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, 2006 and 2005

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.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

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

We have audited the accompanying basic financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) as of and for the years ended December 31, 2006 and December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Divisions' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note A, the financial statements present only the Divisions, and do not purport to, and do not, present fairly the financial position of the City of Cleveland, Cuyahoga County, Ohio as of December 31, 2006 and December 31, 2005, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2006 and December 31, 2005, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 conducted our audit to opine on the financial statements that collectively comprise the Divisions' basic financial statements. The Schedule of Airport Revenue and Operating Expenses as defined in the Airline Use Agreement for the year ended December 31, 2006 is presented for purposes of additional analysis and is not a required part of the Divisions' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Divisions' basic financial statements taken as a whole.

Mary Taylor, CPA
Auditor of State

June 20, 2007

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 years ended December 31, 2006 and 2005. Please read this information in conjunction with the Divisions' basic financial statements and footnotes that begin on page 17.

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. In 2006, the Divisions were served by 24 scheduled airlines and eight cargo airlines. There were 114,000 scheduled landings with landed weight amounting to 7,467,746,000 pounds. There were 5,646,000 passengers enplaned at Cleveland Hopkins International Airport during 2006. In 2005, the Divisions were served by 24 scheduled airlines and eight cargo airlines. There were 117,000 scheduled landings with landed weight amounting to 7,910,706,000 pounds. There were 5,724,000 passengers enplaned at Cleveland Hopkins International Airport during 2005.

COMPARISON OF CURRENT YEAR'S AND PREVIOUS YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $408,259,000, $404,312,000 and $389,149,000 at December 31, 2006, 2005 and 2004, respectively. Of these amounts, $141,028,000, $124,515,000 and $110,141,000 (unrestricted net assets) at December 31, 2006, 2005 and 2004, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $3,947,000, $15,163,000 and $16,680,000 during 2006, 2005 and 2004, respectively. These changes are due to a decrease in revenue from landing fees and terminal rentals and an increase in concession revenue offset by a decrease in operations expense and non-operating expense and an increase in depreciation expense.

- Additions to construction in progress totaled $79,439,000, $56,722,000 and $110,998,000 in 2006, 2005 and 2004, respectively. The major capital expenditures during 2006 were for the construction of the centralized deicing pad, the rehabilitation of Concourse C, and terminal security enhancements. During 2006, the Airport continued to purchase land south of the Airport. Approximately 11.0% was spent on the acquisition of property and another 45.1% was spent on the construction of a centralized deicing pad. Construction on the rehabilitation of Concourse C and the centralized deicing pad were completed in 2006. The major capital expenditures during 2005 were for the construction on the rehabilitation of Concourse C, Runway 10-28 safety improvements and the structural rebuilding of the long term garage. During 2005 approximately 17.7% was spent on the

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

acquisition of property south of the Airport, another 10.5% was spent on the construction of a centralized deicing pad. The principal capital expenditures during 2004 were for the construction of the second phase of the new runway and other associated projects such as NASA relocation, which accounted for 64.4% of the total expenditures. During 2004 approximately 8.9% was spent on the acquisition of property south of the Airport and another 9.2% was spent on the rehabilitation of Concourse C.

- The Divisions' total bonded debt decreased by $14,040,000, $9,373,000 and $11,104,000 during 2006, 2005 and 2004, respectively. In 2006, the key factors for this decrease were the payment of principal on the Series 1990, 1997 and 2003 Airport System Revenue Bonds and the refunding of the Series 1997B and Series 2000A Airport System Revenue Bonds. In 2006, the City issued $118,760,000 of Airport System Revenue Bonds, Series 2006 A-B. The Series A Bonds were issued to advance refund a portion of the Series 2000A Bonds and the Series 2006 B Bonds were issued to advance refund a portion of the Series 1997B Bonds. Simultaneously with the issuance of the Series 2006 Bonds, the City also remarketed the $149,000,000 Series 2000C Bonds. In 2005, the key factor for this decrease was the payment of principal on the Series 1990 and 1997 Airport System Revenue Bonds (see Note B for additional information).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Divisions can be found on pages 17-22 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 24-42 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2006, 2005 and 2004:

	2006	2005	2004
		(In thousands)	
Assets:			
Current assets	$ 109,871	$ 103,832	$ 92,282
Restricted assets	331,197	372,165	402,877
Unamortized bond issuance costs	12,421	12,631	13,523
Capital assets, net	957,566	927,955	918,298
Total assets	$ 1,411,055	$ 1,416,583	$ 1,426,980
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 62,595	$ 60,885	$ 74,466
Long-term obligations	940,201	951,386	963,365
Total liabilities	1,002,796	1,012,271	1,037,831
Net assets:			
Invested in capital assets, net of related debt	(2,441)	(35,388)	(56,180)
Restricted for capital projects	116,677	130,823	151,886
Restricted for debt service	116,020	115,675	117,005
Restricted for passenger facility charges	36,975	68,687	66,297
Unrestricted	141,028	124,515	110,141
Total net assets	408,259	404,312	389,149
Total net assets and liabilities	$ 1,411,055	$ 1,416,583	$ 1,426,980

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Assets: Total assets decreased $5,528,000 and $10,397,000 during 2006 and 2005, respectively. The decrease in restricted assets was caused by the use of Passenger Facility Charges on a "pay as you go" basis for the construction of the centralized deicing pad. Capital assets, net of accumulated depreciation, increased $29,611,000 and $9,657,000 in 2006 and 2005, respectively. The increase in capital assets in 2006 was due to the completion of the rehabilitation of Concourse C, the rehabilitation of the long term garage and the construction of the centralized deicing pad. The increase in capital assets in 2005 was due to the completion of safety improvements to Runway 10-28. In 2006 and 2005 the Divisions also acquired land south of the Airport.

