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

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Honorable Jane L. Campbell, Mayor,
Members of Council and the Audit Committee:

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, as of and for the years ended December 31, 2001 and December 31, 2000. These financial statements are the responsibility of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Divisions of Cleveland Hopkins International and Burke Lakefront Airports and are not intended to present fairly the financial position of the City of Cleveland and the results of the City of Cleveland's operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, as of December 31, 2001 and December 31, 2000, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note N, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports adopted Governmental Accounting Standards Board Statements Nos. 33 and 36, as of and for the year ended December 31, 2001.

We performed our audits to form an opinion on the financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports taken as a whole. The Schedule of Airport Revenue and Operating Expenses as Defined in the Airline Use Agreement for the year ended December 31, 2001 is presented for purposes of additional analysis and is not a required part of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements taken as a whole.

Jim Petro
Auditor of State

August 16, 2002

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CITY OF CLEVELAND

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2001 and 2000

	(in thousands of dollars) December 31, 2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,459	$ 5,181
Investments	8,872	21,798
Receivables:		
Accounts receivable-net of allowance for doubtful accounts of $241,000 in 2001 and $428,000 in 2000	5,392	6,618
Unbilled revenue	4,473	5,512
Landing fees - due from airlines	10,903	
Accrued interest receivable	158	593
Total receivables	20,926	12,723
Prepaid expenses	212	240
Due from other City of Cleveland departments, divisions or funds	942	1,404
Due from federal government	3,651	343
Materials and supplies, at lower of cost or market	224	240
TOTAL CURRENT ASSETS	41,286	41,929
DEFERRED BOND ISSUANCE EXPENSE	10,637	4,432
RESTRICTED ASSETS		
Cash and cash equivalents	694,367	160,401
Investments	68,979	72,488
Accrued interest receivable	2,202	1,333
Bond retirement reserve	53	53
Passenger facility charges receivable	2,069	2,224
TOTAL RESTRICTED ASSETS	767,670	236,499
PROPERTY, PLANT AND EQUIPMENT		
Land	141,577	133,949
Land improvements	196,075	187,652
Buildings, structures and improvements	367,518	364,691
Furniture, fixtures and equipment	25,775	19,963
	730,945	706,255
Less: accumulated depreciation	234,752	211,152
	496,193	495,103
Construction in progress	104,796	34,092
PROPERTY, PLANT AND EQUIPMENT, NET	600,989	529,195
TOTAL ASSETS	$ 1,420,582	$ 812,055

	(in thousands of dollars) December 31, 2001	2000
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 10,783	$ 14,315
Current portion of deferred payment obligations	1,381	1,278
Accounts payable	3,324	3,081
Due to other City of Cleveland departments, divisions or funds	1,096	2,452
Accrued wages and benefits	3,073	3,112
Due to other governments	2,962	2,113
Landing fee adjustment-payable to Airlines		6,139
TOTAL CURRENT LIABILITIES	22,619	32,490
PAYABLE FROM RESTRICTED ASSETS		
Bond service fund-accrued interest	42,799	25,517
Construction fund	3,784	1,553
Other construction accounts	11,018	5,483
TOTAL PAYABLE FROM RESTRICTED ASSETS	57,601	32,553
LONG TERM DEBT-excluding amounts due within one year:		
Deferred payment obligation	25,150	26,532
Revenue bonds (see note B)	907,205	350,098
Notes payable (see note B)	44,950	40,000
TOTAL LONG-TERM DEBT	977,305	416,630
TOTAL LIABILITIES	1,057,525	481,673
EQUITY		
Contributions in aid of construction:		
Federal and State	175,591	175,591
Municipal	3,572	3,572
Total contributions in aid of construction	179,163	179,163
Retained earnings	183,894	151,219
TOTAL EQUITY	363,057	330,382
TOTAL LIABILITIES AND EQUITY	$ 1,420,582	$ 812,055

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF INCOME
For the Years Ended December 31, 2001 and 2000

