Cincinnati/Northern Kentucky International Airport

Basic Financial Statements and Other Required Information issued under the provisions of the Office of Management and Budget Uniform Guidance

December 31, 2017 and 2016

Cincinnati/Northern Kentucky International Airport
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CPAs / ADVISORS

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the members of the Kenton
County Airport Board
Hebron, Kentucky

We have audited the accompanying financial statements (hereby referred to as the financial statements) of the business-type activities of the Cincinnati/Northern Kentucky International Airport (hereby referred to as the Airport), which is controlled and operated by the Kenton County Airport Board, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Airport's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express our opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Airport as of December 31, 2017 and 2016, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that management's discussion and analysis, the schedule of the proportionate share of the net pension liability of the Kentucky Retirement System's County Employees Retirement System, and the schedule of the employer contributions to the Kentucky Retirement System's County Employees Retirement System (the required supplementary information), as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming opinion on the financial statements that collectively comprise the Airport's financial statements. As listed in the table of contents, the combining schedules, the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of passenger facility charges collected and expended (the Supplementary Information) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

To the members of the Kenton
County Airport Board
Hebron, Kentucky

The Supplementary 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. Such 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
June 25, 2018

Introduction

The following management discussion and analysis of the financial performance and activity of the Cincinnati/Northern Kentucky International Airport (the "Airport") provides an introduction and understanding of the Airport's basic financial statements (herein referred to as the "Statements") for the calendar year ended December 31, 2017 with selected comparative information for the year ended December 31, 2016.

The Statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Prior to 2016, the Airport's financial statements were presented on a basis of accounting designed to comply with the Airport's bond resolutions and the use agreements with the airlines operating at the Airport. Prior to 2016, the Airport did not maintain separate accounting records in conformity with GAAP. Therefore, GAAP basis comparative information for 2015, which would normally also be reflected in this management's discussion and analysis, is not available for these purposes.

The operations of the Airport are self-supporting and generate revenues from Airport users to fund all operating expenses and debt service requirements. Capital projects are funded through the issuance of bonds, the collection of Passenger Facility Charges ("PFCs"), the collection of Customer Facility Charges ("CFCs"), the receipt of federal and state grants and internally generated funds.

Airport Governance

The Kenton County Airport Board (the "Board") was created pursuant to a resolution of the Fiscal Court of Kenton County, Kentucky adopted on June 3, 1943. Under the provisions of Chapter 183 of the Kentucky Revised Statutes and by the terms of such resolution, the Board has been created and organized as a public body politic and corporate. The Board has complete jurisdiction, control, possession and supervision of the Airport. This includes the power and authority to establish reasonable rates, charges, and fees for the use of its landing areas, ramps and other common aviation facilities. Through contracts or other permissible means, the Board also negotiates general rates, charges, and fees for commercial vendors, concessionaires or other organizations for the use and occupancy of its terminals and other facilities.

Airport Activity Highlights

The Airport serves as the primary airport for scheduled passenger service for the fifteen county Cincinnati Consolidated Metropolitan Statistical Area. The Airport also serves as DHL Express' ("DHL") main international cargo hub for North America and South America and is one of DHL's three global super hubs.

In 2017, Amazon Fulfillment Service, Inc. ("Amazon") selected the Airport to serve as the future home of the Amazon Prime Air Global Hub and announced plans to invest $1.4 billion at the Airport. Amazon began operating Amazon Prime Air aircraft from the Airport in May 2017 utilizing daytime capacity at DHL's hub facility.

As of December 31, 2017, scheduled passenger service at the Airport was provided by seven airline groups through a total of twenty-two mainline and regional carriers. Scheduled cargo service was provided by three cargo operators.

