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, 2008 and 2007

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, 2008 and December 31, 2007, 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 financial position and the changes in financial position and cash flows of the Divisions, and do not purport to, and do not, present fairly the financial position of the City of Cleveland, Cuyahoga County, Ohio as of December 31, 2008 and December 31, 2007, 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, 2008 and December 31, 2007, 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 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, 2008 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 25, 2009

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International 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, 2008 and 2007. Please read this information in conjunction with the Divisions' basic financial statements and footnotes that begin on page 15.

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 2008, the Divisions were served by 29 scheduled airlines and three cargo airlines. There were 109,000 scheduled landings with landed weight amounting to 7,256,242,000 pounds. There were 5,545,000 passengers enplaned at Cleveland Hopkins International Airport during 2008. 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.

COMPARISON OF CURRENT YEAR'S AND PREVIOUS YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $420,858,000, $423,255,000 and $408,259,000 at December 31, 2008, 2007 and 2006, respectively. Of these amounts, $143,845,000, $157,726,000 and $141,028,000 (unrestricted net assets) at December 31, 2008, 2007 and 2006, respectively, may be used to meet the Divisions ongoing obligations to customers and creditors.

- The Divisions' total net assets decreased by $2,397,000 in 2008. In 2008, restricted for passenger facility charges increased due to the decrease in the amount of passenger facility charge funded project expenditures. Long-term obligations decreased in 2008 due to the principal payment on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds. In 2007, total net assets increased by $14,996,000 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.

- Additions to construction in progress totaled $40,036,000, $43,956,000 and $79,439,000 in 2008, 2007 and 2006, respectively. The major capital expenditures during 2008 were for the uncoupling and extension of Runway 6R/24L, closed circuit TV upgrade, restroom renovations, and sound insulation. Approximately, 61.9% was spent on the uncoupling and extension of Runway 6R/24L, 4.4% was spent on the acquisition of property, 3.9% was spent on sound insulation and 3.1% was spent on the closed circuit TV upgrade. In 2008, the Airport continued to purchase land south of the Airport.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

The major capital expenditures during 2007 were for the uncoupling and extension of Runway 6R/24L, sound insulation, the completion of the centralized deicing facility and terminal security upgrades. 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 Divisions total bonded debt decreased by $8,755,000, $17,415,000 and $14,040,000 during 2008, 2007 and 2006, respectively. The key factors for this decrease were the payment of principal on the Series 1997, 2000, 2003, 2006, and 2007 Airport System Revenue Bonds**.** In 2008, the City issued $288,780,000 of Airport System Revenue Bonds, Series A through H, which refunded all of the Series 2003 Bonds and the Series 2007A Bonds. In 2007, the key factors for the decrease in total bonded debt were the payment of principal on the Series 1997, 2000 and 2003 Airport System Revenue Bonds. The City issued $159,505,000 of Airport System Revenue Bonds, in 2007, which refunded a portion of the Series 1997A and Series 1997C Airport System Revenue Bonds. (See Note B **-** Long-Term Obligations for additional information).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Divisions can be found on pages 15-20 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 22-42 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(Amounts in 000's)		
Assets:			
Current assets	$ 101,470	$ 107,016	$ 109,871
Restricted assets	336,548	333,936	331,197
Unamortized bond issuance costs	7,776	12,047	12,421
Capital assets, net	935,445	949,612	957,566
Total assets	$ 1,381,239	$ 1,402,611	$ 1,411,055
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 59,636	$ 62,387	$ 62,595
Long-term obligations	900,745	916,969	940,201
Total liabilities	960,381	979,356	1,002,796
Net assets:			
Invested in capital assets, net of related debt	117,883	114,507	114,236
Restricted for debt service	108,323	107,572	116,020
Restricted for passenger facility charges	50,807	43,450	36,975
Unrestricted	143,845	157,726	141,028
Total net assets	420,858	423,255	408,259
Total net assets and liabilities	$ 1,381,239	$ 1,402,611	$ 1,411,055

Assets: Total assets decreased $21,372,000 and $8,444,000 during 2008 and 2007, respectively. The decrease in capital assets, net of accumulated depreciation, accounted for $14,167,000 or 66.3% of this change**.** Unamortized bond issuance costs decreased in 2008 due to the amortization of bond issuance cost in relation to the refunding of the Series 2003 Bonds and the Series 2007A Bonds. In 2007, there was a decrease in capital assets, net of accumulated depreciation, that 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2008 amounted to \$935,445,000 (net of accumulated depreciation), which is a decrease of 1.5%. The Divisions' investment in capital assets as of December 31, 2007 amounted to \$949,612,000 (net of accumulated depreciation), which was a decrease of 0.8%. 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, 2008 is as follows:

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
	(Amounts in 000's)			
Land	$ 165,650	$ 1,473	$	$ 167,123
Land improvements	764,147	60,265		824,412
Buildings, structures and improvements	416,449	1,808		418,257
Furniture, fixtures, and equipment	49,595	2,579	(80)	52,094
	1,395,841	66,125	(80)	1,461,886
Less: Accumulated depreciation	(476,295)	(54,203)	80	(530,418)
	919,546	11,922	-	931,468
Construction in progress	30,066	40,036	(66,125)	3,977
Capital assets, net	$ 949,612	$ 51,958	$ (66,125)	$ 935,445

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
	(Amounts in 000's)			
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 2008 and 2007 affecting the Divisions' capital assets included the following:

- The construction on the uncoupling and expansion of Runway 6R/24L which began in 2007 and was completed and put into service in December 2008. 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.

