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, 2016

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, 2016, 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.

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, 2016, 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.

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, 2016, 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, 2016 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 25, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the year ended December 31, 2016. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 16.

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 2016, the Divisions were served by 23 scheduled airlines and four cargo airlines. There were 51,000 scheduled landings with landed weight amounting to 5,117,105,000 pounds. There were 4,206,000 passengers enplaned at Cleveland Hopkins International Airport and 82,000 passengers enplaned at Burke Lakefront Airport during 2016.

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 $333,178,000 and $330,603,000 at December 31, 2016 and 2015, respectively. Of these amounts, $106,829,000 and $103,310,000 (unrestricted net position) at December 31, 2016 and 2015, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net position increased by $2,575,000 in 2016. Several factors attributed to this including an increase in landing fee revenue and terminal concession revenue of $17,265,000. Another main factor was a decrease in interest expense.

- Additions to construction in progress totaled $24,738,000 in 2016.

- The major capital expenses during 2016 were the Snow Removal Equipment Acquisition, Airport Signage Program, CLE Terminal Exterior Façade/Ticketing Lobby Project, Main Substation MSI/MS2 Electrical Distribution Enhancement, CLE Airport-Wide In-Line Baggage Project and CLE Parking Redevelopment.

- The Divisions' total bonded debt decreased by $57,995,000 in 2016. The key factors for the decrease in 2016 were the scheduled principal payments on the Divisions' outstanding bonds and the refunding of several series of outstanding bonds for debt service savings.

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 16-21 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 23-45 of this report. The required supplementary information can be found on pages 47-48 of this report. The Schedule of Airport Revenues and Operating Expenses as Defined in the Airline Use Agreement can be found on page 49 of this report. The Report on Compliance for the Passenger Facility Program; Report on Internal Control Over Compliance and the Report on Schedule of Expenditures of Passenger Facility Charges in Accordance with 14 CFR Part 158 can be found on pages 51-52 of this report. The remaining passenger facility charges schedules can be found on pages 53-55 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, 2016 and 2015:

	2016	2015
	(Amounts in Thousands)	
Assets and deferred outflows of resources:		
Assets:		
Current assets	$ 110,581	$ 111,038
Restricted assets	207,522	222,620
Capital assets, net	819,175	845,755
Total assets	1,137,278	1,179,413
Deferred outflows of resources	27,605	22,565
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Current liabilities	76,969	76,931
Long-term obligations	754,095	794,095
Total liabilities	831,064	871,026
Deferred inflows of resources	641	349
Net position:		
Net investment in capital assets	87,982	87,932
Restricted for debt service	126,222	128,103
Restricted for passenger facility charges	12,145	11,258
Unrestricted	106,829	103,310
Total net position	$ 333,178	$ 330,603

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: Total assets and deferred outflows of resources decreased $37,095,000 or 3.1% in 2016. The change is primarily due to a decrease in restricted assets of $15,098,000 and a decrease in net capital assets of $26,580,000. 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, 2016 amounted to $819,175,000 (net of accumulated depreciation), which is a decrease of 3.1%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure; vehicles; and construction in progress.

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2016 is as follows:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
	(Amounts in Thousands)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	84,172			84,172
Buildings, structures and improvements	341,832	1,431		343,263
Furniture, fixtures and equipment	34,331	1,184	(13)	35,502
Infrastructure	1,000,603	15,230		1,015,833
Vehicles	15,655	158	(31)	15,782
Total	1,644,050	18,003	(44)	1,662,009
Less: Accumulated depreciation	(873,327)	(52,927)	44	(926,210)
Total	770,723	(34,924)		735,799
Construction in progress	75,032	24,738	(16,394)	83,376
Capital assets, net	$ 845,755	$ (10,186)	$ (16,394)	$ 819,175

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Major events during 2016 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. The project was completed in December 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 was completed in June 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. The project was bid on and preliminary construction began in 2016. The project is expected to be completed in 2017.

- 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 began in 2016. The project will be substantially complete by December 2017.

- 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. This project was completed in June 2016.

