CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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.

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note A to the basic financial statements, the financial statements present only the Divisions and do not purport to, and do not present fairly the financial position of the City of Cleveland as of December 31, 2014 and 2013, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of airport revenues and operating expenses as defined in the airline use agreement for the year ended December 31, 2014 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. The schedule of airport revenues and operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 24, 2015

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the years ended December 31, 2014 and December 31, 2013. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 18.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airports of the City. The Divisions operate a major public airport and a reliever airport serving not only the City of Cleveland, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2014, the Divisions were served by 25 scheduled airlines and four cargo airlines. There were 57,700 scheduled landings with landed weight amounting to 4,773,831,000 pounds. There were 3,797,000 passengers enplaned at Cleveland Hopkins International Airport and 78,000 passengers enplaned at Burke Lakefront Airport during 2014. In 2013, the Divisions were served by 26 scheduled airlines and four cargo airlines. There were 83,000 scheduled landings with landed weight amounting to 5,724,892,000 pounds. There were 4,526,000 passengers enplaned at Cleveland Hopkins International Airport and 74,000 passengers enplaned at Burke Lakefront Airport during 2013.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Divisions exceeded its liabilities (net position) by $361,167,000, $370,685,000 and $377,503,000 at December 31, 2014, 2013 and 2012, respectively. Of these amounts, $124,352,000, $114,010,000 and $120,809,000 (unrestricted net position) at December 31, 2014, 2013 and 2012, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net position decreased by $9,518,000 in 2014. This is primarily due to decreases in grant revenue and Passenger Facility Charge (PFC) revenue.

- Additions to construction in progress totaled $19,718,000, $19,260,000 and $19,434,000 in 2014, 2013 and 2012, respectively.

- The major capital expenses during 2014 were the Power Distribution Enhancement project, Phase II, the Terminal Terrazzo Flooring project, the Regional Transit Authority (RTA) Level Art Gallery project, Parking Redevelopment project and the Consolidated Maintenance Facility project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Divisions' total bonded debt decreased by $32,120,000 in 2014, decreased by $16,285,000 in 2013 and decreased $27,955,000 during 2012. In 2014, the City issued $24,255,000 Airport System Revenue Bonds, Series 2014A and $9,070,000 Airport System Revenue Bonds, Series 2014B, to refund the outstanding $24,255,000 Airport System Revenue Bonds, Series 2009A and the $9,070,000 Airport System Revenue Bonds, Series 2009B, respectively. In 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A, to refund the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F. In 2012, the City issued $235,150,000 of Airport System Revenue Bonds, Series 2012A, to refund all of the outstanding Airport System Revenue Bonds, Series 2000A. The key factors for the decreases in 2014, 2013 and 2012 were the scheduled principal payments on the Divisions' outstanding Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Divisions' basic financial statements. The accompanying financial statements present financial information for the City of Cleveland's Divisions of Cleveland Hopkins International and Burke Lakefront Airports Fund, in which the City accounts for the operations of the Department of Port Control. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Divisions are considered an Enterprise Fund because the operations of the Divisions are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Divisions, the economic resources measurement focus and the accrual basis of accounting is used. This is similar to businesses in the private sector.

The basic financial statements of the Divisions can be found on pages 18-23 of this report.

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 25-42 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSTION INFORMATION

Provided below is condensed statement of net position information for the Divisions as of December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(Amounts in 000's)	
Assets and deferred outflows of resources:			
Assets:			
Current assets	$ 108,335	$ 114,676	$ 110,955
Restricted assets	246,106	260,981	288,296
Capital assets, net	867,341	896,355	895,018
Total assets	1,221,782	1,272,012	1,294,269
Deferred outflows of resources:			
Loss on refunding	21,762	24,482	26,976
Total deferred outflows of resources	21,762	24,482	26,976
Total assets and deferred outflows of resources	1,243,544	1,296,494	1,321,245
Liabilities and net position:			
Liabilities:			
Current liabilities	69,821	76,918	59,189
Long-term obligations	812,556	848,891	884,553
Total liabilities	882,377	925,809	943,742
Net position:			
Net investment in capital assets	97,689	119,552	127,557
Restricted for debt service	127,401	126,799	111,467
Restricted for passenger facility charges	11,725	10,324	17,670
Unrestricted	124,352	114,010	120,809
Total net position	361,167	370,685	377,503
Total liabilities and net position	$ 1,243,544	$ 1,296,494	$ 1,321,245

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: Total assets and deferred outflows of resources decreased $52,950,000 or 4.1% in 2014. The change is primarily due to a decrease in restricted assets of $14,875,000 and a decrease in net capital assets of $29,014,000. The change in restricted assets was due to a decrease in restricted cash and cash equivalents; whereas, the change in capital assets is due to construction and land improvement spending offset by depreciation. In 2013, total assets and deferred outflows of resources decreased $24,751,000 or 1.9%. The change is primarily due to a decrease in restricted assets of $27,315,000; which was due to higher construction and infrastructure spending offset by an increase of current cash and cash and cash equivalents and investments**.**

Capital assets: The Divisions’ investment in capital assets as of December 31, 2014 amounted to $867,341,000 (net of accumulated depreciation), which is a decrease of 3.2%. The Divisions’ investment in capital assets as of December 31, 2013 amounted to $896,355,000 (net of accumulated depreciation), which was an increase of 0.1%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure; vehicles; and construction in progress. A summary of the activity in the Divisions’ capital assets during the year ended December 31, 2014 is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	75,655	8,517		84,172
Buildings, structures and improvements	335,589	5,355		340,944
Furniture, fixtures and equipment	31,803	579	(100)	32,282
Infrastructure	996,934	3,464		1,000,398
Vehicles	15,439	609	(280)	15,768
Total	1,622,877	18,524	(380)	1,641,021
Less: Accumulated depreciation	(769,366)	(52,351)	371	(821,346)
Total	853,511	(33,827)	(9)	819,675
Construction in progress	42,844	19,718	(14,896)	47,666
Capital assets, net	$ 896,355	$ (14,109)	$ (14,905)	$ 867,341

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2013 is as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	74,153	5,562	(4,060)	75,655
Buildings, structures and improvements	334,242	8,467	(7,120)	335,589
Furniture, fixtures and equipment	29,168	2,677	(42)	31,803
Infrastructure	975,801	21,133		996,934
Vehicles	14,651	1,021	(233)	15,439
Total	1,595,472	38,860	(11,455)	1,622,877
Less: Accumulated depreciation	(729,465)	(50,865)	10,964	(769,366)
Total	866,007	(12,005)	(491)	853,511
Construction in progress	29,011	19,260	(5,427)	42,844
Capital assets, net	$ 895,018	$ 7,255	$ (5,918)	$ 896,355

Major events during 2014 and 2013 affecting the Divisions' capital assets included the following:

- Power Distribution Enhancement Project, Phase II: The Airport has experienced significant power outages on several occasions over the years. Consequently, a project was developed to permit the airport to function effectively and to provide an adequate level of operations, safety and security in the event of another power outage. Phase I involved the purchase and installation of four (4) generators in November 2011. Phase IIA consisted of upgrading existing electrical vaults to increase the areas served by emergency generators. The project design began in late 2012 and construction was substantially completed in 2013. Phase IIB calls for a redundant feeder system that will allow power to be supplied to the Terminal uninterrupted from either substation. Design for the project began in 2013 and construction is expected to be complete in 2015.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

- Terminal Terrazzo Flooring Project: The first phase of the Cleveland Hopkins International Airport (CLE) terrazzo floor and artwork installation project began in January 2011 and continued throughout 2013. The project consists of removing old flooring and carpet to replace them with terrazzo starting at security checkpoint C, continuing up Concourse C, then proceeding to Concourses A and B. Also, as part of the terrazzo flooring project, artwork selected from an airport artist competition will be installed into select floor locations. Six of the seven select art pieces were installed by the end of 2013. The entire project was completed in August 2014.

- RTA Level Art Gallery Project: Construction for this project commenced at the end of 2011 and involved the transformation of the CLE RTA level interior from a standard passageway into a formal art gallery. The effort includes replacement of all flooring, walls, stair treads and columns to allow wall and floor artwork to be shown. The space will also hold cultural exhibits/performances as required. Also being planned for the art gallery is a formal dedication display to former Congresswoman Stephanie Tubbs Jones. Phase I of the project was substantially completed in April 2012 and Phase II was complete in October 2014.

- The Parking Redevelopment Project, Phase I consists of demolition of the Long-Term Garage and replacing the garage with a 1,100 space surface parking lot. The demolition and parking were completed in 2013. The project also improved several of the existing peripheral lots and included the installation of smart parking technology which increased the efficiency of the existing Short-Term Garage usage. The smart parking installation was completed in 2013. In 2014, a parking management building and access structure was constructed. All major aspects of the project are substantially complete.

- The Consolidated Maintenance Facility (CMF) IIIB Project: This project is to provide an adequate chemical and sand storage facility. The Division is relocating all airfield and equipment maintenance functions and storage to a centralized location. Construction for this project began in 2014 and will be substantially completed in 2015.

Additional information on the Divisions' capital assets, including commitments made for future capital expenses can be found in Note A – Summary of Significant Accounting Policies and Note F – Capital Assets to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Liabilities: In 2014, total liabilities decreased $43,432,000 or 4.7%. The decrease in long-term obligations was $36,335,000 or 4.3%. Current liabilities decreased $7,097,000 or 9.2% as a result of decreases in the landing fee adjustment and construction accounts due to lower construction spending at year end. In 2013, total liabilities decreased $17,933,000. The decrease in long-term obligations was $35,662,000 or 4.0%. Current liabilities increased $17,729,000 or 30.0% as a result of increases in the current portion of long-term debt, an increase in the landing fee adjustment and an increase in the construction fund due to higher construction spending.

Long-term debt: At December 31, 2014 and 2013, the Divisions' had $815,525,000 and $847,645,000, respectively, in total bonded debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2014 is summarized below:

	Balance January 1, 2014	Debt Issued	Debt Retired	Balance December 31, 2014
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 149,000	$	$ (5,200)	$ 143,800
Series 2006	113,715		(7,160)	106,555
Series 2007	9,095		(570)	8,525
Series 2008	5,975			5,975
Series 2009	205,205		(45,195)	160,010
Series 2011	71,505		(7,320)	64,185
Series 2012	235,150			235,150
Series 2013	58,000			58,000
Series 2014		33,325		33,325
Total	$ 847,645	$ 33,325	$ (65,445)	$ 815,525

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2013 is summarized below:

	Balance January 1, 2013	Debt Issued	Debt Retired	Balance December 31, 2013
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 149,000	$	$	$ 149,000
Series 2006	115,025		(1,310)	113,715
Series 2007	9,645		(550)	9,095
Series 2008	63,975		(58,000)	5,975
Series 2009	216,750		(11,545)	205,205
Series 2011	74,385		(2,880)	71,505
Series 2012	235,150			235,150
Series 2013		58,000		58,000
Total	$ 863,930	$ 58,000	$ (74,285)	$ 847,645

The bond ratings from Moody's Investors Service, Standard & Poor's Rating Service and Fitch Ratings are as follows:

Moody's Investors Service	Standard & Poor's Rating Service	Fitch Ratings
Baa1	A-	BBB+

Effective February 5, 2014, Fitch Ratings downgraded its rating on Cleveland Airport Revenue Bonds to BBB+ (negative outlook) from A- (negative outlook).

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Divisions' debt position to management, customers and creditors. The Divisions' revenue bond coverage for 2014, 2013 and 2012, was 138%, 130% and 166%, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Additional information on the Divisions' long-term debt can be found in Note B – Long-Term Debt and Other Obligations to the basic financial statements.

Net Position: Net position serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets and deferred outflows of resources exceed liabilities by $361,167,000, $370,685,000 and $377,503,000 at December 31, 2014, 2013 and 2012, respectively. Of the Divisions' net position at December 31, 2014 and 2013, $97,689,000 and $119,552,000, respectively, reflects its investment in capital assets (e.g., construction in progress; land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; vehicles; and infrastructure), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending.

Although the Divisions' investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Divisions' net position represents resources that are subject to external restrictions. At December 31, 2014 and 2013 the restricted net position amounted to $139,126,000 and $137,123,000, respectively. The restricted net position include amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures and passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger facility charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net position, $124,352,000 and $114,010,000 for December 31, 2014 and 2013, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION

The Divisions' net position decreased by $9,518,000 in 2014 and decreased by $6,818,000 in 2013. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(Amounts in 000's)	
Operating revenues:			
Landing fees	$ 32,822	$ 31,025	$ 36,676
Terminal and concourse rentals	62,874	52,039	52,133
Concessions	31,786	24,055	21,960
Utility sales and other	4,242	6,125	3,874
Total operating revenues	131,724	113,244	114,643
Operating expenses	124,452	118,029	119,396
Operating income (loss)	7,272	(4,785)	(4,753)
Non-operating revenue (expense):			
Passenger facility charges revenue	14,798	17,716	17,832
Non-operating expense	(3,778)	(2,207)	(6,300)
Sound insulation program	(1,250)	(2,197)	(577)
Loss on disposal of capital asset	(9)	(491)	(59)
Investment income (loss)	115	257	272
Interest expense	(32,095)	(33,105)	(29,571)
Amortization of bond discounts/premiums, loss on debt refundings	494	746	2,782
Total non-operating revenue (expense), net	(21,725)	(19,281)	(15,621)
Capital and other contributions	4,935	17,248	9,149
Increase (decrease) in net position	(9,518)	(6,818)	(11,225)
Net position, beginning of year	370,685	377,503	388,728
Net position, end of year	$ 361,167	$ 370,685	$ 377,503

