

CITY OF CLEVELAND, OHIO



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

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2025**

CITY OF CLEVELAND, OHIO

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

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INDEPENDENT AUDITOR'S REPORT

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

To the Honorable Justin M. Bibb, Mayor, Members of City Council and the Audit Committee and the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports of the City of Cleveland, Cuyahoga County, Ohio (the Divisions), as of and for the year ended December 31, 2025, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports of the City of Cleveland, as of December 31, 2025, and the respective changes in financial position and where applicable, cash flows, for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Divisions, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Presentation

As discussed in Note A, the financial statements of the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports of the City of Cleveland, are intended to present the financial position, the changes in financial position, and where applicable cash flows, of only that portion of the business-type activities, and major fund of the City of Cleveland that is attributable to the transactions of the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports. They do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2025, the changes in its financial position or, where applicable, cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Divisions' internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Divisions' basic financial statements. The Schedule of Airport Revenues and Operating Expenses as Defined in the Airline Use Agreements, the Schedule of Passenger Facility Revenue and Interest and the Schedule of Expenditures of Passenger Facility Charges (the schedules), as required by the Passenger Facility Charge Audit Guide for Public Agencies (the Guide), issued by the Federal Aviation Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KEITH FABER
Ohio Auditor of State



Tiffany L. Ridenbaugh, CPA, CFE, CGFM
Chief Deputy Auditor

June 25, 2026

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
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MANAGEMENT’S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland’s (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions’ financial statements this narrative overview and analysis of the financial activities of the Divisions for the year ended December 31, 2025. Please read this information in conjunction with the Divisions’ basic financial statements and notes that begin on page 16.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airports of the City. The Divisions operate a major public airport and a reliever airport serving not only the City, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2025, the Divisions were served by eight scheduled United States (U.S.) based airlines, three foreign based airlines, ten regional U.S. based airlines, one regularly scheduled charter and five U.S. based all – cargo airlines. There were approximately 48,000 scheduled landings with landed weight amounting to 6,175,396,000 pounds. There were approximately 5,008,000 passengers enplaned at Cleveland Hopkins International Airport and 66,000 passengers enplaned at Burke Lakefront Airport during 2025.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Divisions exceeded its liabilities and deferred inflows of resources (net position) by \$538,275,000 and \$504,113,000 at December 31, 2025 and 2024, respectively. Of these amounts, \$142,627,000 and \$173,669,000 (unrestricted net position) at December 31, 2025 and 2024, respectively, may be used to meet the Divisions’ ongoing obligations to customers and creditors.
- The Divisions’ total net position increased by \$34,162,000 in 2025.
- Additions to capital assets totaled \$56,132,000 in 2025.
- The major capital projects during 2025 were building 214 renovation, restroom renovations project, tunnel membrane project, central checkpoint expansion, temporary tenant structure construction, and the building 306 & building 307 demolitions.
- The Divisions’ total bonded debt decreased by \$65,215,000 in 2025. This was the result of the regularly scheduled principal payments made on the Divisions’ outstanding bonds and the refunding and tender of several series of outstanding bonds.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Divisions can be found on pages 16-21 of this report.

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23-54 of this report. The required supplementary information can be found on pages 55-58 of this report. The Schedule of Airport Revenues and Operating Expenses as Defined in the Airline Use Agreements can be found on page 59 of this report. The Schedule of Passenger Facility Revenue and Interest Report can be found on page 60 and the Schedule of Expenditures of Passenger Facility Charges can be found on page 61. The Notes to Schedules of Revenue, Interest, and Expenditures of Passenger Facility Charges can be found on page 62. The Independent Auditor's 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 can be found on pages 63-65 of this report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Divisions as of December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
	(Amounts in Thousands)	
Assets and deferred outflows of resources:		
Assets:		
Current assets	\$ 135,130	\$ 143,625
Restricted assets	307,675	295,423
Non-current assets	3,159	1,513
Capital assets, net	<u>564,346</u>	<u>572,690</u>
Total assets	1,010,310	1,013,251
Deferred outflows of resources	10,205	20,861
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Current liabilities	82,887	95,283
Long-term obligations	<u>382,239</u>	<u>426,682</u>
Total liabilities	465,126	521,965
Deferred inflows of resources	17,114	8,034
Net position:		
Net investment in capital assets	194,601	147,170
Restricted for debt service	124,692	126,284
Restricted for capital projects	21	21
Restricted for passenger and customer facility charges	73,175	55,456
Restricted for pension and OPEB assets	3,159	1,513
Unrestricted	<u>142,627</u>	<u>173,669</u>
Total net position	<u><u>\$ 538,275</u></u>	<u><u>\$ 504,113</u></u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets and Deferred Outflow of Resources: Total assets and deferred outflows of resources decreased \$13,597,000 or 1.3% in 2025. The changes are primarily due to a decrease in capital assets due to depreciation expense in 2025. Current assets decreased \$8,495,000 as a result of a decrease in current cash and due from other governments offset by an increase in receivables. The decrease in current cash is a result of increased cash payments. The increase in receivables and decrease in due from other governments is a result of timing of billings. Deferred outflows of resources related to pension and OPEB decreased due to the net difference between projected and actual earnings on plan investments.

Capital Assets: The Divisions' capital assets as of December 31, 2025 amounted to \$564,346,000 (net of accumulated depreciation and amortization), which is a decrease of 1.5%. These capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure; vehicles; right to use assets; and construction in progress. There was an increase in building, structures and improvements of \$7,959,000 and infrastructure of \$20,408,000 primarily due to items being removed from construction in progress and placed into service.

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2025 is as follows:

	Balance January 1, 2025		Balance December 31, 2025
		Additions	Reductions
	(Amounts in Thousands)		
Land	\$ 166,882	\$	\$ 166,882
Construction in progress	33,355	22,709	(26,798) 29,266
Land improvements	107,098	161	107,259
Buildings, structures and improvements	410,156	7,959	418,115
Furniture, fixtures and equipment	103,234	4,294	(1,726) 105,802
Infrastructure	1,085,274	20,408	1,105,682
Vehicles	22,423		(767) 21,656
Right to use assets	885	601	1,486
Total	1,929,307	56,132	(29,291) 1,956,148
Less: Accumulated depreciation and amortization	(1,356,617)	(37,557)	2,372 (1,391,802)
Capital assets, net	\$ 572,690	\$ 18,575	\$ (26,919) \$ 564,346

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Major events during 2025 affecting the Divisions' capital assets included the following:

- **Building 214 Renovations:** Renovation of the formerly vacant 22,000 square-foot building with new HVAC, electrical, carpeting, and furniture to accommodate a new hub for the Terminal Modernization Development Program.
- **RTA Tunnel Membrane:** Resurfacing and structural repair to the aging membrane on the tunnel linking the RTA Red Line to the airport.
- **Central Checkpoint Restroom:** Construction of multi-user men's, women's, and family restroom facilities on the ticketing level near the central checkpoint.
- **Fire Suppression Systems:** In 2025, continued progress was made with the fire suppression systems for CLE and Burke. This project includes fire alarm replacement at the main terminal.

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

Liabilities: In 2025, total liabilities decreased \$56,839,000 or 10.9%. Current liabilities decreased \$12,396,000 or 13.0% as a result of a decrease in landing fee settlement and interest payable. Long-term liabilities decreased \$44,443,000 or 10.4% due to a decrease in revenue bonds payable offset by an increase of accrued wages and benefits.

Net Pension/OPEB Liabilities/(Assets): The net pension liability/(asset) is reported by the Divisions at December 31, 2025 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*. In 2018, the Divisions adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Divisions' actual financial condition by adding deferred inflows of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset, net OPEB asset and deferred outflows of resources related to pension and OPEB.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*) and postemployment benefits (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability/(asset) or net OPEB liability/(asset). GASB Statement No. 68 and GASB Statement No. 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

GASB Statement No. 68 and GASB Statement No. 75 require the net pension liability/(asset) and the net OPEB liability/(asset) to equal the Divisions' proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the employment exchange that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension and OPEB. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Divisions are not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State Statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State Statute. The Ohio Revised Code (the ORC) permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liabilities of the pension/OPEB plans against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability/(asset) or the net OPEB liability/(asset). As previously explained, changes in benefits, contribution rates and return on investments affect the balance of these liabilities, but are outside the control of the Divisions. In the event that contributions, investment returns and other changes are insufficient to keep up with required payments, State Statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability/(asset) and the net OPEB liability/(asset) are satisfied, these liabilities/(assets) are separately identified within the long-term liability or non-current assets section of the statement of net position.

