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, 2011 and 2010

CITY OF CLEVELAND, OHIO

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

TABLE OF CONTENTS

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 years ended December 31, 2011 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As 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, 2011 and 2010, 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.

In our opinion, the financial statements referred to previously 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, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2011 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 25, 2012

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, 2011 and December 31, 2010. 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 2011, the Divisions were served by 27 scheduled airlines and four cargo airlines. There were 87,000 scheduled landings with landed weight amounting to 5,912,394,000 pounds. There were 4,598,000 passengers enplaned at Cleveland Hopkins International Airport and 88,000 passengers enplaned at Burke Lakefront Airport during 2011. 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.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $405,900,000, $401,879,000 and $395,666,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $128,908,000, $148,100,000 and $136,953,000 (unrestricted net assets) at December 31, 2011, 2010 and 2009, respectively, may be used to meet the Divisions ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $4,021,000 in 2011 primarily due to an increase in revenues from landing fees. Also in 2011, net assets restricted for passenger facility charges decreased slightly due to an increase in the amount of passenger facility charges expended.

- Additions to construction in progress totaled $19,431,000, $25,497,000 and $41,086,000 in 2011, 2010 and 2009, respectively.

- The major capital expenditures during 2011 were for Runway 10/28 Safety Improvements, the MS1-MS2 Emergency Generator project, the purchase of Snow Removal Equipment and the Riveredge Parking Lot Improvements project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Divisions total bonded debt increased by $42,625,000 in 2011, and decreased $52,480,000 and $15,465,000 during 2010 and 2009, respectively. In 2011 the City issued $74,385,000 of Airport System Revenue Bonds Series 2011A which provided funds to pay the costs of improvements to the Airport Systems and refunded a portion of the Series 2008D Bonds. The key factor for the decreases in 2009 and 2010 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**.**

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 23-45 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, 2011, 2010 and 2009:

	2011	2010	2009
		(Amounts in 000's)	
Assets:			
Current assets	$ 106,763	$ 106,802	$ 98,294
Restricted assets	295,994	262,691	298,372
Unamortized bond issuance costs	17,172	17,453	19,240
Deferred outflows of resources		7,715	6,992
Capital assets, net	921,777	900,508	917,922
Total assets	$ 1,341,706	$ 1,295,169	$ 1,340,820
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 57,178	$ 53,558	$ 89,227
Long-term obligations	878,628	839,732	855,927
Total liabilities	935,806	893,290	945,154
Net assets:			
Invested in capital assets, net of related debt	147,324	124,506	94,145
Restricted for debt service	109,292	103,701	141,879
Restricted for passenger facility charges	20,376	25,572	22,689
Unrestricted	128,908	148,100	136,953
Total net assets	405,900	401,879	395,666
Total net assets and liabilities	$ 1,341,706	$ 1,295,169	$ 1,340,820

Assets: Total assets increased $46,537,000 in 2011 and decreased $45,651,000 during 2010, respectively. The 2011 increase in total assets is primarily due to an increase in restricted assets. Restricted assets increased due to the proceeds from the issuance of construction bonds in 2011. In 2010 the decrease in capital assets, net of accumulated depreciation, accounted for $17,414,000 or 38.1% of the change in total assets**.** This decrease was primarily due to depreciation recognized in 2010, which was partially offset by capital asset additions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2011 amounted to $921,777,000 (net of accumulated depreciation), which is an increase of 2.4%. The Divisions' investment in capital assets as of December 31, 2010 amounted to $900,508,000 (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, 2011 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
		(Amounts in 000's)		
Land	$ 167,457	$	$	$ 167,457
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total	1,516,315	49,613	-	1,565,928
Less: Accumulated depreciation	(632,622)	(47,775)		(680,397)
Total	883,693	1,838	-	885,531
Construction in progress	16,815	19,431		36,246
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

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, 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

Major events during 2011 and 2010 affecting the Divisions' capital assets included the following:

- Construction Phases II and III of Runway 10/28 Safety Area Improvements were completed in 2011. The Runway 28 end was shifted 600 feet to the East and Engineering Material Arresting System (EMAS) block installation was completed on both ends of the runway. The runway was officially re-opened on December 15, 2011.