- In 2008, the Transportation Security Administration provided funding for additional closed circuit television cameras, the Divisions installed hardware, storage equipment, cabling to provide greater surveillance at the Airport and to enhance checkpoint security, quickly resolve property claims, and resolution of law enforcement issues. In 2007, improvements to the security infrastructure were completed. Those improvements improved access control to security areas, and allowed 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 2008, the Divisions spent $1,473,000 on these properties; the Divisions spent $4,778,000 on these properties in 2007. 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 – Summary of Significant Accounting Policies and Note F – Capital Assets to the basic financial statements.

Liabilities: In 2008 and 2007, total liabilities decreased $18,975,000 and $23,440,000, respectively. In 2008, the decrease in long-term obligations accounted for $16,224,000 or 85.5% of this change**.** Current liabilities decreased as the landing fee adjustment due to the airlines in 2008 is $346,000 which is $4,540,000 less than what was due to the airlines in 2007. Long-term obligations decreased due to the payment of principal on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds. In 2007, 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.

Long-term debt: At December 31, 2008 and 2007, the Divisions had $917,205,000 and $925,960,000, 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.

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, 2008 is summarized below:

	Balance January 1, 2008	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2008
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 1997	$ 60,330	$		$ (7,845)	$ 52,485
Series 2000	454,090			(8,070)	446,020
Series 2003	133,275		(132,500)	(775)	
Series 2006	118,760			(95)	118,665
Series 2007	159,505		(148,175)	(75)	11,255
Series 2008		288,780			288,780
Total	$ 925,960	$ 288,780	$ (280,675)	$ (16,860)	$ 917,205

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
			(Amounts in 000's)		
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

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings from Moody's Investors Service, Standard & Poor's Rating Service, and Fitch Ratings (beginning in 2006) for the Divisions' revenue bonds have remained constant for the past five years. The bond ratings are as follows:

Moody's Investors Service	Standard & Poor's Rating Service	Fitch Ratings
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 2008, 2007 and 2006, was 149%, 149% and 128%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B – Long-Term Obligations to the basic financial statements on pages 26-32.

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $420,858,000, $423,255,000 and $408,259,000 at December 31, 2008, 2007 and 2006, respectively. Of the Divisions' net assets at December 31, 2008 and 2007, $117,883,000 and $114,507,000, 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 capital assets including the uncoupling and expansion of Runway 6R/24L.

An additional portion of the Divisions' net assets represents resources that are subject to external restrictions. At December 31, 2008 and 2007 these restricted net assets amounted to $159,130,000 and $151,022,000, respectively. These restricted net assets include amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures, and passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger facility charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net assets, $143,845,000 and $157,726,000 for December 31, 2008 and 2007, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions operations during 2008 and 2007 decreased its net assets by $2,397,000 and increased its net assets by $14,996,000, respectively. Provided below are key elements of the Divisions results of operations as of and for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(Amounts in 000's)		
Operating revenues			
Landing fees	$ 30,825	$ 27,083	$ 31,007
Terminal and concourse rentals	40,660	44,667	41,951
Concessions	27,517	28,734	27,593
Utility sales and other	12,388	5,265	5,165
Total operating revenues	111,390	105,749	105,716
Operating expenses	129,076	120,435	112,254
Operating income (loss)	(17,686)	(14,686)	(6,538)
Non-operating revenue (expense):			
Passenger facility charges revenue	21,828	23,760	22,336
Non-operating expense	(2,041)	(1,952)	(1,865)
Sound insulation program	(996)	(7,461)	(4,587)
Loss on disposal of capital asset		(833)	
Rebate arbitrage expense	(342)		(1,959)
Interest income	11,865	19,682	17,179
Interest expense	(37,694)	(35,961)	(35,726)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,093)	(1,187)	(1,602)
Total non-operating revenue (expense), net	(9,473)	(3,952)	(6,224)
Capital and other contributions	24,762	33,634	16,709
Increase (decrease) in net assets	(2,397)	14,996	3,947
Net assets, beginning of year	423,255	408,259	404,312
Net assets, end of year	$ 420,858	$ 423,255	$ 408,259

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

***Operating revenues**:* Of the 2008 operating revenues of $111,390,000, $29,287,000 or 26.3% represented landing fees received from signatory airlines. This is an increase of 17.3% from the prior year due to an increase of 2008 signatory landing fee rates. Signatory terminal rentals accounted for $25,047,000, or 22.5% of total operating revenues. The decrease of 8.5% is a result of a decrease in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues decreased 10.9% over the prior year due to a decrease in the demand for airport parking. Parking revenues amounted to $16,064,000 or 14.4% of total operating revenues for 2008. The fourth largest airport revenue source, rental cars, accounted for 9.0% of total operating revenues, which is a decrease of 2.6% from 2007.