- Snow Removal Equipment Acquisition: New snow removal equipment was purchased to replace aged equipment that had reached the end of its life-cycle. The purchase enables CLE to transition to a reliable, right-sized fleet, capable of performing safe and efficient snow and ice removal.

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.

Liabilities: In 2016, total liabilities decreased $39,962,000 or 4.6%. The decrease in long-term obligations was $40,000,000 or 5.0% attributable to a decrease in revenue bonds offset by an increase in pension. Current liabilities increased $38,000 or 0.05% as a result of an increase in the current portion of long-term debt offset by decreases in accrued interest payable and other construction accounts payable.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 revised 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 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.

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.

Long-term debt: At December 31, 2016 and 2015, the Divisions had $724,375,000 and $782,370,000, 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, 2016 is summarized below:

	Balance January 1, 2016	Debt Issued	Debt Retired	Balance December 31, 2016
		(Amounts in Thousands)		
Airport System Revenue Bonds:				
Series 2000	$ 138,400	$	$ (132,400)	$ 6,000
Series 2006	98,930		(49,255)	49,675
Series 2007	7,925		(630)	7,295
Series 2008	5,975			5,975
Series 2009	148,845		(11,340)	137,505
Series 2011	57,190		(7,260)	49,930
Series 2012	235,150			235,150
Series 2013	58,000			58,000
Series 2014	31,955		(1,465)	30,490
Series 2016		144,355		144,355
Total	$ 782,370	$ 144,355	$ (202,350)	$ 724,375

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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+

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.

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 2016 was 140%.

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 $333,178,000 and $330,603,000 at December 31, 2016 and 2015, respectively. Of the Divisions' net position at December 31, 2016 and 2015, $87,982,000 and $87,932,000 , 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, 2016 and 2015 the restricted net position amounted to $138,367,000 and $139,361,000, 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, $106,829,000 and $103,310,000 for December 31, 2016 and 2015, 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 increased by $2,575,000 in 2016. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2016 and 2015:

	2016	2015
	(Amounts in Thousands)	
Operating revenues:		
Landing fees	$42,577	$ 28,182
Terminal and concourse rentals	56,922	59,328
Concessions	38,934	36,064
Utility sales and other	4,000	4,459
Total operating revenues	142,433	128,033
Operating expenses	134,428	127,161
Operating income (loss)	8,005	872
Non-operating revenue (expense):		
Passenger facility charges revenue	16,608	16,198
Non-operating expense	(9,872)	(4,711)
Sound insulation program	(8)	(329)
Gain (loss) on disposal of capital asset	11	(34)
Investment income (loss)	669	165
Interest expense	(28,032)	(30,842)
Amortization of bond discounts/premiums and loss on debt refundings	6,432	507
Total non-operating revenue (expense), net	(14,192)	(19,046)
Capital and other contributions	8,762	3,881
Change in net position	$ 2,575	$ (14,293)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating revenues**:* Operating revenues for 2016 were $142,433,000. Of this amount, $40,324,000 or 28.3% represented landing fees received from signatory airlines. This is a positive change in signatory landing fees of 54.6% from the prior year. Signatory terminal rentals accounted for $42,839,000 or 30.1% of total operating revenues. Parking revenues increased 7.4% 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 $28,983,000 or 20.3% of total operating revenues for 2016. The fourth largest airport revenue source, rental cars, accounted for 7.5% of total operating revenues.

***Operating expenses**:* Total operating expenses for 2016 increased $7,267,000 or 5.7%. The increase is primarily due to higher pension retirement benefits, utilities, repairs & maintenance and indirect costs of $6,393,000 or 13.3%.

Non-operating revenue and expense: Non-operating revenue and expense increased $4,854,000 or 25.5%. The main factor that attributed to this increase was the increase in amortization of bond discounts, premiums and loss on refundings of $5,925,000.

Capital and other contributions: In 2016 and 2015, the Divisions' received $8,762,000 and $3,881,000, respectively, in Federal Airport Improvement, Transportation Security Administration Law Enforcement Officer (TSA LEO) and Canine Grants. In both 2016 and 2015, Airport Improvement Program Grant revenue primarily consisted of Letter of Intent (LOI).