- The Power Distribution Enhancement Project, Phase I, was developed to permit the airport to function effectively and to provide an adequate level of operations, safety and security in the event of a power outage. The project components included an engineering design study, assessment of existing conditions of the Airport's emergency generators and associated drawings/infrastructure and identification of potential deficient generator power. As a result of the analysis, a total of four generators were purchased and installed in November 2011.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- The first phase of the Cleveland Hopkins International Airport (CLE) terrazzo floor and artwork installation project began in January 2011. The project consists of removing old flooring and carpet to replace them with terrazzo starting at security checkpoint C, continuing up Concourse C, then proceeding to Concourses A and B. The entire project is expected to be complete in January 2014. As part of the terrazzo flooring project, artwork selected from an airport artist competition will be installed into select floor locations.

- The snow melter procurement project included the purchase and installation of five snow melters to be used on the CLE airfield only. The use of these three portable units and two permanent units mitigates the loss of the old snow disposal area which will be lost due to construction of a new air traffic control tower.

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 2011 and 2010, total liabilities increased $42,516,000 and decreased $51,864,000, respectively. In 2011, the increase in long-term obligations was $38,896,000 or 4.6%. Long-term obligations increased due to the issuance of Airport System Revenue Bonds, Series 2011A. Current liabilities increased $3,620,000 or 6.8% as the construction fund payable from restricted assets increased $4,112,000, which resulted from an increase in retainage withheld on construction project Runway 10/28 Safety Area Improvements payments. This increase was offset by a decrease in accrued interest expense and the current portion of long-term debt. 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 an 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.

Long-term debt: At December 31, 2011 and 2010, the Divisions had $891,885,000 and $849,260,000, 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.

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)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2011 is summarized below:

	Balance January 1, 2011	Debt Issued	Debt Retired	Balance December 31, 2011
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 398,445	$	$	$ 398,445
Series 2006	117,450		(1,180)	116,270
Series 2007	10,680		(505)	10,175
Series 2008	84,160		(19,235)	64,925
Series 2009	238,525		(10,840)	227,685
Series 2011		74,385		74,385
Total	$ 849,260	$ 74,385	$ (31,760)	$ 891,885

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 April 25, 2011, Fitch Ratings lowered its rating on the Airport System Revenue Bonds from A (negative outlook) to A- (stable outlook).

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 2011, 2010 and 2009, was 158%, 160% and 165%, 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 derivatives, including its terms, objectives, risks and fair value, can be found in Note B – Long-Term Debt and Other Obligations 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. The fair values of the swaps were provided by the counterparty and confirmed by the City's financial advisor. These swaps were terminated in 2011.

Additional information on the Divisions' long-term debt can be found in Note B – Long-Term Debt and Other 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 $405,900,000, $401,879,000 and $395,666,000 at December 31, 2011, 2010 and 2009, respectively. Of the Divisions' net assets at December 31, 2011 and 2010, $147,324,000 and $124,506,000, 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, 2011 and 2010 these restricted net assets amounted to $129,668,000 and $129,273,000, 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, $128,908,000 and $148,100,000 for December 31, 2011 and 2010, 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 2011 and 2010 increased its net assets by $4,021,000 and $6,213,000, respectively. Provided below are key elements of the Divisions results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(Amounts in 000's)		
Operating revenues			
Landing fees	$ 37,288	$ 26,356	$ 28,678
Terminal and concourse rentals	50,131	52,670	43,646
Concessions	22,638	21,496	21,535
Utility sales and other	4,910	6,174	4,284
Total operating revenues	114,967	106,696	98,143
Operating expenses	121,085	120,151	120,636
Operating income (loss)	(6,118)	(13,455)	(22,493)
Non-operating revenue (expense):			
Passenger facility charges revenue	17,874	18,820	19,378
Non-operating expense	2,414	(2,299)	(9,062)
Sound insulation program	(689)	(2,545)	(4,215)
Interest income	(9,634)	1,088	1,915
Interest expense	(35,389)	(30,442)	(31,127)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,948)	(2,754)	(3,746)
Total non-operating revenue (expense), net	(28,372)	(18,132)	(26,857)
Capital and other contributions	38,511	37,800	24,158
Increase (decrease) in net assets	4,021	6,213	(25,192)
Net assets, beginning of year	401,879	395,666	420,858
Net assets, end of year	$ 405,900	$ 401,879	$ 395,666

