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, 2012 and 2011

CITY OF CLEVELAND, OHIO

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Effect of Adopting New Accounting Standards

As discussed in Note A, the Divisions adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

Other Matters

As described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Divisions and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2012 and 2011, 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. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of airport revenues and operating expenses as defined in the airline use agreement for the year ended December 31, 2012 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. The schedule of airport revenues and operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

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, 2012 and December 31, 2011. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 18.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airports of the City. The Divisions operate a major public airport and a reliever airport serving not only the City of Cleveland, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2012, the Divisions were served by 26 scheduled airlines and four cargo airlines. There were 83,000 scheduled landings with landed weight amounting to 5,732,148,000 pounds. There were 4,495,000 passengers enplaned at Cleveland Hopkins International Airport and 92,000 passengers enplaned at Burke Lakefront Airport during 2012. In 2011, the Divisions were served by 27 scheduled airlines and four cargo airlines. There were 87,000 scheduled landings with landed weight amounting to 5,912,394,000 pounds. There were 4,598,000 passengers enplaned at Cleveland Hopkins International Airport, and 88,000 passengers enplaned at Burke Lakefront Airport during 2011.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net position) by $394,000,000, $405,900,000 and $401,879,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $137,306,000, $128,908,000 and $148,100,000 (unrestricted net position) at December 31, 2012, 2011 and 2010, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net position decreased by $11,900,000 in 2012. This is due to a significant decrease in net investment in capital assets relating to principal payment on bond debt, a decrease in bond proceeds related to the use of bond funds to finance capital projects and an increase in accumulated depreciation resulting from capital assets placed into operation after completion.

- Additions to construction in progress totaled $19,434,000, $19,431,000 and $25,497,000 in 2012, 2011 and 2010, respectively.

- The major capital expenditures during 2012 were for the Power Distribution Enhancement Project, the Terminal Terrazzo Flooring project, the BKL Runway 6L-24R Safety Area Improvement project, the Regional Transit Authority (RTA) Level Art Gallery project and the Converged Communications project.

FINANCIAL HIGHLIGHTS (Continued)

- The Divisions' total bonded debt decreased by $27,955,000 in 2012, increased $42,625,000 in 2011 and decreased $52,480,000 during 2010. In 2012, the City issued $235,150,000 of Airport System Revenue Bonds, Series 2012A, to refund all of the outstanding Airport System Revenue Bonds, Series 2000A. In 2011, the City issued $74,385,000 of Airport System Revenue Bonds Series 2011A which provided funds to pay the costs of improvements to the Airport Systems and refunded a part of the Series 2008D Bonds. The key factors for the decrease in 2012 were the scheduled principal payments on the Divisions' outstanding Bonds and the refunding of the Series 2000A Bonds. The reason for the increase in 2011 was the issuance of the Series 2011A Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 25-45 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSTION INFORMATION

Provided below is condensed statement of net position information for the Divisions as of December 31, 2012, 2011 and 2010:

	2012	2011	2010
		(Amounts in 000's)	
Assets and Deferred Outflows:			
Assets:			
Current assets	$ 110,955	$ 106,763	$ 106,802
Restricted assets	288,296	295,994	262,691
Unamortized bond issuance costs	16,497	17,172	17,453
Capital assets, net	895,018	921,777	900,508
Total assets	1,310,766	1,341,706	1,287,454
Deferred outflows of resources:			
Derivative instruments-interest rate swaps			7,715
Total deferred outflows of resources	-	-	7,715
Total assets and deferred outflows	$ 1,310,766	$ 1,341,706	$ 1,295,169
Liabilities and net position:			
Liabilities:			
Current liabilities	$ 59,189	$ 57,178	$ 53,558
Long-term obligations	857,577	878,628	839,732
Total liabilities	916,766	935,806	893,290
Net position:			
Net investment in capital assets	127,557	147,324	124,506
Restricted for debt service	111,467	109,292	103,701
Restricted for passenger facility charges	17,670	20,376	25,572
Unrestricted	137,306	128,908	148,100
Total net position	394,000	405,900	401,879
Total liabilities and net position	$ 1,310,766	$ 1,341,706	$ 1,295,169

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: Total assets decreased $30,940,000 in 2012 and increased $46,537,000 during 2011. The decrease in capital assets, net of accumulated depreciation, accounted for $26,759,000 or 86.5% of this change**.** This decrease was primarily due to the increase in accumulated depreciation. In 2011 the increase in total assets is primarily due to an increase in restricted assets. Restricted assets increased due to the proceeds from the issuance of construction bonds in 2011.

