CITY OF CLEVELAND, OHIO

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

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2015

CITY OF CLEVELAND, OHIO

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

TABLE OF CONTENTS

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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 year ended December 31, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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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, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note N, the Division adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

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, 2015, and the respective changes in its financial position and cash flows for the year 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 and schedules of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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, 2015 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 28, 2016

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 year ended December 31, 2015. 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, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2015, the Divisions were served by 23 scheduled airlines and three cargo airlines. There were 51,000 scheduled landings with landed weight amounting to 5,118,972,000 pounds. There were 4,047,000 passengers enplaned at Cleveland Hopkins International Airport and 81,000 passengers enplaned at Burke Lakefront Airport during 2015.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Divisions exceeded its liabilities and deferred inflows of resources (net position) by $330,603,000 and $344,896,000 at December 31, 2015 and 2014, respectively. Of these amounts, $103,310,000 and $108,081,000 (unrestricted net position) at December 31, 2015 and 2014, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net position decreased by $14,293,000 in 2015. Several factors attributed to this including a decrease in landing fee revenue and terminal space rental revenue of $8,186,000. Another main factor was increased operating expenses.

- Additions to construction in progress totaled $28,426,000 in 2015.

- The major capital expenses during 2015 were the Airport Signage Program, CLE Terminal Exterior Façade/Ticketing Lobby Project, Main Substation Electrical Distribution Enhancement, CLE Airport-Wide In-Line Baggage Project, CLE Parking Redevelopment and BKL Shoreline Restoration.

- The Divisions' total bonded debt decreased by $33,155,000 in 2015. The key factors for the decrease in 2015 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 25-46 of this report. The required supplementary information can be found on pages 47-48 of this report.

CONDENSED STATEMENT OF NET POSTION INFORMATION

Provided below is condensed statement of net position information for the Divisions as of December 31, 2015 and 2014:

	2015	Restated 2014
	(Amounts in 000's)	
Assets and deferred outflows of resources:		
Assets:		
Current assets	$ 111,038	$ 108,335
Restricted assets	222,620	246,106
Capital assets, net	845,755	867,341
Total assets	1,179,413	1,221,782
Deferred outflows of resources	22,565	24,141
Total assets and deferred outflows of resources	$ 1,201,978	$ 1,245,923
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Current liabilities	$ 76,931	$ 69,821
Long-term obligations	794,095	831,206
Total liabilities	871,026	901,027
Deferred inflows of resources	349	
Total liabilities and deferred inflows of resources	871,375	901,027
Net position:		
Net investment in capital assets	87,932	97,689
Restricted for debt service	128,103	127,401
Restricted for passenger facility charges	11,258	11,725
Unrestricted	103,310	108,081
Total net position	330,603	344,896
Total liabilities, deferred inflows of resources and net position	$ 1,201,978	$ 1,245,923

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: Total assets and deferred outflows of resources decreased $43,945,000 or 3.5% in 2015. The change is primarily due to a decrease in restricted assets of $23,486,000 and a decrease in net capital assets of $21,586,000. The change in restricted assets was due to a decrease in restricted cash and cash equivalents related to capital project expenses; whereas, the change in capital assets is due to increased accumulated depreciation offset by additions to construction in progress.

Capital assets: The Divisions' investment in capital assets as of December 31, 2015 amounted to $845,755,000 (net of accumulated depreciation), which is a decrease of 2.5%. 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, 2015 is as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
		(Amounts in 000's)		
Land	$ 167,457	$	$	$ 167,457
Land improvements	84,172			84,172
Buildings, structures and improvements	340,944	888		341,832
Furniture, fixtures and equipment	32,282	2,308	(259)	34,331
Infrastructure	1,000,398	205		1,000,603
Vehicles	15,768		(113)	15,655
Total	1,641,021	3,401	(372)	1,644,050
Less: Accumulated depreciation	(821,346)	(52,320)	339	(873,327)
Total	819,675	(48,919)	(33)	770,723
Construction in progress	47,666	28,426	(1,060)	75,032
Capital assets, net	$ 867,341	$ (20,493)	$ (1,093)	$ 845,755

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Major events during 2015 affecting the Divisions' capital assets included the following:

- Airport Signage Program, Phase I: This project renovates existing and/or new Airport signage within the Cleveland Airport System (CAS) environment. Project goals are to provide positive and efficient guidance for customers to their desired destinations in and around the various on and off Airport properties, plus achieve aesthetically appealing and functional design to command the attention of Airport patrons. In 2015, the design was completed and the work on the majority of the signs is expected to be completed in 2016.