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating revenues**:* Of the 2011 total operating revenues of $114,967,000, $35,911,000 or 31.2% represented landing fees received from signatory airlines. This is an increase of 43.4% from the prior year due to an increase in the landing fee rate necessary to support airport activities. Signatory terminal rentals accounted for $34,312,000, or 29.8% of total operating revenues. The decrease in signatory terminal rent of 5.7% is a result of a decrease in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues increased 2.9% over the prior year due to an increase in the demand for services such as valet airport parking and economy parking usage. Parking revenues amounted to $12,969,000 or 11.3% of total operating revenues for 2011. The fourth largest airport revenue source, rental cars, accounted for 8.0% of total operating revenues, which is a decrease of 1.0% from 2010.

Of the 2010 total 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.

***Operating expenses**:* Total operating expenses for 2011 increased $934,000 or 0.8%. The increase is primarily due to a 40.5% increase in maintenance expenses which was the result of the Divisions' increase in the costs related to maintaining aging equipment and the increase in the price of de-icing chemicals and their disposal. These increases were partially offset by modest decreases in costs associated with utility, property taxes and professional fees. Employee salaries, wages and benefits increased $1,216,000 or 4.4% due to increases in employee benefits. 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 0.3% due to increases in employee benefits.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $689,000, $2,545,000 and $4,215,000 in 2011, 2010 and 2009, respectively. Passenger Facility Charge revenues decreased 5.0%, from $18,820,000 in 2010 to $17,874,000 in 2011 resulting from a decrease in the number of passenger enplanements.

Capital and other contributions: In 2011, 2010 and 2009, the Divisions received $38,511,000, $37,800,000 and $24,158,000, respectively, in Federal Airport Improvement Grants. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the airfield safety improvements, Residential Sound Insulation Program and the acquisition of snow melters.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 90% 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, 2011 and 2010

	(Amounts in 000's) 2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 64,252	$ 82,872
Restricted cash and cash equivalents	7,664	3,775
Investments	10,117	
Receivables:		
Accounts-net of allowance for doubtful accounts of $2,006,000 in 2011 and $1,986,000 in 2010	14,066	8,421
Unbilled revenue	3,599	4,415
Landing fees - due from airlines	3,850	4,112
Accrued interest receivable	94	
Total receivables	21,609	16,948
Prepaid expenses	330	332
Due from other City of Cleveland departments, divisions or interfund accounts		96
Due from federal government	673	722
Materials and supplies-at cost	2,118	2,057
TOTAL CURRENT ASSETS	106,763	106,802
RESTRICTED ASSETS		
Cash and cash equivalents	224,144	258,114
Investments	69,570	2,029
Accrued interest receivable		25
Bond retirement reserve		53
Accrued passenger facility charges	2,280	2,470
TOTAL RESTRICTED ASSETS	295,994	262,691
UNAMORTIZED BOND ISSUANCE COSTS	17,172	17,453
DEFERRED OUTFLOWS OF RESOURCES		7,715
CAPITAL ASSETS		
Land	167,457	167,457
Land improvements	74,153	72,568
Buildings, structures and improvements	329,324	328,738
Furniture, fixtures and equipment	23,305	22,815
Infrastructure	956,696	910,907
Vehicles	14,993	13,830
	1,565,928	1,516,315
Less: Accumulated depreciation	(680,397)	(632,622)
	885,531	883,693
Construction in progress	36,246	16,815
CAPITAL ASSETS, NET	921,777	900,508
TOTAL ASSETS	$ 1,341,706	$ 1,295,169

