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, 2010 and 2009

CITY OF CLEVELAND, OHIO

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

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

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, Ohio (the Divisions) as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Divisions' management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Divisions as of December 31, 2009 were audited by other auditors whose report dated June 28, 2010, expressed an unqualified opinion on those financial statements. As discussed in Note A to the basic financial statements, the Divisions have adjusted its 2009 financial statements to retrospectively apply Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The other auditors reported on the financial statements before the retrospective adjustment.

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

As described 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 as of December 31, 2010 and 2009, 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 State of America.

As described in Note A, during the year ended December 31, 2010, the Divisions implemented Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio as of December 31, 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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We also audited the adjustment to the 2009 financial statements to retrospectively apply the change in accounting as described in Note A. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the Divisions' 2009 financial statements other than with respect to the adjustment and, accordingly, we do not express an opinion or other form of assurance on the 2009 financial statements as a whole.

The management's discussion and analysis on pages 3-14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of airport revenues and operating expenses as defined in the airline use agreement for the year ended December 31, 2010 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 24, 2011

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 (CLE) and Burke Lakefront (BKL) 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, 2010 and December 31, 2009. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 16.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airport 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 2010, the Divisions were served by 27 scheduled airlines and three cargo airlines. There were 90,000 scheduled landings with landed weight amounting to 5,907,546,000 pounds. There were 4,745,000 passengers enplaned at Cleveland Hopkins International Airport, and 87,000 passengers enplaned at Burke Lakefront Airport during 2010. In 2009, the Divisions were served by 29 scheduled airlines and three cargo airlines. There were 93,000 scheduled landings with landed weight amounting to 6,265,656,000 pounds. There were 4,855,000 passengers enplaned at Cleveland Hopkins International Airport, and 83,000 passengers enplaned at Burke Lakefront Airport during 2009.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $401,879,000, $395,666,000 and $420,858,000 at December 31, 2010, 2009 and 2008, respectively. Of these amounts, $148,100,000, $136,953,000 and $143,845,000 (unrestricted net assets) at December 31, 2010, 2009 and 2008, respectively, may be used to meet the Divisions ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $6,213,000 in 2010. In 2010, net assets restricted for debt service decreased due to the decrease in long-term debt due within one year, resulting from accelerating the payment of Airport System Revenue Bonds Series 2000B in January 2010. These funds were transferred to the bond trustee prior to the close of 2009. Also in 2010, net assets restricted for passenger facility charges increased slightly due a decrease in the amount of passenger facility charges expended in 2010.

- Additions to construction in progress totaled $25,497,000, $41,086,000 and $40,036,000 in 2010, 2009 and 2008, respectively. The major capital expenditures during 2010 were for the Taxiway Q and Hold Pad, extension of Runway 6R/24L, Runway 10/28 Safety Improvements, and sound insulation of homes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- Approximately, 48.9% was spent on the construction of Taxiway Q and Hold Pad, 8.4% was spent on sound insulation of homes, and 7.7% was spent on Runway 10/28 Safety Improvements. The major capital expenditures during 2009 were for the upgrading and enhancement of the terminal utilities, extension of Runway 6R/24L, Taxiway L reconstruction, and sound insulation of homes.

- The Divisions total bonded debt decreased by $52,480,000, $15,465,000 and $8,755,000 during 2010, 2009 and 2008, respectively. The key factor for this decrease was the payment of principal on the Series 1997, 2000, 2003, 2006, and 2007 Airport System Revenue Bonds and the accelerated payment of the principal on the Series 2000B bonds**.** In 2009, the City issued $248,280,000 of Airport System Revenue Bonds, Series A through D, which refunded the Series 1997E Bonds, a portion of the Series 1997D Bonds and the Series 2008A, B, C and E Bonds. In 2008, the key factors for the decrease in total bonded debt were the payment of principal on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds. The City issued $288,780,000 of Airport System Revenue Bonds in 2008, which refunded a portion of the Series 2007A and Series 2003A-C 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 16-21 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 23-46 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, 2010, 2009 and 2008:

	2010	2009	2008
	(Amounts in 000's)		
Assets:			
Current assets	$ 106,802	$ 98,294	$ 101,470
Restricted assets	262,691	298,372	336,548
Unamortized bond issuance costs	17,453	19,240	7,776
Deferred outflows of resources	7,715	6,992	9,800
Capital assets, net	900,508	917,922	935,445
Total assets	$ 1,295,169	$ 1,340,820	$ 1,391,039
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 53,558	$ 89,227	$ 59,636
Long-term obligations	839,732	855,927	910,545
Total liabilities	893,290	945,154	970,181
Net assets:			
Invested in capital assets, net of related debt	124,506	94,145	117,883
Restricted for debt service	103,701	141,879	108,323
Restricted for passenger facility charges	25,572	22,689	50,807
Unrestricted	148,100	136,953	143,845
Total net assets	401,879	395,666	420,858
Total net assets and liabilities	$ 1,295,169	$ 1,340,820	$ 1,391,039

Assets: Total assets decreased $45,651,000 and $50,219,000 during 2010 and 2009, respectively. The decrease in capital assets, net of accumulated depreciation, accounted for $17,414,000 or 38.1% of this change**.** This decrease was primarily due to depreciation recognized in 2010, which was partially offset by capital asset additions. Unamortized bond issuance costs decreased in 2010 due to the recognition of amortization of the bond issuance costs. Unamortized bond issuance costs increased in 2009 due to the increase of bond issuance cost in relation to the issuance of the Series 2009 Bonds and the termination of the swap relating to the 2008 Series A and B bonds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2010 amounted to $900,508,000 (net of accumulated depreciation), which is a decrease of 1.9%. The Divisions' investment in capital assets as of December 31, 2009 amounted to $917,922,000 (net of accumulated depreciation), which was a decrease of 1.9%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure, vehicles, and construction in progress. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010
		(Amounts in 000's)		
Land	$ 167,457		$	$ 167,457
Land improvements	72,568			72,568
Buildings, structures and improvements	328,738			328,738
Furniture, fixtures, and equipment	22,801	14		22,815
Infrastructure	885,928	24,979		910,907
Vehicles	13,534	296		13,830
Total	1,491,026	25,289		1,516,315
Less: Accumulated depreciation	(582,623)	(49,999)		(632,622)
Total	908,403	(24,710)		883,693
Construction in progress	9,519	25,497	(18,201)	16,815
Capital assets, net	$ 917,922	$ 787	$ (18,201)	$ 900,508