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION (Continued)

***Operating revenues**:* Operating revenues for 2014 were $131,724,000. Of this amount, $31,116,000 or 23.6% represented landing fees received from signatory airlines. This is a positive change in signatory landing fees of 8.4% from the prior year due to an increase in airline revenue and non-airline revenue. Signatory terminal rentals accounted for $48,827,000 or 37.1% of total operating revenues. Parking revenues increased 46.6% over the prior year due to an increase in parking rates, an increased demand for services such as valet airport parking, economy parking usage and employee parking fees. Parking revenues amounted to $22,834,000 or 17.3% of total operating revenues for 2014. The fourth largest airport revenue source, rental cars, accounted for 7.9% of total operating revenues.

Operating revenues for 2013 were $113,244,000. Of this amount, $28,710,000 or 25.4% represented landing fees received from signatory airlines. This is a negative change in signatory landing fees of 17.8% from the prior year due to an increase in non-airline revenue. Signatory terminal rentals accounted for $35,601,000, or 31.4% of total operating revenues. Parking revenues increased 14.2% over the prior year due to an increase in the demand for services such as valet airport parking and economy parking usage. Parking revenues amounted to $15,581,000 or 13.8% of total operating revenues for 2013. The fourth largest airport revenue source, rental cars, accounted for 8.6% of total operating revenues.

***Operating expenses**:* Total operating expenses for 2014 increased $6,423,000 or 5.4%. The increase is primarily due to higher insurance, taxes, professional fees, bad debt and depreciation of $6,481,000 or 8.9%. Total operating expenses for 2013 decreased $1,367,000 or 1.1%. The decrease is primarily due to lower salaries, wages and benefits of $1,086,000 or 3.7% in addition to lower maintenance costs.

Non-operating revenue and expense: Expenses related to the Residential Sound Insulation Program (RSIP) were $1,250,000, $2,197,000 and $577,000 in 2014, 2013 and 2012, respectively. Passenger facility charge revenues were $14,798,000, $17,716,000 and $17,832,000 in 2014, 2013 and 2012, respectively. Interest expense decreased $1,010,000 or 3.1% in 2014 relating to decreased interest payments on debt.

Capital and other contributions: In 2014, 2013 and 2012, the Divisions' received $4,935,000, $17,248,000 and $9,149,000, respectively, in Federal Airport Improvement, Transportation Security Administration Law Enforcement Officer (TSA LEO) and Canine Grants. In 2014, Airport Improvement Program Grants were received primarily for a letter of intent (LOI) reimbursement and Residential Sound Insulation Program. The 2013 Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the Burke RSA project, airfield safety improvements, RSIP and the acquisition of snow-melters.

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS

Continental Airlines and United Airlines (collectively Continental) entered into a Settlement Agreement (Agreement) with the Office of the Attorney General of the State of Ohio (AG) effective October 31, 2010 (Merger Closing Date) to resolve the AG's investigation of the antitrust implications of their proposed merger. Pursuant to the terms of the Agreement Continental agreed to maintain, for a period of 24-months from the Merger Closing Date, average daily departures from the Airport at no less then ninety (90%) percent of average daily departures in the year prior to the Merger Closing Date (Base Departure Commitment). In addition the Agreement contains an additional three year commitment for average daily departures at the Base Departure Commitment level subject to certain metrics based on Airport segment profitability as more fully outlined in the Agreement. The Agreement gives the AG's office the right to audit Airport segment profitability at Continental's expense up to $80,000 per annum. Continental also agreed to maintain its current Airport aircraft maintenance facility at a level of operations commensurate with the 12-month period immediately preceding the merger. Any reduction in the Base Departure Commitment may result in a reduction in aircraft maintenance facility operations. Other commitments include continuation of the Cleveland Air Service Working Group during the effective period of the Agreement and a penalty based on an amount equal to the percentage by which Continental is found to have breached its minimum departure commitments of $20 million. Pursuant to the terms of a separate Memorandum of Understanding between the City and the AG's office any monies collected from Continental pursuant to this penalty will be forwarded to the City. The AG's office has also agreed to inform the City whether, as a result of its audits any of the metrics outlined in the Agreement have been triggered or are likely to be triggered.

On February 13, 2013, American Airlines and US Airways announced a proposed merger agreement with the "new" American Airlines remaining as the largest airline in the world. Looking towards the future, there will likely be an impact on the Divisions' operations. Both airlines expect that the regional carriers they own – AMR Corporation's American Eagle and US Airways' Piedmont and PSA – will continue to operate as distinct entities, providing seamless service to the combined airline. American Airlines and US Airways enplaned 7.4% and 8.2% of total passengers at the Airport, respectively, in 2014 and 6.0% and 6.3%, respectively in 2013. It is not known at this time whether the impact will have a negative or positive effect on CLE.

On February 3, 2014, United Airlines announced a 60% reduction in average daily departures from Cleveland and a reduction of regional departures from Cleveland by over 70%. United Airlines will no longer offer hub-level connecting service in Cleveland, Ohio. United Airlines will go from 166 average annual daily departures to about 65, a decrease of 61% and will reduce average daily seats by 46%. United Airlines will go from 7,400,000 available seat miles (ASM's) to 4,800,000 ASM's, a reduction of 36% and will go from 58 peak-day destinations to 20, a reduction of 66%.

As a result of the announcement by United Airlines that it would be cutting its daily departures from Cleveland Hopkins Airport and would no longer maintain a hub at the airport, Fitch Ratings announced on February 5, 2014 that it had downgraded its rating on the City's Airport System Revenue Bonds from A- (negative outlook) to BBB+ (negative outlook). In addition, on February 13, 2014, Standard & Poor's Ratings Services placed its A- rating on the Airport's bonds on CreditWatch with negative implications.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

Federal Sequestration has had a direct impact on Cleveland Airport System (CAS) federally-funded projects such as the CLE Airport Surface Surveillance Capability (ASSC) Project. ASSC was put on hold during Sequestration over 18 months ago but is currently in the final implementation stage. The FAA's new CLE Air Traffic Control Tower opening is scheduled for September 19, 2015 and ASSC is slated to go online in early November 2015. In addition, CAS has been advised by the Federal Aviation Administration (FAA) Airport District Office that there is no funding for an Environmental Assessment (EA) of the CLE airfield due to Sequestration. The EA would have focused on specific areas of the airfield that require either rehabilitation (due to age and deterioration) and/or are planned for development. Long-term, not being able to implement the aforementioned projects due to Sequestration may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future Airport Improvement Program (AIP)-eligible projects. Nonetheless, in lieu of the aforementioned EA effort that was not implemented, the FAA has approved the initiation of a project to correct inboard Runway 6R-24L hot spot deficiencies on the airfield. The Runway Safety Action Team (RSAT) has identified several of these hot spots at CLE due to the existing airfield geometry. The RSAT consists of airport, airline and FAA personnel that meet several times a year to identify issues on the airfield that could cause runway incursions between aircraft and/or airport vehicles. A runway incursion is an incident where an unauthorized aircraft, vehicle or person is in the runway environment. This situation adversely affects runway safety, as it creates the risk that an aircraft taking off or landing will collide with the object. These hot spot locations have since been identified and are in alignment with the Airport's Master Plan and will establish collaboration between the FAA and the Department in eliminating them to improve airfield safety and operations. Pertinent environmental approvals and design on this important project is expected to commence in the fall of 2015, with construction anticipated over a two-year window of 2016 and 2017.

