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, 2005 and 2004

CITY OF CLEVELAND, OHIO

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

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

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

We have audited the accompanying financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Cuyahoga County, Ohio, as of and for the years ended December 31, 2005 and December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note A, the financial statements present only the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, and do not purport to, and do not, present fairly the financial position of the City of Cleveland, Cuyahoga County, Ohio as of December 31, 2005 and December 31, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of December 31, 2005 and December 31, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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We performed our audits to form an opinion on the financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports taken as a whole. The Schedule of Airport Revenue and Operating Expenses as defined in the Airline Use Agreement for the year ended December 31, 2005 is presented for purposes of additional analysis and is not a required part of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Divisions of Cleveland Hopkins International and Burke Lakefront Airports' financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

May 26, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the "City") Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Divisions"), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the years ended December 31, 2005 and December 31, 2004. Please read this information in conjunction with the Divisions' basic financial statements and footnotes that begin on page 23.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airport facilities of the City. The Divisions operate a major public airport and a reliever airport serving not only the City of Cleveland, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2005, the Divisions were served by 24 scheduled airlines and 8 cargo airlines. There were 117,000 scheduled landings with landed weight amounting to 7,910,706,000 pounds. There were 5,724,000 passengers enplaned at Cleveland Hopkins International Airport during 2005. In 2004, the Divisions were served by 27 scheduled airlines and 8 cargo airlines. There were 117,000 scheduled landings with landed weight amounting to 8,074,743,000 pounds. There were 5,613,000 passengers enplaned at Cleveland Hopkins International Airport during 2004.

COMPARISON OF 2005 DATA TO 2004 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities at December 31, 2005 by $404,312,000 (net assets). Of this amount, $124,515,000 (unrestricted net assets) may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $15,163,000 during 2005. This change is due to an increase in terminal rental rates and concession revenue offset by an increase in operating costs and depreciation expense and a decrease in net non-operating expense.

- Additions to construction in progress totaled $56,722,000 in 2005. The principal capital expenditures during the year were for the construction of the Concourse C rehabilitation, Runway 10-28 safety improvements and the structural rebuilding of the long term garage. Approximately 17.7% was spent on the acquisition of property south of the Airport. Another 10.5% was spent on the construction of a centralized deicing pad, which is expected to be completed in 2006.

- The Divisions' total debt decreased by $9,373,000 during the current fiscal year. The key factor for this decrease was the payment of principal on the Series 1990 and 1997 Airport System Revenue Bonds (see Note B for additional information).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Divisions are considered an enterprise fund because the operations of the Divisions are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the 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 23-28 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 30-47 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2005 and 2004:

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Assets:			
Current assets	$ 103,832	$ 92,282	$ 11,550
Restricted assets	372,165	402,877	(30,712)
Unamortized bond issuance costs	12,631	13,523	(892)
Capital assets, net	927,955	918,298	9,657
Total assets	$ 1,416,583	$ 1,426,980	$ (10,397)
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 60,885	$ 74,466	$ (13,581)
Long-term obligations	951,386	963,365	(11,979)
Total liabilities	1,012,271	1,037,831	(25,560)
Net assets:			
Invested in capital assets, net of related debt	(35,388)	(56,180)	20,792
Restricted for capital projects	130,823	151,886	(21,063)
Restricted for debt service	115,675	117,005	(1,330)
Restricted for passenger facility charges	68,687	66,297	2,390
Unrestricted	124,515	110,141	14,374
Total net assets	404,312	389,149	15,163
Total net assets and liabilities	$ 1,416,583	$ 1,426,980	$ (10,397)

Assets: Total assets decreased $10,397,000 between 2004 and 2005. Capital assets increased $9,657,000 mainly due to land purchased south of the Airport and airfield improvements. The reduction in restricted assets of $30,712,000 is mainly attributable to payments for airfield improvements that significantly reduced cash and cash equivalents.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2005 amounted to $927,955,000 (net of accumulated depreciation). This investment in capital assets includes: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; and construction in progress. The Divisions' investment in capital assets increased 1.1% in the current year. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2005 is as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005
		(In thousands)		
Land	$ 140,296	$ 10,532	$	$ 150,828
Land improvements	642,095	23,112		665,207
Buildings, structures and improvements	409,509	1,177		410,686
Furniture, fixtures, and equipment	39,287	1,185		40,472
	1,231,187	36,006	-	1,267,193
Less: Accumulated depreciation	(331,915)	(47,065)		(378,980)
	899,272	(11,059)	-	888,213
Construction in progress	19,026	56,722	(36,006)	39,742
Capital assets, net	$ 918,298	$ 45,663	$ (36,006)	$ 927,955

Major events during the current fiscal year affecting the Divisions' capital assets included the following:

- Phase I safety improvements to Runway 10-28 were completed in 2005. These improvements are driven by safety concerns and the Federal Aviation Administration's Runway Safety Area compliance initiative. Phase I included the reconstruction of approximately 300 ft of the touchdown zone for Runway 28 which has been deteriorating for several years and could no longer be repaired. In addition shoulders were added to the portions of the runway that currently do not have shoulders on the east side of the runway. Phase II, which includes shoulder work and edge lights on the west side of the runway, drainage improvements and asphalt overlay work, will commence in August of 2006, pending the availability of Airport Improvement Program Grants.

- During 2005, construction continued on the rehabilitation of the Concourse C apron. The rehabilitation work is a complete full depth replacement and any necessary environmental remediation work. This project is anticipated to be completed by December 2006.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- Land south of Cleveland Hopkins International Airport ("Hopkins Airport") was purchased in accordance with the settlement agreement between the City of Cleveland and the City of Brook Park. In 2005, the Divisions spent $11,532,000 on these properties. The Divisions plan on purchasing approximately 334 homes under this agreement.

- Additional information on the Divisions' capital assets, including commitments made for future capital expenditures, can be found in Notes A and F to the basic financial statements.

