CITY OF CLEVELAND, OHIO

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

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2009 and 2008

CITY OF CLEVELAND, OHIO

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

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Divisions of Cleveland Hopkins International and
Burke Lakefront Airports
Department of Port Control
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, OH 44114

To the Honorable Frank G. Jackson, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying basic financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) as of and for the years ended December 31, 2009 and December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Divisions' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A, 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, Cuyahoga County, Ohio as of December 31, 2009 and December 31, 2008, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2009 and December 31, 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the Divisions' basic financial statements. The Schedule of Airport Revenue and Operating Expenses as defined in the Airline Use Agreement for the year ended December 31, 2009 is presented for purposes of additional analysis and is not a required part of the Divisions' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Divisions' basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 28, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the years ended December 31, 2009 and December 31, 2008. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 15.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airport of the City. The Divisions operate a major public airport and a reliever airport serving not only the City of Cleveland, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2009, the Divisions were served by 29 scheduled airlines and three cargo airlines. There were 93,000 scheduled landings with landed weight amounting to 6,265,656,000 pounds. There were 4,855,000 passengers enplaned at Cleveland Hopkins International Airport, and 83,000 passengers enplaned at Burke Lakefront Airport during 2009. In 2008, the Divisions were served by 29 scheduled airlines and three cargo airlines. There were 109,000 scheduled landings with landed weight amounting to 7,256,242,000 pounds. There were 5,545,000 passengers enplaned at Cleveland Hopkins International Airport during 2008.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $395,666,000, $420,858,000 and $423,255,000 at December 31, 2009, 2008 and 2007, respectively. Of these amounts, $136,953,000, $143,845,000 and $157,726,000 (unrestricted net assets) at December 31, 2009, 2008 and 2007, respectively, may be used to meet the Divisions ongoing obligations to customers and creditors.

- The Divisions' total net assets decreased by $25,192,000 in 2009. In 2009, restricted for debt service increased due to the increase in long-term debt due within one year. This increase is a result of the Divisions' commitment to reduce long-term debt by accelerating the payment of Airport System Revenue Bonds Series 2000B in January 2010. These funds were transferred to the bond trustee prior to the close of 2009. In 2009, restricted for passenger facility charges decreased due to the increase in the amount of passenger facility charge funded project expenditures. Long-term obligations decreased in 2008 due to the principal payment on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds.

  Additions to construction in progress totaled $41,086,000, $40,036,000 and $43,956,000 in 2009, 2008 and 2007, respectively. The major capital expenditures during 2009 were for the upgrading and enhancement of the terminal utilities, extension of Runway 6R/24L, Taxiway L reconstruction, and sound insulation of homes.

- **FINANCIAL HIGHLIGHTS (Continued)**

  Approximately, 39% was spent on the upgrading and enhancement of the terminal utilities and 18% was spent on the extension of Runway 6R/24L. The major capital expenditures during 2008 were for extension of Runway 6R/24L, closed circuit TV upgrade , and restroom renovation. During 2007, the Airport continued to purchase land south of the Airport. Approximately 11.6% was spent on the acquisition of property and another 47.8% was spent on the uncoupling and extension of Runway 6R/24L.

- The Divisions total bonded debt decreased by $15,465,000, $8,755,000 and $17,415,000 during 2009, 2008 and 2007, respectively. The key factor for this decrease was the payment of principal on the Series 1997, 2000, 2003, 2006, and 2007 Airport System Revenue Bonds**.** In 2009, the City issued $248,280,000 of Airport System Revenue Bonds, Series A through D, which refunded the Series 1997E Bonds, a portion of the Series 1997D Bonds and the Series 2008A, B, C and E Bonds. In 2008, the key factors for the decrease in total bonded debt were the payment of principal on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds. The City issued $288,780,000 of Airport System Revenue Bonds in 2008, which refunded a portion of the Series 2007A and Series 2003A-C Airport System Revenue Bonds. (See Note B - Long-Term Obligations for additional information).

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 15-20 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 22-43 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
		(Amounts in 000's)	
Assets:			
Current assets	$ 98,294	$ 101,470	$ 107,016
Restricted assets	298,372	336,548	333,936
Unamortized bond issuance costs	19,240	7,776	12,047
Capital assets, net	917,922	935,445	949,612
Total assets	$ 1,333,828	$ 1,381,239	$ 1,402,611
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 89,227	$ 59,636	$ 62,387
Long-term obligations	848,935	900,745	916,969
Total liabilities	938,162	960,381	979,356
Net assets:			
Invested in capital assets, net of related debt	94,145	117,883	114,507
Restricted for debt service	141,879	108,323	107,572
Restricted for passenger facility charges	22,689	50,807	43,450
Unrestricted	136,953	143,845	157,726
Total net assets	395,666	420,858	423,255
Total net assets and liabilities	$ 1,333,828	$ 1,381,239	$ 1,402,611

Assets: Total assets decreased $47,411,000 and $21,372,000 during 2009 and 2008, respectively. The decrease in capital assets, net of accumulated depreciation, accounted for $17,523,000 or 37.0% of this change**.** Unamortized bond issuance costs increased in 2009 due to the increase of bond issuance cost in relation to the issuance of the Series 2009 Bonds and the termination of the swap relating to the 2008 Series A and B bonds. In 2008, there was a decrease in capital assets, net of accumulated depreciation, that accounted for $14,167,000, or 66.3%, of this change. Accumulated depreciation increased in 2008 due to a full year's depreciation on the centralized deicing pad, the rehabilitation of the long term parking garage and the rehabilitation of the Concourse C ramp area. Restricted cash and cash equivalents increased $16,232,000 or 5.7%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2009 amounted to $917,922,000 (net of accumulated depreciation), which is a decrease of 1.9%. The Divisions' investment in capital assets as of December 31, 2008 amounted to $935,445,000 (net of accumulated depreciation), which was a decrease of 1.5%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure, vehicles, and construction in progress. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2009 is as follows:

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009
		(Amounts in 000's)		
Land	$ 167,123	$ 334	$	$ 167,457
Land improvements	72,568			72,568
Buildings, structures and improvements	318,288	10,450		328,738
Furniture, fixtures, and equipment	19,687	3,114		22,801
Infrastructure	870,685	15,243		885,928
Vehicles	13,535		(1)	13,534
Total	1,461,886	29,141	(1)	1,491,026
Less: Accumulated depreciation	(530,418)	(52,205)		(582,623)
Total	931,468	(23,064)	(1)	908,403
Construction in progress	3,977	41,086	(35,544)	9,519
Capital assets, net	$ 935,445	$ 18,022	$ (35,545)	$ 917,922