- CLE Terminal Exterior Façade/Ticketing Lobby Project: This project includes the modernization and upgrade of the exterior façade on the passenger terminal building for the upper and lower levels. Work on the project began in May 2015 and before the end of the year the project was over 50% complete. This project has a deadline to be completed prior to the end of May 2016.

- Main Substation (MS) 1 and Main Substation (MS) 2 Electrical Distribution Enhancement, Phase II: During February 2010, the Electrical Feeders for Substation MS 1 faulted and power was lost to the Terminal at CLE. Phase I of this project was to install emergency generators at strategic locations on the airport for life safety systems. The current Phase of the project calls for a redundant feeder system between MS 1 and MS 2 that will allow power to be supplied to the Terminal uninterrupted from either substation.

- CLE Airport Wide In-Line Baggage Project and Recapitalization: Currently, baggage screening for airlines other than United is conducted on the ticketing lobby floor as there is no centralized baggage sorting areas for these carriers. This configuration takes up valuable queuing and movement areas for the passengers. The design of the system was completed in early 2015. Transportation Security Administration (TSA) prepared an Operational Transaction Agreement (OTA) that secured nearly 90% of the cost of the construction and project administration. The contract was awarded in late 2015 and work will begin in 2016.

- CLE Parking Redevelopment, Phase II: Phase II will include a design-build project to install car canopy systems over the premium Red Lot as well as the economy Blue Lot. Before the close of 2015, steel had been erected on the Blue Lot with the deliveries for the Red Lot expected in early 2016. This project requires that completion be prior to May 2016.

- BKL Shoreline Restoration: When Hurricane Sandy impacted the coast line of Lake Erie, one area that received significant damage was BKL airfield's northwest revetment (shoreline) that protects the airfield, navigational aids, and perimeter roads. Working with the City, County and State, the Divisions applied for and received Federal Emergency Management Agency (FEMA) Grant funds to repair the revetment. The design began in early 2015 and at the close of the year was 90% complete.

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 E – Capital Assets to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Liabilities: In 2015, total liabilities decreased $30,001,000 or 3.3%. The decrease in long-term obligations was $37,111,000 or 4.5%. Current liabilities increased $7,110,000 or 10.2% as a result of increases in the landing fee payable to airlines and construction payable due to increased spending at year end.

Pension Liability: During 2015, the Divisions adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Divisions' actual financial condition by adding deferred inflows of resources related to pension and the net pension liability to the reported net position and subtracting deferred outflows of resources related to pension.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Divisions' proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Divisions are not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave) are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained prior, changes in pension benefits, contribution rates and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the Divisions' statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB Statement No. 68, the Divisions are reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from $361,167,000 to $344,896,000.

Long-term debt: At December 31, 2015 and 2014, the Divisions had $782,370,000 and $815,525,000, 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, 2015 is summarized below:

	Balance January 1, 2015	Debt Issued	Debt Retired	Balance December 31, 2015
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 143,800	$	$ (5,400)	$ 138,400
Series 2006	106,555		(7,625)	98,930
Series 2007	8,525		(600)	7,925
Series 2008	5,975			5,975
Series 2009	160,010		(11,165)	148,845
Series 2011	64,185		(6,995)	57,190
Series 2012	235,150			235,150
Series 2013	58,000			58,000
Series 2014	33,325		(1,370)	31,955
Total	$ 815,525	$ -	$ (33,155)	$ 782,370

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 November 11, 2015, Fitch Ratings revised its rating outlook on Cleveland Airport Revenue Bonds to stable from negative.

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 2015 was 132%.

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 exceeded liabilities and deferred inflows of resources by $330,603,000 and $344,896,000 at December 31, 2015 and 2014, respectively. Of the Divisions' net position at December 31, 2015 and 2014, $87,932,000 and $97,689,000, 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, 2015 and 2014 the restricted net position amounted to $139,361,000 and $139,126,000, 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, $103,310,000 and $108,081,000 for December 31, 2015 and 2014, 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 $14,293,000 in 2015. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2015 and 2014:

	2015	2014
	(Amounts in 000's)	
Operating revenues:		
Landing fees	$ 28,182	$ 32,822
Terminal and concourse rentals	59,328	62,874
Concessions	36,064	31,786
Utility sales and other	4,459	4,242
Total operating revenues	128,033	131,724
Operating expenses	127,161	124,452
Operating income (loss)	872	7,272
Non-operating revenue (expense):		
Passenger facility charges revenue	16,198	14,798
Non-operating expense	(4,711)	(3,778)
Sound insulation program	(329)	(1,250)
Loss on disposal of capital asset	(34)	(9)
Investment income (loss)	165	115
Interest expense	(30,842)	(32,095)
Amortization of bond issuance expense, bond discounts/premiums and loss on debt refundings	507	494
Total non-operating revenue (expense), net	(19,046)	(21,725)
Capital and other contributions	3,881	4,935
Change in net position	$ (14,293)	$ (9,518)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating revenues**:* Operating revenues for 2015 were $128,033,000. Of this amount, $26,090,000 or 20.4% represented landing fees received from signatory airlines. This is a negative change in signatory landing fees of 16.2% from the prior year. Signatory terminal rentals accounted for $45,621,000 or 35.6% of total operating revenues. Parking revenues increased 18.2% 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 $26,995,000 or 21.1% of total operating revenues for 2015. The fourth largest airport revenue source, rental cars, accounted for 8.1% of total operating revenues.

***Operating expenses**:* Total operating expenses for 2015 increased $2,709,000 or 2.2%. The increase is primarily due to higher insurance, taxes and professional fees of $2,221,000 or 10.5%.

Non-operating revenue and expense: Non-operating revenue and expense decreased $2,679,000 or 12.3%. This was due to an increase in passenger facility charge revenues of $1,400,000 or 9.5%, decreases in the Residential Sound Insulation Program (RSIP) expenses of $921,000 or 73.7% and a decreased interest expense of $1,253,000 or 3.9% offset by increased non-operating expenses of $933,000 or 24.7%. The RSIP program has been declining each year as it nears completion. Interest expense decreased due to decreased interest payments on debt.

Capital and other contributions: In 2015 and 2014, the Divisions' received $3,881,000 and $4,935,000, respectively, in Federal Airport Improvement, Transportation Security Administration Law Enforcement Officer (TSA LEO) and Canine Grants. In both 2015 and 2014, Airport Improvement Program Grant revenue primarily consisted of Letter of Intent (LOI) and RSIP reimbursements.

Non-pension expenses: The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 was not available. Therefore, 2014 expenses still include pension expense of $2,379,000 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the 2015 statements report pension expense of $2,106,000. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	(Amounts in 000's)
Total 2015 expenses under GASB 68	$ 163,077
Pension expense under GASB 68	(2,106)
2015 contractually required contribution	2,376
Adjusted 2015 program expenses	163,347
Total 2014 expenses under GASB 27	(161,584)
Increase in expenses not related to pension	$ 1,763

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

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 8.1% and 8.5% of total passengers at the Airport, respectively, in 2015. At this point we expect the combined American Airlines to further expand, although they recently cancelled a daily Phoenix flight after Southwest entered the market; they have since added three daily nonstop flights to Washington Reagan National Airport.

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.

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). Fitch removed the negative outlook effective November 11, 2015. 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.

Federal Sequestration has had a direct impact on 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 with implementation scheduled for the fall of 2017. The FAA's new CLE Air Traffic Control Tower opened on September 19, 2015 and ASSC is slated to go online in early March 2017. 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. CAS was able to obtain a Categorical Exclusion (CATEX) from the FAA for both the North Airfield Improvements and Snow Removal Equipment Storage Projects. The Runway 6R-24L Rehabilitation Project is the last major project on the airfield that may still require an EA. That project is not projected for EA federal funding until 2018 at the earliest. 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. This Runway Incursion Mitigation (RIM) project is the North Airfield Improvements Project mentioned prior. Initial federal funding for this project is anticipated in July 2016. This project will take two construction phasing seasons to complete. 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.

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

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 Divisions in eliminating them to improve airfield safety and operations. A CATEX was received on this project earlier in 2015, with construction anticipated over a two-year window in 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 sizes of aircraft have increased whereas the majority of flights are larger mainline aircraft for the first time in many years. With the United Airlines de-hubbing, a large amount of regional aircraft at CLE was eliminated. When new air service was established, these new airlines added service with mainline aircraft which holds between 120 and 150 seats.

The Master Lease and Use Agreement between the Cleveland Airport System and the signatory airlines expired on December 31, 2015. However, the Airport and airlines continue to operate under that agreement on a month to month basis and under the same terms and conditions as outlined in the Agreement. An updated Master Lease is under negotiation with very similar terms as the existing agreement and is targeted for completion by the end of June 2016.

In early 2016, CLE and United Airlines (United) amended both Special Facility Leases covering Concourses C, D and related facilities to allow United to consolidate its operations onto Concourse C. The amendments lengthened United's commitment on Concourse C to the year 2029. The amendments also removed United's right to terminate the Concourse C Special Facility Lease if United retired the bonds associated with Concourse C. While United will continue not to operate on Concourse D for the time being, United remains obligated to all debt, operating and maintenance costs associated with Concourse D throughout the remainder of the lease term.