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.

***Operating expenses**:* Total operating expenses for 2008 increased $8,641,000 or 7.2%. Operations expenses increased 8.1% mainly due to increases in employee wages and benefits, chemical expense, and security expenses. Employee salaries, wages and benefits increased 11.2% due to employee cost of living increases, and related increase in employer contribution for pension benefits. Chemical expenses increased 71.3% over 2007 due to an increase in the supplier's price resulting from a shortage in the production of the snow removal chemical potassium acetate. Maintenance expenses increased 5.6% mainly attributed to the cost of maintaining high speed snow removal equipment. Depreciation expenses increased by 6.1%, due to the half-year depreciation expense on assets added in 2008, and to a full year's depreciation on assets added in 2007. 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.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $996,000, $7,461,000, and $4,587,000 in 2008, 2007 and 2006, respectively. In 2007, the 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Capital and other contributions: In 2008, 2007 and 2006, the Divisions received $24,762,000 $33,634,000 and $16,709,000, respectively, in Federal Airport Improvement Grants. Of the $24,762,000, $1,192,000, was received by the Divisions from the Department of Homeland Security – Transportation Security Administration for additional closed circuit television camera installation at checkpoint operations and baggage screening areas. 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 DIVISIONS' FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Effective March 5, 2009, the City issued $24,710,000 Airport System Revenue Bonds, Series 2009A and $14,670,000 Airport System Revenue Bonds, Series 2009B (Taxable). The Series 2009A Bonds were issued to refund a portion of the outstanding Airport System Revenue Bonds, Series 1997D, in the aggregate principal amount of $24,340,000 and to pay issuance costs. The Series 2009B Bonds were issued to refund all of the outstanding Airport System Revenue Bonds, Series 1997E, in the principal amount of $14,425,000 and to pay issuance costs. The City retired the remaining $10,570,000 of outstanding Series 1997D Bonds with other available funds of the Airport System. The City also funded a required deposit to the bond reserve fund from available funds on hand. The Series 1997 Bonds were refunded in order to replace the existing liquidity provider. The Series 2009 Bonds were issued as weekly variable rate demand obligations secured by direct pay letters of credit issued by U.S. Bank National Association.

In February 2008, the City partnered with BAA Cleveland (BAAC) to transform the airport's food and beverage and retail concession program and establish an AIRMALL at Cleveland Hopkins International Airport (CLE). BAAC is currently renovating and redeveloping the airport's existing 46,000 square feet of concession space and will add an additional 40,000 square feet of new concession space. The AIRMALL will be phased in and will include local and national brand concepts. Currently, BAAC has signed agreements with: Auntie Anne's Pretzels; Bruegger's Bagels; Travelex; I-Tech X-perience; Johnston and Murphy; Rock and Roll Hall of Fame Store and Museum; Taxco Sterling; Villa Fresh Italian Kitchen; Green Leaf Salad, and Bananas Smoothies and Frozen Yogurt.

A new 300 foot tall air traffic control tower, funded by the Federal Aviation Administration (FAA) will increase visibility of our newly extended runway and give the FAA the ability to handle more flights from CLE. Scheduled to open 2013 on the south end of the airport, the tower will replace the 21-year old north side tower. To support the new tower, CLE will undergo an airfield improvement project to construct a new taxiway and holding area. CLE was awarded $20 million from the FAA through the American Recovery and Reinvestment Act, formerly the Stimulus Package in April 2009. These federal dollars distributed through the FAA will fund two projects which will enhance the airport's overall safety of the s airfield and the flying public.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2008 and 2007

	(Amounts in 000's) 2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 54,600	$ 38,184
Restricted cash and cash equivalents	7,554	6,494
Investments	23,306	49,219
Receivables:		
Accounts-net of allowance for doubtful accounts of $3,065,000 in 2008 and $1,313,000 in 2007	3,920	1,493
Unbilled revenue	5,673	6,655
Accrued interest receivable	327	650
Total receivables	9,920	8,798
Prepaid expenses	684	767
Due from other City of Cleveland departments, divisions or interfund accounts	78	78
Due from federal government	2,898	2,668
Materials and supplies-at cost	2,430	808
TOTAL CURRENT ASSETS	101,470	107,016
RESTRICTED ASSETS		
Cash and cash equivalents	276,210	255,462
Investments	57,082	73,821
Accrued interest receivable	726	1,269
Bond retirement reserve	53	53
Accrued passenger facility charges	2,477	3,331
TOTAL RESTRICTED ASSETS	336,548	333,936
UNAMORTIZED BOND ISSUANCE COSTS	7,776	12,047
CAPITAL ASSETS		
Land	167,123	165,650
Land improvements	824,412	764,147
Buildings, structures and improvements	418,257	416,449
Furniture, fixtures, equipment	52,094	49,595
	1,461,886	1,395,841
Less: Accumulated depreciation	(530,418)	(476,295)
	931,468	919,546
Construction in progress	3,977	30,066
CAPITAL ASSETS, NET	935,445	949,612
TOTAL ASSETS	$ 1,381,239	$ 1,402,611