Capital assets: The Divisions' investment in capital assets as of December 31, 2012 amounted to $895,018,000 (net of accumulated depreciation), which is a decrease of 2.9%. The Divisions' investment in capital assets as of December 31, 2011 amounted to $921,777,000 (net of accumulated depreciation), which was an increase of 2.4%. 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, 2012 is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	74,153			74,153
Buildings, structures and improvements	329,324	5,339	(421)	334,242
Furniture, fixtures and equipment	23,305	6,470	(607)	29,168
Infrastructure	956,696	19,105		975,801
Vehicles	14,993	162	(504)	14,651
Total	1,565,928	31,076	(1,532)	1,595,472
Less: Accumulated depreciation	(680,397)	(50,541)	1,473	(729,465)
Total	885,531	(19,465)	(59)	866,007
Construction in progress	36,246	19,434	(26,669)	29,011
Capital assets, net	$ 921,777	$ (31)	$ (26,728)	$ 895,018

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total	1,516,315	49,613	-	1,565,928
Less: Accumulated depreciation	(632,622)	(47,775)		(680,397)
Total	883,693	1,838	-	885,531
Construction in progress	16,815	19,431		36,246
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

Major events during 2012 and 2011 affecting the Divisions' capital assets included the following:

- The Power Distribution Enhancement Project was initiated to permit the airport to function effectively and to provide an adequate level of operations, safety and security in the event of a power outage. Phase I involved the purchase and installation of four generators in 2011. Phase II calls for a redundant feeder system between MS1 and MS2 that will allow power to be supplied to the terminal uninterrupted from either substation. The project design began in late 2012 and construction is expected to be completed in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

- The first phase of the CLE terrazzo floor and artwork installation project began in January 2011 and continued throughout 2012. The project consisted of removing old flooring and carpet to replace them with terrazzo starting at security checkpoint C, continuing up Concourse C, then proceeding to Concourses A and B. The entire project is expected to be complete in January 2014. As part of the terrazzo flooring project, artwork selected from an airport art competition will be installed into select floor locations. Five of the seven selected art pieces have been installed.

- The BKL Runway 6L-24R Safety Area Improvement project includes the installation of an Engineered Materials Arresting System (EMAS) bed in the extended safety area of Runway 6L, a runway extension on 24R, a displacement of the Runway 6L threshold, new entrance taxiways, vehicle service road modifications, and navigation aid (NAVAID) modifications and improvements. In 2012, an Environmental Assessment (EA) was completed as well as the final project design. Construction is scheduled to commence in Spring 2013.

- Construction for the RTA Level Art Gallery commenced at the end of 2011 and involved the transformation of the CLE RTA level interior from a standard passageway into a formal art gallery. The effort included replacement of all flooring, walls, stair treads and columns to allow wall and floor artwork to be shown. The space will also hold cultural exhibits and performances as required. The project was substantially completed in April 2012.

- The Converged Communications project which commenced in September 2012, integrates six disparate communications systems and functions to deliver critical information for Cleveland Airport System personnel and travelers at CLE. The project supports the informational needs of CLE travelers with a new flight and baggage information system to more easily track and monitor travel itineraries and personal belongings; integrated audio and visual messaging providing synchronized public address messaging for all travelers, which has been helpful to the hearing-impaired; and an expanded, free Wi-Fi system that extends and improves public access to the Internet. The project also supports the information needs of the Airport System with a new, private Wi-Fi system that covers the entire CLE campus and a unified communications infrastructure that provides access to email, voice mail, fax, instant messaging, online presence and videoconferencing all through a unified interface. These improvements not only provide new functionality to Airport System personnel, but also enable mobile access to mission-critical systems and functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

Liabilities: In 2012 total liabilities decreased $19,040,000. In 2012, the decrease in long-term obligations was $21,051,000 or 2.4%. Current liabilities increased $2,011,000 or 3.5% as a result of increases in the current portion of long-term debt, due to other funds and interest payable offset by a decrease in accounts payable and accrued property taxes. In 2011 the increase in total liabilities was $42,516,000. The increase in long term obligations in 2011 was $38,896,000 or 4.6%. In 2011, current liabilities increased $3,620,000 or 6.8% as the construction fund payable from restricted assets increased $4,112,000, which resulted from an increase in retainage withheld on construction project Runway 10/28 Safety Area Improvement payments.

Long-term debt: At December 31, 2012 and 2011, the Divisions' had $863,930,000 and $891,885,000, 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, 2012 is summarized below:

	Balance January 1, 2012	Debt Issued	Debt Retired	Balance December 31, 2012
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 398,445	$	$ (249,445)	$ 149,000
Series 2006	116,270		(1,245)	115,025
Series 2007	10,175		(530)	9,645
Series 2008	64,925		(950)	63,975
Series 2009	227,685		(10,935)	216,750
Series 2011	74,385			74,385
Series 2012		235,150		235,150
Total	$ 891,885	$ 235,150	$ (263,105)	$ 863,930

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2011 is summarized below:

	Balance January 1, 2011	Debt Issued	Debt Retired	Balance December 31, 2011
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 398,445	$	$	$ 398,445
Series 2006	117,450		(1,180)	116,270
Series 2007	10,680		(505)	10,175
Series 2008	84,160		(19,235)	64,925
Series 2009	238,525		(10,840)	227,685
Series 2011		74,385		74,385
Total	$ 849,260	$ 74,385	$ (31,760)	$ 891,885

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

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

On April 25, 2011, Fitch Ratings lowered its rating on the Airport System Revenue Bonds from A (negative outlook) to A- (stable outlook). These ratings were reaffirmed in 2012.