CLE is one of the few medium sized airports with two ultra-low cost airlines. Frontier Airlines, who started service in 2014, operates upwards of 11 daily departures and Spirit, who started in 2015, operates eight daily departures, all with mainline Airbus A319, A320 and Frontier with their newest 230-seat A321 to Orlando. Southwest Airlines who was the airport's first low cost carrier, beginning service 22 years ago, is up to 18 daily departures with the addition of a second daily Las Vegas nonstop and new service to St. Louis. JetBlue, who launched service in 2015, has added a fourth daily flight. The impact of the additional low cost and ultra-low cost service cannot be understated in its impact on the airport with our average fare dropping 18% in the second quarter 2015. This has stimulated new passenger traffic and has reversed previous passenger leakage to competing airports in Akron-Canton and Pittsburgh.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

On February 9, 2016, the City sold $144,355,000 Airport System Revenue Bonds, Series 2016 consisting of $108,120,000 Airport System Revenue Bonds, Series 2016A (Non-AMT) and $36,235,000 Airport System Revenue Bonds, Series 2016B (Non-AMT). These bonds were issued to refund certain outstanding Series 2000C Airport System Revenue Bonds and Series 2006A Airport System Revenue Bonds for debt service savings. The Series 2016A Bonds were issued effective February 23, 2016. The Series 2016B Bonds were sold on a forward delivery basis and are expected to close on or about October 4, 2016. As a result of this refunding, the Divisions will achieve net present value debt service savings of $15.7 million or 12.41% on the Series 2016A Bonds and savings of $5.1 million or 12.49% on the Series 2016B Bonds.

In conjunction with the issuance of the Series 2016 Airport System Revenue Bonds, Standard & Poor's Ratings Services revised its outlook on all the Airport System Revenue Bonds to stable from negative.

Effective April 1, 2016, the Airport System Revenue Bonds, Series 2013A, which had been directly purchased by U.S. Bank National Association in 2013 were tendered and then purchased by PNC Bank, National Association. The bonds remain in a variable rate mode with the City again paying on a monthly basis an amount equal to one month LIBOR plus a spread.

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.

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENT OF NET POSITION
December 31, 2015

		2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		**(Amounts in 000's)**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	85,383
Restricted cash and cash equivalents		7,321
Investments		4,003
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,389,000 in 2015		3,282
Unbilled revenue		4,700
Total receivables		7,982
Prepaid expenses		510
Due from other funds		9
Due from other governments		3,705
Materials and supplies-at cost		2,125
TOTAL CURRENT ASSETS		111,038
RESTRICTED ASSETS		
Cash and cash equivalents		220,470
Accrued interest receivable		9
Accrued passenger facility charges		2,141
TOTAL RESTRICTED ASSETS		222,620
CAPITAL ASSETS		
Land		167,457
Land improvements		84,172
Buildings, structures and improvements		341,832
Furniture, fixtures and equipment		34,331
Infrastructure		1,000,603
Vehicles		15,655
		1,644,050
Less: Accumulated depreciation		(873,327)
		770,723
Construction in progress		75,032
CAPITAL ASSETS, NET		845,755
TOTAL ASSETS		1,179,413
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding		19,167
Pension		3,398
TOTAL DEFERRED OUTFLOWS OF RESOURCES		22,565
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	1,201,978

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENT OF NET POSITION
December 31, 2015

		2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		**(Amounts in 000's)**
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$	34,415
Accounts payable		4,523
Landing fee settlement payable to airlines		3,399
Due to other funds		2,413
Current portion of accrued wages and benefits		3,348
Accrued interest payable		16,255
Accrued property taxes		5,257
Construction fund payable from restricted assets		2,762
Other construction accounts payable from restricted assets		4,559
TOTAL CURRENT LIABILITIES		76,931
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds		774,428
Pension		19,049
Accrued wages and benefits		618
TOTAL LONG-TERM OBLIGATIONS		794,095
TOTAL LIABILITIES		871,026
DEFERRED INFLOWS OF RESOURCES		
Pension		349
TOTAL DEFERRED INFLOWS OF RESOURCES		349
NET POSITION		
Net investment in capital assets		87,932
Restricted for debt service		128,103
Restricted for passenger facility charges		11,258
Unrestricted		103,310
TOTAL NET POSITION		330,603
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$	1,201,978