	(in thousands of dollars) For the Years Ended December 31, 2001	2000
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 23,175	$ 31,020
Adjustments of landing fees as provided in airline use agreements	10,903	(6,139)
Other	2,094	2,834
	36,172	27,715
Terminal and concourse rentals:		
Scheduled airlines	16,560	15,847
Other	15,457	15,957
	32,017	31,804
Concessions	17,944	20,427
Utility sales and other	6,692	6,747
TOTAL OPERATING REVENUES	92,825	86,693
OPERATING EXPENSES		
Operations, maintenance and administrative	56,795	47,380
Depreciation and amortization	23,599	23,103
TOTAL OPERATING EXPENSES	80,394	70,483
OPERATING INCOME	12,431	16,210
NON-OPERATING REVENUES (EXPENSES)		
Passenger facility charges revenue	15,024	16,642
Interest income	16,141	17,859
Non-operating expenses	(11,322)	(12,264)
Interest expense	(28,869)	(28,561)
Contributed capital and other contributions	30,537	
Amortization of bond issuance expense, discount and debt refunding	(1,267)	(793)
TOTAL NON-OPERATING REVENUES (EXPENSES), NET	20,244	(7,117)
NET INCOME	$ 32,675	$ 9,093

See notes to financial statements.

CITY OF CLEVELAND

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2001 and 2000

(in thousands of dollars)

	Contributions In Aid of Construction			
	Federal and State	**Municipal**	**Retained Earnings**	**Total**
BALANCE AT DECEMBER 31, 1999	$ 167,166	$ 3,572	$ 142,126	$ 312,864
Grants	8,425			8,425
Net income			9,093	9,093
BALANCE AT DECEMBER 31, 2000	175,591	3,572	151,219	330,382
Contributed capital and other contributions			30,537	30,537
Net income, net of contributed captial and other contributions			2,138	2,138
BALANCE AT DECEMBER 31, 2001	$ 175,591	$ 3,572	$ 183,894	$ 363,057

See notes to financial statements.

CITY OF CLEVELAND

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000

	(in thousands of dollars) For the Years Ended December 31, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 74,363	$ 82,961
Cash payments to suppliers for goods or services	(36,555)	(30,161)
Cash payments to employees for services	(19,309)	(17,985)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,499	34,815
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(10,615)	(12,283)
Cash receipts (payments) for other non-operating costs	2,271	19
Cash receipts for passenger facility charges	14,846	16,630
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	6,502	4,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(81,775)	(54,235)
Proceeds from revenue notes, net of costs and discounts	44,633	
Proceeds from revenue bonds, net of costs and discounts	560,326	
Principal paid on long-term bonds	(14,315)	(12,100)
Principal paid on long-term notes	(40,000)	
Interest paid on long-term debt	(34,107)	(21,310)
Capital grant proceeds	27,200	9,437
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	461,962	(78,208)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(108,723)	(89,963)
Proceeds from sale and maturity of investment securities	125,770	94,061
Interest received on investments	31,234	17,992
NET CASH PROVIDED BY INVESTING ACTIVITIES	48,281	22,090
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	535,244	(16,937)
Cash and cash equivalents, beginning of year	165,582	182,519
Cash and cash equivalents, end of year	$ 700,826	$ 165,582

	(in thousands of dollars) For the Years Ended December 31, 2001	2000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 12,431	$ 16,210
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	23,599	23,103
Non-cash rental income	(3,389)	(3,389)
Loss on disposal of equipment		1,070
Change in assets and liabilities:		
Accounts receivable, net	1,661	(4,059)
Unbilled revenue	1,039	3,715
Landing fees - due from airlines	(10,903)	
Prepaid expenses	28	(77)
Due from other City of Cleveland departments, divisions or funds	462	(937)
Due from other governments	(3)	
Materials and supplies, at cost	16	35
Accounts payable	243	(1,605)
Due to other City of Cleveland departments, divisions or funds	(1,356)	(1,722)
Accrued wages and benefits	(39)	926
Due to other governments	849	(629)
Landing fee adjustment	(6,139)	2,174
TOTAL ADJUSTMENTS	6,068	18,605
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,499	$ 34,815

See notes to financial statements.

