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, 1999 and 1998

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 875 3000
Facsimile (216) 575 0170

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income, changes in equity, and cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Port Control-Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

July 27, 2000

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 1999 and 1998

	(in thousands of dollars) December 31, 1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,783	$ 4,411
Investments at market	26,913	24,383
Receivables:		
Accounts receivable, net of allowance of $428 and $110	2,559	5,982
Unbilled revenue	9,227	6,191
Accrued interest receivable	536	378
Landing fee adjustment - receivable from Airlines	-	481
Total Receivables	12,322	13,032
Prepaid expenses	163	259
Due from other City of Cleveland departments, divisions or funds	467	1,916
Due from federal government	1,012	3,624
Materials and supplies, at cost	275	271
TOTAL CURRENT ASSETS	50,935	47,896
DEFERRED BOND ISSUANCE EXPENSE	4,742	4,934
RESTRICTED ASSETS		
Cash and cash equivalents	172,736	195,191
Investments at market	69,395	80,257
Accrued interest receivable	1,256	1,845
Bond retirement reserve	53	53
Accrued passenger facility charges	2,213	2,228
TOTAL RESTRICTED ASSETS	245,653	279,574
PROPERTY, PLANT AND EQUIPMENT		
Land	132,753	90,733
Land Improvements	177,035	157,684
Buildings, structures and improvements	353,931	224,190
Furniture, fixtures and equipment	21,252	20,291
	684,971	492,898
Less: accumulated depreciation	193,038	173,949
	491,933	318,949
Construction in progress	15,265	81,967
PROPERTY, PLANT AND EQUIPMENT, NET	507,198	400,916
TOTAL ASSETS	$ 808,528	$ 733,320

	(in thousands of dollars) December 31, 1999	1998
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 12,100	$ 8,450
Current portion of deferred payment obligation	1,183	-
Accounts payable	4,866	2,266
Due to other City of Cleveland departments, divisions or funds	4,174	4,988
Accrued wages and benefits	2,186	2,645
Accrued property taxes	2,742	1,947
Landing fee adjustment-payable to Airlines	3,965	-
TOTAL CURRENT LIABILITIES	31,216	20,296
PAYABLE FROM RESTRICTED ASSETS		
Accrued interest	23,713	22,217
Construction fund	9,000	13,735
TOTAL PAYABLE FROM RESTRICTED ASSETS	32,713	35,952
LONG TERM DEBT-excluding amounts due within one year:		
Deferred payment obligation	27,810	-
Revenue bonds and notes	403,925	375,541
TOTAL LIABILITIES	495,664	431,789
EQUITY		
Contributions in aid of construction:		
Federal and state	167,166	156,470
Municipal	3,572	3,572
Total contributions in aid of construction	170,738	160,042
Retained earnings	142,126	141,489
TOTAL EQUITY	312,864	301,531
TOTAL LIABILITIES AND EQUITY	$ 808,528	$ 733,320

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF INCOME
For the Years Ended December 31, 1999 and 1998

	(in thousands of dolars) For the Years Ended December 31, 1999	1998
OPERATING REVENUE		
Landing fees:		
Scheduled airlines	$ 27,280	$ 18,500
Adjustments of landing fees as provided in airline use agreements	(3,965)	481
Other	2,714	2,489
	26,029	21,470
Terminal and concourse rentals:		
Scheduled airlines	12,229	10,666
Car rental facilities and other	13,909	9,920
	26,138	20,586
Concessions	17,756	17,537
Utility sales and other	6,850	7,446
TOTAL OPERATING REVENUE	76,773	67,039
OPERATING EXPENSES		
Operations, maintenance and administrative	40,252	34,263
Depreciation	19,089	13,063
Incentive compensation - City of Cleveland	-	2,551
TOTAL OPERATING EXPENSES	59,341	49,877
OPERATING INCOME	17,432	17,162
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	16,753	16,648
Interest income	14,923	19,180
Non-operating expenses	(22,442)	(7,374)
Interest expense	(25,144)	(23,545)
Amortization of bond issuance expense, discount and debt refunding	(885)	(869)
TOTAL NON-OPERATING, NET	(16,795)	4,040
NET INCOME	$ 637	$ 21,202

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 1999 and 1998

(in thousands of dollars)

	Contributions In Aid of Construction			
	Federal and State	Municipal	Retained Earnings	Total
BALANCE AT DECEMBER 31, 1997	$ 154,073	$ 3,572	$ 120,287	$ 277,932
Grant funds earned	2,397	-	-	2,397
Net income	-	-	21,202	21,202
BALANCE AT DECEMBER 31, 1998	156,470	3,572	141,489	301,531
Grant funds earned	10,696	-	-	10,696
Net income	-	-	637	637
BALANCE AT DECEMBER 31, 1999	$ 167,166	$ 3,572	$ 142,126	$ 312,864

