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, 2007 and 2006

CITY OF CLEVELAND, OHIO

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

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

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

We have audited the accompanying basic financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) as of and for the years ended December 31, 2007 and December 31, 2006, 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, 2007 and December 31, 2006, 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, 2007 and December 31, 2006, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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We conducted our audit to opine on the financial statements that collectively comprise the Divisions' basic financial statements. The Schedule of Airport Revenue and Operating Expenses as defined in the Airline Use Agreement for the year ended December 31, 2007 is presented for purposes of additional analysis and is not a required part of the Divisions' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Divisions' basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 16, 2008

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, 2007 and 2006. 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 2007, the Divisions were served by 23 scheduled airlines and five cargo airlines. There were 111,000 scheduled landings with landed weight amounting to 7,380,384,000 pounds. There were 5,722,000 passengers enplaned at Cleveland Hopkins International Airport during 2007. 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.

COMPARISON OF CURRENT YEAR'S AND PREVIOUS YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $423,255,000, $408,259,000 and $404,312,000 at December 31, 2007, 2006 and 2005, respectively. Of these amounts, $137,959,000, $141,028,000 and $124,515,000 (unrestricted net assets) at December 31, 2007, 2006 and 2005, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $14,996,000 in 2007. This increase is mainly due to an increase in the amount invested in capital assets, net of related debt and an increase in restricted for passenger facility charges. Invested in capital assets, net of related debt increased primarily due to the decrease in long term obligations. Long term obligations decreased due to the principal payment on the Series 1997, 2000 and 2003 Airport System Revenue Bonds. Restricted for passenger facility charges increased due to the completion of the centralized deicing pad. The centralized deicing pad was financed through "pay as you go" passenger facility charges. In 2006, total net assets increased by $3,947,000 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 $43,956,000, $79,439,000 and $56,722,000 in 2007, 2006 and 2005, respectively. The major capital expenditures during 2007 were for the uncoupling and extension of Runway 6R/24L, sound insulation, the completion of

FINANCIAL HIGHLIGHTS (Continued)

the centralized deicing facility and terminal security enhancements. During 2007, the Airport continued to purchase land south of the Airport. Approximately 11.6% was spent on the acquisition of property and another 47.8% was spent on the uncoupling and extension of Runway 6R/24L.

- The 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 acquisition of property south of the Airport, another 10.5% was spent on the construction of a centralized deicing pad.

- The Divisions' total bonded debt decreased by $17,415,000, $14,040,000 and $9,373,000 during 2007, 2006 and 2005, respectively. In 2007, the key factors for this decrease were the payment of principal on the Series 1997, 2000 and 2003 Airport System Revenue Bonds. In 2007, the City issued $159,505,000 of Airport System Revenue bonds which refunded a portion of the Series 1997A and Series 1997C Airport System Revenue Bonds. 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 addition, 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 (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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 24-45 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2007, 2006 and 2005:

	2007	2006	2005
		(In thousands)	
Assets:			
Current assets	$ 107,016	$ 109,871	$ 103,832
Restricted assets	333,936	331,197	372,165
Unamortized bond issuance costs	12,047	12,421	12,631
Capital assets, net	949,612	957,566	927,955
Total assets	$ 1,402,611	$ 1,411,055	$ 1,416,583
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 62,387	$ 62,595	$ 60,885
Long-term obligations	916,969	940,201	951,386
Total liabilities	979,356	1,002,796	1,012,271
Net assets:			
Invested in capital assets, net of related debt	14,279	(2,441)	(35,388)
Restricted for capital projects	119,995	116,677	130,823
Restricted for debt service	107,572	116,020	115,675
Restricted for passenger facility charges	43,450	36,975	68,687
Unrestricted	137,959	141,028	124,515
Total net assets	423,255	408,259	404,312
Total net assets and liabilities	$ 1,402,611	$ 1,411,055	$ 1,416,583

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Assets: Total assets decreased $8,444,000 and $5,528,000 during 2007 and 2006, respectively. The decrease in capital assets, net of accumulated depreciation, accounted for $7,954,000 or 94.2% of this change. Accumulated depreciation increased in 2007 due to a full year's depreciation on the centralized deicing pad, the rehabilitation of the long term parking garage and the rehabilitation of the Concourse C ramp area. Additions to construction in progress was lower during 2007 since construction on the above mentioned projects were completed in 2006 and construction on the uncoupling and extension of Runway 6R/24L did not begin until June 2007. Restricted cash and cash equivalents decreased $13,039,000 or 4.7% as bond funds were used to finance the construction of the uncoupling and extension of Runway 6R/24L. In 2007 there was an increase in the amount due from Federal government for expenditure reimbursements for the residential sound insulation program. The number of homes completed in the sound insulation program increased and the Airport received an additional grant for the sound insulation program. Materials and supplies, at cost, increased in 2007 as the Divisions implemented a new inventory policy and inventory tracking system. The change in total assets in 2006 was caused by a decrease in restricted assets that was partially offset by increases in current assets and capital assets. The 2006 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 in 2006. The increase in capital assets in 2006 was due to the completion of the rehabilitation of Concourse C ramp area, the rehabilitation of the long term garage and the construction of the centralized deicing pad. In 2007 and 2006 the Divisions also acquired land south of the Airport.