Selected activity statistics for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Enplaned passengers	3,926,158	3,383,938
Origin passengers(1)	3,652,270	3,007,532
Landed Weights(lbs. 000s)		
Passenger airlines	4,606,347	3,979,995
Cargo airlines(2)	5,734,983	4,314,754
Total landed weight	10,341,330	8,294,749
Aircraft operations(3)	70,491	64,149

(1) as reported to the Airport by the airlines

(2) includes maintenance flights

(3) includes domestic air carriers, international air carriers and air taxi/commuter flights

The Airport's enplaned passenger activity grew by 542,220, or 16.0%, in 2017 as the result of a 644,738, or 21.4%, increase in passengers starting their flight from the Airport ("origin passengers") offset by a 102,518, or 27.2%, decrease in passengers connecting through the Airport. The increase in origin passengers and the related decrease in connecting passengers are the results of a continued diversification of the carrier base at the Airport with incumbent and low-cost carrier entrants expanding service at the Airport. This increased diversification has resulted in enhanced competition at the Airport, resulting in lower air fares and the stimulation of local passenger traffic. In 2017, origin passengers represented 93.0% of the Airport's enplaned passengers, increasing from 88.9% in 2016.

In thousand-pound units (lbs. 000s), total landed weights at the Airport increased 2,046,581, or 24.7%, in 2017 as compared to 2016. This increase reflects increases in cargo landing weights of 1,420,229, or 32.9%, and passenger airline landed weights of 626,352, or 15.7%. The increase in cargo airline landed weights was due to the commencement of operations by Amazon in the second quarter of 2017 and the continued growth of DHL's operations. Passenger airline landed weights grew in 2017 due to the June 2017 commencement of air service at the Airport by Southwest Airlines Co., an increase in the average size of aircraft utilized by the legacy carriers (American Airlines Inc., Delta Air Lines Inc. and United Airlines Inc.) operating at the Airport and continued growth in service by low-cost carriers Frontier Airlines and Allegiant Air.

The number of aircraft operations at the Airport grew by 6,342, or 9.9%, with cargo operations increasing by 3,997, or 28.6%, and passenger operations increasing by 2,345, or 4.8%. The percentage increase in the number of operations at the Airport is lower than the increases in enplanements and landed weights due to the continued increase in the average size of cargo and passenger aircraft operating from the Airport.

Airline Rates and Charges

Two of the primary revenue sources for the Airport are the landing fees received from the airlines for the use of the airfield and the rentals received for their use of the terminal facilities. Effective January 1, 2016, the Airport entered into a new Airport Use Agreement ("Use Agreement") with certain passenger and cargo air carriers operating at the Airport ("Signatory Carriers") that expires on December 31, 2020. The Use Agreement provides for the use of the airfield and establishes the methodology for calculating the landing fee rate charged to the air carriers. Each passenger carrier that is a Signatory Carrier leases airport facilities under separate terminal leases which also expire on December 31, 2020. The Use Agreement establishes the methodology for calculating the various terminal related rates and charges to be paid under these terminal leases.

The airline rates and charges methodology under the Use Agreement provides that operating expenses, debt service, other capital costs and funding of certain reserve accounts are allocated to airline and Board cost centers. The landing fee and terminal rates and charges are calculated based on the costs allocated to the applicable airline cost centers less certain revenue offsets. The calculation of the landing fee rate is residual in nature with the landing fee rate prior to any revenue offsets established to recover the cost of providing the airfield. A commercial compensatory rate setting methodology is used to establish terminal related rates and charges with any unrecovered costs related to unleased space being borne by the Airport. Under the Use Agreement, a portion of net remaining revenues ("NRR") as defined in the agreement is credited to reduce the landing fee rate and Signatory Carrier terminal related rentals. Landing fees and airline terminal rentals are reflected in the Statements of Revenues, Expenses and Changes in Net Position net of the related NRR credits.