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 2012, 2011 and 2010, was 166%, 158% and 160%, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

Net Position: Net position serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $394,000,000, $405,900,000 and $401,879,000 at December 31, 2012, 2011 and 2010, respectively. Of the Divisions' net position at December 31, 2012 and 2011, $127,557,000 and $147,324,000, respectively, reflects its investment in capital assets (e.g., construction in progress; land; land improvements; buildings, structures, and improvements; furniture, fixtures and equipment; vehicles; and infrastructure), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending.

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

An additional portion of the Divisions' net position represents resources that are subject to external restrictions. At December 31, 2012 and 2011 the restricted net position amounted to $129,137,000 and $129,668,000, respectively. The restricted net position include amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures, and passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger facility charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net position, $137,306,000 and $128,908,000 for December 31, 2012 and 2011, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions' operations during 2012 decreased its net position by $11,900,000 and increased by $4,021,000 in 2011. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
	(Amounts in 000's)		
Operating revenues:			
Landing fees	$ 36,676	$ 37,288	$ 26,356
Terminal and concourse rentals	52,133	50,131	52,670
Concessions	21,960	22,638	21,496
Utility sales and other	5,925	4,910	6,174
Total operating revenues	116,694	114,967	106,696
Operating expenses	119,396	121,085	120,151
Operating income (loss)	(2,702)	(6,118)	(13,455)
Non-operating revenue (expense):			
Passenger facility charges revenue	15,781	17,874	18,820
Non-operating expense	(3,437)	2,414	(2,299)
Sound insulation program	(577)	(689)	(2,545)
Loss on disposal of capital asset	(59)		
Investment income (loss)	272	(9,634)	1,088
Interest expense	(29,571)	(35,389)	(30,442)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(756)	(2,948)	(2,754)
Total non-operating revenue (expense), net	(18,347)	(28,372)	(18,132)
Capital and other contributions	9,149	38,511	37,800
Increase (decrease) in net position	(11,900)	4,021	6,213
Net position, beginning of year	405,900	401,879	395,666
Net position, end of year	$ 394,000	$ 405,900	$ 401,879

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Operating revenues*:* Of the 2012 operating revenues of $116,694,000, $34,923,000 or 29.9% represented landing fees received from signatory airlines. This is a decrease in landing fees of 2.8% from the prior year due to a decrease in the both the number of landings and landed weights. Signatory terminal rentals accounted for $36,280,000, or 31.1% of total operating revenues. The increase in signatory terminal rent of 5.7% is a result of an increase in square footage rates for terminal and concourse leased areas. Parking revenues increased 5.2% over the prior year due to an increase in the demand for services such as valet airport parking and economy parking usage. Parking revenues amounted to $13,649,000 or 11.7% of total operating revenues for 2012. The fourth largest airport revenue source, rental cars, accounted for 7.9% of total operating revenues.

Of the 2011 operating revenues of $114,967,000, $35,911,000 or 31.2% represented landing fees received from signatory airlines. This is an increase of 43.4% from the prior year. Signatory terminal rentals accounted for $34,312,000, or 29.8% of total operating revenues. The decrease in signatory terminal rent of 5.7% is a result of a decrease in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues increased 2.9% over the prior year due to an increase in the demand for services such as valet airport parking and economy parking usage. Parking revenues amounted to $12,969,000 or 11.3% of total operating revenues for 2011. The fourth largest airport revenue source, rental cars, accounted for 8.0% of total operating revenues, which is a decrease of 1.0% from 2010.

Operating expenses*:* Total operating expenses for 2012 decreased $1,689,000 or 1.4%. The decrease is primarily due to a milder winter season which resulted in a decreased usage of de-icing chemicals and related waste disposal. These decreases were partially offset by modest increases in costs associated with property taxes and professional fees. Employee salaries, wages and benefits increased $609,000 or 2.1% due to increases in employee wages. Total operating expenses for 2011 increased $934,000 or 0.8%. The increase is primarily due to a 40.5% increase in maintenance expenses which was the result of the Divisions' increase in the costs related to maintaining aging equipment and the increase in the price of de-icing chemicals and their disposal. These increases were partially offset by modest decreases in costs associated with utility, property taxes and professional fees. Employee salaries, wages and benefits increased $1,216,000 or 4.4% due to increases in employee benefits.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $577,000, $689,000, and $2,545,000 in 2012, 2011 and 2010, respectively. Passenger facility charge revenues decreased 11.7%, from $17,874,000 in 2011 to $15,781,000 in 2012 resulting from a decrease in the scheduled airline enplanements.

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

Capital and other contributions: In 2012, 2011 and 2010, the Divisions' received $9,149,000, $38,511,000 and $37,800,000, respectively, in Federal Airport Improvement Grants. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the Burke RSA project, airfield safety improvements, Residential Sound Insulation Program and the acquisition of snow-melters.

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

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

On February 13, 2013, American Airlines and US Airways announced a proposed merger agreement with the "new" American Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2013, looking towards the future, there will likely be an impact on the Divisions' operations. Both airlines expect that the regional carriers they own – AMR Corporation's American Eagle and US Airways' Piedmont and PSA – will continue to operate as distinct entities, providing seamless service to the combined airline. American Airlines and US Airways enplaned 5.6% and 4.3% of total passengers at the Airport, respectively, in 2012. It is not known at this time whether the impact will have a negative or positive effect on CLE.