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2008 is as follows:

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
	(Amounts in 000's)			
Land	$ 165,650	$ 1,473	$	$ 167,123
Land improvements	72,568			72,568
Buildings, structures and improvements	316,480	1,808		318,288
Furniture, fixtures, and equipment	18,495	1,192		19,687
Infrastructure	809,650	61,035		870,685
Vehicles	12,998	617	(80)	13,535
Total	1,395,841	66,125	(80)	1,461,886
Less: Accumulated depreciation	(476,295)	(54,203)	80	(530,418)
Total	919,546	11,922	-	931,468
Construction in progress	30,066	40,036	(66,125)	3,977
Capital assets, net	$ 949,612	$ 51,958	$ (66,125)	$ 935,445

Major events during 2009 and 2008 affecting the Divisions' capital assets included the following:

- The Airport Utility Upgrade project will include both retrofitting existing terminal space and adding additional space for the purpose of increasing the square footage available for airport concessions throughout the terminal and concourses. This project will also include relocation of the airport chapel and a new telephone system. However, the majority of the project costs will be incurred expanding the capacity of the utilities on various concourses to accommodate the new concession locations.

- The SIDA Security System Enhancements project will complete the third phase of a comprehensive series of security improvements at the Airport. The third phase will provide a fiber security backbone for the northern and southern portions of the airfield in order to integrate perimeter fence, remote parking areas and out buildings on the perimeter into the existing security system. Benefits of this program will include video security of critical airfield, perimeter and other security areas not currently covered, as well as the enhancement of the computer capacity in order to integrate and store security system data.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- Land south of Cleveland Hopkins International Airport (Hopkins Airport) was purchased in accordance with the settlement agreement between the City of Cleveland and the City of Brook Park. In 2009, the Divisions spent $334,000 on these properties; the Divisions spent $1,473,000 on these properties in 2008.

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

Liabilities: In 2009 and 2008, total liabilities decreased $22,219,000 and $18,975,000, respectively. In 2009, the decrease in long-term obligations was $51,810,000 or 5.8%. Current liabilities increased $29,591,000 or 49.6% due to the recognition of additional current portion of long-term debt, due within one year. The increase is the result of an accelerated debt payment redeeming Airport System Revenue Bonds Series 2000B with a principal balance of $30,030,000 at December 31, 2009. Long-term obligations decreased due to the payment of principal on the Series 1997, 2000, 2006, 2007, and 2008 Airport System Revenue Bonds. In 2008, the decrease in long-term obligations was $16,224,000 or 1.8%. Long-term obligations decreased due to the payment of principal on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds. Current liabilities remained fairly constant in 2008. Accrued property taxes decreased in 2009 due to a reassessment of tax-exempt status, along with an effort to examine tenant property tax parcels. The tenants are now billed directly for their property tax liability.

Long-term debt: At December 31, 2009 and 2008, the Divisions had $901,740,000 and $917,205,000, 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, 2009 is summarized below:

	Balance January 1, 2009	Debt Issued	Debt Retired	Balance December 31, 2009
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 1997	$ 52,485	$	$ (52,485)	$ -
Series 2000	446,020		(8,535)	437,485
Series 2006	118,665		(95)	118,570
Series 2007	11,255		(80)	11,175
Series 2008	288,780		(202,550)	86,230
Series 2009		248,280		248,280
Total	$ 917,205	$ 248,280	$ (263,745)	$ 901,740

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2008 is summarized below:

	Balance January 1, 2008	Debt Issued	Debt Retired	Balance December 31, 2008
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 1997	$ 60,330	$	$ (7,845)	$ 52,485
Series 2000	454,090		(8,070)	446,020
Series 2003	133,275		(133,275)	-
Series 2006	118,760		(95)	118,665
Series 2007	159,505		(148,250)	11,255
Series 2008		288,780		288,780
Total	$ 925,960	$ 288,780	$ (297,535)	$ 917,205

The bond ratings from Moody's Investors Service, Standard & Poor's Rating Service, and Fitch Ratings (beginning in 2006) are as follows:

Moody's Investors Service	Standard & Poor's Rating Service	Fitch Ratings
A3	A-	A

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 2009, 2008 and 2007, was 165%, 149% and 149%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B – Long-Term Obligations to the basic financial statements on pages 26-32.

Net Assets: Net assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $395,666,000, $420,858,000 and $423,255,000 at December 31, 2009, 2008 and 2007, respectively. Of the Divisions' net assets at December 31, 2009 and 2008, $94,145,000 and $117,883,000, respectively, reflects its investment in capital assets (e.g., land, land improvements, buildings, fixtures, equipment, infrastructure, and vehicles), 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 assets represents resources that are subject to external restrictions. At December 31, 2009 and 2008 these restricted net assets amounted to $164,568,000 and $159,130,000, respectively. These restricted net assets 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 assets, $136,953,000 and $143,845,000 for December 31, 2009 and 2008, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

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

The Divisions operations during 2009 and 2008 decreased its net assets by $25,192,000 $2,397,000, respectively. Provided below are key elements of the Divisions results of operations as of and for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
	(Amounts in 000's)		
Operating revenues			
Landing fees	$ 28,678	$ 30,825	$ 27,083
Terminal and concourse rentals	43,646	40,660	44,667
Concessions	21,535	27,517	28,734
Utility sales and other	4,284	12,388	5,265
Total operating revenues	98,143	111,390	105,749
Operating expenses	120,636	129,076	120,435
Operating income (loss)	(22,493)	(17,686)	(14,686)
Non-operating revenue (expense):			
Passenger facility charges revenue	19,378	21,828	23,760
Non-operating expense	(9,062)	(2,041)	(1,952)
Sound insulation program	(4,215)	(996)	(7,461)
Loss on disposal of capital asset			(833)
Rebate arbitrage expense		(342)	
Interest income	1,915	11,865	19,682
Interest expense	(31,127)	(37,694)	(35,961)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(3,746)	(2,093)	(1,187)
Total non-operating revenue (expense), net	(26,857)	(9,473)	(3,952)
Capital and other contributions	24,158	24,762	33,634
Increase (decrease) in net assets	(25,192)	(2,397)	14,996
Net assets, beginning of year	420,858	423,255	408,259
Net assets, end of year	$ 395,666	$ 420,858	$ 423,255

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

Operating revenues*:* Of the 2009 operating revenues of $98,143,000, $26,703,000 or 27.2% represented landing fees received from signatory airlines. This is a decrease of 8.8% from the prior year. Signatory terminal rentals accounted for $27,425,000, or 27.9% of total operating revenues. The increase of 9.5% is a result of an increase in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues decreased 26.1% over the prior year due to a decrease in the demand for airport parking. Parking revenues amounted to $11,875,000 or 12.1% of total operating revenues for 2009. The fourth largest airport revenue source, rental cars, accounted for 9.3% of total operating revenues, which is a decrease of 9.0% from 2008.