Capital assets: The Divisions' investment in capital assets as of December 31, 2006 amounted to $957,566,000 (net of accumulated depreciation), which is an increase of 3.2%. The Divisions' investment in capital assets as of December 31, 2005 amounted to $927,955,000 (net of accumulated depreciation), which was an increase of 1.1%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; and construction in progress. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2006 is as follows:

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006
		(In thousands)		
Land	$ 150,828	$ 10,044	$	$ 160,872
Land improvements	665,207	90,732		755,939
Buildings, structures and improvements	410,686	5,237		415,923
Furniture, fixtures, and equipment	40,472	6,301	(148)	46,625
	1,267,193	112,314	(148)	1,379,359
Less: Accumulated depreciation	(378,980)	(49,828)	148	(428,660)
	888,213	62,486	-	950,699
Construction in progress	39,742	79,439	(112,314)	6,867
Capital assets, net	$ 927,955	$ 141,925	$ (112,314)	$ 957,566

CONDENSED BALANCE SHEET INFORMATION (Continued)

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2005 is as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005
		(In thousands)		
Land	$ 140,296	$ 10,532	$	$ 150,828
Land improvements	642,095	23,112		665,207
Buildings, structures and improvements	409,509	1,177		410,686
Furniture, fixtures, and equipment	39,287	1,185		40,472
	1,231,187	36,006	-	1,267,193
Less: Accumulated depreciation	(331,915)	(47,065)		(378,980)
	899,272	(11,059)	-	888,213
Construction in progress	19,026	56,722	(36,006)	39,742
Capital assets, net	$ 918,298	$ 45,663	$ (36,006)	$ 927,955

Major events during 2006 affecting the Divisions' capital assets included the following:

- During 2006, construction was completed on the centralized deicing pad. The centralized deicing pad will be used by all airlines, thereby significantly reducing the deicing operations performed at Airline gates. The project included the pad itself, all associated paving, electrical, lighting, signage and landscaping. In addition, the project included provisions for the collection and storage of spent deicing fluid, storm water collection, and all associated conveyance systems. The pad was constructed in part to satisfy environmental regulatory requirements.

- The rehabilitation to the apron around Concourse C was completed in 2006. This project consisted of a full depth replacement of the pavement around Concourse C, as well as, improvements to the existing drainage system.

- Land south of Cleveland Hopkins International Airport ("Hopkins Airport") was purchased in accordance with the settlement agreement between the City of Cleveland and the City of Brook Park. In 2006, the Divisions spent $10,044,000 on these properties. The Divisions plan on purchasing approximately 334 homes under this agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Major events during 2005 affecting the Divisions' capital assets included the following:

- Phase I safety improvements to Runway 10-28 were completed in 2005. These improvements are driven by safety concerns and the Federal Aviation Administration's Runway Safety Area compliance initiative. Phase I included the reconstruction of approximately 300 ft of the touchdown zone for Runway 28 which has been deteriorating for several years and could no longer be repaired. In addition shoulders were added to the portions of the runway that currently do not have shoulders on the east side of the runway.

- During 2005, construction continued on the rehabilitation of the Concourse C apron. The rehabilitation work is a complete full depth replacement and any necessary environmental remediation work.

- Land south of Cleveland Hopkins International Airport ("Hopkins Airport") was purchased in accordance with the settlement agreement between the City of Cleveland and the City of Brook Park. In 2005, the Divisions spent $11,532,000 on these properties. The Divisions plan on purchasing approximately 334 homes under this agreement.

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.

Liabilities: In 2006 and 2005, total liabilities decreased $9,475,000 and $25,560,000, respectively, due to a decrease in accrued interest payable, accrued property taxes and long term obligations offset by an increase in the current portion of long term debt and accounts payable from restricted assets. The decrease in accrued interest payable is due to the fact that the Series 1990 capital appreciation bonds have reached their final maturity. Therefore, there was a lesser amount of accrued interest in 2005 and no accrued interest for 2006 on the Series 1990 capital appreciation bonds. In addition, the Series 2000A bonds were refunded in 2006, therefore significantly reducing the amount of accrued interest. The increase in accounts payable from restricted assets is primarily due to the completion of the centralized deicing pad and the associated retainage that is held during the warranty period. The 2005 decrease in payables is due to the fact that there was less ongoing construction at Hopkins Airport at the end of 2005 as phase two of the new runway was completed.

Long-term debt: At December 31, 2006 and 2005, the Divisions had $943,375,000 and $957,415,000, respectively, 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.

