including Refunds of Member Contributions	<u>(227,859)</u>	<u>(394,089)</u>	<u>(405,803)</u>	<u>(415,511)</u>
Net Change in Total Pension Liability	368,412	276,552	280,562	1,169,570
Total Pension Liability - Beginning	<u>5,492,852</u>	<u>5,861,264</u>	<u>6,137,816</u>	<u>6,418,378</u>
Total Pension Liability - Ending	<u><u>\$ 5,861,264</u></u>	<u><u>\$ 6,137,816</u></u>	<u><u>\$ 6,418,378</u></u>	<u><u>\$ 7,587,948</u></u>
Plan Fiduciary Net Pension				
Contributions - Employer	\$ 199,425	\$ 233,962	\$ 231,968	\$ 367,310
Net Investment Income	325,671	(26,178)	411,905	819,152
Benefit Payments, Including Refunds of Member Contributions	(227,859)	(394,089)	(405,803)	(415,511)
Administrative Expense	<u>-</u>	<u>(8,120)</u>	<u>(6,475)</u>	<u>(21,910)</u>
Net Change in Plan Fiduciary Net Position	297,237	(194,425)	231,595	749,041
Plan Net Position - Beginning	<u>5,777,696</u>	<u>6,074,933</u>	<u>5,880,508</u>	<u>6,112,103</u>
Plan Net Position - Ending	<u><u>\$ 6,074,933</u></u>	<u><u>\$ 5,880,508</u></u>	<u><u>\$ 6,112,103</u></u>	<u><u>\$ 6,861,144</u></u>
Authority's Net Pension Liability	<u><u>\$ (213,669)</u></u>	<u><u>\$ 257,308</u></u>	<u><u>\$ 306,275</u></u>	<u><u>\$ 726,804</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>103.6%</u>	<u>95.8%</u>	<u>95.2%</u>	<u>90.4%</u>
Covered Payroll	<u><u>\$ 2,567,786</u></u>	<u><u>\$ 3,124,844</u></u>	<u><u>\$ 3,574,200</u></u>	<u><u>\$ 3,828,752</u></u>
Authority's Net Pension Liability as a Percentage of Covered Payroll	<u><u>-8.3%</u></u>	<u><u>8.2%</u></u>	<u><u>8.6%</u></u>	<u><u>19.0%</u></u>

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
UNION EMPLOYEES RETIREMENT PLAN
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS ENDED DECEMBER 31, 2017**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service Cost	\$ 105,621	\$ 101,313	\$ 106,379	\$ 169,273
Interest	420,314	432,211	453,278	488,017
Differences Between Expected and Actual Experience	-	(124,987)	-	40
Changes in Assumptions	-	-	-	502,011
Benefit Payments, Including Refunds of Member Contributions	<u>(222,878)</u>	<u>(272,963)</u>	<u>(277,538)</u>	<u>(289,836)</u>
Net Change in Total Pension Liability	303,057	135,574	282,119	869,505
Total Pension Liability - Beginning	<u>5,259,738</u>	<u>5,562,795</u>	<u>5,698,369</u>	<u>5,980,488</u>
Total Pension Liability - Ending	<u>\$ 5,562,795</u>	<u>\$ 5,698,369</u>	<u>\$ 5,980,488</u>	<u>\$ 6,849,993</u>
Plan Fiduciary Net Pension				
Contributions - Employer	\$ 152,341	\$ 156,573	\$ 115,146	\$ 185,577
Net Investment Income	299,392	(21,965)	377,105	752,673
Benefit Payments, Including Refunds of Member Contributions	(222,878)	(272,963)	(277,538)	(289,836)
Administrative Expense	<u>-</u>	<u>(8,280)</u>	<u>(4,200)</u>	<u>(23,593)</u>
Net Change in Plan Fiduciary Net Position	228,855	(146,635)	210,513	624,821
Plan Net Position - Beginning	<u>5,311,112</u>	<u>5,539,967</u>	<u>5,393,332</u>	<u>5,603,845</u>
Plan Net Position - Ending	<u>\$ 5,539,967</u>	<u>\$ 5,393,332</u>	<u>\$ 5,603,845</u>	<u>\$ 6,228,666</u>
Authority's Net Pension Liability	<u>\$ 22,828</u>	<u>\$ 305,037</u>	<u>\$ 376,643</u>	<u>\$ 621,327</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>99.6%</u>	<u>94.6%</u>	<u>93.7%</u>	<u>90.9%</u>
Covered Payroll	<u>\$ 1,807,026</u>	<u>\$ 1,886,125</u>	<u>\$ 2,222,600</u>	<u>\$ 2,175,520</u>
Authority's Net Pension Liability as a Percentage of Covered Payroll	<u>1.3%</u>	<u>16.2%</u>	<u>16.9%</u>	<u>28.6%</u>

