



Dave Yost • Auditor of State

**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY
ASHTABULA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Northeast Ohio Regional Airport Authority
Ashtabula County
P.O. Box 379
Jefferson, Ohio 44047

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Northeast Ohio Regional Airport Authority, Ashtabula County, Ohio, a component unit of Ashtabula County (the Airport), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Airport's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Airport Authority, Ashtabula County, Ohio, as of December 31, 2016, and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 13, 2017

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

The discussion and analysis of the Northeast Ohio Regional Airport Authority's (the "Airport") financial performance provides an overall review of the Airport's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the Airport's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Airport's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The Airport's net position increased by \$1,284,931, or 28 percent.
- During 2016, the Airport had an operating loss of \$533,886 but total net position increased by \$1,284,931. Capital grants of \$1,133,053 coupled with contributions and donations made to the Airport from the County and private donors of \$125,000 and \$595,064, respectively, totaling \$720,064 helped to keep the Airport operating.
- The Airport was able to make its annual principal and interest payments on its outstanding revenue bond in the amount of \$36,600 and \$42,678, respectively. The Airport also made an additional principal payment of \$20,000 during the year.
- Previously, the Airport entered into a rental agreement to allow an outside party to manage and farm approximately 190 acres of its land at a price of \$105 per acre per year, or \$19,950. The agreement commenced on April 1, 2013 and expires on March 31, 2018.
- The Airport's net pension liability related to GASB Statement No. 68 increased to \$151,215 from \$92,026. For more information on this liability see Note 7 to the basic financial statements.
- The Airport secured a Federal Aviation Administration grant for \$7,527,002 and three Ohio Department of Transportation grants totaling \$792,048 to help fund the Runway Improvement Project. As of December 31, 2016, construction in progress and land related to this project have been capitalized in the amounts of \$2,682,998 and \$508,597, respectively.

This report consists of a series of financial statements. The *Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position* provide information about the activities of the Airport and present a longer-term view of the Airport's finances.

A question typically asked about the Airport's finances "How did we do financially during 2016?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Airport and its activities in a way that helps answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* which is similar to the accounting used by most private-sector companies. The Airport charges a fee to customers to help it cover part of the services it provides. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

These two statements report the Airport's *net position* and *changes in that net position*. This change in net position is important because it tells the reader that, for the Airport as a whole, the *financial position* of the Airport has improved or diminished. The reader will need to consider other non-financial factors (e.g. fuel prices, FAA regulations, weather, etc.) in order to assess the overall health of the Airport.

The Airport as a Whole

Recall that the Statement of Net Position provides the perspective of the Airport as a whole. Table 1 provides a summary of the Airport's net position for 2016, compared to 2015:

(Table 1) Net Position

Business-Type Activities

	2016	2015	Change
Assets			
Current and Other Assets	\$847,493	\$636,113	\$211,380
Capital Assets, Net of Depreciation	6,274,893	5,219,412	1,055,481
Total Assets	7,122,386	5,855,525	1,266,861
Deferred Outflows of Resources			
Pension - OPERS	66,980	17,621	49,359
Liabilities			
Current and Other Liabilities	236,537	189,067	(47,470)
Long-Term Liabilities:			
Due Within One Year	38,200	36,600	(1,600)
Due in More than One Year:			
Net Pension Liability	151,215	92,026	(59,189)
Revenue Bonds	954,000	1,012,200	58,200
Total Liabilities	1,379,952	1,329,893	(50,059)
Deferred Inflows of Resources			
Rent Revenue	0	19,950	19,950
Pension - OPERS	2,797	1,617	1,180
Total	2,797	21,567	21,130
Net Position			
Net Investment in Capital Assets	5,282,693	4,170,612	1,112,081
Restricted for Debt Service	124,889	115,002	9,887
Unrestricted	399,035	236,072	162,963
Total Net Position	\$5,806,617	\$4,521,686	\$1,284,931

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

Governmental Accounting Standards Board standards are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 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 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 standards required by GASB No. 68, the net pension liability equals the Airport's 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 Airport, part of a bargained-for benefit to the employee, and should accordingly be reported by the Airport as a liability since they received the benefit of the exchange. However, the Airport is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly, and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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 above, 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 Airport. 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 No. 68, the Airport's 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.