Liabilities: Total liabilities decreased $25,560,000 due to a decrease in accrued interest payable and a decrease in payables from restricted assets. The decrease in accrued interest payable is due to the fact the Series 1990 capital appreciation bonds are approaching their final maturity; therefore, a large portion of the accrued interest has been paid out. The decrease in payables is due to the fact that there was less construction going on at Hopkins Airport at the end of 2005 due to the completion of phase two of the new runway.

Long-term debt: At December 31, 2005, the Divisions had $957,415,000 in total debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2005 is summarized below:

	Balance January 1, 2005	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2005
			(In thousands)		
Airport System Revenue Bonds:					
Series 1990	$ 5,443	$	$	$ (2,818)	$ 2,625
Series 1997	247,555			(6,555)	241,000
Series 2000	573,190				573,190
Series 2003	140,600				140,600
Total	$ 966,788	$ -	$ -	$ (9,373)	$ 957,415

The 2005 bond ratings for the Divisions' revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's
A3	A-

In 2003, Moody's removed the negative outlook on the Divisions' bond rating and reaffirmed the A3 rating. Standard & Poor's lowered the Divisions' rating from A to A- due to above average decline in passenger enplanements compared to national averages and an increased dependence on Continental Airlines as a hub carrier.

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 2005, 2004, and 2003, was 1.36%, 1.69%, and 1.38%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B to the basic financial statements on pages 34-37.

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $404,312,000 at the close of the most recent year.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Of the Divisions' net assets, ($35,388,000) reflects its investment in capital assets (e.g., land, land improvements, buildings, fixtures and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending. Although the Divisions' investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Divisions' net assets, $315,185,000 represents resources that are subject to external restrictions. These restricted net assets include proceeds from debt; amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures; unspent bond proceeds relating to capital projects; and Passenger Facility Charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger Facility Charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net assets, $124,515,000 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 increased its net assets by $15,163,000 and $16,680,000 in 2005 and 2004, respectively. Key elements of these changes are summarized below:

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Operating revenues			
Landing fees	$ 35,168	$ 37,203	$ (2,035)
Terminal and concourse rentals	43,539	43,123	416
Concessions	26,710	25,482	1,228
Utility sales and other	5,658	5,044	614
Total operating revenues	111,075	110,852	223
Operating expenses	114,022	98,665	15,357
Operating income (loss)	(2,947)	12,187	(15,134)
Non-operating revenue (expense):			
Passenger facility charges revenue	22,785	22,587	198
Non-operating expense	(2,332)	(11,152)	(8,820)
Sound insulation program	(1,736)	(4,689)	(2,953)
Loss on disposal of capital asset		(68)	(68)
Interest income	9,920	7,009	2,911
Interest expense	(27,037)	(29,483)	(2,446)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(1,680)	(1,692)	(12)
Total non-operating revenue (expense), net	(80)	(17,488)	(17,408)
Capital and other contributions	18,190	21,981	(3,791)
Increase (decrease) in net assets	15,163	16,680	(1,517)
Net assets, beginning of year	389,149	372,469	16,680
Net assets, end of year	$ 404,312	$ 389,149	$ 15,163

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

Operating revenues: In 2005 traffic remained constant at Hopkins Airport, however, due to a change in the type of aircraft servicing Hopkins Airport, landed weight decreased 164,037,000 pounds, or 2.0% from last year. Of the $111,075,000 in total operating revenue, $31,771,000 or 28.6% was from signatory landing fees. This represents a 6.0% decrease from 2004, which is primarily due to a change in aircraft servicing Hopkins Airport. Signatory terminal rentals accounted for $28,275,000 or 25.5% of total operating revenue. This represents an increase of 4.6%, which is primarily due to an increase in rates and charges. Parking operations accounted for $17,155,000 or 15.4% of the total operating revenues. This is an increase of 9.6% over the prior year's parking revenue. This increase is due to increased traffic at Hopkins Airport. Rental car revenues, the fourth largest revenue source accounted for 8.7% of total airport system revenues, representing a decrease of 4.7% over the prior year.

Operating expenses: Total operating expenses increased $15,357,000, due to an increase in depreciation expense and an increase in operations and maintenance expense. Depreciation expense increased due to the addition of phase two of the new runway, which opened in November of 2004.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program decreased by $2,953,000. This is due to the fact the Airport is nearing completion of the 65dnl and is transitioning into the next phase.

Capital and other contributions: The Divisions received $18,190,000 in Federal Airport Improvement Grants. These grants were primarily for the residential sound insulation program, airfield safety improvements and the construction of runway 6L/24R.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities at December 31, 2004 by $389,149,000 (net assets). Of this amount, $110,141,000 (unrestricted net assets) may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $16,680,000 during 2004. This change is due to an increase in signatory landing fees, terminal rental rates and concession revenue offset by an increase in depreciation expense and an increase in interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- Additions to construction in progress totaled $110,998,000 in 2004. The principal capital expenditures during the year were for the construction of the second phase of the new runway and other associated projects such as the NASA relocation, which account for approximately 64.4% of the total expenditures. Approximately 8.9% was spent on the acquisition of property south of the Airport. Another 9.2% was spent on the rehabilitation of Concourse C, which is expected to be completed in 2006.