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2009 is as follows:

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009
	(Amounts in 000's)			
Land	$ 167,123	$ 334	$	$ 167,457
Land improvements	72,568			72,568
Buildings, structures and improvements	318,288	10,450		328,738
Furniture, fixtures, and equipment	19,687	3,114		22,801
Infrastructure	870,685	15,243		885,928
Vehicles	13,535		(1)	13,534
Total	1,461,886	29,141	(1)	1,491,026
Less: Accumulated depreciation	(530,418)	(52,205)		(582,623)
Total	931,468	(23,064)	(1)	908,403
Construction in progress	3,977	41,086	(35,544)	9,519
Capital assets, net	$ 935,445	$ 18,022	$ (35,545)	$ 917,922

Major events during 2010 and 2009 affecting the Divisions' capital assets included the following:

- Runway 10/28 Safety Improvement project will provide incremental enhancements to the safety area surrounding Runway 10/28, including installation of an Engineered Material Arresting System (EMAS) and relocation of the approach lighting system (ALS). Estimated cost: $38.3 million.

- The Airport Utility Upgrade project will include both retrofitting existing terminal space and adding additional space for the purpose of increasing the square footage available for airport concessions throughout the terminal and concourses. This project will also include relocation of the airport chapel and a new telephone system. However, the majority of the project costs will be incurred expanding the capacity of the utilities on various concourses to accommodate the new concession locations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

- The SIDA Security System Enhancements project will complete the third phase of a comprehensive series of security improvements at the Airport. The third phase will provide a fiber security backbone for the northern and southern portions of the airfield in order to integrate perimeter fence, remote parking areas and out buildings on the perimeter into the existing security system. Benefits of this program will include video security of critical airfield, perimeter and other security areas not currently covered, as well as the enhancement of the computer capacity in order to integrate and store security system data.

- In order to facilitate the construction of a new air traffic control tower at the Airport, the City was awarded a $16.3 million grant from the FAA through the American Recovery and Reinvestment Act (ARRA), in April 2009, to construct Taxiway Q and Hold Pad. The construction began the 3rd quarter of 2009 with completion of the project in the 4th quarter of 2010.

Additional information on the Divisions' capital assets, including commitments made for future capital expenditures can be found in Note A – Summary of Significant Accounting Policies and Note F – Capital Assets to the basic financial statements.

Liabilities: In 2010 and 2009, total liabilities decreased $51,864,000 and $25,027,000, respectively. In 2010, the decrease in long-term obligations was $16,195,000 or 1.9%. Current liabilities decreased $35,669,000 or 40.0% as the current portion of long-term debt, which in 2009 resulted from accelerated debt payment redeeming Airport System Revenue Bonds Series 2000B with a principal balance of $30,030,000 did not occur in 2010. Long-term obligations decreased due to the payment of principal on the Series 2000, 2006, 2007, 2008 and 2009 Airport System Revenue Bonds. In 2009, the decrease in long-term obligations was $54,618,000 or 6.0%. Current liabilities increased $29,591,000 or 49.6% due to the recognition of additional current portion of long-term debt, due within one year. The increase is the result of an accelerated debt payment redeeming Airport System Revenue Bonds Series 2000B with a principal balance of $30,030,000 at December 31, 2009. Long-term obligations decreased due to the payment of principal on the Series 1997, 2000, 2006, 2007, and 2008 Airport System Revenue Bonds.

Long-term debt: At December 31, 2010 and 2009, the Divisions had $849,260,000 and $901,740,000, respectively, in total bonded 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, 2010 is summarized below:

	Balance January 1, 2010	Debt Issued	Debt Retired	Balance December 31, 2010
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 437,485		$ (39,040)	$ 398,445
Series 2006	118,570		(1,120)	117,450
Series 2007	11,175		(495)	10,680
Series 2008	86,230		(2,070)	84,160
Series 2009	248,280		(9,755)	238,525
Total	$ 901,740	$	$ (52,480)	$ 849,260

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2009 is summarized below:

	Balance January 1, 2009	Debt Issued	Debt Retired	Balance December 31, 2009
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 1997	$ 52,485	$	$ (52,485)	$ -
Series 2000	446,020		(8,535)	437,485
Series 2006	118,665		(95)	118,570
Series 2007	11,255		(80)	11,175
Series 2008	288,780		(202,550)	86,230
Series 2009		248,280		248,280
Total	$ 917,205	$ 248,280	$ (263,745)	$ 901,740

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings from Moody's Investors Service, Standard & Poor's Rating Service, and Fitch Ratings are as follows:

Moody's Investors Service	Standard & Poor's Rating Service	Fitch Ratings
Baa1	A-	A

On November 18, 2010, Moody's Investors Service lowered its rating on the Airport System Revenue Bonds from A3 to Baa1.

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 2010, 2009 and 2008, was 160%, 165% and 149%, respectively.

In addition, the Divisions entered into two derivative or hedging agreements in 2003. Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. A detailed description of the outstanding derivative, including its terms, objectives, risks and fair value, can be found in Note B – Long-Term Debt to the basic financial statements.

In accordance with the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Divisions have reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflects the prevailing interest rate environment at December 31, 2010 and December 31, 2009. The fair values of the swaps have been provided by the counterparty and confirmed by the City's financial advisor.