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2008 and 2007

	(Amounts in 000's) 2008	2007
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 16,830	$ 16,860
Current portion of long-term deferred payment obligation, due within one year	2,371	2,195
Accounts payable	3,687	3,220
Due to other City of Cleveland departments, divisions or interfund accounts	1,155	913
Current portion of accrued wages and benefits	4,300	3,600
Accrued interest payable	16,036	16,896
Accrued property taxes	7,357	7,323
Construction fund payable from restricted assets	6,171	4,644
Other construction accounts payable from restricted assets	1,383	1,850
Landing fee adjustment - payable to Airlines	346	4,886
TOTAL CURRENT LIABILITIES	59,636	62,387
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	888,234	902,078
Deferred payment obligation	11,829	14,201
Accrued wages and benefits	682	690
TOTAL LONG-TERM OBLIGATIONS	900,745	916,969
TOTAL LIABILITIES	960,381	979,356
NET ASSETS		
Invested in capital assets, net of related debt	117,883	114,507
Restricted for debt service	108,323	107,572
Restricted for passenger facility charges	50,807	43,450
Unrestricted	143,845	157,726
TOTAL NET ASSETS	420,858	423,255
TOTAL LIABILITIES AND NET ASSETS	$ 1,381,239	$ 1,402,611

(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, 2008 and 2007

	(Amounts in 000's) 2008	2007
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 29,287	$ 24,972
Other	1,538	2,111
	30,825	27,083
Terminal and concourse rentals:		
Scheduled airlines	25,047	27,380
Other	15,613	17,287
	40,660	44,667
Concessions	27,517	28,734
Utility sales and other	12,388	5,265
TOTAL OPERATING REVENUES	111,390	105,749
OPERATING EXPENSES		
Operations	69,738	64,485
Maintenance	5,147	4,873
Depreciation and amortization	54,191	51,077
TOTAL OPERATING EXPENSES	129,076	120,435
OPERATING INCOME (LOSS)	(17,686)	(14,686)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	21,828	23,760
Non-operating expense	(2,041)	(1,952)
Sound insulation program	(996)	(7,461)
Loss on disposal of capital asset		(833)
Rebate arbitrage expense	(342)	
Interest income	11,865	19,682
Interest expense	(37,694)	(35,961)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(2,093)	(1,187)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(9,473)	(3,952)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(27,159)	(18,638)
Capital and other contributions	24,762	33,634
INCREASE (DECREASE) IN NET ASSETS	(2,397)	14,996
NET ASSETS, BEGINNING OF YEAR	423,255	408,259
NET ASSETS, END OF YEAR	$ 420,858	$ 423,255

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, 2008 and 2007

	(Amounts in 000's) 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 97,887	$ 104,746
Cash payments to suppliers for goods and services	(44,753)	(44,245)
Cash payments to employees for services	(25,776)	(23,633)
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,358	36,868
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(1,297)	(7,672)
Cash payments for other non-operating costs	(3,405)	(2,080)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(4,702)	(9,752)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(32,921)	(42,454)
Rebate arbitrage payment	(341)	
Cash receipts for passenger facility charges	22,682	23,553
Proceeds from revenue bonds	287,914	158,656
Transfer to escrow agent for bond refunding	(280,892)	(159,674)
Principal paid on long-term debt	(18,808)	(20,366)
Interest paid on long-term debt	(44,702)	(43,475)
Capital grant proceeds	24,532	31,912
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(42,536)	(51,848)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(89,222)
Proceeds from sale and maturity of investment securities	42,623	109,589
Interest received on investments	15,481	19,456
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	58,104	39,823
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,224	15,091
Cash and cash equivalents, beginning of year	300,140	285,049
Cash and cash equivalents, end of year	$ 338,364	$ 300,140

(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, 2008 and 2007

	(Amounts in 000's) 2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (17,686)	$ (14,686)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	54,191	51,077
Non-cash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	(2,104)	681
Unbilled revenue	982	(534)
Prepaid expenses	83	(449)
Due from other City departments, divisions or funds		471
Materials and supplies, at cost	(1,622)	(588)
Accounts payable	467	131
Due to other City departments, divisions or funds	242	199
Accrued wages and benefits	700	503
Landing fees - due to airlines	(4,540)	1,165
Accrued property taxes	34	2,287
TOTAL ADJUSTMENTS	45,044	51,554
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 27,358	$ 36,868

(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 (the City) primary government. The Divisions were created for the purpose of operating the airports within the Cleveland metropolitan area. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units. In 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 – Long-Term Obligations. In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which is effective for the year ended December 31, 2008. The Divisions have determined that GASB Statement No. 49 has no impact on its financial statements as of December 31, 2008. In May 2007, GASB issued Statement No. 50, *Pension Disclosure – an amendment of GASB Statements No. 25 and No. 27,* which is effective for the year ended December 31, 2008. The Divisions have determined that GASB Statement No. 50 has no impact on its financial statements as of December 31, 2008 and the proper disclosures have been made.

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 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 Divisions have 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 Divisions' have invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2008 and 2007. 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, 2008 and 2007.