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

Federal Sequestration has had a direct impact on Cleveland Airport System federally-funded projects such as the CLE Airport Surface Surveillance Capability Project. This project was put on hold during Sequestration with implementation scheduled for the fall of 2017. In addition, the Divisions' were initially advised by the Federal Aviation Administration (FAA) Airport District Office that there is no funding for an Environmental Assessment (EA) of the airfield due to Sequestration. The Divisions are in the process of obtaining a Categorical Exclusion (CATEX) from the FAA for the North Airfield Improvements Project. Approval of this CATEX is anticipated in July 2017. The Snow Removal Equipment Storage Project's CATEX was approved in August 2016.

The Runway 6R-24L Rehabilitation Project is also projected for a CATEX. Federal funding is not expected until 2019 at the earliest. Long-term, not being able to implement the aforementioned projects due to Sequestration or other scope/funding shortfalls may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future Airport Improvement Program eligible projects. The FAA has approved the initiation of a project to correct inboard Runway 6R-24L hot spot deficiencies on the airfield. Initial federal funding for the North Airfield Improvements project was received in July 2016. Due to federal funding limitations per fiscal cycle, this project will take at least three construction phasing seasons to complete.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Runway Safety Action Team has identified several hot spots at CLE due to the existing airfield geometry and are in alignment with the Airport's Master Plan to eliminate them. With the collaboration between the FAA and the Divisions, eliminating the hot spots will 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. CLE has attracted additional flights from all of its air carriers and have added Frontier, Spirit, JetBlue and Allegiant. Allegiant's recent February 2017 Cleveland launch was the largest in their history with eleven markets. The CLE average airfare has dropped 29% since the United Airlines hub closed, which has significantly stimulated new traffic and reversed leakage from competing airports in Akron/Canton and Pittsburgh. Southwest Airlines will add their first ever nonstop flights twice daily to Atlanta and a second daily frequency to St. Louis in June 2017. Frontier has announced four new nonstop markets from Cleveland to launch in April and May 2017; they are San Diego, Charlotte, Houston and Minneapolis. With these additions, Frontier will match United Airlines, still CLE's largest carrier, with 17 nonstop markets at CLE. Spirit has also announced the addition of daily nonstop service to New Orleans in May 2017.

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 has been negotiated and its terms were agreed to by all the signatory airlines. The airlines are in the process of obtaining final approval by their respective boards and/or contract execution by executive staff. Full execution of the agreement by all airlines is expected to be completed by July 2017.

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.

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, 2016
(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 80,299
Restricted cash and cash equivalents	6,708
Receivables:	
Accounts-net of allowance for doubtful accounts of $968,000 in 2016	6,432
Unbilled revenue	3,141
Landing fee settlement due from airlines	2,440
Total receivables	12,013
Prepaid expenses	492
Due from other governments	8,538
Materials and supplies-at cost	2,531
TOTAL CURRENT ASSETS	110,581
RESTRICTED ASSETS	
Cash and cash equivalents	193,550
Investments	11,997
Accrued interest receivable	54
Accrued passenger facility charges	1,921
TOTAL RESTRICTED ASSETS	207,522
CAPITAL ASSETS	
Land	167,457
Land improvements	84,172
Buildings, structures and improvements	343,263
Furniture, fixtures and equipment	35,502
Infrastructure	1,015,833
Vehicles	15,782
	1,662,009
Less: Accumulated depreciation	(926,210)
	735,799
Construction in progress	83,376
CAPITAL ASSETS, NET	819,175
TOTAL ASSETS	1,137,278
DEFERRED OUTFLOWS OF RESOURCES	
Loss on refunding	17,123
Pension	10,482
TOTAL DEFERRED OUTFLOWS OF RESOURCES	27,605