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

Net Assets: Net assets serve as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $401,879,000, $395,666,000 and $420,858,000 at December 31, 2010, 2009 and 2008, respectively. Of the Divisions' net assets at December 31, 2010 and 2009, $124,506,000 and $94,145,000, respectively, reflects its investment in capital assets (e.g., land, land improvements, buildings, fixtures, equipment, infrastructure, and vehicles), 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

An additional portion of the Divisions' net assets represents resources that are subject to external restrictions. At December 31, 2010 and 2009 these restricted net assets amounted to $129,273,000 and $164,568,000, 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, $148,100,000 and $136,953,000 for December 31, 2010 and 2009, 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 2010 and 2009 increased its net assets by $6,213 and decreased $25,192,000, respectively. Provided below are key elements of the Divisions results of operations as of and for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
		(Amounts in 000's)	
Operating revenues			
Landing fees	$ 26,356	$ 28,678	$ 30,825
Terminal and concourse rentals	52,670	43,646	40,660
Concessions	21,496	21,535	27,517
Utility sales and other	6,174	4,284	12,388
Total operating revenues	106,696	98,143	111,390
Operating expenses	120,151	120,636	129,076
Operating income (loss)	(13,455)	(22,493)	(17,686)
Non-operating revenue (expense):			
Passenger facility charges revenue	18,820	19,378	21,828
Non-operating expense	(2,299)	(9,062)	(2,041)
Sound insulation program	(2,545)	(4,215)	(996)
Rebate arbitrage expense			(342)
Interest income	1,088	1,915	11,865
Interest expense	(30,442)	(31,127)	(37,694)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,754)	(3,746)	(2,093)
Total non-operating revenue (expense), net	(18,132)	(26,857)	(9,473)
Capital and other contributions	37,800	24,158	24,762
Increase (decrease) in net assets	6,213	(25,192)	(2,397)
Net assets, beginning of year	395,666	420,858	423,255
Net assets, end of year	$ 401,879	$ 395,666	$ 420,858

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating revenues**:* Of the 2010 operating revenues of $106,696,000, $25,037,000 or 23.5% represented landing fees received from signatory airlines. This is a decrease of 6.2% from the prior year. Signatory terminal rentals accounted for $36,387,000, or 34.1% of total operating revenues. The increase in signatory terminal rent of 32.7% is a result of an increase in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues increased 6.1% over the prior year due to an increase in the demand for airport parking. Parking revenues amounted to $12,601,000 or 11.8% of total operating revenues for 2010. The fourth largest airport revenue source, rental cars, accounted for 8.7% of total operating revenues, which is an increase of 1.9% from 2009.

Of the 2009 operating revenues of $98,143,000, $26,703,000 or 27.2% represented landing fees received from signatory airlines. This is a decrease of 8.8% from the prior year. Signatory terminal rentals accounted for $27,425,000, or 27.9% of total operating revenues. The increase of 9.5% is a result of an increase in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues decreased 26.1% over the prior year due to a decrease in the demand for airport parking. Parking revenues amounted to $11,875,000 or 12.1% of total operating revenues for 2009. The fourth largest airport revenue source, rental cars, accounted for 9.3% of total operating revenues, which is a decrease of 9.0% from 2008.

***Operating expenses**:* Total operating expenses for 2010 decreased $485,000 or 0.4%. The decrease is primarily due to a 21.9% decrease in maintenance expenses which was the result of the Divisions' tightening of budgetary control on spending. In addition, depreciation expense decreased by 4.2%. These decreases were partially offset by modest increases in costs associated with utility, property taxes and professional fees. Employee salaries, wages and benefits increased .3% due to increases in employee benefits. Total operating expenses for 2009 decreased $8,440,000 or 6.5%. Operations expenses decreased 8.7% mainly due to decreases in utilities, taxes and professional fees. Employee salaries, wages and benefits increased 1.3% due to employee cost of living increases, and related increase in employer contribution for pension benefits. Maintenance expenses decreased 7.7% mainly attributed to the Divisions' ability to monitor and control repair and maintenance expense. Depreciation expense decreased by 3.7%.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $2,545,000, $4,215,000, and $996,000 in 2010, 2009 and 2008, respectively. In 2010 there were less construction related expenses in the Sound Insulation Program versus in 2009, which focused on warranty related work. Also in 2010, interest income decreased to $1,088,000 from $1,915,000 in 2009; a decrease of 43.2%. Passenger Facility Charge revenues decreased 2.9%, from $19,378,000 in 2009 to $18,820,000 in 2010 resulting from a decrease in the number of passenger enplanements.

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

Capital and other contributions: In 2010, 2009 and 2008, the Divisions received $37,800,000 $24,158,000 and $24,762,000, respectively, in Federal Airport Improvement Grants. In 2009, American Reinvestment and Recovery Act of 2009 (ARRA) grants in the amount of $16,324,000 were received by the Divisions' from the Department of Transportation – Federal Aviation Administration. The ARRA grants were used to construct Taxiway Q and Hold Pad to improve the safety of the airport airfield. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the Residential Sound Insulation Program, airfield safety improvements, the construction of runway 6L/24R and uncoupling of runway 6R/24L.

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS

Continental Airlines and United Airlines (collectively "Continental") entered into a Settlement Agreement ("Agreement") with the Office of the Attorney General of the State of Ohio ("AG") effective October 31, 2010 ("Merger Closing Date") to resolve the AG's investigation of the antitrust implications of their proposed merger. Pursuant to the terms of the Agreement Continental agreed to maintain, for a period of 24-months from the Merger Closing Date, average daily departures from the Airport at no less then ninety (90%) percent of average daily departures in the year prior to the Merger Closing Date ("Base Departure Commitment"). In addition the Agreement contains an additional three year commitment for average daily departures at the Base Departure Commitment level subject to certain metrics based on Airport segment profitability as more fully outlined in the Agreement. The Agreement gives the AG's office the right to audit Airport segment profitability at Continental's expense up to $80,000 per annum. Continental also agreed to maintain its current Airport aircraft maintenance facility at a level of operations commensurate with the 12-month period immediately preceding the merger. Any reduction in the Base Departure Commitment may result in a reduction in aircraft maintenance facility operations. Other commitments include continuation of the Cleveland Air Service Working Group during the effective period of the Agreement and a penalty based on an amount equal to the percentage by which Continental is found to have breached its minimum departure commitments of $20 million. Pursuant to the terms of a separate Memorandum of Understanding between the City and the AG's office any monies collected from Continental pursuant to this penalty will be forwarded to the City. The AG's office has also agreed to inform the City whether, as a result of its audits any of the metrics outlined in the Agreement have been triggered or are likely to be triggered.