Capital assets: The Divisions' investment in capital assets as of December 31, 2007 amounted to $949,612,000 (net of accumulated depreciation), which is a decrease of 0.8%. The Divisions' investment in capital assets as of December 31, 2006 amounted to $957,566,000 (net of accumulated depreciation), which was an increase of 3.2%. 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, 2007 is as follows:

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007
		(In thousands)		
Land	$ 160,872	$ 4,778	$	$ 165,650
Land improvements	755,939	10,013	(1,805)	764,147
Buildings, structures and improvements	415,923	2,597	(2,071)	416,449
Furniture, fixtures, and equipment	46,625	3,369	(399)	49,595
	1,379,359	20,757	(4,275)	1,395,841
Less: Accumulated depreciation	(428,660)	(51,077)	3,442	(476,295)
	950,699	(30,320)	(833)	919,546
Construction in progress	6,867	43,956	(20,757)	30,066
Capital assets, net	$ 957,566	$ 13,636	$ (21,590)	$ 949,612

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Major events during 2007 affecting the Divisions' capital assets included the following:

- Construction on the uncoupling and expansion of Runway 6R/24L began in 2007. The uncoupling of Runway 6R/24L from Runway 10/28 and shifting the runway south will improve airfield safety by eliminating a complex intersection thereby reducing the probability of runway incursions.

- Improvements to the security infrastructure were completed in 2007. These improvements will improve access control to security areas, as well as, allow Airport Operations and the Airport Command Center monitor access points.

- 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 2007, the Divisions spent $4,778,000 on these properties. The Divisions plan on purchasing approximately 334 homes under this agreement.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 located 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.

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 2007 and 2006, total liabilities decreased $23,440,000 and $9,475,000, respectively. The decrease in long term obligations accounted for $23,232,000 or 99.1% of this change. Long term obligations decreased due to the payment of principal on the Series 1997, 2000 and 2003 Airport System Revenue Bonds. Current liabilities remained fairly constant in 2007. However, accrued property taxes increased due to a reassessment of building value which was offset by a decrease in construction fund payable due to less ongoing construction. The decease in 2006 was 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, which significantly reduced 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Long-term debt: At December 31, 2007 and 2006, the Divisions had $925,960,000 and $943,375,000, 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.

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2007 is summarized below:

	Balance January 1, 2007	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2007
			(In thousands)		
Airport System Revenue Bonds:					
Series 1997	$ 223,610	$	$ (155,845)	$ (7,435)	$ 60,330
Series 2000	461,755			(7,665)	454,090
Series 2003	139,250			(5,975)	133,275
Series 2006	118,760				118,760
Series 2007		159,505			159,505
Total	$ 943,375	$ 159,505	$ (155,845)	$ (21,075)	$ 925,960

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 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 bond ratings from Moody's Investors Service and Standard & Poor's for the Divisions' revenue bonds have remained constant for the past four years. In 2007 and 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

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 2007, 2006 and 2005, was 149%, 128% and 136%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B to the basic financial statements on pages 28-34.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 $423,255,000, $408,259,000 and $404,312,000 at December 31, 2007, 2006 and 2005, respectively.

Of the Divisions' net assets at December 31, 2007 and 2006, $14,279,000 and ($2,441,000), 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. The change in investment in capital assets was due to the addition of several fixed assets including the centralized deicing pad and Concourse C ramp area rehabilitation.

An additional portion of the Divisions' net assets represents resources that are subject to external restrictions. At December 31, 2007 and 2006 these restricted net assets amounted to $271,017,000 and $269,672,000, 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.

Passenger Facility Charges are restricted for designated capital projects and approved debt service. In 2006, 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, $137,959,000 and $141,028,000 for December 31, 2007 and 2006, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions' operations during 2007 and 2006 increased its net assets by $14,996,000 and $3,947,000, respectively. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
		(In thousands)	
Operating revenues			
Landing fees	$ 27,083	$ 31,007	$ 35,168
Terminal and concourse rentals	44,667	41,951	43,539
Concessions	28,734	27,593	26,710
Utility sales and other	5,265	5,165	5,658
Total operating revenues	105,749	105,716	111,075
Operating expenses	120,435	112,254	112,022
Operating income (loss)	(14,686)	(6,538)	(947)
Non-operating revenue (expense):			
Passenger facility charges revenue	23,760	22,336	22,785
Non-operating expense	(1,952)	(1,865)	(2,332)
Sound insulation program	(7,461)	(4,587)	(1,736)
Loss on disposal of capital asset	(833)		
Rebate arbitrage expense		(1,959)	(2,000)
Interest income	19,682	17,179	9,920
Interest expense	(35,961)	(35,726)	(27,037)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(1,187)	(1,602)	(1,680)
Total non-operating revenue (expense), net	(3,952)	(6,224)	(2,080)
Capital and other contributions	33,634	16,709	18,190
Increase (decrease) in net assets	14,996	3,947	15,163
Net assets, beginning of year	408,259	404,312	389,149
Net assets, end of year	$ 423,255	$ 408,259	$ 404,312