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999 and 1998

	(in thousands of dollars) For the Years Ended December 31, 1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 78,626	$ 66,677
Cash payments to suppliers for goods or services	(20,370)	(19,264)
Cash payments to employees for services	(16,345)	(15,056)
NET CASH PROVIDED BY OPERATING ACTIVITIES	41,911	32,357
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(15,697)	(7,374)
Cash payments for other non-operating costs	(6,745)	-
Cash receipts for passenger facility charges	16,768	16,404
NET CASH (USED IN) PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	(5,674)	9,030
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(100,106)	(98,482)
Proceeds from revenue notes, net of costs and discount	39,791	-
Principal paid on long-term debt	(8,450)	(8,385)
Interest paid on long-term debt	(21,549)	(17,672)
Capital grant proceeds	13,308	356
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(77,006)	(124,183)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(131,050)	(135,075)
Proceeds from sale and maturity of investment securities	139,382	111,586
Interest received on investments	15,354	19,125
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	23,686	(4,364)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,083)	(87,160)
Cash and cash equivalents, beginning of year	199,602	286,762
Cash and cash equivalents, end of year	$ 182,519	$ 199,602

	(in thousands of dollars) For the Years Ended December 31, 1999	1998
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 17,432	$ 17,162
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,089	13,063
Non-cash rental income	(3,106)	-
Change in assets and liabilities:		
Accounts receivable	3,423	4,849
Unbilled revenue	(3,036)	1,650
Prepaid expenses	96	(44)
Due from other City of Cleveland departments, divisions or funds	1,449	(1,447)
Materials and supplies, at cost	(4)	8
Accounts payable	2,600	(2,439)
Due to other City of Cleveland departments, divisions or funds	(814)	3,856
Accrued wages and benefits	(459)	292
Accrued property taxes	795	-
Landing fee adjustment	4,446	(4,593)
TOTAL ADJUSTMENTS	24,479	15,195
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 41,911	$ 32,357

See notes to financial statements.

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's 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.

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 as incurred.

Statement of Cash Flows: The Divisions utilize the direct method of reporting for the statement of cash flows as defined by Government Accounting Standards Board ("GASB") Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing 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: Effective January 1, 1998, the Divisions adopted 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.

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.

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method designed to amortize the cost of depreciable assets over their estimated useful lives, which range from three to thirty years. The Divisions capitalize interest as part of the cost of major projects.

Bond Issuance Expense and Discount and Unamortized Loss on Debt Refunding: Bond issuance expense is carried on the Divisions' books as an asset and deferred bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refunding is netted against long-term debt and is amortized over the lives of the refunded bonds.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions in Aid of Construction: Contributions in aid of construction represent federal, state and municipal capital grants not subject to mandatory repayment.

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

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the Airports and consist primarily of costs incurred for noise abatement for residents of communities surrounding Cleveland Hopkins Airport. The funding for non-operating costs are from non-operating revenues (passenger facility charges) and federal grants which are recorded as contributed capital.

Reclassifications: Certain amounts from 1998 have been reclassified to conform to the current year's presentation.

Interfund Transactions: During the course of normal operations, the Divisions have numerous transactions between other City divisions and departments. Such transactions are generally reflected as due to or due from in the accompanying financial statements.

Interfund receivables and payables balances at December 31, 1999 are as follows:

	Interfund Receivables	Interfund Payables
	(in thousands of dollars)	
City of Cleveland General Fund		$4,150
Division of Water		1
Division of Water Pollution Control		17
Division of Cleveland Public Power		6
Division of Telephone Exchange	$467	
	$467	$4,174

NOTE B—LONG TERM DEBT

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

	Interest Rate	Outstanding Principal Amount 1999	1998
		(in thousands of dollars)	
Airport System Revenue Bonds:			
Series 1990, due through 2006	6.50-7.30%	$ 31,251	$ 33,716
Series 1994, due through 2024	4.80-7.95	80,770	82,235
Series 1997, due through 2027	4.25-7.00	272,055	276,575
Airport Surplus Revenue Notes:			
Series 1999, due in 2001	6.375	40,000	-
Total debt		424,076	392,526
Less:			
Unamortized discount		(5,457)	(5,747)
Unamortized loss on debt refunding		(2,594)	(2,788)
Current portion		(12,100)	(8,450)
Total Long-Term Debt		$ 403,925	$ 375,541