- The Divisions' total debt decreased by $11,104,000 during the current fiscal year. The key factor for this decrease was the payment of principal on the Series 1990, 1994 and 1997 Airport System Revenue Bonds (see Note B for additional information).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Divisions are considered an enterprise fund because the operations of the Divisions are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the 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 23-28 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 30-47 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, 2004 and 2003:

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Assets:			
Current assets	$ 92,282	$ 87,033	$ 5,249
Restricted assets	402,877	480,213	(77,336)
Unamortized bond issuance costs	13,523	14,420	(897)
Capital assets, net	918,298	847,385	70,913
Total assets	$ 1,426,980	$ 1,429,051	$ (2,071)
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 74,466	$ 82,942	$ (8,476)
Long-term obligations	963,365	973,640	(10,275)
Total liabilities	1,037,831	1,056,582	(18,751)
Net assets:			
Invested in capital assets, net of related debt	(56,180)	(138,971)	82,791
Restricted for capital projects	151,886	235,921	(84,035)
Restricted for debt service	117,005	122,349	(5,344)
Restricted for passenger facility charges	66,297	57,183	9,114
Unrestricted	110,141	95,987	14,154
Total net assets	389,149	372,469	16,680
Total net assets and liabilities	$ 1,426,980	$ 1,429,051	$ (2,071)

Assets: Total assets remained fairly consistent between 2003 and 2004. The major decrease in restricted assets and increase in capital assets is due primarily to the cost of construction of the second phase of the new runway.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2004 amounted to $918,298,000 (net of accumulated depreciation). This investment in capital assets includes: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; and construction in progress. The Divisions' investment in capital assets increased 8.4% in the current year. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2004 is as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
	(In thousands)			
Land	$ 130,332	$ 9,964	$	$ 140,296
Land improvements	360,702	281,431	(38)	642,095
Buildings, structures and improvements	402,088	8,058	(637)	409,509
Furniture, fixtures, and equipment	37,224	2,063		39,287
	930,346	301,516	(675)	1,231,187
Less: Accumulated depreciation	(292,505)	(40,018)	608	(331,915)
	637,841	261,498	(67)	899,272
Construction in progress	209,544	110,998	(301,516)	19,026
Capital assets, net	$ 847,385	$ 372,496	$ (301,583)	$ 918,298

Major events during the current fiscal year affecting the Divisions' capital assets included the following:

- Final construction of Runway 6L-24R was completed in 2004 with full Category III commissioning achieved on November 25, 2004. The commissioning of the runway was the culmination of a three-year construction project valued at $129,000,000. The runway was completed on schedule and on budget. The greater separation of the Runways 6L-24R and 6R-24L and the enhanced navigational aids for operating in poor weather will provide significant capacity and safety improvements for Cleveland Hopkins International Airport and the national airspace system. In order to construct Runway 6L-24R, several NASA research, support and ancillary facilities had to be relocated. The projects completed for an aggregate cost of $118 million over five years included construction at both NASA Glenn Research Center and NASA's Plumbrook Station near Sandusky. Additionally, the NASA projects also included the resolution of environmental concerns and the preparation of various items to document and preserve the history of the Altitude Combustion Stand, which was demolished to enable the runway to be constructed.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- The Abram Creek Culvert project was completed in 2004 at a cost of $54,000,000. This three-year project included the installation of four parallel 10 ft. diameter culverts for a total length of approximately 3,600 liner feet. The project included culverting Abram Creek, filling a ravine with approximately 4 million cubic yards of earth, and construction of a central detention basin for storm water management for approximately 60% of the airport. Completion of the project was essential to the construction of Runway 6L-24R and the upcoming construction of the Runway 6R-24L Uncoupling and Extension. Additionally, the project provides for improved storm water management of runoff from the airport to prevent downstream flooding and improve water quality.

- Land south of the Cleveland Hopkins International Airport ("Hopkins Airport") was purchased in accordance with the settlement agreement between the City of Cleveland and the City of Brook Park. In 2004, the Divisions spent $9,964,000 on these properties. The Divisions plan on purchasing approximately 334 homes under this agreement.

- Additional information on the Divisions' capital assets, including commitments made for future capital expenditures, can be found in Notes A and F to the basic financial statements.

Liabilities: Total liabilities decreased $18,751,000 due to a decrease in payables from restricted assets and a decrease in revenue bonds. The decrease in payables is due to the fact that there was less construction going on at Hopkins Airport at the end of 2004 due to the completion of phase two of the new runway in November of 2004.

Long-term debt: At December 31, 2004, the Divisions had $966,788,000 in total debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2004 is summarized below:

	Balance January 1, 2004	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2004
			(In thousands)		
Airport System Revenue Bonds:					
Series 1990	$ 8,487	$	$	$ (3,044)	$ 5,443
Series 1994	2,045			(2,045)	
Series 1997	253,570			(6,015)	247,555
Series 2000	573,190				573,190
Series 2003	140,600				140,600
Total	$ 977,892	$ -	$ -	$ (11,104)	$ 966,788

The 2004 bond ratings for the Divisions' revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's
A3	A-

In 2003, Moody's removed the negative outlook on the Divisions' bond rating and reaffirmed the A3 rating. Standard & Poor's lowered the Divisions' rating from A to A- due to above average decline in passenger enplanements compared to national averages and an increased dependence on Continental Airlines as a hub carrier.

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 2004, 2003, and 2002, was 1.69%, 1.38%, and 1.33%, respectively.

Additional information on the Divisions' long-term debt can be found in Note B to the basic financial statements on pages 34-37.

Net Assets: Net Assets serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $389,149,000 at the close of the most recent year.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Of the Divisions' net assets, ($56,180,000) reflects its investment in capital assets (e.g., land, land improvement, buildings, machinery, and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending. Although the Divisions' investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Divisions' net assets, $335,188,000 represents resources that are subject to external restrictions. These restricted net assets include proceeds from debt; amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures; unspent bond proceeds relating to capital projects; and Passenger Facility Charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger Facility Charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net assets, $110,141,000 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 increased its net assets by $16,680,000 in 2004 and decreased its net assets by $1,633,000 in 2003. Key elements of these changes are summarized below:

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Operating revenues			
Landing fees	$ 37,203	$ 31,370	$ 5,833
Terminal and concourse rentals	43,123	36,842	6,281
Concessions	25,482	17,102	8,380
Utility sales and other	5,044	4,540	504
Total operating revenues	110,852	89,854	20,998
Operating expenses	98,665	91,606	7,059
Operating income (loss)	12,187	(1,752)	13,939
Non-operating revenue (expense):			
Passenger facility charges revenue	22,587	21,886	701
Non-operating expense	(11,152)	(7,561)	3,591
Sound insulation program	(4,689)	(9,427)	(4,738)
Loss on disposal of capital asset	(68)	(13,592)	(13,524)
Interest income	7,009	7,823	(814)
Interest expense	(29,483)	(19,927)	9,556
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(1,692)	(1,289)	403
Total non-operating revenue (expense), net	(17,488)	(22,087)	(4,599)
Capital and other contributions	21,981	22,206	(225)
Increase (decrease) in net assets	16,680	(1,633)	18,313
Net assets, beginning of year	372,469	374,102	(1,633)
Net assets, end of year	$ 389,149	$ 372,469	$ 16,680

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

Operating revenues: In 2004 traffic increased at Hopkins Airport resulting in an increase in landed weight of 247,067,000 pounds, or 3.2% from last year. Of the $110,852,000 in total operating revenue, $33,802,000 or 30.5% was from signatory landing fees. This represents a 20.0% increase from 2003, which is primarily due to increased landing fee rate and increased traffic. Signatory terminal rentals accounted for $27,025,000 or 24.4% of total operating revenue. This represents an increase of 17.1%, which is primarily due to an increase in rates and charges. Parking operations accounted for $15,659,000 or 14.1% of the total operating revenues. This is an increase of 30.9% over the prior year's parking revenue. This increase is due to increased traffic at Hopkins Airport. Rental car revenues, the fourth largest revenue source accounted for 9.1% of total airport system revenues, representing an increase of 17.9% over the prior year.

Operating expenses: Total operating expenses increased $7,059,000, due to an increase in depreciation expense and a slight increase in operations, maintenance and administrative expense. Depreciation expense increased due to the addition of phase two of the new runway, which opened in November of 2004.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program decreased by $4,738,000. The 2003 expenses were significantly higher due to the fact that in 2003 the program included insulation of St. Patrick's School. Loss on disposal of capital assets decreased $13,524,000 primarily due to the sale of property of the Divisions in 2003. This property was acquired under the Federal Noise Program and was not needed for future Hopkins Airport development. Interest expense increased $9,556,000 due to a decrease in the amount of interest that could be capitalized.

Capital and other contributions: The Divisions received $21,981,000 in Federal Airport Improvement Grants. These grants were primarily for the residential sound insulation program, airfield safety improvements and the construction of runway 6L/24R.

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS

The Master Lease and Use Agreement for Hopkins Airport expired on December 31, 2005. A ten year lease extension was negotiated and signed by Continental Airlines, and Southwest Airlines, the Airport's two largest carriers. American Eagle, US Airways, Delta, Northwest and United Airlines are expected to sign the lease extension before June 30, 2006. All airlines continue to operate at Hopkins Airport. The extension retains the residual rate structure of the Airport.

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

In 2005, construction began on the uncoupling and extension of Runway 6R-24L, which when completed will allow for unrestricted direct international service from Cleveland to any world-wide destination. Also in 2005, construction began on a centralized deicing pad, thereby significantly reducing the amount of on-gate deicing operations at Hopkins Airport. This project will enhance environmental stewardship and operational efficiency at the Airport.

ADDITIONAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2005 and 2004

	(In thousands) 2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,393	$ 11,511
Restricted cash and cash equivalents	9,678	11,736
Investments	77,406	53,053
Receivables:		
Accounts-net of allowance for doubtful accounts of $1,034,257 in 2005 and $201,987 in 2004	1,890	7,135
Unbilled revenue	7,167	4,399
Accrued interest receivable	534	306
Total receivables	9,591	11,840
Prepaid expenses	303	653
Due from other City of Cleveland departments, divisions or interfund accounts	573	542
Due from Federal government	2,695	2,712
Materials and supplies-at cost	193	235
TOTAL CURRENT ASSETS	103,832	92,282
RESTRICTED ASSETS		
Cash and cash equivalents	262,138	294,368
Investments	106,040	104,104
Accrued interest receivable	815	1,199
Bond retirement reserve	53	53
Accrued passenger facility charges	3,119	3,153
TOTAL RESTRICTED ASSETS	372,165	402,877
UNAMORTIZED BOND ISSUANCE COSTS	12,631	13,523
CAPITAL ASSETS		
Land	150,828	140,296
Land improvements	665,207	642,095
Buildings, structures and improvements	410,686	409,509
Furniture, fixtures, equipment	40,472	39,287
	1,267,193	1,231,187
Less: Accumulated depreciation	(378,980)	(331,915)
	888,213	899,272
Construction in progress	39,742	19,026
CAPITAL ASSETS, NET	927,955	918,298
TOTAL ASSETS	$ 1,416,583	$ 1,426,980

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2005 and December 2004

	(In thousands) 2005	2004
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 10,895	$ 9,373
Current portion of long-term deferred payment obligation, due within one year	1,881	1,741
Accounts payable	2,610	3,487
Due to other City of Cleveland departments, divisions or interfund accounts	684	1,483
Current portion of accrued wages and benefits	2,740	2,617
Accrued interest payable	23,172	32,754
Accrued property taxes	7,573	6,780
Construction fund payable from restricted assets	3,689	7,693
Other construction accounts payable from restricted assets	5,989	4,043
Landing fee adjustment - payable to Airlines	1,652	4,495
TOTAL CURRENT LIABILITIES	60,885	74,466
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	932,142	942,249
Deferred payment obligation	18,425	20,307
Accrued wages and benefits	819	809
TOTAL LONG-TERM OBLIGATIONS	951,386	963,365
TOTAL LIABILITIES	1,012,271	1,037,831
NET ASSETS		
Invested in capital assets, net of related debt	(35,388)	(56,180)
Restricted for capital projects	130,823	151,886
Restricted for debt service	115,675	117,005
Restricted for passenger facility charges	68,687	66,297
Unrestricted	124,515	110,141
TOTAL NET ASSETS	404,312	389,149
TOTAL LIABILITIES AND NET ASSETS	$ 1,416,583	$ 1,426,980