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 13,660	$ 14,705
Current portion of long-term deferred payment obligation, due within one year	2,989	2,767
Accounts payable	4,457	2,510
Due to other City of Cleveland departments, divisions or interfund accounts	969	1,069
Current portion of accrued wages and benefits	3,972	4,129
Accrued interest payable	16,980	18,111
Accrued property taxes	6,487	6,492
Construction fund payable from restricted assets	6,010	1,898
Other construction accounts payable from restricted assets	1,654	1,877
TOTAL CURRENT LIABILITIES	57,178	53,558
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	874,540	824,866
Derivative instruments-interest rate swaps		7,715
Deferred payment obligation	3,510	6,500
Accrued wages and benefits	578	651
TOTAL LONG-TERM OBLIGATIONS	878,628	839,732
TOTAL LIABILITIES	935,806	893,290
NET ASSETS		
Invested in capital assets, net of related debt	147,324	124,506
Restricted for debt service	109,292	103,701
Restricted for passenger facility charges	20,376	25,572
Unrestricted	128,908	148,100
TOTAL NET ASSETS	405,900	401,879
TOTAL LIABILITIES AND NET ASSETS	$ 1,341,706	$ 1,295,169

(Concluded)

See notes to financial statements.

This page intentionally left blank.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 35,911	$ 25,037
Other	1,377	1,319
	37,288	26,356
Terminal and concourse rentals:		
Scheduled airlines	34,312	36,387
Other	15,819	16,283
	50,131	52,670
Concessions	22,638	21,496
Utility sales and other	4,910	6,174
TOTAL OPERATING REVENUES	114,967	106,696
OPERATING EXPENSES		
Operations	68,094	66,439
Maintenance	5,216	3,713
Depreciation	47,775	49,999
TOTAL OPERATING EXPENSES	121,085	120,151
OPERATING INCOME (LOSS)	(6,118)	(13,455)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	17,874	18,820
Non-operating revenue (expense)	2,414	(2,299)
Sound insulation program	(689)	(2,545)
Interest income (loss)	(9,634)	1,088
Interest expense	(35,389)	(30,442)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,948)	(2,754)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(28,372)	(18,132)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(34,490)	(31,587)
Capital and other contributions	38,511	37,800
INCREASE (DECREASE) IN NET ASSETS	4,021	6,213
NET ASSETS, BEGINNING OF YEAR	401,879	395,666
NET ASSETS, END OF YEAR	$ 405,900	$ 401,879

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, 2011 and 2010

	(Amounts in 000's) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 104,916	$ 96,848
Cash payments to suppliers for goods and services	(41,575)	(36,896)
Cash payments to employees for services	(28,826)	(27,813)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,515	32,139
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(603)	(3,165)
Cash payments for other non-operating costs	(5,163)	(3,154)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(5,766)	(6,319)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(68,589)	(27,416)
Cash receipts for passenger facility charges	18,064	18,798
Proceeds from revenue bonds	79,221	
Transfer to escrow agent for bond refunding	(9,236)	
Principal paid on long-term debt	(22,560)	(52,480)
Interest paid on long-term debt	(36,071)	(36,471)
Capital grant proceeds	38,560	39,092
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(611)	(58,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(79,602)	
Proceeds from sale and maturity of investment securities	1,999	9,999
Interest received on investments	764	1,666
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	(76,839)	11,665
NET DECREASE IN CASH AND CASH EQUIVALENTS	(48,701)	(20,992)
Cash and cash equivalents, beginning of year	344,761	365,753
Cash and cash equivalents, end of year	$ 296,060	$ 344,761

(Continued)

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, 2011 and 2010

	(Amounts in 000's)	
	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (6,118)	$ (13,455)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	47,775	49,999
Noncash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	(5,646)	(5,112)
Unbilled revenue	816	(673)
Landing fees - due from airlines	262	24
Prepaid expenses	2	251
Due from other City departments, divisions or funds	96	(71)
Materials and supplies, at cost	(62)	102
Accounts payable	1,114	(1,269)
Due to other City departments, divisions or funds	(100)	(105)
Accrued wages and benefits	(230)	(93)
Landing fees - due to airlines		(346)
Accrued property taxes	(5)	6,276
TOTAL ADJUSTMENTS	40,633	45,594
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 34,515	$ 32,139
Noncash operating activities:		
Rental Income	$3,389	$3,389

(Concluded)

See notes to financial statements.

