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, 2002 and 2001

CITY OF CLEVELAND, OHIO

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

TABLE OF CONTENTS

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Divisions of Cleveland Hopkins International and
Burke Lakefront Airports
Department of Port Control
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, 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, 2002 and December 31, 2001, as listed in the table of contents. 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 do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2002 and December 31, 2001, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of December 31, 2002 and December 31, 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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, 2002 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.

Betty Montgomery

Betty Montgomery
Auditor of State

June 26, 2003

CITY OF CLEVELAND, OHIO
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 and Burke Lakefront 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 fiscal year ended December 31, 2002. Please read this information in conjunction with the Divisions' basic financial statements and footnotes that begin on page 14.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airport facilities 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. The Divisions are served by 23 scheduled airlines and 8 cargo airlines. In 2002, there were 110,024 scheduled landings with landed weight amounting to 8,194,081,000 pounds. There were 5,405,000 passengers enplaned at Cleveland Hopkins International Airport during 2002.

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities at December 31, 2002 by $374,102,000 (net assets). Of this amount, $74,639,000 (unrestricted net assets) may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $11,045,000 during 2002. This change is due to an increase in Passenger Facility Charges and a decrease in interest expense. During 2002, the Passenger Facility Charge increased from $3.00 to $4.50 per enplaned passenger.

- During 2002, the Division's expenditures for capital improvements totaling $199,081,000. The principal capital expenditures during the year were for the construction of the new runway.

- The Divisions' total debt decreased by $10,783,000 (1.11%) during the current fiscal year. The key factor in this decrease was payment made on bond principal.

- On December 12, 2002, Cleveland Hopkins International Airport celebrated the completion of phase one of the newly constructed runway designed to improve capacity and safety.

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 Division can be found on pages 14-19 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 20-34 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2002 and 2001:

	2002	2001	Increase/ (Decrease)
		(In thousands)	
Assets:			
Current assets	$ 58,534	$ 41,286	$ 17,248
Restricted assets	594,659	767,670	(173,011)
Unamortized bond issuance costs	10,000	10,637	(637)
Capital assets	769,636	600,989	168,647
Total assets	1,432,829	1,420,582	12,247
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	110,017	64,798	45,219
Payable from restricted assets	27,536	14,802	12,734
Long-term obligations	921,174	977,925	(56,751)
Total liabilities	1,058,727	1,057,525	1,202
Net assets:			
Invested in capital assets, net of related debt	124,411	102,802	21,609
Restricted for debt service	126,773	148,578	(21,805)
Restricted for Passenger Facility Charges	48,279	51,054	(2,775)
Unrestricted	74,639	60,623	14,016
Total net assets	374,102	363,057	11,045
Total net assets and liabilities	$ 1,432,829	$ 1,420,582	$ 12,247

Assets: The major change in assets is due to a decrease in restricted cash and cash equivalents and a comparable increase in capital assets. This is due primarily to the cost of construction at the airport, which is being financed with bonds issued in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2002 amounted to $769,636,000 (net of accumulated depreciation). This investment in capital assets includes: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; and construction in progress. The Divisions' investment in capital assets increased 28% in the current year. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2002 is as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
	(In thousands)			
Land	$ 141,577	$ 1,961	$	$ 143,538
Land improvements	196,075	160,229	(3,286)	353,018
Buildings, structures and improvements	367,518	4,545	(125)	371,938
Furniture, fixtures and equipment	25,775	10,987	(1,919)	34,843
	730,945	177,722	(5,330)	903,337
Less: Accumulated depreciation	(234,752)	(27,752)	2,648	(259,856)
	496,193	149,970	(2,682)	643,481
Construction in progress	104,796	199,081	(177,722)	126,155
Capital assets, net	$ 600,989	$ 349,051	$ (180,404)	$ 769,636

Major events during the current fiscal year affecting the Divisions' capital assets included the following:

- On December 12, 2002, Cleveland Hopkins International Airport celebrated the completion of phase one of the newly constructed runway 6L/24R. The runway is designed to handle Group V aircraft and is equipped with a Category III instrument landing system, which will increase capacity and improve safety.
- A redundant electrical system was constructed at Cleveland Hopkins International Airport, which will provide uninterrupted service.
- In November of 2002, Cleveland Hopkins International Airport opened a new employee parking lot with approximately 1,200 parking spaces.
- The Divisions also completed construction of a new centralized deicing facility at Cleveland Hopkins International Airport.