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2005 and December 2004

	(In thousands) 2005	2004
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 31,771	$ 33,802
Other	3,397	3,401
	35,168	37,203
Terminal and concourse rentals:		
Scheduled airlines	28,275	27,025
Other	15,264	16,098
	43,539	43,123
Concessions	26,710	25,482
Utility sales and other	5,658	5,044
TOTAL OPERATING REVENUES	111,075	110,852
OPERATING EXPENSES		
Operations	62,794	55,019
Maintenance	4,163	3,628
Depreciation and amortization	47,065	40,018
TOTAL OPERATING EXPENSES	114,022	98,665
OPERATING INCOME (LOSS)	(2,947)	12,187
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	22,785	22,587
Non-operating expense	(2,332)	(11,152)
Sound insulation program	(1,736)	(4,689)
Loss on disposal of capital asset		(68)
Interest income	9,920	7,009
Interest expense	(27,037)	(29,483)
Amortization of bond issuance expense, bond discounts, and loss on debt refundings	(1,680)	(1,692)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(80)	(17,488)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(3,027)	(5,301)
Capital and other contributions	18,190	21,981
INCREASE (DECREASE) IN NET ASSETS	15,163	16,680
NET ASSETS, BEGINNING OF YEAR	389,149	372,469
NET ASSETS, END OF YEAR	$ 404,312	$ 389,149

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, 2005 and 2004

	(In thousands) 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 107,693	$ 113,605
Cash payments to suppliers for goods and services	(45,485)	(40,338)
Cash payments to employees for services	(22,462)	(21,383)
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,746	51,884
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(1,584)	(5,043)
Cash payments for other non-operating costs	(2,048)	(939)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(3,632)	(5,982)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(52,736)	(133,370)
Cash receipts for passenger facility charges	22,818	22,435
Principal paid on long-term debt	(10,895)	(9,373)
Interest paid on long-term debt	(43,666)	(36,162)
Capital grant proceeds	18,208	19,621
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(66,271)	(136,849)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(92,545)	(83,513)
Proceeds from sale and maturity of investment securities	66,256	89,301
Interest received on investments	14,040	17,423
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	(12,249)	23,211
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,406)	(67,736)
Cash and cash equivalents, beginning of year	317,615	385,351
Cash and cash equivalents, end of year	$ 275,209	$ 317,615

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS (Reconciliation)
For the Years Ended December 31, 2005 and 2004

	(In thousands) 2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (2,947)	$ 12,187
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	47,065	40,018
Non-cash rental income	(3,389)	(3,389)
Loss on disposal of equipment		68
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	5,017	(2,543)
Unbilled revenue	(2,768)	1,514
Landing fees - due from airlines		(109)
Prepaid expenses	350	(19)
Due from other City departments, divisions or funds	(31)	2
Materials and supplies, at cost	42	(16)
Accounts payable	(877)	(962)
Due to other City departments, divisions or funds	(799)	(154)
Accrued wages and benefits	133	296
Landing fees - due to airlines	(2,843)	4,495
Accrued property taxes	793	496
TOTAL ADJUSTMENTS	42,693	39,697
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 39,746	$ 51,884

(Concluded)

See notes to financial statements.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units. Beginning January 1, 2002, the Divisions changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Effective January 1, 2005, the Divisions implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which is effective for the year ended December 31, 2005. The Divisions have determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005.

The Divisions' net assets are accounted for in the accompanying balance sheets and the net assets are divided into the following categories:

- Amount invested in capital assets, net of related debt
- Amount restricted for capital projects
- Amount restricted for debt service
- Amount restricted for Passenger Facility Charges
- Remaining unrestricted amount

In addition, certain additional financial information regarding the Divisions is included in these footnotes. The implementation of the new GASB statements did not result in a change in the Divisions' beginning net asset/equity balance as previously reported.

Basis of Accounting: The Divisions' financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements) or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: The Divisions utilize the direct method of reporting for the statement of cash flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In the statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and all investment activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Divisions. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments: The Divisions follow the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair market value is based on quoted market values.

The City has invested funds in the State Treasurer Asset Reserve of Ohio (STAROhio) during 2005 and 2004. 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, 2005 and 2004.

Restricted Assets: Proceeds from debt and amounts set aside in various fund accounts for payment of revenue bonds are classified as restricted assets since their use is limited by the bond indentures.

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

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than $5,000 for furniture, fixtures and equipment and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Airfield (land improvements)	3 to 75 years
Buildings, structures and improvements	5 to 50 years
Furniture, fixtures and equipment	3 to 35 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Divisions' policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Divisions apply Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2005 and 2004, total interest costs incurred amounted to $38,852,000 and $41,303,000, respectively, of which $8,215,000 and $5,639,000, respectively, was capitalized, net of interest income of $3,600,000 in 2005 and $6,181,000 in 2004.

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

Compensated Absences: The Divisions accrue for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available. The Divisions allow employees to carryover vacation time from one year to the next with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at three-year average base salary rate, with the balance being forfeited.

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

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of costs incurred for noise abatement for residents of communities surrounding Cleveland Hopkins International Airport. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund receivables and payables balances at December 31, 2005 and 2004 are as follows:

	2005 Due From	2005 Due To	2004 Due From	2004 Due To
	(In thousands)			
City of Cleveland General Fund	$	$ 202	$	$ 1,027
Division of Water Pollution Control		82		65
Division of Cleveland Public Power		23		44
Division of Research Planning & Development	81		70	
Special Revenues - Transportation Fee				
Worker's Compensation Refund Reserve	11	253	10	250
Division of Radio Communication	24	7		11
Division of Printing		4	5	
Division of Motor Vehicle Maintenance		74		52
Division of Telephone Exchange	457	39	457	34
	$ 573	$ 684	$ 542	$ 1,483