The landing fee rate, terminal related rates and charges and the related NRR credits are established annually during the budget process based on projected revenues, costs and airline activity. After the close of each fiscal year, the landing fee rate, terminal related rates and charges and related NRR credits are recalculated using audited financial data. Any overpayments of such rentals, fees and charges are returned by the Board to the Signatory Carriers and any underpayments are invoiced to the Signatory Carriers. Amounts owed to the carriers as the result of this settlement process for 2017 and 2016 were \$9.8 million and \$6.6 million, respectively. As \$4.5 million of the amount payable at December 31, 2016 had not been paid by December 31, 2017, the total amount reflected on the Balance Sheet as payable at December 31, 2017 was \$14.3 million.

The bond resolutions associated with the bonds outstanding at December 31, 2017 and 2016 require that rates and fees charged to the air carriers be determined and fixed at amounts which, together with all other revenues from the operation, use and services of the Airport, will be sufficient to 1) pay the costs of operating and maintaining the Airport, 2) fund the principal, interest and coverage requirements on the outstanding bonds, and 3) make all other transfers as required under the bond resolutions.

In addition to the landing fees and terminal rentals and any other fees and charges allowable under the Use Agreement, each Signatory Carrier is required to make extraordinary coverage protection payments to the Airport in any Fiscal Year in which the amount of operating revenues less operating expenses is or is forecasted to be less than 125% of the aggregate annual debt service requirements as calculated under the Airport's bond resolutions. No such payments were necessary for 2017 and 2016.

As of December 31, 2017, the Airport had eight Signatory Carriers, of which six were passenger airlines (Allegiant Air LLC, American Airlines Inc., Delta Air Lines Inc. (“Delta”), Frontier Airlines Inc., Southwest Airlines CO., and United Airlines Inc.,) and two were cargo operators (DHL Network Operations (USA) Inc., and Federal Express Corporation). Except for Southwest Airlines Co., which became a Signatory Carrier during 2017, the Signatory Carriers at December 31, 2017 were the same as those at December 31, 2016.

Overview of the Financial Statements

The Airport’s Statements include three separate financial statements: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The Airport is a business-type activity and, as such, is accounted for as an Enterprise Fund. For administrative purposes and to ensure adherence to applicable parameters and restrictions on the allowable use of funds and their associated net positions, the Airport has established various self-balancing account groups (more fully described in note 1 to the Statements).

The Balance Sheet presents the Airport’s financial position at December 31, the end of the Airport’s fiscal year, and includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position is classified into three components: unrestricted, net investment in capital assets, and restricted. Restricted net position is further classified between major categories of restrictions.

The Statement of Revenues, Expenses and Changes in Net Position reports total operating revenues, operating expenses, non-operating changes in net position, and capital contributions for the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statement of Cash Flows presents information showing how the Airport’s cash and cash equivalents changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments by operating activities, non-capital financing activities, capital and related financing activities and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Summary of Financial Position

A summarized comparison of the Airport's assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position at December 31, 2017 and 2016 is set forth below (in thousands of dollars):

	2017	2016
Assets		
Current assets	$ 91,985	$ 104,139
Non-current assets		
Capital assets	707,410	714,610
Other non-current assets	184,833	156,482
Total assets	984,228	975,231
Deferred outflow of resources	25,336	25,336
Total assets and deferred outflow of resources	$ 1,009,564	$ 1,000,567
Liabilities		
Current liabilities	$ 27,116	$ 23,213
Non-current liabilities	135,644	112,229
Total liabilities	162,760	135,442
Deferred inflow of resources	5,801	2,461
Net position		
Unrestricted	39,324	54,915
Net investment in capital assets	653,494	657,937
Restricted	148,185	134,772
Total net position	841,003	847,624
Total liabilities, deferred inflow of resources and net position	$ 1,009,564	$ 985,527

Net Position

Net position is the difference between total assets, total deferrals and total liabilities, and is an indicator of the current fiscal health of the Airport. The majority of the Airport's net position at December 31, 2017 and 2016 represents its investment in capital assets less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to the airlines, passengers, service providers and other users of the Airport. While the Board's net position related to capital assets is reported net of related debt, the associated debt service is paid annually from operating revenues or other non-operating revenues generated through the use of these assets.