Additional information on the Divisions' capital assets, including commitments made for future capital expenditures, can be found in Notes A and F to the basic financial statements.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Liabilities: The current portion of long-term debt increased significantly, because the Airport Surplus Revenue Note Payable is due in 2003.

Long-term debt: At December 31, 2002, the Divisions had $965,018,000 in total 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, 2002 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2002	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2002
			(In thousands)		
Airport System Revenue Bonds:					
Series 1990	$ 16,136	$	$	$ (3,938)	$ 12,198
Series 1994	77,580			(1,770)	75,810
Series 1997	263,945			(5,075)	258,870
Series 2000	573,190				573,190
Airport Surplus Revenue Notes					
Series 2001	44,950				44,950
Total	$ 975,801	$ -	$ -	$ (10,783)	$ 965,018

The 2002 bond ratings for the Divisions' revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's
A3 with a negative outlook	A

The Divisions' Moodys' bond rating has not changed since 2001. In 2001, Standard & Poor's had placed a negative outlook on the Divisions' bond rating, which was removed in 2002 and the rating of A has been reaffirmed.

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 2002, 2001, and 2000 was 1.33%, 1.44%, and 1.32%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B to the basic financial statements on pages 24-26.

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $374,102,000 at the close of the most recent fiscal year.

A large part of the Divisions' net assets (33%) reflects its investment in capital assets (e.g., land, land improvement, buildings, machinery and equipment), 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 assets (47%) represents resources that are subject to external restrictions. These restricted net assets include proceeds from debt and 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. The remaining balance of unrestricted net assets, $74,639,000 or (20%), 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 ASSETS INFORMATION

The Divisions' operations increased its net assets by $11,045,000 in 2002 and $32,675,000 in 2001. Key elements of these changes are summarized below:

	2002	2001	Increase/ (Decrease)
		(In thousands)	
Operating revenues			
Landing fees	$ 28,544	$ 36,172	$ (7,628)
Terminal and concourse rentals	34,163	32,017	2,146
Concessions	17,104	17,944	(840)
Utility sales and other	6,466	6,692	(226)
Total operating revenues	86,277	92,825	(6,548)
Operating expenses	86,777	80,394	6,383
Operating income (loss)	(500)	12,431	(12,931)
Non-operating revenue (expense):			
Passenger facility charges revenue	18,911	15,024	3,887
Non-operating expense	(20,846)	(11,322)	(9,524)
Interest income	9,895	16,141	(6,246)
Interest expense	(22,630)	(28,869)	6,239
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(1,174)	(1,267)	93
Total non-operating revenue (expense), net	(15,844)	(10,293)	(5,551)
Capital and other contributions	27,389	30,537	(3,148)
Increase in net assets	11,045	32,675	(21,630)
Net assets, beginning of year	363,057	330,382	32,675
Net assets, end of year	$ 374,102	$ 363,057	$ 11,045

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

Operating revenues: Due to adverse conditions within the transportation industry, the Divisions suffered decreases in revenues due to a reduction in operations by airlines and decreases in passenger traffic. Additionally, airlines have begun to rely on smaller, more efficient jets to transport passengers. The combination of these factors resulted in a decrease in landed weight of 404,085,000 pounds, or 4.7%, from last year. Of the $86,277,000 in total operating revenue, $27,105,000 or 31% was from signatory landing fees. This represents a 21% decrease from 2001, which is primarily due to lower landed weight. Signatory terminal rentals accounted for $19,544,000 or 23% of total operating revenue. This represents an increase of 18%, which is primarily due to an increase in rates and charges. Parking operations accounted for 13% or $11,378,000 of the total operating revenues. This is a decrease of 6% from 2001, which is due to reduced activity. Rental car revenues, the fourth largest revenue source accounted for 11% of total airport system revenues, this is an increase of 2% over prior year.