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	2015 (Amounts in 000's)
OPERATING REVENUES	
Landing fees:	
Scheduled airlines	$ 26,090
Other	2,092
	28,182
Terminal and concourse rentals:	
Scheduled airlines	45,621
Other	13,707
	59,328
Concessions	36,064
Utility sales and other	4,459
TOTAL OPERATING REVENUES	128,033
OPERATING EXPENSES	
Operations	71,448
Maintenance	3,393
Depreciation	52,320
TOTAL OPERATING EXPENSES	127,161
OPERATING INCOME (LOSS)	872
NON-OPERATING REVENUE (EXPENSE)	
Passenger facility charges revenue	16,198
Non-operating revenue (expense)	(4,711)
Sound insulation program	(329)
Loss on disposal of capital asset	(34)
Investment income (loss)	165
Interest expense	(30,842)
Amortization of bond discounts/premiums and loss on debt refundings	507
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(19,046)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(18,174)
Capital and other contributions	3,881
INCREASE (DECREASE) IN NET POSITION	(14,293)
NET POSITION, BEGINNING OF YEAR, as restated	344,896
NET POSITION, END OF YEAR	$ 330,603

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

	2015 (Amounts in 000's)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 132,902
Cash payments to suppliers for goods and services	(45,539)
Cash payments to employees for services	(28,669)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	58,694
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Disbursement of non-capital grant proceeds	(323)
Cash received from settlements	278
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(45)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(31,542)
Cash receipts (payments) for passenger facility charges	15,990
Principal paid on long-term debt	(33,155)
Interest paid on long-term debt	(33,969)
Capital grant proceeds	2,729
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(79,947)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment securities	(2)
Interest received on investments	171
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	169
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,129)
Cash and cash equivalents, beginning of year	334,303
Cash and cash equivalents, end of year	$ 313,174

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

		2015 (Amounts in 000's)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$	872
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation		52,320
Changes in assets:		
Accounts receivables		1,014
Unbilled revenue		(85)
Prepaid expenses		5
Due from other City of Cleveland departments, divisions or funds		(3)
Materials and supplies, at cost		111
Changes in deferred outflows of resources:		
Pension		(1,019)
Changes in liabilities:		
Accounts payable		990
Due to other City of Cleveland departments, divisions or funds		603
Accrued wages and benefits		134
Landing fee adjustment		3,399
Accrued property taxes		(395)
Pension		399
Changes in deferred inflows of resources:		
Pension		349
TOTAL ADJUSTMENTS		57,822
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$	58,694

See notes to financial statements.

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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, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* was issued. This Statement is effective for fiscal periods beginning after June 15, 2014. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or similar arrangements meeting certain criteria. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As required, the Divisions have implemented GASB Statement No. 68 as of December 31, 2015.

In November of 2013, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* was issued. This Statement is effective for fiscal periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. As required, the Divisions have implemented GASB Statement No. 71 as of December 31, 2015.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015. 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, 2015.

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.

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 of, 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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015, total interest costs incurred amounted to $33,363,000, of which $2,516,000 was capitalized, net of interest income of $5,000.

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 of resource 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*. 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. These amounts are recorded as accrued wages and benefits in the accompanying statements of net position.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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).

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, 2015 is as follows:

	Interest Rate	Original Issuance	2015
		(Amounts in 000's)	
Airport System Revenue Bonds:			
Series 2000, due through 2031	4.00%-5.00%	$ 149,000	$ 138,400
Series 2006, due through 2024	5.00%-5.25%	118,760	98,930
Series 2007, due through 2027	5.00%	11,255	7,925
Series 2008, due through 2024	Variable Rate	18,700	5,975
Series 2009, due through 2027	0.02%-5.00%	208,900	148,845
Series 2011, due through 2024	3.00%-5.00%	74,385	57,190
Series 2012, due through 2031	5.00%	235,150	235,150
Series 2013, due through 2033	Variable Rate	58,000	58,000
Series 2014, due through 2027	Variable Rate	33,325	31,955
		$ 907,475	782,370
Unamortized (discount) premium			26,473
Current portion (due within one year)			(34,415)
Total Long-Term Debt			$ 774,428

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

Summary: Changes in long-term obligations for the year ended December 31, 2015 are as follows:

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 143,800	$	$ (5,400)	$ 138,400	$ 5,700
Series 2006	106,555		(7,625)	98,930	8,020
Series 2007	8,525		(600)	7,925	630
Series 2008	5,975			5,975	
Series 2009	160,010		(11,165)	148,845	11,340
Series 2011	64,185		(6,995)	57,190	7,260
Series 2012	235,150			235,150	
Series 2013	58,000			58,000	
Series 2014	33,325		(1,370)	31,955	1,465
Total revenue bonds	815,525	-	(33,155)	782,370	34,415
Accrued wages and benefits	3,832	3,354	(3,220)	3,966	3,348
Pension	18,650	399		19,049	
Total	$ 838,007	$ 3,753	$ (36,375)	$ 805,385	$ 37,763

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

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

	Principal	Interest	Total
	(Amounts in 000's)		
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	45,800	29,386	75,186
2021-2025	234,315	113,080	347,395
2026-2030	269,360	53,348	322,708
2031-2033	73,315	2,632	75,947
Total	$ 782,370	$ 336,249	$ 1,118,619

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, 2015, 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.