In accordance with GASB Statement No. 68 and GASB Statement No. 75, the Divisions' statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability/(asset) and net OPEB liability/(asset), respectively, not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB Statement No. 75, the Divisions are reporting a net OPEB liability/(asset) and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At December 31, 2025 and 2024, the Divisions had \$360,595,000 and \$425,810,000 respectively, in total bonded debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2025 is summarized below:

	Balance January 1, 2025	Debt Issued	Debt Retired	Balance December 31, 2025
	(Amounts in Thousands)			
Airport System Revenue Bonds:				
Series 2007	\$ 980	\$	\$ (310)	\$ 670
Series 2016	75,000		(75,000)	-
Series 2018	65,090		(9,470)	55,620
Series 2019	284,740		(139,730)	145,010
Series 2025	<u> </u>	<u>159,295</u>	<u> </u>	<u>159,295</u>
Total	<u>\$ 425,810</u>	<u>\$ 159,295</u>	<u>\$ (224,510)</u>	<u>\$ 360,595</u>

The bond ratings from Moody's Investors Service, S&P Global Ratings and Fitch Ratings are as follows:

Moody's Investors Service	S&P Global Ratings	Fitch Ratings
A2	A	A-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Divisions' debt position to management, customers and creditors. The Divisions' revenue bond coverage for 2025 was 189%.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Deferred Inflows of Resources: Deferred inflows of resources increased by \$9,080,000 in 2025, largely due to the execution of new long-term lease agreements. Under GASB Statement No. 87, the Division recognized a lease receivable and a corresponding deferred inflow of resources for the present value of future lease payments to be received over the lease terms. This deferred inflow will be systematically recognized as lease revenue over the duration of the respective lease agreements.

Net Position: Net position serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$538,275,000 and \$504,113,000 at December 31, 2025 and 2024, respectively. Of the Divisions' net position at December 31, 2025 and 2024, \$194,601,000 and \$147,170,000, respectively, reflects its investment in capital assets (e.g., construction in progress; land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; vehicles; infrastructure; and right to use assets) net of accumulated depreciation and amortization, 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 position represents resources that are subject to external restrictions. At December 31, 2025 and 2024, the restricted net position amounted to \$201,047,000 and \$183,274,000, respectively. The restricted net position included amounts set aside in various fund accounts for capital projects and for payment of revenue bonds, which are limited by the bond indentures and passenger facility charges imposed and collected at CLE based on an approved FAA application. Passenger facility charges are restricted for designated capital projects and approved debt service. Customer facility charges are also restricted for designated capital projects. The remaining balance of unrestricted net position, \$142,627,000 and \$173,669,000 for December 31, 2025 and 2024, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

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MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions’ net position increased by \$34,162,000 in 2025. Provided below are key elements of the Divisions’ results of operations as of and for the years ended December 31, 2025 and 2024:

	2025	2024
	(Amounts in Thousands)	
Operating revenues:		
Landing fees, terminal and concourse rentals	\$ 80,680	\$ 63,760
Concessions	75,784	70,966
Utility sales and other	9,544	9,584
Total operating revenues	<u>166,008</u>	<u>144,310</u>
Operating expenses	<u>142,210</u>	<u>143,435</u>
Operating income (loss)	23,798	875
Non-operating revenue (expense):		
Non-operating revenue (expense)	(27,502)	(15,048)
Gain (loss) on disposal of capital asset	(345)	(1)
Investment income (loss)	15,673	16,842
Interest expense	(12,784)	(14,939)
Amortization of bond discounts/premiums and loss on debt refundings	<u>1,851</u>	<u>669</u>
Total non-operating revenue (expense), net	(23,107)	(12,477)
Capital contributions - passenger and customer facility charges	28,887	29,149
Capital and other contributions	4,916	29,894
Transfer Out	<u>(332)</u>	<u></u>
Change in net position	34,162	47,441
Net position, beginning of year	<u>504,113</u>	<u>456,672</u>
Net position, end of year	<u>\$ 538,275</u>	<u>\$ 504,113</u>

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MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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

Operating Revenues: Operating revenues for 2025 were \$166,008,000. Landing fee revenue is offset by a payable to the airlines at year-end. Scheduled terminal rentals accounted for \$41,829,000 or 25.2% of total operating revenues. Parking revenues increased \$3,277,000 or 7.3% from 2024 due to an increase in demand for services. Parking revenues amounted to \$48,321,000 or 29.1% of total operating revenues for 2025. The fourth largest airport revenue source, terminal concessions revenue accounted for \$19,352,000 or 11.7% of operating revenue. Another major revenue source, rental cars, accounted for 8.4% of total operating revenues. The increases of operating revenues are due to increased flights.

Operating Expenses: Total operating expenses for 2025 decreased \$1,225,000 or 0.9%. The decrease is primarily due to a decrease in depreciation expenses. This reduction reflects the impact of the straight-line depreciation method, as older capital assets reached the end of their estimated useful lives and became fully depreciated during the prior year.

Non-Operating Revenue and Expenses: Non-operating revenues and expenses increased by \$10,630,000. The primary reason for this increase was expenses for professional services relating to major future airport improvements.

Capital and Other Contributions: In 2025 there was a decrease in capital and other contributions of \$24,978,000 due to the final American Rescue Plan Act (ARPA) monies being received in 2024.

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

Air travel stayed relatively consistent in 2025 compared to 2024. Cleveland saw 10,003,833 passengers in 2025 which is down 1.7% versus 2024 and marked the second year in a row the 10 million passenger mark has been exceeded since pre-pandemic levels in 2019. Despite the challenges, non-airline revenues increased during 2025. Non-airline revenues including concessions, parking and ride shares increased \$4,988,000.

Airline confidence in Cleveland has continued. In 2025 Airlines added 3,424 flights (up 3.8%) and 188,305 seats (up 1.5%) compared to 2024. Several airlines increased seats to major domestic destinations including San Francisco (United), Atlanta (Frontier and Delta), Las Vegas (Southwest), and Miami (American). Fluctuating fuel prices, new tariffs, and government shutdown influenced softer demand which affected passenger travel in 2025 (down 1.67%) compared to 2024.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION
DECEMBER 31, 2025
(Amounts in Thousands)**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 103,778
Receivables:	
Accounts-net of allowance for doubtful accounts of \$474	1,775
Leases receivable	16,797
Unbilled revenue	5,739
Accrued interest receivable	46
Total receivables	<u>24,357</u>
Prepaid expenses	1,410
Due from other funds	18
Due from other governments	2,357
Materials and supplies-at cost	<u>3,210</u>
TOTAL CURRENT ASSETS	135,130

RESTRICTED ASSETS

Cash and cash equivalents	305,257
Accrued interest receivable	453
Accrued passenger facility charges	1,303
Accrued customer facility charges	<u>662</u>
TOTAL RESTRICTED ASSETS	307,675

NON-CURRENT ASSETS

Net OPEB asset	<u>3,159</u>
TOTAL NON-CURRENT ASSETS	3,159

CAPITAL ASSETS

Land	166,882
Land improvements	107,259
Buildings, structures and improvements	418,115
Furniture, fixtures and equipment	105,802
Infrastructure	1,105,682
Vehicles	21,656
Right to use assets - subscriptions	<u>1,486</u>
	1,926,882
Less: Accumulated depreciation and amortization	<u>(1,391,802)</u>
	535,080
Construction in progress	<u>29,266</u>
CAPITAL ASSETS, NET	564,346
TOTAL ASSETS	1,010,310

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding	1,153
Pension	8,980
OPEB	<u>72</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	10,205

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

STATEMENT OF NET POSITION

DECEMBER 31, 2025

(Amounts in Thousands)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt, due within one year	\$ 43,790
Accounts payable	17,168
Unearned revenue	1,265
Landing fee settlement payable to airlines	1,117
Due to other funds	1,328
Current portion of accrued wages and benefits	3,199
Current portion subscriptions payable	424
Accrued interest payable	7,439
Accrued property taxes	4,556
Construction fund payable from restricted assets	2,601
TOTAL CURRENT LIABILITIES	82,887