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

Operating revenues: Of the 2007 operating revenues of $105,749,000, $24,972,000 or 23.6% represented landing fees received from signatory airlines. This is a decrease of 11.1% from the prior year due to a decrease of 2007 signatory landing fee rates. Signatory terminal rentals accounted for $27,380,000, or 25.9% of total operating revenues. The increase of 4.3% is a result of an increase in terminal rates and charges. Parking revenues increased 2.9% over the prior year due to an addition of an on-airport economy parking lot. Parking revenues amounted to $18,037,000 or 17.1% of total operating revenues for 2007. The fourth largest airport revenue source, rental cars, accounted for 9.7% of total operating revenues, which is an increase of 2.3% over 2006.

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.

Operating expenses: Total operating expenses for 2007 increased $8,181,000 or 7.3%. Operations expenses increased 10.5% mainly due to an increase in property taxes relating to the reassessment of airport building values to include the central deicing pad which was completed in 2006. Security expenses increased 18.1% over prior year due to expenses related to operating at increased levels of security during 2007. Due to an increase in the amount of airfield pavement and new regulations regarding airfield markings, maintenance expenses increased $808,000 or 19.9%. Depreciation expenses increased by 2.5%, due to the half-year depreciation expense on assets added in 2007. 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 chemicals 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.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $7,461,000, $4,587,000, and $1,736,000 in 2007, 2006 and 2005, respectively. This fluctuation in spending was caused by a transition in the program as the Airport began completing the 65dnl area and moving to the 65dnl buffer.

Capital and other contributions: In 2007, 2006 and 2005, the Divisions received $33,634,000 $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. The increase in 2007 is due primarily from the uncoupling and extension of Runway 6R/24L. The Airport received a grant from the Federal Aviation Administration which reimburses the Airport for 75% of the cost of constructing the uncoupling and extension 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.

In response to rising fuel cost, Continental Airlines announced on June 5, 2008 plans to reduce capacity, eliminate 3,000 positions and make changes to their network and fleet mix. It was announced on June 12, 2008 that capacity or available seat miles will decrease 13.1% in Cleveland. This reduction results in the elimination of service to 10 recently-launched cities and 14 underperforming cities.

ADDITIONAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2007 and 2006

	(In thousands) 2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 38,184	$ 10,054
Restricted cash and cash equivalents	6,494	11,351
Investments	49,219	77,488
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,313,000 in 2007 and $1,293,000 in 2006	1,493	2,192
Unbilled revenue	6,655	6,121
Accrued interest receivable	650	632
Total receivables	8,798	8,945
Prepaid expenses	767	318
Due from other City of Cleveland departments, divisions or interfund accounts	78	549
Due from Federal government	2,668	946
Materials and supplies-at cost	808	220
TOTAL CURRENT ASSETS	107,016	109,871
RESTRICTED ASSETS		
Cash and cash equivalents	255,462	263,644
Investments	73,821	63,207
Accrued interest receivable	1,269	1,169
Bond retirement reserve	53	53
Accrued passenger facility charges	3,331	3,124
TOTAL RESTRICTED ASSETS	333,936	331,197
UNAMORTIZED BOND ISSUANCE COSTS	12,047	12,421
CAPITAL ASSETS		
Land	165,650	160,872
Land improvements	764,147	755,939
Buildings, structures and improvements	416,449	415,923
Furniture, fixtures, equipment	49,595	46,625
	1,395,841	1,379,359
Less: Accumulated depreciation	(476,295)	(428,660)
	919,546	950,699
Construction in progress	30,066	6,867
CAPITAL ASSETS, NET	949,612	957,566
TOTAL ASSETS	$ 1,402,611	$ 1,411,055

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2007 and 2006

	(In thousands) 2007	2006
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 16,860	$ 17,775
Current portion of long-term deferred payment obligation, due within one year	2,195	2,032
Accounts payable	3,220	3,089
Due to other City of Cleveland departments, divisions or interfund accounts	913	714
Current portion of accrued wages and benefits	3,600	3,097
Accrued interest payable	16,896	15,780
Accrued property taxes	7,323	5,036
Construction fund payable from restricted assets	4,644	8,145
Other construction accounts payable from restricted assets	1,850	3,206
Landing fee adjustment - payable to Airlines	4,886	3,721
TOTAL CURRENT LIABILITIES	62,387	62,595
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	902,078	923,080
Deferred payment obligation	14,201	16,396
Accrued wages and benefits	690	725
TOTAL LONG-TERM OBLIGATIONS	916,969	940,201
TOTAL LIABILITIES	979,356	1,002,796
NET ASSETS		
Invested in capital assets, net of related debt	14,279	(2,441)
Restricted for capital projects	119,995	116,677
Restricted for debt service	107,572	116,020
Restricted for passenger facility charges	43,450	36,975
Unrestricted	137,959	141,028
TOTAL NET ASSETS	423,255	408,259
TOTAL LIABILITIES AND NET ASSETS	$ 1,402,611	$ 1,411,055