Total assets increased \$1,266,861 during 2016. This increase was the result of an increase in capital assets of over \$1.0 million related to the runway extension project.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

Total liabilities increased by \$50,059 during 2016, which is a 4 percent change from the prior year. This change is due to an increase in accounts and contracts payable related to various Airport projects. Long-term liabilities increased slightly due to the increase in net pension liability which was offset by the Airport making its scheduled principal payment of \$36,600 plus an additional \$20,000.

Deferred outflows and inflows of resources represent pension related payments to OPERS.

In total, net position of the Airport increased by \$1,284,931 which can be attributed mostly to the increase in capital assets during the year. Table 2 shows the revenues, expenses and the changes in net position for the year ended December 31, 2016 compared to the year ended December 31, 2015.

(Table 2)
Changes in Net Position

	Business-Type Activities		
	2016	2015	Change
Revenues			
<i>Operating Revenues:</i>			
Charges for Services	\$188,908	\$277,512	(\$88,604)
Other Operating Revenues	2,303	2,286	17
<i>Total Operating Revenues:</i>	<u>191,211</u>	<u>279,798</u>	<u>(88,587)</u>
Expenses			
<i>Operating Expenses:</i>			
Personal Services	101,470	104,958	3,488
Fringe Benefits	43,354	29,512	(13,842)
Contractual Services	267,052	289,228	22,176
Materials and Supplies	115,602	182,509	66,907
Depreciation	161,296	166,126	4,830
Other Operating Expenses	36,323	120,144	83,821
<i>Total Operating Expenses:</i>	<u>725,097</u>	<u>892,477</u>	<u>167,380</u>
Operating Loss	<u>(533,886)</u>	<u>(612,679)</u>	<u>78,793</u>
Non-Operating Revenues (Expenses):			
Interest Income	454	306	148
Capital Grants	1,133,053	1,843,714	(710,661)
Contributions and Donations	595,064	373,057	222,007
Intergovernmental Revenue (County)	125,000	125,000	0
Land Rent/Management Proceeds	19,950	19,950	0
Engineering and Capital Related Expenses	0	(71,580)	71,580
Interest and Fiscal Charges	(54,704)	(52,186)	(2,518)
<i>Total Non-Operating Revenues (Expenses):</i>	<u>1,818,817</u>	<u>2,238,261</u>	<u>(419,444)</u>
Change in Net Position	1,284,931	1,625,582	(340,651)
Net Position Beginning of Year	<u>4,521,686</u>	<u>2,896,104</u>	<u>1,625,582</u>
Net Position End of Year	<u><u>\$5,806,617</u></u>	<u><u>\$4,521,686</u></u>	<u><u>\$1,284,931</u></u>

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

Operating revenues decreased by \$88,587, or just over thirty one percent from the previous year due to a decrease in fuel sales and rents collected. Operating expenses also decreased by \$167,380 from the prior year due mostly to decreases in other operating and material and supplies expenses. The Airport's total net position increased \$1,284,931 from the prior year.

Capital Assets

The largest portion of the Airport's net position each year is its net investment in capital assets. The Airport uses these capital assets to provide services to the businesses and public using the Airport. Table 3 shows 2016 balances compared with 2015.

(Table 3)
Capital Assets at December 31 (Net of Depreciation)
Business-Type Activities

	2016	2015	Change
Land	\$617,166	\$345,174	\$271,992
Construction in Progress	2,682,998	1,747,712	935,286
Buildings and Improvements	1,297,237	1,345,374	(48,137)
Improvements other than Buildings	1,430,894	1,503,123	(72,229)
Vehicles	200,101	216,940	(16,839)
Furniture and Equipment	46,497	61,089	(14,592)
<i>Total</i>	\$6,274,893	\$5,219,412	\$1,055,481

The \$1,055,481 increase in capital assets was due to current year capital additions of \$1,216,777 exceeding current year depreciation of \$161,296 during 2016. Note 11 of the basic financial statements provides a more detailed look at the capital asset activity during 2016.