LONG-TERM OBLIGATIONS - excluding amounts due within one year

Revenue bonds	330,137
Subordinate note	15,650
Subscriptions	260
Net pension liability	33,369
Accrued wages and benefits	2,823
TOTAL LONG-TERM OBLIGATIONS	382,239

TOTAL LIABILITIES 465,126

DEFERRED INFLOWS OF RESOURCES

Leases	16,327
Pension	127
OPEB	660
TOTAL DEFERRED INFLOWS OF RESOURCES	17,114

NET POSITION

Net investment in capital assets	194,601
Restricted for debt service	124,692
Restricted for capital projects	21
Restricted for passenger and customer facility charges	73,175
Restricted for net OPEB asset	3,159
Unrestricted	142,627
TOTAL NET POSITION	\$ 538,275

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2025
(Amounts in Thousands)

OPERATING REVENUES

Landing fees, terminal rentals, and concourse rentals:		
Scheduled airlines	\$	60,024
Other		<u>20,656</u>
		80,680
Concessions		75,784
Utility sales and other		<u>9,544</u>
TOTAL OPERATING REVENUES		166,008

OPERATING EXPENSES

Operations		98,630
Maintenance		6,023
Depreciation and amortization		<u>37,557</u>
TOTAL OPERATING EXPENSES		142,210

OPERATING INCOME (LOSS) 23,798

NON-OPERATING REVENUE (EXPENSE)

Non-operating revenue (expense)		(27,502)
Gain (loss) on disposal of capital asset		(345)
Investment income (loss)		15,673
Interest expense		(12,784)
Amortization of bond discounts/premiums and loss on debt refundings		<u>1,851</u>
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET		(23,107)

INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS 691

Capital contributions - passenger and customer facility charges		28,887
Capital and other contributions		4,916
Transfer Out		<u>(332)</u>

INCREASE (DECREASE) IN NET POSITION 34,162

NET POSITION, BEGINNING OF YEAR 504,113

NET POSITION, END OF YEAR \$ 538,275

See notes to financial statements.

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

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025
(Amounts in Thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 154,317
Cash payments to suppliers for goods and services	(67,208)
Cash payments to employees for services	(36,980)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	50,129

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(48,486)
Cash receipts for passenger facility charges	20,743
Cash receipts for customer facility charges	9,792
Proceeds from revenue bonds	169,979
Proceeds from subordinate note	14,156
Principal paid on long-term debt	(47,550)
Principal paid on long-term subscriptions	(514)
Interest paid on long-term debt	(12,812)
Interest paid on long-term subscriptions	(25)
Cash paid to escrow agent for refunding	(174,909)
Capital grant proceeds	5,095
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(64,531)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	15,277
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	15,277

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

875

Cash and cash equivalents, beginning of year	408,160
Cash and cash equivalents, end of year	<u><u>\$ 409,035</u></u>

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

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025
(Amounts in Thousands)**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

OPERATING INCOME (LOSS)	\$ 23,798
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	37,557
Changes in assets:	
Accounts receivables	(466)
Leases receivable	(10,315)
Unbilled revenue	(2,083)
Prepaid expenses	(44)
Due from other City of Cleveland departments, divisions or funds	(13)
Materials and supplies, at cost	57
Net pension asset	361
Net OPEB asset	(2,007)
Changes in deferred outflows of resources:	
Pension	1,869
OPEB	936
Changes in liabilities:	
Accounts payable	4,062
Unearned revenue	537
Due to other City of Cleveland departments, divisions or funds	158
Accrued wages and benefits	380
Landing fee adjustment	(13,333)
Accrued property taxes	10
Net pension liability	(414)
Changes in deferred inflows of resources:	
Leases	9,940
Pension	(858)
OPEB	(3)
TOTAL ADJUSTMENTS	26,331
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 50,129

Schedule of Noncash Capital and Related Financing Activities:

Accounts payable related to capital assets	\$ 2,601
Right to use assets - subscriptions	601

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**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2025**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units.

In December of 2023, GASB Statement No. 102, *Certain Risk Disclosures*, was issued. This Statement is effective for the reporting periods beginning after June 15, 2024. The objective of this Statement is to provide users of financial statements with essential information about risks related to vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of City Council. As required, the Divisions have implemented GASB Statement No. 102 as of December 31, 2025.

The Divisions' net position accounted for in the accompanying statement of net position and the net position is divided into the following categories:

- Net investment in capital assets
- Amount restricted for capital projects
- Amount restricted for debt service
- Amount restricted for passenger and customer facility charges
- Amount restricted for OPEB assets
- Remaining unrestricted amount

When both restricted and unrestricted resources are available for use, it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

In addition, certain additional financial information regarding the Divisions is included in these notes.

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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

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. 72, *Fair Value Measurement and Application*, which requires governmental entities to record their investments at fair value within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs valued by pricing sources used by the City's investment managers. Level 3 inputs are significant unobservable inputs. The Divisions' investments in money market mutual funds and State Treasury Asset Reserve of Ohio (STAR Ohio) funds are excluded from fair value measurement requirements under GASB Statement No. 72 and instead are reported at amortized cost.

The Divisions have invested funds in STAR Ohio during 2025. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79 for the purpose of measuring the value of shares in STAR Ohio. The Divisions measure their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

Unbilled Revenue: Unbilled revenues are estimates for services rendered but not billed to customers at year end.

Inventory of Supplies: The Divisions' inventory is valued at cost using the first in/first out method. Inventory costs are charged to operations when consumed.

Prepaid Expenses and Other Assets: Payments made to vendors for services that benefit future periods are recorded as prepayments in the financial statements. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which services are consumed.

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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 CLE based on an approved FAA application. These are restricted for designated capital projects or debt service.

Restricted for Customer Facility Charges: The assets are for customer facility charges imposed and collected at CLE based on renting a vehicle. These are restricted for planning, development, financing, construction and operation of the Rental Car Facility, Rental Car Facility improvements and related infrastructure.

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

Land Improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures and equipment	3 to 35 years
Infrastructure	3 to 50 years
Vehicles	3 to 35 years

Right to use assets are amortized over the shorter of the contract term or useful life of the underlying asset.

Bond Issuance Costs, Discounts/Premiums and Unamortized Losses on Debt Refundings: Bond issuance costs are expensed when incurred. Deferred bond discounts/premiums are netted against long-term debt. The discounts/premiums are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings are categorized as a deferred outflow of resource 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. 101, *Compensated Absences*. 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. These amounts are recorded as accrued wages and benefits in the accompanying statements of net position.

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resource (expense) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time.

Net Pension/OPEB Liabilities/(Assets): For purposes of measuring the net pension/OPEB liabilities/(assets), deferred outflows of resources and deferred inflows of resources related to pension/OPEB and pension/OPEB expenses, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

Non-Operating Revenues (Expenses): Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of interest costs incurred on the Divisions' long-term debt. The funding for non-operating expenses is non-operating revenue (passenger facility charges, customer facility charges, revenue bonds and federal grants).

Subscription-Based Information Technology Arrangements: The Divisions follow the provisions of GASB Statement No. 96, Subscription-Based Information Technology Arrangements, which require governmental entities to recognize their long-term Subscription-Based Information Technology Arrangements, related right to use assets and related revenue and expenditures on the financial statements.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt outstanding at December 31, 2025 is as follows:

	Interest Rate	Original Issuance	2025
		(Amounts in Thousands)	
Airport System Revenue Bonds:			
Series 2007, due through 2027	5.00%	\$ 11,255	\$ 670
Series 2016, due through 2031	5.00%	144,355	-
Series 2018, due through 2048	3.50%-5.00%	109,685	55,620
Series 2019, due through 2033	2.49%-5.00%	341,675	145,010
Series 2025, due through 2033	5.00%	159,295	159,295
Subordinate Note		<u>175,000</u>	<u>15,650</u>
		<u>\$ 941,265</u>	376,245
Unamortized (discount) premium			13,332
Current portion (due within one year)			<u>(43,790)</u>
Total Long-Term Debt			<u>\$ 345,787</u>

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

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

Summary: Changes in long-term obligations for the year ended December 31, 2025 are as follows:

	Balance January 1, 2025	Increase	Decrease	Balance December 31, 2025	Due Within One Year
	(Amounts in Thousands)				
Airport System Revenue Bonds:					
Series 2007	\$ 980	\$	\$ (310)	\$ 670	\$ 325
Series 2016	75,000		(75,000)	-	
Series 2018	65,090		(9,470)	55,620	9,765
Series 2019	284,740		(139,730)	145,010	25,015
Series 2025	<u> </u>	159,295	<u> </u>	159,295	8,685
Total revenue bonds	425,810	159,295	(224,510)	360,595	43,790
Subordinate note	1,494	14,156		15,650	
Accrued wages and benefits	5,642	3,588	(3,208)	6,022	3,199
Net pension liability	33,783		(414)	33,369	
Subscriptions	<u>597</u>	<u>601</u>	<u>(514)</u>	<u>684</u>	<u>424</u>
Total	<u>\$ 467,326</u>	<u>\$ 177,640</u>	<u>\$ (228,646)</u>	<u>\$ 416,320</u>	<u>\$ 47,413</u>

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

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

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

	Principal	Interest	Total
	(Amounts in Thousands)		
2026	\$ 43,790	\$ 13,963	\$ 57,753
2027	48,175	12,113	60,288
2028	52,300	10,042	62,342
2029	54,540	7,892	62,432
2030	56,950	5,600	62,550
2031-2035	72,540	10,137	82,677
2036-2040	10,280	6,438	16,718
2041-2045	12,785	3,879	16,664
2046-2048	9,235	708	9,943
Total	<u>\$ 360,595</u>	<u>\$ 70,772</u>	<u>\$ 431,367</u>

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

As of December 31, 2025, 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) 116.0% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125.0% of the annual debt service due in such year on all outstanding bonds.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

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

Effective April 16, 2025, the City issued \$159,295,000 of Airport System Revenue Bonds, Series 2025A. The bonds were issued to provide funds for the Airport System 1) to currently refund all of the outstanding \$65,800,000 Series 2016A Airport System Revenue Bonds, 2) to purchase and cancel certain of the outstanding Series 2019A Airport System Revenue Bonds pursuant to a tender offer, and 3) to pay the costs of issuing the Series 2025A Bonds. Bond proceeds in the amount of \$169,479,365 along with \$1,114,051 released from the debt service reserve fund and \$5,411,536 released from the debt service fund were placed in an irrevocable escrow account for the payment on the current refunding of the outstanding \$65,800,000 Non-AMT Series 2016A Airport System Revenue Bonds and for the tender refunding of \$111,160,000 of the outstanding Series 2019A Bonds. As a result of this refunding, the Airport System achieved an economic gain (the difference between the present values of the old and new debt service) of \$5,031,000 or 3.16%.

On June 27, 2024, the City entered into a short-term financing agreement with PNC Bank, structured as a revolving line of credit in an amount not to exceed \$175 million for Port Control. These Airport System Subordinate Obligation Notes, Series 2024, will enable initial work in support of the Airport System's Master Plan, including enabling projects for the Terminal Modernization Development Program. As of December 31, 2025, the Airport has drawn \$15,650,000 on the line of credit.

From time to time, the Divisions have defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. At December 31, 2025, the Airport System had no defeased Revenue Bonds outstanding.

The City has pledged future airport revenues to repay \$360,595,000 in Airport System Revenue Bonds issued in various years since 2007. Proceeds from the bonds provided financing for airport operations. The bonds are payable from airport revenues and are payable through 2048. Annual principal and interest payments on the bonds are expected to require less than 52.7% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is \$431,367,000. Principal and interest funded in the current year and total net revenues (including other available funds) were \$61,662,000 and \$116,333,000, respectively.

NOTE C – SPECIAL FACILITY REVENUE BONDS

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2025**

NOTE D – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2025, totaled approximately \$23,050,000 and the Divisions' bank balance was approximately \$15,112,000. The difference represents positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, \$15,112,000 of the bank balances at December 31, 2025 was insured or collateralized with securities held by the City or by its agent in the City's name.

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

Investments: In accordance with GASB Statement No. 72, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City's investment policies are governed by State Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; STAR Ohio; commercial paper; U.S. Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; 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.

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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE D – DEPOSITS AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Divisions (excluding STAR Ohio and money market mutual funds) as of December 31, 2025.

Type of Investment	Fair Value Measurement Using	
	Fair Value	Level 2
	(Amounts in Thousands)	
Other Investments	\$ 175	\$ 175
Total Investments	<u>\$ 175</u>	<u>\$ 175</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Divisions invest primarily in both short and long-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 Concentration of Credit Risk section.

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, 2025, include STAR Ohio, money market mutual funds and other. The Divisions maintain the highest ratings for their investments. Investments in STAR Ohio, the Dreyfus Government Cash Management Fund, Morgan Stanley Government Institutional Mutual Funds and the Federated Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by S&P Global. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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NOTE D – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Divisions Investment Policy places a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions had the following investments at December 31, 2025, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9, since they have a maturity of three months or less:

Type of Investment	2025 Fair Value	2025 Cost	Investment Maturities Less than One Year
(Amounts in Thousands)			
STAR Ohio	\$ 231,841	\$ 231,841	\$ 231,841
Money Market Mutual Funds	153,969	153,969	153,969
Other Investments	<u>175</u>	<u>175</u>	<u>175</u>
Total Investments	385,985	385,985	385,985
Total Deposits	<u>23,050</u>	<u>23,050</u>	<u>23,050</u>
Total Deposits and Investments	<u><u>\$ 409,035</u></u>	<u><u>\$ 409,035</u></u>	<u><u>\$ 409,035</u></u>

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 STAR Ohio and money market mutual funds. These investments are carried at cost which approximates fair value. Investment type Other Investments consist of deposits into collective cash escrow pools managed by either Bank of New York or U.S. Bank National Association, as trustees.

As of December 31, 2025, the investments in STAR Ohio and money market mutual funds are approximately 60.1% and 39.9%, respectively, of the Divisions' total investments.

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For the Year Ended December 31, 2025**

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2025 was as follows:

	Balance January 1, 2025	Additions	Reductions	Balance December 31, 2025
	(Amounts in Thousands)			
Capital Assets, not being depreciated:				
Land	\$ 166,882	\$	\$	\$ 166,882
Construction in progress	33,355	22,709	(26,798)	29,266
Total capital assets, not being depreciated	200,237	22,709	(26,798)	196,148
Capital assets, being depreciated and amortized:				
Land improvements	107,098	161		107,259
Buildings, structures and improvements	410,156	7,959		418,115
Furniture, fixtures and equipment	103,234	4,294	(1,726)	105,802
Infrastructure	1,085,274	20,408		1,105,682
Vehicles	22,423		(767)	21,656
Right to use assets - subscriptions	885	601		1,486
Total capital assets, being depreciated	1,729,070	33,423	(2,493)	1,760,000
Less: Total accumulated depreciation and amortization	(1,356,617)	(37,557)	2,372	(1,391,802)
Total capital assets being depreciated, net	372,453	(4,134)	(121)	368,198
Capital assets, net	\$ 572,690	\$ 18,575	\$ (26,919)	\$ 564,346

Commitments: As of December 31, 2025, the Divisions had capital expenditure purchase commitments outstanding of approximately \$56,992,000.

NOTE F – LEASES

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources (based on contract provisions). Under this Statement, a lessor is required to recognize a lease receivable and deferred inflow of resources while a lessee is required to recognize a lease liability and deferred outflow of resources for each contract whose terms meet the definition of a lease. This recognition is intended to enhance the relevance and consistency of information about governments' leasing activities.

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NOTE F – LEASES (Continued)

Leases Scope:

GASB Statement No. 87 – Scope: Per GASB Statement No. 87, a lease is defined as, “A contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.” A contract conveys control if the user of the underlying asset possesses both: the right to obtain present service capacity and the right to determine the nature and manner of its use. The transaction is “exchange-like” when both parties receive and sacrifice something of approximate equal value.

Accounting treatment for leases required by the Statement applies to non-financial assets. Assets that are non-financial in nature including intangible assets, biological assets, inventory leases, supply contracts, and service concession arrangements are considered out of scope.

Accounting Treatment at Adoption:

The Divisions are a lessor in all noncancellable leases. In accordance with GASB Statement No. 87, leases that commenced before the adoption date of January 1, 2022 are considered to have commenced on this date. All leases with base rent payments adjusted by an index or rate (e.g., consumer price index (CPI)) have their receivables measured based upon the most recent adjustment as of January 1, 2022, unless otherwise noted. In accordance with the Statement, the Divisions do not recognize a lease receivable and a deferred inflow of resources for certain regulated leases. Instead, inflows of resources are recognized in the period in which payments are received. See “Certain Regulated Leases” section for required disclosures.