This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the Divisions) are reported as an Enterprise Fund of the City of Cleveland, Department of Port Control and are part of the City of Cleveland's (the City) primary government. The Divisions were created for the purpose of operating the airports within the Cleveland metropolitan area. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 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 impact on its financial statements as of December 31, 2011. 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 determined that GASB Statement No. 53 has no impact on its financial statements as of December 31, 2011.

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

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting: The Divisions' financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) 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 2011 and 2010. 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, 2011 and 2010.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A 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	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures and equipment	3 to 60 years
Infrastructure	3 to 50 years
Vehicles	5 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 2011 and 2010, total interest costs incurred amounted to $42,375,000 and $37,226,000, respectively, of which $6,981,000 and $6,778,000, respectively, were capitalized, net of interest income of $5,000 in 2011 and $6,000 in 2010.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

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, 2011 and 2010 are as follows:

	2011 Due From	2011 Due To	2010 Due From	2010 Due To
	(Amounts in 000's)			
City of Cleveland General Fund	$	$ 228	$ 96	$ 263
Division of Water Pollution Control		81		81
Division of Cleveland Public Power		18		19
Workers' Compensation Refund Reserve		461		509
Division of Radio Communication		6		6
Division of Printing		6		3
Division of Motor Vehicle Maintenance		95		111
Sinking Fund Administration		30		
Division of Telephone Exchange		44		77
	$ -	$ 969	$ 96	$ 1,069

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Original Issuance	2011	2010
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 2000, due through 2031	4.00%-5.00%	$ 573,190	$ 398,445	$ 398,445
Series 2006, due through 2024	5.00%-5.25%	118,760	116,270	117,450
Series 2007, due through 2027	4.00%-5.00%	11,255	10,175	10,680
Series 2008, due through 2033	Variable Rate	88,195	64,925	84,160
Series 2009, due through 2027	.07%-5.00%	248,280	227,685	238,525
Series 2011, due through 2024	3.00%-5.00%	74,385	74,385	
		$ 1,114,065	891,885	849,260
Unamortized (discount) premium			17,569	14,197
Unamortized loss on debt refunding			(21,254)	(23,886)
Current portion (due within one year)			(13,660)	(14,705)
Total Long-Term Debt excluding the deferred payment obligation			$ 874,540	$ 824,866

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 398,445	$	$	$ 398,445	$
Series 2006	117,450		(1,180)	116,270	1,245
Series 2007	10,680		(505)	10,175	530
Series 2008	84,160		(19,235)	64,925	950
Series 2009	238,525		(10,840)	227,685	10,935
Series 2011		74,385		74,385	
Total revenue bonds	849,260	74,385	(31,760)	891,885	13,660
Accrued wages and benefits	4,780	3,899	(4,129)	4,550	3,972
Total	$ 854,040	$ 78,284	$ (35,889)	$ 896,435	$ 17,632

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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	4,038	(4,223)	4,780	4,129
Total	$ 906,705	$ 4,038	$ (56,703)	$ 854,040	$ 18,834

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

	Principal	Interest	Total
		(Amounts in 000's)	
2012	$ 13,660	$ 41,313	$ 54,973
2013	16,285	41,973	58,258
2014	32,120	40,942	73,062
2015	33,155	39,522	72,677
2016	34,415	37,979	72,394
2017-2021	218,685	160,631	379,316
2022-2026	238,510	105,195	343,705
2027-2031	294,520	40,983	335,503
2032-2033	10,535	535	11,070
Total	$ 891,885	$ 509,073	$ 1,400,958

NOTE B – LONG-TERM DEBT AND OTHER 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, 2011 and 2010, 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.

From time to time, 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. However, at December 31, 2011 and 2010 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $891,885,000 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 63% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,400,958,000. Principal and interest paid for the current year and total net revenues were $48,600,000 and $76,802,000, respectively.