In 2017, the Airport's net position decreased by $6.6 million. This change is the result of a $15.6 million reduction of unrestricted net position, a $4.4 million reduction in invested in capital assets, net of related debt net position and an increase of $13.4 million in restricted net position.

The reduction of unrestricted net position was primarily the result of utilizing $32.0 million of the cash and investments in the unrestricted Designated for Capital Projects account group to fund capital additions. Also contributing significantly was a $5.1 million increase in pension expense required under GASB Statement No.68 to reflect the Airport's proportionate share of the total net pension liabilities of the multiple-employer defined benefit pension plan in which the Airport's employees participate. This reduction in unrestricted net position was partially offset by a $15.4 million increase in net position resulting from income generated from Airport operations in 2017 and a $5.5 million reimbursement from the restricted for Demolition of Excess Facilities account group of eligible expenditures previously made from the unrestricted Designated for Capital Project account group.

The reduction in the net position related to the investment in capital assets, net of related debt, was due to $42.7 million of deprecation of the Airport's capital assets, which was offset in part by $35.3 million in capital assets paid for from funds available in the restricted and unrestricted account groups and a $3.0 million reduction in debt service principal outstanding.

The increase in restricted net position was due to the receipt of $16.0 million of PFC revenues, $8.8 million of CFC revenues and $0.9 million of income generated by investments. These increases were partially offset by a $5.5 million reimbursement from the restricted Demolition of Excess Facilities account group to the unrestricted Designated for Capital Projects account group for eligible demolition expenditures, a $3.4 million transfer from the restricted PFC account group for funding of debt service requirements and the utilization of $3.4 million of funds available in the restricted account groups for the acquisition of capital assets.

Assets, Liabilities, and Deferrals

In 2017, total assets increased $9.0 million. This change includes a $12.2 million decrease in current assets, a $7.2 million decrease in capital assets, and a $28.4 million increase in other non-current assets. The decrease in current assets was primarily due to a rebalancing of investments by the Airport from a short-term horizon to a long-term horizon resulting in an increase in the amount of investments with maturity dates of one year or greater at December 31, 2017 as compared to 2016. The decrease in capital assets, net of related depreciation, was due to the depreciation of the Airport's assets being greater than 2017 capital additions. The increase in other non-current assets was related to the above discussed rebalancing of investments to a longer-term horizon and the increase in invested balances as the result of 2017 PFC and CFC receipts.

In 2017, total liabilities increased $27.3 million. This change includes an $8.6 million increase in current liabilities and an $18.7 million increase in non-current liabilities. The increase in current liabilities was due to a $5.5 million increase in accounts payable related to both capital and operational expenditures and a $2.8 million increase in the rates and charges settlement payables to air carriers other than Delta. The increase in non-current liabilities was primarily due to a $16.8 million increase in the Airport's assigned proportionate share of its pension plan's net pension liability and a $4.8 million increase the rates and charges settlement payable to Delta. These increases are partially offset by a $3.1 million reduction in revenue bonds payable including unamortized premium due to principal payments on the outstanding debt.

In 2017, deferred outflow of resources increased $15.0 million and deferred inflows of resources increased $3.3 million. The increase in deferred outflows of resources was primarily due to a change in economic assumptions made by the Kentucky Retirement System's ("KRS") Board, which in 2017 elected to lower the assumed investment return for the multiple-employer defined benefit pension plan in which the Airport's employees participate. This change increased the Airport's proportionate share of the pension plan's net pension liabilities, a significant portion of which is recorded as deferred outflow in accordance with GASB accounting standards. The increase in deferred inflow of resources was related to changes in the amortization of the pension plan actuarial adjustment for the difference between expected and actual plan experience.