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2006 is summarized below:

	Balance January 1, 2006	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2006
			(In thousands)		
Airport System Revenue Bonds:					
Series 1990	$ 2,625	$	$	$ (2,625)	$ -
Series 1997	241,000		(10,470)	(6,920)	223,610
Series 2000	573,190	149,000	(260,435)		461,755
Series 2003	140,600			(1,350)	139,250
Series 2006		118,760			118,760
Total	$ 957,415	$ 267,760	$ (270,905)	$ (10,895)	$ 943,375

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2005 is summarized below:

	Balance January 1, 2005	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2005
			(In thousands)		
Airport System Revenue Bonds:					
Series 1990	$ 5,443	$	$	$ (2,818)	$ 2,625
Series 1997	247,555			(6,555)	241,000
Series 2000	573,190				573,190
Series 2003	140,600				140,600
Total	$ 966,788	$ -	$ -	$ (9,373)	$ 957,415

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings from Moody's Investor Services and Standard & Poor's for the Divisions' revenue bonds have remained constant for the past three years. In 2006, the Divisions were also rated by Fitch Rating's. The bond ratings are as follows:

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

In 2003, Moody's removed the negative outlook on the Divisions' bond rating and reaffirmed the A3 rating. Standard & Poor's lowered the Divisions' rating from A to A- due to above average decline in passenger enplanements compared to national averages and an increased dependence on Continental Airlines as a hub carrier.

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 2006, 2005 and 2004, was 1.28%, 1.36%, and 1.69%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B to the basic financial statements on pages 28-32.

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $408,259,000, $404,312,000 and $389,149,000 at December 31, 2006, 2005 and 2004, respectively.

Of the Divisions' net assets at December 31, 2006 and 2005, ($2,441,000) and ($35,388,000), respectively, reflects its investment in capital assets (e.g., land, land improvements, buildings, fixtures 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 represents resources that are subject to external restrictions. At December 31, 2006 and 2005 these restricted net assets amounted to $269,672,000 and $315,185,000, respectively. These restricted net assets include proceeds from debt; amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures; unspent bond proceeds relating to capital projects; and Passenger Facility Charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Passenger Facility Charges are restricted for designated capital projects and approved debt service. The balance in restricted net assets decreased primarily due to the use of Passenger Facility Charges on a "pay as you go" basis for the construction of the centralized deicing pad. The remaining balance of unrestricted net assets, $141,028,000 and $124,515,000 for December 31, 2006 and 2005, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions' operations during 2006 and 2005 increased its net assets by $3,947,000 and $15,163,000, respectively. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
		(In thousands)	
Operating revenues			
Landing fees	$ 31,007	$ 35,168	$ 37,203
Terminal and concourse rentals	41,951	43,539	43,123
Concessions	27,593	26,710	25,482
Utility sales and other	5,165	5,658	5,044
Total operating revenues	105,716	111,075	110,852
Operating expenses	112,254	112,022	98,665
Operating income (loss)	(6,538)	(947)	12,187
Non-operating revenue (expense):			
Passenger facility charges revenue	22,336	22,785	22,587
Non-operating expense	(1,865)	(2,332)	(11,152)
Sound insulation program	(4,587)	(1,736)	(4,689)
Rebate Arbitrage expense	(1,959)	(2,000)	
Loss on disposal of capital asset			(68)
Interest income	17,179	9,920	7,009
Interest expense	(35,726)	(27,037)	(29,483)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(1,602)	(1,680)	(1,692)
Total non-operating revenue (expense), net	(6,224)	(2,080)	(17,488)
Capital and other contributions	16,709	18,190	21,981
Increase (decrease) in net assets	3,947	15,163	16,680
Net assets, beginning of year	404,312	389,149	372,469
Net assets, end of year	$ 408,259	$ 404,312	$ 389,149

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

Operating revenues: Of the 2006 operating revenues of $105,716,000, $28,079,000 or 26.6 % represented landing fees received from signatory airlines. This is an 11.6% decrease from the prior year, due to a 5.6% decrease in landed weight. Signatory terminal rentals accounted for $26,256,000 or 24.8% of total revenue. This represents a decrease of 7.1% from 2005 primarily due to the decrease in rates and charges. Parking revenues accounted for $17,525,000 or 16.6% of total revenues; this is an increase of 2.2% over the prior year. Rental car revenues, the fourth largest source of airport revenue accounted for 9.5% of total revenues, this is a 3.9% increase over the prior year.

In 2005 traffic remained constant at Hopkins Airport, however, due to a change in the type of aircraft servicing Hopkins Airport, landed weight decreased 164,037,000 pounds, or 2.0% from last year. Of the $111,075,000 in total operating revenue, $31,771,000 or 28.6% was from signatory landing fees. This represents a 6.0% decrease from 2004, which is primarily due to a change in aircraft servicing Hopkins Airport. Signatory terminal rentals accounted for $28,275,000 or 25.5% of total operating revenue. This represents an increase of 4.6%, which is primarily due to an increase in rates and charges. Parking operations accounted for $17,155,000 or 15.4% of the total operating revenues. This is an increase of 9.6% over the prior year's parking revenue. This increase is due to increased traffic at Hopkins Airport. Rental car revenues, the fourth largest revenue source accounted for 8.7% of total airport system revenues, representing a decrease of 4.7% over the prior year.