Debt

In 2005, the Airport issued revenue bonds in the amount of \$1,400,000 in order to finance new hangar construction. The revenue bonds will mature in thirty years and have an interest rate of 4.125 percent. The Airport's outstanding long-term obligations, excluding net pension liability, are included in the following table:

(Table 4)
Outstanding Debt, at December 31

	2016	2015	Change
Revenue Bonds	\$992,200	\$1,048,800	\$56,600

Additional information concerning the Airport's long-term obligations can be found in Note 6 to the basic financial statements.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

Current Financial Issues

The Northeast Ohio Regional Airport generates revenue from two activities. One, the sale of aviation fuels for jet aircraft (Jet A) and piston powered aircraft (100LL gasoline). Second, rental of hangar units or space in community hangars. Other revenue sources are minimal and include sales of lubrications oils, navigation charts, parking and handling fees.

Fuel sales volume for Jet A decreased 30 percent from 2015, to 21,175 gallons, generating \$61,928 in revenue. Fuel sales for 100LL, typically used in light piston powered aircraft, decreased 44 percent generating \$8,252 in revenue. Markets for the two fuels are significantly different with Jet or Turbine fuels being used by business jets piloted by professional crews. 100LL fuel is used in single and twin engine aircraft used for a variety of activities ranging from business or personal travel to simple local flying activity. The reduction in fuel sales for 100LL reflects a national trend driven by the total cost of flying and a reduction in the number of pilots and aircraft. Jet A sales are driven by the travel needs of various businesses. The business jets are significantly more capable of flying in adverse weather allowing operations at times, and in conditions, not possible with private aircraft. Hence, there is less seasonality in the income stream generated by business jets.

Hangar rentals decreased to \$52,388 in 2016. Hangar rental income peaked in 2011 at \$110,480, while 2016 rental income decreased 24 percent from the previous year. These revenue decreases are due to the loss of hangar tenants resulting in owners quitting aviation and selling their aircraft or owners relocating to other airports.

All of the adverse trends are part of a weak local and national economy. This is mostly reflected in the personal use of aircraft and the cost of owning and operating an aircraft or renting from a flight school or flying club. Learning to fly or operating an aircraft is an expensive activity and requires a healthy economy and good paying jobs in order to thrive. Jet A fuel sales reflect visits from economic partners with operations in the region and our locally based jets.

Outlook:

We think that business travel will continue to grow and revenue generation from this business segment will continue to be a significant part of Airport financial performance. Personal aviation is not expected to quickly respond to efforts by various special interest organizations to promote flying and grow the pilot population.

Past efforts to exploit the Oil-Gas development activity in the region will be halted because drilling activity is expected to remain in southern Ohio rather than moving north as was thought. The funds allocated for this effort will be directed to promoting increased hangar occupancy.

Reconstruction of the runway and adjacent areas is in progress and will be completed in July, 2017. Due to the construction, the airport will be closed for a four month period starting in April. This large project, costing in excess of \$7.5 million, is financed by grants from the FAA improvement program, ODOT, and local sources including the Cleveland Foundation, R.S. Morrison Foundation, and other donors. When completed the airport will encompass all safety standards and accommodate the largest business jets.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016

Unaudited

A new terminal building is approved and construction will be completed before the end of the year. This building will provide a modern, welcoming facility for our tenants as well as visitors to the county. The project is financed by gifts from the Cleveland Foundation, local contributors and a \$200,000 grant from the Appalachian Regional Commission.

Policies and actions are in place to improve both Airport operating performance and financial performance in light of significant challenges. The County Commissioners also allocated \$125,000 from the General fund to support Airport operations in 2016.