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF AUTHORITY CONTRIBUTIONS - PENSION PLANS
FOR THE LAST TEN YEARS**

Lehigh-Northampton Airport Authority Non-Union Employees' Retirement Plan

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 253,583	\$ 288,635	\$ 326,346	\$ 272,108	\$ 245,286	\$ 224,819	\$ 199,425	\$ 233,962	\$ 215,473	\$ 231,968
Contributions in Relation to the Actuarially Determined Contribution	<u>253,583</u>	<u>288,635</u>	<u>326,346</u>	<u>272,108</u>	<u>245,286</u>	<u>224,819</u>	<u>199,425</u>	<u>233,962</u>	<u>231,968</u>	<u>367,310</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,495)</u>	<u>\$ (135,342)</u>
Covered Payroll	<u>\$ 3,179,592</u>	<u>\$ 3,630,390</u>	<u>\$ 3,583,305</u>	<u>\$ 2,876,876</u>	<u>\$ 3,036,347</u>	<u>\$ 2,678,624</u>	<u>\$ 2,567,786</u>	<u>\$ 3,124,844</u>	<u>\$ 3,574,200</u>	<u>\$ 3,828,752</u>
Contributions as a Percentage of Covered Payroll	<u>8.0%</u>	<u>8.0%</u>	<u>9.1%</u>	<u>9.5%</u>	<u>8.1%</u>	<u>8.4%</u>	<u>7.8%</u>	<u>7.5%</u>	<u>6.5%</u>	<u>9.6%</u>

Lehigh-Northampton Airport Authority Union Employees' Retirement Plan

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 45,001	\$ 49,963	\$ 171,932	\$ 152,396	\$ 140,309	\$ 132,677	\$ 152,341	\$ 156,573	\$ 117,777	\$ 115,146
Contributions in Relation to the Actuarially Determined Contribution	<u>45,001</u>	<u>49,963</u>	<u>171,932</u>	<u>152,396</u>	<u>140,309</u>	<u>132,677</u>	<u>152,341</u>	<u>156,573</u>	<u>115,145</u>	<u>185,577</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,632</u>	<u>\$ (70,431)</u>
Covered Payroll	<u>\$ 2,047,084</u>	<u>\$ 2,129,305</u>	<u>\$ 2,229,174</u>	<u>\$ 1,916,746</u>	<u>\$ 1,987,065</u>	<u>\$ 1,837,316</u>	<u>\$ 1,807,026</u>	<u>\$ 1,886,125</u>	<u>\$ 2,222,600</u>	<u>\$ 2,175,520</u>
Contributions as a Percentage of Covered Payroll	<u>2.2%</u>	<u>2.3%</u>	<u>7.7%</u>	<u>8.0%</u>	<u>7.1%</u>	<u>7.2%</u>	<u>8.4%</u>	<u>8.3%</u>	<u>5.2%</u>	<u>8.5%</u>

Notes to Schedule: Non-Union and Union

2017 Assumption Changes :

The interest rate assumption was lowered from 8.00% to 7.50% per annum.

The salary scale assumption was lowered from 5.00% to 4.5% per annum

The mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2017 using Scale AA.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF INVESTMENT RETURNS – PENSION PLANS
FOR THE LAST TEN FISCAL YEARS**

Lehigh-Northampton Airport Authority Non-Union Employees' Retirement Plan

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual Money-Weighted Rate of Return, Net of Investment Expenses	<u>6.01%</u>	<u>-0.06%</u>	<u>7.11%</u>	<u>13.48%</u>

Lehigh-Northampton Airport Authority Union Employees' Retirement Plan

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual Money-Weighted Rate of Return, Net of Investment Expenses	<u>6.04%</u>	<u>-0.02%</u>	<u>7.10%</u>	<u>13.59%</u>

Ultimately, this schedule should present return information for the last ten years. However, until ten years of information can be compiled, return information is presented for as many years as is available.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES - PENSION PLANS
YEAR ENDED DECEMBER 31, 2017**

Actuarial Methods

1. Liabilities - All plan benefits are valued using the entry age normal cost valuation method.
2. Assets - Plan assets are valued using market values except insurance holdings, if any, which are valued at reported contract values.