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’s 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.

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

Statement of Cash Flows: The Divisions utilize the direct method of reporting for the statement of cash flows as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting”. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

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

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001 and 2000. 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, 2001 and 2000.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -Continued

Fixed Assets and Depreciation: Property, plant and equipment is stated on the basis of historical cost, or if contributed, at fair market value at the date received. Depreciation for the Proprietary Fund Types is determined by allocating the cost of fixed assets over the estimated useful life of the assets using the straight-line method. A fixed asset is defined as a tangible item with a useful life of five years or more and a value equal to or greater than $5,000, with the exception of computer equipment and software which have a value equal to or greater than $1,500. When property is disposed of, the cost and related accumulated depreciation are removed from the accounts, with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Buildings, structures and improvements	10 to 65 years
Furniture, fixtures and equipment	5 to 33 years

The Divisions' policy is to capitalize interest on construction projects up to the point of time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Divisions apply Statement of Financial Accounting Standards No. 62, "Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants," for its Airport System Revenue Bonds. This statement requires capitalization of interest cost of the eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowings until the assets constructed from the bond proceeds are ready for their intended use.

For 2001, total interest expense incurred amounted to $50,120,000, which was reduced by $21,251,000 of interest expense capitalized. For 2001, total interest income earned amounted to $33,147,000, which was reduced by $17,006,000 of interest income capitalized. For 2000, total interest expense incurred and total interest income earned amounted to $28,561,000 and $17,859,000, respectively, and interest to be capitalized was immaterial.

Bond Issuance Expense and Discount and Unamortized Loss on Debt Refunding: Bond issuance expense is carried on the Divisions' books as deferred expense and deferred bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamoritized loss on debt refunding is netted against long-term debt and is amortized over the shorter life of the new debt or old debt.

Contributions in Aid of Construction: Contributions in aid of construction represent federal, state and municipal capital grants not subject to mandatory repayment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Environmental Expenditures: Environmental expenditures consist of costs incurred for remediation efforts to Airport property. Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Environmental expenditures that relate to an existing condition 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 costs incurred for noise abatement for residents of communities surrounding Cleveland Hopkins Airport. The funding for non-operating costs is from non-operating revenue (passenger facility charges and interest income).

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

Interfund receivables and payables balances at December 31, 2001and 2000 are as follows:

	2001 Due From	2001 Due To	2000 Due From	2000 Due To
	(in thousands of dollars)			
City of Cleveland General Fund	$ 134	$ 256	$ -	$ 1,183
Division of Water				110
Division of Water Pollution Control		239		138
Division of Cleveland Public Power		34		13
Division of Research Planning & Development	30		30	
Special Revenues - Trans Fee		91		91
PFC Revenue Transfer from Oper & Maint.	321	321	917	917
Division of Telephone Exchange	457	155	457	
	$ 942	$ 1,096	$ 1,404	$ 2,452

NOTE B - LONG-TERM DEBT

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

	Interest Rate	Outstanding Principal Amount 2001	2000
		(in thousands of dollars)	
Airport System Revenue Bonds:			
Series 1990, due through 2006	6.50%-7.30%	$ 16,136	$ 23,946
Series 1994, due through 2024	4.80%-7.95%	77,580	79,230
Series 1997, due through 2027	4.25%-7.00%	263,945	268,800
Series 2000, due through 2031	5.00%-5.50%	573,190	
Airport Surplus Revenue Notes:			
Series 1999, due in 2001	6.375%		40,000
Series 2001, due in 2003		44,950	
		$ 975,801	$ 411,976
Less:			
Unamortized discount		(10,611)	(5,140)
Unamortized loss on debt refunding		(2,252)	(2,423)
Current portion		(10,783)	(14,315)
Total Long-Term Debt excluding the deferred payment obligation		$ 952,155	$ 390,098

Principal and interest payments on long-term debt for the next five years and thereafter are as follows:

	Principal	Interest	Total
	(in thousands of dollars)		
2002	$ 10,783	$ 54,617	$ 65,400
2003	55,866	53,213	109,079
2004	11,104	51,733	62,837
2005	11,348	51,486	62,834
2006	11,630	51,197	62,827
Thereafter	875,070	682,461	1,557,531
	$ 975,801	$ 944,707	$ 1,920,508

In June 1999, the Department of Port Control issued $40,000,000 of Taxable Airport Surplus Revenue Notes, Series 1999. These are two-year notes which matured in June 2001. The proceeds of the Notes were used to pay a portion of the cost of acquiring real property for future airport expansion, to pay all of the interest on the Series 1999 Notes, to reimburse the Surplus Fund of the Airport for a portion of the payment made to acquire real property and to pay the costs of issuance. The Series 1999 Notes are special obligations of the City and do not constitute general obligations or a pledge of the faith, credit or taxing power of the City.

NOTE B-LONG-TERM DEBT-Continued

On June 15, 2001, the City of Cleveland issued the Series 2001 Taxable Surplus Revenue Notes for $44,950,000. These notes were issued to pay off the Series 1999 Taxable Airport Surplus Revenue Notes, which matured on June 15, 2001. The Series 2001 Taxable Airport Surplus Revenue Notes are due June 1, 2003.

Effective February 27, 2001, the Department of Port Control issued $573,190,000 of Airport System Revenue Bonds. The Series 2000 Bonds are special obligations of the City and are payable from Airport Revenues as defined in the Trust Indenture governing the bonds. The proceeds of the Series 2000 Bonds will be applied by the City to finance a portion of certain improvements to Cleveland Hopkins International Airport, to pay the costs of issuance, to fund capitalized interest on the Series 2000 bonds, and to make the required deposits to the Bond Service Reserve Fund and the Renewal and Replacement Fund. The Series A bonds in the principal amount of $360,880,000 were issued as fixed rate, Non-AMT bonds. The Series B Bonds totaled $63,310,000 and are fixed rate AMT Bonds. The Series C Bonds, in the total amount of $149,000,000 were issued as variable rate Non-AMT bonds with Westdeutsche Landesbank Girozentrnale and State Street Bank and Trust Company serving as liquidity providers through a standby bond purchase agreement.

Of the Airport System Revenue Bonds issued in 1990, $15,276,000 were issued in the form of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds is payable only as a component of their appreciated principal amount at maturity or redemption. Interest on the Capital Appreciation Bonds is compounded semiannually on each interest payment date beginning July 1990. As of December 31, 2001 and December 31, 2000, the Department of Port Control has recorded a liability in the amount of $19,413,000 and $17,058,000 for compounded interest payable on the Capital Appreciation Bonds.

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

As of December 31, 2001, the Department was 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 a 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; (3) as long as any revenue bonds are outstanding, charge such rates, fees and charges for use of the airport system to produce in each year, together with other available funds, net revenues (as defined) at least equal to the greater of (a) 116% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125% of the annual debt service due in such year on all outstanding bonds.

NOTE B-LONG-TERM DEBT-Continued

Defeasance of Airport System Revenue Bonds: In prior years, the City defeased certain Airport System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of defeased debt outstanding at December 31, 2001 and 2000 are as follows:

Bond Issue	2001	2000
	(in thousands of dollars)	
Series 1994	$ 7,950	$ 7,950

NOTE C-DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at years ended December 31, 2001 and December 31, 2000 totaled approximately $29,258,000 and $3,303,000 and the Divisions' bank balance was approximately $44,636,000 and $11,161,000. Based on the criteria described in the GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," all of the bank balance was insured or collateralized with securities held by the City or by its agent in the City's name.