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

STATEMENT OF NET POSITION
DECEMBER 31, 2016
(Amounts in Thousands)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
CURRENT LIABILITIES	
Current portion of long-term debt, due within one year	$ 39,765
Accounts payable	5,420
Due to other funds	1,814
Current portion of accrued wages and benefits	3,261
Accrued interest payable	14,519
Accrued property taxes	5,482
Construction fund payable from restricted assets	3,520
Other construction accounts payable from restricted assets	3,188
TOTAL CURRENT LIABILITIES	76,969
LONG-TERM OBLIGATIONS - excluding amounts due within one year	
Revenue bonds	726,387
Pension	27,073
Accrued wages and benefits	635
TOTAL LONG-TERM OBLIGATIONS	754,095
TOTAL LIABILITIES	831,064
DEFERRED INFLOWS OF RESOURCES	
Pension	641
TOTAL DEFERRED INFLOWS OF RESOURCES	641
NET POSITION	
Net investment in capital assets	87,982
Restricted for debt service	126,222
Restricted for passenger facility charges	12,145
Unrestricted	106,829
TOTAL NET POSITION	$ 333,178

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, 2016
(Amounts in Thousands)

OPERATING REVENUES	
Landing fees:	
Scheduled airlines	$ 40,324
Other	2,253
	42,577
Terminal and concourse rentals:	
Scheduled airlines	42,839
Other	14,083
	56,922
Concessions	38,934
Utility sales and other	4,000
TOTAL OPERATING REVENUES	142,433
OPERATING EXPENSES	
Operations	76,696
Maintenance	4,805
Depreciation	52,927
TOTAL OPERATING EXPENSES	134,428
OPERATING INCOME (LOSS)	8,005
NON-OPERATING REVENUE (EXPENSE)	
Passenger facility charges revenue	16,608
Non-operating revenue (expense)	(9,872)
Sound insulation program	(8)
Gain (loss) on disposal of capital asset	11
Investment income (loss)	669
Interest expense	(28,032)
Amortization of bond discounts/premiums and loss on debt refundings	6,432
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(14,192)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(6,187)
Capital and other contributions	8,762
INCREASE (DECREASE) IN NET POSITION	2,575
NET POSITION, BEGINNING OF YEAR	330,603
NET POSITION, END OF YEAR	$ 333,178

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, 2016
(Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 135,444
Cash payments to suppliers for goods and services	(50,392)
Cash payments to employees for services	(30,244)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	54,808
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Disbursement of non-capital grant proceeds	(8)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(8)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(30,358)
Cash receipts (payments) for passenger facility charges	16,828
Proceeds from revenue bonds	170,369
Transfer to Escrow Agent for Bond Refunding	(174,777)
Principal paid on long-term debt	(34,415)
Interest paid on long-term debt	(31,644)
Capital grant proceeds	3,950
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(80,047)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment securities	(11,997)
Proceeds from sale and maturity of investment securities	3,997
Interest received on investments	630
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	(7,370)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(32,617)
Cash and cash equivalents, beginning of year	313,174
Cash and cash equivalents, end of year	$ 280,557

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, 2016
(Amounts in Thousands)

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

OPERATING INCOME (LOSS)	$ 8,005
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	52,927
Changes in assets:	
Accounts receivables	(3,150)
Unbilled revenue	1,559
Landing Fees - Due From Airlines	(2,440)
Prepaid expenses	18
Due from other City of Cleveland departments, divisions or funds	9
Materials and supplies, at cost	(406)
Changes in deferred outflows of resources:	
Pension	(7,084)
Changes in liabilities:	
Accounts payable	897
Due to other City of Cleveland departments, divisions or funds	(599)
Accrued wages and benefits	(70)
Landing fee adjustment	(3,399)
Accrued property taxes	225
Pension	8,024
Changes in deferred inflows of resources:	
Pension	292
TOTAL ADJUSTMENTS	46,803
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 54,808

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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 February of 2015, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* was issued. This Statement is effective for reporting periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. As required, the Divisions have implemented GASB Statement No. 72 as of December 31, 2016.

In June of 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68* was issued. This Statement is effective for fiscal periods beginning after June 15, 2015 —except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement 68. It also amends certain provisions of GASB Statement No. 67, Financial Reporting for Pension Plans, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. The Divisions have determined that GASB Statement No. 73 has no impact on its financial statements as of December 31, 2016.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June of 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* was issued. This Statement is effective for reporting periods beginning after June 15, 2015. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. As required, the Divisions have implemented GASB Statement No. 76 as of December 31, 2016.