Summary of Financial Operations

A summary comparison of the Airport's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2017 and 2016 is set forth below (in thousands of dollars):

	2017	2016
Operating revenues		
Landing fees	$ 18,032	$ 17,236
Rentals	21,395	20,278
Parking	37,044	31,695
Concessions	12,878	12,221
Other	3,588	2,949
Total operating revenues	92,937	84,379
Operating expenses		
Salaries, wages and benefits	46,452	42,913
Contracted services	22,531	26,641
Utilities	6,844	7,098
Supplies and capital items expensed	5,239	5,761
General administration	2,006	1,344
Insurance	1,293	1,257
Total operating expenses	84,365	85,014
Operating loss, before depreciation and amortization	8,572	(635)
Depreciation and amortization	(42,730)	(43,523)
Operating loss, after depreciation and amortization	(34,158)	(44,158)
Nonoperating changes in net position: increase (decrease)		
Revenue bonds:		
Revenue bond interest, net of premium amortization	(1,255)	(1,130)
Bond refunding - bond issuance costs & interest	-	(1,816)
Passenger facility charge revenues	16,032	13,575
Customer facility charge revenues	8,778	6,726
Police forfeiture program revenues	336	677
Grants and federal awards for operating expenses	510	371
Investment income	1,970	1,598
Other	65	(75)
Total nonoperating changes in net position, before capital contributions	26,436	19,926
Capital Contributions		
Reversion of ownership of leased facilities	-	11,503
Grants and federal awards for capital expenditures	1,088	3,773
Third party funding of project costs	13	944
Total capital contributions	1,101	16,220
Total changes in net position	(6,621)	(8,012)
Net position at the beginning of year	847,624	855,636
Net position at the end of year	$ 841,003	$ 847,624

Operating Revenues and Expenses

In 2017, operating revenues increased $8.6 million and operating expenses decreased $0.6 million.

Landing fee revenue increased by $0.8 million in 2017 and, due to the residual nature of the calculation of the landing fee rate, is reflective of an increase in the airfield cost center requirements net of the portions of the NRR allocated to reduce the landing fee rate.

In 2017, rental revenues increased $1.1 million. The primary components of this increase were a $0.3 million net increase in terminal related rentals, a $0.1 million increase in ground rentals resulting from additional commercial development leasing activity, and a $0.6 million increase in per-turn terminal and ramp rentals received for the use of non-leased gates.

Parking revenues increased $5.3 million in 2017 primarily due to increased use of the Airport's parking facilities stemming from the 2017 growth in origin passengers.

Concession revenues increased $0.7 million in 2017 related to the additional passengers utilizing the Airport, with the primary components of the increase being revenues from car rentals and food and beverages sales.

Salaries, wages and benefits expenses increased $3.5 million in 2017, including a $2.3 million increase in salaries and wages and a $1.2 million increase in benefit expense. Benefits expense increased as the result of an increase in pension expense and increases in the cost of employee group health coverage.

In 2017, expense related to contracted services decreased $4.1 million. This decrease was the result of the majority of a project to demolish excess facilities at the Airport being completed by the end of 2016, with this decrease being offset in part by the cost of a number of large airfield and terminal area repair and maintenance projects undertaken in 2017.

Supplies and capital items expensed decreased $0.5 million in 2017 primarily due to decreased utilization of supplies during the milder 2017 winter season.

In 2017, general administration expenses increased $0.7 million due to marketing expenses related to the implementation and utilization of an air service incentive program intended to increase the number of air carriers operating at the Airport as well as the destinations served.

In 2017, depreciation and amortization decreased by $0.8 million due to certain airfield assets becoming fully depreciated during 2017.

Nonoperating Changes in Net Position

The nonoperating changes in net position increased by $6.5 million in 2017 as compared to 2016.

In 2016, the Airport recorded a non-operating decrease in net position totaling $1.8 million related to the costs incurred in the refunding of its outstanding bonds (as described in note 6 to the Statements). No such costs were incurred in 2017.

PFC revenues, which are funds collected at a Federal Aviation Administration approved rate per qualifying enplaned passenger, increased $2.5 million in 2017 as the result of the 2017 increase in enplanements.