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

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, 2015 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $782,370,000 in Airport System Revenue Bonds issued in various years since 2001. Proceeds from the bonds provided financing for airport operations. 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 76% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is $1,118,619,000. Principal and interest funded for the current year and total net revenues (including other available funds) were $67,773,000 and $89,505,000, respectively.

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 (now United Continental Holdings, Inc.) 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 – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2015, totaled approximately $51,511,000 and the Divisions' bank balance was approximately $56,969,000. The difference represents 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*, $56,969,000 of the bank balances at December 31, 2015 was 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.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2015 include U.S. Treasury Notes, STAROhio, mutual funds and other. The Divisions maintain the highest ratings for their investments. Investments in U.S. Treasury Notes carry a Moody's rating of Aaa, which is the highest rating given by Moody. Investments in STAROhio, the Dreyfus Government Cash Management Fund, Morgan Stanley Government Institutional Mutual Funds 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.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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, 2015, 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	2015 Fair Value	2015 Cost	Investment Maturities Less than One Year	Investment Maturities 1 - 5 Years
		(Amounts in 000's)		
U.S. Treasury Notes	$ 4,003	$ 3,998	$	$ 4,003
STAROhio	68,751	68,751	68,751	
Mutual Funds	192,436	192,436	192,436	
Other Investments	476	476	476	
Total Investments	265,666	265,661	261,663	4,003
Total Deposits	51,511	51,511	51,511	
Total Deposits and Investments	$ 317,177	$ 317,172	$ 313,174	$ 4,003

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 and U.S. Bank as trustee.

As of December 31, 2015, the investments in U.S. Treasury Notes, STAROhio mutual funds and other are approximately 2%, 26%, 72% and less than 1%, respectively, of the Divisions' total investments.

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2015 was as follows:

	January 1, 2015	Additions	Reductions	December 31, 2015
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	47,666	28,426	(1,060)	75,032
Total capital assets, not being depreciated	215,123	28,426	(1,060)	242,489
Capital assets, being depreciated:				
Land improvements	84,172			84,172
Buildings, structures and improvements	340,944	888		341,832
Furniture, fixtures and equipment	32,282	2,308	(259)	34,331
Infrastructure	1,000,398	205		1,000,603
Vehicles	15,768		(113)	15,655
Total capital assets, being depreciated	1,473,564	3,401	(372)	1,476,593
Less: Total accumulated depreciation	(821,346)	(52,320)	339	(873,327)
Total capital assets being depreciated, net	652,218	(48,919)	(33)	603,266
Capital assets, net	$ 867,341	$ (20,493)	$ (1,093)	$ 845,755

Commitments: As of December 31, 2015, the Divisions had capital expenditure purchase commitments outstanding of approximately $40,833,000.

NOTE F – 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.

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.

NOTE F – LEASES AND CONCESSIONS (Continued)

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, 2015 is approximately $175,646,000.

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

		(Amounts in 000's)
2016	$	15,200
2017		14,120
2018		9,194
2019		7,006
2020		1,365
2021		804
2022		746
Thereafter		10,954
	$	59,389

Under the Master Lease and Use Agreement, which leases space in the terminal building and other areas, the Divisions are subject to fluctuating rates. The Master Lease End Use Agreement between the Cleveland Airport System and the signatory airlines expired on December 31, 2015. However, the Cleveland Airport System and the airlines continue to operate under that agreement on a month to month basis and under the same terms and conditions as outlined in the agreement. An updated Master Lease is under negotiation with very similar terms as the existing agreement and is targeted for completion by the end of June 2016.

NOTE G – 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 2015. There was no significant decrease in any insurance coverage in 2015. 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 G – 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 H – DEFINED BENEFIT PENSION PLAN

Net Pension Liability: The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred-payment basis - as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Divisions' proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Divisions' obligation for this liability to annually required payments. The Divisions cannot control benefit terms or the manner in which pensions are financed; however, the Divisions do receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual basis of accounting.