Principal and interest payments on long-term debt for the next five years are as follows:

	Principal	Interest	Total
		(in thousands of dollars)	
2000	$ 12,100	$ 22,342	$ 34,442
2001	54,315	20,235	74,550
2002	10,783	22,740	33,523
2003	10,916	22,584	33,500
2004	11,104	22,351	33,455
Thereafter	324,858	225,176	550,034
	$ 424,076	$ 335,428	$ 759,504

NOTE B—LONG TERM DEBT—Continued

In June 1999, the Department of Port Control issued $40,000,000 of Taxable Airport Surplus Revenue Notes, Series 1999. These are two year notes which will mature in June 2001. The proceeds of the Notes were used to pay a portion of the cost of acquiring real property for future airport expansion (See Note N), to pay all of the interest on the Series 1999 Notes, to reimburse the Surplus Fund of the Airport for a portion of the payment made to acquire real property and to pay the costs of issuance. The Series 1999 Notes are special obligations of the City and do not constitute general obligations or a pledge of the faith, credit or taxing power of the City.

Of the Airport System Revenue Bonds issued in 1990, $15,276,000 were issued in the form of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds is payable only as a component of their appreciated principal amount at maturity or redemption. Interest on the Capital Appreciation Bonds is compounded semiannually on each interest payment date beginning July 1990. As of December 31, 1999, the Department of Port Control has recorded a liability in the amount of $14,862,000 for compounded interest payable on the Capital Appreciation Bonds.

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

The indenture as amended requires, among other things, that the Divisions: (1) make equal monthly deposits to a 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 (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 revenue bonds. As of December 31, 1999, the Divisions were in compliance with the terms and requirements of the bond indenture.

Defeasance of Airport System Revenue Bonds: In prior years, the City defeased certain Airport System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of defeased debt outstanding at December 31, 1999 is as follows:

Bond Issue	Amount *(in thousands of dollars)*
Series 1990	$18,520
Series 1994	$ 7,950

NOTE C—DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at year-end totaled approximately $7,898,000. The Divisions' bank balance was approximately $16,936,000. Based on the criteria described in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," all of the bank balance was insured or collateralized with securities held by the City or by its agent in the City's name.

Investments: GASB Statement No. 3 required the Division to Categorize its investments into one of three categories: Category 1 includes Insured or Registered, or Securities Held by the City or its Agent in the City's Name; Category 2 includes Uninsured and Unregistered, with Securities Held by the Counter party's Trust Department or Agent in the City's Name; Category 3 includes Uninsured and Unregistered, with Securities Held by the Counter party, or its Trust Department or Agent but not in the City's Name. The Division's investments at December 31, 1999 are as follows:

Type of Investment	Category	Market Value	Cost
		(in thousands of dollars)	
U.S. Agency Obligations	1	$ 96,411	$ 97,102
U.S. Treasury Bills	2	3,671	3,668
U.S. Treasury Notes	2	3,835	3,813
State Treasurer Asset Reserve Fund (Star Ohio)	n/a	9,940	9,940
Guaranteed Investment Contract	n/a	157,072	157,072
Total Investments		270,929	271,595
Total Deposits		7,898	7,898
Total Deposits and Investments		$ 278,827	$ 279,493

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments and guaranteed investment contracts are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

NOTE D—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 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse.

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

NOTE E—LEASES AND CONCESSIONS

The Divisions' lease specifies terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. These agreements will remain in effect until December 31, 2005 and, under the terms of the agreements, rental payments and landing fees paid by the airlines are adjusted annually to provide airport revenues sufficient to meet the financial requirements of the airport system. Other areas are leased to various occupants under separate agreements.

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

NOTE F—CONTINGENT LIABILITIES

Various claims are pending against the City involving the Divisions for personal injuries, property damage and other matters as well as various environmental remediation projects in its ordinary course of business. The City is responsible for the suits and environmental remediation actions. The City's management is of the opinion that the ultimate settlement of such claims and remediation actions will not result in a material adverse effect on the Divisions' financial position or results of operations.

As of December 31, 1999, the Divisions had capital expenditure purchase commitments outstanding of approximately $71 million.

NOTE G—EMPLOYEE'S RETIREMENT PLAN

The Divisions utilizes GASB Statement No. 27 "Accounting for Pensions of State and Local Government Employees", which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Divisions contribute to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1999, PERS employees contributed 8.5% of their salary to the plan and the Divisions contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1999 and 1998 were approximately $1,611,000 and $1,568,000, respectively, equal to 100% of the required employer contributions for each year.