CLE has had an inspired recovery from the significant cuts announced in 2014 by United Airlines when they closed their connecting hub. All of the other incumbent scheduled airlines have increased both flights and seats in the market. Several carriers including American, Delta and Southwest have added additional nonstop markets and our newest carriers: Frontier, Spirit and JetBlue have added significant levels of new service. Further, the size of aircraft has increased whereas the majority of flights are larger mainline aircraft for the first time in many years. Also, with the growth of low cost and ultra-low cost carrier service, CLE's average airfare is dropping in 2015 which has stimulated new passenger traffic further excelling the Divisions recovery.

The City issued $24,255,000 Airport System Revenue Bonds, Series 2014A, Alternative Minimum Tax (AMT) and $9,070,000 Airport System Revenue Bonds, Series 2014B (Taxable) effective February 12, 2014. The bonds were issued to refund the outstanding $24,255,000 Series 2009A Airport System Revenue Bonds and the $9,070,000 Series 2009B Airport System Revenue Bonds upon the expiration of the existing letter of credit. The bonds were directly purchased by U.S. Bank National Association as variable rate bonds with the City paying the Securities Industry and Financial Markets Association (SIFMA) index rate plus a spread on the 2014A Bonds and paying an amount equal to the one month London Interbank Offered Rate (LIBOR) plus a spread on the 2014B Bonds.

The Master Lease End Use Agreement, which leases space in the terminal building and other areas, expires December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

On January 15, 2015, Spirit Airlines began flying to and from Cleveland. Spirit is an ultra-low cost carrier that will bring more flying options at lower fares for travelers. On April 30, 2015, JetBlue Airlines began service at CLE. JetBlue began by offering nonstop access to Boston and has already begun to include other destinations.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Divisions' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City Hall, Room 104, 601 Lakeside Avenue, Cleveland, Ohio 44114.

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS	(Amounts in 000's)	
CURRENT ASSETS		
Cash and cash equivalents	$ 84,485	$ 89,887
Restricted cash and cash equivalents	5,647	10,006
Investments	4,015	4,008
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,797,000 in 2014 and $1,296,000 in 2013	4,296	2,967
Unbilled revenue	4,615	3,860
Total receivables	8,911	6,827
Prepaid expenses	515	68
Due from other funds	6	
Due from other governments	2,520	1,801
Materials and supplies-at cost	2,236	2,079
TOTAL CURRENT ASSETS	108,335	114,676
RESTRICTED ASSETS		
Cash and cash equivalents	244,171	258,765
Accrued interest receivable	2	2
Accrued passenger facility charges	1,933	2,214
TOTAL RESTRICTED ASSETS	246,106	260,981
CAPITAL ASSETS		
Land	167,457	167,457
Land improvements	84,172	75,655
Buildings, structures and improvements	340,944	335,589
Furniture, fixtures and equipment	32,282	31,803
Infrastructure	1,000,398	996,934
Vehicles	15,768	15,439
	1,641,021	1,622,877
Less: Accumulated depreciation	(821,346)	(769,366)
	819,675	853,511
Construction in progress	47,666	42,844
CAPITAL ASSETS, NET	867,341	896,355
TOTAL ASSETS	1,221,782	1,272,012
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding	21,762	24,482
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,762	24,482
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,243,544	$ 1,296,494

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	2014	2013
LIABILITIES AND NET POSITION	(Amounts in 000's)	
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 33,155	$ 32,120
Current portion of long-term deferred payment obligation, due within one year		280
Accounts payable	3,471	3,501
Landing fee settlement payable to airlines		2,826
Due to other funds	1,810	1,653
Current portion of accrued wages and benefits	3,220	3,229
Accrued interest payable	16,866	17,442
Accrued property taxes	5,652	5,861
Construction fund payable from restricted assets	3,784	3,945
Other construction accounts payable from restricted assets	1,863	6,061
TOTAL CURRENT LIABILITIES	69,821	76,918
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	811,944	848,314
Accrued wages and benefits	612	577
TOTAL LONG-TERM OBLIGATIONS	812,556	848,891
TOTAL LIABILITIES	882,377	925,809
NET POSITION		
Net investment in capital assets	97,689	119,552
Restricted for debt service	127,401	126,799
Restricted for passenger facility charges	11,725	10,324
Unrestricted	124,352	114,010
TOTAL NET POSITION	361,167	370,685
TOTAL LIABILITIES AND NET POSITION	$ 1,243,544	$ 1,296,494

(Concluded)

See notes to financial statements.

This page intentionally left blank.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(Amounts in 000's)	
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 31,116	$ 28,710
Other	1,706	2,315
	32,822	31,025
Terminal and concourse rentals:		
Scheduled airlines	48,827	35,601
Other	14,047	16,438
	62,874	52,039
Concessions	31,786	24,055
Utility sales and other	4,242	6,125
TOTAL OPERATING REVENUES	131,724	113,244
OPERATING EXPENSES		
Operations	68,615	63,348
Maintenance	3,486	3,816
Depreciation	52,351	50,865
TOTAL OPERATING EXPENSES	124,452	118,029
OPERATING INCOME (LOSS)	7,272	(4,785)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	14,798	17,716
Non-operating revenue (expense)	(3,778)	(2,207)
Sound insulation program	(1,250)	(2,197)
Loss on disposal of capital asset	(9)	(491)
Investment income (loss)	115	257
Interest expense	(32,095)	(33,105)
Amortization of bond discounts/premiums, loss on debt refundings	494	746
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(21,725)	(19,281)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(14,453)	(24,066)
Capital and other contributions	4,935	17,248
INCREASE (DECREASE) IN NET POSITION	(9,518)	(6,818)
NET POSITION, BEGINNING OF YEAR	370,685	377,503
NET POSITION, END OF YEAR	$ 361,167	$ 370,685