CFCs are funds collected at a rate charged per rental car transaction day. CFC revenues increased $2.1 million in 2017 principally due to a November 2016 increase in the rate charged per rental car transaction day. Also contributing was an increase in the number of rental car transactions, resulting from the increase in passengers utilizing the Airport.

Capital Contributions
In 2017, capital contributions decreased by $15.1 million. The types of capital contributions reflected by the Airport include recording of the appraised value of facilities constructed by tenants at such time as, in accordance with the provisions of associated ground leases, the ownership of the facilities reverts to the Airport. Capital contributions also include grants, federal awards and contributions received from other outside parties to fund capital project costs.

During 2016, the Airport recognized $11.5 million of capital contributions related to the reversion of ownership of two facilities. There were no such reversions in 2017. Grants and federal awards for capital expenditures decreased $2.7 million in 2017 as the result of a reduction in the amount of federal grant eligible project costs incurred in 2017. Third party funding of project costs decreased $0.9 million in 2017 due to 2016 including tenant funding of $0.9 million of environmental mitigation related costs required for the tenant to construct facilities on the Airport and no such funding being received in 2017.

Summary of Cash Flows

A comparative summary of the Statements of Cash Flows for the years ended December 31, 2017 and 2016 is as follows (in thousands of dollars):

	2017	2016
Net cash provided by operating activities	$ 22,508	$ 5,103
Net cash provided by non-capital financing activities	676	965
Net cash (used in) provided by capital and related financing activities	(6,814)	6,373
Net cash used in investing activities	(11,747)	(16,240)
Net increase (decrease) in cash	4,623	(3,799)
Cash at the beginning of the year	6,722	10,521
Cash at the end of the year	$ 11,345	$ 6,722

The Airport's overall cash position increased $4.6 million in 2017.

Net cash provided by operating activities increased $17.4 million in 2017 related to the $9.2 increase in operating income before depreciation and amortization as well as an increase of $0.8 million in operating cash provided by the differences in the timing of cash receipts and payments in 2017 as compared to 2016 reflected in the changes in operating related receivables and payables. Also contributing are 1) a $3.2 million increase in the amount of rates and charges collected during 2017 which, based on the year-end settlement process, were determined to be overpayments and, therefore, are owed back to the air carriers and 2) a $4.5 million decrease in the amount actually refunded to the air carriers in 2017 as compared to 2016.

In 2017, net cash provided by non-capital financing activities decreased $0.3 million as compared to 2016 as the result of a decrease in cash received under law enforcement federal asset forfeiture programs.

Net cash used by capital and related financial activities in 2017 increased by $13.2 million as compared to 2016. This was primarily due to an increase in cash used for acquisition of capital assets and a decrease in cash provided by third parties for funding of capital project costs. These increases in cash used were partially offset by a decrease in cash used due to their being no bond refunding related costs in 2017 and by an increase in cash provided by PFCs, CFC's, and grants.

In 2017, net cash used in investing activities decreased by $4.5 million as compared to 2016. This was due to a $3.3 million decrease in net investment purchases (investment purchases less investment maturities) and a $1.2 million increase in investment income received. While the amount of investments held at December 31, 2017 was greater than the amount at December 31, 2016, the amount of investments purchased during 2017 was less than in 2016. This was due to the 2016 investing of a significant amount of funds being held in cash at the beginning of 2016 as the Airport transitioned to the new Use Agreement.

Capital Assets

As of December 31, 2017, the Airport's capital assets balance, net of accumulated depreciation, was $707.4 million. As detailed in note 4 to the Statements, during 2017 the amount of capital assets gross of depreciation increased $34.2 million and accumulated depreciation increased $41.4 million. The increase in gross capital assets during 2017 was primarily related to additions to aircraft parking ramp and various projects related to the improvement and modernization of terminal facilities.