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

Federal Sequestration has had a direct impact on Cleveland Airport System (CAS) federally-funded projects such as the CLE Airport Surface Surveillance Capability (ASSC) Project currently placed on hold. In addition, CAS has been advised by the Federal Aviation Administration (FAA) Airport District Office that there is no funding for an Environmental Assessment (EA) of the CLE airfield due to Sequestration. The EA would have focused on specific areas of the airfield that require either rehabilitation (due to age and deterioration) and/or are planned for development. Long-term, not being able to implement the aforementioned projects due to Sequestration may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future Airport Improvement Program (AIP)-eligible projects.

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable). These bonds refunded all of the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F in anticipation of the expiration of the existing letter of credit. The bonds were purchased by U.S. Bank National Association with the City paying an amount equal to one month LIBOR plus a spread of 105 basis points. As a result of this refunding, the City will realize aggregate net present value savings of $3.4 million or 5.87%.

ADDITIONAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	(Amounts in 000's) 2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 87,196	$ 64,252
Restricted cash and cash equivalents	7,037	7,664
Investments		10,117
Receivables:		
Accounts-net of allowance for doubtful accounts of $2,000,000 in 2012 and $2,006,000 in 2011	7,732	14,066
Unbilled revenue	3,314	3,599
Landing fees - due from airlines		3,850
Accrued interest receivable		94
Total receivables	11,046	21,609
Prepaid expenses	323	330
Due from other funds	34	
Due from other governments	2,976	673
Materials and supplies-at cost	2,343	2,118
TOTAL CURRENT ASSETS	110,955	106,763
RESTRICTED ASSETS		
Cash and cash equivalents	286,051	224,144
Investments		69,570
Accrued interest receivable	1	
Accrued passenger facility charges	2,244	2,280
TOTAL RESTRICTED ASSETS	288,296	295,994
UNAMORTIZED BOND ISSUANCE COSTS	16,497	17,172
CAPITAL ASSETS		
Land	167,457	167,457
Land improvements	74,153	74,153
Buildings, structures and improvements	334,242	329,324
Furniture, fixtures and equipment	29,168	23,305
Infrastructure	975,801	956,696
Vehicles	14,651	14,993
	1,595,472	1,565,928
Less: Accumulated depreciation	(729,465)	(680,397)
	866,007	885,531
Construction in progress	29,011	36,246
CAPITAL ASSETS, NET	895,018	921,777
TOTAL ASSETS	$ 1,310,766	$ 1,341,706

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	(Amounts in 000's) 2012	2011
LIABILITIES AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 16,285	$ 13,660
Current portion of long-term deferred payment obligation, due within one year	3,230	2,989
Accounts payable	3,246	4,457
Landing fee settlement payable to airlines	300	
Due to other funds	1,412	969
Current portion of accrued wages and benefits	4,079	3,972
Accrued interest payable	17,632	16,980
Accrued property taxes	5,968	6,487
Construction fund payable from restricted assets	1,913	6,010
Other construction accounts payable from restricted assets	5,124	1,654
TOTAL CURRENT LIABILITIES	59,189	57,178
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	856,702	874,540
Deferred payment obligation	280	3,510
Accrued wages and benefits	595	578
TOTAL LONG-TERM OBLIGATIONS	857,577	878,628
TOTAL LIABILITIES	916,766	935,806
NET POSITION		
Net investment in capital assets	127,557	147,324
Restricted for debt service	111,467	109,292
Restricted for passenger facility charges	17,670	20,376
Unrestricted	137,306	128,908
TOTAL NET POSITION	394,000	405,900
TOTAL LIABILITIES AND NET POSITION	$ 1,310,766	$ 1,341,706

(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 POSITION
For the Years Ended December 31, 2012 and 2011

	(Amounts in 000's) 2012	2011
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 34,923	$ 35,911
Other	1,753	1,377
	36,676	37,288
Terminal and concourse rentals:		
Scheduled airlines	36,280	34,312
Other	15,853	15,819
	52,133	50,131
Concessions	21,960	22,638
Utility sales and other	5,925	4,910
TOTAL OPERATING REVENUES	116,694	114,967
OPERATING EXPENSES		
Operations	64,454	68,094
Maintenance	4,401	5,216
Depreciation	50,541	47,775
TOTAL OPERATING EXPENSES	119,396	121,085
OPERATING INCOME (LOSS)	(2,702)	(6,118)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	15,781	17,874
Non-operating revenue (expense)	(3,437)	2,414
Sound insulation program	(577)	(689)
Loss on disposal of capital asset	(59)	
Rebate arbitrage expense		
Investment income (loss)	272	(9,634)
Interest expense	(29,571)	(35,389)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(756)	(2,948)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(18,347)	(28,372)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(21,049)	(34,490)
Capital and other contributions	9,149	38,511
INCREASE (DECREASE) IN NET POSITION	(11,900)	4,021
NET POSITION, BEGINNING OF YEAR	405,900	401,879
NET POSITION, END OF YEAR	$ 394,000	$ 405,900