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(Amounts in 000's)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 126,194	$ 110,526
Cash payments to suppliers for goods and services	(44,546)	(32,333)
Cash payments to employees for services	(28,078)	(28,683)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	53,570	49,510
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(1,385)	(1,860)
Cash payments for other non-operating costs		(2,484)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(1,385)	(4,344)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(28,681)	(47,943)
Cash receipts for passenger facility charges	15,079	17,746
Proceeds from revenue bonds	33,325	58,000
Transfer to escrow agent for bond refunding	(33,325)	(58,000)
Principal paid on long-term debt	(32,120)	(16,285)
Interest paid on long-term debt	(35,144)	(35,560)
Capital grant proceeds	4,217	19,002
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(76,649)	(63,040)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(2)	(64,994)
Proceeds from sale and maturity of investment securities		61,000
Interest received on investments	111	242
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	109	(3,752)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,355)	(21,626)
Cash and cash equivalents, beginning of year	358,658	380,284
Cash and cash equivalents, end of year	$ 334,303	$ 358,658

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(Amounts in 000's)	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 7,272	$ (4,785)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	52,351	50,865
Noncash rental income	(282)	(3,389)
Changes in assets and liabilities:		
Accounts receivable, net	(1,329)	4,765
Unbilled revenue	(755)	(546)
Prepaid expenses	(447)	255
Due from other funds	(6)	34
Materials and supplies, at cost	(157)	264
Accounts payable	(30)	255
Due to other funds	157	241
Accrued wages and benefits	26	(868)
Landing fees - due to airlines	(2,826)	2,526
Accrued property taxes	(404)	(107)
TOTAL ADJUSTMENTS	46,298	54,295
NET CASH PROVIDED BY OPERATING ACTIVITIES	$53,570	$ 49,510
Noncash operating activities:		
Rental Income	$282	$3,389

(Concluded)

See notes to financial statements.

This page intentionally left blank.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the Divisions) are reported as an Enterprise Fund of the City of Cleveland, Department of Port Control and are part of the City of Cleveland's (the City) primary government. The Divisions were created for the purpose of operating the airports within the Cleveland Metropolitan Area. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units.

In June of 2012, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* was issued. This Statement is effective for fiscal periods beginning after June 15, 2013. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50 – *An Amendment of GASB Statements No. 25 and No. 27* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Divisions have determined that GASB Statement No. 67 has no impact on its financial statements as of December 31, 2014.

In January of 2013, Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued. This Statement is effective for fiscal periods beginning after December 15, 2013. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions and transfers of operations. The Divisions have determined that GASB Statement No. 69 has no impact on its financial statements as of December 31, 2014.

In April of 2013, Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued. This Statement is effective for fiscal periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The Divisions have determined that GASB Statement No. 70 has no impact on its financial statements as of December 31, 2014.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Divisions' net position is accounted for in the accompanying statement of net position and the net position is divided into the following categories:

- Net investment in capital assets
- Amount restricted for debt service
- Amount restricted for passenger facility charges
- Remaining unrestricted amount

In addition, certain additional financial information regarding the Divisions is included in these notes.

Basis of Accounting: The Divisions' financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized when incurred.

Statement of Cash Flows: The Divisions utilize the direct method of reporting for the statement of cash flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In the statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing and all investment activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Divisions. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments: The Divisions follow the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair value is based on quoted market values.

The Divisions have invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2014 and 2013. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2014 and 2013.

Restricted Assets: Proceeds from debt and amounts set aside in various fund accounts for payment of revenue bonds are classified as restricted assets since their use is limited by the bond indentures.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted for Passenger Facility Charges: These assets are for passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. These are restricted for designated capital projects or debt service.

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than $5,000 for furniture, fixtures, equipment and vehicles and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Land Improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures and equipment	3 to 35 years
Infrastructure	3 to 50 years
Vehicles	3 to 35 years

The Divisions' policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Divisions apply Governmental Accounting Standards Board guidance pertaining to capitalization of interest cost in situations involving certain tax-exempt borrowings and certain gifts and grants, for its revenue bonds. This guidance requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2014 and 2013, total interest costs incurred amounted to $34,589,000 and $35,543,000, respectively, of which $2,475,000 and $2,423,000 respectively, was capitalized, net of interest income of $19,000 in 2014 and $15,000 in 2013.

Bond Issuance Costs, Discounts/Premiums and Unamortized Losses on Debt Refundings: Bond issuance costs are expensed when incurred. Deferred bond discounts/premiums are netted against long-term debt. The discounts/premiums are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings are categorized as a deferred outflow and is amortized over the shorter of the defeased bond or the newly issued bond.

Compensated Absences: The Divisions accrue for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying statements of net position. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Normally, all vacation time is to be taken in the year available. The Divisions allow employees to carryover vacation time from one year to the next. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

Environmental Expenses: Environmental expenses consist of costs incurred for remediation efforts to airport property. Environmental expenses that relate to current operations are expensed or capitalized, as appropriate. Environmental expenses that relate to existing conditions caused by past operations and which do not contribute to future revenues are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of interest costs incurred on the Divisions' long-term debt. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions: During the course of normal operations, the Divisions have numerous transactions between other City divisions and departments. Unpaid amounts at year end are generally reflected as due to or due from in the accompanying financial statements.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt outstanding at December 31 is as follows:

	Interest Rate	Original Issuance	2014	2013
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 2000, due through 2031	4.00%-5.00%	$ 149,000	$ 143,800	$ 149,000
Series 2006, due through 2024	5.00%-5.25%	118,760	106,555	113,715
Series 2007, due through 2027	4.00%-5.00%	11,255	8,525	9,095
Series 2008, due through 2024	Variable Rate	18,700	5,975	5,975
Series 2009 A-B, due through 2027	Variable Rate	39,380		34,605
Series 2009 C-D, due through 2027	0.03%-5.00%	208,900	160,010	170,600
Series 2011, due through 2024	3.00%-5.00%	74,385	64,185	71,505
Series 2012, due through 2031	5.00%	235,150	235,150	235,150
Series 2013, due through 2033	Variable Rate	58,000	58,000	58,000
Series 2014, due through 2027	Variable Rate	33,325	33,325	
		$ 946,855	815,525	847,645
Unamortized (discount) premium			29,574	32,789
Current portion (due within one year)			(33,155)	(32,120)
Total Long-Term Debt excluding the deferred payment obligation			$ 811,944	$ 848,314

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2014 are as follows:

	Balance January 1, 2014	Increase	Decrease	Balance December 31, 2014	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 149,000	$	$ (5,200)	$ 143,800	$ 5,400
Series 2006	113,715		(7,160)	106,555	7,625
Series 2007	9,095		(570)	8,525	600
Series 2008	5,975			5,975	
Series 2009	205,205		(45,195)	160,010	11,165
Series 2011	71,505		(7,320)	64,185	6,995
Series 2012	235,150			235,150	
Series 2013	58,000			58,000	
Series 2014		33,325		33,325	1,370
Total revenue bonds	847,645	33,325	(65,445)	815,525	33,155
Accrued wages and benefits	3,806	3,255	(3,229)	3,832	3,220
Total	$ 851,451	$ 36,580	$ (68,674)	$ 819,357	$ 36,375

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 149,000	$	$	$ 149,000	$ 5,200
Series 2006	115,025		(1,310)	113,715	7,160
Series 2007	9,645		(550)	9,095	570
Series 2008	63,975		(58,000)	5,975	
Series 2009	216,750		(11,545)	205,205	11,870
Series 2011	74,385		(2,880)	71,505	7,320
Series 2012	235,150			235,150	
Series 2013		58,000		58,000	
Total revenue bonds	863,930	58,000	(74,285)	847,645	32,120
Accrued wages and benefits	4,674	3,211	(4,079)	3,806	3,229
Total	$ 868,604	$ 61,211	$ (78,364)	$ 851,451	$ 35,349

Minimum principal and interest payments on long-term debt are as follows:

	Principal	Interest	Total
		(Amounts in 000's)	
2015	$ 33,155	$ 38,807	$ 71,962
2016	34,415	37,265	71,680
2017	39,765	35,466	75,231
2018	41,900	33,534	75,434
2019	43,500	31,538	75,038
2020-2024	233,945	124,302	358,247
2025-2029	255,815	66,354	322,169
2030-2033	133,030	7,790	140,820
Total	$ 815,525	$ 375,056	$ 1,190,581

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture. Further, the City has assigned to the trustee all its interest in and rights to the airline use agreements under the revenue bond indenture. Amounts held in trust may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, is classified as restricted assets in these financial statements.

As of December 31, 2014 and 2013, the Divisions were in compliance with the terms and requirements of the bond indenture.

The indenture, as amended, requires, among other things, that the Divisions (1) make equal monthly deposits to the Bond Service Fund to have sufficient assets available to meet debt service requirements on the next payment date; (2) maintain the Bond Service Reserve Fund equal in amount to the maximum annual debt service to be paid in any year; and (3) as long as any revenue bonds are outstanding, charge such rates, fees and charges for use of the airport system to produce in each year, together with other available funds, net revenues (as defined) at least equal to the greater of (a) 116% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125% of the annual debt service due in such year on all outstanding bonds.

From time to time, the Divisions have defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. However, at December 31, 2014 and 2013 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $815,525,000 in Airport System Revenue Bonds issued in various years since 2001. Proceeds from the bonds provided financing for airport facilities. The bonds are payable from airport revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 73% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,190,581,000. Principal and interest paid for the current year and total net revenues (including other available funds) were $67,723,000 and $93,679,000, respectively.

The City issued $24,255,000 Airport System Revenue Bonds, Series 2014A (AMT) and $9,070,000 Airport System Revenue Bonds, Series 2014B (Taxable) effective February 12, 2014. The bonds were issued to refund the outstanding $24,255,000 Series 2009A Airport System Revenue Bonds and the $9,070,000 Series 2009B Airport System Revenue Bonds upon the expiration of the existing letter of credit. The bonds were directly purchased by U.S. Bank National Association as variable rate bonds with the City paying the SIFMA index rate plus a spread on the 2014A Bonds and paying an amount equal to the one month LIBOR rate plus a spread on the 2014B Bonds. As a result of this refunding, the refunded bonds were defeased and the liability for the 2009A and 2009B Bonds has been removed from long-term debt. The City expects to achieve an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.8 million or 19.6% on the Series 2014A Bonds and approximately $591,000 or 6.5% on the Series 2014B Bonds. The debt service savings from the refundings are estimated to be $5.5 million or 22.6% on the Series 2014A Bonds and $635,000 or 7.0% on the Series 2014B Bonds.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A. Proceeds of the bonds were used to refund the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F, upon the expiration of the existing letter of credit. The bonds were directly purchased by U.S. Bank National Association as variable rate bonds with the City paying on a monthly basis an amount equal to one month LIBOR plus a spread. As a result of this refunding, the refunded bonds were defeased and the liability for the 2008F Bonds has been removed from long-term debt. The City expects to achieve an economic gain (the difference between the present values of the old and new debt service payments) of approximately $2.7 million or 4.61% and debt service savings from the refunding of approximately $3.4 million or 5.87%.

NOTE C – SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling $76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities of Continental Airlines at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999, totaling $71,440,000. Airport Special Revenue Bonds, Series 1998, totaling $75,120,000 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because all principal and interest on these bonds is unconditionally guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER

In January 1999, the City purchased the International Exposition (I-X) Center and the land on and around it for $66.5 million as part of its master plan to expand Cleveland Hopkins International Airport. As part of the purchase agreement, the City leased the building back to the former owner for 15 years, after which the City may demolish the building to make way for airport development. Of the $66.5 million purchase price, $36.5 million was paid in cash in 1999. The remaining $30.0 million, including interest at 7.75%, is being deferred by the seller and will be offset by future lease payments owed to the City over the 15 year lease period. The future lease payments are equal to the remaining purchase price plus interest at 7.75% and as such, no cash will be exchanged between the City and the lessee over the term of the lease. The deferred payment is reported as "Deferred Payment Obligation" in the accompanying statement of net position.

In the event that either a similar facility is developed that exceeds a specified size, or there is an expansion of an existing facility that exceeds specified size within the municipal boundary of the City of Cleveland, the lessee has the right to terminate the lease. Such termination would require the City to pay the lessee the remaining portion of the deferred purchase price.

Rental income recognized by the Divisions under this agreement totaled $282,000 in 2014 and $3,389,000 in 2013. Of these amounts in 2014, $2,000 was offset against interest expense and $280,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2013, $159,000 was offset against interest expense and $3,230,000 was offset against the principal balance of the deferred obligation.

The deferred payment obligation agreement expired on January 31, 2014.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER (Continued)

Pursuant to Amendment Number One to Lease Agreement, entered into on November 21, 2008 between the City and I-X Center Corporation, commencing February 1, 2014, I-X Center Corporation is to begin paying annual rent of $2,000,000. This will be paid in monthly installments during the duration of the lease extension which primary term expires on January 31, 2019.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2014 and 2013 totaled approximately $51,266,000 and $41,340,000, respectively and the Divisions' bank balance was approximately $56,942,000 and $53,145,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $56,942,000 and $53,145,000 of the bank balances at December 31, 2014 and 2013, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Divisions will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Divisions' deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAROhio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Generally, investments are recorded and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statutes prohibit the use of Reverse Repurchase Agreements.