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2007 and 2006

	(In thousands) 2007	2006
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 24,972	$ 28,079
Other	2,111	2,928
	27,083	31,007
Terminal and concourse rentals:		
Scheduled airlines	27,380	26,256
Other	17,287	15,695
	44,667	41,951
Concessions	28,734	27,593
Utility sales and other	5,265	5,165
TOTAL OPERATING REVENUES	105,749	105,716
OPERATING EXPENSES		
Operations	64,485	58,361
Maintenance	4,873	4,065
Depreciation and amortization	51,077	49,828
TOTAL OPERATING EXPENSES	120,435	112,254
OPERATING INCOME (LOSS)	(14,686)	(6,538)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	23,760	22,336
Non-operating expense	(1,952)	(1,865)
Sound insulation program	(7,461)	(4,587)
Loss on disposal of capital asset	(833)	
Rebate arbitrage expense		(1,959)
Interest income	19,682	17,179
Interest expense	(35,961)	(35,726)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(1,187)	(1,602)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(3,952)	(6,224)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(18,638)	(12,762)
Capital and other contributions	33,634	16,709
INCREASE (DECREASE) IN NET ASSETS	14,996	3,947
NET ASSETS, BEGINNING OF YEAR	408,259	404,312
NET ASSETS, END OF YEAR	$ 423,255	$ 408,259

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, 2007 and 2006

	(In thousands) 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 104,746	$ 105,269
Cash payments to suppliers for goods and services	(44,245)	(41,942)
Cash payments to employees for services	(23,633)	(22,401)
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,868	40,926
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(7,672)	(4,587)
Cash payments for other non-operating costs	(2,080)	(1,224)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(9,752)	(5,811)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(42,454)	(73,517)
Rebate arbitrage payment		(1,959)
Cash receipts for passenger facility charges	23,553	22,331
Proceeds from revenue bonds	158,656	286,073
Transfer to escrow agent for bond refunding	(159,674)	(278,347)
Principal paid on long-term debt	(20,366)	(10,958)
Interest paid on long-term debt	(43,475)	(49,513)
Capital grant proceeds	31,912	18,458
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(51,848)	(87,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(89,222)	(124,356)
Proceeds from sale and maturity of investment securities	109,589	167,108
Interest received on investments	19,456	19,405
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	39,823	62,157
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,091	9,840
Cash and cash equivalents, beginning of year	285,049	275,209
Cash and cash equivalents, end of year	$ 300,140	$ 285,049

(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, 2007 and 2006

	(In thousands) 2007	2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (14,686)	$ (6,538)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	51,077	49,828
Non-cash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	681	(400)
Unbilled revenue	(534)	1,046
Prepaid expenses	(449)	(15)
Due from other City departments, divisions or funds	471	24
Materials and supplies, at cost	(588)	(28)
Accounts payable	131	479
Due to other City departments, divisions or funds	199	30
Accrued wages and benefits	503	357
Landing fees - due to airlines	1,165	2,069
Accrued property taxes	2,287	(2,537)
TOTAL ADJUSTMENTS	51,554	47,464
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 36,868	$ 40,926

(Concluded)

See notes to financial statements.

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Divisions") are reported as an enterprise fund of the City of Cleveland, Department of Port Control and are part of the City of Cleveland's ("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*. 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. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which is effective for the year ended December 31, 2007. The Divisions have determined that GASB Statement No. 45 has no impact on its financial statements as of December 31, 2007. Effective January 1, 2007, the City implemented GASB Statement No. 48 "*Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues*", which is effective for the year ended December 31, 2007. GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Divisions; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note B.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 2007 and 2006. 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, 2007 and 2006.

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 2007 and 2006, total interest costs incurred amounted to $45,239,000 and $43,912,000, respectively, of which $6,674,000 and $5,506,000, respectively, was capitalized, net of interest income of $2,604,000 in 2007 and $2,680,000 in 2006.