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, 2012 and 2011

	(Amounts in 000's) 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 122,327	$ 104,916
Cash payments to suppliers for goods and services	(38,839)	(41,575)
Cash payments to employees for services	(28,850)	(28,826)
NET CASH PROVIDED BY OPERATING ACTIVITIES	54,638	34,515
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(641)	(603)
Cash payments for other non-operating costs	(3,827)	(5,163)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(4,468)	(5,766)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(22,452)	(68,589)
Cash receipts for passenger facility charges	15,816	18,064
Proceeds from revenue bonds	252,946	79,221
Transfer to escrow agent for bond refunding	(252,379)	(9,236)
Principal paid on long-term debt	(13,903)	(22,560)
Interest paid on long-term debt	(32,871)	(36,071)
Capital grant proceeds	6,846	38,560
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(45,997)	(611)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(105,981)	(79,602)
Proceeds from sale and maturity of investment securities	185,583	1,999
Interest received on investments	449	764
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	80,051	(76,839)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,224	(48,701)
Cash and cash equivalents, beginning of year	296,060	344,761
Cash and cash equivalents, end of year	$ 380,284	$ 296,060

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	(Amounts in 000's)	
	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (2,702)	$ (6,118)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	50,541	47,775
Noncash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable, net	6,334	(5,646)
Unbilled revenue	285	816
Landing fees - due from airlines	3,850	262
Prepaid expenses	7	2
Due from other funds	(34)	96
Materials and supplies, at cost	(225)	(62)
Accounts payable	(377)	1,114
Due to other funds	443	(100)
Accrued wages and benefits	124	(230)
Landing fees - due to airlines	300	
Accrued property taxes	(519)	(5)
TOTAL ADJUSTMENTS	57,340	40,633
NET CASH PROVIDED BY OPERATING ACTIVITIES	$54,638	$ 34,515
Noncash operating activities:		
Rental Income	$3,389	$3,389

(Concluded)

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

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 of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Divisions have determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Divisions have implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Divisions have implemented GASB Statement No. 63 effective for the 2012 fiscal year.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Divisions have determined that GASB Statement No. 64 has no impact on its financial statements as of December 31, 2012.

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

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

In addition, certain additional financial information regarding the Divisions is included in these notes. The implementation of the new GASB statements did not result in a change in the Divisions' beginning net position 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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 and 2011. 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, 2012 and 2011.

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For 2012 and 2011, total interest costs incurred amounted to $34,165,000 and $42,375,000, respectively, of which $4,594,000 and $6,981,000 respectively, was capitalized, net of interest income of $0 in 2012 and $5,000 in 2011.

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 statements of net position. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund receivables and payables balances at December 31, 2012 and 2011 are as follows:

	2012 Due From	2012 Due To	2011 Due From	2011 Due To
		(Amounts in 000's)		
City of Cleveland General Fund	$ 34	$ 269	$	$ 228
Division of Water Pollution Control		227		81
Division of Cleveland Public Power		17		18
Workers' Compensation Refund Reserve		674		461
Division of Radio Communication		4		6
Division of Printing		5		6
Division of Motor Vehicle Maintenance		86		95
Sinking Fund Administration		34		30
Division of Telephone Exchange		96		44
	$ 34	$ 1,412	$ -	$ 969

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Original Issuance	2012	2011
			(Amounts in 000's)	
Airport System Revenue Bonds:				
Series 2000, due through 2031	4.00%-5.00%	$ 509,880	$ 149,000	$ 398,445
Series 2006, due through 2024	5.00%-5.25%	118,760	115,025	116,270
Series 2007, due through 2027	4.00%-5.00%	11,255	9,645	10,175
Series 2008, due through 2033	Variable Rate	76,700	63,975	64,925
Series 2009, due through 2027	.11%-5.00%	248,280	216,750	227,685
Series 2011, due through 2024	3.00%-5.00%	74,385	74,385	74,385
Series 2012, due through 2031	5.00%	235,150	235,150	
		$ 1,274,410	863,930	891,885
Unamortized (discount) premium			36,033	17,569
Unamortized loss on debt refunding			(26,976)	(21,254)
Current portion (due within one year)			(16,285)	(13,660)
Total Long-Term Debt excluding the deferred payment obligation			$ 856,702	$ 874,540

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

Summary: Changes in long-term obligations for the year ended December 31, 2012 are as follows:

	Balance January 1, 2012	Increase	Decrease	Balance December 31, 2012	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 398,445	$	$ (249,445)	$ 149,000	$
Series 2006	116,270		(1,245)	115,025	1,310
Series 2007	10,175		(530)	9,645	550
Series 2008	64,925		(950)	63,975	
Series 2009	227,685		(10,935)	216,750	11,545
Series 2011	74,385			74,385	2,880
Series 2012		235,150		235,150	
Total revenue bonds	891,885	235,150	(263,105)	863,930	16,285
Accrued wages and benefits	4,550	4,096	(3,972)	4,674	4,079
Total	$ 896,435	$ 239,246	$ (267,077)	$ 868,604	$ 20,364