When completed in 2017 the Airport should be more attractive to both business and personal aviation activities.

The Airport Authority has been able to accomplish these much needed improvements without incurring any additional debt.

Contacting the Airport's Finance Department

This financial report is designed to provide our citizens, taxpayers, Airport users, and all interested parties with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dwight Bowden, President of Ashtabula County Airport Authority dba the Northeast Ohio Regional Airport Authority, 2382 Airport Road, P.O. Box 379, Jefferson, Ohio 44047.

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Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Statement of Net Position
December 31, 2016

Assets	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$475,371
Accounts Receivable	37,922
Prepaid Assets	18,676
Fuel Inventory	32,276
Lease Receivable	126,875
Due from Other Governments	130,412
Rent Receivable	19,950
Cash and Cash Equivalents:	
In Segregated Accounts	6,011
<i>Total Current Assets</i>	<u>847,493</u>
<i>Non-Current Assets:</i>	
Nondepreciable Capital Assets	3,300,164
Depreciable Capital Assets, Net	<u>2,974,729</u>
<i>Total Non-Current Assets</i>	<u>6,274,893</u>
<i>Total Assets</i>	<u>\$7,122,386</u>
Deferred Outflows of Resources	
Pension	<u>66,980</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	\$26,841
Accrued Wages	2,871
Intergovernmental Payable	2,067
Accrued Interest Payable	11,016
Contracts Payable	<u>193,742</u>
<i>Total Current Liabilities</i>	<u>236,537</u>
<i>Non-Current Liabilities:</i>	
Due Within One Year	38,200
Due In More than One Year:	
Net Pension Liability (See Note 7)	151,215
Other Amounts Due in More than One Year	<u>954,000</u>
<i>Total Non-Current Liabilities</i>	<u>1,143,415</u>
<i>Total Liabilities</i>	<u>1,379,952</u>
Deferred Inflows of Resources	
Pension	<u>2,797</u>
Net Position	
Net Investment in Capital Assets	5,282,693
Restricted for Debt Service	124,889
Unrestricted	<u>399,035</u>
<i>Total Net Position</i>	<u><u>\$5,806,617</u></u>

See accompanying notes to the basic financial statements

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2016

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Operating Revenue	
Sales	\$129,020
Rent	52,388
Leases	7,500
Other Operating Revenues	2,303
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<i>Total Operating Revenue</i>	<i>191,211</i>
	<hr/>
Operating Expenses	
Personal Services	101,470
Fringe Benefits	43,354
Contractual Services	267,052
Materials and Supplies	115,602
Depreciation	161,296
Other Operating Expenses	36,323
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<i>Total Operating Expenses</i>	<i>725,097</i>
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<i>Operating Loss</i>	<i>(533,886)</i>
	<hr/>
Non-Operating Revenues (Expenses)	
Interest Income	454
Capital Grants	1,133,053
Contributions and Donations	595,064
Intergovernmental Revenue - County Appropriation	125,000
Land Rent/Management Proceeds	19,950
Interest and Fiscal Charges	(54,704)
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	<i>1,818,817</i>
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<i>Change In Net Position</i>	<i>1,284,931</i>
	<hr/>
<i>Net Position Beginning of Year</i>	<i>4,521,686</i>
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<i>Net Position End of Year</i>	<i>\$5,806,617</i>
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See accompanying notes to the basic financial statements

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Statement of Cash Flows
For the year ended December 31, 2016