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; bonds and other State of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; State Treasury Asset Reserve Fund (STAROhio); guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained. Under City policy, investments are limited to repurchase agreements, U.S.Government securities, certificates of deposits, investments in certain money market mutual funds and State Treasury Asset Reserve Fund (STAROhio). Generally, investments are recorded and are kept at the Federal Reserve Bank in the depository institution's separate custodial account for the City, apart from the assets of the depository institution. Ohio statutes prohibit the use of Reverse Repurchase Agreements.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the City to categorize its investments into one of three categories:

Category 1: includes insured or registered, or securities held by the City or its agent in the City's name;

Category 2: includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name;

Category 3: includes uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the City's name.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with provisions of GASB Statement No. 9:

Type of Investment	Category	2001 Fair Value	2001 Cost	2000 Fair Value	2000 Cost
		(in thousands of dollars)			
U.S. Agency Obligations	1	$ 70,241	$ 69,861	$ 89,606	$ 89,408
U.S. Treasury Bills	2	3,189	3,265	4,538	4,533
U.S. Treasury Notes	2	3,753	3,734	1,274	1,268
State Treasury Asset					
Reserve Fund (STAROhio)	n/a	70,748	70,748	31,728	31,728
Guaranteed Investment Contract	n/a	601,488	601,488	129,419	129,419
Total Investments		$ 749,419	$ 749,096	$ 256,565	$ 256,356
Total Deposits		29,258	29,258	3,303	3,303
Total Deposits and Investments		$ 778,677	$ 778,354	$ 259,868	$ 259,659

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

STAROhio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments and guaranteed investment contracts are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

NOTE D-SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling $76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities of Continental Airlines at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999, totaling $71,440,000. Airport Special Revenue Bonds, Series 1998, totaling $75,120,000 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse.

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

NOTE E-LEASES AND CONCESSIONS

The Divisions' lease specifies terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. These agreements will remain in effect until December 31, 2005 and, under the terms of the agreements, rental payments and landing fees paid by the airlines are adjusted annually to provide airport revenues sufficient to meet the financial requirements of the airport system. Other areas are leased to various occupants under separate agreements.

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

The Aiport is a lessor of terminal space, land and other buildings on a fixed fee as well as a contingent rental basis. A portion of the building costs in the balance sheet are held by the Airport for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2001 and 2000 is approximately $177,830,000 and $187,234,000, respectively.

Minimum future rental on non-cancelable operating leases to be received in each of the next five years and thereafter are as follows:

2002	$	11,586,307
2003	$	5,984,201
2004	$	4,770,339
2005	$	4,764,219
2006	$	3,971,475
2007	$	3,125,845
2008	$	2,842,511
2009	$	2,392,511
2010	$	2,392,511
2011	$	1,946,637
2012	$	1,946,637
2013	$	1,946,637
2014	$	1,755,514
2015	$	1,615,261
	$	51,040,605

The Master Lease and Use Agreement which leases space in the terminal building and other areas is subject to fluctuating rates.

Contingent operating revenues aggregated approximately $18,127,000 and $17,676,000, respectively, in 2001 and 2000.

NOTE F-CONTINGENT LIABILITIES

Various claims are pending against the City involving the Divisions for personal injuries, property damage and other matters as well as various environmental remediation projects in its ordinary course of business. The City is responsible for the lawsuits and environmental remediation actions. In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occured and the amount of that loss can be reasonably estimated. The City's management is of the opinion that the ultimate settlement of such claims and remediation actions will not result in a material adverse effect on the Divisions' financial position or results of operations.

The Divisions received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liablity of the Divisions. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the Divisions at December 31, 2001 and 2000.

As of December 31, 2001 and December 31, 2000, the Divisions had capital expenditure purchase commitments outstanding of approximately $255 million and $31 million.

NOTE G-EMPLOYEE'S RETIREMENT PLAN

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public EmployeesRetirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2001 and 2000 employer pension contribution rates for the Division were 13.55 and 10.84 percent of covered payroll, respectively. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were $1,972,000, $1,902,000, and $1,611,000, respectively. The required amounts have been contributed for 2001, 2000, and 1999.