NOTE B - LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2005	2004
			(In thousands)	
Airport Expansion and Noise Mitigation				
Airport System Revenue Bonds:				
Series 1990, due through 2006	7.20%	$ 66,006	$ 2,625	$ 5,443
Series 1997, due through 2027	1.51%-7.00%	277,165	241,000	247,555
Series 2000, due through 2031	1.44%-5.50%	573,190	573,190	573,190
Series 2003, due through 2033	Variable	140,600	140,600	140,600
		$ 1,056,961	957,415	966,788
Less:				
Unamortized discount			(8,124)	(8,340)
Unamortized loss on debt refunding			(6,254)	(6,826)
Current portion (due within one year)			(10,895)	(9,373)
Total Long-Term Debt excluding the deferred payment obligation			$ 932,142	$ 942,249

Summary: Changes in long-term obligations for the year ended December 31, 2005 are as follows:

	Balance January 1, 2005	Increase	Decrease	Balance December 31, 2005	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1990	$ 5,443	$	$ (2,818)	$ 2,625	$ 2,625
Series 1997	247,555		(6,555)	241,000	6,920
Series 2000	573,190			573,190	
Series 2003	140,600			140,600	1,350
Total revenue bonds	966,788	-	(9,373)	957,415	10,895
Accrued wages and benefits	3,426	133		3,559	2,740
Total	$ 970,214	$ 133	$ (9,373)	$ 960,974	$ 13,635

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2004 are as follows:

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004	Due Within One Year
			(In thousands)		
Airport System Revenue Bonds					
Series 1990	$ 8,487	$	$ (3,044)	$ 5,443	$ 2,818
Series 1994	2,045		(2,045)		
Series 1997	253,570		(6,015)	247,555	6,555
Series 2000	573,190			573,190	
Series 2003	140,600			140,600	
Total revenue bonds & notes	977,892	-	(11,104)	966,788	9,373
Accrued wages and benefits	3,130	296		3,426	2,617
Total	$ 981,022	$ 296	$ (11,104)	$ 970,214	$ 11,990

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

	Principal	Interest	Total
		(In thousands)	
2006	$ 10,895	$ 54,144	$ 65,039
2007	17,775	47,894	65,669
2008	19,990	47,107	67,097
2009	20,880	45,805	66,685
2010	22,200	44,692	66,892
2011-2015	129,520	205,109	334,629
2016-2020	167,890	166,605	334,495
2021-2025	216,555	117,771	334,326
2026-2030	278,205	55,572	333,777
2031-2034	73,505	2,356	75,861
Total	$ 957,415	$ 787,055	$ 1,744,470

NOTE B - LONG-TERM OBLIGATIONS (Continued)

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, 2005 and 2004, the Divisions have recorded a liability in the amount of $5,325,000 and $9,914,000, respectively, for compounded interest payable on the Capital Appreciation Bonds.

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

As of December 31, 2005, 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.

Interest Rate Swap Transactions:

Terms: Simultaneously with the issuance of the City's $140,600,000 Series 2003A-C Airport System Revenue Bonds on October 23, 2003 the City entered into floating-to-fixed rate swap agreements on the declining notional amount of the $20,650,000 Series A Bonds and the $56,200,000 Series B Bonds. Bear Stearns Financial Products Inc. is the counterparty on a five-eighths pro rata share of the notional amount of each Series while JPMorgan Chase Bank is the counterparty on the remaining three-eighths of the notional amount. Under the swap agreement for the Series 2003A Bonds, the Airport System will be the fixed rate payor, paying a fixed rate of 4.169% semiannually, while the Counterparties will pay the Airport System at the Bond Market Association index (BMA) every 35 days. The swap agreement for the Series 2003B Bonds requires the Airport System to pay a fixed rate of 4.273% semiannually and the Counterparties will pay the Airport System the BMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of Airport Revenues. Both the bond debt service payments and the periodic swap payments are insured by AMBAC.

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap Transactions (Continued):

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

Basis Risk: By entering into swaps based upon the BMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments are based on the tax exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties has been greatly reduced. The amount received on the 2003B Bonds incorporates an additional 10 basis points to take into account the fact that the underlying bonds are subject to the Alternative Minimum Tax.

Counterparty Risk: The City has selected highly rated counterparties in order to minimize this risk. However, over the long term it is possible that the credit strength of Bear Stearns and JPMorgan could change and this event could trigger a termination payment on the part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to Bear Stearns and JPMorgan, or by Bear Stearns and JPMorgan to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the City.

Fair Value: The fair value of the swaps at December 31, 2005 and December 31, 2004, as reported by JPMorgan Chase Bank was $838,000 and $1,136,000, respectively, for the Series 2003A and $2,325,000 and $3,134,000, respectively, for the Series 2003B which would be payable by the City to Bear Stearns and JPMorgan.

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 Airport System currently has no defeased debt outstanding.

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 Divisions' revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – ACQUISITION OF INTERNATIONAL EXPOSITION CENTER

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

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

NOTE D – ACQUISITION OF INTERNATIONAL EXPOSITION CENTER (Continued)

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

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(In thousands)		
2006	$ 1,881	$ 1,508	$ 3,389	$ 3,389
2007	2,032	1,357	3,389	3,389
2008	2,195	1,194	3,389	3,389
2009	2,371	1,018	3,389	3,389
2010	2,562	827	3,389	3,389
Thereafter	9,265	1,180	10,445	10,445
	$ 20,306	$ 7,084	$ 27,390	$ 27,390

Rental income recognized by the City under this agreement was $3,389,000 in 2005 and 2004. Of these amounts in 2005, $1,648,000 was offset against interest expense and $1,741,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2004, $1,777,000 was offset against interest expense and $1,612,000 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, 2005 and 2004 totaled approximately $5,748,000 and $6,968,000, respectively, and the Divisions' bank balance was approximately $3,660,000 and $540,000, respectively. The differences represent normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, $3,660,000 and $540,000 of the bank balances were insured or collateralized with securities held by the City or by its agent in the City's name.