In June 2011, the Airport System, under its rights to optional redemption, elected to deposit cash on hand into the Series 2008G Bond Fund and into the Series 2008H Bond Fund sufficient to redeem, prior to maturity, all of the outstanding Series 2008G and Series 2008H Bonds. A notice of full redemption of the bonds was issued by the trustee on June 15, 2011. After taking into account the funds on hand in the respective bond funds, other available Airport funds were placed into the accounts to pay on June 22, 2011 principal in the amount of $7,425,000 on the Series 2008G Bonds and $430,000 on the Series 2008H Bonds, plus accrued interest to the redemption date. As a result, these bonds have been defeased and the liability for the bonds has been removed from long-term debt.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Effective November 16, 2011, the City issued $74,385,000 Airport System Revenue Bonds, Series 2011A (Non-AMT). Of this amount, $64,515,000 of the proceeds was issued to pay a portion of the costs of improvements to the Airport System, to fund deposits to the bond reserve fund and the Renewal and Replacement Fund and to pay issuance costs. The remaining $9,870,000 was used to refund a portion of the outstanding Airport System Revenue Bonds, Series 2008D in the aggregate principal amount of $9,200,000 on November 28, 2011 and to pay costs of issuing the bonds. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.67 million as a result of the refunding.

Interest Rate Swap Transactions:
On November 2, 2011, the City, at its option, terminated the four interest rate exchange agreements originally entered into in 2003 and most recently identified as hedges for the Series 2008D Bonds and the Series 2009D Bonds. The City owed a payment to the counterparty, JP Morgan Chase Bank, National Association, under each hedge agreement in connection with the early terminations. Those termination payments totaled $10,515,000 and were paid on November 16, 2011 from available Airport funds. The City has no remaining interest rate swap agreements in place with respect to any Airport System Revenue Bonds.

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 became 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 were 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 became identified by the City to relate to the Series 2008D and Series 2009D Bonds. Under the swap agreement identified with the Series 2008D Bonds, the Airport System was the fixed rate payor, paying a fixed rate of 4.17% semiannually, while the counterparty paid the Airport System at the SIFMA index every 35 days. The swap agreement identified with the Series 2009D Bonds required the Airport System to pay a fixed rate of 4.27% semiannually and the counterparty to pay the Airport System the SIFMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

fixed rate payments (but not any termination payment) was secured by a pledge of airport revenues. The periodic swap payments were 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 were 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 was reduced. The amount received on the Series 2009D Bonds incorporated 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 subprime mortgage crisis, Bear Stearns was acquired by JPM. The City's swap was then assumed by JPM. Over the long-term it was possible that the credit strength of JPM could change and this event could have triggered a termination payment on the part of the City.

Termination Risk: The swap agreement could be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may have been 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 as reported by JPM was $2,054,000 relating to the Series 2008D Bonds and $5,661,000 relating to the Series 2009D Bonds which would both be payable by the City. The swaps were terminated on November 2, 2011 at a value of $10,515,000 which was payable to the counterparty .

Derivative Instruments: On November 2, 2011 the City terminated all remaining interest rate swap agreements relating to the Airport System Revenue Bonds. 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 entered into derivative or hedging agreements in 2003. A detailed description of each derivative outstanding during 2011 and 2010, including its terms, objectives, risks and fair value, can be found in the section below.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The Divisions reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflected the prevailing interest rate environment at December 31, 2010. The specific terms and conditions of each swap were 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, classified by type and the changes in fair value of these derivatives during fiscal year 2010 as reported in the financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2010 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)		
Hedging Derivatives					
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

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-

NOTE C – SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling $76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities of Continental Airlines at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999, totaling $71,440,000. Airport Special Revenue Bonds, Series 1998, totaling $75,120,000 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because all principal and interest on these bonds is unconditionally guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER

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

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

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

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

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(Amounts in 000's)		
2012	$ 2,989	$ 400	$ 3,389	$ 3,389
2013	3,230	159	3,389	3,389
2014	281	1	282	282
	$ 6,500	$ 560	$ 7,060	$ 7,060