Investment securities are exposed to various risks such as interest rate, market and credit risk. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value.

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Divisions invest primarily in both short and long-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the *Concentration of Credit Risk* section.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Divisions will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

Credit Risk: The Divisions' investments as of December 31, 2014 and 2013 include U.S. Treasury Notes, STAROhio, mutual funds and other. The Divisions maintain the highest ratings for their investments. Investments in STAROhio, the Dreyfus Government Cash Management Fund and the Federated Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service**.**

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions had the following investments at December 31, 2014 and 2013, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2014 Fair Value	2014 Cost	2013 Fair Value	2013 Cost	Investment Maturities Less than One Year	1 - 5 Years
	(Amounts in 000's)					
U.S. Treasury Notes	$ 4,015	$ 3,996	$ 4,008	$ 3,994	$	$ 4,015
STAROhio	72,524	72,524	83,633	83,633	72,524	
Mutual Funds	210,513	210,513	233,656	233,656	210,513	
Other Investments			29	29		
Total Investments	287,052	287,033	321,326	321,312	283,037	4,015
Total Deposits	51,266	51,266	41,340	41,340	51,266	
Total Deposits and Investments	$ 338,318	$ 338,299	$ 362,666	$ 362,652	$ 334,303	$ 4,015

These amounts are monies invested by the City Treasurer on behalf of the Divisions and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value. Investment type "Other Investments" consist of deposits into collective cash escrow pools managed by Bank of New York as trustee.

As of December 31, 2014, the investments in U.S. Treasury Notes, STAROhio and mutual funds are approximately 2%, 25% and 73%, respectively, of the Divisions' total investments. As of December 31, 2013, the investments in U.S. Treasury Notes, STAROhio, mutual funds and other are approximately 1%, 26%, 73% and less than 1%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2014 was as follows:

	January 1, 2014	Additions	Reductions	December 31, 2014
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	42,844	19,718	(14,896)	47,666
Total capital assets, not being depreciated	210,301	19,718	(14,896)	215,123
Capital assets, being depreciated:				
Land improvements	75,655	8,517		84,172
Buildings, structures and improvements	335,589	5,355		340,944
Furniture, fixtures and equipment	31,803	579	(100)	32,282
Infrastructure	996,934	3,464		1,000,398
Vehicles	15,439	609	(280)	15,768
Total capital assets, being depreciated	1,455,420	18,524	(380)	1,473,564
Less: Total accumulated depreciation	(769,366)	(52,351)	371	(821,346)
Total capital assets being depreciated, net	686,054	(33,827)	(9)	652,218
Capital assets, net	$ 896,355	$ (14,109)	$ (14,905)	$ 867,341

NOTE F – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2013 was as follows:

	January 1, 2013	Additions	Reductions	December 31, 2013
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	29,011	19,260	(5,427)	42,844
Total capital assets, not being depreciated	196,468	19,260	(5,427)	210,301
Capital assets, being depreciated:				
Land improvements	74,153	5,562	(4,060)	75,655
Buildings, structures and improvements	334,242	8,467	(7,120)	335,589
Furniture, fixtures and equipment	29,168	2,677	(42)	31,803
Infrastructure	975,801	21,133		996,934
Vehicles	14,651	1,021	(233)	15,439
Total capital assets, being depreciated	1,428,015	38,860	(11,455)	1,455,420
Less: Total accumulated depreciation	(729,465)	(50,865)	10,964	(769,366)
Total capital assets being depreciated, net	698,550	(12,005)	(491)	686,054
Capital assets, net	$ 895,018	$ 7,255	$ (5,918)	$ 896,355

Commitments: As of December 31, 2014 and 2013, the Divisions had capital expenditure purchase commitments outstanding of approximately $21,243,000 and $51,344,000, respectively.

NOTE G – LEASES AND CONCESSIONS

The Divisions lease specific terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. These agreements remain in effect until December 31, 2015 and under the terms of the agreements, rental payments and landing fees paid by the airlines are adjusted annually to provide airport revenues sufficient to meet the financial requirements of the airport system. Other areas are leased to various occupants under separate agreements.

NOTE G – LEASES AND CONCESSIONS (Continued)

The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property. Portions of the building costs in the statement of net position are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2014 and 2013 is approximately $175,455,000 and $189,633,000 respectively.

Minimum future rental on non-cancelable operating leases to be received is as follows:

	(Amounts in 000's)
2015	$ 16,759
2016	10,052
2017	8,855
2018	4,757
2019	3,430
Thereafter	15,534
	$ 59,387

Under the Master Lease and Use Agreement, which leases space in the terminal building and other areas, the Divisions are subject to fluctuating rates.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Divisions for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Divisions' financial position, results of operations or cash flows.

Risk Management: The Divisions are exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Divisions carry insurance to cover particular liabilities and property protection. Otherwise, the Divisions are generally self-insured. No material losses, including incurred but not reported losses, occurred in 2014 or 2013. There was no significant decrease in any insurance coverage in 2014 or 2013. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

The City provides the choice of four separate health insurance plans to its employees. On April 1, 2014 the City became self-insured for three of the four health care plans offered while one health care plan continues to be provided to employees through commercial insurance. The Divisions' are charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims payable has been included with accounts payable and is considered to be immaterial for the Divisions.

NOTE I – DEFINED BENEFIT PENSION PLAN

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2014, 2013 and 2012. The employer contribution rates were 14.00% of covered payroll in 2014, 2013 and 2012.

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2014, 2013 and 2012 were $2,445,000, $2,598,000 and $2,095,000 each year, respectively. The required payments due in 2014, 2013 and 2012 have been made.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting standard replaces GASB Statement No. 27 and it is effective for employer fiscal years beginning after June 15, 2014.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for postemployment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2014, 2013 and 2012. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates used to fund postemployment benefits were 2.00% for members of the Traditional Plan in 2014 and 1.00% in 2013 and 4.00% in 2012, 2.00% for members of the Combined Plan in 2014 and 1.00% for 2013 and 6.05% for 2012. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.00% for both plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Divisions' actual contributions to OPERS to fund postemployment benefits were $407,000 in 2014, $200,000 in 2013 and $838,000 in 2012. The required payments due in 2014, 2013 and 2012 have been made.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
	(Amounts in 000's)	
City Central Services, including police	$ 9,202	$ 8,740
Telephone Exchange	743	626
Electricity purchased	244	237
Motor vehicle maintenance	249	395
Radio Communication	299	136

NOTE L – LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 2013 was payable to the Airlines from the Division in the amount of $2,826,000.

The airline use agreements also provide an incentive for the City to provide the highest quality management for the airport system. There was no incentive compensation expense in 2014 and 2013.

NOTE M – PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting Passenger Facility Charges (PFC's) subject to title 14, Code of Federal Regulations, Part 158. PFC's are fees imposed on passengers enplaned by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers.