Cash Flows From Operating Activities:	
Cash Received from Customers	\$184,057
Other Operating Revenue	2,303
Cash Paid for Goods and Services	(371,490)
Cash Paid to Employees	(132,315)
Other Operating Expenses	(56,990)
	(374,435)
<i>Net Cash Used for Operating Activities</i>	
Cash Flows From Non-Capital Financing Activities:	
Land Rent/Management Proceeds	19,950
	19,950
Cash Flows From Investing Activities:	
Interest on Investments	454
	454
Cash Flows From Capital and Related Financing Activities:	
Contributions and Donations	720,064
Capital Grants	1,151,931
Payment for Capital Acquisitions	(717,036)
Payment for Engineering & Capital Related Services	(444,309)
Principal Payments on Debt	(56,600)
Interest Payments	(54,474)
	(54,474)
	599,576
<i>Net Cash Provided by Capital and Related Financing Activities</i>	
Net Increase in Cash and Cash Equivalents	245,545
Cash and Cash Equivalents at Beginning of Year	235,837
	235,837
Cash and Cash Equivalents at End of Year	\$481,382
Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities	
Operating Loss	(\$533,886)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation	161,296
<i>(Increase) Decrease in Assets and Deferred Outflows of Resources:</i>	
Accounts Receivable	(239)
Prepaid Assets	6,181
Inventory	(3,105)
Leases Receivable	(7,500)
Increase in Deferred Outflows of Resources - Pension	(49,359)
<i>Increase (Decrease) in Liabilities and Deferred Inflows of Resources:</i>	
*Accounts Payable	10,976
Contracts Payable	(20,667)
Accrued Wages	1,530
Intergovernmental Payable	(31)
Net Pension Liability	59,189
Increase in Deferred Inflows of Resources - Pension	1,180
	1,180
Total Adjustments	159,451
Net Cash Used for Operating Activities	(\$374,435)

Footnote:

* Accounts and contracts payable overall increases of \$10,976 and \$60,269, respectively, had two components: operating and non-operating. The cash flows reconciliation only provides a comparison for operating activities, therefore non-operating revenues and expenses are not considered in the reconciliation. For accounts payable, a decrease of \$239 was accounted for in the operating expenditures, while an increase of \$11,215 was accounted for under capital and related financing activities. For contracts payable, a decrease of \$20,667 was accounted for in the operating expenditures, while an increase of \$80,936 was accounted for under capital outlay.

See accompanying notes to the basic financial statements

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Notes to the Basic Financial Statements
December 31, 2016

Note 1 - Description of the Northeast Ohio Regional Airport and Reporting Entity

A. The Airport

The Northeast Ohio Regional Airport Authority, Ashtabula County, (the Airport) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Airport is directed by a nine member Board, appointed by the County commissioners. The Board of Trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals and other charges; the authority to acquire, construct, operate, manage and maintain airport facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Since the Airport imposes a financial burden on the County, the Airport is reflected as a component unit of Ashtabula County. The Airport has a December 31 year end.

B. Reporting Entity

The Airport has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Airport are not misleading. The primary government consists of all departments, boards and agencies that are not legally separate from the Airport.

Component units are legally separate organizations for which a primary government is financially accountable. The Airport is financially accountable for an organization if the primary government appoints a voting majority of the organization's governing board and (1) the Airport is able to significantly influence the programs or services performed or provided by the organization; or (2) the Airport is legally entitled to or can otherwise access the organization's resources; or (3) the Airport is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (4) the Airport is obligated for the debt of the organization. Under the criteria specified in Statement No. 14, the Airport has no component units. Accordingly, the accompanying financial statements include only the accounts and transactions of the Airport. The Airport is, however, considered to be a component unit of Ashtabula County ("the County") by virtue of the fact the Airport's Board of Trustees is appointed by the County and the Airport imposes a financial burden on the County. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Airport is not financially accountable for any other organization.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources are generally applicable to the primary government. The more significant of the Airport's accounting policies are described below.

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A. Basis of Presentation

The Airport reports its operations as a single enterprise fund. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Proprietary accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Airport finances and meets the cash flow needs of its enterprise activity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled service charges are recognized as revenue at year end.

Non-exchange transactions, in which the Airport receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Airport must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the airport on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are also recorded as a deferred inflow of resources. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Airport, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Airport, deferred inflows of resources were reported for pension. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 7).

C. Cash and Cash Equivalents

The Airport maintains interest bearing depository accounts. All funds of the Airport are maintained in these accounts. These interest bearing depository accounts are presented in the statement of net position as “Cash and Cash Equivalents”. The Airport has no investments.