Of the 2008 operating revenues of $111,390,000, $29,287,000 or 26.3% represented landing fees received from signatory airlines. This is an increase of 17.3% from the prior year due to an increase of 2008 signatory landing fee rates. Signatory terminal rentals accounted for $25,047,000, or 22.5% of total operating revenues. The decrease of 8.5% is a result of a decrease in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues amounted to $16,064,000 or 14.4% of total operating revenues for 2008, which is a 10.9% decrease over the 2007 year. The fourth largest airport revenue source, rental cars, accounted for 9.0% of total operating revenues, which is a decrease of 2.6% from 2007.

Operating expenses*:* Total operating expenses for 2009 decreased $8,440,000 or 6.5%. Operations expenses decreased 8.7% mainly due to decreases in utilities, taxes and professional fees. Employee salaries, wages and benefits increased 1.3% due to employee cost of living increases, and related increase in employer contribution for pension benefits. Maintenance expenses decreased 7.7% mainly attributed to the Divisions' ability to monitor and control repair and maintenance expense. Depreciation expense decreased by 3.7%. Total operating expenses for 2008 increased $8,641,000 or 7.2%. Operations expenses increased 8.1% mainly due to increases in employee wages and benefits, chemical expense, and security expenses. Employee salaries, wages and benefits increased 11.2% due to employee cost of living increases, and related increase in employer contribution for pension benefits. Chemical expenses increased 71.3% over 2007 due to an increase in the supplier's price resulting from a shortage in the production of the snow removal chemical potassium acetate. Maintenance expenses increased 5.6% mainly attributed to the cost of maintaining high speed snow removal equipment. Depreciation expenses increased by 6.1%, due to the half-year depreciation expense on assets added in 2008, and to a full year's depreciation on assets added in 2007.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $4,214,000, $996,000, and $7,461,000 in 2009, 2008 and 2007, respectively. In 2009 there were more construction related expenses in the Sound Insulation Program versus in 2008, which focused on warranty related work. Also in 2009, interest income decreased to $1,915,000 from $11,865,000 in 2008; a decrease of 83.9%.

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

Capital and other contributions: In 2009, 2008 and 2007, the Divisions received $24,158,000 $24,762,000 and $33,634,000, respectively, in Federal Airport Improvement Grants. In 2009, American Reinvestment and Recovery Act of 2009 (ARRA) grants in the amount of $16,324,000 were received by the Divisions' from the Department of Transportation – Federal Aviation Administration. The ARRA grants will be used to construct Taxiway Q and Hold Pad to improve the safety of the airport airfield. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the Residential Sound Insulation Program, airfield safety improvements, the construction of runway 6L/24R and uncoupling of runway 6R/24L.

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

A new 300 foot tall air traffic control tower, funded by the Federal Aviation Administration (FAA) will increase visibility of our newly extended runway and give the FAA the ability to handle more flights from CLE. Scheduled to open in 2013 on the south end of the airport, the tower will replace the 21-year old north side tower. To support the new tower, Cleveland Hopkins International Airport (CLE) is undergoing an airfield improvement project to construct a new taxiway and holding area. CLE was awarded a $16.0 million grant from the FAA through the American Recovery and Reinvestment Act, formerly the Stimulus Package in April 2009. These federal dollars distributed through the FAA will fund two projects which will enhance the airport's overall safety of the airfield and the flying public.

On January 1, 2010, all of the outstanding Airport System Revenue Bonds, Series 2000B, were redeemed by the City. Pursuant to a Notice of Full Redemption issued by the trustee in November 2009, principal in the amount of $30,030,000 and a redemption premium totaling $300,300 were paid to the bondholders to retire the debt.

On May 6, 2010, Continental Airlines and United Airlines announced a proposed merger agreement with the "new" United Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2010, looking towards the future, there may be an impact on the Divisions' operations. It is not known at this time whether the impact will have a negative or positive effect on CLE, the new airline's smallest hub.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2009 and 2008

	(Amounts in 000's) 2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 65,757	$ 54,600
Restricted cash and cash equivalents	6,253	7,554
Investments	10,316	23,306
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,921,000 in 2009 and $3,065,000 in 2008	3,117	3,920
Unbilled revenue	3,742	5,673
Landing fees - due from airlines	4,136	
Accrued interest receivable	192	327
Total receivables	11,187	9,920
Prepaid expenses	583	684
Due from other City of Cleveland departments, divisions or interfund accounts	25	78
Due from federal government	2,014	2,898
Materials and supplies-at cost	2,159	2,430
TOTAL CURRENT ASSETS	98,294	101,470
RESTRICTED ASSETS		
Cash and cash equivalents	293,743	276,210
Investments	2,104	57,082
Accrued interest receivable	25	726
Bond retirement reserve	53	53
Accrued passenger facility charges	2,447	2,477
TOTAL RESTRICTED ASSETS	298,372	336,548
UNAMORTIZED BOND ISSUANCE COSTS	19,240	7,776
CAPITAL ASSETS		
Land	167,457	167,123
Land improvements	72,568	72,568
Buildings, structures and improvements	328,738	318,288
Furniture, fixtures, equipment	22,801	19,687
Infrastructure	885,928	870,685
Vehicles	13,534	13,535
	1,491,026	1,461,886
Less: Accumulated depreciation	(582,623)	(530,418)
	908,403	931,468
Construction in progress	9,519	3,977
CAPITAL ASSETS, NET	917,922	935,445
TOTAL ASSETS	$ 1,333,828	$ 1,381,239