Operating expenses: Of the $6,383,000 increase in operating expenses, $4,153,000 or 65% is associated with depreciation expense. This is an 18% increase, which is due to the addition of the new 6L/24R Runway. The remaining $2,230,000 increase in operating expense is due to an increase in materials and supplies and additional charges for local law enforcement officers, which represents a 3% increase from 2001.

CONTRIBUTIONS

Capital and other contributions: The Divisions received $27,389,000 in Federal Airport Improvement Grants. These grants were primarily for the residential sound insulation program and the construction of runway 6L/24R.

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

On February 27, 2003, the Department of Port Control issued $44,780,000 of Taxable Airport Surplus Revenue Notes, Series 2003. Proceeds of the Series 2003 Notes were used to redeem the $44,950,000 of Series 2001 Taxable Airport Surplus Revenue Notes (due June 1, 2003) on March 1, 2003, to fund the interest due on the Series 2003 Notes at maturity and to pay the costs of issuance. The Series 2003 Notes will mature November 17, 2003.

On June 9, 2003, legislation was introduced to City Council for the issuance of an additional series of bonds. The ordinance authorizes the sale of not to exceed $215 million Airport System Revenue Bonds to refund outstanding revenue bonds and to pay costs incurred to acquire property for the Airport System, and not to exceed $80 million Airport System Revenue Bonds to refund outstanding Revenue Bonds under hedge agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2002 and December 2001

	(In thousands) 2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,717	$ 6,459
Investments	6,504	8,872
Receivables:		
Accounts-net of allowance for doubtful accounts of $104,635 in 2002 and $241,508 in 2001	13,741	5,392
Unbilled revenue	2,736	4,473
Landing fees - due from airlines	6,595	10,903
Accrued interest receivable	248	158
Total receivables	23,320	20,926
Prepaid expenses	399	212
Due from other City of Cleveland departments, divisions or interfund	2,265	942
Due from other government		3
Due from Federal government	3,096	3,648
Materials and supplies-at cost	233	224
TOTAL CURRENT ASSETS	58,534	41,286
RESTRICTED ASSETS		
Cash and cash equivalents	481,946	694,367
Investments	107,696	68,979
Accrued interest receivable	2,310	2,202
Bond retirement reserve	53	53
Accrued passenger facility charges	2,654	2,069
TOTAL RESTRICTED ASSETS	594,659	767,670
DEFERRED BOND ISSUANCE EXPENSE	10,000	10,637
CAPITAL ASSETS		
Land	143,538	141,577
Land improvements	353,018	196,075
Buildings, structures and improvements	371,938	367,518
Furniture, fixtures and equipment	34,843	25,775
	903,337	730,945
Less: Accumulated depreciation	(259,856)	(234,752)
	643,481	496,193
Construction in progress	126,155	104,796
CAPITAL ASSETS, NET	769,636	600,989
TOTAL ASSETS	$ 1,432,829	$ 1,420,582

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2002 and December 2001

	(In thousands) 2002	2001
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 55,866	$ 10,783
Current portion of long-term deferred payment obligation, due within one year	1,492	1,381
Accounts payable	1,841	3,324
Due to other City of Cleveland departments, divisions or interfund accounts	2,549	1,096
Current portion of accrued wages and benefits	2,223	2,453
Accrued interest payable	40,299	42,799
Accrued property taxes	5,747	2,962
TOTAL CURRENT LIABILITIES	110,017	64,798
PAYABLE FROM RESTRICTED ASSETS		
Construction fund	14,044	3,784
Other construction accounts	13,492	11,018
TOTAL PAYABLE FROM RESTRICTED ASSETS	27,536	14,802
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	896,826	907,205
Notes payable		44,950
Deferred payment obligation	23,659	25,150
Accrued wages and benefits	689	620
TOTAL LONG-TERM OBLIGATIONS	921,174	977,925
TOTAL LIABILITIES	1,058,727	1,057,525
NET ASSETS		
Invested in capital assets, net of related debt	124,411	102,802
Restricted for debt service	126,773	148,578
Restricted for passenger facility charges	48,279	51,054
Unrestricted	74,639	60,623
TOTAL NET ASSETS	374,102	363,057
TOTAL LIABILITIES AND NET ASSETS	$ 1,432,829	$ 1,420,582

See notes to financial statements.