The Airport has a segregated bank account for money held separate from the Airport's central bank accounts for donations related to the terminal building project. This account is presented as "Cash and Cash Equivalents: Segregated Accounts" since it is not required to be deposited into the Airport treasury.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general operating fund during 2016 amounted to \$454.

D. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

E. Fuel Inventory

Inventory consists of two types of aviation fuel for sale to customers and is stated at cost, which is determined on a first-in, first-out basis. The cost of inventory is recorded as an expense when sold or used.

F. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Airport maintains a capitalization threshold of five thousand dollars.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except land and construction in progress are depreciated. Depreciation in the enterprise fund is computed using the straight-line basis over the following estimated useful lives:

<u>Estimated Lives</u>	<u>Description</u>
25 - 40 years	Buildings and Improvements
25 - 40 years	Improvements other than Buildings
5 - 10 years	Vehicles
3 - 20 years	Furniture and Equipment

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G. Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for debt service represents monies set aside for the repayment of debt.

The Airport applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services, rentals, leases and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Airport. Revenues and expenses which do not meet these definitions are reported as non-operating.

I. 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.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Change in Accounting Principles

For 2016, the Airport has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application”, Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, Statement No. 77, “Tax Abatement Disclosures”, Statement No. 78, “Pension Benefits Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”, Statement No. 79, “Certain External Investment Pools and Pool Participants”, and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73”.

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GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Airport.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Statement supersedes Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Airport.

GASB Statement No. 77 gives users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature of tax abatements will make these transactions more transparent to financial statement users. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Airport.

GASB Statement No. 78 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 government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local government employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Airport.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes, all of their investment at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The Airport participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The Airport also incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position or fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Airport's fiscal year 2016 financial statements; however, there was no effect on beginning net position or fund balance.

Note 4 – Deposits and Investments

State statutes classify monies held by the Airport into three categories.

Active monies are public deposits necessary to meet the demands on the treasury. Such monies must be maintained either as cash by the Airport, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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Inactive deposits are public deposits that the Airport has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Airport, and must be purchased with the expectation that it will be held to maturity.

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Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Airport's name. During 2016, the Airport had no investments.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of bank failure, the Airport's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Airport.

At year-end, the carrying amount of the Airport's deposits was \$481,382, of which \$458 was cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, \$250,000 of the Airport's bank balance of \$570,539 was covered by the Federal Deposit Insurance Corporation, meaning \$320,539 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Airport to a successful claim by the FDIC.

Note 5 – Operating Lease Agreements

In prior years, the Airport entered into two operating lease agreements for hangar improvements. The hangar improvements were paid for by tenants in exchange for the free use of the hangars for an agreed upon number of years. When these hangar agreements expire, the assets will revert to the Airport and will be capitalized at their current fair market value. The Airport will recognize a gain or loss on the expired lease transactions, which is the difference between the leases receivable being carried on the Airport's statement of net position and the fair market value of the assets acquired.

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Note 6 – Long-Term Obligations

During 2005, the Airport issued revenue bonds where the government income derived from the constructed assets will be used to retire the debt. The interest rate on the revenue bonds is 4.125 percent and they are scheduled to mature in 2035. Changes in the long-term obligations during 2016 were as follows:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amount Due In One Year
<i>Business-Type Activities</i>					
Revenue Bonds	\$1,048,800	\$0	\$56,600	\$992,200	\$38,200
Net Pension Liability - OPERS	92,026	71,900	12,711	151,215	0
<i>Total Business-Type Activities</i>	<u>\$ 1,140,826</u>	<u>\$ 71,900</u>	<u>\$ 69,311</u>	<u>\$ 1,143,415</u>	<u>\$ 38,200</u>

The Airport pays obligations related to employee compensation from the enterprise fund.