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, 2010 and 2009

	(Amounts in 000's) 2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 82,872	$ 65,757
Restricted cash and cash equivalents	3,775	6,253
Investments		10,316
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,986,000 in 2010 and $1,921,000 in 2009	8,421	3,117
Unbilled revenue	4,415	3,742
Landing fees - due from airlines	4,112	4,136
Accrued interest receivable		192
Total receivables	16,948	11,187
Prepaid expenses	332	583
Due from other City of Cleveland departments, divisions or interfund accounts	96	25
Due from federal government	722	2,014
Materials and supplies-at cost	2,057	2,159
TOTAL CURRENT ASSETS	106,802	98,294
RESTRICTED ASSETS		
Cash and cash equivalents	258,114	293,743
Investments	2,029	2,104
Accrued interest receivable	25	25
Bond retirement reserve	53	53
Accrued passenger facility charges	2,470	2,447
TOTAL RESTRICTED ASSETS	262,691	298,372
UNAMORTIZED BOND ISSUANCE COSTS	17,453	19,240
DEFERRED OUTFLOWS OF RESOURCES	7,715	6,992
CAPITAL ASSETS		
Land	167,457	167,457
Land improvements	72,568	72,568
Buildings, structures and improvements	328,738	328,738
Furniture, fixtures, equipment	22,815	22,801
Infrastructure	910,907	885,928
Vehicles	13,830	13,534
	1,516,315	1,491,026
Less: Accumulated depreciation	(632,622)	(582,623)
	883,693	908,403
Construction in progress	16,815	9,519
CAPITAL ASSETS, NET	900,508	917,922
TOTAL ASSETS	$ 1,295,169	$ 1,340,820

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2010 and 2009

	(Amounts in 000's) 2010	2009
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 14,705	$ 52,480
Current portion of long-term deferred payment obligation, due within one year	2,767	2,562
Accounts payable	2,510	3,779
Due to other City of Cleveland departments, divisions or interfund accounts	1,069	1,174
Current portion of accrued wages and benefits	4,129	4,222
Accrued interest payable	18,111	18,196
Accrued property taxes	6,492	216
Construction fund payable from restricted assets	1,898	1,928
Other construction accounts payable from restricted assets	1,877	4,324
Landing fee adjustment - payable to Airlines		346
TOTAL CURRENT LIABILITIES	53,558	89,227
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	824,866	838,924
Derivative instruments-interest rate swaps	7,715	6,992
Deferred payment obligation	6,500	9,268
Accrued wages and benefits	651	743
TOTAL LONG-TERM OBLIGATIONS	839,732	855,927
TOTAL LIABILITIES	893,290	945,154
NET ASSETS		
Invested in capital assets, net of related debt	124,506	94,145
Restricted for debt service	103,701	141,879
Restricted for passenger facility charges	25,572	22,689
Unrestricted	148,100	136,953
TOTAL NET ASSETS	401,879	395,666
TOTAL LIABILITIES AND NET ASSETS	$ 1,295,169	$ 1,340,820

(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, 2010 and 2009

	(Amounts in 000's) 2010	2009
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 25,037	$ 26,703
Other	1,319	1,975
	26,356	28,678
Terminal and concourse rentals:		
Scheduled airlines	36,387	27,425
Other	16,283	16,221
	52,670	43,646
Concessions	21,496	21,535
Utility sales and other	6,174	4,284
TOTAL OPERATING REVENUES	106,696	98,143
OPERATING EXPENSES		
Operations	66,439	63,679
Maintenance	3,713	4,752
Depreciation and amortization	49,999	52,205
TOTAL OPERATING EXPENSES	120,151	120,636
OPERATING INCOME (LOSS)	(13,455)	(22,493)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	18,820	19,378
Non-operating expense	(2,299)	(9,062)
Sound insulation program	(2,545)	(4,215)
Interest income	1,088	1,915
Interest expense	(30,442)	(31,127)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(2,754)	(3,746)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(18,132)	(26,857)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(31,587)	(49,350)
Capital and other contributions	37,800	24,158
INCREASE (DECREASE) IN NET ASSETS	6,213	(25,192)
NET ASSETS, BEGINNING OF YEAR	395,666	420,858
NET ASSETS, END OF YEAR	$ 401,879	$ 395,666

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, 2010 and 2009

	(Amounts in 000's) 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 96,848	$ 91,129
Cash payments to suppliers for goods and services	(36,896)	(45,368)
Cash payments to employees for services	(27,813)	(27,390)
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,139	18,371
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(3,165)	(3,610)
Cash payments for other non-operating costs	(3,154)	(3,142)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(6,319)	(6,752)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(27,416)	(37,432)
Rebate arbitrage payment		
Cash receipts for passenger facility charges	18,798	19,409
Proceeds from revenue bonds		238,078
Transfer to escrow agent for bond refunding		(246,915)
Principal paid on long-term debt	(52,480)	(20,250)
Interest paid on long-term debt	(36,471)	(32,846)
Capital grant proceeds	39,092	25,042
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(58,477)	(54,914)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investment securities	9,999	66,368
Interest received on investments	1,666	4,316
NET CASH PROVIDED BY INVESTING ACTIVITES	11,665	70,684
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,992)	27,389
Cash and cash equivalents, beginning of year	365,753	338,364
Cash and cash equivalents, end of year	$ 344,761	$ 365,753

(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, 2010 and 2009

	(Amounts in 000's) 2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (13,455)	$ (22,493)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	49,999	52,205
Non-cash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	(5,112)	938
Unbilled revenue	(673)	1,931
Landing fees - due from airlines	24	(4,136)
Prepaid expenses	251	101
Due from other City departments, divisions or funds	(71)	53
Materials and supplies, at cost	102	271
Accounts payable	(1,269)	90
Due to other City departments, divisions or funds	(105)	19
Accrued wages and benefits	(93)	(78)
Landing fees - due to airlines	(346)	
Accrued property taxes	6,276	(7,141)
TOTAL ADJUSTMENTS	45,594	40,864
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 32,139	$ 18,371

(Concluded)

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

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 November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The Divisions have determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The Divisions have determined that GASB Statement No. 51 has no material impact on its financial statements as of December 31, 2010, to the easements granted for residents under the Residential Sound Insulation Program. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the year ended December 31, 2010. The Divisions have implemented GASB Statement No. 53 and its effects have been included in its financial statements as of December 31, 2010 and December 31, 2009.