Measurement of Lease Amounts as a Lessor: As the lessor for in-scope leasing arrangements, at the beginning of the lease term, the Divisions recognize a lease receivable based on the net present value of future lease payments to be received for the lease term and a deferred inflow of resources based on net present value calculated using the rate explicit in the contract, the rate implicit in the contract, or the Divisions’ incremental bond yield corresponding to the duration for the most recent bond issuance and comparing that to the US treasury yield. Leases that meet the GASB’s definition of “Certain Regulated Leases” are the exception to this measurement treatment. See “Certain Regulated Leases” section for required disclosures. Amortization of the receivable is reported as lease and interest revenues. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease.

Other Conditions: The Divisions assume optional extension terms present in lease agreements will be exercised unless optional extension periods have undefined future payment terms - these terms are excluded in the calculation of lease term length unless otherwise noted. The Divisions did not record revenue related to residual value guarantees or lease termination penalties.

Short-Term Leases: For short-term lease contracts – defined as having a maximum possible term of 12 months or less - the Divisions recognize revenue based on the payment provisions of the lease contract.

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NOTE F – LEASES (Continued)

Divisions as a Lessor:

General Description of Lessor Leasing Arrangements: The Divisions lease space to various non-governmental and governmental lessees for various uses. The Divisions lease space for use as: office space, combined-use space, communications sites, sporting facility, harbors, parking operations hub, and restaurants. These leases have term end dates ranging from February 28, 2025 to May 30, 2053. Most leases require fixed rent payments which are escalating and several require rent based on CPI adjustment.

The Divisions maintain separate leases classified as certain regulated leases – see “Certain Regulated Leases” section for these required disclosures.

Inflows Recognized in Fiscal Year 2025 from Leases: For fiscal year 2025, the total amount of inflows of resources recognized from in-scope GASB Statement No. 87 leases for lease and interest revenue is \$2.9 million and \$507,000, respectively. These amounts exclude inflows for certain regulated leases and variable payments not fixed in substance.

Schedule of Future Payments: The table below represents the future expected minimum principal and interest amounts to be received from the existing, in-scope GASB 87 leases:

Schedule of Future Payments For In-Scope Leases			
(Amounts in Thousands)			
Period - Ending December 31	Principal		Interest
2026	\$ 3,222	\$	500
2027	3,320		416
2028	3,284		313
2029	3,027		219
2030	656		157
2031-2035	911		625
2036-2040	779		444
2041-2045	622		278
2046-2050	649		148
2051-2053	327		16
Total	<u>\$ 16,797</u>	<u>\$</u>	<u>3,116</u>

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NOTE F – LEASES (Continued)

Variable Inflows: Variable inflows not fixed in substance are recognized in fiscal year 2025 and are based on percentage of gross revenues. The table below represents inflows not included in the calculation of lease receivable values:

Variable Inflows (Amounts in Thousands)	
Lease Category	Amount
Common Use Space	\$ 10
Office Space	1,311
Other	57
Parking Operations Space	2
Total	<u>\$ 1,380</u>

Certain Regulated Leases (CRL):

Definition: Certain leases are subject to external laws, regulations or legal rulings that prohibit lessors from denying potential lessees the right to enter into leases (contingent upon facility availability) and require fees imposed on lessees be fair, reasonable, and non-discriminatory. Such leases are termed “certain regulated leases” by the GASB. The Statement provides an exception to its general lessor recognition and measurement requirements for certain regulated leases but requires disclosure of specified quantitative and qualitative information.

These lease agreements are subject to the non-discriminatory criteria outlined in paragraph 43 of GASB Statement No. 87 by the FAA’s *Rates and Charges Policy*. The principals of this policy apply to all aeronautical users of the airport. Paragraph 18.3a of FAA Order 5190.6B (FAA compliance manual) directs the Divisions’ classification of leases as certain regulated leases by noting: “all activities that involve or are directly related to the operation of the aircraft, including activities that make the operation of the aircraft possible and safe. Services located on the airport that are directly and substantially related to the movement of passengers, baggage, mail, and cargo are considered aeronautical uses.”

General Description of CRL Arrangements: The Divisions maintain certain regulated leasing arrangements for air cargo facilities, airlines, aircraft maintenance operations, FBO’s, fuel farms, ground handling operations, hangars, and passenger services. The leases have term end dates ranging from April 30, 2025 to August 31, 2051 and have escalating rent payment terms. There are nine agreements – seven Airlines and two Air Cargo Facilities – of the 34 CRL agreements whose lessees have been granted preferential or exclusive use of Airport space (e.g. terminal and/or concourse space). All other agreements only allow lessees non-exclusive use of common Airport space.

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NOTE F – LEASES (Continued)

CRL's Quantitative Disclosures: The following table represents the inflows recognized for fiscal year 2025 for regulated leasing arrangements:

Inflows Recognized FY25 from CRLs (Amounts in Thousands)	
CRL Category	Total Inflows
Air Cargo Facilities	\$ 1,226
Airlines	92,538
FBOs	2,382
Flight School	83
Fuel Farm	100
Ground Handling Operation	168
Hangars & Aircraft Maintenance	1,345
Passenger Services	1,528
Total	<u>\$ 99,370</u>

The following table represents the future expected minimum payments for regulated leasing arrangements:

Schedule of Future Payments For Regulated Leases (Amounts in Thousands)	
Period - Ending December 31	Amount
2026	\$ 7,239
2027	7,226
2028	6,449
2029	3,369
3030	2,075
2031-2035	5,560
2036-2040	3,843
2041-2045	959
2046-2050	498
2051-2053	66
Total	<u>\$ 37,284</u>

CRL Variable Inflows: Variable inflows not fixed in substance are based on various lessee performance indicators such as: number of planes landed, aircraft parking, and percentage of gross revenues. The variable inflows amounted to \$29.3 million for fiscal year 2025.

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NOTE G – 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 2025. There was no significant decrease in any insurance coverage in 2025. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

The City provides the choice of two separate health insurance plans to its employees. The Divisions are charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio's Worker's Compensation retrospective rating program.

In accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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 H – DEFINED BENEFIT PENSION PLANS

Net Pension Liability/(Asset): The net pension liability/(asset) reported on the statement of net position represents a liability/(asset) to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present liability/(asset) because it was created as a result of employment exchanges that already have occurred.

The net pension liability/(asset) represents the Divisions' proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments (COLA) and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

The ORC limits the Divisions' obligation for this liability to annually required payments. The Divisions cannot control benefit terms or the manner in which pensions are financed; however, the Divisions do receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability/(asset) is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State Statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State Statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability/(asset). Resulting adjustments to the net pension liability/(asset) would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability/(asset) on the accrual basis of accounting. Any liability/(asset) for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System (OPERS): The Divisions' employees participate in the OPERS. OPERS administers two separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan. While members (e.g. Divisions' employees) may elect the Member-Directed Plan, substantially all employee members are in OPERS' Traditional Plan.

The Traditional Pension Plan also includes members of the legacy Combined Plan, a hybrid defined benefit/defined contribution plan referred to as the Combined Plan division of the Traditional Pension Plan throughout this report. Prior to January 1, 2024, the Combined Plan was a separate pension plan. Effective January 1, 2024, the Combined Plan was consolidated into the Traditional Pension Plan, as approved by the legislature in HB 33 and is tracked as a separate division within the Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits and annual COLA to members of the Traditional Plan. Authority to establish and amend benefits is provided by Chapter 145 of the ORC. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS Annual Comprehensive Financial Report referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.0% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.0%.

Funding Policy: The ORC provides statutory authority for member and employer contributions. For 2025, member contribution rates were 10.0% and employer contribution rates were 14.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Divisions' contractually required contribution was \$3,573,000 for 2025. All required payments have been made.