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, 2007 and 2006 are as follows:

	2007 Due From	2007 Due To	2006 Due From	2006 Due To
	(In thousands)			
City of Cleveland General Fund	$ 17	$ 206	$	$ 200
Division of Water Pollution Control		11		81
Division of Cleveland Public Power		23		21
Division of Research Planning & Development	61		81	
Worker's Compensation Refund Reserve		452	11	360
Division of Radio Communication		9		7
Division of Printing		3		2
Division of Motor Vehicle Maintenance		66		33
Division of Water		4		
Division of Telephone Exchange		139	457	10
	$ 78	$ 913	$ 549	$ 714

NOTE B – LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2007	2006
			(In thousands)	
Airport Expansion and Noise Mitigation Airport System Revenue Bonds:				
Series 1997, due through 2027	3.15%-7.00%	$ 277,165	$ 60,330	$ 223,610
Series 2000, due through 2031	4.00%-5.50%	573,190	454,090	461,755
Series 2003, due through 2033	Auction Rate	140,600	133,275	139,250
Series 2006, due through 2024	5.00%-5.25%	118,760	118,760	118,760
Series 2007, due through 2027	Auction Rate	159,505	159,505	
		$ 1,269,220	925,960	943,375
Less:				
Unamortized discount/premium			16,510	15,162
Unamortized loss on debt refunding			(23,532)	(17,682)
Current portion (due within one year)			(16,860)	(17,775)
Total Long-Term Debt excluding the deferred payment obligation			$ 902,078	$ 923,080

Summary: Changes in long-term obligations for the year ended December 31, 2007 are as follows:

	Balance January 1, 2007	Increase	Decrease	Balance December 31, 2007	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1997	$ 223,610	$	$ (163,280)	$ 60,330	$ 7,845
Series 2000	461,755		(7,665)	454,090	8,070
Series 2003	139,250		(5,975)	133,275	775
Series 2006	118,760			118,760	95
Series 2007		159,505		159,505	75
Total revenue bonds	943,375	159,505	(176,920)	925,960	16,860
Accrued wages and benefits	3,822	468		4,290	3,600
Total	$ 947,197	$ 159,973	$ (176,920)	$ 930,250	$ 20,460

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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 & notes	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)

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

	Principal	Interest	Total
		(In thousands)	
2008	$ 16,860	$ 42,948	$ 59,808
2009	16,410	43,407	59,817
2010	23,175	42,434	65,609
2011	24,300	41,509	65,809
2012	25,300	40,158	65,458
2013-2017	146,615	181,771	328,386
2018-2022	186,860	142,576	329,436
2023-2027	237,715	92,221	329,936
2028-2032	244,075	26,938	271,013
2033	4,650	13	4,663
Total	$ 925,960	$ 653,975	$ 1,579,935

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, 2007 and 2006, the Divisions were in compliance with the terms and requirements of the bond indenture.

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

NOTE B – LONG-TERM OBLIGATIONS (Continued)

The Divisions have defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. The aggregate amount of defeased debt outstanding at December 31, 2007and 2006 is as follows:

Bond Issue	2007	2006
	(In thousands)	
Series 1997 A	$ 144,360	$
Series 1997 B	10,470	10,470
Series 1997 C	11,485	
Series 2000 A	111,435	111,435

The City has pledged future airport revenues to repay $925,960,000 in various airport system revenue bonds issued in various years since 1997. Proceeds from the bonds provided financing for airport operations. The bonds are payable from airport net revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 68 percent of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,579,935,000. Principal and interest paid for the current year and total net revenues were $55,128,361 and $82,072,000, respectively.

On October 3, 2007, the City issued $148,250,000 of Airport System Revenue Bonds, Series 2007A and $11,255,000 Airport System Revenue Bonds, Series 2007B. The Series 2007A Bonds were issued to refund $144,360,000 of outstanding Series 1997A Airport System Revenue Bonds. The Series 2007B Bonds were issued to refund $11,485,000 of outstanding Series 1997C Airport System Revenue Bonds. Proceeds from the two series were used to fund an escrow deposit to refund the bonds and pay costs of issuance. Proceeds of $146,041,856 plus funds on hand in the amount of $1,848,589 were placed in an irrevocable escrow account to be used to pay the principal, interest and premium on the refunded Series 1997A Bonds on January 1, 2008. Proceeds of $11,637,765 plus funds on hand in the amount of $146,279 were also placed in an irrevocable escrow account to be used to pay the principal, interest and premium on the refunded Series 1997C Bonds on January 1, 2008. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long term debt. The City completed this refunding to reduce its total debt service payments over the next twenty years by $8.9 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $7.18 million. The Series 2007A Bonds were issued as auction rate securities and a portion ($121,700,000) was swapped to a fixed rate as a result of swap agreements entered into on February 1, 2007 (see below). The Series 2007B Bonds were issued as fixed rate bonds.

On November 16, 2006, the City issued $118,760,000 of Airport System Revenue Bonds, Series 2006A&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

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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:

Series 2007A Bonds:

Terms. On February 1, 2007, the City entered into three interest rate exchange agreements which became effective upon the delivery of the $148,250,000 Series 2007A Airport System Revenue Bonds on October 3, 2007. The City entered into a floating-to-fixed rate swap with a notional amount of $121,700,000 divided equally among three counterparties. Morgan Stanley Capital Services, Inc., Goldman Sachs Capital Markets LP and RFPC Capital Services, LLC (RFPC) are serving as the counterparties on the transaction.