This page intentionally left blank.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2002 and December 2001

	(In thousands) 2002	2001
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 20,510	$ 23,175
Adjustments of landing fees as provided in airline use agreements	6,595	10,903
Other	1,439	2,094
	28,544	36,172
Terminal and concourse rentals:		
Scheduled airlines	19,544	16,560
Other	14,619	15,457
	34,163	32,017
Concessions	17,104	17,944
Utility sales and other	6,466	6,692
TOTAL OPERATING REVENUES	86,277	92,825
OPERATING EXPENSES		
Operations, maintenance and administrative	59,025	56,795
Depreciation and amortization	27,752	23,599
TOTAL OPERATING EXPENSES	86,777	80,394
OPERATING INCOME (LOSS)	(500)	12,431
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	18,911	15,024
Non-operating expense	(20,846)	(11,322)
Interest income	9,895	16,141
Interest expense	(22,630)	(28,869)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(1,174)	(1,267)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(15,844)	(10,293)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(16,344)	2,138
Capital and other contributions	27,389	30,537
INCREASE IN NET ASSETS	11,045	32,675
NET ASSETS, BEGINNING OF YEAR	363,057	330,382
NET ASSETS, END OF YEAR	$ 374,102	$ 363,057

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, 2002 and 2001

	(In thousands) 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 79,047	$ 74,363
Cash payments to suppliers for goods and services	(33,458)	(36,555)
Cash payments to employees for services	(20,361)	(19,309)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,228	18,499
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(15,423)	(10,615)
Cash payments for other non-operating costs	(275)	2,271
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(15,698)	(8,344)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(169,151)	(81,775)
Cash receipts for passenger facility charges	19,327	14,846
Proceeds from revenue notes, net costs and discount		44,633
Proceeds from revenue bonds, net costs and discount		560,326
Principal paid on long-term debt	(10,783)	(14,315)
Principal paid on long-term notes		(40,000)
Interest paid on long-term debt	(46,581)	(34,107)
Capital grant proceeds	26,175	27,200
NET CASH (PROVIDED BY) USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(181,013)	476,808
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(214,100)	(108,723)
Proceeds from sale and maturity of investment securities	161,332	125,770
Interest received on investments	28,088	31,234
NET CASH (PROVIDED BY)USED IN INVESTING ACTIVITES	(24,680)	48,281
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(196,163)	535,244
Cash and cash equivalents, beginning of year	700,826	165,582
Cash and cash equivalents, end of year	$ 504,663	$ 700,826

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS (Reconciliation)
For the Years Ended December 31, 2002 and 2001

	(In thousands) 2002	2001
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERTATING INCOME (LOSS)	$ (500)	$ 12,431
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	27,752	23,599
Non-cash rental income	(3,479)	(3,389)
Loss on disposal of equipment	2,681	
Changes in assets and liabilities:		
Accounts receivable	(8,349)	1,661
Unbilled revenue	1,737	1,039
Landing fees - due from airlines	4,308	(10,903)
Prepaid expenses	(187)	28
Due from other City departments, divisions or funds	(1,323)	462
Due from other governments	3	(3)
Materials and supplies, at cost	(9)	16
Accounts payable	(1,483)	243
Due to other City departments, divisions or funds	1,453	(1,356)
Accrued wages and benefits	(161)	(39)
Accrued property taxes	2,785	849
Landing fee adjustment		(6,139)
TOTAL ADJUSTMENTS	25,728	6,068
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 25,228	$ 18,499

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001

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 (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. Effective January 1, 2002, the Divisions changed their financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These "Reporting Model" statements affect the way the Divisions prepare and present financial information. As a result of the implementation of these new GASB statements, the amount previously reported as the Divisions' equity is now reported as the Divisions' net assets in the accompanying balance sheets and the net assets are divided into four categories as follows:

- Amount invested in capital assets, net of related debt
- 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 footnotes. The implementation of the new GASB statements did not result in a change in the Divisions' beginning net asset/equity balance as previously reported.