As of December 31, 2014, Cleveland Hopkins International Airport had the authority from the Federal Aviation Administration to collect approximately $592 million, of which an estimated 14.5% will be spent on noise abatement for the residents of communities surrounding the airport, 59.6% on runway expansion and improvements and 25.9% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE N – MAJOR CUSTOMER

In 2014 and 2013, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 41% and 36% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

On January 15, 2015, Spirit Airlines began flying to and from Cleveland. Spirit is an ultra-low cost carrier that will bring more flying options at lower fares for travelers. On April 30, 2015, JetBlue Airlines began service at CLE. JetBlue began by offering nonstop access to Boston and has already begun to include other destinations.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

SCHEDULE OF AIRPORT REVENUES AND OPERATING EXPENSES
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Year Ended December 31, 2014

	Cleveland Hopkins International	Burke Lakefront	Total
	(Amounts in 000's)		
REVENUE			
Airline revenue:			
Landing fees	$ 31,116	$	$ 31,116
Terminal rental	48,827		48,827
Other	3,143		3,143
	83,086	-	83,086
Operating revenues from other sources:			
Concessions	31,182	604	31,786
Rentals	11,956	352	12,308
Landing fees	1,646	60	1,706
Other	2,453	103	2,556
	47,237	1,119	48,356
Non-operating revenue:			
Interest income	75		75
TOTAL REVENUE	$ 130,398	$ 1,119	$ 131,517
OPERATING EXPENSES			
Salaries and wages	$ 19,849	$ 989	$ 20,838
Employee benefits	7,274	330	7,604
City Central Services, including police	9,116	335	9,451
Materials and supplies	6,804	206	7,010
Contractual services	26,659	539	27,198
TOTAL OPERATING EXPENSES	$ 69,702	$ 2,399	$ 72,101

This page intentionally left blank.

REPORT ON COMPLIANCE FOR THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES IN ACCORDANCE WITH 14 CFR PART 158

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), for its passenger facility charge program for the year ended December 31, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance with the passenger facility charge program based on our audit of the 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 noncompliance with the types of 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 Divisions' 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 the passenger facility charge program. However, our audit does not provide a legal determination of the Divisions' compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio 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, 2014.

Report on Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the Divisions' 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 and to test and report on internal control over compliance in accordance with the Guide, 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 Divisions' 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 the passenger facility charge 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 the passenger facility charge 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 the passenger facility charge 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 Guide. 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 Divisions as of and for the year ended December 31, 2014, and have issued our report thereon dated June 24, 2015 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the Divisions' basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements as a whole. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 passenger facility charges is fairly stated in all material respects in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 24, 2015

City of Cleveland - Department of Port Control
Cleveland Hopkins International Airport
Schedule of Expenditures of Passenger Facility Charges
For the Period Ending December 31, 2014

Projects	Approved Project Budget	Cumulative Expenditures 2013	2014 1st Quarter Expenditures	2014 2nd Quarter Expenditures	2014 3rd Quarter Expenditures	2014 4th Quarter Expenditures	2014 YTD Expenditures	Cumulative Expenditures through 2014
Insulate Residences - Full Program Phase I	$ 16,960,400	$ 16,960,400	$	$	$	$	$ -	$ 16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743					-	2,155,743
Land Acquisition-Resident Relocation	14,689,459	14,689,459					-	14,689,459
Asbestos Removal in Terminal CHIA	729,842	729,842					-	729,842
Acquisition of Analex Office Bldg & Vacant Land	13,025,000	13,025,000					-	13,025,000
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921					-	5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000					-	355,000
Sewers for Confined Disposal Facility-BKL (app 1)	5,500,000	5,500,000					-	5,500,000
Sound Insulation	8,595,641	8,595,641					-	8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	25,282,298	25,282,298					-	25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000					-	1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570					-	584,570
Brook Park Land Transfer	8,750,000	8,750,000					-	8,750,000
Analex Demolition	1,229,000	981,068	11,422	6,000	6,000	3,724	27,146	1,008,214
Sound Insulation	20,000,000	20,000,000					-	20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087					-	9,526,087
Tug Road Replacement	1,019,000	668,553					-	668,553
Interim Commuter Ramp	5,560,338	5,165,932	18,170	9,545	9,545	5,924	43,184	5,209,116
Concourse D Ramp/Site Utilities	51,305,804	47,668,881	167,555	88,017	88,017	54,627	398,216	48,067,097
Burke Runway Overlay 6L/24R	530,286	530,286					-	530,286
Burke ILS	2,181,400	1,846,895	15,411	8,095	8,095	5,024	36,625	1,883,520
Runway 6L/23R	270,550,360	157,192,891	5,222,438	2,743,344	2,743,344	1,702,661	12,411,787	169,604,678
Runway 6R/24L Uncoupling	2,148,000	2,148,000					-	2,148,000
Runway 28 Safety Improvements	2,200,000	2,010,454					-	2,010,454
Midfield Deicing Pad	39,100,000	39,100,000					-	39,100,000
Taxiway M Improvements	10,000,000	9,579,060					-	9,579,060
Doan Brook Restoration	1,727,796					28,660	28,660	28,660
Deicing Environmental Upgrades	2,800,222					46,448	46,448	46,448
Main Terminal Roof Replacement	992,986					16,471	16,471	16,471
Main Terminal Boiler Replacement	2,998,819					49,742	49,742	49,742
Roadway Expansion Joint Repair/Replacement	1,985,973					32,942	32,942	32,942
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	7,681,742					127,419	127,419	127,419
Airport-wide In-line Baggage System Design	1,688,077					28,001	28,001	28,001
Airport Master Plan Update	4,170,543					69,178	69,178	69,178
Runway 10/28- Runway Safety Area Improvements	23,155,051	7,348,231				(56,655)	(56,655)	7,291,576
South Cargo Ramp Rehabilitation	5,957,918					98,826	98,826	98,826
Taxiway N Rehabilitation	8,738,280					144,945	144,945	144,945
SIDA Security System Enhancements	1,985,973					32,942	32,942	32,942
Interactive Part 139 Airport Operations Training Program	496,493					8,235	8,235	8,235
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	8,261,646					137,039	137,039	137,039
	$ 592,180,668	$ 407,955,212	$ 5,434,996	$ 2,855,001	$ 2,855,001	$ 2,536,153	$ 13,681,151	$ 421,636,363

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

NOTES TO SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year Ended December 31, 2014

GENERAL

The accompanying schedule presents all activity of the Airport's Passenger Facility Charge (PFC) program. The Airport's reporting entity is defined in Note A – Summary of Significant Accounting Policies to the Airports' financial statement.

BASIS OF PRESENTATION

The accompanying schedule is presented on the cash basis of accounting.