In August of 2015, GASB Statement No. 77, *Tax Abatement Disclosures* was issued. This Statement is effective for reporting periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose information about the agreements such as: brief descriptive information, gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. The Divisions have determined that GASB Statement No. 77 has no impact on its financial statements as of December 31, 2016.

In December of 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* was issued. This statement is effective for reporting periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The Divisions have determined that GASB Statement No. 78 has no impact on its financial statements as of December 31, 2016.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December of 2015, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* was issued. This Statement is effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. As required, the Divisions have implemented GASB Statement No. 79 as of December 31, 2016.

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

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

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

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

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

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

Investments: The Divisions follow the provisions of GASB Statement No. 72 *Fair Value Measurement and Application* which requires governmental entities to record their investments at fair value within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The Divisions' investments in money market mutual funds and State Treasury Asset Reserve of Ohio (STAR Ohio) funds are excluded from fair value measurement requirements under GASB Statement No. 72, and instead are reported at amortized cost.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Divisions' have invested funds in the STAR Ohio during 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79 for the purpose of measuring the value of shares in STAR Ohio. The Divisions' measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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

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 GASB 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 2016, total interest costs incurred amounted to $29,908,000, of which $1,876,000 was capitalized.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 resource (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 resource (revenue) until that time.

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, 2016 is as follows:

	Interest Rate	Original Issuance	2016
		(Amounts in Thousands)	
Airport System Revenue Bonds:			
Series 2000, due through 2017	4.00%-5.00%	$ 149,000	$ 6,000
Series 2006, due through 2021	5.00%-5.25%	118,760	49,675
Series 2007, due through 2027	5.00%	11,255	7,295
Series 2008, due through 2024	Variable Rate	18,700	5,975
Series 2009, due through 2027	0.02%-5.00%	208,900	137,505
Series 2011, due through 2024	3.00%-5.00%	74,385	49,930
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	30,490
Series 2016, due through 2031	5.00%	144,355	144,355
		$ 1,051,830	724,375
Unamortized (discount) premium			41,777
Current portion (due within one year)			(39,765)
Total Long-Term Debt			$ 726,387

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2016

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

Summary: Changes in long-term obligations for the year ended December 31, 2016 are as follows:

	Balance January 1, 2016	Increase	Decrease	Balance December 31, 2016	Due Within One Year
	(Amounts in Thousands)				
Airport System Revenue Bonds:					
Series 2000	$ 138,400	$	$ (132,400)	$ 6,000	$ 6,000
Series 2006	98,930		(49,255)	49,675	8,465
Series 2007	7,925		(630)	7,295	660
Series 2008	5,975			5,975	
Series 2009	148,845		(11,340)	137,505	11,895
Series 2011	57,190		(7,260)	49,930	7,605
Series 2012	235,150			235,150	
Series 2013	58,000			58,000	1,795
Series 2014	31,955		(1,465)	30,490	3,345
Series 2016		144,355		144,355	
Total revenue bonds	782,370	144,355	(202,350)	724,375	39,765
Accrued wages and benefits	3,966	3,278	(3,348)	3,896	3,261
Pension	19,049	8,024		27,073	
Total	$ 805,385	$ 155,657	$ (205,698)	$ 755,344	$ 43,026

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 Thousands)		
2017	$ 39,765	$ 33,818	$ 73,583
2018	38,535	32,440	70,975
2019	39,970	30,615	70,585
2020	42,095	28,644	70,739
2021	43,825	26,581	70,406
2022-2026	225,825	101,314	327,139
2027-2031	283,825	39,593	323,418
2032-2033	10,535	536	11,071
Total	$ 724,375	$ 293,541	$ 1,017,916

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, 2016, 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)

Effective February 23, 2016, Airport System Revenue Bonds, Series 2016A, were issued in the amount of $108,120,000. These bonds were issued to advance refund $126,700,000 of outstanding Series 2000C Airport System Bonds. Bond proceeds in the amount of $126,957,834, along with $1,055,840 from the Series 2000 Interest Account and $4,497,749 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed this refunding in order to achieve debt service savings of approximately $22,111,000 and realized an economic gain (the difference between the present values of the old and new debt service) of $15,727,000 or 12.4%.