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2009 and 2008

	(Amounts in 000's) 2009	2008
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 52,480	$ 16,830
Current portion of long-term deferred payment obligation, due within one year	2,562	2,371
Accounts payable	3,779	3,687
Due to other City of Cleveland departments, divisions or interfund accounts	1,174	1,155
Current portion of accrued wages and benefits	4,222	4,300
Accrued interest payable	18,196	16,036
Accrued property taxes	216	7,357
Construction fund payable from restricted assets	1,928	6,171
Other construction accounts payable from restricted assets	4,324	1,383
Landing fee adjustment - payable to Airlines	346	346
TOTAL CURRENT LIABILITIES	89,227	59,636
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	838,924	888,234
Deferred payment obligation	9,268	11,829
Accrued wages and benefits	743	682
TOTAL LONG-TERM OBLIGATIONS	848,935	900,745
TOTAL LIABILITIES	938,162	960,381
NET ASSETS		
Invested in capital assets, net of related debt	94,145	117,883
Restricted for debt service	141,879	108,323
Restricted for passenger facility charges	22,689	50,807
Unrestricted	136,953	143,845
TOTAL NET ASSETS	395,666	420,858
TOTAL LIABILITIES AND NET ASSETS	$ 1,333,828	$ 1,381,239

(Concluded)

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
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2009 and 2008

	(Amounts in 000's) 2009	2008
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 26,703	$ 29,287
Other	1,975	1,538
	28,678	30,825
Terminal and concourse rentals:		
Scheduled airlines	27,425	25,047
Other	16,221	15,613
	43,646	40,660
Concessions	21,535	27,517
Utility sales and other	4,284	12,388
TOTAL OPERATING REVENUES	98,143	111,390
OPERATING EXPENSES		
Operations	63,679	69,738
Maintenance	4,752	5,147
Depreciation and amortization	52,205	54,191
TOTAL OPERATING EXPENSES	120,636	129,076
OPERATING INCOME (LOSS)	(22,493)	(17,686)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	19,378	21,828
Non-operating expense	(9,062)	(2,041)
Sound insulation program	(4,215)	(996)
Rebate arbitrage expense		(342)
Interest income	1,915	11,865
Interest expense	(31,127)	(37,694)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(3,746)	(2,093)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(26,857)	(9,473)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(49,350)	(27,159)
Capital and other contributions	24,158	24,762
INCREASE (DECREASE) IN NET ASSETS	(25,192)	(2,397)
NET ASSETS, BEGINNING OF YEAR	420,858	423,255
NET ASSETS, END OF YEAR	$ 395,666	$ 420,858

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	(Amounts in 000's) 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 91,129	$ 97,887
Cash payments to suppliers for goods and services	(45,368)	(44,753)
Cash payments to employees for services	(27,390)	(25,776)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,371	27,358
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(3,610)	(1,297)
Cash payments for other non-operating costs	(3,142)	(3,405)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(6,752)	(4,702)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(37,432)	(32,921)
Rebate arbitrage payment		(341)
Cash receipts for passenger facility charges	19,409	22,682
Proceeds from revenue bonds	238,078	287,914
Transfer to escrow agent for bond refunding	(246,915)	(280,892)
Principal paid on long-term debt	(20,250)	(18,808)
Interest paid on long-term debt	(32,846)	(44,702)
Capital grant proceeds	25,042	24,532
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(54,914)	(42,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investment securities	66,368	42,623
Interest received on investments	4,316	15,481
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	70,684	58,104
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,389	38,224
Cash and cash equivalents, beginning of year	338,364	300,140
Cash and cash equivalents, end of year	$ 365,753	$ 338,364

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS (Reconciliation)
For the Years Ended December 31, 2009 and 2008

	(Amounts in 000's)	
	2009	2008
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (22,493)	$ (17,686)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	52,205	54,191
Non-cash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	938	(2,104)
Unbilled revenue	1,931	982
Landing fees - due from airlines	(4,136)	
Prepaid expenses	101	83
Due from other City departments, divisions or funds	53	
Materials and supplies, at cost	271	(1,622)
Accounts payable	90	467
Due to other City departments, divisions or funds	19	242
Accrued wages and benefits	(78)	700
Landing fees - due to airlines		(4,540)
Accrued property taxes	(7,141)	34
TOTAL ADJUSTMENTS	40,864	45,044
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,371	$ 27,358

(Concluded)

See notes to financial statements.

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units. In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which is effective for the year ended December 31, 2008. The Divisions have determined that GASB Statement No. 49 had no impact on its financial statements as of December 31, 2008. In May 2007, GASB issued Statement No. 50, *Pension Disclosure – an amendment of GASB Statements No. 25 and No. 27,* which is effective for the year ended December 31, 2008. The Divisions have determined that GASB Statement No. 50 had no impact on its financial statements as of December 31, 2008 and the proper disclosures have been made. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The Divisions have determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009.

The Divisions' net assets are accounted for in the accompanying balance sheets and the net assets are divided into the following categories:

- Amount invested in capital assets, net of related debt
- Amount restricted for debt service
- Amount restricted for passenger facility charges
- Remaining unrestricted amount

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, certain additional financial information regarding the Divisions is included in these notes. The implementation of the new GASB statements did not result in a change in the Divisions beginning net asset/equity balance as previously reported.

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. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements) or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The Divisions have chosen not to apply future FASB standards.

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

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

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

The Divisions have invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2009 and 2008. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2009 and 2008.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Land Improvements	3 to 75 years
Buildings, structures and improvements	5 to 50 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 Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* for its revenue bonds. This statement 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 2009 and 2008, total interest costs incurred amounted to $39,511,000 and $46,139,000, respectively, of which $8,349,000 and $7,481,000, respectively, was capitalized, net of interest income of $35,000 in 2009 and $964,000 in 2008.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: Bond issuance expense is carried on the Divisions' books as a deferred expense and deferred bond discounts/premiums are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings is netted against long-term debt and is amortized over the shorter of the defeased bond or the newly issued bond.

Compensated Absences: The Divisions accrue for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. 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.