NOTE H-OTHER POST EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no changes in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investments assets. The number of active contributing participants was 411,076. The Division's actual contributions for 2001 and 2000 which were used to fund postemployment benefits were $625,000 and $604,000. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were $14,364.6 million and $2,628.7 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

NOTE I-RELATED PARTY TRANSACTIONS

The Divisions are provided various services by other City divisions. Charges are based on actual usage or a reasonable pro rata basis. The more significant expenses included in the statements of income, for the years ended December 31, 2001 and 2000, were as follows:

	2001	2000
	(in thousands of dollars)	
City Central Services including Police	$ 4,839	$ 4,290
Electricity purchased	208	220
Motor vehicle maintenance	268	330

NOTE J-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 2001 was a payable to the airport in the amount of $10,903,000. In 2000 the landing fee adjustment resulted in a payable to the airlines of $6,139,000.

The airline use agreements also provide an incentive for the City of Cleveland to provide the highest quality management for the airport system. There was no incentive compensation expense in 2001 and 2000.

NOTE K-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 enplaned passengers 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. Under its federally approved program from inception in 1992 to 2007, the airport expects to collect approximately $287 million of which an estimated 32% will be spent on noise abatement for the residents of communities surrounding the airport, 41% on the runway expansion, and 27% 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 L-MAJOR CUSTOMER

In 2001 and 2000, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 30% and 31%, respectively, of total operating revenue.

NOTE M-ACQUISITION OF INTERNATIONAL EXPOSITION 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 plans on tearing the building down to make way for a new runway. Of the $66.5 million purchase price, $36.5 million was paid in cash in 1999. The remaining $30.0 million, including interest at 7.75%, is being deferred by the seller and will be offset by future lease payments owed to the City over the 15 year lease period. The future lease payments are equal to the remaining purchase price plus interest at 7.75%, and as such, no cash will be exchanged between the City and the lessee over the term of the lease. The deferred payment is reported as "Deferred Payment Obligation" in the accompanying balance sheet.

In the event that either a similar facility is developed that exceeds a specified size, or there is an expansion of an existing facility that exceeds a 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 five years and thereafter are as follows:

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
	(in thousands of dollars)			
2002	$ 1,381	$ 2,008	$ 3,389	$ 3,389
2003	1,492	1,897	3,389	3,389
2004	1,612	1,777	3,389	3,389
2005	1,741	1,648	3,389	3,389
2006	1,881	1,508	3,389	3,389
Thereafter	18,425	5,575	24,000	24,000
	$ 26,532	$ 14,413	$ 40,945	$ 40,945

Rental income recognized by the City under this agreement totaled $3,389,000 in 2001, of which $2,111,000 was offset against interest expense and $1,278,000 was offset against the principal balance of the deferred obligation.

NOTE N- CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2001, the City implemented GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” and Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues” (an amendment of GASB Statement No. 33). In general, GASB Statement Nos. 33 and 36 establish accounting and financial reporting standards which address when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. These statements did not have a material impact on the Division’s beginning retained earnings as previously reported.

Cash received or receivables recognized that were previously recorded as Contributed Capital are now recorded as non-operating revenue.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Years Ended December 31, 2001 and 2000

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	$ 34,077,004	$	$ 34,077,004
Terminal rental	16,560,273		16,560,273
Other	3,755,550		3,755,550
	54,392,827		54,392,827
Operating revenues from other sources:			
Concessions	17,641,274	300,235	17,941,509
Rentals	14,545,588	196,646	14,742,234
Landing fees	1,915,894	178,530	2,094,424
Other	3,516,930	136,129	3,653,059
	37,619,686	811,540	38,431,226
Non-operating revenue:			
Interest income	2,608,148		2,608,148
TOTAL REVENUE	$ 94,620,661	$ 811,540	$ 95,432,201
OPERATING EXPENSES			
Salaries and wages	$ 13,059,739	$ 842,719	$ 13,902,458
Employee benefits	4,976,601	260,380	5,236,981
City Central Services, including police	4,912,782	193,607	5,106,389
Materials and supplies	5,939,920	272,312	6,212,232
Contractual services	26,121,074	215,002	26,336,076
TOTAL OPERATING EXPENSES	$ 55,010,116	$ 1,784,020	$ 56,794,136