Basis of Accounting: The Divisions' financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Propriety 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2002 and 2001. STAROhio is an investment pool managed by the State Treasurers 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, 2002 and 2001.

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 fixed 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 and equipment 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:

Airfield (land improvements)	3 to 75 years
Buildings, structures and improvements	5 to 50 years
Furniture, fixtures and equipment	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 division applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2002 and 2001, total interest costs incurred amounted to $46,089,000 and $50,120,000, respectively, of which $6,603,000 and $4,245,000, respectively, was capitalized, net of interest income of $16,856,000 in 2002 and $17,006,000 in 2001.

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 are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings is netted against long-term debt and is amortized over the shorter of the defeased bond or the newly issued bond.

Compensated Absences: The Divisions accrue for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at current wage rates, with the balance being forfeited.

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 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 costs incurred for noise abatement for residents of communities surrounding Cleveland Hopkins International Airport. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund receivables and payables balances at December 31, 2002 and 2001 are as follows:

	2002 Due From	2002 Due To	2001 Due From	2001 Due To
	(In thousands)			
City of Cleveland General Fund	$ 22	$ 711	$ 134	$ 256
Division of Water Pollution Control		65		239
Division of Cleveland Public Power		46		34
Division of Research Planning & Development	60		30	
Special Revenues - Transportation Fee				91
PFC Revenue Transfer from Oper & Maint.	1,621	1,621	321	321
Division of Telephone Exchange		65	457	155
Division of Radio Communication	13	6		
Division of Printing	17	4		
Division of Motor Vehicle Maintenance	75	26		
Division of Information Support Services	457	5		
	$ 2,265	$ 2,549	$ 942	$ 1,096

NOTE B - LONG-TERM DEBT

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

	Interest Rate	Original Issuance	2002	2001
			(In thousands)	
Airport Expansion and Noise Mitigation Airport System Revenue Bonds:				
Series 1990, due through 2006	6.50%-7.30%	$ 66,006	$ 12,198	$ 16,136
Series 1994, due through 2024	4.80%-7.95%	94,495	75,810	77,580
Series 1997, due through 2027	4.25%-7.00%	277,165	258,870	263,945
Series 2000, due through 2031	5.00%-5.50%	573,190	573,190	573,190
Airport Surplus Revenue Notes				
Series 2001, due in 2003	5.55%	44,950	44,950	44,950
		$ 1,055,806	965,018	975,801
Less:				
Unamortized discount			(10,245)	(10,611)
Unamortized loss on debt refunding			(2,081)	(2,252)
Current portion (due within one year)			(55,866)	(10,783)
Total Long-Term Debt excluding the deferred payment obligation			$ 896,826	$ 952,155

Summary: Changes in long-term obligations for the year ended December 31, 2002 are as follows:

	Balance January 1, 2002	Increase	Decrease	Balance December 31, 2002	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1990	$ 16,136	$	$ (3,938)	$ 12,198	$ 3,711
Series 1994	77,580		(1,770)	75,810	1,905
Series 1997	263,945		(5,075)	258,870	5,300
Series 2000	573,190			573,190	
Airport Surplus Revenue Note					
Series 2001	44,950			44,950	44,950
Total revenue bonds & notes	975,801		(10,783)	965,018	55,866
Accrued wages and benefits	3,073		(161)	2,912	2,223
Total	$ 978,874	$	$ (10,944)	$ 967,930	$ 58,089

NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
		(In thousands)	
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
2007	17,310	45,165	62,475
2008-2012	101,840	210,324	312,164
2013-2017	133,110	179,013	312,123
2018-2022	173,745	138,021	311,766
2023-2027	224,540	86,509	311,049
2028-2032	224,525	23,429	247,954
Total	$ 965,018	$ 890,090	$ 1,855,108

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 Surplus Revenue Notes, which matured on June 15, 2001. The Series 2001 Taxable 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 Series 2000 Bonds will be applied by the City to finance a portion of certain improvements to Cleveland Hopkins International Airport, to pay cost 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 $149,000,0000 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, 2002 and 2001, the Department of Port Control has recorded a liability in the amount of $16,939,000 and $19,413,000, respectively, for compounded interest payable on the Capital Appreciation Bonds.