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2011 and 2010. Of these amounts in 2011, $621,000 was offset against interest expense and $2,768,000 was offset against the principal balance of the deferred obligation. 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.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2011 and 2010 totaled approximately $52,284,000 and ($20,443,000), respectively, and the Divisions' bank balance was approximately $60,243,000 and $20,572,000, respectively. The differences represent positions in pooled bank accounts and 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*, $60,243,000 and $20,572,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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, 2011 and 2010 include U.S. Agencies, STAROhio, mutual funds and guaranteed investment contracts. The U.S. Agencies are rated AA+ by Standard & Poor's (S&P). The investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. 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, 2011 and 2010, 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	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
			(Amounts in 000's)		
U.S. Agency Obligations	$ 79,687	$ 79,602	$ 2,029	$ 2,000	$ 79,687
STAROhio	66,444	66,444	168,406	168,406	66,444
Investment in Mutual Funds	177,332	177,332	181,798	181,798	177,332
Guaranteed Investment Contracts			15,000	15,000	
Total Investments	323,463	323,378	367,233	367,204	323,463
Total Deposits	52,284	52,284	(20,443)	(20,443)	52,284
Total Deposits and Investments	$ 375,747	$ 375,662	$ 346,790	$ 346,761	$ 375,747

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 and mutual funds.

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, 2011, the investments in U.S. Agency Obligations, STAROhio, and mutual funds are approximately 25%, 20%, and 55%, respectively, of the Divisions' total investments. As of December 31, 2010, the investments in U.S. Agency Obligations, STAROhio, mutual funds and guaranteed investment contracts are approximately 1%, 46%, 49% and 4%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2011 was as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	16,815	19,431		36,246
Total capital assets, not being depreciated	184,272	19,431	-	203,703
Capital assets, being depreciated:				
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total capital assets, being depreciated	1,348,858	49,613	-	1,398,471
Less: Total accumulated depreciation	(632,622)	(47,775)		(680,397)
Total capital assets being depreciated, net	716,236	1,838	-	718,074
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

NOTE F – CAPITAL ASSETS (Continued)

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

Commitments: As of December 31, 2011 and 2010, the Divisions had capital expenditure purchase commitments outstanding of approximately $37,136,000 and $46,344,000, 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, 2011 and 2010 is approximately $190,348,000 and $194,872,000, respectively.

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

	(Amounts in 000's)
2012	$ 13,750
2013	11,669
2014	10,889
2015	5,367
2016	4,933
Thereafter	6,410
	$ 53,018

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 $14,464,000 and $13,040,000, respectively, in 2011 and 2010.

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 2011 or 2010. There was no significant decrease in any insurance coverage in 2011 or 2010. 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, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan – 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 – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions 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

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

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 visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $2,048,000, $1,918,000 and $1,676,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE J – OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – 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 health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for 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 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 visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (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

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates used to fund postemployment benefits were 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 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. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to changed based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 $819,000 in 2011, $1,093,000 in 2010 and $1,212,000 in 2009.

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, 2011 and 2010 were as follows:

	2011	2010
	(Amounts in 000's)	
City Central Services, including police	$ 8,218	$ 8,263
Electricity purchased	243	245
Motor vehicle maintenance	654	518

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 2011 was payable to the City from the Airlines in the amount of $3,850,000. The landing fee adjustment for 2010 was payable to the City from the Airlines in the amount of $4,112,000.

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 2011 and 2010.

NOTE M – PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting passenger facility charges (PFC) subject to title 14, Code of Federal Regulations, Part 158. PFC 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.

As of December 31, 2011, Cleveland Hopkins International Airport had authority from the Federal Aviation Administration to collect approximately $562 million, of which an estimated 16.1% will be spent on noise abatement for the residents of communities surrounding the airport, 55.6% on runway expansion and 28.3% 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 2011 and 2010, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 45% and 35% 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.