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liability/(Asset), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability/(asset) for OPERS was measured as of December 31, 2024 and the total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. The Divisions' proportion of the net pension liability/(asset) was based on the Divisions' share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS
	(Amounts in Thousands)
Proportionate Share of the Net Pension Liability/(Asset)	\$ 33,369
Proportion of the Net Pension Liability/(Asset)	0.136113 %
Change in Proportion	0.007074 %
Pension Expense	\$ 4,604

At December 31, 2025, the Divisions reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS
	(Amounts in Thousands)
Deferred Outflows of Resources	
Differences between expected and actual economic experience	\$ 639
Net difference between projected and actual earnings on pension plan investments	3,937
Change in Divisions' proportionate share and difference in employer contributions	831
Divisions' contributions subsequent to the measurement date	3,573
Total Deferred Outflows of Resources	\$ 8,980
 Deferred Inflows of Resources	
Change in Divisions' proportionate share and difference in employer contributions	\$ 127
Total Deferred Inflows of Resources	\$ 127

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

The \$3,573,000 reported as deferred outflows of resources related to pension resulting from the Divisions' contributions subsequent to the measurement date which will be recognized as a reduction/(increase) of the net pension liability/(asset) in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
	(Amounts in Thousands)
Year Ending December 31:	
2026	\$ 2,737
2027	4,557
2028	(1,519)
2029	(495)
Total	<u>\$ 5,280</u>

Actuarial Assumptions – OPERS: Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	December 31, 2024
Wage Inflation	2.75%
Future Salary Increases, including inflation	2.75% to 10.75%
COLA or Ad Hoc COLA	2.75%, simple
	Pre 1/7/2013 retirees: 3%, simple
	Post 1/7/2013 retirees: 2.90%, simple
	through 2025, then 2.05%, simple
Investment Rate of Return	6.9%
Actuarial Cost Method	Individual Entry Age

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five year period ended December 31, 2020.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The allocation of investment assets with the Defined Benefit Portfolio is approved by the Board of Trustees (the Board) as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2024 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	24.00 %	2.42 %
Domestic Equities	21.00	5.70
Real Estate	13.00	4.17
Private Equity	15.00	8.40
International Equities	20.00	6.10
Risk Parity	2.00	4.40
Other Investments	5.00	2.54
Total	<u>100.00 %</u>	

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NOTE H – DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability/(asset).

Sensitivity of the Divisions' Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate: The following table presents the Divisions' proportionate share of the net pension liability/(asset) calculated using the current period discount rate assumption of 6.90%, as well as what the Divisions' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.90%) or one-percentage-point higher (7.90%) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
	(Amounts in Thousands)		
Divisions' proportionate share of the net pension liability/(asset)	\$ 54,590	\$ 33,369	\$ 15,734

NOTE I – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/(Asset): The net OPEB liability/(asset) reported on the statement of net position represents a liability/(asset) to employees for OPEB. OPEB is a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. OPEB are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present liability/(asset) because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability/(asset) represents the Divisions' proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability/(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, COLA and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

The ORC limits the Divisions' obligation for this liability/(asset) to annually required payments. The Divisions cannot control benefit terms or the manner in which OPEB are financed; however, the Divisions do receive the benefit of employees' services in exchange for compensation including OPEB.

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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

GASB Statement No. 75 assumes the liability/(asset) is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The ORC permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/(asset). Resulting adjustments to the net OPEB liability/(asset) would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability/(asset) on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description – OPERS: OPERS administers two separate pension plans: the Traditional Pension Plan, a cost-sharing, multiple-employer defined benefit pension plan, and the Member-Directed Plan, a defined contribution plan.

The Traditional Pension Plan also includes members of the legacy Combined Plan, a hybrid defined benefit/defined contribution plan referred to as the Combined Plan division of the Traditional Pension Plan. Prior to January 1, 2024, the Combined Plan was a separate pension plan. Effective January 1, 2024, the Combined Plan was consolidated into the Traditional Pension Plan, as approved by the legislature in HB 33 and is tracked as a separate division within the Traditional Pension Plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of the traditional pension plan. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of OPEB as described in GASB Statement No. 75. See OPERS' Annual Comprehensive Financial Report referenced below for additional information.

The ORC permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the ORC.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

Funding Policy: The ORC provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by the Board, a portion of each employer’s contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2025, state and local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 0.0% (excluding the Combined Plan division). The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2024 was 4.0%.

For the year ended December 31, 2025, OPERS did not allocate any employer contributions to the OPEB plan.

OPEB Liability/(Asset), OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: The net OPEB liability/(asset) and total OPEB liability/(asset) for OPERS were determined by an actuarial valuation as of December 31, 2023, rolled forward to the measurement date as of December 31, 2024, by incorporating the expected value of health care cost accruals, the actual health care payment and interest accruals during the year. The Divisions’ proportion of the net OPEB liability/(asset) was based on the Divisions’ share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS
	(Amounts in Thousands)
Proportion of the Net OPEB Liability/(Asset):	
Current Measurement Date	0.134771 %
Prior Measurement Date	0.127635 %
Change in Proportionate Share	0.007136 %
Proportionate Share of the Net OPEB Liability/(Asset)	\$ (3,159)
OPEB Expense	\$ (1,072)

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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

At December 31, 2025, the Divisions reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS
	(Amounts in Thousands)
Deferred Outflows of Resources	
Net difference between projected and actual earnings on OPEB plan investments	\$ 65
Change in Divisions' proportion share and difference in employers contributions	7
Total Deferred Outflows of Resources	\$ 72
Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 154
Change in assumptions	456
Change in Divisions' proportion share and difference in employers contributions	50
Total Deferred Inflows of Resources	\$ 660

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	OPERS
	(Amounts in Thousands)
2026	\$ (350)
2027	277
2028	(381)
2029	(134)
Total	\$ (588)

Actuarial Assumptions – OPERS: Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability/(asset) was determined by an actuarial valuation as of December 31, 2023, rolled forward to the measurement date as of December 31, 2024. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*:

Wage Inflation	2.75%
Projected Salary Increases, including inflation	2.75% to 10.75%
Single Discount Rate:	
Current Measurement Date	6.00%
Prior Measurement Date	5.70%
Investment Rate of Return	6.00%
Municipal Bond Rate	
Current Measurement Date	4.08%
Prior Measurement Date	3.77%
Health Care Cost Trend Rate:	
Current Measurement Date	5.50%, initial 3.50%, ultimate in 2039
Prior Measurement Date	5.50% initial 3.50%, ultimate in 2038
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five year period ended December 31, 2020.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

The allocation of investment assets with the Health Care Portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS’ primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2024 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	37.00 %	2.37 %
Domestic Equities	26.00	5.70
Real Estate Investment Trust	5.00	5.00
International Equities	26.00	6.10
Risk Parity	3.00	4.40
Other Investments	3.00	2.50
Total	<u>100.00 %</u>	

During 2024, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan division and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a gain of 10.0% for 2024.

Discount Rate: A single discount rate of 6.00 % was used to measure the total OPEB liability/(asset) on the measurement date of December 31, 2024. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on the actuarial assumed rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 4.08%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2124. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2124, the duration of the projection period through which projected health care payments are fully funded.

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NOTE I – DEFINED BENEFIT OPEB PLANS (Continued)

Sensitivity of the Divisions' Proportionate Share of the Net OPEB Liability/(Asset) to Changes in the Discount Rate: The following table presents the Divisions' proportionate share of the net OPEB liability/(asset) calculated using the single discount rate of 6.00%, as well as what the Divisions' proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.00%) or one-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
	(Amounts in Thousands)		
Divisions' proportionate share of the net OPEB liability/(asset)	\$ (1,568)	\$ (3,159)	\$ (4,487)

Sensitivity of the Divisions' Proportionate Share of the Net OPEB Liability/(Asset) to Changes in the Health Care Cost Trend Rate: Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability/(asset). The following table presents the net OPEB liability/(asset) calculated using the assumed trend rates, and the expected net OPEB liability/(asset) if it were calculated using a health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2025 is 5.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

	1% Decrease (2.50%)	Current Health Care Cost Trend Rate Assumption (3.50%)	1% Increase (4.50%)
	(Amounts in Thousands)		
Divisions' proportionate share of the net OPEB liability/(asset)	\$ (3,207)	\$ (3,159)	\$ (3,105)

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE J – 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, 2025 are as follows:

	(Amounts in Thousands)
City Central Services, including police	\$ 13,939
Telephone Exchange	621
Electricity purchased	300
Motor vehicle maintenance	27
Radio Communication	592

NOTE K – LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 2025 was a payable to the airlines from the Division in the amount of \$1,117,000.