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 notes. 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) guidance 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 guidance (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 guidance.

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 2010 and 2009. 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, 2010 and 2009.

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, equipment and vehicles 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:

Land Improvements	3 to 75 years
Buildings, structures and improvements	5 to 50 years
Furniture, fixtures and equipment	3 to 35 years
Infrastructure	3 to 50 years
Vehicles	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 Financial Accounting Standards Board guidance pertaining to capitalization of interest cost in situations involving certain tax-exempt borrowings and certain gifts and grants, for its revenue bonds. This guidance 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 2010 and 2009, total interest costs incurred amounted to $37,226,000 and $39,511,000, respectively, of which $6,778,000 and $8,349,000, respectively, was capitalized, net of interest income of $6,000 in 2010 and $35,000 in 2009.

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 of 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, 2010 and 2009 are as follows:

	2010 Due From	2010 Due To	2009 Due From	2009 Due To
	(Amounts in 000's)			
City of Cleveland General Fund	$ 96	$ 263	$ 25	$ 242
Division of Water Pollution Control		81		82
Division of Cleveland Public Power		19		21
Division of Research Planning & Development				
Workers' Compensation Refund Reserve		509		767
Division of Radio Communication		6		3
Division of Printing		3		2
Division of Motor Vehicle Maintenance		111		42
Division of Water				
Division of Telephone Exchange		77		15
	$ 96	$ 1,069	$ 25	$ 1,174

NOTE B – LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2010	2009
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 2000, due through 2031	4.00%-5.00%	573,190	$ 398,445	$ 437,485
Series 2006, due through 2024	5.00%-5.25%	118,760	117,450	118,570
Series 2007, due through 2027	4.00%-5.00%	11,255	10,680	11,175
Series 2008, due through 2033	Variable Rate	88,195	84,160	86,230
Series 2009, due through 2027	.17%-5.00%	248,280	238,525	248,280
		$ 1,039,680	849,260	901,740
Unamortized (discount) premium			14,197	16,103
Unamortized loss on debt refunding			(23,886)	(26,439)
Current portion (due within one year)			(14,705)	(52,480)
Total Long-Term Debt excluding the deferred payment obligation			$ 824,866	$ 838,924

Summary: Changes in long-term obligations for the year ended December 31, 2010 are as follows:

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 437,485		$ (39,040)	$ 398,445	$
Series 2006	118,570		(1,120)	117,450	1,180
Series 2007	11,175		(495)	10,680	505
Series 2008	86,230		(2,070)	84,160	2,180
Series 2009	248,280		(9,755)	238,525	10,840
Total revenue bonds	901,740		(52,480)	849,260	14,705
Accrued wages and benefits	4,965	252	(437)	4,780	4,129
Total	$ 906,705	$ 252	$ (52,917)	$ 854,040	$ 18,834

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 1997	$ 52,485	$	$ (52,485)	$ -	$
Series 2000	446,020		(8,535)	437,485	39,040
Series 2006	118,665		(95)	118,570	1,120
Series 2007	11,255		(80)	11,175	495
Series 2008	288,780		(202,550)	86,230	2,070
Series 2009		248,280		248,280	9,755
Total revenue bonds	917,205	248,280	(263,745)	901,740	52,480
Accrued wages and benefits	4,982		(17)	4,965	4,222
Total	$ 922,187	$ 248,280	$ (263,762)	$ 906,705	$ 56,702

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

	Principal	Interest	Total
		(Amounts in 000's)	
2011	$ 14,705	$ 40,759	$ 55,464
2012	14,995	40,111	55,106
2013	15,820	39,404	55,224
2014	27,345	38,411	65,756
2015	28,865	37,117	65,982
2016-2020	173,845	162,472	336,317
2021-2025	218,470	115,576	334,046
2026-2030	279,545	55,259	334,804
2031-2033	75,670	2,691	78,361
Total	$ 849,260	$ 531,800	$ 1,381,060

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, is classified as restricted assets in these financial statements.

As of December 31, 2010 and 2009, 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, 2010 and 2009 is as follows:

Bond Issue	2010	2009
	(Amounts in 000's)	
Series 2000 A	$0	$111,435

The City has pledged future airport revenues to repay $849,260,000 in Airport System Revenue Bonds issued in various years since 2000. Proceeds from the bonds provided financing for airport facilities. The bonds are payable from airport revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 62% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,381,060,000. Principal and interest paid for the current year and total net revenues were $51,092,000 and $81,901,000, respectively.

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). Proceeds of the Series 2009A Bonds were used 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. Proceeds of the Series 2009B Bonds were used to refund all of the outstanding $14,425,000 Series 1997E Airport System

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds and to pay issuance costs. The City retired the remaining $10,570,000 Series 1997D Bonds using other available funds of the Airport System (Passenger Facility Charge revenues). 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 2009A&B Bonds were issued as weekly variable rate demand obligations and are secured by direct pay letters of credit provided by U.S. Bank National Association.

Effective August 27, 2009, the City issued $159,875,000 Airport System Revenue Bonds, Series 2009C and $49,025,000 Airport System Revenue Bonds, Series 2009D. Proceeds of the Series 2009C Bonds were used to currently refund the outstanding $148,555,000 variable rate Series 2008A-C Airport System Revenue Bonds on the date of closing. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. In addition, the City used proceeds of the Series 2009C Bonds to pay amounts owed to counterparties upon the early termination, at the City's option, of interest rate hedge agreements relating to the Series 2008A&B Bonds, to fund a deposit to the Bond Service Reserve Fund and to pay issuance costs. The Series 2009C Bonds were issued as fixed rate bonds. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4,793,000 or 3.23% as a result of the refunding.