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

REPORT ON PASSENGER FACILITY CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
DEPARTMENT OF PORT CONTROL
CITY OF CLEVELAND
REPORT ON PASSENGER FACILITY CHARGES
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 14 CFR PART 158

Divisions of Cleveland Hopkins International and
Burke Lakefront Airports
Department of Port Control
City of Cleveland
Cuyahoga County
5300 Riverside Drive
Cleveland, Ohio 44135-3193

To the Honorable Jane L. Campbell, Mayor,
Members of Council and the Audit Committee:

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio, (the Airports) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2001. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect occurred on the passenger facility charge program. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

In our opinion, the Airports complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2001.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over passenger facility charge program compliance that do not require inclusion in this report, that we have reported to management of the Airports in a separate letter dated August 16, 2002.

Schedule of Expenditures of Passenger Facility Charges

We have audited the general-purpose financial statements of the City of Cleveland as of and for the year ended December 31, 2001, and have issued our report thereon dated August 16, 2002. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for the purposes of additional analysis as specified by the Guide and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of the audit committee, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

August 16, 2002

Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland

Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2001

	Approved Project Budget	Cumulative Expenditures at 12/31/00	1st Quarter 2001 Expenditures	2nd Quarter 2001 Expenditures	3rd Quarter 2001 Expenditures	4th Quarter 2001 Expenditures	Total 2001 Expenditures	Cumulative Expenditures at 12/31/01
Insulate Residences - full program phase I	16,960,400	16,877,074			-39,223		-39,223	16,837,851
Extension of Taxiway "Q"	2,500,000	2,155,743					0	2,155,743
Land Acquisition - Resident Relocation	16,883,240	14,216,749	49,109	11,058	10,308	132,608	203,084	14,419,832
Sewer Construction	5,500,000	5,500,000					0	5,500,000
Asbestos Removal in Terminal CHIA	1,000,000	729,842					0	729,842
Acquisition of Analex Office Building and Vacant Land	13,025,000	13,025,000					0	13,025,000
Waste Water-Glycol Collection System Construction	6,320,642	74,294	35,000	20,700	1,148,484		1,204,184	1,278,477
NASA Feasibility and Pre-engineering Study	355,000	355,000					0	355,000
Land Acquisition	30,360,000	23,514,622	159,098	71,429	41,474	430,593	702,594	24,217,216
Sound Insulation	8,675,000	7,177,462		687,973		76,365	764,338	7,941,800
Environmental Assessment/Impact Studies	2,309,570	2,309,570					0	2,309,570
Terminal Passenger Flow and Security Study	300,000						0	0
Railway System/Vehicular Ingress-Egress Study	200,000						0	0
Runway 5R Extension Engineering	0						0	0
Runway 5R Extension Design	0						0	0
Runway 5R Construction	0						0	0
FIS Facility Construction	0						0	0
FIS Facility Design	0						0	0
Brook Park Land Transfer	8,750,000			926,003		145,992	1,071,995	1,071,995
Analex Demolition	1,229,000						0	0
Sound Insulation	20,000,000	2,557,705	542,724	1,415,397		39,796	1,997,916	4,555,622
Baggage Claim/Expansion	9,526,087	147,483					0	147,483
Tug Road Replacement	1,019,000			114,984	2,451	476,472	593,906	593,906
Interim Commuter Ramp	5,560,338			584,844		92,773	677,617	677,617
Concourse D Ramp/Site Utilities	51,305,804			5,402,847		856,024	6,258,871	6,258,871
Burke Runway Overlay 6L/24R	530,286			48,738		8,848	57,585	57,585
Install Instrument Landing System-Burke	2,181,400						0	0
Runway 6L/23R	82,106,000						0	0
	286,596,767	88,640,543	785,931	9,283,973	1,163,494	2,259,470	13,492,867	102,133,410

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

Notes to Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2001

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 to the Airports' financial statement.

Basis of Presentation

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