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 with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at three-year average base salary rate, with the balance being forfeited.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Interfund receivables and payables balances at December 31, 2009 and 2008 are as follows:

	2009 Due From	2009 Due To	2008 Due From	2008 Due To
	(Amounts in 000's)			
City of Cleveland General Fund	$ 25	$ 242	$ 17	$ 19
Division of Water Pollution Control		82		81
Division of Cleveland Public Power		21		15
Division of Research Planning & Development			61	
Workers' Compensation Refund Reserve		767		920
Division of Radio Communication		3		7
Division of Printing		2		
Division of Motor Vehicle Maintenance		42		46
Division of Water				1
Division of Telephone Exchange		15		66
	$ 25	$ 1,174	$ 78	$ 1,155

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008 (Continued)

NOTE B – LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2009	2008
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 1997, due through 2027	1.50%-7.00%	$ 277,165	$	$ 52,485
Series 2000, due through 2031	4.00%-5.50%	573,190	437,485	446,020
Series 2006, due through 2024	5.00%-5.25%	118,760	118,570	118,665
Series 2007, due through 2027	4.00%-5.00%	159,505	11,175	11,255
Series 2008, due through 2033	Variable Rate	288,780	86,230	288,780
Series 2009, due through 2027	.17%-5.00%	248,280	248,280	
		$ 1,665,680	901,740	917,205
Unamortized (discount) premium			16,103	15,101
Unamortized loss on debt refunding			(26,439)	(27,242)
Current portion (due within one year)			(52,480)	(16,830)
Total Long-Term Debt excluding the deferred payment obligation			$ 838,924	$ 888,234

Summary: Changes in long-term obligations for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 1997	$ 52,485	$	$ (52,485)	$ -	$
Series 2000	446,020		(8,535)	437,485	39,040
Series 2006	118,665		(95)	118,570	1,120
Series 2007	11,255		(80)	11,175	495
Series 2008	288,780		(202,550)	86,230	2,070
Series 2009		248,280		248,280	9,755
Total revenue bonds	917,205	248,280	(263,745)	901,740	52,480
Accrued wages and benefits	4,982		(17)	4,965	4,222
Total	$ 922,187	$ 248,280	$ (263,762)	$ 906,705	$ 56,702

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2008 are as follows:

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 1997	$ 60,330	$	$ (7,845)	$ 52,485	$ 3,150
Series 2000	454,090		(8,070)	446,020	8,535
Series 2003	133,275		(133,275)	-	
Series 2006	118,760		(95)	118,665	95
Series 2007	159,505		(148,250)	11,255	80
Series 2008		288,780		288,780	4,970
Total revenue bonds	925,960	288,780	(297,535)	917,205	16,830
Accrued wages and benefits	4,290	692		4,982	4,300
Total	$ 930,250	$ 289,472	$ (297,535)	$ 922,187	$ 21,130

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

	Principal	Interest	Total
		(Amounts in 000's)	
2010	$ 52,480	$ 41,179	$ 93,659
2011	14,705	40,759	55,464
2012	14,995	40,111	55,106
2013	15,820	39,404	55,224
2014	27,345	38,411	65,756
2015-2019	164,160	170,534	334,694
2020-2024	209,095	125,795	334,890
2025-2029	265,515	68,763	334,278
2030-2034	137,625	8,023	145,648
Total	$ 901,740	$ 572,979	$ 1,474,719

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

As of December 31, 2009 and 2008, 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.

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. The aggregate amount of defeased debt outstanding at December 31, 2009 and 2008 is as follows:

Bond Issue	2009	2008
	(Amounts in 000's)	
Series 2000 A	$111,435	$111,435

The City has pledged future airport revenues to repay $901,740,000 in Airport System Revenue Bonds issued in various years since 2000. 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 61% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,474,719,000. Principal and interest paid for the current year and total net revenues were $60,072,000 and $98,926,000, respectively.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Effective March 5, 2009, the City issued $24,710,000 Airport System Revenue Bonds, Series 2009A (AMT), and $14,670,000 Airport System Revenue Bonds, Series 2009B (Taxable). Proceeds of the Series 2009A Bonds were used to refund a portion of the outstanding Airport System Revenue Bonds, Series 1997D, in the aggregate principal amount of $24,340,000 and to pay issuance costs. Proceeds of the Series 2009B Bonds were used to refund all of the outstanding $14,425,000 Series 1997E Airport System Revenue Bonds and to pay issuance costs. The City retired the remaining $10,570,000 Series 1997D Bonds using other available funds of the Airport System (Passenger Facility Charge revenues). The City also funded a required deposit to the bond reserve fund from available funds on hand. The Series 1997 Bonds were refunded in order to replace the existing liquidity provider. The Series 2009A&B Bonds were issued as weekly variable rate demand obligations and are secured by direct pay letters of credit provided by U.S. Bank National Association.

Effective August 27, 2009, the City issued $159,875,000 Airport System Revenue Bonds, Series 2009C and $49,025,000 Airport System Revenue Bonds, Series 2009D. Proceeds of the Series 2009C Bonds were used to currently refund the outstanding $148,555,000 variable rate Series 2008A-C Airport System Revenue Bonds on the date of closing. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. In addition, the City used proceeds of the Series 2009C Bonds to pay amounts owed to counterparties upon the early termination, at the City's option, of interest rate hedge agreements relating to the Series 2008A&B Bonds, to fund a deposit to the Bond Service Reserve Fund and to pay issuance costs. The Series 2009C Bonds were issued as fixed rate bonds. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4,793,000 or 3.23% as a result of the refunding.

The Series 2009D Bonds were issued to currently refund the outstanding $49,025,000 Airport System Revenue Bonds, Series 2008E on August 27, 2009. The City issued the 2009D Bonds in order to take advantage of provisions of the American Recovery and Reinvestment Act (ARRA). As a result of ARRA, the City was able to refund the Series 2008E Bonds, which had been originally issued subject to the Alternative Minimum Tax (AMT), as Non-AMT Bonds and thereby achieve debt service savings. The Series 2009D Bonds were issued as variable rate demand bonds secured by a letter of credit provided by KBC Bank N.V.

On July 17, 2008, the City issued $149,460,000 of Airport System Revenue Bonds, Series 2008A-C and $139,320,000 of Airport System Revenue Bonds, Series D-H. The Series 2008A-C Bonds were issued to refund all $148,175,000 of the outstanding Airport System Revenue Bonds, Series 2007A. The Series 2008D-H Bonds were issued to refund all $132,500,000 of the outstanding Airport System Revenue Bonds, Series 2003A-C. Both the Series 2007A Bonds and the Series 2003 Bonds were issued as auction rate securities. These bonds were refunded in order to address the increased interest costs incurred on the bonds as a result of the downgrade of the bond insurers and the collapse of the auction rate market. All of the Series 2008 Bonds were issued as variable rate demand obligations. Wachovia Bank N.A. provided a letter of credit for the Series 2008A-C Bonds.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

U.S. Bank National Association provided its letter of credit for the Series 2008D&H Bonds while KBC Bank N.V. and UBS provided their letters of credit on the Series 2008E&G Bonds and the Series 2008F Bonds, respectively. At the time of the refunding, the interest rate swaps associated with the Series 2007A bonds were transferred to the Series 2008A&B Bonds while the swaps associated with the Series 2003 Bonds were transferred to the Series 2008D&E Bonds.