Under the swap agreement for the Series 2007A Bonds, the City will be the fixed rate payor, paying a fixed rate of 4.037%. Each counterparty is a floating rate payor, paying the City a floating rate equal to the Securities Industry and Financial Markets Association (SIFMA) index plus 5 basis points. Net payments are exchanged on the first of each month. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of monies in the Special Funds and the Airport Revenues as defined in the trust indenture securing the Airport System Revenue Bonds on a parity with the pledge of monies in the Special Funds and the Airport Revenues securing payment of debt service charges on all Revenue Bonds outstanding under the Indenture.

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

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based upon the tax exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been greatly reduced. The amount received on the Series 2007A Bonds incorporates an additional 5 basis points to take into account the fact that the underlying bonds are subject to the Alternative Minimum Tax. However, if the payments received from the counterparty are less than the amount paid to the counterparty, the City must make up the difference in addition to paying the fixed rate resulting from the swap.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

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

Fair Value: The fair value of the swap at December 31, 2007 as reported by Morgan Stanley, Goldman Sachs and RFPC totaled $5,079,000, which would be payable by the City.

Series 2003 A & B Bonds:

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 2003A Bonds and the $56,200,000 Series 2003B 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 is the fixed rate payor, paying a fixed rate of 4.169% semiannually, while the Counterparties pay the Airport System at the SIFMA index 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 pay the Airport System the SIFMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of Airport Revenues. Both the bond debt service payments and the periodic swap payments are insured by AMBAC.

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

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based on the tax exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been greatly reduced. The amount received on the Series 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.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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, 2007 and December 31, 2006, as reported by JPMorgan and Bear Stearns was $1,405,000 and $941,000, respectively, relating to the Series 2003A Bonds and $3,877,000 and $2,614,000, respectively, relating to the Series 2003B Bonds which would be payable by the City.

NOTE C – SPECIAL FACILITY REVENUE BONDS

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

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

NOTE D – 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.

NOTE D – ACQUISITION OF INTERNATIONAL EXPOSITION CENTER (Continued)

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

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(In thousands)		
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
2012	2,990	399	3,389	3,389
Thereafter	3,510	161	3,671	3,671
	$ 16,396	$ 4,220	$ 20,616	$ 20,616

Rental income recognized by the City under this agreement totaled $3,389,000 in 2007 and 2006. Of these amounts in 2007 $1,357,000 was offset against interest expense and $2,032,000 was offset against the principal balance of the deferred obligation. 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.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2007 and 2006 totaled approximately $6,403,000 and $3,013,000, respectively, and the Divisions' bank balance was approximately $12,977,000 and $455,000, respectively. The differences represent normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investments Risk Disclosures – an Amendment to GASB Statement No. 3*, $12,977,000 and $455,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Divisions will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

Credit Risk: The Divisions' investments as of December 31, 2007 and 2006 include U.S. Agencies, Victory Federal 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, 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.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

The Divisions have the following investments at December 31, 2007 and 2006, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2007 Fair Value	2007 Cost	2006 Fair Value	2006 Cost	Investment Maturities for 2007: Less than One Year	1 - 5 Years	5 Years or More
				(In thousands)			
U.S. Agency Obligations	$ 119,977	$ 117,927	$ 149,284	$ 149,946	$ 9,003	$ 110,974	$
U.S. Treasury Bills	3,063	3,063	110	110	3,063		
Repurchase Agreements	4,260	4,260			4,260		
STAROhio	74,837	74,837	39,234	39,234	74,837		
Guaranteed Investment Contract	43,767	43,767	60,831	60,831		15,000	28,767
Investment in Mutual Funds	170,335	170,335	13	13	170,335		
Other	538	538	173,259	173,259	538		
Total Investments	416,777	414,727	422,731	423,393	262,036	125,974	28,767
Total Deposits	6,403	6,403	3,013	3,013	6,403		
Total Deposits and Investments	$ 423,180	$ 421,130	$ 425,744	$ 426,406	$ 268,439	$ 125,974	$ 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 Bank of New York, as trustee.

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. As of December 31, 2007, the investments in U.S. Agency Obligations, STAROhio, guaranteed investment contracts and mutual funds are approximately 29%, 18%, 11% and 41%, respectively, of the Divisions' total investments. 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.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2007 was as follows:

	January 1, 2007	Additions	Reductions	December 31, 2007
		(In thousands)		
Capital Assets, not being depreciated:				
Land	$ 160,872	$ 4,778	$	$ 165,650
Construction in progress	6,867	43,956	(20,757)	30,066
Total capital assets, not being depreciated	167,739	48,734	(20,757)	195,716
Capital assets, being depreciated:				
Land improvements	755,939	10,013	(1,805)	764,147
Buildings, structures and improvements	415,923	2,597	(2,071)	416,449
Furniture, fixtures and equipment	46,625	3,369	(399)	49,595
Total capital assets, being depreciated	1,218,487	15,979	(4,275)	1,230,191
Less: Total accumulated depreciation	(428,660)	(51,077)	3,442	(476,295)
Total capital assets being depreciated, net	789,827	(35,098)	(833)	753,896
Capital assets, net	$ 957,566	$ 13,636	$ (21,590)	$ 949,612

NOTE F – CAPITAL ASSETS (Continued)

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

Commitments: As of December 31, 2007 and 2006, the Divisions had capital expenditure purchase commitments outstanding of approximately $46,657,000 and $38,958,000, 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, 2007 and 2006 is approximately $143,934,000 and $149,577,000, respectively.