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

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 398,445	$	$	$ 398,445	$
Series 2006	117,450		(1,180)	116,270	1,245
Series 2007	10,680		(505)	10,175	530
Series 2008	84,160		(19,235)	64,925	950
Series 2009	238,525		(10,840)	227,685	10,935
Series 2011		74,385		74,385	
Total revenue bonds	849,260	74,385	(31,760)	891,885	13,660
Accrued wages and benefits	4,780	3,899	(4,129)	4,550	3,972
Total	$ 854,040	$ 78,284	$ (35,889)	$ 896,435	$ 17,632

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

	Principal	Interest	Total
		(Amounts in 000's)	
2013	$ 16,285	$ 41,258	$ 57,543
2014	32,120	40,228	72,348
2015	33,155	38,807	71,962
2016	34,415	37,265	71,680
2017	39,765	35,466	75,231
2018-2022	228,545	146,398	374,943
2023-2027	235,865	90,420	326,285
2028-2032	238,335	26,564	264,899
2033	5,445	136	5,581
Total	$ 863,930	$ 456,542	$ 1,320,472

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

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

As of December 31, 2012 and 2011, the Divisions were in compliance with the terms and requirements of the bond indenture.

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

From time to time, the Divisions have defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. However, at December 31, 2012 and 2011 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $863,930,000 in Airport System Revenue Bonds issued in various years since 2001. Proceeds from the bonds provided financing for airport facilities. The bonds are payable from airport revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 61% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,320,472,000. Principal and interest paid for the current year and total net revenues (including other available funds) were $50,051,000 and $83,175,000, respectively.

Effective February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A. Proceeds of the bonds were used to refund the outstanding $249,445,000 Airport System Revenue Bonds, Series 2000A and to pay the costs of issuing the bonds. Net proceeds of the Series 2012A Bonds, amounts on hand in the Series 2000 interest account and an amount released from the debt service reserve fund totaling $252,378,809 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on March 26, 2012. As a result, the refunded bonds were defeased and the liability for the 2000A Bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $25.1 million or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $15.12 million or 6.06%.

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

In June 2011, the Airport System, under its rights to optional redemption, elected to deposit cash on hand into the Series 2008G Bond Fund and into the Series H Bond Fund sufficient to redeem, prior to maturity, all of the outstanding Series 2008G and Series 2008H Bonds. A notice of full redemption of the bonds was issued by the trustee on June 15, 2011. After taking into account the funds on hand in the respective bond funds, other available Airport funds were placed into the accounts to pay on June 22, 2011 principal in the amount of $7,425,000 on the Series 2008G Bonds and $430,000 on the Series 2008H Bonds, plus accrued interest to the redemption date. As a result, these bonds have been defeased and the liability for the bonds has been removed from long-term debt.

Effective November 16, 2011, the City issued $74,385,000 Airport System Revenue Bonds, Series 2011A (Non-AMT). Of this amount, $64,515,000 of the proceeds was issued to pay a portion of the costs of improvements to the Airport System, to fund deposits to the bond reserve fund and the Renewal and Replacement Fund and to pay issuance costs. The remaining $9,870,000 was used to currently refund a portion of the outstanding Airport System Revenue Bonds, Series 2008D in the aggregate principal amount of $9,200,000 on November 28, 2011 and to pay costs of issuing the bonds. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.67 million as a result of the refunding.

Interest Rate Swap Transactions: On November 2, 2011, the City, at its option, terminated the four interest rate exchange agreements originally entered into in 2003 and most recently identified as hedges for the Series 2008D Bonds and the Series 2009D Bonds. The City owed a payment to the counterparty, JP Morgan Chase Bank, National Association, under each hedge agreement in connection with the early terminations. Those termination payments totaled $10,515,000 and were paid on November 16, 2011 from available Airport funds. The City has no remaining interest rate swap agreements in place with respect to any Airport System Revenue Bonds.

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

NOTE C – SPECIAL FACILITY REVENUE BONDS (Continued)

guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER

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

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

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 two years are as follows:

	Deferred Payment Obligation			
	Principal	**Interest**	**Total**	**Future Minimum Rentals**
	(Amounts in 000's)			
2013	$ 3,230	$ 159	$ 3,389	$ 3,389
2014	280	2	282	282
	$ 3,510	$ 161	$ 3,671	$ 3,671

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2012 and 2011. Of these amounts in 2012, $399,000 was offset against interest expense and $2,990,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2011,

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

$621,000 was offset against interest expense and $2,768,000 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, 2012 and 2011 totaled approximately $50,562,000 and $52,284,000, respectively, and the Divisions' bank balance was approximately $53,754,000 and $60,243,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $53,754,000 and $60,243,000 of the bank balances at December 31, 2012 and 2011, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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 below.