At the same time that the City sold the Series 2016A Bonds, the City also sold $36,235,000 Airport System Revenue Bonds, Series 2016B, on a forward delivery basis. The Series 2016B Bonds were issued effective October 4, 2016 to refund $41,235,000 of outstanding Airport System Revenue Bonds, Series 2006A. Bond proceeds in the amount of $41,157,840, along with $515,000 from the Series 2006 Interest Account and $593,035 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. The refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The City realized debt service savings of approximately $6,586,000 and net present value savings of $5,149,000 or 12.5% from this refunding.

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 Airport System again paying on a monthly basis an amount equal to one month LIBOR plus a spread.

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. At December 31, 2016, the aggregate amount of defeased debt outstanding is as follows:

Bond Issue		2016
		(Amounts in Thousands)
Series 2000C	$	126,700
Series 2006A		41,235

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

The City has pledged future airport revenues to repay $724,375,000 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 72% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is $1,017,916,000. Principal and interest funded for the current year and total net revenues (including other available funds) were $69,673,000 and $97,222,000, 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 (now United Continental Holdings, Inc.) 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. In January 2016, United Airlines deposited funds with the trustee sufficient to pay off the Airport Special Revenue Bonds, Series 1999. Additional 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, 2016, totaled approximately $57,761,000 and the Divisions' bank balance was approximately $60,017,000. 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*, $60,017,000 of the bank balances at December 31, 2016 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: In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. 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 (STAR Ohio); commercial paper; U.S. 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.

The Divisions categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the Divisions (excluding STAR Ohio and money market mutual funds) as of December 31, 2016.

Type of Investment	Fair Value	Fair Value Measurement Using: Level 1	Level 2
	(Amounts in Thousands)		
U.S. Treasury Bills	$ 11,997	$ 11,997	$
Other Investments	83		83
Total Investments	$ 12,080	$ 11,997	$ 83

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

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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

Credit Risk: The Divisions' investments as of December 31, 2016 include U.S. Treasury Bills, STAR Ohio, money market mutual funds and other. The Divisions maintain the highest ratings for their investments. Investments in U.S. Treasury Bills carry a Moody's rating of Aaa, which is the highest rating given by Moody. Investments in STAR Ohio, 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 STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions had the following investments at December 31, 2016, 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	2016 Value	2016 Cost	Investment Maturities Less than One Year
		(Amounts in Thousands)	
U.S. Treasury Bills	$ 11,997	$ 11,997	$ 11,997
STAR Ohio	54,242	54,242	54,242
Money Market Mutual Funds	168,471	168,471	168,471
Other Investments	83	83	83
Total Investments	234,793	234,793	234,793
Total Deposits	57,761	57,761	57,761
Total Deposits and Investments	$ 292,554	$ 292,554	$ 292,554

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 STAR Ohio and money market mutual funds. These investments are carried at cost which approximates fair value. Investment type Other Investments consist of deposits into collective cash escrow pools managed by Bank of New York and U.S. Bank National Association, as trustee.

As of December 31, 2016, the investments in U.S. Treasury Bills, STAR Ohio, money market mutual funds and other are approximately 5%, 23%, 72% and less than 1%, respectively, of the Divisions' total investments.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2016

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2016 was as follows:

	January 1, 2016	Additions	Reductions	December 31, 2016
	(Amounts in Thousands)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	75,032	24,738	(16,394)	83,376
Total capital assets, not being depreciated	242,489	24,738	(16,394)	250,833
Capital assets, being depreciated:				
Land improvements	84,172			84,172
Buildings, structures and improvements	341,832	1,431		343,263
Furniture, fixtures and equipment	34,331	1,184	(13)	35,502
Infrastructure	1,000,603	15,230		1,015,833
Vehicles	15,655	158	(31)	15,782
Total capital assets, being depreciated	1,476,593	18,003	(44)	1,494,552
Less: Total accumulated depreciation	(873,327)	(52,927)	44	(926,210)
Total capital assets being depreciated, net	603,266	(34,924)	-	568,342
Capital assets, net	$ 845,755	$ (10,186)	$ (16,394)	$ 819,175

Commitments: As of December 31, 2016, the Divisions had capital expenditure purchase commitments outstanding of approximately $69,076,000.