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 2008 and 2007, total interest costs incurred amounted to $46,139,000 and $45,239,000, respectively, of which $7,481,000 and $6,674,000, respectively, was capitalized, net of interest income of $964,000 in 2008 and $2,604,000 in 2007.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: Bond issuance expense is carried on the Divisions' books as a deferred expense and deferred bond discounts/premiums are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings is netted against long-term debt and is amortized over the shorter of the defeased bond or the newly issued bond.

Compensated Absences: The Divisions accrue for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying 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 for interest costs incurred on the Divisions' long-term debt. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

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, 2008 and 2007 are as follows:

	2008 Due From	2008 Due To	2007 Due From	2007 Due To
	(Amounts in 000's)			
City of Cleveland General Fund	$ 17	$ 19	$ 17	$ 206
Division of Water Pollution Control		81		11
Division of Cleveland Public Power		15		23
Division of Research Planning & Development	61		61	
Workers' Compensation Refund Reserve		920		452
Division of Radio Communication		7		9
Division of Printing				3
Division of Motor Vehicle Maintenance		46		66
Division of Water		1		4
Division of Telephone Exchange		66		139
	$ 78	$ 1,155	$ 78	$ 913

NOTE B – LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2008	2007
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 1997, due through 2027	3.15%-7.00%	$ 277,165	$ 52,485	$ 60,330
Series 2000, due through 2031	4.00%-5.50%	573,190	446,020	454,090
Series 2003	Auction Rate	140,600		133,275
Series 2006, due through 2024	5.00%-5.25%	118,760	118,665	118,760
Series 2007, due through 2027	Auction Rate	159,505	11,255	159,505
Series 2008, due through 2033	Variable Rate	288,780	288,780	
		$ 1,558,000	917,205	925,960
Unamortized (discount) premium			15,101	16,510
Unamortized loss on debt refunding			(27,242)	(23,532)
Current portion (due within one year)			(16,830)	(16,860)
Total Long-Term Debt excluding the deferred payment obligation			$ 888,234	$ 902,078

Summary: Changes in long-term obligations for the year ended December 31, 2008 are as follows:

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 1997	$ 60,330	$	$ (7,845)	$ 52,485	$ 3,150
Series 2000	454,090		(8,070)	446,020	8,535
Series 2003	133,275		(133,275)		
Series 2006	118,760		(95)	118,665	95
Series 2007	159,505		(148,250)	11,255	80
Series 2008		288,780		288,780	4,970
Total revenue bonds	925,960	288,780	(297,535)	917,205	16,830
Accrued wages and benefits	4,290	692		4,982	4,300
Total	$ 930,250	$ 289,472	$ (297,535)	$ 922,187	$ 21,130

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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
			(Amounts in 000's)		
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

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

	Principal	Interest	Total
		(Amounts in 000's)	
2009	$ 16,830	$ 43,003	$ 59,833
2010	23,170	42,572	65,742
2011	24,275	41,447	65,722
2012	25,250	40,270	65,520
2013	26,675	39,023	65,698
2014-2018	154,625	175,067	329,692
2019-2023	197,385	133,754	331,139
2024-2028	252,470	81,054	333,524
2029-2033	196,525	16,377	212,902
Total	$ 917,205	$ 612,567	$ 1,529,772

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

As of December 31, 2008 and 2007, 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.

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, 2008 and 2007 is as follows:

Bond Issue	2008	2007
	(Amounts in 000's)	
Series 1997 A	$	$ 144,360
Series 1997 B		10,470
Series 1997 C		11,485
Series 2000 A	111,435	111,435

The City has pledged future airport revenues to repay $917,205,000 in 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 67% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,529,772,000. Principal and interest paid for the current year and total net revenues were $57,327,000 and $85,570,000, respectively.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

On July 17, 2008, the City issued $149,460,000 of Airport System Revenue Bonds, Series 2008A-C and $139,320,000 of Airport System Revenue Bonds, Series D-H. The Series 2008A-C Bonds were issued to refund all $148,175,000 of the outstanding Airport System Revenue Bonds, Series 2007A. The Series 2008D-H Bonds were issued to refund all $132,500,000 of the outstanding Airport System Revenue Bonds, Series 2003A-C. Both the Series 2007A Bonds and the Series 2003 Bonds were issued as auction rate securities. These bonds were refunded in order to address the increased interest costs incurred on the bonds as a result of the downgrade of the bond insurers and the collapse of the auction rate market. All of the Series 2008 Bonds were issued as variable rate demand obligations. Wachovia Bank N.A. provided a letter of credit for the Series 2008A-C Bonds. U.S. Bank National Association provided its letter of credit for the Series 2008D&H Bonds while KBC Bank N.V. and UBS provided their letters of credit on the Series 2008E&G Bonds and the Series 2008F Bonds, respectively. At the time of the refunding, the interest rate swaps associated with the Series 2007A bonds were transferred to the Series 2008A&B Bonds while the swaps associated with the Series 2003 Bonds were transferred to the Series 2008D&E Bonds.