The Airport's Master Plan provides both near and long-term road maps for the Airport's facilities to be developed to efficiently serve future aviation needs. Under Federal Aviation Administration guidelines, the Master Plan must periodically be updated to reflect operational changes at the Airport and changes in the industry. The Airport is in the process of updating its Master Plan to reflect the changes in the nature of operations occurring at the Airport, including the diversification of air carrier operations at the Airport, the growth in origin passengers and the anticipated growth in cargo operations related to Amazon's announced intention to develop an Amazon Hub at the Airport. In support of the development of a cost-effective ongoing renewal and replacement ("R&R") program as well as to provide necessary information for the Master Plan update, the Board is in the process of performing assessments of the condition of various infrastructure components. These condition assessments, as well as the ongoing Master Plan update, will provide information for ongoing infrastructure R&R investment decisions as well as for decisions regarding the investment in new facilities which may be needed in the future to efficiently and cost-effectively serve the growth in air travel demand. The Master Plan update is intended to provide forecasts of aviation activity and facility needs at the airport through approximately the year 2050.

The primary near-term projects identified in the last Master Plan update have been completed or are in process. The projects completed include the demolition of older obsolete terminal facilities that were no longer in use. Currently under design is a Consolidated Ground Transportation Facility. This facility will consolidate rental car operations into a single facility adjacent to the terminal and will include a ground level transportation center that will provide for the loading and unloading of busses transporting passengers to and from the terminal facilities. The project will also include the reconfiguration of the main terminal roadway system. In addition to enhancing customer service, completion of this project will serve to relieve congestion in front of the terminal.

Debt Administration

As of December 31, 2017, the Airport's outstanding bonds were the Series 2016 fixed rate revenue bonds with a principal balance of $44.6 million. Pursuant to approvals previously received from the Federal Aviation Administration, the debt service on the Series 2016 bonds, while secured by the revenues of the Airport, is fully payable with on-hand PFC funding and currently approved future collections of PFCs. At December 31, 2017, the Airport's underlying long-term bond ratings were "A2" from Moody's Investor Services and "A+" from Fitch Ratings, both with a "stable" outlook.

It is anticipated that in early 2019 long-term bonds will be issued to provide for the funding of the Consolidated Ground Transportation Facility. The majority of these bonds are planned to be paid solely from CFC revenues and to be additionally secured by the rental car companies operating from the facility.

Currently, it is anticipated that the cost of any capital assets and improvements which, at the conclusion of the Master Plan update, are determined to be necessary will be funded with some combination of short-term financing, long-term financing and on-hand capital funds. The projects and the related financing will occur over a number of years, with the total amount ultimately financed likely to be material to the financial statements and balance of outstanding debt of the Airport. However, as the projects have not yet been identified, estimated project costs and the amount and timing of any related financing are not yet known or estimable.

Requests for Information

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Chief Financial Officer, P.O. Box 752000, Cincinnati, OH 45275-2000 or emailed to info@cvgairport.com.