Ohio Public Employees Retirement System (OPERS): The Divisions' employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Divisions' employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Funding Policy: The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local	
2015 Statutory Maximum Contribution Rates		
Employer	14.0	%
Employee	10.0	%
2015 Actual Contribution Rates		
Employer:		
Pension	12.0	%
Post-employment Health Care Benefits	2.0	
Total Employer	14.0	%
Employee	10.0	%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Divisions' contractually required contribution was $2,376,000 for 2015. All required payments have been made.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability for OPERS was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Divisions' proportion of the net pension liability was based on the Divisions' share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS (Amounts in 000's)	
Proportionate Share of the Net Pension Liability	$	19,049
Proportion of the Net Pension Liability		0.158448%
Pension Expense	$	2,106

At December 31, 2015, the Divisions' reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS (Amounts in 000's)	
Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$	1,022
Divisions' contributions subsequent to the measurement date		2,376
Total Deferred Outflows of Resources	$	3,398
Deferred Inflows of Resources		
Differences between expected and actual experience	$	349

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The $2,376,000 reported as deferred outflows of resources related to pension resulting from the Divisions' contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS (Amounts in 000's)
2016	$ 98
2017	98
2018	225
2019	252
Total	$ 673

Actuarial Assumptions – OPERS: Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 %
Future Salary Increases, including inflation	4.25 to 10.05 % including wage inflation
COLA or Ad Hoc COLA	3 %, simple
Investment Rate of Return	8 %
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95% for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate: The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Divisions' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Divisions' proportionate share of the net pension liability calculated using the current period discount rate assumption of 8%, as well as what the Divisions' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
		(Amounts in 000's)	
Divisions' proportionate share of the net pension liability	$ 35,166	$ 19,049	$ 5,479

NOTE I – 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 two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board 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/financial/reports.shtml#CAFR, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

NOTE I – OTHER POSTEMPLOYMENT BENEFITS (Continued)

***Funding Policy - Ohio Public Employees Retirement System*:** 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 to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board 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 employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The Divisions' actual contributions to OPERS to fund postemployment benefits were $404,000 in 2015, $407,000 in 2014 and $200,000 in 2013. The required payments due in 2015, 2014 and 2013 have been made.

NOTE J – 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, 2015 are as follows:

	(Amounts in 000's)
City Central Services, including police	$ 9,657
Telephone Exchange	952
Electricity purchased	254
Motor vehicle maintenance	163
Radio Communication	211

NOTE K – 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 2015 was payable to the Airlines from the Division in the amount of $3,399,000.

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 2015.

NOTE L – 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, 2015, 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 M – MAJOR CUSTOMER

In 2015, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 45% of total operating revenue.

NOTE N – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the Divisions implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Net Position December 31, 2014	Restatement	Restated Net Position December 31, 2014
		(Amounts in 000's)	
Beginning net position	$ 361,167	$ (16,271)	$ 344,896

Other than employer contributions subsequent to the measurement date, the Divisions made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE O – SUBSEQUENT EVENTS

On February 9, 2016, the City sold $144,355,000 Airport System Revenue Bonds, Series 2016 consisting of $108,120,000 Airport System Revenue Bonds, Series 2016A (Non-AMT) and $36,235,000 Airport System Revenue Bonds, Series 2016B (Non-AMT). These bonds were issued to refund certain outstanding Series 2000C Airport System Revenue Bonds and Series 2006A Airport System Revenue Bonds for debt service savings. The Series 2016A Bonds were issued effective February 23, 2016. The Series 2016B Bonds were sold on a forward delivery basis and are expected to close on or about October 4, 2016. As a result of this refunding, the Divisions will achieve net present value debt service savings of $15.7 million or 12.41% on the Series 2016A Bonds and savings of $5.1 million or 12.49% on the Series 2016B Bonds.

In conjunction with the issuance of the Series 2016 Airport System Revenue Bonds, Standard & Poor's Ratings Services revised its outlook on all the Airport System Revenue Bonds to stable from negative.

Effective April 1, 2016, the Airport System Revenue Bonds, Series 2013A, which had been directly purchased by U.S. Bank National Association in 2013 were tendered and then purchased by PNC Bank, National Association. The bonds remain in a variable rate mode with the City again paying on a monthly basis an amount equal to one month LIBOR plus a spread.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Division's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Two Measurement Years (1), (2)

	2014	2013
	(Amounts in 000's)	
Divisions' Proportion of the Net Pension Liability	0.158448%	0.158448%
Divisions' Proportionate Share of the Net Pension Liability (Asset)	$ 19,049	$ 18,650
Divisions' Covered-Employee Payroll	$ 19,825	$ 17,962
Divisions' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	96.09%	103.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information presented based on measurement periods ended December 31.
(2) Information prior to 2013 is not available.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

	2015	2014	2013
	(Amounts in 000's)		
Contractually Required Contributions	$ 2,376	$ 2,379	$ 2,335
Contributions in Relation to the Contractually Required Contributions	(2,376)	(2,379)	(2,335)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Divisions' Covered-Employee Payroll	$ 19,800	$ 19,825	$ 17,962
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

(1) Represents employer's calendar year. Information prior to 2013 was not available. The Divisions' will continue to present information for years available until a full ten-year trend is compiled.