Operating expenses: Total operating expenses for 2006 remained fairly constant. Operations and maintenance expenses decreased 3.9% mainly due to a milder winter which reduced the cost of runway deicing chemical and the cost associated with glycol collection. Depreciation expense increased 5.9% due to the completion of the Concourse C rehabilitation, the rehabilitation of the long term garage and the construction of the centralized deicing pad. Total operating expenses for 2005 increased $13,357,000, due to an increase in depreciation expense and an increase in operations and maintenance expense. Depreciation expense increased due to the addition of phase two of the new runway, which opened in November of 2004.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $4,587,000, $1,736,000 and $4,689,000 in 2006, 2005 and 2004, respectively. This fluctuation in spending was caused by a transition in the program as the Airport began completing the 65dnl area.

Capital and other contributions: In 2006 and 2005, the Divisions received $16,709,000 and $18,190,000, respectively, in Federal Airport Improvement Grants. These grants were primarily for the residential sound insulation program, airfield safety improvements, the construction of runway 6L/24R and uncoupling of runway 6R/24L.

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

In 2007, construction began on the uncoupling and extension of Runway 6R/24L, which when completed will allow for unrestricted direct international service from Cleveland to any world-wide destination.

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, 2006 and 2005

	(In thousands) 2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,054	$ 3,393
Restricted cash and cash equivalents	11,351	9,678
Investments	77,488	77,406
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,293,000 in 2006 and $1,034,257 in 2005	2,192	1,890
Unbilled revenue	6,121	7,167
Accrued interest receivable	632	534
Total receivables	8,945	9,591
Prepaid expenses	318	303
Due from other City of Cleveland departments, divisions or interfund accounts	549	573
Due from Federal government	946	2,695
Materials and supplies-at cost	220	193
TOTAL CURRENT ASSETS	109,871	103,832
RESTRICTED ASSETS		
Cash and cash equivalents	263,644	262,138
Investments	63,207	106,040
Accrued interest receivable	1,169	815
Bond retirement reserve	53	53
Accrued passenger facility charges	3,124	3,119
TOTAL RESTRICTED ASSETS	331,197	372,165
UNAMORTIZED BOND ISSUANCE COSTS	12,421	12,631
CAPITAL ASSETS		
Land	160,872	150,828
Land improvements	755,939	665,207
Buildings, structures and improvements	415,923	410,686
Furniture, fixtures, equipment	46,625	40,472
	1,379,359	1,267,193
Less: Accumulated depreciation	(428,660)	(378,980)
	950,699	888,213
Construction in progress	6,867	39,742
CAPITAL ASSETS, NET	957,566	927,955
TOTAL ASSETS	$ 1,411,055	$ 1,416,583

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2006 and December 2005

	(In thousands) 2006	2005
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 17,775	$ 10,895
Current portion of long-term deferred payment obligation, due within one year	2,032	1,881
Accounts payable	3,089	2,610
Due to other City of Cleveland departments, divisions or interfund accounts	714	684
Current portion of accrued wages and benefits	3,097	2,740
Accrued interest payable	15,780	23,172
Accrued property taxes	5,036	7,573
Construction fund payable from restricted assets	8,145	3,689
Other construction accounts payable from restricted assets	3,206	5,989
Landing fee adjustment - payable to Airlines	3,721	1,652
TOTAL CURRENT LIABILITIES	62,595	60,885
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	923,080	932,142
Deferred payment obligation	16,396	18,425
Accrued wages and benefits	725	819
TOTAL LONG-TERM OBLIGATIONS	940,201	951,386
TOTAL LIABILITIES	1,002,796	1,012,271
NET ASSETS		
Invested in capital assets, net of related debt	(2,441)	(35,388)
Restricted for capital projects	116,677	130,823
Restricted for debt service	116,020	115,675
Restricted for passenger facility charges	36,975	68,687
Unrestricted	141,028	124,515
TOTAL NET ASSETS	408,259	404,312
TOTAL LIABILITIES AND NET ASSETS	$ 1,411,055	$ 1,416,583

(Concluded)

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, 2006 and December 2005

	(In thousands) 2006	2005
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 28,079	$ 31,771
Other	2,928	3,397
	31,007	35,168
Terminal and concourse rentals:		
Scheduled airlines	26,256	28,275
Other	15,695	15,264
	41,951	43,539
Concessions	27,593	26,710
Utility sales and other	5,165	5,658
TOTAL OPERATING REVENUES	105,716	111,075
OPERATING EXPENSES		
Operations	58,361	60,794
Maintenance	4,065	4,163
Depreciation and amortization	49,828	47,065
TOTAL OPERATING EXPENSES	112,254	112,022
OPERATING INCOME (LOSS)	(6,538)	(947)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	22,336	22,785
Non-operating expense	(1,865)	(2,332)
Sound insulation program	(4,587)	(1,736)
Rebate arbitrage expense	(1,959)	(2,000)
Interest income	17,179	9,920
Interest expense	(35,726)	(27,037)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(1,602)	(1,680)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(6,224)	(2,080)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(12,762)	(3,027)
Capital and other contributions	16,709	18,190
INCREASE (DECREASE) IN NET ASSETS	3,947	15,163
NET ASSETS, BEGINNING OF YEAR	404,312	389,149
NET ASSETS, END OF YEAR	$ 408,259	$ 404,312