On February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A (Non-AMT). The bonds were issued to currently refund all of the outstanding Airport System Revenue Bonds, Series 2000A in the aggregate principal amount of $249,445,000 on March 26, 2012 and to pay costs of issuing the bonds. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $15.12 million or 6.06% as a result of the refunding.

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, 2011

	Cleveland Hopkins International	Burke Lakefront	Total
	(Amounts in 000's)		
REVENUE			
Airline revenue:			
Landing fees	$ 35,911	$	$ 35,911
Terminal rental	34,312		34,312
Other	3,647		3,647
	73,870	-	73,870
Operating revenues from other sources:			
Concessions	22,352	286	22,638
Rentals	10,484	152	10,636
Landing fees	1,269	108	1,377
Other	2,957	100	3,057
	37,062	646	37,708
Non-operating revenue:			
Interest income	160		160
TOTAL REVENUE	$ 111,092	$ 646	$ 111,738
OPERATING EXPENSES			
Salaries and wages	$ 19,636	$ 1,005	$ 20,641
Employee benefits	7,535	422	7,957
City Central Services, including police	8,645	223	8,868
Materials and supplies	10,941	275	11,216
Contractual services	24,374	254	24,628
TOTAL OPERATING EXPENSES	$ 71,131	$ 2,179	$ 73,310

This page intentionally left blank.

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 Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the Divisions) compliance with the types of 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, 2011. 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, 2011.

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.

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

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, 2011, and have issued our report thereon dated June 25, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinion on the Divisions' basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of passenger facility charges is fairly stated in all material respects in relation to the Divisions' 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 25, 2012

City of Cleveland - Department of Port Control
Cleveland Hopkins International Airport
Schedule of Expenditures of PFCs
For the Year Ending December 31, 2011

Projects	Approved Project Budget	Cumulative Expenditures 2010	2011 1st Quarter Expenditures	2011 2nd Quarter Expenditures	2011 3rd Quarter Expenditures	2011 4th Quarter Expenditures	2011 YTD Expenditures	Cumulative Expenditures 2011
Insulate Residences - Full Program Phase I	$ 16,960,400	$ 16,960,400	$	$	$	$	$	$ 16,960,400
Taxiway "L" Shoulders								
Extension of Taxiway "Q"	2,155,743	2,155,743						2,155,743
Land Acquisition-Resident Relocation								
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
Sewers for Confined Disposal Facility-BKL (app 1)	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	852,439				38,475	38,475	890,914
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	4,961,313				61,205	61,205	5,022,518
Concourse D Ramp/Site Utilities	51,305,804	45,782,028				564,385	564,385	46,346,413
Burke Runway Overlay 6L/24R	530,286	530,286						530,286
Burke ILS	2,181,400	1,673,353				51,909	51,909	1,725,262
Runway 6L/23R	270,550,360	98,382,534				17,591,027	17,591,027	115,973,561
Runway 6R/24L Uncoupling	2,148,000	2,148,000						2,148,000
Runway 28 Safety Improvements	2,200,000	1,999,456				10,998	10,998	2,010,454
Midfield Deicing Pad	39,100,000	39,100,000						39,100,000
Taxiway M Improvements	10,000,000	9,579,060						9,579,060
Doan Brook Restoration	870,000							
Deicing Environmental Upgrades	1,410,000							
Main Terminal Roof Replacement	500,000							
Main Terminal Boiler Replacement	1,510,000							
Roadway Expansion Joint Repair/Replacement	1,000,000							
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	3,868,000							
Airport-wide In-line Baggage System Design	850,000							
Airport Master Plan Update	2,100,000							
Runway 10/28- Runway Safety Area Imporvements	11,659,300				2,629,246	4,165,174	6,794,420	6,794,420
South Cargo Ramp Rehabilitation	3,000,000							
Taxiway N Rehabilitation	4,400,000							
SIDA Security System Enhancements	1,000,000							
Interactive Part 139 Airport Operations Training Program	250,000							
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	4,160,000							
Total	$ 561,773,510	$ 339,391,983	$ -	$ -	$ 2,629,246	$ 22,483,173	$ 25,112,419	$ 364,504,402

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, 2011

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.