The annual requirements to retire this debt are as follows:

Year	2005 Revenue Bonds		
	Principal	Interest	Total
2017	\$38,200	\$44,063	\$82,263
2018	39,700	42,488	82,188
2019	41,300	40,850	82,150
2020	43,100	39,146	82,246
2021	44,800	37,368	82,168
2022-2026	253,400	157,533	410,933
2027-2031	310,200	100,778	410,978
2032-2035	221,500	28,046	249,546
<i>Total</i>	<u>\$992,200</u>	<u>\$490,272</u>	<u>\$1,482,472</u>

Note 7 - 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.

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The net pension liability represents the Airport's 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 Airport's obligation for this liability to annually required payments. The Airport cannot control benefit terms or the manner in which pensions are financed; however, the Airport does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of 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.

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

Plan Description - Ohio Public Employees Retirement System (OPERS)

Plan Description – The Airport participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 of the Airport may elect the member-directed plan and the combined plan, substantially all employees 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 pension 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):

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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

Final average salary (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 3 percent 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 percent.

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 Airport's contractual required contribution was \$12,450 for 2016. Of this amount, \$345 is reported as an intergovernmental payable.

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Pension Liabilities, Pension Expense and 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 Airport's proportion of the net pension liability was based on the Airport's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS
Proportion of the Net Pension Liability Prior Measurement Date	0.00076300%
Proportion of the Net Pension Liability Current Measurement Date	0.00087300%
Change in Proportionate Share	0.00011000%
Proportionate Share of the Net Pension Liability	\$151,215
Pension Expense	\$21,247

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

	OPERS
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$43,916
Change in proportionate share and difference between Airport contributions and proportionate share of contributions	10,614
Airport contributions subsequent to the measurement date	12,450
Total Deferred Outflows of Resources	\$66,980
Deferred Inflows of Resources	
Differences between expected and actual experience	\$2,797

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\$12,450 reported as deferred outflows of resources related to pension resulting from Airport contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Year Ending December 31:	
2017	(\$12,306)
2018	(12,927)
2019	(13,788)
2020	(12,712)
Total	(\$51,733)

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 was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement, in accordance with the requirements of GASB 67:

Wage Inflation	3.75 Percent
Future Salary Increases, Including Inflation	4.25 Percent to 10.05 Percent, Including Wage Inflation
COLA or Ad hoc COLA	3 Percent, Simple
Investment Rate of Return	8.0 Percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projections Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent 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 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

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 weighing the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent 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 8.0 percent. The projection of cash flows used to determine the discount rate assumed the 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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Airport's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Airport's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8.0 percent, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.0 percent), or one percentage point higher (9.0 percent) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Airport's Proportionate Share of the Net Pension Liability	\$240,922	\$151,215	\$75,549

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Note 8 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; The Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund 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 percent of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

Northeast Ohio Regional Airport Authority
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Notes to the Basic Financial Statements
December 31, 2016

retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to VEBA for participants in the Member-Directed Plan for 2016 was 4.5 percent.

The Airport's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$1,037, \$2,118 and \$1,954 respectively; 100 percent has been contributed for 2016, 2015 and 2014.

Note 9 – Other Employee Benefits

A. Sick and Personal Absence Days

Full time employees are eligible for one paid personal absence day annually which can be used for personal business. Employees are also eligible for five paid sick days, which can be used for illness or sickness. Employment anniversary dates are used in establishing eligibility. The banked liability has no value for time off or for payment of unused days upon termination. Therefore, there was no liability for accrued but unused personal or sick days as of December 31, 2016.

B. Vacation

Full time employees are eligible for paid vacation time depending upon length of service. Vacation time may not be carried over to the following year unless, prior written approval from the Board is granted. Eligible employees will not be paid for any earned but unused vacation upon termination. Therefore, there was no liability for accrued but unused vacation days as of December 31, 2016.