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, 2012 and 2011 include U.S. Agencies, STAROhio and mutual funds. The Divisions maintain the highest ratings for their investments. Investments in STAROhio, Federated Government Obligations and Dreyfus Government Cash Management Mutual Funds carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service**.**

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions had the following investments at December 31, 2012 and 2011, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2012 Fair Value	2012 Cost	2011 Fair Value	2011 Cost	Investment Maturities Less than One Year
		(Amount in 000's)			
U.S. Agency Obligations	$	$	$ 79,687	$ 79,602	$
STAROhio	84,113	84,113	66,444	66,444	84,113
Investment in Mutual Funds	245,609	245,609	177,332	177,332	245,609
Total Investments	329,722	329,722	323,463	323,378	329,722
Total Deposits	50,562	50,562	52,284	52,284	50,562
Total Deposits and Investments	$ 380,284	$ 380,284	$ 375,747	$ 375,662	$ 380,284

These amounts are monies invested by the City Treasurer on behalf of the Division and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2012, the investments in STAROhio and mutual funds are approximately 26% and 74%, respectively, of the Divisions' total investments. As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio and mutual funds are approximately 25%, 20% and 55%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2012 was as follows:

	January 1, 2012	Additions	Reductions	December 31, 2012
		(Amounts in 000's)		
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	36,246	19,434	(26,669)	29,011
Total capital assets, not being depreciated	203,703	19,434	(26,669)	196,468
Capital assets, being depreciated:				
Land improvements	74,153			74,153
Buildings, structures and improvements	329,324	5,339	(421)	334,242
Furniture, fixtures and equipment	23,305	6,470	(607)	29,168
Infrastructure	956,696	19,105		975,801
Vehicles	14,993	162	(504)	14,651
Total capital assets, being depreciated	1,398,471	31,076	(1,532)	1,428,015
Less: Total accumulated depreciation	(680,397)	(50,541)	1,473	(729,465)
Total capital assets being depreciated, net	718,074	(19,465)	(59)	698,550
Capital assets, net	$ 921,777	$ (31)	$ (26,728)	$ 895,018

NOTE F – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2011 was as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	16,815	19,431		36,246
Total capital assets, not being depreciated	184,272	19,431	-	203,703
Capital assets, being depreciated:				
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total capital assets, being depreciated	1,348,858	49,613	-	1,398,471
Less: Total accumulated depreciation	(632,622)	(47,775)		(680,397)
Total capital assets being depreciated, net	716,236	1,838	-	718,074
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

Commitments: As of December 31, 2012 and 2011, the Divisions had capital expenditure purchase commitments outstanding of approximately $59,877,000 and $37,136,000, respectively.

NOTE G – LEASES AND CONCESSIONS

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

NOTE G – LEASES AND CONCESSIONS (Continued)

The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property. Portions of the building costs in the statement of net position are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2012 and 2011 is approximately $183,059,000 and $190,348,000, respectively.

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

(Amounts in 000's)	
2013	$ 13,781
2014	12,834
2015	7,256
2016	6,809
2017	5,823
Thereafter	14,232
	$ 60,735

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 $15,711,000 and $14,464,000, respectively, in 2012 and 2011.

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 2012 or 2011. There was no significant decrease in any insurance coverage in 2012 or 2011. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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.

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

NOTE I – DEFINED BENEFIT PENSION PLAN

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

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

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $2,095,000, $2,048,000 and $1,918,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

NOTE J – OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. 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-

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010. 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 used to fund postemployment benefits were 4.00% for members of the Traditional Plan in 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. 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 to OPERS to fund postemployment benefits were $838,000 in 2012, $819,000 in 2011 and $1,093,000 in 2010. The required payments due in 2012, 2011 and 2010 have been made.

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

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
	(Amounts in 000's)	
City Central Services, including police	$ 8,306	$ 8,218
Electricity purchased	239	243
Motor vehicle maintenance	577	654

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 2012 was payable to the Airlines from the City in the amount of $300,000. The landing fee adjustment for 2011 was payable to the City from the Airlines in the amount of $3,850,000.

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 2012 and 2011.

NOTE M – PASSENGER FACILITY CHARGES

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

As of December 31, 2012, Cleveland Hopkins International Airport had the authority from the Federal Aviation Administration to collect approximately $556 million, of which an estimated 15.1% will be spent on noise abatement for the residents of communities surrounding the airport, 56.3% on runway expansion and 28.6% 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 2012 and 2011, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 45% and 45% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

On February 13, 2013, American Airlines and US Airways announced a proposed merger agreement with the "new" American Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2013, looking towards the future, there will likely be an impact on the Divisions' operations. Both airlines expect that the regional carriers they own – AMR Corporation's American Eagle and US Airways' Piedmont and PSA – will continue to operate as distinct entities, providing seamless service to the combined airline. American Airlines and US Airways enplaned 5.6% and 4.3% of total passengers at the Airport, respectively, in 2012. It is not known at this time whether the impact will have a negative or positive effect on CLE.

Federal Sequestration has had a direct impact on Cleveland Airport System (CAS) federally-funded projects such as the CLE Airport Surface Surveillance Capability (ASSC) Project currently placed on hold. In addition, CAS has been advised by the FAA Airport District Office that there is no funding for an Environmental Assessment (EA) of the CLE airfield due to Sequestration. The EA would have focused on specific areas of the airfield that require either rehabilitation (due to age and deterioration) and/or are planned for development. Long-term, not being able to implement the aforementioned projects due to Sequestration may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future AIP-eligible projects.

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable). These bonds refunded all of the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F in anticipation of the expiration of the existing letter of credit. The bonds were purchased by U.S. Bank National Association with the City paying an amount equal to one month LIBOR plus a spread of 105 basis points. As a result of this refunding, the City will realize aggregate net present value savings of $3.4 million or 5.87%.