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 remained 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.

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 July 2017.

NOTE F – LEASES AND CONCESSIONS (Continued)

The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property.

Portions of the building costs in the statement of net position are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2016 is approximately $176,746,000.

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

	(Amounts in Thousands)
2017	$ 16,335
2018	15,584
2019	14,288
2020	5,727
2021	5,016
2022	4,957
Thereafter	20,984
	$ 82,891

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 2016. There was no significant decrease in any insurance coverage in 2016. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

The City provided the choice of three separate health insurance plans to its employees until March 31, 2016. As of April 1, 2016, the City provided the choice of two separate health self-insurance plans to its employees. 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 bases 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
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 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 $2,535,000 for 2016. 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, 2015 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 Thousands)	
Proportionate Share of the Net Pension Liability	$	27,073
Proportion of the Net Pension Liability		0.155342%
Pension Expense	$	4,256

At December 31, 2016, the Divisions' reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS (Amounts in Thousands)	
Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$	7,947
Divisions' contributions subsequent to the measurement date		2,535
Total Deferred Outflows of Resources	$	10,482
Deferred Inflows of Resources		
Differences between expected and actual experience	$	551
Change in Division's proportionate share		90
Total Deferred Inflows of Resources	$	641

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The $2,535,000 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, 2017. 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 Thousands)	
2017	$	1,693
2018		1,822
2019		2,013
2020		1,791
2021		(4)
Thereafter		(9)
Total	$	7,306

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, 2015, 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
	Pre 1/7/2013 retirees: 3%, simple
	Post 1/7/2013 retirees: 3%, simple
	through 2018, then 2.8%, 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.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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

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.

During 2015, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. During 2016, OPERS consolidated the health care portfolios. 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 .4% for 2015.

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 2015 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	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

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 Thousands)		
Divisions' proportionate share of the net pension liability	$ 43,287	$ 27,073	$ 13,399

NOTE I – OTHER POSTEMPLOYMENT BENEFITS

Plan Description - 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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement 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. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

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 2015 CAFR for details.

NOTE I – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 OPERS Board of Trustees (OPERS 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, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2016, 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.

Each year, the OPERS Board 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 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS 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 into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The Divisions' actual contributions to OPERS to fund postemployment benefits were $430,000 in 2016, $404,000 in 2015 and $407,000 in 2014. The required payments due in 2016, 2015 and 2014 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, 2016 are as follows:

		(Amounts in Thousands)
City Central Services, including police	$	10,563
Telephone Exchange		945
Electricity purchased		254
Motor vehicle maintenance		175
Radio Communication		293

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 2016 was a receivable from the Airlines to the Division in the amount of $2,440,000.

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 2016.

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, 2016, 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 2016, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 38% of total operating revenue.

NOTE N – SUBSEQUENT EVENTS

Effective February 1, 2017, the City entered into an amendment to extend the period of time during which U.S. Bank National Association will be the holder of the Airport System Revenue Bonds, Series 2014A & 2014B. The bonds remain in a variable rate mode with the Airport System again paying on a monthly basis an amount equal to SIFMA plus a spread on the 2014A Bonds and an amount equal to one month LIBOR plus a spread on the 2014B Bonds.

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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 THREE MEASUREMENT YEARS (1), (2)

	2015	2014	2013
	(Amounts in Thousands)		
Divisions' Proportion of the Net Pension Liability	0.155342%	0.158448%	0.158448%
Divisions' Proportionate Share of the Net Pension Liability (Asset)	$ 27,073	$ 19,049	$ 18,650
Divisions' Covered-Employee Payroll	$ 19,800	$ 19,825	$ 17,962
Divisions' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	136.73%	96.09%	103.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information presented based on measurement periods ended December 31.