NOTE B - LONG-TERM DEBT (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 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, is classified as restricted assets in these financial statements.

As of December 31, 2002, the Department of Port Control 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 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.

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, 2002 and 2001 are as follows:

Bond Issue	2002	2001
	(In thousands)	
Series 1994	$ 7,950	$ 7,950

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.

NOTE C – SPECIAL FACILITY REVENUE BONDS (Continued)

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 D – 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 airport development. Of the $66.5 million purchase price, $36.5 million was paid in cash in 1999. The remaining $30.0 million, including interest at 7.75%, is being deferred by the seller and will be offset by future lease payments owed to the City over the 15 year lease period. The future lease payments are equal to the remaining purchase price plus interest at 7.75%, and as such, no cash will be exchanged between the City and the lessee over the term of the lease. The deferred payment is reported as "Deferred Payment Obligation" in the accompanying balance sheet.

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

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)		
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
2007	2,032	1,357	3,389	3,389
Thereafter	16,393	4,219	20,612	20,612
	$ 25,151	$ 12,406	$ 37,557	$ 37,557

Rental income recognized by the City under this agreement totaled $3,389,000 in 2002, of which $2,008,000 was offset against interest expense and $1,381,000 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, 2002 and 2001 totaled approximately $4,178,000 and $29,258,000, respectively, and the Divisions' bank balance was approximately $5,965,000 and $44,636,000, respectively. The difference represents outstanding warrants payable and normal reconciling items. Based on the criteria described in the GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, $5,677,000 and $218,000 of the bank balances were 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 the state statutes and City Ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds and STAROhio. 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.

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 credit risk 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 E – 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 the provisions of GASB Statement No. 9, since they have a maturity of three months or less:

Type of Investment	Risk Category	2002 Fair Value	2002 Cost	2001 Fair Value	2001 Cost
			(In thousands)		
U.S. Agency Obligations	1	$ 131,920	$ 130,828	$ 70,241	$ 69,861
U.S. Treasury Bills	2	7,359	7,324	3,189	3,265
U.S. Treasury Notes	2	1,235	1,245	3,753	3,734
STAROhio	n/a	22,437	22,437	70,748	70,748
Guaranteed Investment Contract	n/a	277,067	277,067	601,488	601,488
Other	n/a	174,667	174,667		
Total Investments		614,685	613,568	749,419	749,096
Total Deposits		4,178	4,178	29,258	29,258
Total Deposits and Investments		$ 618,863	$ 617,746	$ 778,677	$ 778,354

STAROhio investments, guaranteed investment contracts and other investments are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form. Amounts represented by "Other" consist of deposits into a collective pool managed by JPMorgan, as trustee.

NOTE F - CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2002 was as follows:

	January 1, 2002	Additions	Reductions	December 31, 2002
	(In thousands)			
Capital Assets, not being depreciated:				
Land	$ 141,577	$ 1,961	$	$ 143,538
Construction in progress	104,796	199,081	(177,722)	126,155
Total capital assets, not being depreciated	246,373	201,042	(177,722)	269,693
Capital assets, being depreciated:				
Land improvements	196,075	160,229	(3,286)	353,018
Buildings, structures and improvements	367,518	4,545	(125)	371,938
Furniture, fixtures and equipment	25,775	10,987	(1,919)	34,843
Total capital assets, being depreciated	589,368	175,761	(5,330)	759,799
Less: Total accumulated depreciation	(234,752)	(27,752)	2,648	(259,856)
Total capital assets being depreciated, net	354,616	148,009	(2,682)	499,943
Capital assets, net	$ 600,989	$ 349,051	$ (180,404)	$ 769,636

Commitments: As of December 31, 2002 and 2001, the Divisions had capital expenditure purchase commitments outstanding of approximately $148 million and $255 million, 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 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.