Proceeds from the Series 2008 Bonds were used to fund an escrow deposit to refund the bonds and pay costs of issuance. Proceeds of $148,175,000 from the Series 2008A-C Bonds plus funds on hand in the amount of $130,803 were placed in an irrevocable escrow account to be used to pay the principal and interest on the refunded Series 2007A Bonds on July 24, 2008. Proceeds of $132,500,000 from the Series 2008D-H Bonds plus funds on hand in the amount of $85,800 were also placed in an irrevocable escrow account to be used to pay the principal and interest on the refunded Series 2003 Bonds on July 22, 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.

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 Airport System Revenue Bonds, Series 1997A. The Series 2007B Bonds were issued to refund $11,485,000 of outstanding Airport System Revenue Bonds, Series 1997C. 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 $7.2 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.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

Simultaneously with the issuance of the Series 2006A&B Bonds, the City also remarketed the $149,000,000 Airport System Revenue Bonds, Series 2000C. As a result of this remarketing, the Series 2000C 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 2008A& 2008B Bonds (Previously Series 2007A Bonds):

In conjunction with the refunding of the Series 2007A bonds, the interest rate exchange agreements associated with those bonds are now identified to relate to the Series 2008A and the Series 2008B 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 Airport System Revenue Bonds, Series 2007A 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. (Morgan Stanley), Goldman Sachs Capital Markets LP (Goldman Sachs) and RFPC Capital Services, LLC (RFPC) are serving as the counterparties on the transaction. Under the swap agreements now associated with the 2008A and 2008B Bonds, the City is 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.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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 2008A and 2008B 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.

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 swaps at December 31, 2008 as reported by Morgan Stanley, Goldman Sachs and RFPC totaled $16,663,000, which would be payable by the City.

Series 2008D and 2008E Bonds (Previously Series 2003A and 2003B Bonds):

In conjunction with the refunding of the Series 2003A, Series 2003B and the Series 2003C bonds, the interest rate exchange agreements associated with the Series 2003A and Series 2003B bonds are now identified by the City to relate to the Series 2008D and the Series 2008E bonds.

Terms: Simultaneously with the issuance of the City's $140,600,000 Airport System Revenue Bonds, Series 2003A-C 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. (Bear Stearns) was the counterparty on a five-eighths pro rata share of the notional amount of each Series 2003 A&B Bonds while JPMorgan Chase Bank, N.A. (JPM) was the counterparty on the remaining three-eighths of the notional amount. In 2008, Bear Stearns was acquired by JPM and the Bear Stearns swaps have been assumed by JPM. In conjunction with the refunding of the Series 2003A and 2003B Bonds, the interest rate exchange agreements associated with the 2003A and 2003B Bonds are now identified by the City to relate to the Series 2008D and 2008E Bonds. Under the swap agreement now identified with the 2008D Bonds, the airport system is the fixed rate payor, paying a fixed rate of 4.17% semiannually, while the counterparties pay the airport system at the SIFMA index every 35 days. The swap agreement now identified with the 2008E Bonds requires the airport system to pay a fixed rate of 4.27% 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. The periodic swap payments are insured by AMBAC.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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

Basis Risk: By entering into swaps based upon the 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 reduced. The amount received on the Series 2008E 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 selected highly rated counterparties in order to minimize this risk. However, in the wake of the sub-prime mortgage crisis, Bear Stearns was acquired by JPM. The City's swap has now been assumed by JPM. Over the long-term it is possible that the credit strength of JPM could change and this event could trigger a termination payment on the part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to JPM, or by JPM 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, 2008 and December 31, 2007, as reported by JPM was $2,610,000 and $1,405,000, respectively, relating to the Series 2008D Bonds and $7,190,000 and $3,877,000, respectively, relating to the Series 2008E Bonds which would both 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 – DEFERRED PAYMENT OBLIGATION / I-X CENTER

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

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

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

	Deferred Payment Obligation			
	Principal	**Interest**	**Total**	**Future Minimum Rentals**
		(Amounts in 000's)		
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
2013	3,230	159	3,389	3,389
Thereafter	279	2	281	281
	$ 14,200	$ 3,026	$ 17,226	$ 17,226

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2008 and 2007. Of these amounts in 2008 $1,194,000 was offset against interest expense and $2,195,000 was offset against the principal balance of the deferred obligation. 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.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits*:* The Divisions' carrying amount of deposits at December 31, 2008 and 2007 totaled approximately ($1,084,000) and $6,403,000, respectively, and the Divisions' bank balance was approximately $126,000 and $12,977,000, 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*, $126,000 and $12,977,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

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

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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, 2008 and 2007 include U.S. Agencies, U.S. Treasury Bills, repurchase agreements, STAROhio, guaranteed investment contracts and mutual funds. 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 STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Divisions have no investment policy that would further limit its investment choices.