Note 10 - Risk Management

Commercial Insurance

The Airport has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Notes to the Basic Financial Statements
December 31, 2016

Note 11 - Capital Assets

A summary of the Airport's capital assets at December 31, 2016 follows:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
<i>Capital Assets, not being depreciated:</i>				
Land	\$345,174	\$271,992	\$0	\$617,166
Construction in Progress	1,747,712	935,286	0	2,682,998
<i>Total Capital Assets, not being depreciated:</i>	2,092,886	1,207,278	0	3,300,164
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	1,926,840	0	0	1,926,840
Improvements other than Buildings	2,275,182	0	0	2,275,182
Vehicles	649,682	6,000	0	655,682
Furniture and Equipment	162,386	3,499	0	165,885
<i>Total Capital Assets, being depreciated:</i>	5,014,090	9,499	0	5,023,589
Less Accumulated Depreciation:				
Buildings and Improvements	(581,466)	(48,137)	0	(629,603)
Improvements other than Buildings	(772,059)	(72,229)	0	(844,288)
Vehicles	(432,742)	(22,839)	0	(455,581)
Furniture and Equipment	(101,297)	(18,091)	0	(119,388)
<i>Total Accumulated Depreciation</i>	(1,887,564)	(161,296)	0	(2,048,860)
<i>Total Capital Assets being depreciated, net</i>	3,126,526	(151,797)	0	2,974,729
Total Capital Assets, Net	\$5,219,412	\$1,055,481	\$0	\$6,274,893

During 2016, capital asset additions of \$935,286 related to the \$8.3 million runway reconstruction project were completed. The Airport also added two parcels of land related to the project valued at \$271,992.

Note 12 – Contingent Liability

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2016.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Notes to the Basic Financial Statements
December 31, 2016

Note 13 – Contributions and Donations

The Airport receives significant contributions and donations which help it to operate. During 2016, the Airport received \$125,000 from the County and \$595,064 from other donors.

Note 14 – Subsequent Events

In 2017, the Airport is to receive \$7,527,002 in Federal funding to complete the Runway Rehabilitation and Reconstruction project to make improvements that will help increase efficiency and safety to the Airport.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Required Supplementary Information
Schedule of Airport's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS) - Traditional Plan
Last Three Years (1)

	2015	2014	2013
Airport's Proportion of the Net Pension Liability	0.00087300%	0.00076300%	0.00076300%
Airport's Proportionate Share of the Net Pension Liability	\$151,215	\$92,026	\$89,948
Airport's Covered-Employee Payroll	\$105,925	\$93,550	\$85,977
Airport's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	142.76%	98.37%	104.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

Amounts presented as of the Airport's measurement date which is the prior year end.

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Required Supplementary Information
Schedule of Airport Contributions
Ohio Public Employees Retirement System (OPERS) - Traditional Plan
Last Ten Years

	2016	2015	2014	2013
Contractually Required Contribution	\$12,450	\$12,711	\$11,226	\$11,177
Contributions in Relation to the Contractually Required Contribution	(\$12,450)	(\$12,711)	(\$11,226)	(\$11,177)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Airport Covered-Employee Payroll	\$103,746	\$105,925	\$93,550	\$85,977
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

2012	2011	2010	2009	2008	2007
\$6,270	\$5,780	\$4,586	\$5,791	\$4,889	\$1,648
(\$6,270)	(\$5,780)	(\$4,586)	(\$5,791)	(\$4,889)	(\$1,648)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$62,703	\$57,800	\$47,354	\$70,890	\$69,843	\$20,004
10.00%	10.00%	9.68%	8.17%	7.00%	8.24%

Northeast Ohio Regional Airport Authority
Ashtabula County, Ohio

Notes to Required Supplementary Information
For the year ended December 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014 through 2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of determined contributions for 2014 through 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Northeast Ohio Regional Airport Authority
Ashtabula County
P.O. Box 379
Jefferson, Ohio 44047

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Northeast Ohio Regional Airport Authority, Ashtabula County, (the Airport) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements and have issued our report thereon dated June 13, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Airport's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Airport's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

June 13, 2017



Dave Yost • Auditor of State

NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY

ASHTABULA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 27, 2017**