Actuarial Assumptions

1. Economic Assumptions
 - a) Investment Return: 7.50% per annum, net of investment expenses
 - b) Salary Increase: 4.50% compound annually
2. Demographic Assumptions
 - a) Mortality - The RP - 2000 Mortality Table projected to 2017 using Scale AA
 - b) Termination - Annual rates based on the following scale as a percentage:

<u>AGE</u>	<u>MALE</u>	<u>FEMALE</u>
25	12.50%	17.50%
40	6.00%	9.00%
55	0.00%	0.00%

- c) Disability - Non Assumed
- d) Retirement Age - normal retirement age or age on valuation date if greater
- e) Form of Annuity - Straight Life

SUPPLEMENTARY INFORMATION

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF DEPARTMENTAL REVENUE AND EXPENSES
YEAR ENDED DECEMBER 31, 2017

Cost Centers	Revenue		Operating Expenses					Allocated Expenses	Total Expenses	Income (Loss) from Operations before Capital
	Operating Revenue	Wages & Benefits	Contract Services Advertising Other	Materials Supplies Repairs & Maint	Utilities Taxes Insurance	Cost of Sale - Fuel				
Airfield	\$ 5,573,968	\$ 2,217,850	\$ 286,942	\$ 423,901	\$ 40,288	\$ -	\$ 993,654	\$ 3,962,635	\$ 1,611,333	
Terminal	5,421,285	1,835,126	253,659	388,407	319,424	-	1,766,476	4,563,092	858,193	
Parking and Roadway	4,443,155	446,829	139,265	66,369	432,921	-	60,899	1,146,283	3,296,872	
Aviation Leased Area	2,598,206	69,421	33,891	90,342	213,836	-	430,003	837,493	1,760,713	
Non-Aviation Leased Area	518,521	43,526	11,994	37,242	142,869	-	32,141	267,772	250,749	
Ground Handling	6,103,551	2,683,209	904,182	167,859	31,210	209,335	794,525	4,790,320	1,313,231	
Aviation Services	4,610,831	1,426,514	349,625	94,168	125,952	817,786	206,378	3,020,423	1,590,408	
Advertising	292,010	61,221	57,460	150	-	-	13,097	131,928	160,082	
Administrative	-	1,911,808	832,497	15,522	-	-	30,450	2,790,277	(2,790,277)	
Allocated Expenses	-	2,531,378	1,043,303	137,448	653,386	-	(4,365,515)	-	-	
Total LVIA	29,561,527	13,226,882	3,912,818	1,421,408	1,959,886	1,027,121	(37,892)	21,510,223	8,051,304	
Queen City Airport	992,501	292,797	65,784	67,175	36,444	306,399	21,991	790,590	201,910	
Braden Airpark	113,601	99,570	17,031	26,766	9,304	25,222	15,901	193,794	(80,193)	
Total	\$ 30,667,629	\$ 13,619,249	\$ 3,995,633	\$ 1,515,349	\$ 2,005,634	\$ 1,358,742	\$ -	\$ 22,494,607	\$ 8,173,022	

Allocated Expenses are for shared non-administrative expenses. These expenses are allocated to respective cost center by their appropriate cost driver. Allocated expenses include Police, Fire, IT, shared development and planning expenses. Administrative Expenses include costs associated with the Executive Director, Board, Finance, Marketing and Human Resources.

See independent auditors' report on required supplementary information.

LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES:	Lehigh Valley International Airport	Queen City Airport	Braden Airpark	Total
Airfield				
Landing Fees	\$ 4,842,467	\$ -	\$ -	\$ 4,842,467
Apron Parking Fees	618,749	-	-	618,749
Land Rents	112,752	-	-	112,752
Total	<u>5,573,968</u>	-	-	<u>5,573,968</u>
Terminal and Concessions				
Terminal:				
Airlines	3,290,576	-	-	3,290,576
Utility Fees & Other	40,308	-	-	40,308
Subtotal	<u>3,330,884</u>	-	-	<u>3,330,884</u>
Concessions:				
Concession & Other	512,114	-	-	512,114
Rental Cars	1,327,624	-	-	1,327,624
Restaurant/Newsstand	214,914	-	-	214,914
Other	35,749	-	-	35,749
Subtotal	<u>2,090,401</u>	-	-	<u>2,090,401</u>
Subtotal Terminal and Concessions	<u>5,421,285</u>	-	-	<u>5,421,285</u>
Parking and Roadways	<u>4,443,155</u>	-	-	<u>4,443,155</u>
Building & Hanger Leases				
Hanger Rents	2,249,876	84,140	63,313	2,397,329
T-Hangars	178,163	215,021	15,659	408,843
Building Rents	508,021	40,882	-	548,903
Land Rents	10,500	141,913	-	152,413
Ramp, Gatecard and Other Income	170,167	19,115	138	189,420
Total	<u>3,116,727</u>	<u>501,071</u>	<u>79,110</u>	<u>3,696,908</u>
Ground Handling	<u>6,103,551</u>	-	-	<u>6,103,551</u>
Fuel & Handling				
Fuel Sales	1,941,720	486,728	34,491	2,462,939
Landing Fees	154,377	-	-	154,377
Into Plane Fees	2,243,830	-	-	2,243,830
Hangar & Ramp Rentals	264,100	-	-	264,100
Miscellaneous Income	6,804	4,702	-	11,506
Total	<u>4,610,831</u>	<u>491,430</u>	<u>34,491</u>	<u>5,136,752</u>
Advertising	<u>292,010</u>	-	-	<u>292,010</u>
Total Operating Revenues	<u>\$ 29,561,527</u>	<u>\$ 992,501</u>	<u>\$ 113,601</u>	<u>\$ 30,667,629</u>

See independent auditors' report on required supplementary information.

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

<u>Grant Title</u>	Federal CFDA Number	Grant Number	Program or Award Amount	Cash Awards Received During Year	Grant Receivable Beginning of Year	Revenue Recognized During Year	Eligible Federal Expenditures During Year	Grant Receivable End of Year
Department of Transportation								
Airport Improvement Program - Direct Awards:								
RW 13/31 Safety Area, PH IV	20.106	3-42-0001-92-12	\$ 5,505,919	\$ 323,716	\$ 136,133	\$ 187,583	\$ 187,583	\$ -
R/W 13-31 EMAS Phase V	20.106	3-42-0001-94-13	2,648,909	333,758	333,758	-	-	-
Noise Mitigation Measures, Ph II	20.106	3-42-0001-95-13	1,396,309	35,060	26,182	8,879	8,879	-
Noise Compatibility Plan Study	20.106	3-42-0001-96-13	240,939	20,581	20,581	-	-	-
R/W 13-31 Safety Area, PH V	20.106	3-42-0001-98-14	11,420,821	417,655	417,655	-	-	-
ARFF Vehicle & Equipment	20.106	3-42-0001-100-2016	797,794	-	48,101	748,841	748,841	796,942
Update Airport Master Plan & Obstruction Study	20.106	3-42-0001-101-2016	1,182,600	535,188	246,755	618,676	618,676	330,243
Rehabilitate Runway 6/24 - Phase I	20.106	3-42-0001-102-2016	189,450	86,474	2,700	186,750	186,750	102,977
Acquire Snow Removal Equipment	20.106	3-42-0001-103-2017	1,107,010	-	-	-	-	-
Rehab Runway 6/24 - Phase II	20.106	3-42-0001-104-2017	1,461,431	-	-	294,722	294,722	294,722
QC Conduct Misc. Study (Obstruction)	20.106	3-42-0002-019-2013	104,188	68,849	24,035	44,814	44,814	-
QC Conduct Drainage/Storm Water Management Study	20.106	3-42-0002-020-2016	135,000	47,710	1,350	58,983	58,983	12,623
QC Remove Obstructions - Environmental Assessment Ph 1	20.106	3-42-0002-021-2017	79,830	-	-	-	-	-
QC Update Airport Master Plan Study	20.106	3-42-0002-022-2017	147,330	-	-	52,952	52,952	52,952
TOTAL			<u>\$ 26,417,530</u>	<u>\$ 1,868,991</u>	<u>\$ 1,257,250</u>	<u>\$ 2,202,200</u>	<u>\$ 2,202,200</u>	<u>\$ 1,590,459</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

1. Basis of Presentation

General: The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Authority on the accrual basis of accounting. The Authority's reporting entity is defined in Note 1 to the financial statements.

Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Authority under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with 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). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the statements of net position, statements of revenues, expenses and changes in net position, or statements of cash flows of the Authority.

Basis of Accounting and Cost Principles: Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Authority's financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State and Local Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Authority has not elected to use the 10-percent de-minimus indirect cost rate as allowed under the Uniform Guidance.

Subrecipients: Of the Federal expenditures presented in the schedule, the Authority did not provide any Federal awards to subrecipients.

Non-Cash and Federal Insurance: The Authority did not receive non-cash assistance or have Federal insurance in effect during the year

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 Governors
Lehigh-Northampton Airport Authority
Allentown, Pennsylvania

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 Lehigh-Northampton Airport Authority (the "Authority") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements are free of 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 over financial reporting 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 22, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Governors
Lehigh-Northampton Airport Authority
Allentown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Lehigh-Northampton Airport Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is 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 the federal statutes, regulations, and 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 the Authority's major federal program 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 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 Authority'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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Authority 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 Authority'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 Authority'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.


Crowe Horwath LLP

Indianapolis, Indiana
May 22, 2018

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

<i>Financial Statements</i>		
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified?	_____	___X___ none reported
Noncompliance material to financial statements noted?	_____ yes	___X___ no
<i>Federal Awards</i>		
Internal control over major federal programs:		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified?	_____	___X___ none reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes	___X___ no
Identification of major federal programs:	Name of Federal Program or Cluster:	
CFDA Number(s) 20.106	Airport Improvement Program	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	___X___ yes	_____ no

SECTION II - FINANCIAL STATEMENT FINDINGS
None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
None

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2017**

There were no findings reported in the prior year and no open findings.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY
CHARGE (PFC) PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE AND THE SCHEDULE OF PASSENGER
FACILITY CHARGES COLLECTED AND EXPENDED

Board of Governors
Lehigh-Northampton Airport Authority
Allentown, Pennsylvania

Report on Compliance of Passenger Facility Charges

We have audited the Lehigh-Northampton Airport Authority's (the "Authority") compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration ("Guide"), that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2017.

Management's Responsibility

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, and regulations, applicable to the passenger facility charge program. Management of the Authority is also responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's compliance 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 Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority'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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

Opinion on Passenger Facility Charge Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Authority 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 Authority's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance, 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 Authority'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 *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Authority as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated May 22, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the Guide 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 schedule of passenger facility charges collected and expended is fairly stated in all material respects, in relation to the basic financial statements as a whole.


Crowe Horwath LLP

Indianapolis, Indiana
May 22, 2018

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES - PASSENGER FACILITY CHARGES
 YEAR ENDED DECEMBER 31, 2017**

Project Application #/Description: #05-07-C-00-ABE "Main Terminal Renovation and Additions"

Approved Amount: \$27,940,236

Term: July 1, 2005 to August 1, 2020

	Current Year	Cumulative
Beginning Balances, Unliquidated PFC Revenue Account	\$ 3,547	\$ 3,547
PFC Revenue Collected	1,403,366	19,353,427
Interest Earned on PFC Deposits	179	6,110
Project Expenditures	1,403,045	19,359,037
Ending Balance, Unliquidated PFC Revenue Account	\$ 4,047	\$ 4,047

See accountants' report on supplementary information

**LEHIGH-NORTHAMPTON AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017**

Summary of Auditor's Results

We have issued an unmodified opinion, dated May 22, 2018 on the financial statements of the Authority as of and for the year ended December 31, 2017.

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over the passenger facility charge program.

Our audit disclosed no instances of non-compliance which are material to the Authority's financial statements.

We have issued an unmodified opinion, dated May 22, 2018 on the Authority's compliance for the passenger facility charge program.

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with the Passenger Facility Charge Audit Guide for Public Agencies.

Findings and Questioned Costs for the Passenger Facility Charge Program

Our audit disclosed no findings or questioned costs for passenger facility charge program as defined by the Passenger Facility Charge Audit Guide for Public Agencies.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The prior year's audit disclosed no findings required to be reported in accordance with the provisions of the Passenger Facility Charge Audit Guide for Public Agencies.