The Series 2009D Bonds were issued to currently refund the outstanding $49,025,000 Airport System Revenue Bonds, Series 2008E on August 27, 2009. The City issued the 2009D Bonds in order to take advantage of provisions of the American Recovery and Reinvestment Act (ARRA). As a result of ARRA, the City was able to refund the Series 2008E Bonds, which had been originally issued subject to the Alternative Minimum Tax (AMT), as Non-AMT Bonds and thereby achieve debt service savings. The Series 2009D Bonds were issued as variable rate demand bonds secured by a letter of credit provided by KBC Bank N.V.

In December 2009, the Airport System, under its rights to optional redemption, deposited cash on hand into the Series 2000 principal payment account in an amount sufficient to redeem, prior to maturity, all of the outstanding Series 2000B Bonds. Cash totaling $30,330,300 was placed into the account to pay principal in the amount of $30,030,000 and redemption premium in the amount of $300,300 on January 1, 2010. An irrevocable notice of the full redemption of the bonds was issued by the trustee on November 30, 2009.

Interest Rate Swap Transactions:

Series 2008A& 2008B Bonds (Previously Series 2007A Bonds):

In conjunction with the refunding on August 27, 2009 of the Series 2008A&B Bonds by the Series 2009C Bonds, the interest rate exchange agreements associated with the Series 2008A&B Bonds were terminated at the City's option. The City paid a total of $9,960,000 to Morgan Stanley Capital Services, Inc., Goldman Sachs Capital Markets, LP., and RFPC Capital Services, LLC, (the swap counterparties) upon the early termination of the hedge agreements.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

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) served as the counterparties on the transaction. Under the swap agreements associated with the Series 2008A&B Bonds, the City was the fixed rate payor, paying a fixed rate of 4.037%. Each counterparty was 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 were exchanged on the first of each month.

The obligation of the City to make periodic payments (but not any termination payment) was 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 realized by the City depended upon the net payments received under the swap agreement.

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments were 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 was greatly reduced. The amount received on the Series 2008A and 2008B Bonds incorporated 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 were less than the amount paid to the counterparty, the City was required to 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 was possible that the credit strength of Morgan Stanley, Goldman Sachs or RFPC Capital Services 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 have been 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 swaps were terminated effective August 27, 2009 at a value of $9,960,000 which was payable to the counterparties.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Series 2008D and Series 2009D Bonds (Previously Series 2003A and Series 2008E 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 2009D 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&B Bonds, the interest rate exchange agreements associated with the 2003A&B Bonds are now identified by the City to relate to the Series 2008D and Series 2009D Bonds. Under the swap agreement now identified with the Series 2008D Bonds, the Airport System is the fixed rate payor, paying a fixed rate of 4.17% semiannually, while the counterparty pays the Airport System at the SIFMA index every 35 days. The swap agreement now identified with the Series 2009D Bonds requires the Airport System to pay a fixed rate of 4.27% semiannually and the counterparty pays 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.

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 2009D Bonds incorporates an additional 10 basis points to take into account the fact that the originally issued underlying bonds had been subject to the "Alternative Minimum Tax". The Series 2009D Bonds were issued as Non-AMT bonds pursuant to the American Recovery and Reinvestment Act of 2009.

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.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to 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, including accrued amounts, at December 31, 2010 and December 31, 2009, as reported by JPM was $2,054,000 and $1,895,000, respectively, relating to the Series 2008D Bonds and $5,661,000 and $5,097,000, respectively, relating to the Series 2009D Bonds which would both be payable by the City.

Derivative Instruments:

Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. The Divisions have entered into derivative or hedging agreements in 2003. A detailed description of each outstanding derivative, including its terms, objectives, risks and fair value, can be found in the preceding section.

The Divisions have reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2010 and December 31, 2009. The specific terms and conditions of each swap have been provided by the counterparty and confirmed by the City's financial advisor.

The following tables present the fair value balances and notional amounts of the Divisions' derivative instruments outstanding at December 31, 2010 and December 31, 2009, classified by type and the changes in fair value of these derivatives during FYs 2010 and 2009 as reported in the respective financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2010 and December 31, 2009 and the specific terms and conditions of the swaps, have been provided by the counterparty and confirmed by the City's financial advisor.

	Changes in Fair Value		Fair Value at December 31, 2010		
	Classification	Amount	Classification	Amount	Notional
			(Amounts in 000's)		
Cash Flow Hedges					
Floating to fixed interest rate swaps					
2008D Airport Swap	Deferred Outflow	($159)	Debt	($2,054)	$17,025
2009D Airport Swap	Deferred Outflow	(564)	Debt	(5,661)	46,600

NOTE B – LONG-TERM OBLIGATIONS (Continued)

	Changes in Fair Value		Fair Value at December 31, 2009		
	Classification	Amount	Classification	Amount	Notional
			(Amounts in 000's)		
Cash Flow Hedges					
Floating to fixed interest rate swaps					
2008D Airport Swap	Deferred Inflow	$715	Debt	($1,895)	$17,875
2009D Airport Swap	Deferred Inflow	2,093	Debt	(5,097)	49,025

The table below presents the objective and significant terms of the Division's derivative instruments at December 31, 2010, along with the credit rating of each swap counterparty.

Bonds	Type	Objective	Amount (Amounts in 000's)	Date	Date	Terms	Credit Rating
Airport 2008D	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series 2008D Airport System Bonds	$ 17,025	10/23/2003	1/01/2024	Pay 4.169%, receive SIFMA	Aa1/AA-/AA-
Airport 2009D	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series 2009D Airport System Bonds	$ 46,600	10/23/2003	1/01/2024	Pay 4.273%, receive SIFMA + 10 BPS	Aa1/AA-/AA-

The following table presents the aggregate debt service requirements on the City's hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2010. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2010 remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented below.