(2) Information prior to 2013 is 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

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR YEARS (1)

	2016	2015	2014	2013
	(Amounts in Thousands)			
Contractually Required Contributions	$ 2,535	$ 2,376	$ 2,379	$ 2,335
Contributions in Relation to the Contractually Required Contributions	(2,535)	(2,376)	(2,379)	(2,335)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Divisions' Covered-Employee Payroll	$ 21,125	$ 19,800	$ 19,825	$ 17,962
Contributions as a Percentage of Covered-Employee Payroll	12.00%	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, 2016
(Amounts in Thousands)

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	$ 40,324	$	$ 40,324
Terminal rental	42,839		42,839
Other	2,276		2,276
	85,439		85,439
Operating revenues from other sources:			
Concessions	38,139	795	38,934
Rentals	12,084	402	12,486
Landing fees	2,068	185	2,253
Other	3,100	221	3,321
	55,391	1,603	56,994
Non-operating revenue:			
Interest income	187		187
TOTAL REVENUE	$ 141,017	$ 1,603	$ 142,620
OPERATING EXPENSES			
Salaries and wages	$ 21,069	$ 950	$ 22,019
Employee benefits	8,433	352	8,785
City Central Services, including police	11,504	472	11,976
Materials and supplies	8,108	385	8,493
Contractual services	29,702	526	30,228
TOTAL OPERATING EXPENSES	$ 78,816	$ 2,685	$ 81,501

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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, 2016.

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, 2016.

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, 2016, and have issued our report thereon dated June 27, 2017, 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 27, 2017

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, 2016

Projects	Approved Project Budget	Cumulative Expenditures thru 2015	2016 1st Quarter Expenditures	2016 2nd Quarter Expenditures	2016 3rd Quarter Expenditures	2016 4th Quarter Expenditures	2016 YTD Expenditures	Cumulative Expenditures thru 2016
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	1,029,302	5,217	5,217	5,217	5,217	20,868	1,050,170
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	5,242,253	8,310	8,310	8,310	8,310	33,240	5,275,493
Concourse D Ramp/Site Utilities	51,305,804	48,372,660	76,626	76,626	76,626	76,626	306,504	48,679,164
Burke Runway Overlay 6L/24R	530,286	530,286					-	530,286
Burke ILS	2,181,400	1,911,625	7,047	7,048	7,048	7,048	28,191	1,939,816
Runway 6L/23R	270,550,360	179,128,636	2,388,322	2,388,322	2,388,322	2,388,322	9,553,288	188,681,924
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	188,969	40,201	40,200	40,200	40,201	160,802	349,771
Deicing Environmental Upgrades	2,800,222	306,259	65,153	65,153	65,153	65,153	260,612	566,871
Main Terminal Roof Replacement	992,986	108,603	23,103	23,104	23,104	23,104	92,415	201,018
Main Terminal Boiler Replacement	2,998,819	327,979	69,774	69,773	69,773	69,774	279,094	607,073
Roadway Expansion Joint Repair/Replacement	1,985,973	217,205	46,208	46,208	46,208	46,207	184,831	402,036
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	7,681,742	840,150	178,731	178,731	178,731	178,731	714,924	1,555,074
Airport-wide In-line Baggage System Design	1,688,077	184,624	39,277	39,277	39,277	39,276	157,107	341,731
Airport Master Plan Update	4,170,543	456,132	97,036	97,036	97,036	97,036	388,144	844,276
Runway 10/28- Runway Safety Area Improvements	23,155,051	9,257,101	363,073	363,073	363,073	363,073	1,452,292	10,709,393
South Cargo Ramp Rehabilitation	5,957,918	651,616	138,623	138,623	138,623	138,623	554,492	1,206,108
Taxiway N Rehabilitation	8,738,280	955,704	203,314	203,314	203,314	203,314	813,256	1,768,960
SIDA Security System Enhancements	1,985,973	217,205	46,208	46,208	46,208	46,208	184,832	402,037
Interactive Part 139 Airport Operations Training Program	496,493	54,301	11,552	11,552	11,552	11,552	46,208	100,509
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	8,261,646	903,574	192,224	192,224	192,224	192,258	768,930	1,672,504
Total	**$ 592,180,668**	**$ 438,105,212**	**$ 3,999,999**	**$ 3,999,999**	**$ 3,999,999**	**$ 4,000,033**	**$ 16,000,030**	**$ 454,105,242**

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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, 2016

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.