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, 2006 and 2005

	(In thousands)	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 105,269	$ 107,693
Cash payments to suppliers for goods and services	(41,942)	(43,485)
Cash payments to employees for services	(22,401)	(22,462)
NET CASH PROVIDED BY OPERATING ACTIVITIES	40,926	41,746
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(4,587)	(1,584)
Cash payments for other non-operating costs	(1,224)	(2,048)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(5,811)	(3,632)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(73,517)	(52,736)
Rebate arbitrage payment	(1,959)	(2,000)
Cash receipts for passenger facility charges	22,331	22,818
Proceeds from revenue bonds	286,073	
Transfer to escrow agent for bond refunding	(278,347)	
Principal paid on long-term debt	(10,958)	(10,895)
Interest paid on long-term debt	(49,513)	(43,666)
Capital grant proceeds	18,458	18,208
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(87,432)	(68,271)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(124,356)	(92,545)
Proceeds from sale and maturity of investment securities	167,108	66,256
Interest received on investments	19,405	14,040
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	62,157	(12,249)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,840	(42,406)
Cash and cash equivalents, beginning of year	275,209	317,615
Cash and cash equivalents, end of year	$ 285,049	$ 275,209

(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, 2006 and 2005

	(In thousands) 2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (6,538)	$ (947)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	49,828	47,065
Non-cash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	(400)	5,017
Unbilled revenue	1,046	(2,768)
Prepaid expenses	(15)	350
Due from other City departments, divisions or funds	24	(31)
Materials and supplies, at cost	(28)	42
Accounts payable	479	(877)
Due to other City departments, divisions or funds	30	(799)
Accrued wages and benefits	357	133
Landing fees - due to airlines	2,069	(2,843)
Accrued property taxes	(2,537)	793
TOTAL ADJUSTMENTS	47,464	42,693
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 40,926	$ 41,746

(Concluded)

See notes to financial statements.

This page intentionally left blank.

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. Beginning January 1, 2002, the Divisions changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Effective January 1, 2005, the Divisions implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which is effective for the year ended December 31, 2005. The Divisions have determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005. In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which is effective for the year ended December 31, 2006. The Divisions have determined that GASB Statement No. 44 has no impact on its financial statements as of December 31, 2006. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which is effective for the year ended December 31, 2006. The Divisions have determined that GASB Statement No. 47 has no impact on its financial statements as of December 31, 2006.

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

- Amount invested in capital assets, net of related debt
- Amount restricted for capital projects
- 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting: The Divisions' financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements) or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The 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 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 Treasurer Asset Reserve of Ohio (STAROhio) during 2006 and 2005. 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, 2006 and 2005.

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than $5,000 for furniture, fixtures 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

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

For 2006 and 2005, total interest costs incurred amounted to $43,912,000 and $38,852,000, respectively, of which $5,506,000 and $8,215,000, respectively, was capitalized, net of interest income of $2,680,000 in 2006 and $3,600,000 in 2005.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of 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. Unpaid amounts at year end are generally reflected as due to or due from in the accompanying financial statements.

Interfund receivables and payables balances at December 31, 2006 and 2005 are as follows:

	2006 Due From	2006 Due To	2005 Due From	2005 Due To
	(In thousands)			
City of Cleveland General Fund	$	$ 200	$	$ 202
Division of Water Pollution Control		81		82
Division of Cleveland Public Power		21		23
Division of Research Planning & Development	81		81	
Special Revenues - Transportation Fee				
Worker's Compensation Refund Reserve	11	360	11	253
Division of Radio Communication		7	24	7
Division of Printing		2		4
Division of Motor Vehicle Maintenance		33		74
Division of Telephone Exchange	457	10	457	39
	$ 549	$ 714	$ 573	$ 684

NOTE B – LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2006	2005
		(In thousands)		
Airport Expansion and Noise Mitigation Airport System Revenue Bonds:				
Series 1990, due through 2006	7.20%	$ 66,006	$	$ 2,625
Series 1997, due through 2027	2.96%-7.00%	277,165	223,610	241,000
Series 2000, due through 2031	2.90%-5.50%	573,190	461,755	573,190
Series 2003, due through 2033	Variable	140,600	139,250	140,600
Series 2006, due through 2024	5.00%-5.25%	118,760	118,760	
		$ 1,175,721	943,375	957,415
Less:				(8,124)
Unamortized discount/premium			15,162	(6,254)
Unamortized loss on debt refunding			(17,682)	(10,895)
Current portion (due within one year)			(17,775)	
Total Long-Term Debt excluding the				$ 932,142

Summary: Changes in long-term obligations for the year ended December 31, 2006 are as follows:

	Balance January 1, 2006	Increase	Decrease	Balance December 31, 2006	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1990	$ 2,625	$	$ (2,625)	$ -	$
Series 1997	241,000		(17,390)	223,610	7,435
Series 2000	573,190	149,000	(260,435)	461,755	7,665
Series 2003	140,600		(1,350)	139,250	2,675
Series 2006		118,760		118,760	
Total revenue bonds	957,415	267,760	(281,800)	943,375	17,775
Accrued wages and benefits	3,559	263		3,822	3,097
Total	$ 960,974	$ 268,023	$ (281,800)	$ 947,197	$ 20,872

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2005 are as follows:

	Balance January 1, 2005	Increase	Decrease	Balance December 31, 2005	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1990	$ 5,443	$	$ (2,818)	$ 2,625	$ 2,625
Series 1997	247,555		(6,555)	241,000	6,920
Series 2000	573,190			573,190	
Series 2003	140,600			140,600	1,350
Total revenue bonds & notes	966,788	-	(9,373)	957,415	10,895
Accrued wages and benefits	3,426	133		3,559	2,740
Total	$ 970,214	$ 133	$ (9,373)	$ 960,974	$ 13,635

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2007	$ 17,775	$ 41,909	$ 59,684
2008	20,085	46,134	66,219
2009	20,975	44,827	65,802
2010	22,300	43,718	66,018
2011	23,435	42,752	66,187
2012-2016	135,760	193,935	329,695
2017-2021	175,030	155,587	330,617
2022-2026	226,495	105,401	331,896
2027-2031	292,495	40,531	333,026
2032-2034	9,025	294	9,319
Total	$ 943,375	$ 715,088	$ 1,658,463

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, 2005, the Divisions have recorded a liability in the amount of $5,325,000, for compounded interest payable on the Capital Appreciation Bonds. Since the bonds were paid off on January 1, 2006, there was no liability for compounded interest payable on Capital Appreciation Bonds for 2006.

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, are classified as restricted assets in these financial statements.

As of December 31, 2006, the Divisions were in compliance with the terms and requirements of the bond indenture.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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.

On November 16, 2006, the City issued $118,760,000 of Airport System Revenue Bonds, Series 2006 A-B. The $107,750,000 Series 2006A Bonds were issued to advance refund $111,435,000 of outstanding Series 2000A Airport System Revenue Bonds. The $11,010,000 Series 2006B Bonds advance refunded $10,470,000 of outstanding Series 1997B Airport System Revenue Bonds. Proceeds were used to fund an escrow deposit that will refund the bonds and pay costs of issuance. Net proceeds of $129,128,226 were placed in an irrevocable escrow account which will be used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long term debt. The City completed the refunding to reduce its total debt service payments over the next eighteen years by $7.6 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $5.56 million or 4.56%.

Simultaneously with the issuance of the Series 2006 Bonds, the City also remarketed the $149,000,000 Series 2000C Airport System Revenue Bonds. As a result of this remarketing, the Bonds were converted from variable rates of interest to fixed rates. This was done to take advantage of low long term fixed rates and to increase the capacity of the Airport System to issue variable rate debt in the future.

Interest Rate Swap Transactions:

Terms: Simultaneously with the issuance of the City's $140,600,000 Series 2003A-C Airport System Revenue Bonds on October 23, 2003 the City entered into floating-to-fixed rate swap agreements on the declining notional amount of the $20,650,000 Series A Bonds and the $56,200,000 Series B Bonds. Bear Stearns Financial Products Inc. is the counterparty on a five-eighths pro rata share of the notional amount of each Series while JPMorgan Chase Bank is the counterparty on the remaining three-eighths of the notional amount. Under the swap agreement for the Series 2003A Bonds, the Airport System will be the fixed rate payor, paying a fixed rate of 4.169% semiannually, while the Counterparties will pay the Airport System at the Bond Market Association index (BMA) every 35 days. The swap agreement for the Series 2003B Bonds requires the Airport System to pay a fixed rate of 4.273% semiannually and the Counterparties will pay the Airport System the BMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of Airport Revenues. Both the bond debt service payments and the periodic swap payments are insured by AMBAC.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

Basis Risk: By entering into swaps based upon the BMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based on the tax exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been greatly reduced. The amount received on the 2003B Bonds incorporates an additional 10 basis points to take into account the fact that the underlying bonds are subject to the Alternative Minimum Tax.

Counterparty Risk: The City has selected highly rated counterparties in order to minimize this risk. However, over the long term it is possible that the credit strength of Bear Stearns and JPMorgan could change and this event could trigger a termination payment on the part of the City.

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

Fair Value: The fair value of the swaps at December 31, 2006 and December 31, 2005, as reported by JPMorgan Chase Bank and Bear Sterns Financial Products, Inc. was $941,000 and $838,000, respectively, for the Series 2003A and $2,614,000 and $2,325,000, respectively, for the Series 2003B which would be payable by the City to Bear Stearns and JPMorgan.

NOTE C – SPECIAL FACILITY REVENUE BONDS

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

Because all principal and interest on these bonds is unconditionally guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the 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)		
2007	2,032	1,357	$ 3,389	$ 3,389
2008	2,195	1,194	3,389	3,389
2009	2,371	1,018	3,389	3,389
2010	2,562	827	3,389	3,389
2011	2,768	621	3,389	3,389
Thereafter	6,500	560	7,060	7,060
	$ 18,428	$ 5,577	$ 24,005	$ 24,005

Rental income recognized by the City under this agreement was $3,389,000 in 2006 and 2005. Of these amounts in 2006, $1,508,000 was offset against interest expense and $1,881,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2005, $1,648,000 was offset against interest expense and $1,741,000 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, 2006 and 2005 totaled approximately $3,013,000 and $5,748,000, respectively, and the Divisions' bank balance was approximately $455,000 and $3,660,000, respectively. The differences represent normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, $455,000 and $3,660,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

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

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Divisions invest primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the table on the following page.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Divisions will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Divisions' investments as of December 31, 2006 and 2005 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, STAROhio, mutual funds and guaranteed investment contracts. The Divisions maintain the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, Allegiant Government Money Market Fund and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Divisions have no investment policy that would further limit its investment choices.