Proceeds from the Series 2008 Bonds were used to fund an escrow deposit to refund the bonds and pay costs of issuance. Proceeds of $148,175,000 from the Series 2008A-C Bonds plus funds on hand in the amount of $130,803 were placed in an irrevocable escrow account to be used to pay the principal and interest on the refunded Series 2007A Bonds on July 24, 2008. Proceeds of $132,500,000 from the Series 2008D-H Bonds plus funds on hand in the amount of $85,800 were also placed in an irrevocable escrow account to be used to pay the principal and interest on the refunded Series 2003 Bonds on July 22, 2008. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. In December 2009, the Airport System, under its rights to optional redemption, deposited cash on hand into the Series 2000 principal payment account in an amount sufficient to redeem, prior to maturity, all of the outstanding Series 2000B Bonds. Cash totaling $30,330,300 was placed into the account to pay principal in the amount of $30,030,000 and redemption premium in the amount of $300,300 on January 1, 2010. An irrevocable notice of the full redemption of the bonds was issued by the trustee on November 30, 2009.

Interest Rate Swap Transactions:

Series 2008A& 2008B Bonds (Previously Series 2007A Bonds):

In conjunction with the refunding on August 27, 2009 of the Series 2008A&B Bonds by the Series 2009C Bonds, the interest rate exchange agreements associated with the Series 2008A&B Bonds were terminated at the City's option. The City paid a total of $9,960,000 to Morgan Stanley Capital Services, Inc., Goldman Sachs Capital Markets, LP., and RFPC Capital Services, LLC, (the swap counterparties) upon the early termination of the hedge agreements.

Terms: On February 1, 2007, the City entered into three interest rate exchange agreements which became effective upon the delivery of the $148,250,000 Airport System Revenue Bonds, Series 2007A on October 3, 2007. The City entered into a floating-to-fixed rate swap with a notional amount of $121,700,000 divided equally among three counterparties. Morgan Stanley Capital Services, Inc. (Morgan Stanley), Goldman Sachs Capital Markets, LP (Goldman Sachs) and RFPC Capital Services, LLC (RFPC) are serving as the counterparties on the transaction. Under the swap agreements now associated with the Series 2008A&B Bonds, the City is the fixed rate payor, paying a fixed rate of 4.037%. Each counterparty is a floating rate payor, paying the City a floating rate equal to the Securities Industry and Financial Markets Association (SIFMA) index plus 5 basis points. Net payments are exchanged on the first of each month.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of monies in the special funds and the airport revenues as defined in the trust indenture securing the Airport System Revenue Bonds on a parity with the pledge of monies in the special funds and the airport revenues securing payment of debt service charges on all revenue bonds outstanding under the Indenture.

Objective: The City entered into the swaps in order to maximize the savings associated with the refunding of the Series 1997A Bonds. The actual overall savings to be realized by the City will depend upon the net payments received under the swap agreement.

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based upon the tax-exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been greatly reduced. The amount received on the Series 2008A and 2008B Bonds incorporates an additional 5 basis points to take into account the fact that the underlying bonds are subject to the "Alternative Minimum Tax". However, if the payments received from the counterparty are less than the amount paid to the counterparty, the City must make up the difference in addition to paying the fixed rate resulting from the swap.

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, over the long-term it is possible that the credit strength of Morgan Stanley, Goldman Sachs or RFPC Capital Services could change and this event could trigger a termination payment on part of the City.

***Termination Risk*:** The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to the counterparties or by the counterparties to the City, depending upon the prevailing economic circumstances at the time of the termination.

Fair Value: The swaps were terminated effective August 27, 2009 at a value of $9,960,000 which was payable to the counterparties.

Series 2008D and Series 2009D Bonds (Previously Series 2003A and Series 2008E Bonds):

In conjunction with the refunding of the Series 2003A, Series 2003B and the Series 2003C bonds, the interest rate exchange agreements associated with the Series 2003A and Series 2003B bonds are now identified by the City to relate to the Series 2008D and the Series 2009D bonds.

Terms: Simultaneously with the issuance of the City's $140,600,000 Airport System Revenue Bonds, Series 2003A-C on October 23, 2003 the City entered into floating-to-fixed rate swap agreements on the declining notional amount of the $20,650,000 Series 2003A Bonds and the $56,200,000 Series 2003B Bonds. Bear Stearns Financial Products Inc. (Bear Stearns) was the counterparty on a five-eighths pro rata share of the notional amount of each Series 2003 A&B Bonds while JPMorgan Chase Bank, N.A. (JPM) was the counterparty on the remaining three-eighths of the notional amount.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

In 2008, Bear Stearns was acquired by JPM and the Bear Stearns swaps have been assumed by JPM. In conjunction with the refunding of the Series 2003A&B Bonds, the interest rate exchange agreements associated with the 2003A&B Bonds are now identified by the City to relate to the Series 2008D and Series 2009D Bonds. Under the swap agreement now identified with the Series 2008D Bonds, the Airport System is the fixed rate payor, paying a fixed rate of 4.17% semiannually, while the counterparties pay the Airport System at the SIFMA index every 35 days. The swap agreement now identified with the Series 2009D Bonds requires the Airport System to pay a fixed rate of 4.27% semiannually and the Counterparties pay the Airport System the SIFMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of airport revenues. The periodic swap payments are insured by Ambac.

Objective: The City entered into the swaps in order to minimize the costs associated with the refunding of the Series 1994A Bonds. Because all debt service charges of the Airport System are ultimately paid by the various airlines utilizing the City's airports, it was important to reduce the debt related costs as much as possible and the synthetic fixed rate debt provided the greatest debt service relief to the airlines.

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based on the tax-exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been reduced. The amount received on the Series 2009D Bonds incorporates an additional 10 basis points to take into account the fact that the originally issued underlying bonds had been subject to the "Alternative Minimum Tax". The Series 2009D Bonds were issued as Non-AMT bonds pursuant to the American Recovery and Reinvestment Act of 2009.

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the sub-prime mortgage crisis, Bear Stearns was acquired by JPM. The City's swap has now been assumed by JPM. Over the long-term it is possible that the credit strength of JPM could change and this event could trigger a termination payment on the part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to JPM, or by JPM to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the City.