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

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

Credit Risk: The Divisions' investments as of December 31, 2005 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, STAROhio, mutual funds and guaranteed investment contracts. The Divisions maintain the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, Allegiant Government Money Market Fund and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Divisions have no investment policy that would further limit its investment choices.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

The Divisions have the following investments at December 31, 2005 and 2004, 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	2005 Fair Value	2005 Cost	2004 Fair Value	2004 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years	Investment Maturities: 5 Years or More
	(In thousands)						
U.S. Agency Obligations	$183,446	$185,757	$157,080	$159,028		X*	
U.S. Treasury Bills	1,845	1,845	3,014	3,014		X*	
STAROhio	18,881	18,881	35,597	35,597	X*		
Guaranteed Investment Contract	46,044	46,044	127,682	127,682	X^	X^	X^
Investment in Mutual Funds	4,014	4,014	2	2	X*		
Other	198,677	198,677	144,429	144,429	X*		
Total Investments	452,907	455,218	467,804	469,752			
Total Deposits	5,748	5,748	6,968	6,968			
Total Deposits and Investments	$458,655	$460,966	$474,772	$476,720			

* Investment maturities apply to the investment categories for both 2005 and 2004.

^ At December 31, 2005, the amount maturing in one to five years is $17,064,000 and the amount maturing in more than five years is $28,980,000. At December 31, 2004, the amount maturing in less than one year is $81,638,000; the amount maturing in one to five years is $17,064,000 and the amount maturing in more than five years is $28,980,000.

These amounts are monies invested by the City Treasurer on behalf of the Divisions and are used in daily operations with excess monies invested daily in STAROhio, guaranteed investment contracts, mutual funds and other investments. These investments are carried at cost which approximates market value. Amounts represented by "Other" consist of deposits into a collective pool managed by JPMorgan, as trustee.

Concentration of Credit Risk: The Divisions place no limit on the amount it may invest in any one issuer. As of December 31, 2005, the investments in U.S. Agency Obligations, guaranteed investment contracts and deposits in the collective pool (“Other”) are approximately 41%, 10% and 44%, respectively, of the Divisions’ total investments. As of December 31, 2004, the investments in U.S. Agency Obligations, STAROhio, guaranteed investment contracts and deposits in the collective pool (“Other”) are approximately 34%, 8%, 27% and 31%, respectively, of the Divisions’ total investments.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2005 and 2004

NOTE F - CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2005 was as follows:

	January 1, 2005	Additions	Reductions	December 31, 2005
		(In thousands)		
Capital Assets, not being depreciated:				
Land	$ 140,296	$ 10,532	$	$ 150,828
Construction in progress	19,026	56,722	(36,006)	39,742
Total capital assets, not being depreciated	159,322	67,254	(36,006)	190,570
Capital assets, being depreciated:				
Land improvements	642,095	23,112		665,207
Buildings, structures and improvements	409,509	1,177		410,686
Furniture, fixtures and equipment	39,287	1,185		40,472
Total capital assets, being depreciated	1,090,891	25,474	-	1,116,365
Less: Total accumulated depreciation	(331,915)	(47,065)		(378,980)
Total capital assets being depreciated, net	758,976	(21,591)	-	737,385
Capital assets, net	$ 918,298	$ 45,663	$ (36,006)	$ 927,955

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2004 was as follows:

	January 1, 2004	Additions	Reductions	December 31, 2004
		(In thousands)		
Capital Assets, not being depreciated:				
Land	$ 130,332	$ 9,964	$	$ 140,296
Construction in progress	209,544	110,998	(301,516)	19,026
Total capital assets, not being depreciated	339,876	120,962	(301,516)	159,322
Capital assets, being depreciated:				
Land improvements	360,702	281,431	(38)	642,095
Buildings, structures and improvements	402,088	8,058	(637)	409,509
Furniture, fixtures and equipment	37,224	2,063		39,287
Total capital assets, being depreciated	800,014	291,552	(675)	1,090,891
Less: Total accumulated depreciation	(292,505)	(40,018)	608	(331,915)
Total capital assets being depreciated, net	507,509	251,534	(67)	758,976
Capital assets, net	$ 847,385	$ 372,496	$ (301,583)	$ 918,298

NOTE F - CAPITAL ASSETS (Continued)

Commitments: As of December 31, 2005 and 2004, the Divisions had capital expenditure purchase commitments outstanding of approximately $95,108,000 and $53,000,000, 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, 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.

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, 2005 and 2004 is approximately $155,533,000 and $160,788,000, respectively.

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

	(In thousands)
2006	$ 10,041
2007	9,277
2008	8,994
2009	2,187
2010	1,841
Thereafter	7,423
	$ 39,763

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

Contingent operating revenues aggregated approximately $22,828,000 and $20,894,000, respectively, in 2005 and 2004.

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 2005 or 2004. There was no significant decrease in any insurance coverage in 2005 or 2004. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

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

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of 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 - EMPLOYEES RETIREMENT PLAN

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 (TP) – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

NOTE I - EMPLOYEES RETIREMENT PLAN (Continued)

3) The Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Divisions' required employer contributions to OPERS for all plans for the years ending December 31, 2005, 2004 and 2003 were approximately $1,594,000, $1,538,000 and $1,381,000 each year, respectively. The required payments due in 2005, 2004 and 2003 have been made.

NOTE J - OTHER POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage 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 postretirement 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 recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Divisions' contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

NOTE J - OTHER POST EMPLOYMENT BENEFITS (Continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Divisions' actual contributions for 2005 which were to fund postemployment benefits were approximately $668,000. $10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow 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, 2005 and 2004, were as follows:

	2005	2004
	(In thousands)	
City Central Services, including police	$ 5,307	$ 5,837
Electricity purchased	260	275
Motor vehicle maintenance	480	253

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 2005 was a payable to the Airlines of $1,652,000. In 2004, the landing fee adjustment was a payable to the Airlines of $4,495,000.

NOTE L– LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION (Continued)

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 2005 and 2004.