The Divisions have the following investments at December 31, 2006 and 2005, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

					Investment Maturities for 2006		
Type of Investment	**2006 Fair Value**	**2006 Cost**	**2005 Fair Value**	**2005 Cost**	**Less than One Year**	**1 - 5 Years**	**5 Years or More**
			(In thousands)				
U.S. Agency Obligations	$ 149,284	$ 149,946	$ 183,446	$ 185,757	$ 78,817	$ 70,457	$
U.S. Treasury Bills	110	110	1,845	1,845	110		
STAROhio	39,234	39,234	18,881	18,881	39,234		
Guaranteed Investment Contract	60,831	60,831	46,044	46,044	17,064	15,000	28,767
Investment in Mutual Funds	13	13	4,014	4,014	13		
Other	173,259	173,259	198,677	198,677	173,259		
Total Investments	422,731	423,393	452,907	455,218	308,497	85,457	28,767
Total Deposits	3,013	3,013	5,748	5,748	3,013		
Total Deposits and Investments	$ 425,744	$ 426,406	$ 458,655	$ 460,966	$ 311,510	$ 85,457	$ 28,767

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. As of December 31, 2006, the investments in U.S. Agency Obligations, guaranteed investment contracts and deposits in the collective pool ("Other") are approximately 35%, 14% and 41%, respectively, of the Divisions' total investments. As of December 31, 2005, the investments in U.S. Agency Obligations, guaranteed investment contracts and deposits in the collective pool ("Other") are approximately 41%, 10% and 44%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2006 was as follows:

	January 1, 2006	Additions	Reductions	December 31, 2006
	(In thousands)			
Capital Assets, not being depreciated:				
Land	$ 150,828	$ 10,044	$	$ 160,872
Construction in progress	39,742	79,439	(112,314)	6,867
Total capital assets, not being depreciated	190,570	89,483	(112,314)	167,739
Capital assets, being depreciated:				
Land improvements	665,207	90,732		755,939
Buildings, structures and improvements	410,686	5,237		415,923
Furniture, fixtures and equipment	40,472	6,301	(148)	46,625
Total capital assets, being depreciated	1,116,365	102,270	(148)	1,218,487
Less: Total accumulated depreciation	(378,980)	(49,828)	148	(428,660)
Total capital assets being depreciated, net	737,385	52,442	-	789,827
Capital assets, net	$ 927,955	$ 141,925	$ (112,314)	$ 957,566

NOTE F – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2005 was as follows:

	January 1, 2005	Additions	Reductions	December 31, 2005
	(In thousands)			
Capital Assets, not being depreciated:				
Land	$ 140,296	$ 10,532	$	$ 150,828
Construction in progress	19,026	56,722	(36,006)	39,742
Total capital assets, not being depreciated	159,322	67,254	(36,006)	190,570
Capital assets, being depreciated:				
Land improvements	642,095	23,112		665,207
Buildings, structures and improvements	409,509	1,177		410,686
Furniture, fixtures and equipment	39,287	1,185		40,472
Total capital assets, being depreciated	1,090,891	25,474	-	1,116,365
Less: Total accumulated depreciation	(331,915)	(47,065)		(378,980)
Total capital assets being depreciated, net	758,976	(21,591)	-	737,385
Capital assets, net	$ 918,298	$ 45,663	$ (36,006)	$ 927,955

Commitments: As of December 31, 2006 and 2005, the Divisions had capital expenditure purchase commitments outstanding of approximately $38,958,000 and $95,108,000, respectively.

NOTE G – LEASES AND CONCESSIONS

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

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

Portions of the building costs in the balance sheet are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2006 and 2005 is approximately $149,577,000 and $155,533,000, respectively.

NOTE G – LEASES AND CONCESSIONS (Continued)

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

	(In thousands)
2007	11,196
2008	10,598
2009	2,857
2010	2,243
2011	1,771
Thereafter	6,718
	$ 35,383

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 $24,884,000 and $22,828,000, respectively, in 2006 and 2005.

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 2006 or 2005. There was no significant decrease in any insurance coverage in 2006 or 2005. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

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

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE I – EMPLOYEES RETIREMENT PLAN

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 9.0% in 2006 and 8.5% in 2005 and 2004 and employer contribution rates were 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2006, 2005 and 2004 were approximately $1,532,000, $1,594,000 and $1,538,000 each year, respectively. The required payments due in 2006, 2005 and 2004 have been made.

NOTE J – OTHER POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postretirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) 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. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004, and 4.50% was used to fund health care for the year in 2006 and 4.00% was used to fund health care for the year in 2005 and 2004. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2005. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.50%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in December 31, 2005, actuarial valuation was 358,804. The employer contribution rate of 13.70% is the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2006 which were to fund postemployment benefits were approximately $2,411,000. $11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005. Based on the actuarial cost method used, the actuarial valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at $31.3 billion and $20.2 billion, respectively.

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2006 and 2005, were as follows:

	2006	2005
	(In thousands)	
City Central Services, including police	$ 7,264	$ 5,307
Electricity purchased	268	260
Motor vehicle maintenance	379	480

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 2006 was a payable to the Airlines of $3,721,000. The landing fee adjustment for 2005 was a payable to the Airlines of $1,652,000.