NOTE G – LEASES AND CONCESSIONS (Continued)

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

	(In thousands)
2008	$ 15,640
2009	5,888
2010	6,775
2011	6,288
2012	5,814
Thereafter	32,424
	$ 72,829

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 $25,127,000 and $24,884,000, respectively, in 2007 and 2006.

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 2007 or 2006. There was no significant decrease in any insurance coverage in 2007 or 2006. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

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

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE I – DEFINED BENEFIT PENSION PLAN

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 9.5% in 2007, 9.00% in 2006 and 8.50% in 2005, and employer contribution rates

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

were 13.85% of covered payroll in 2007, 13.70% in 2006 and 13.55% in 2005. The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2007, 2006 and 2005 were approximately $1,400,000, $1,532,000 and $1,594,000 each year, respectively. The required payments due in 2007, 2006 and 2005 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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members, The Divisions' contribution rate was 13.85% of covered payroll in 2007, 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Post Employment Health Care Plan was established under, and is administrated in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5% and 6% of covered payroll, respectively. In 2006, 4.50% of covered payroll was used to fund health care and 4.00% of covered payroll in 2005. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or the surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued)

selected. The Divisions' actual contributions for 2007 which were to fund post-employment benefits were approximately $919,000.

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

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
	(In thousands)	
City Central Services, including police	$ 7,722	$ 7,264
Electricity purchased	293	268
Motor vehicle maintenance	540	379

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 2007 and 2006 was a payable to the Airlines of $4,886,000 and $3,721,000, respectively.

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 2007 and 2006.

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

NOTE M – PASSENGER FACILITY CHARGES (Continued)

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 2007 and 2006, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 33% and 34% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

On February 25, 2008, City Council passed several pieces of legislation authorizing the issuance of various series of bonds in response to the upheaval in the municipal bond market stemming from the downgrades of several municipal bond insurance companies. These ordinances allow the City to issue bonds for the purpose of refunding or restructuring all of the City's outstanding auction rate securities, as well as certain other variable rate securities. The City has incurred greater interest expense on its auction rate securities and on several of its variable rate demand obligations than it was prior to the downgrade of the bond insurers. In addition, the City is party to various swap agreements relating to certain of the outstanding auction rate securities under which the City pays a fixed interest rate in consideration of the swap counterparty paying the City a variable interest rate based on an index expected to approximate the interest rate borne by the auction rate securities. As the interest rates on the auction rate securities have risen, the difference between the interest rate on the auction rate securities and the variable rate received by the City from the swap counterparties has grown larger. This further adds to the City's interest expense.

The City intends to conclude the following transactions by July 2008 to address the increased interest rates incurred on the City's auction rate securities:

- Refund the City's $148,175,000 Airport System Revenue Bonds, Series 2007A-1 and Series 2007A-2 Bonds and its $132,500,000 Airport System Revenue Bonds, Series 2003A, Series 2003B and Series 2003C as variable rate demand obligations.

Auction Rate Securities

As described in Note B, above, the City has issued certain debt securities as auction rate securities (ARS). The City also has entered into various swap transactions involving some of these securities. Recent disruptions in national capital markets, including changes in the credit ratings of private companies insuring these securities on behalf of the City, have affected these securities, as described below:

NOTE O – SUBSEQUENT EVENTS (Continued)

i. Airport 2003, A, B, and C. These three series of ARS totaling $132,500,000 last failed to auction on June 16, 2008, triggering contractual reset rates of 3.238%, 3.238% and 3.981%, respectively. These securities are subject also to swap agreements. The failed auction rates do not affect the provisions of the swap agreement. However, the variable rate payments made to the City under the swap agreements are based on an index and less closely approximate the interest rate on the ARS, resulting in greater net interest expense to the City. As of June 16, the City is in the process of refunding these bonds as variable rate demand bonds backed by several bank letters of credit.

ii. Airport 2007 A-1 and A-2. These series of ARS have not incurred failed auction as of June 16. However, rates reached a high of 9.46% on the Series A-1 bonds and 10.99% on the Series A-2 bonds. If these ARS would fail auction, the contractual reset rate is a maximum 15%. These securities are insured by a private company whose credit ratings have declined significantly. These securities are subject also to swap provisions. A failed auction would not affect the provisions of the swap agreement. However, the variable rate payments made to the City under the swap agreements are based on an index and less closely approximate the interest on the ARS, resulting in greater net interest expense to the City. As of June 16, the City is in the process of refunding these bonds as variable rate demand bonds backed by a bank letter of credit.