Portions of the building costs in the balance sheet are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2002 and 2001 is approximately $171,874,000 and $177,830,000, respectively.

NOTE G – LEASES AND CONCESSIONS (Continued)

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

	(In thousands)
2003	$10,529
2004	9,644
2005	9,547
2006	8,746
2007	7,900
Thereafter	17,409
	$63,775

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

Contingent operating revenues aggregated approximately $17,847,000 and $18,127,0000, respectively, in 2002 and 2001.

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 2002. There was no significant decreases in any insurance coverages in 2002. In addition, there were no insurance settlements in excess of insurance coverage during the past three fiscal years.

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

NOTE H - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE I - EMPLOYEES RETIREMENT PLAN

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board (the “Board”). OPERS 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. OPERS issues a stand-alone financial report, which may be obtained by writing to the Ohio Public Employees Retirement 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. The 2002 and 2001 employer pension contribution rate for the Divisions were 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Divisions’ required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were $2,078,000, $1,972,000 and $1,902,000, respectively. The required payments due in 2002, 2001, and 2000 have been made.

NOTE J - OTHER POST EMPLOYMENT BENEFITS

The OPERS 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 Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer’s contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent in 2002 and 4.30 percent in 2001 was the portion that was used to fund health care.

NOTE J - OTHER POST EMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no-change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 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 investment assets. The number of active contributing participants was 402,041 at December 31, 2001. The Divisions' actual contributions for 2002 which were used to fund postretirement benefits were $767,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS net assets available for payment of benefits at December 31, 2001 (the latest information available) were $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $16.4 billion and 4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003 with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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, 2002 and 2001, were as follows:

	2002	2001
	(In thousands)	
City Central Services, including police	$ 6,877	$ 4,839
Electricity purchased	$ 274	$ 208
Motor vehicle maintenance	$ 234	$ 268

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 2002 and 2001 was a payable to the airport in the amount of $6,595,000 and $10,903,000, respectively.

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 2002 and 2001.

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. 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 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 N – MAJOR CUSTOMER

In 2002 and 2001, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 34% and 30% respectively, of total operating revenue.

NOTE O - SUBSEQUENT EVENTS

On February 27, 2003, the Department of Port Control issued $44,780,000 of Taxable Airport Surplus Revenue Notes, Series 2003. Proceeds of the Series 2003 Notes were used to redeem the $44,950,000 of Series 2001 Taxable Airport Surplus Revenue Notes (due June 1, 2003) on March 1, 2003, to fund the interest due on the Series 2003 Notes at maturity and to pay the costs of issuance. The Series 2003 Notes will mature November 17, 2003.

On June 9, 2003, legislation was introduced to City Council for the issuance of an additional series of bonds. The ordinance authorizes the sale of not to exceed $215 million Airport System Revenue Bonds to refund outstanding revenue bonds and to pay costs incurred to acquire property for the Airport System, and not to exceed $80 million Airport System Revenue Bonds to refund outstanding Revenue Bonds under hedge agreements.

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, 2002

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	$ 27,105,021	$	$ 27,105,021
Terminal rental	19,543,981		19,543,981
Other	4,048,271		4,048,271
	50,697,273		50,697,273
Operating revenues from other sources:			
Concessions	16,781,451	322,113	17,103,564
Rentals	13,133,568	247,293	13,380,861
Landing fees	951,532	487,551	1,439,083
Other	3,488,043	167,727	3,655,770
	34,354,594	1,224,684	35,579,278
Non-operating revenue:			
Interest income	1,857,499		1,857,499
TOTAL REVENUE	$ 86,909,366	$ 1,224,684	$ 88,134,050
OPERATING EXPENSES			
Salaries and wages	$ 14,688,534	$ 1,032,361	$ 15,720,895
Employee benefits	4,218,812	280,098	4,498,910
City Central Services, including police	6,435,090	490,945	6,926,035
Materials and supplies	7,032,418	380,002	7,412,420
Contractual services	24,024,172	442,657	24,466,829
TOTAL OPERATING EXPENSES	$ 56,399,026	$ 2,626,063	$ 59,025,089

This Page is Intentionally Left Blank.