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, 2015

	Cleveland Hopkins International	Burke Lakefront	Total
	(Amounts in 000's)		
REVENUE			
Airline revenue:			
Landing fees	$ 26,090	$	$ 26,090
Terminal rental	45,621		45,621
Other	2,631		2,631
	74,342		74,342
Operating revenues from other sources:			
Concessions	35,290	774	36,064
Rentals	11,725	361	12,086
Landing fees	1,938	154	2,092
Other	3,348	101	3,449
	52,301	1,390	53,691
Non-operating revenue:			
Interest income	81		81
TOTAL REVENUE	$ 126,724	$ 1,390	$ 128,114
OPERATING EXPENSES			
Salaries and wages	$ 19,926	$ 926	$ 20,852
Employee benefits	7,707	370	8,077
City Central Services, including police	9,414	406	9,820
Materials and supplies	6,467	239	6,706
Contractual services	28,757	629	29,386
TOTAL OPERATING EXPENSES	$ 72,271	$ 2,570	$ 74,841

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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, 2015.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions 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, 2015.

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, 2015, and have issued our report thereon dated June 28, 2016, 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. 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 28, 2016

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
AND BURKE LAKEFRONT AIRPORTS
Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2015

Projects	Approved Project Budget	Cumulative Expenditures through 2014	2015 1st Quarter Expenditures	2015 2nd Quarter Expenditures	2015 3rd Quarter Expenditures	2015 4th Quarter Expenditures	2015 YTD Expenditures	Cumulative Expenditures thru 2015
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	1,008,215	5,296	5,295	5,295	5,201	21,087	1,029,302
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	5,209,116	8,285	8,284	8,284	8,284	33,137	5,242,253
Concourse D Ramp/Site Utilities	51,305,804	48,067,096	76,391	76,390	76,390	76,393	305,564	48,372,660
Burke Runway Overlay 6L/24R	530,286	530,286						530,286
Burke ILS	2,181,400	1,883,521	7,026	7,026	7,026	7,026	28,104	1,911,625
Runway 6L/23R	270,550,360	169,604,678	2,380,975	2,380,975	2,380,975	2,381,033	9,523,958	179,128,636
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	40,077	40,077	40,077	40,078	160,309	188,969
Deicing Environmental Upgrades	2,800,222	46,448	64,953	64,952	64,952	64,954	259,811	306,259
Main Terminal Roof Replacement	992,986	16,471	23,033	23,033	23,033	23,033	92,132	108,603
Main Terminal Boiler Replacement	2,998,819	49,742	69,559	69,559	69,559	69,560	278,237	327,979
Roadway Expansion Joint Repair/Replacement	1,985,973	32,942	46,065	46,065	46,066	46,067	184,263	217,205
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	7,681,742	127,419	178,182	178,181	178,181	178,187	712,731	840,150
Airport-wide In-line Baggage System Design	1,688,077	28,001	39,155	39,155	39,156	39,157	156,623	184,624
Airport Master Plan Update	4,170,543	69,178	96,737	96,738	96,738	96,741	386,954	456,132
Runway 10/28- Runway Safety Area Improvements	23,155,051	7,291,576	693,015	524,167	374,167	374,176	1,965,525	9,257,101
South Cargo Ramp Rehabilitation	5,957,918	98,826	138,197	138,196	138,197	138,200	552,790	651,616
Taxiway N Rehabilitation	8,738,280	144,945	202,688	202,689	202,689	202,693	810,759	955,704
SIDA Security System Enhancements	1,985,973	32,942	46,065	46,067	46,065	46,066	184,263	217,205
Interactive Part 139 Airport Operations Training Program	496,493	8,235	11,516	11,517	11,516	11,517	46,066	54,301
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	8,261,646	137,039	191,632	191,633	191,633	191,637	766,535	903,574
Total	**$ 592,180,668**	**$ 421,636,364**	**$ 4,318,847**	**$ 4,149,999**	**$ 3,999,999**	**$ 4,000,003**	**$ 16,468,848**	**$ 438,105,212**

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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, 2015

GENERAL

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

BASIS OF PRESENTATION

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