NOTE H—OTHER POST EMPLOYMENT BENEFITS

The Divisions provide post-employment health care benefits, defined by GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers," through its contribution to PERS.

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. A portion of the Divisions' contribution to PERS funds post-retirement health care coverage. During 1999, the Division's portion that was used to fund health care was 4.20% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1999 for PERS as a whole were approximately $524 million. As of December 31, 1999, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately $9.8 billion. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1999 for PERS as a whole was 118,062.

NOTE I—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed $8,000 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

NOTE J—RELATED PARTY TRANSACTIONS

The Divisions are provided various services by other City divisions. Charges are based on actual usage or a reasonable pro rata basis. The more significant expenses included in the statements of income, for the years ended December 31, 1999 and 1998, were as follows:

	1999	1998
	(in thousands of dollars)	
City central services including police	$3,598	$2,931
Electricity purchased	175	182
Motor vehicle maintenance	251	244

NOTE K—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 1999 was a payable to the airlines in the amount of $3,965,000 and in 1998 a receivable from the airlines of $481,000.

The airline use agreements also provide an incentive for the City of Cleveland to provide the highest quality management for the airport system. Incentive compensation expense calculated in accordance with the agreement was $2,551,000 in 1998. There was no incentive compensation expense in 1999.

NOTE L—PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting passenger facility charges (PFC's) subject to Title 14, Code of Federal Regulations, Part 158. PFC's are fees imposed on enplaned passengers by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers. Under its federally approved program, the airport expects to collect approximately $287 million of which an estimated 32% will be spent on noise abatement for the residents of communities surrounding the airport, 41% on the runway expansion, and 27% 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 M—MAJOR CUSTOMER

In 1999 and 1998, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 27% and 23%, respectively, of total operating revenue.

NOTE N—ACQUISITION OF INTERNATIONAL EXPOSITION CENTER

In January 1999, the City purchased the International Exposition ("I-X") Center and the land on and around it for $66.5 million as part of its master plan to expand Cleveland Hopkins International Airport. As part of the purchase agreement, the City leased the building back to the former owner for 15 years, after which the City plans on tearing the building down to make way for a new runway. 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 a 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. Subsequent to the agreement, the City of Brook Park (the city in which the I-X Center is located) officially announced its intention to acquire the I-X Center through an eminent domain court case. If Brook Park wins this case, the City of Cleveland would be required to sell the I-X Center to Brook Park and pay the remaining portion of deferred payment obligation. The City intends on vigorously defending this case. A preliminary hearing has been set for September 11, 2000.

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

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(in thousands of dollars)		
2000	$ 1,183	$ 2,206	$ 3,389	$3,389
2001	1,278	2,111	3,389	3,389
2002	1,381	2,008	3,389	3,389
2003	1,492	1,897	3,389	3,389
2004	1,612	1,777	3,389	3,389
Thereafter	22,047	8,731	30,778	30,778
	$28,993	$18,730	$47,723	$47,723

Rental income recognized by the City under this agreement totaled $3,106,000 in 1999, of which $2,099,000 was offset against interest expense and $1,007,000 against the principal balance of the deferred payment obligation.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 875 3000
Facsimile (216) 575 0170

REPORT OF INDEPENDENT ACCOUNTANTS ON OTHER FINANCIAL INFORMATION

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

Our report on the audit of the financial statements of the City of Cleveland, Department of Port Control-Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of and for the year ended December 31, 1999 appears on page 1. This audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following financial information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

July 27, 2000

CITY OF CLEVELAND
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, 1999

(in thousands of dollars)

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees, as adjusted per airline use agreements	$ 23,315	$ -	$ 23,315
Terminal rental	12,229		12,229
Other	3,456		3,456
	39,000	-	39,000
Operating revenues from other sources:			
Concessions	17,406	350	17,756
Rentals	12,475	176	12,651
Landing fees	2,597	117	2,714
Other	4,456	196	4,652
	36,934	839	37,773
Non-operating revenue:			
Interest income	1,170		1,170
TOTAL REVENUE	$ 77,104	$ 839	$ 77,943
OPERATING EXPENSES			
Salaries and wages	$ 11,637	$ 791	$ 12,428
Employee benefits	3,228	230	3,458
City Central Services, including police	3,471	127	3,598
Materials and supplies	4,700	341	5,041
Contractual services	15,457	270	15,727
TOTAL OPERATING EXPENSES	$ 38,493	$ 1,759	$ 40,252