Fair Value: The fair value of the swaps, including accrued amounts, at December 31, 2009 and December 31, 2008, as reported by JPM was $1,895,000 and $2,610,000, respectively, relating to the Series 2008D Bonds and $5,097,000 and $7,190,000, respectively, relating to the Series 2009D Bonds which would both be payable by the City.

NOTE C – SPECIAL FACILITY REVENUE BONDS

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

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER

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

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

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

Minimum principal and interest payments due by the City on the deferred payment obligation and future minimum lease rentals due to the City under this lease for the next five years and thereafter are as follows:

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(Amounts in 000's)		
2010	$2,562	$827	$3,389	$3,389
2011	2,768	621	3,389	3,389
2012	2,990	399	3,389	3,389
2013	3,230	159	3,389	3,389
Thereafter	280	2	282	282
	$ 11,830	$ 2,008	$ 13,838	$ 13,838

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2009 and 2008. Of these amounts in 2009, $1,018,000 was offset against interest expense and $2,371,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2008, $1,194,000 was offset against interest expense and $2,195,000 was offset against the principal balance of the deferred obligation.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits*:* The Divisions' carrying amount of deposits at December 31, 2009 and 2008 totaled approximately ($14,875,000) and ($1,084,000), respectively, and the Divisions' bank balance was approximately $298,000 and $126,000, respectively. The differences represent 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 Investments Risk Disclosures – an Amendment to GASB Statement No. 3,* $298,000 and $126,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Investments: The City's investment policies are governed by the state statutes and City Ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts 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.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, STAROhio and guaranteed investment contracts. Generally, investments are recorded and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statutes prohibit the use of reverse repurchase agreements.

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

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Divisions invest primarily in short-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 table on the following page.

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, 2009 and 2008 include U.S. Agencies, repurchase agreements, STAROhio, guaranteed investment contracts and mutual funds. The Divisions maintain the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Divisions have no investment policy that would further limit its investment choices.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

The Divisions have the following investments at December 31, 2009 and 2008, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2009 Fair Value	2009 Cost	2008 Fair Value	2008 Cost	Investment Maturities for 2009: Less than One Year	1 - 5 Years	5 Years or More
				(Amounts in 000's)			
U.S. Agency Obligations	$ 12,421	$ 11,999	$ 80,387	$ 78,367	$ 4,146	$ 8,275	$
Repurchase Agreements	14,010	14,010	8,750	8,750	14,010		
STAROhio	126,828	126,828	113,120	113,120	126,828		
Guaranteed Investment Contract	15,000	15,000	15,000	15,000		15,000	
Investment in Mutual Funds	224,786	224,786	201,495	201,495	224,786		
Other	3	3	1,084	1,084	3		
Total Investments	393,048	392,626	419,836	417,816	369,773	23,275	
Total Deposits	(14,875)	(14,875)	(1,084)	(1,084)	(14,875)	-	
Total Deposits and Investments	$ 378,173	$ 377,751	$ 418,752	$ 416,732	$ 354,898	$ 23,275	$

These amounts are monies invested by the City Treasurer on behalf of the Divisions and are used in daily operations with excess monies invested daily in STAROhio, guaranteed investment contracts, mutual funds and other investments. These investments are carried at cost which approximates market value. Amounts represented by "Other" consist of deposits into a collective pool managed by Bank of New York, as trustee.

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. As of December 31, 2009, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio, mutual funds and guaranteed investment contracts are approximately 3.1%, 3.6%, 32.3%, 57.2% and 3.8%, respectively, of the Divisions' total investments. As of December 31, 2008, the investments in U.S. Agency Obligations, STAROhio, mutual funds and guaranteed investment contracts are approximately 19.2%, 27.0%, 48.1% and 3.6%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2009 was as follows:

	January 1, 2009	Additions	Reductions	December 31, 2009
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,123	$ 334	$	$ 167,457
Construction in progress	3,977	41,086	(35,544)	9,519
Total capital assets, not being depreciated	171,100	41,420	(35,544)	176,976
Capital assets, being depreciated:				
Land improvements	72,568			72,568
Buildings, structures and improvements	318,288	10,450		328,738
Furniture, fixtures and equipment	19,687	3,114		22,801
Infrastructure	870,685	15,243		885,928
Vehicles	13,535		(1)	13,534
Total capital assets, being depreciated	1,294,763	28,807	(1)	1,323,569
Less: Total accumulated depreciation	(530,418)	(52,205)		(582,623)
Total capital assets being depreciated, net	764,345	(23,398)	(1)	740,946
Capital assets, net	$ 935,445	$ 18,022	$ (35,545)	$ 917,922

NOTE F – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2008 was as follows:

	January 1, 2008	Additions	Reductions	December 31, 2008
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 165,650	$ 1,473	$	$ 167,123
Construction in progress	30,066	40,036	(66,125)	3,977
Total capital assets, not being depreciated	195,716	41,509	(66,125)	171,100
Capital assets, being depreciated:				
Land improvements	72,568			72,568
Buildings, structures and improvements	316,480	1,808		318,288
Furniture, fixtures and equipment	18,495	1,192		19,687
Infrastructure	809,650	61,035		870,685
Vehicles	12,998	617	(80)	13,535
Total capital assets, being depreciated	1,230,191	64,652	(80)	1,294,763
Less: Total accumulated depreciation	(476,295)	(54,203)	80	(530,418)
Total capital assets being depreciated, net	753,896	10,449	-	764,345
Capital assets, net	$ 949,612	$ 51,958	$ (66,125)	$ 935,445

Commitments: As of December 31, 2009 and 2008, the Divisions had capital expenditure purchase commitments outstanding of approximately $50,469,000 and $41,730,000, respectively.

NOTE G – LEASES AND CONCESSIONS

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

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 balance sheet 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, 2009 and 2008 is approximately $214,140,000 and $138,491,000, respectively.

NOTE G – LEASES AND CONCESSIONS (Continued)

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

(Amounts in 000's)	
2010	$ 11,543
2011	11,443
2012	10,844
2013	10,587
2014	10,232
Thereafter	15,880
	$ 70,529

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

Contingent operating revenues aggregated approximately $11,365,000 and $21,271,000, respectively, in 2009 and 2008.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Divisions are exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Divisions carry insurance to cover particular liabilities and property protection. Otherwise, the Divisions are generally self-insured. No material losses, including incurred but not reported losses, occurred in 2009 or 2008. There was no significant decrease in any insurance coverage in 2009 or 2008. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE I – DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System: All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2009 and 2008. The rate was 9.50% in 2007 and employer contribution rates were 14.00% of covered payroll in 2009 and 2008, The rate was 13.85% in 2007.