The Divisions collected \$19,312,000 landing fee revenue and it was offset by a \$1,117,000 reduction to the scheduled airlines. This resulted in a difference of \$18,195,000. The reduction to landing fee revenue consisted of \$116,000 net pension and OPEB expenses related to changes in differences between projected and actual earnings on plan investments. The remaining portion \$1,001,000 is the landing fee adjustment based on budgeted versus actual calculations, excluding the net pension and OPEB figure.

As a result of this activity, airline revenue, terminal and concourse rentals were netted together for scheduled airlines. Salaries, wages and employee benefits were also netted together.

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 2025.

NOTE L – PASSENGER FACILITY CHARGES

On November 1, 1992, CLE 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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE L – PASSENGER FACILITY CHARGES (Continued)

As of December 31, 2025, CLE had the authority from the FAA to collect approximately \$619,448,000. Of the \$619,448,000, an estimated 13.9% was spent on noise abatement for the residents of communities surrounding the airport. An additional 51.5% was spent on runway expansion and improvements with the remaining 34.6% was spent on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE M – MAJOR CUSTOMER

In 2025, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 30.8% of total operating revenue.

NOTE N – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

A SBITA is defined as a contractual agreement that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction.

The Divisions use various SBITA assets that they contract through cloud computing arrangements, such as software as a service and platform as a service. The related obligations are presented in the amounts equal to the present value of subscription payments, payable during the remaining SBITA term. A SBITA is presented as a right to use asset in the Capital Assets section on the statement of net position and presented as part of right to use assets in the Capital Assets footnote.

The Divisions have a variety of variable payment clauses, within their SBITA arrangements, including variable payments based on future performance and usage of the underlying asset. Components of variable payments that are fixed in substance, are included in the measurement of the SBITA liability presented in the table below. The Divisions did not incur expenses related to their SBITA activities such as termination penalties, not previously included in the measurement of the SBITA liability, or losses due to impairment.

Furthermore, the Divisions do not have commitments under SBITA that have not commenced as of December 31, 2025.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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**NOTE N – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)
(Continued)**

As of December 31, 2025, the Divisions had minimum principal and interest payment requirements for its SBITA activities, with a remaining term in excess of one year, as follows:

	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
	(Amounts in Thousands)		
2026	\$ 424	\$ 12	\$ 436
2027	108	7	115
2028	73	4	77
2029	79	1	80
SBITA Liability:	<u>\$ 684</u>	<u>\$ 24</u>	<u>\$ 708</u>

The Divisions had SBITA assets in the amount of \$1,486,582 net of accumulated amortization of \$664,998, for a net SBITA asset of \$821,584.

NOTE O – SUBSEQUENT EVENTS

Effective February 12, 2026, the City executed a first amendment to the loan agreement with PNC Bank, National Association, which was entered into for Port Control in June 2024 to enable initial work in support of the Terminal Modernization Development Program. Through this amendment, the available commitment was raised from an aggregate amount equal to \$175,000,000 to an aggregate amount equal to \$300,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

Divisions' Proportion of the Net <u>Pension Liability/(Asset)</u>	Divisions' Proportionate Share of the Net <u>Pension Liability/(Asset)</u>	Divisions' Covered Payroll <u>Payroll</u>	Divisions' Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll <u>Covered Payroll</u>	Plan Fiduciary Net Position as a Percentage of the Total Pension <u>Pension Liability/(Asset)</u>
(Amounts in Thousands)				
Additional:				
0.155342 % \$	27,073 \$	19,800	136.73 %	81.08 %
0.159244	34,594	21,125	163.76	77.25
0.161047	24,436	21,508	113.61	84.66
0.160720	43,538	23,029	189.06	74.70
0.158846	30,925	23,393	132.20	82.17
0.159982	23,087	23,936	96.45	86.88
0.147917	12,869	23,450	54.88	96.62
0.132607	39,172	21,671	180.76	75.74
0.129039	33,783	22,064	153.11	79.01
0.136113	33,369	23,714	140.71	80.99
Combined:				
0.138746	(547)	23,450	(2.33)	(169.88)
0.121178	(286)	21,671	(1.32)	137.14
0.117375	(361)	22,064	(1.64)	144.55

Note to Schedule:

In 2022, the Division presented the Combined Pension Plan separately. In prior years it was netted with the Traditional Pension Plan. In 2025, the Combined Pension Plan was consolidated into the Traditional Pension Plan.

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REQUIRED SUPPLEMENTARY INFORMATION (Continued)

**SCHEDULE OF THE DIVISIONS' PROPORTIONATE SHARE OF THE NET OPEB LIABILITY/(ASSET)
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST NINE YEARS (1), (2)**

	Divisions' Proportion of the Net OPEB Liability/(Asset)		Divisions' Proportionate Share of the Net OPEB Liability/(Asset)	Divisions' Covered Payroll	Divisions' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB OPEB Liability/(Asset)
(Amounts in Thousands)						
2017	0.156424 % \$		15,800 \$	21,125	74.79 %	54.05 %
2018	0.158429		17,585	21,508	81.76	54.14
2019	0.158845		21,303	23,029	92.51	46.33
2020	0.156651		22,219	23,393	94.98	47.80
2021	0.157690		(2,809)	23,936	(11.74)	115.57
2022	0.145685		(4,563)	23,450	(19.46)	128.23
2023	0.130862		825	21,671	3.81	94.79
2024	0.127635		(1,152)	22,064	(5.22)	107.76
2025	0.134771		(3,159)	23,714	(13.32)	121.51

(1) Information presented for each year was determined as of the Divisions' measurement date, which is the prior year-end.

(2) Information prior to 2017 is not available. The Divisions will continue to present information for years available until a full ten-year trend is compiled.

Note to Schedule:

In 2018, the single discount rate changed from 4.23% to 3.85%. In 2019, the single discount rate change from 3.85% to 3.96%, the investment rate of return changed from 6.50% to 6.00% and the health care cost trend rate changed from 7.50% initial to 10.00% initial.

In 2020, the single discount rate changed from 3.96% to 3.16% and the health care cost trend rate changed from 10.00% initial, 3.25% ultimate in 2029 to 10.50% initial, 3.50% ultimate in 2030.

In 2021, the single discount rate changed from 3.16% to 6.00% and the health care cost trend rate changed from 10.50% initial, 3.50% ultimate in 2030 to 8.50% initial, 3.50% ultimate in 2035. Also in 2021, the net OPEB liability changed to a net OPEB asset.

In 2022, the health care cost trend rate changed from 8.50% initial, 3.50% ultimate in 2035 to 5.50% initial, 3.50% ultimate in 2034.

In 2023, the single discount rate changed from 6.00% to 5.22%. The municipal bond rate also changed from 1.84% to 4.05%. The health care cost trend rate changed from 5.50% initial, 3.50% ultimate in 2034 to 5.50% initial, 3.50% ultimate in 2036.

In 2024, the single discount rate changed from 5.22% to 5.70%. The municipal bond rate also changed from 4.05% to 3.77%

In 2025, the single discount rate changed rate changed from 5.70% to 6.00%. The municipal bond rate also changed from 3.77% to 4.08%.

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

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

**SCHEDULE OF CONTRIBUTIONS - NET OPEB LIABILITY/(ASSET)
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS (1)**

	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Divisions' Covered Payroll	Contributions as a Percentage of Covered Payroll
(Amounts in Thousands)					
2016 \$	423	\$ (423)	\$ -	\$ 21,125	2.00 %
2017	215	(215)	-	21,508	1.00
2018	-	-	-	23,029	0.00
2019	-	-	-	23,393	0.00
2020	-	-	-	23,936	0.00
2021	-	-	-	23,450	0.00
2022	-	-	-	21,671	0.00
2023	-	-	-	22,064	0.00
2024	-	-	-	23,714	0.00
2025	-	-	-	25,521	0.00

(1) Represents Divisions' calendar year.