In response to rising fuel cost, Continental Airlines announced on June 5, 2008 plans to reduce capacity, eliminate 3,000 positions and make changes to their network and fleet mix. It was announced on June 12, 2008 that capacity or available seat miles will decrease 13.1% in Cleveland. This reduction results in the elimination of service to 10 recently-launched cities and 14 underperforming cities.

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, 2007

	Cleveland Hopkins International	Burke Lakefront	Total
		(In thousands)	
REVENUE			
Airline revenue:			
Landing fees	$ 24,972	$	$ 24,972
Terminal rental	27,380		27,380
Other	3,193		3,193
	55,545	-	55,545
Operating revenues from other sources:			
Concessions	28,603	131	28,734
Rentals	12,194	287	12,481
Landing fees	1,952	159	2,111
Other	3,308	182	3,490
	46,057	759	46,816
Non-operating revenue:			
Interest income	3,421		3,421
TOTAL REVENUE	$ 105,023	$ 759	$ 105,782
OPERATING EXPENSES			
Salaries and wages	$ 16,602	$ 910	$ 17,512
Employee benefits	6,373	351	6,724
City Central Services, including police	8,024	235	8,259
Materials and supplies	7,836	453	8,289
Contractual services	28,120	454	28,574
TOTAL OPERATING EXPENSES	$ 66,955	$ 2,403	$ 69,358

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Mary Taylor, CPA
Auditor of State

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

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

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

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, (the Divisions) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2007. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

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

In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2007.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Passenger Facility Charges

We conducted our audit to opine on the financial statements that collectively comprise the City of Cleveland, Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport, Department of Port Control' basic financial statements, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 16, 2008. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for the purposes of additional analysis as specified by the Guide and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 16, 2008

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, 2007

	Approved Project Budget	Cumulative Expenditures at 12/31/06	1st Quarter 2007 Expenditures	2nd Quarter 2007 Expenditures	3rd Quarter 2007 Expenditures	4th Quarter 2007 Expenditures	Total 2007 Expenditures	Cumulative Expenditures at 12/31/07
Insulate Residences - full program phase I	16,960,400	16,960,400					0	16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743					0	2,155,743
Land Acquisition - Resident Relocation	14,689,459	14,689,459					0	14,689,459
Sewer Construction	5,500,000	5,500,000					0	5,500,000
Asbestos Removal in Terminal CHIA	729,842	729,842					0	729,842
Acquisition of Analex Office Building and Vacant Land	13,025,000	13,025,000					0	13,025,000
Waste Water-Glycol Collection System Construction	5,835,921	5,835,921					0	5,835,921
NASA Feasibility and Pre-engineering Study	355,000	355,000					0	355,000
Land Acquisition	30,360,000	25,282,298					0	25,282,298
Sound Insulation	8,675,000	8,595,641					0	8,595,641
Environmental Assessment/Impact Studies	2,309,570	2,309,570					0	2,309,570
Terminal Passenger Flow and Security Study	300,000	-					0	0
Railway System/Vehicular Ingress-Egress Study	200,000	-					0	0
Runway 5R Extension Engineering	-	-					0	0
Runway 5R Extension Design	-	-					0	0
Runway 5R Construction	-	-					0	0
FIS Facility Construction	-	-					0	0
FIS Facility Design	-	-					0	0
Brook Park Land Transfer	8,750,000	5,747,768				806,401	806,401	6,554,170
Analex Demolition	1,229,000	450,824				113,265	113,265	564,089
Sound Insulation	20,000,000	13,762,197		272,134		921,602	1,193,736	14,955,932
Baggage Claim/Expansion	9,526,087	9,526,086					0	9,526,086
Tug Road Replacement	1,019,000	668,553					0	668,553
Interim Commuter Ramp	5,560,338	3,649,672				512,442	512,442	4,162,114
Concourse D Ramp/Site Utilities	51,305,804	33,680,977				4,728,351	4,728,351	38,409,328
Burke Runway Overlay 6L/24R	530,286	678,743				-148,457	-148,457	530,286
Install Instrument Landing System-Burke	2,181,400	885,403				349,495	349,495	1,234,898
Runway 6L/23R	82,106,000	28,789,354				7,566,902	7,566,902	36,356,256
Runway 6R/24L Uncoupling	2,148,000	150,439				1,997,561	1,997,561	2,148,000
Runway 10/28 Safety Improvements	2,200,000	966,544					0	966,544
Midfield Deicing Pad	39,100,000	39,100,000					0	39,100,000
Taxiway M Improvements	10,000,000	7,439,403	893,715	327,000	616,364	185,579	2,022,658	9,462,060
	336,751,850	240,934,838	893,715	599,134	616,364	17,033,140	19,142,353	260,077,191

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, 2007

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
DEPARTMENT OF PORT CONTROL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 15, 2008

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