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, 2012

	Cleveland Hopkins International	Burke Lakefront	Total
		(Amounts in 000's)	
REVENUE			
Airline revenue:			
Landing fees	$ 34,923	$	$ 34,923
Terminal rental	36,280		36,280
Other	3,663		3,663
	74,866	-	74,866
Operating revenues from other sources:			
Concessions	$ 21,582	$ 378	$ 21,960
Rentals	10,247	308	10,555
Landing fees	1,646	107	1,753
Other	4,062	109	4,171
	37,537	902	38,439
Non-operating revenue:			
Interest income	90		90
TOTAL REVENUE	$ 112,493	$ 902	$ 113,395
OPERATING EXPENSES			
Salaries and wages	$ 20,211	$ 1,038	$ 21,249
Employee benefits	7,535	423	7,958
City Central Services, including police	8,606	265	8,871
Materials and supplies	7,855	343	8,198
Contractual services	22,397	182	22,579
TOTAL OPERATING EXPENSES	$ 66,604	$ 2,251	$ 68,855

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES IN ACCORDANCE WITH 14 CFR PART 158

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for the Passenger Facility Charge Program

We have audited the Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), for its passenger facility charge program for the year ended December 31, 2012.

Management's Responsibility
Management is responsible for compliance with the compliance requirements applicable to the passenger facility charge program.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance with the passenger facility charge program based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Divisions' compliance.

Opinion on the Passenger Facility Charge Program
In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2012.

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Report on Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit of compliance, we considered the Divisions' internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Divisions as of and for the year ended December 31, 2012, and have issued our report thereon dated June 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the Divisions' basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements as a whole. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of passenger facility charges is fairly stated in all material respects in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

City of Cleveland - Department of Port Control
Cleveland Hopkins International Airport
Schedule of Expenditures of Passenger Facility Charges
For the Period Ending December 31, 2012

Projects	Approved Project Budget	Cumulative Expenditures 2011	2012 1st Quarter Expenditures	2012 2nd Quarter Expenditures	2012 3rd Quarter Expenditures	2012 4th Quarter Expenditures	2012 YTD Expenditures	Cumulative Expenditures through 2012
Insulate Residences - Full Program Phase I	$ 16,960,400	$ 16,960,400	$	$	$	$	$ -	$ 16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743					-	2,155,743
Land Acquisition-Resident Relocation	14,689,459	14,689,459					-	14,689,459
Asbestos Removal in Terminal CHIA	729,842	729,842					-	729,842
Acquisition of Analex Office Bldg & Vacant Land	13,025,000	13,025,000					-	13,025,000
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921					-	5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000					-	355,000
Sewers for Confined Disposal Facility-BKL (app 1)	5,500,000	5,500,000					-	5,500,000
Sound Insulation	8,595,641	8,595,641					-	8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	25,282,298	25,282,298					-	25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000					-	1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570					-	584,570
Brook Park Land Transfer	8,750,000	8,750,000					-	8,750,000
Analex Demolition	1,229,000	890,914				38,479	38,479	929,393
Sound Insulation	20,000,000	20,000,000					-	20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087					-	9,526,087
Tug Road Replacement	1,019,000	668,553					-	668,553
Interim Commuter Ramp	5,560,338	5,022,518				61,211	61,211	5,083,729
Concourse D Ramp/Site Utilities	51,305,804	46,346,413				564,447	564,447	46,910,860
Burke Runway Overlay 6L/24R	530,286	530,286					-	530,286
Burke ILS	2,181,400	1,725,262				51,914	51,914	1,777,176
Runway 6L/23R	270,550,360	115,973,561				17,592,948	17,592,948	133,566,509
Runway 6R/24L Uncoupling	2,148,000	2,148,000					-	2,148,000
Runway 28 Safety Improvements	2,200,000	2,010,454					-	2,010,454
Midfield Deicing Pad	39,100,000	39,100,000					-	39,100,000
Taxiway M Improvements	10,000,000	9,579,060					-	9,579,060
Doan Brook Restoration	870,000						-	-
Deicing Environmental Upgrades	1,410,000						-	-
Main Terminal Roof Replacement	500,000						-	-
Main Terminal Boiler Replacement	1,510,000						-	-
Roadway Expansion Joint Repair/Replacement	1,000,000						-	-
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS)	3,868,000						-	-
Airport-wide In-line Baggage System Design	850,000						-	-
Airport Master Plan Update	2,100,000						-	-
Runway 10/28- Runway Safety Area Imporvements	11,659,300	6,794,420	79,049	120,877		95,362	295,288	7,089,708
South Cargo Ramp Rehabilitation	3,000,000						-	-
Taxiway N Rehabilitation	4,400,000						-	-
SIDA Security System Enhancements	1,000,000						-	-
Interactive Part 139 Airport Operations Training Program	250,000						-	-
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	4,160,000						-	-
Total	$ 556,116,449	$ 364,504,402	$ 79,049	$ 120,877	$ -	$ 18,404,361	$ 18,604,287	$ 383,108,689

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

NOTES TO SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year Ended December 31, 2012

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.