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2009, 2008 and 2007 were approximately $1,676,000, $1,290,000 and $1,400,000, respectively. The required payments due in 2009, 2008 and 2007 have been made.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members, the Divisions' contribution rate was 14.00% of covered payroll in 2009 and 2008. It was 13.85% of covered payroll in 2007. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Postemployment Health Care Plan was established under, and is administrated in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates to fund postemployment health care benefits were 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009, 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00% from July 1, 2007 to December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Divisions' actual contributions for 2009 which were to fund postemployment benefits were approximately $1,212,000.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2009 and 2008, were as follows:

	2009	2008
	(Amounts in 000's)	
City Central Services, including police	$ 8,244	$ 7,819
Electricity purchased	247	279
Motor vehicle maintenance	450	743

NOTE L – LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 2009 was payable to the City from the Airlines in the amount of $4,136,000. The landing fee adjustment for 2008 was payable to the Airlines from the City in the amount of $346,000.

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 2009 and 2008.

NOTE M – PASSENGER FACILITY CHARGES

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

NOTE M – PASSENGER FACILITY CHARGES (Continued)

Under its federally approved program from inception in 1992 to 2009, the airport expects to collect approximately $357 million, of which an estimated 25.4% will be spent on noise abatement for the residents of communities surrounding the airport, 37.1% on runway expansion, and 37.5% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues, and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE N – MAJOR CUSTOMER

In 2009 and 2008, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 36% and 33% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

On January 1, 2010, all of the outstanding Airport System Revenue Bonds, Series 2000B, were redeemed by the City. Pursuant to a Notice of Full Redemption issued by the trustee in November 2009, principal in the amount of $30,030,000 and a redemption premium totaling $300,300 were paid to the bondholders to retire the debt.

On May 6, 2010, Continental Airlines and United Airlines announced a proposed merger agreement with the "new" United Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2010, looking towards the future, there may be an impact on the Divisions' operations. It is not known at this time whether the impact will have a negative or positive effect on CLE, the new airline's smallest hub.

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, 2009

	Cleveland Hopkins International	Burke Lakefront	Total
		(Amounts in 000's)	
REVENUE			
Airline revenue:			
Landing fees	$ 26,703	$	$ 26,703
Terminal rental	27,425		27,425
Other	3,545		3,545
	57,673	-	57,673
Operating revenues from other sources:			
Concessions	$ 21,366	$ 169	$ 21,535
Rentals	11,240	248	11,488
Landing fees	1,846	129	1,975
Other	1,956	127	2,083
	36,408	673	37,081
Non-operating revenue:			
Interest income	924		924
TOTAL REVENUE	$ 95,005	$ 673	$ 95,678
OPERATING EXPENSES			
Salaries and wages	$ 18,743	$ 982	$ 19,725
Employee benefits	7,182	387	7,569
City Central Services, including police	8,453	237	8,690
Materials and supplies	9,253	246	9,499
Contractual services	22,665	283	22,948
TOTAL OPERATING EXPENSES	$ 66,296	$ 2,135	$ 68,431

Mary Taylor, CPA
Auditor of State

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 14 CFR PART 158

Divisions of Cleveland Hopkins International and
Burke Lakefront Airports
Department of Port Control
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Frank G. Jackson, Mayor, Members of Council, and the Audit Committee:

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2009. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

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 occurred on the passenger facility charge program. 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. Our audit does not provide a legal determination on the Divisions' compliance with those requirements.

In our opinion, the Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Divisions' internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations caused by error or fraud that would be material in relation to the passenger facility charge program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Passenger Facility Charges

We conducted our audit to opine on the financial statements that collectively comprise the City of Cleveland, Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport, Department of Port Control' basic financial statements, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 28, 2010. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for the purposes of additional analysis as specified by the Guide and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of the audit committee, management, and the Federal Aviation Administration. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 28, 2010

Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland
Schedule of Expenditures of Passenger Facility Charges

For the Year Ending December 31, 2009

Projects	Approved Project Budget	Cumulative Expenditures 2008	2009 1st Quarter Expenditures	2009 2nd Quarter Expenditures	2009 3rd Quarter Expenditures	2009 4th Quarter Expenditures	2009 YTD Expenditures	Cumulative Expenditures 2009	
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	
Passenger Jetways (BKL)		0							
Baggage Claim/Security Improvements (BKL)		0							
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 Construction	5,500,000	5,500,000						5,500,000	
Sound Insulation	8,675,000	8,595,641						8,595,641	
Land Acquisition	30,360,000	25,282,298						25,282,298	
Environmental Assessment / Impact Studies	2,309,570	1,725,000						1,725,000	
Part 150 Noise Compatibility Program Update		584,570						584,570	
Terminal Passenger Flow & Security Study	300,000								
Roadway System / Vehicular Ingress-Egress Study	200,000								
Runway 5R Extension Preliminary									
Runway 5R Extension Design									
Runway 5R Extension Construction									
FIS Facility Construction									
FIS Facility Design									
Brook Park Land Transfer	8,750,000	7,380,561	1,369,439				1,369,439	8,750,000	
Analex Demolition	1,229,000	680,162				140,749	140,749	820,911	
Sound Insulation	20,000,000	15,900,379	4,099,621			0	4,099,621	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	4,687,258				223,901	223,901	4,911,159	
Concourse D Ramp/Site Utilities	51,305,804	43,254,885				2,064,655	2,064,655	45,319,540	
Burke Runway Overlay 6L/24R	530,286	530,286						530,286	
Burke ILS	2,181,400	1,440,920				189,896	189,896	1,630,816	Modified For
Runway 6L/23R	102,632,500	44,110,727	5,100,939			34,755,799	39,856,738	83,967,465	
Runway 6R/24L Uncoupling	2,148,000	2,148,000						2,148,000	
Runway 28 Safety Improvements	2,200,000	966,544				282,928	282,928	1,249,472	Modified For
Midfield Deicing Pad	39,100,000	39,100,000						39,100,000	
Taxiway M Improvements	10,000,000	9,579,060						9,579,060	
Total	357,278,350	275,412,294	10,570,000			37,657,928	48,227,9283,640,222		

Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport
Department of Port Control
City of Cleveland

Notes to Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2009

General

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

Basis of Presentation

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

Mary Taylor, CPA
Auditor of State

CITY OF CLEVELAND – DEPARTMENT OF PORT CONTROL

CUYAHOGA 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
AUGUST 17, 2010

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