NOTE M – PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting passenger facility charges (PFC's) subject to title 14, Code of Federal Regulations, Part 158. PFC's are fees imposed on passengers enplaned by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers. Under its federally approved program from inception in 1992 to 2007, the airport expects to collect approximately \$340 million, of which an estimated 27% will be spent on noise abatement for the residents of communities surrounding the airport, 33% on runway expansion, and 40% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues, and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE N – MAJOR CUSTOMER

In 2005 and 2004, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 29% and 34% respectively, of total operating revenue.

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, 2005

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	$ 31,771	$	$ 31,771
Terminal rental	28,275		28,275
Other	2,974		2,974
	63,020	-	63,020
Operating revenues from other sources:			
Concessions	26,363	347	26,710
Rentals	10,479	236	10,714
Landing fees	3,226	171	3,397
Other	3,682	164	3,845
	43,750	918	44,666
Non-operating revenue:			
Interest income	2,332		2,332
TOTAL REVENUE	$ 109,102	$ 918	$ 110,018
OPERATING EXPENSES			
Salaries and wages	$ 16,068	$ 900	$ 16,968
Employee benefits	5,337	302	5,639
City Central Services, including police	5,574	211	5,785
Materials and supplies	8,238	352	8,590
Contractual services	29,883	93	29,976
TOTAL OPERATING EXPENSES	$ 65,100	$ 1,858	$ 66,958

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

REPORT ON PASSENGER FACILITY CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2005

Auditor of State
Betty Montgomery

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
REPORT ON PASSENGER FACILITY CHARGES
FOR THE YEAR ENDED DECEMBER 31, 2005

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Auditor of State
Betty Montgomery

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

Divisions of Cleveland Hopkins International and
Burke Lakefront Airports
Department of Port Control
City of Cleveland
Cuyahoga County
5300 Riverside Drive
Cleveland, Ohio 44135-3193

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

Compliance

We have audited the compliance of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio, (the Divisions) with the compliance requirements described in the September 2000 *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2005. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

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

In our opinion, the Divisions complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the City of Cleveland, Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport, Department of Port Control as of and for the year ended December 31, 2005, and have issued our report thereon dated May 31, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for the purposes of additional analysis as specified by the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the audit committee, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

May 31, 2006

Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland

Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2005

	Approved Project Budget	Cumulative Expenditures at 12/31/04	1st Quarter 2005 Expenditures	2nd Quarter 2005 Expenditures	3rd Quarter 2005 Expenditures	4th Quarter 2005 Expenditures	Total 2005 Expenditures	Cumulative Expenditures at 12/31/05
Insulate Residences - full program phase I	16,960,400	16,770,155	-	-	190,245	-	190,245	16,960,400
Extension of Taxiway "Q"	2,500,000	2,155,743	-	-	-	-	-	2,155,743
Land Acquisition - Resident Relocation	16,883,240	14,689,459		-	-	-	-	14,689,459
Sewer Construction	5,500,000	5,500,000	-	-	-	-	-	5,500,000
Asbestos Removal in Terminal CHIA	1,000,000	729,842	-	-	-	-	-	729,842
Acquisition of Analex Office Building and Vacant Land	13,025,000	13,025,000	-	-	-	-	-	13,025,000
Waste Water-Glycol Collection System Construction	6,320,642	5,835,921	-	-	-	-	-	5,835,921
NASA Feasibility and Pre-engineering Study	355,000	355,000	-	-		-	-	355,000
Land Acquisition	30,360,000	25,279,832	1,442	1,024	-	-	2,466	25,282,298
Sound Insulation	8,675,000	8,401,245	-	-	-	194,396	194,396	8,595,641
Environmental Assessment/Impact Studies	2,309,570	2,309,570	-	-	-	-	-	2,309,570
Terminal Passenger Flow and Security Study	300,000	-	-	-	-	-	-	-
Railway System/Vehicular Ingress-Egress Study	200,000	-	-	-	-	-	-	-
Runway 5R Extension Engineering	-	-	-	-	-	-	-	-
Runway 5R Extension Design	-	-	-	-	-	-	-	-
Runway 5R Construction	-	-	-	-	-	-	-	-
FIS Facility Construction	-	-	-	-	-	-	-	-
FIS Facility Design	-	-	-	-	-	-	-	-
Brook Park Land Transfer	8,750,000	3,810,755	-	-	-	1,113,838	1,113,838	4,924,593
Analex Demolition	1,229,000	178,757	-	-	-	156,446	156,446	335,203
Sound Insulation	20,000,000	11,466,817	-	93,821	(169,252)	1,430,039	1,354,608	12,821,425
Baggage Claim/Expansion	9,526,087	9,526,086	-	-	-	-	-	9,526,086
Tug Road Replacement	1,019,000	668,553	-	-	-	-	-	668,553
Interim Commuter Ramp	5,560,338	2,418,763	-	-	-	707,808	707,808	3,126,571
Concourse D Ramp/Site Utilities	51,305,804	22,323,258	-	-	-	6,531,014	6,531,014	28,854,272
Burke Runway Overlay 6L/24R	530,286	351,172	-	-	-	277,683	277,683	628,855
Install Instrument Landing System-Burke	2,181,400	612,680	-	-	-	67,503	67,503	680,183
Runway 6L/23R	82,106,000	10,613,305	-	-	-	10,451,749	10,451,749	21,065,054
Runway 6R/24L Uncoupling	2,148,000	-				150,439	150,439	150,439
Runway 10/28 Safety Improvements	2,200,000	-				962,483	962,483	962,483
Midfield Deicing Pad	39,100,000	-				3,785,191	3,785,191	3,785,191
	330,044,767	157,021,913	1,442	94,845	20,993	25,828,589	25,945,869	182,967,782

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, 2005

General

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

Basis of Presentation

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

Auditor of State
Betty Montgomery

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CITY OF CLEVELAND
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL & BURKE LAKEFRONT AIRPORTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 13, 2006