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, 2002

DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
DEPARTMENT OF PORT CONTROL
CITY OF CLEVELAND
REPORT ON PASSENGER FACILITY CHARGES
TABLE OF CONTENTS

TITLE **PAGE**

This page intentionally left blank.

Auditor of State
Betty Montgomery

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 Divisions) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2002. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

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

In our opinion, the Divisions 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, 2002.

Internal Control Over Compliance

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

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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 Divisions in a separate letter dated June 26, 2003.

Schedule of Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the City of Cleveland as of and for the year ended December 31, 2002, and have issued our report thereon dated June 26, 2003. Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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.

Betty Montgomery

Betty Montgomery
Auditor of State

June 26, 2003

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, 2002

	Approved Project Budget	Cumulative Expenditures at 12/31/01	1st Quarter 2002 Expenditures	2nd Quarter 2002 Expenditures	3rd Quarter 2002 Expenditures	4th Quarter 2002 Expenditures	Total 2002 Expenditures	Cumulative Expenditures at 12/31/02
Insulate Residences - full program phase I	16,960,400	16,837,851	7,923	(80,709)	-	-	(72,787)	16,765,064
Extension of Taxiway "Q"	2,500,000	2,155,743	-	-		-	-	2,155,743
Land Acquisition - Resident Relocation	16,883,240	14,419,832	21,498	88,237	204	105,832	215,770	14,635,602
Sewer Construction	5,500,000	5,500,000	-	-	-	-	-	5,500,000
Asbestos Removal in Terminal CHIA	1,000,000	729,842	-	-	-	-	-	729,842
Acquisition of Analex Office Building and Vacant Land	13,025,000	13,025,000	-	-	-	-	-	13,025,000
Waste Water-Glycol Collection System Construction	6,320,642	1,278,477	1,809,120	714,557	1,315,769	110,670	3,950,116	5,228,594
NASA Feasibility and Pre-engineering Study	355,000	355,000	-	-	-	-	-	355,000
Land Acquisition	30,360,000	24,217,216	148,892	12,203	37,178	400,068	598,342	24,815,558
Sound Insulation	8,675,000	7,941,800	(435,046)	391,381	64,232	41,672	62,239	8,004,039
Environmental Assessment/Impact Studies	2,309,570	2,309,570	-	-	-	-	-	2,309,570
Terminal Passenger Flow and Security Study	300,000	-	-	-	-	-	-	-
Railway System/Vehicular Ingress-Egress Study	200,000	-	-	-	-	-	-	-
Runway 5R Extension Engineering	-	-	-	-	-	-	-	-
Runway 5R Extension Design	-	-	-	-	-	-	-	-
Runway 5R Construction	-	-	-	-	-	-	-	-
FIS Facility Construction	-	-	-	-	-	-	-	-
FIS Facility Design	-	-	-	-	-	-	-	-
Brook Park Land Transfer	8,750,000	1,071,995	-	-	1,607,705	-	1,607,705	2,679,700
Analex Demolition	1,229,000	-	-	-	19,892	-	19,892	19,892
Sound Insulation	20,000,000	4,555,622	(35,487)	31,225	46,866	1,986,046	2,028,650	6,584,271
Baggage Claim/Expansion	9,526,087	147,483	73,030	3,136,401	2,388,730	3,455,349	9,053,509	9,200,992
Tug Road Replacement	1,019,000	593,906	5,941	-	-	68,706	74,647	668,553
Interim Commuter Ramp	5,560,338	677,617	-	-	1,022,398	-	1,022,398	1,700,015
Concourse D Ramp/Site Utilities	51,305,804	6,258,871	-	-	9,432,421	-	9,432,421	15,691,292
Burke Runway Overlay 6L/24R	530,286	57,585	-	-	98,979	-	98,979	156,565
Install Instrument Landing System-Burke	2,181,400	-	-	-	456,765	-	456,765	456,765
Runway 6L/23R	82,106,000	-	-	-	-	-	-	-
	286,596,767	102,133,410	1,595,870	4,293,295	16,491,140	6,168,343	28,548,648	130,682,058

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, 2002

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.