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

SCHEDULE OF AIRPORT REVENUES AND OPERATING EXPENSES
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Year Ended December 31, 2025
(Amounts in Thousands)

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees and terminal rentals	\$ 60,024	\$	\$ 60,024
Other	1,055		1,055
	<u>61,079</u>	<u>-</u>	<u>61,079</u>
Operating revenues from other sources:			
Concessions	75,335	449	75,784
Rentals	17,585	343	17,928
Landing fees	1,502	171	1,673
Other	9,282	262	9,544
	<u>103,704</u>	<u>1,225</u>	<u>104,929</u>
Non-operating revenue:			
Interest income	5,458		5,458
	<u>5,458</u>		<u>5,458</u>
TOTAL REVENUE	<u><u>\$ 170,241</u></u>	<u><u>\$ 1,225</u></u>	<u><u>\$ 171,466</u></u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	\$ 35,899	\$ 1,381	\$ 37,280
City Central Services, including police	15,149	30	15,179
Materials and supplies	3,162	347	3,509
Contractual services	38,913	825	39,738
	<u>38,913</u>	<u>825</u>	<u>39,738</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 93,123</u></u>	<u><u>\$ 2,583</u></u>	<u><u>\$ 95,706</u></u>

Note to Schedule:

The Divisions collected \$19,312,000 landing fee revenue and it was offset by a \$1,117,000 reduction to the scheduled airlines. This resulted in a difference of \$18,195,000. The reduction to landing fee revenue consisted of \$116,000 net pension and OPEB expenses related to changes in differences between projected and actual earnings on plan investments. The remaining portion \$1,001,000 is the landing fee adjustment based on budgeted versus actual calculations, excluding the net pension and OPEB figure.

As a result of the OPEB activity resulting in a net OPEB asset, airline revenue, terminal and concourse rentals were netted together for scheduled airlines. Salaries, wages and employee benefits were also netted together.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
SCHEDULE OF PASSENGER FACILITY REVENUE AND INTEREST
For The Year Ended December 31, 2025

	<u>PFC Revenues</u>	<u>Interest</u>	<u>Expenditures</u>	<u>Unliquidated PFC Revenue</u>
Cumulative Balances at January 1, 2025	\$ 570,496,640	\$ 35,181,819	\$ (560,367,787)	\$ 45,310,672
1st quarter activity 2025 activity	4,463,482	330,976	-	4,794,458
2nd quarter activity 2025 activity	5,152,190	445,148	-	5,597,338
3rd quarter activity 2025 activity	5,100,724	456,601	(620,000)	4,937,325
4th quarter activity 2025 activity	<u>6,026,900</u>	<u>429,263</u>	<u>-</u>	<u>6,456,163</u>
2025 totals	<u>20,743,296</u>	<u>1,661,988</u>	<u>(620,000)</u>	<u>21,785,284</u>
Cumulative Balances at December 31, 2025	<u>\$ 591,239,936</u>	<u>\$ 36,843,807</u>	<u>\$ (560,987,787)</u>	<u>\$ 67,095,956</u>

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year Ended December 31, 2025

Projects	Approved Project Budget	Cumulative Expenditures thru 2024	2025 1st Quarter Expenditures	2025 2nd Quarter Expenditures	2025 3rd Quarter Expenditures	2025 4th Quarter Expenditures	2025 YTD Expenditures	Cumulative Expenditures thru 2025
Insulate Residences - Full Program Phase I	\$ 16,960,400	\$ 16,960,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743	-	-	-	-	-	2,155,743
Land Acquisition-Resident Relocation	14,689,459	14,689,459	-	-	-	-	-	14,689,459
Asbestos Removal in Terminal CH1A	729,842	729,842	-	-	-	-	-	729,842
Acquisition of Analox Office Bldg & Vacant Land	13,025,000	13,025,000	-	-	-	-	-	13,025,000
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921	-	-	-	-	-	5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000	-	-	-	-	-	355,000
Sewers for Confined Disposal Facility-BKL (app 1)	5,500,000	5,500,000	-	-	-	-	-	5,500,000
Sound Insulation	8,595,641	8,595,641	-	-	-	-	-	8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	25,282,298	25,282,298	-	-	-	-	-	25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000	-	-	-	-	-	1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570	-	-	-	-	-	584,570
Brook Park Land Transfer	8,750,000	8,750,000	-	-	-	-	-	8,750,000
Analox Demolition	1,229,000	1,229,000	-	-	-	-	-	1,229,000
Sound Insulation	20,000,000	20,000,000	-	-	-	-	-	20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087	-	-	-	-	-	9,526,087
Tug Road Replacement	1,019,000	668,553	-	-	-	-	-	668,553
Interim Commuter Ramp	5,560,338	5,560,338	-	-	-	-	-	5,560,338
Concourse D Ramp/Site Utilities	51,305,804	51,305,804	-	-	-	-	-	51,305,804
Burke Runway Overlay 6L/24R	530,286	530,286	-	-	-	-	-	530,286
Burke ILS	2,181,400	2,181,400	-	-	-	-	-	2,181,400
Runway 6R/24L Uncoupling	2,705,550,360	248,922,763	-	-	-	-	-	248,922,763
Runway 28 Safety Improvements	2,685,000	2,685,000	-	-	-	-	-	2,685,000
Midfield Deicing Pad	975,958	975,958	-	-	-	-	-	975,958
Taxiway M Improvements	40,755,499	40,755,499	-	-	-	-	-	40,755,499
Doan Brook Restoration	3,883,602	3,883,602	-	-	-	-	-	3,883,602
Deicing Environmental Upgrades	1,727,796	1,727,796	-	-	-	-	-	1,727,796
Main Terminal Roof Replacement	2,800,222	2,800,222	-	-	-	-	-	2,800,222
Roadway Expansion Joint Repair/Replacement	992,986	992,986	-	-	-	-	-	992,986
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS)	1,985,973	1,985,973	-	-	-	-	-	1,985,973
and Signage Replacement	7,681,742	7,681,742	-	-	-	-	-	7,681,742
Airport Master Plan Update	4,170,543	4,170,543	-	-	-	-	-	4,170,543
Runway 10/28- Runway Safety Area Improvements	23,155,051	23,155,051	-	-	-	-	-	23,155,051
South Cargo Ramp Rehabilitation	5,957,918	5,957,918	-	-	-	-	-	5,957,918
Taxiway N Rehabilitation	8,738,280	8,738,280	-	-	-	-	-	8,738,280
SIDA Security System Enhancements	1,985,973	1,985,973	-	-	-	-	-	1,985,973
Interactive Part 139 Airport Operations Training Program	496,493	496,493	-	-	-	-	-	496,493
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	8,261,646	8,261,646	-	-	-	-	-	8,261,646
North Airfield Improvements Phase 2, Construction	6,319,985	-	-	-	-	-	-	-
Cleveland Master Plan	4,977,313	-	-	-	-	-	-	-
Passenger Loading Bridge Replacement	17,000,000	-	-	-	-	-	-	-
PRC Administrative Costs	147,415	-	-	-	-	-	-	-
Total	\$ 619,447,534	\$ 560,367,787	\$ -	\$ -	\$ 620,000	\$ -	\$ 620,000	\$ 560,987,787

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

**NOTES TO SCHEDULES OF REVENUE, INTEREST, AND EXPENDITURES OF PASSENGER
FACILITY CHARGES**

For the Year Ended December 31, 2025

GENERAL

The accompanying schedule presents all activity of the Divisions' PFC program. The Divisions' reporting entity is defined in Note A – Summary of Significant Accounting Policies to the Divisions' financial statement.

BASIS OF PRESENTATION

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

OHIO AUDITOR OF STATE KEITH FABER

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Columbus, Ohio 43215
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800-282-0370

INDEPENDENT AUDITOR'S 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

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

To the Honorable Justin M. Bibb, Mayor, Members of City Council and the Audit Committee and the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports:

Report on Compliance on the Passenger Facility Charge Program

Opinion on Passenger Facility Charge Program

We have audited the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports' (the Divisions') of the City of Cleveland compliance with the applicable requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for the Passenger Facility Charge Program, for the year ended December 31, 2025.

In our opinion, the Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports of the City of Cleveland complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge Program, for the year ended December 31, 2025.

Basis for Opinion on the Passenger Facility Charge Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Divisions and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Passenger Facility Charge Program. Our audit does not provide a legal determination of the Divisions' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

The Divisions' Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Divisions' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Divisions' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Divisions' compliance with the requirements of the Passenger Facility Charge Program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Divisions' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Divisions' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Passenger Facility Charge Audit Guide for Public Agencies, but not for the purpose of expressing an opinion on the effectiveness of the Divisions' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of this testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KEITH FABER
Ohio Auditor of State



Tiffany L. Ridenbaugh, CPA, CFE, CGFM
Chief Deputy Auditor

June 25, 2026