The Divisions have the following investments at December 31, 2008 and 2007, 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	2008 Fair Value	2008 Cost	2007 Fair Value	2007 Cost	Investment Maturities for 2008: Less than One Year	1 - 5 Years	5 Years or More
				(Amounts in 000's)			
U.S. Agency Obligations	$ 80,387	$ 78,367	$ 119,977	$ 117,927	$ 4,079	$ 76,308	$
U.S. Treasury Bills			3,063	3,063			
Repurchase Agreements	8,750	8,750	4,260	4,260	8,750		
STAROhio	113,120	113,120	74,837	74,837	113,120		
Guaranteed Investment Contract	15,000	15,000	43,767	43,767		15,000	
Investment in Mutual Funds	201,495	201,495	170,335	170,335	201,495		
Other	1,084	1,084	538	538	1,084		
Total Investments	419,836	417,816	416,777	414,727	328,528	91,308	
Total Deposits	(1,084)	(1,084)	6,403	6,403	(1,084)		
Total Deposits and Investments	$ 418,752	$ 416,732	$ 423,180	$ 421,130	$ 327,444	$ 91,308	$

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.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. As of December 31, 2008, the investments in U.S. Agency Obligations, STAROhio, guaranteed investment contracts and mutual funds are approximately 19.2%, 27.0%, 3.6% and 48.1%, respectively, of the Divisions total deposits and investments. As of December 31, 2007, the investments in U.S. Agency Obligations, STAROhio, guaranteed investment contracts and mutual funds are approximately 28.4%, 17.7%, 10.3% and 40.3%, respectively, of the Divisions total deposits and investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2008 was as follows:

	January 1, 2008	Additions	Reductions	December 31, 2008
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 165,650	$ 1,473	$	$ 167,123
Construction in progress	30,066	40,036	(66,125)	3,977
Total capital assets, not being depreciated	195,716	41,509	(66,125)	171,100
Capital assets, being depreciated:				
Land improvements	764,147	60,265		824,412
Buildings, structures and improvements	416,449	1,808		418,257
Furniture, fixtures and equipment	49,595	2,579	(80)	52,094
Total capital assets, being depreciated	1,230,191	64,652	(80)	1,294,763
Less: Total accumulated depreciation	(476,295)	(54,203)	80	(530,418)
Total capital assets being depreciated, net	753,896	10,449	-	764,345
Capital assets, net	$ 949,612	$ 51,958	$ (66,125)	$ 935,445

NOTE F – CAPITAL ASSETS (Continued)

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

	January 1, 2007	Additions	Reductions	December 31, 2007
	(Amounts in 000's)			
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

Commitments: As of December 31, 2008 and 2007, the Divisions had capital expenditure purchase commitments outstanding of approximately $41,730,000 and $46,657,000, 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, 2008 and 2007 is approximately $138,491,000 and $143,934,000, respectively.

NOTE G – LEASES AND CONCESSIONS (Continued)

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

(Amounts in 000's)		
2009	$	5,888
2010		6,775
2011		6,288
2012		5,814
2013		5,814
Thereafter		26,611
	$	57,190

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

Contingent operating revenues aggregated approximately $21,271,000 and $25,127,000, respectively, in 2008 and 2007.

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 2008 or 2007. There was no significant decrease in any insurance coverage in 2008 or 2007. 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.

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

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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 2008, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 10.00% in 2008, 9.50% in 2007 and 9.00% in 2006, and employer contribution rates were 14.00% of covered payroll in 2008, 13.85% in 2007 and 13.70% in 2006. The Divisions required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2008, 2007 and 2006 were approximately $1,290,000, $1,400,000 and $1,532,000 each year, respectively. The required payments due in 2008, 2007 and 2006 have been made.

NOTE J – OTHER POSTEMPLOYMENT 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 postemployment 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 postemployment health care coverage. In order to qualify for postemployment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-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 14.00% of covered payroll in 2008, 13.85% of covered payroll in 2007 and 13.70% of covered payroll in 2006. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Postemployment Health Care Plan was established under, and is administrated in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates to fund postemployment health care benefits were 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00 % from July 1, 2007 to December 31, 2007 and 4.50% in 2006. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Divisions actual contributions for 2008 which were to fund postemployment benefits were approximately $1,290,000. 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. The Divisions actual contributions for 2008 which were to fund postemployment benefits were approximately $1,290,000.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2008 and 2007, were as follows:

	2008	2007
	(Amounts in 000's)	
City Central Services, including police	$ 7,819	$ 7,722
Electricity purchased	279	293
Motor vehicle maintenance	743	540

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 2008 and 2007 was a payable to the Airlines of $346,000 and $4,886,000, 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 2008 and 2007.

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 2008, the airport expects to collect approximately $337 million, of which an estimated 27% will be spent on noise abatement for the residents of communities surrounding the airport, 33% on runway expansion, and 40% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues, and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE N – MAJOR CUSTOMER

In 2008 and 2007, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 33% and 33% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

Effective March 5, 2009, the City issued $24,710,000 Airport System Revenue Bonds, Series 2009A (AMT) and $14,670,000 Airport System Revenue Bonds, Series 2009B (Taxable). The Series 2009A Bonds were issued to refund a portion of the outstanding Airport System Revenue Bonds, Series 1997D, in the aggregate principal amount of $24,340,000 and to pay issuance costs. The Series 2009B Bonds were issued to refund all of the outstanding Airport System Revenue Bonds, Series 1997E, in the principal amount of $14,425,000 and to pay issuance costs. The City retired the remaining $10,570,000 of outstanding Series 1997D Bonds with other available funds of the Airport System. The City also funded a required deposit to the bond reserve fund from available funds on hand. The Series 1997 Bonds were refunded in order to replace the existing liquidity provider. The Series 2009 Bonds were issued as weekly variable rate demand obligations secured by direct pay letters of credit issued by U.S. Bank National Association.