NOTE B – LONG-TERM OBLIGATIONS (Continued)

Aggregate Cash Flows on Airport Hedging Derivative Instruments
(Amounts in 000's)

Fiscal Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
2011	$3,425	$206	$2,365	$5,996
2012	3,400	194	2,259	5,853
2013	3,725	181	2,121	6,027
2014	3,725	169	1,957	5,851
2015	4,075	155	1,828	6,058
2016-2020	22,900	550	6,596	30,046
2021-2025	22,375	125	1,811	24,311
Total	$63,625	$1,580	$18,937	$84,142

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.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER (Continued)

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 four years are as follows:

	Deferred Payment Obligation			
	Principal	**Interest**	**Total**	**Future Minimum Rentals**
		(Amounts in 000's)		
2011	2,767	622	3,389	3,389
2012	2,990	399	3,389	3,389
2013	3,230	159	3,389	3,389
2014	280	2	282	282
	$ 9,267	$ 1,182	$ 10,449	$ 10,449

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2010 and 2009. Of these amounts in 2010, $827,000 was offset against interest expense and $2,562,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2009, $1,018,000 was offset against interest expense and $2,371,000 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, 2010 and 2009 totaled approximately ($20,443,000) and ($14,875,000), respectively, and the Divisions' bank balance was approximately $20,572,000 and $298,000, 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*, $20,572,000 and $298,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

Credit Risk: The Divisions' investments as of December 31, 2010 and 2009 include U.S. Agencies, 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.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

The Divisions have the following investments at December 31, 2010 and 2009, 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	2010 Fair Value	2010 Cost	2009 Fair Value	2009 Cost	Investment Maturities for 2010 Less than One Year
	(Amounts in 000's)				
U.S. Agency Obligations	$ 2,029	$ 2,000	$ 12,421	$ 11,999	$ 2,029
Repurchase Agreements			14,010	14,010	
STAROhio	168,406	168,406	126,828	126,828	168,406
Investment in Mutual Funds	181,798	181,798	224,786	224,786	181,798
Guaranteed Investment Contracts	15,000	15,000	15,000	15,000	15,000
Other			3	3	
Total Investments	367,233	367,204	393,048	392,626	367,233
Total Deposits	(20,443)	(20,443)	(14,875)	(14,875)	(20,443)
Total Deposits and Investments	$ 346,790	$ 346,761	$ 378,173	$ 377,751	$ 346,790

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.

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, 2010, the investments in U.S. Agency Obligations, STAROhio, mutual funds and guaranteed investment contracts are approximately .5%, 45.9%, 49.5% and 4.1%, respectively, of the Divisions' total investments. As of December 31, 2009, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio, mutual funds and guaranteed investment contracts are approximately 3.1%, 3.6%, 32.3%, 57.2% and 3.8%, respectively, of the Divisions' total investments.

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2010 was as follows:

	January 1, 2010	Additions	Reductions	December 31, 2010
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457		$	$ 167,457
Construction in progress	9,519	25,497	(18,201)	16,815
Total capital assets, not being depreciated	176,976	25,497	(18,201)	184,272
Capital assets, being depreciated:				
Land improvements	72,568			72,568
Buildings, structures and improvements	328,738			328,738
Furniture, fixtures and equipment	22,801	14		22,815
Infrastructure	885,928	24,979		910,907
Vehicles	13,534	296		13,830
Total capital assets, being depreciated	1,323,569	25,289		1,348,858
Less: Total accumulated depreciation	(582,623)	(49,999)		(632,622)
Total capital assets being depreciated, net	740,946	(24,710)	-	716,236
Capital assets, net	$ 917,922	$ 787	$ (18,201)	$ 900,508

NOTE F – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2009 was as follows:

	January 1, 2009	Additions	Reductions	December 31, 2009
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,123	$ 334	$	$ 167,457
Construction in progress	3,977	41,086	(35,544)	9,519
Total capital assets, not being depreciated	171,100	41,420	(35,544)	176,976
Capital assets, being depreciated:				
Land improvements	72,568			72,568
Buildings, structures and improvements	318,288	10,450		328,738
Furniture, fixtures and equipment	19,687	3,114		22,801
Infrastructure	870,685	15,243		885,928
Vehicles	13,535		(1)	13,534
Total capital assets, being depreciated	1,294,763	28,807	(1)	1,323,569
Less: Total accumulated depreciation	(530,418)	(52,205)		(582,623)
Total capital assets being depreciated, net	764,345	(23,398)	(1)	740,946
Capital assets, net	$ 935,445	$ 18,022	$ (35,545)	$ 917,922

Commitments: As of December 31, 2010 and 2009, the Divisions had capital expenditure purchase commitments outstanding of approximately $46,344,000 and $50,469,000, 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.

NOTE G – LEASES AND CONCESSIONS (Continued)

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, 2010 and 2009 is approximately $194,872,000 and $214,140,000, respectively.

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

(Amounts in 000's)	
2011	$ 14,396
2012	13,366
2013	11,495
2014	10,862
2015	5,341
Thereafter	10,974
	$ 66,434

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 $13,040,000 and $11,365,000, respectively, in 2010 and 2009.

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 2010 or 2009. There was no significant decrease in any insurance coverage in 2010 or 2009. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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 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.

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2010, 2009 and 2008. The employer contribution rates were 14.00% of covered payroll in 2010, 2009 and 2008.

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2010, 2009 and 2008 were approximately $1,918,000 $1,676,000 and $1,290,000, respectively. The required payments due in 2010, 2009 and 2008 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, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the 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 funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2010, 2009 and 2008. 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.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer contribution rates used to fund postemployment benefits were 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009, and 7.00% in 2008. 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 to OPERS to fund postemployment benefits were approximately $1,093,000, $1,212,000 and $1,290,000 in 2010, 2009 and 2008, respectively.

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, 2010 and 2009, were as follows:

	2010	2009
	(Amounts in 000's)	
City Central Services, including police	$ 8,263	$ 8,244
Electricity purchased	245	247
Motor vehicle maintenance	518	450

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 2010 was payable to the City from the Airlines in the amount of $4,112,000. The landing fee adjustment for 2009 was payable to the City from the Airlines in the amount of $4,136,000.