The airline use agreements also provide an incentive for the City to provide the highest quality management for the airport system. There was no incentive compensation expense in 2006 and 2005.

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 $337 million, of which an estimated 27% will be spent on noise abatement for the residents of communities surrounding the airport, 33% on runway expansion, and 40% 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 2006 and 2005, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 34% and 29% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

On February 1, 2007, the City entered into a forward starting BMA swap in order to maximize the savings on the refunding of its Series 1997A Airport System Revenue Bonds. The counterparties to this agreement are Goldman Sachs Capital Markets, L.P., Morgan Stanley Capital Services Inc. and RFPC Capital Services, LLC. Variable rate bonds will be issued on October 3, 2007 which will refund $118,495,000 of outstanding Series 1997A Bonds. These bonds will be swapped to a fixed rate of 4.037%. Over the life of this transaction, the City is expected to save $9.7 million in total debt service payments.

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, 2006

	Cleveland Hopkins International	Burke Lakefront	Total
		(In thousands)	
REVENUE			
Airline revenue:			
Landing fees	$ 28,079	$	$ 28,079
Terminal rental	26,256		26,256
Other	2,723		2,723
	57,058	-	57,058
Operating revenues from other sources:			
Concessions	27,266	327	27,593
Rentals	11,198	262	11,460
Landing fees	2,763	165	2,928
Other	3,114	176	3,290
	44,341	930	45,271
Non-operating revenue:			
Interest income	2,627		2,627
TOTAL REVENUE	$ 104,026	$ 930	$ 104,956
OPERATING EXPENSES			
Salaries and wages	$ 15,757	$ 879	$ 16,636
Employee benefits	5,847	304	6,151
City Central Services, including police	7,382	261	7,643
Materials and supplies	7,182	427	7,609
Contractual services	24,088	299	24,387
TOTAL OPERATING EXPENSES	$ 60,256	$ 2,170	$ 62,426

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, 2006

Mary Taylor, CPA
Auditor of State

Mary Taylor, CPA
Auditor of State

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

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

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

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards;* and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect occurred on the passenger facility charge program. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Divisions' compliance with those requirements.

In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2006.

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

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.

Schedule of Expenditures of Passenger Facility Charges

We conducted our audit to opine on the financial statements that collectively comprise the City of Cleveland, Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport, Department of Port Control' basic financial statements, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 20, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 20, 2007

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, 2006

	Approved Project Budget	Cumulative Expenditures at 12/31/05	1st Quarter 2006 Expenditures	2nd Quarter 2006 Expenditures	3rd Quarter 2006 Expenditures	4th Quarter 2006 Expenditures	Total 2006 Expenditures	Cumulative Expenditures at 12/31/06
Insulate Residences - full program phase I	16,960,400	16,960,400	-	-	-	-	-	16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743	-	-	-	-	-	2,155,743
Land Acquisition - Resident Relocation	14,689,459	14,689,459	-	-	-	-	-	14,689,459
Sewer Construction	5,500,000	5,500,000	-	-	-	-	-	5,500,000
Asbestos Removal in Terminal CHIA	729,842	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	5,835,921	5,835,921	-	-	-	-	-	5,835,921
NASA Feasibility and Pre-engineering Study	355,000	355,000	-	-	-	-	-	355,000
Land Acquisition	30,360,000	25,282,298	-	-	-	-	-	25,282,298
Sound Insulation	8,675,000	8,595,641	-	-	-	-	-	8,595,641
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	4,924,593	-	-	-	823,175	823,175	5,747,768
Analex Demolition	1,229,000	335,203	-	-	-	115,621	115,621	450,824
Sound Insulation	20,000,000	12,821,425	-	-	-	940,772	940,772	13,762,197
Baggage Claim/Expansion	9,526,087	9,526,086	-	-	-		-	9,526,086
Tug Road Replacement	1,019,000	668,553	-	-	-		-	668,553
Interim Commuter Ramp	5,560,338	3,126,571	-	-	-	523,101	523,101	3,649,672
Concourse D Ramp/Site Utilities	51,305,804	28,854,272	-	-	-	4,826,705	4,826,705	33,680,977
Burke Runway Overlay 6L/24R	530,286	628,855	-	-	-	49,888	49,888	678,743
Install Instrument Landing System-Burke	2,181,400	680,183	-	-	-	205,220	205,220	885,403
Runway 6L/23R	82,106,000	21,065,054	-	-	-	7,724,300	7,724,300	28,789,354
Runway 6R/24L Uncoupling	2,148,000	150,439	-	-	-		-	150,439
Runway 10/28 Safety Improvements	2,200,000	962,483	-	-	-	4,061	4,061	966,544
Midfield Deicing Pad	39,100,000	3,785,191	11,718,830	6,411,435	14,878,848	2,305,697	35,314,809	39,100,000
Taxiway M Improvements	10,000,000		-	-	-	7,439,403	7,439,403	7,439,403
	336,751,850	182,967,783	11,718,830	6,411,435	14,878,848	24,957,943	57,967,055	240,934,838

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, 2006

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.

Mary Taylor, CPA
Auditor of State

CITY OF CLEVELAND
DIVISION OF PORT CONTROL

CUYAHOGA COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 17, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us