On March 31, 2009, the City obtained an amendment to PFC Application Eight in the amount of $20,526,500. The amendment increases the amount of the Passenger Facility Charges that can be used towards paying a portion of the debt service associated with Runway 6L/24R. The amendment will increase the Passenger Facility Charges collection period by approximately one year.

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, 2008

	Cleveland Hopkins International	Burke Lakefront	Total
	(Amounts in 000's)		
REVENUE			
Airline revenue:			
Landing fees	$ 29,287	$	$ 29,287
Terminal rental	25,047		25,047
Other	4,628		4,628
	58,962	-	58,962
Operating revenues from other sources:			
Concessions	$ 27,377	$ 140	$ 27,517
Rentals	10,600	291	10,891
Landing fees	1,397	141	1,538
Other	8,963	130	9,093
	48,337	702	49,039
Non-operating revenue:			
Interest income	2,747		2,747
TOTAL REVENUE	$ 110,046	$ 702	$ 110,748
OPERATING EXPENSES			
Salaries and wages	$ 18,130	$ 984	$ 19,114
Employee benefits	7,431	396	7,827
City Central Services, including police	8,258	300	8,558
Materials and supplies	8,447	260	8,707
Contractual services	30,222	457	30,679
TOTAL OPERATING EXPENSES	$ 72,488	$ 2,397	$ 74,885

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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, 2008. 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, 2008.

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 directly and materially affect the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees when performing their assigned function, to prevent or detect noncompliance with the passenger facility charge on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Divisions' ability to administer the program such that there is more than a remote likelihood that the Divisions' internal control will not prevent or detect more-than-inconsequential noncompliance with the passenger facility charge compliance requirements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Divisions' internal control will not prevent or detect material noncompliance with the passenger facility charge compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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's basic financial statements, as of and for the years ended December 31, 2008 and December 31, 2007, and have issued our report thereon dated June 25, 2009. 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 25, 2009

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, 2008

	Approved Project Budget	Cumulative Expenditures at 12/31/07	1st Quarter 2008 Expenditures	2nd Quarter 2008 Expenditures	3rd Quarter 2008 Expenditures	4th Quarter 2008 Expenditures	Total 2008 Expenditures	Cumulative Expenditures at 12/31/08
Insulate Residences - full program phase I	16,960,400	16,960,400						16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743						2,155,743
Land Acquisition - Resident Relocation	14,689,459	14,689,459						14,689,459
Sewer Construction	5,500,000	5,500,000						5,500,000
Asbestos Removal in Terminal CHIA	729,842	729,843						729,843
Acquisition of Analex Office Building and Vacant Land	13,025,000	13,025,000						13,025,000
Waste Water-Glycol Collection System Construction	5,835,921	5,835,921						5,835,921
NASA Feasibility and Pre-engineering Study	355,000	355,000						355,000
Land Acquisition	30,360,000	25,282,298						25,282,298
Sound Insulation	8,675,000	8,595,641						8,595,641
Environmental Assessment/Impact Studies	2,309,570	2,309,570						2,309,570
Terminal Passenger Flow and Security Study	300,000							
Railway System/Vehicular Ingress-Egress Study	200,000							
Brook Park Land Transfer	8,750,000	6,554,170				826,391	826,391	7,380,561
Analex Demolition	1,229,000	564,089				116,072	116,072	680,161
Sound Insulation	20,000,000	14,955,932				944,446	944,446	15,900,378
Baggage Claim/Expansion	9,526,087	9,526,086						9,526,086
Tug Road Replacement	1,019,000	668,553						668,553
Interim Commuter Ramp	5,560,338	4,162,114				525,144	525,144	4,687,258
Concourse D Ramp/Site Utilities	51,305,804	38,409,328				4,845,558	4,845,558	43,254,886
Burke Runway Overlay 6L/24R	530,286	530,286						530,286
Install Instrument Landing System-Burke	2,181,400	1,234,898				206,022	206,022	1,440,920
Runway 6L/23R	82,106,000	36,356,256				7,754,470	7,754,470	44,110,726
Runway 6R/24L Uncoupling	2,148,000	2,148,000						2,148,000
Runway 10/28 Safety Improvements	2,200,000	966,544						966,544
Midfield Deicing Pad	39,100,000	39,100,000						39,100,000
Taxiway M Improvements	10,000,000	9,462,060	5,000			112,000	117,000	9,579,060
	336,751,850	260,077,191	5,000			15,330,103	15,335,103	275,412,294

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, 2008

General

The accompanying schedule presents all activity of the Airport's Passenger Facility Charge (PFC) program. The Airport's reporting entity is defined in Note A – Summary of Significant Accounting Policies to the Airports' financial statement.

Basis of Presentation

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

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
SEPTEMBER 29, 2009

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