The airline use agreements also provide an incentive for the City to provide the highest quality management for the airport system. There was no incentive compensation expense in 2010 and 2009.

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 2010, the airport expects to collect approximately $525 million, of which an estimated 17.3% will be spent on noise abatement for the residents of communities surrounding the airport, 57.2% on runway expansion, and 25.5% 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 2010 and 2009, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 35% and 36% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

Continental Airlines and United Airlines (collectively "Continental") entered into a Settlement Agreement ("Agreement") with the Office of the Attorney General of the State of Ohio ("AG") effective October 31, 2010 ("Merger Closing Date") to resolve the AG's investigation of the antitrust implications of their proposed merger. Pursuant to the terms of the Agreement Continental agreed to maintain, for a period of 24-months from the Merger Closing Date, average daily departures from the Airport at no less then ninety (90%) percent of average daily departures in the year prior to the Merger Closing Date ("Base Departure Commitment"). In addition the Agreement contains an additional three year commitment for average daily departures at the Base Departure Commitment level subject to certain metrics based on Airport segment profitability as more fully outlined in the Agreement. The Agreement gives the AG's office the right to audit Airport segment profitability at Continental's expense up to $80,000 per annum. Continental also agreed to maintain its current Airport aircraft maintenance facility at a level of operations commensurate with the 12-month period immediately preceding the merger. Any reduction in the Base Departure Commitment may result in a reduction in aircraft maintenance facility operations. Other commitments include continuation of the Cleveland Air Service Working Group during the effective period of the Agreement and a penalty based on an amount equal to the percentage by which Continental is found to have breached its minimum departure commitments of $20 million. Pursuant to the terms of a separate Memorandum of Understanding between the City and the AG's office any monies collected from Continental pursuant to this penalty will be forwarded to the City. The AG's office has also agreed to inform the City whether, as a result of its audits any of the metrics outlined in the Agreement have been triggered or are likely to be triggered.

NOTE O – SUBSEQUENT EVENTS (Continued)

On April 25, 2011, Fitch Ratings downgraded its rating on the City's outstanding airport system revenue bonds from A (negative outlook) to A- with a stable outlook. This rating covers various series of revenue bonds issued to make improvements to Cleveland Hopkins and Burke Lakefront Airports.

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, 2010

	Cleveland Hopkins International	Burke Lakefront	Total
		(Amounts in 000's)	
REVENUE			
Airline revenue:			
Landing fees	$ 25,037	$	$ 25,037
Terminal rental	36,387		36,387
Other	3,529		3,529
	64,953		64,953
Operating revenues from other sources:			
Concessions	$ 21,224	$ 272	$ 21,496
Rentals	11,009	362	11,371
Landing fees	1,201	118	1,319
Other	4,066	102	4,168
	37,500	854	38,354
Non-operating revenue:			
Interest income	92		92
TOTAL REVENUE	$ 102,545	$ 854	$ 103,399
OPERATING EXPENSES			
Salaries and wages	$ 18,719	$ 1,134	$ 19,853
Employee benefits	7,097	432	7,529
City Central Services, including police	8,529	249	8,778
Materials and supplies	7,157	376	7,533
Contractual services	26,449	10	26,459
TOTAL OPERATING EXPENSES	$ 67,951	$ 2,201	$ 70,152

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 14 CFR PART 158

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the Divisions) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended December 31, 2010. Compliance with 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 on the passenger facility charge program occurred. 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 of 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, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Divisions' is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 have audited the financial statements of the Divisions as of and for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. Our audit was performed for the purpose of forming our opinion on the basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Honorable Mayor, Members of Council, the Audit Committee, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 24, 2011

City of Cleveland - Department of Port Control
Cleveland Hopkins International Airport
PFC Quarterly Status Report-Project Activity
For the Period Ending December 31, 2010

Projects	Approved Project Budget	Cumulative Expenditures 2009	2010 1st Quarter Expenditures	2010 2nd Quarter Expenditures	2010 3rd Quarter Expenditures	2010 4th Quarter Expenditures	2010 YTD Expenditures	Cumulative Expenditures 2010
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
Asbestos Removal in Terminal CHIA	729,842	729,842						729,842
Acquisition of Analex Office Bldg & Vacant Land	13,025,000	13,025,000						13,025,000
Passenger Jetways (BKL)								
Baggage Claim/Security Improvements (BKL)								
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921						5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000						355,000
Sewer Construction	5,500,000	5,500,000						5,500,000
Sound Insulation	8,675,000	8,595,641						8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	30,360,000	25,282,298						25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000						1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570						584,570
Terminal Passenger Flow & Security Study	300,000							
Roadway System / Vehicular Ingress-Egress Study	200,000							
Runway 5R Extension Preliminary								
Runway 5R Extension Design								
Runway 5R Extension Construction								
FIS Facility Construction								
FIS Facility Design								
Brook Park Land Transfer	8,750,000	8,750,000						8,750,000
Analex Demolition	1,229,000	820,911				31,528	31,528	852,439
Sound Insulation	20,000,000	20,000,000						20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087						9,526,087
Tug Road Replacement	1,019,000	668,553						668,553
Interim Commuter Ramp	5,560,338	4,911,159				50,154	50,154	4,961,313
Concourse D Ramp/Site Utilities	51,305,804	45,319,540				462,488	462,488	45,782,028
Burke Runway Overlay 6L/24R	530,286	530,286						530,286
Burke ILS	2,181,400	1,630,815				42,538	42,538	1,673,353
Runway 6L/23R	270,550,360	83,967,465				14,415,069	14,415,069	98,382,534
Runway 6R/24L Uncoupling	2,148,000	2,148,000						2,148,000
Runway 28 Safety Improvements	2,200,000	1,249,473				749,983	749,983	1,999,456
Midfield Deicing Pad	39,100,000	39,100,000						39,100,000
Taxiway M Improvements	10,000,000	9,579,060						9,579,060
Total	525,196,210	323,640,223				15,751,760	15,751,760	339,391,983

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, 2010

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.