Cincinnati/Northern Kentucky International Airport
Balance Sheets
December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Assets		
Current assets		
Cash - unrestricted	$ 7,597	$ 4,392
Cash - restricted	1,876	1,361
Investments (at fair value) - unrestricted	64,912	84,176
Investments (at fair value) - restricted	6,313	1,044
Investment income receivable	217	158
Accounts receivable	4,872	3,913
Grants and federal awards receivable	738	3,720
Prepaid expenses	1,294	1,308
Supplies inventory	4,166	4,067
Total current assets	91,985	104,139
Non-current assets		
Cash - restricted	1,872	969
Investments (at fair value) - unrestricted	38,450	26,004
Investments (at fair value) - restricted	141,270	126,544
Investment income receivable	426	322
Passenger facility charges receivable	1,973	1,775
Customer facility charges receivable	665	606
Prepaid expenses	177	262
Capital assets, non-depreciable	209,583	209,340
Capital assets, net of accumulated depreciation	497,827	505,270
Total non-current assets	892,243	871,092
Total assets	$ 984,228	$ 975,231
Deferred Outflow of Resources		
Pension	$ 25,336	$ 10,296
Total deferred outflow of resources	$ 25,336	$ 10,296
Total assets and deferred outflow of resources	$ 1,009,564	$ 985,527
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	$ 17,707	$ 12,203
Rates and charges settlement payable to airlines	4,956	2,109
Contract retainage payable	1,378	1,098
Assets held in trust	-	40
Revenue bonds payable, inclusive of unamortized premium	3,075	3,037
Total current liabilities	27,116	18,487
Non-current liabilities		
Accounts payable and accrued expenses	1,746	1,638
Rates and charges settlement payable to airlines	9,332	4,484
Revenue bonds payable, inclusive of unamortized premium	49,463	52,538
Net pension liability	75,103	58,295
Total non-current liabilities	135,644	116,955
Total liabilities	$ 162,760	$ 135,442
Deferred Inflow of Resources		
Pension	$ 5,801	$ 2,461
Total deferred inflow of resources	$ 5,801	$ 2,461
Net Position		
Unrestricted	$ 39,324	$ 54,915
Net investment in capital assets	653,494	657,937
Restricted:		
For federally approved projects	74,036	61,731
For ground transportation expenditures	50,391	44,477
For operational cash flow shortages (by bond resolutions)	19,469	18,750
For demolition of excess facilities	-	5,546
For debt service	4,289	4,268
Total net position	$ 841,003	$ 847,624
Total liabilities, deferred inflow of resources and net position	$ 1,009,564	$ 985,527

See report independent auditors and accompanying notes to financial statements.

Cincinnati/Northern Kentucky International Airport
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Operating revenues		
Landing fees	$ 18,032	$ 17,236
Rentals:		
Terminal	12,315	12,014
Ground	4,110	3,968
Ramp	3,993	3,430
Other	977	866
Parking	37,044	31,695
Concessions	12,878	12,221
Rebilled services	1,862	1,616
Ground transportation	1,043	649
Other	683	684
Total operating revenues	92,937	84,379
Operating expenses		
Salaries, wages and benefits	46,452	42,913
Contracted services	22,531	26,641
Utilities	6,844	7,098
Supplies and capital items expensed	5,239	5,761
General administration	2,006	1,344
Insurance	1,293	1,257
Total operating expenses	84,365	85,014
Operating income (loss), before depreciation and amortization	8,572	(635)
Depreciation and amortization	(42,730)	(43,523)
Operating loss, after depreciation and amortization	(34,158)	(44,158)
Nonoperating changes in net position: increase (decrease)		
Revenue bonds:		
Revenue bond interest, net of premium amortization	(1,255)	(1,130)
Bond refunding - release of funds for defeasance of bonds - interest	-	(1,209)
Bond refunding - bond issuance costs	-	(607)
Passenger facility charge revenues	16,032	13,575
Customer facility charge revenues	8,778	6,726
Police forfeiture program revenues	336	677
Police forfeiture program revenues passed through to other local government	(2)	(2)
Grants and federal awards for operating expenses	510	371
Investment income	1,970	1,598
Net gain on disposal of capital assets	33	17
Non-capitalized project costs	(24)	(90)
Other	58	-
Total nonoperating changes in net position, before capital contributions	26,436	19,926
Capital Contributions		
Reversion of ownership of leased facilities	-	11,503
Grants and federal awards for capital expenditures	1,088	3,773
Third party funding of project costs	13	944
Total capital contributions	1,101	16,220
Total changes in net position	(6,621)	(8,012)
Net position at the beginning of year	847,624	855,636
Net position at the end of year	$ 841,003	$ 847,624

See report independent auditors and accompanying notes to financial statements.

Cincinnati/Northern Kentucky International Airport
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Cash flows from operating activities		
Cash received from customers	$ 98,348	$ 85,982
Cash paid to suppliers	(32,758)	(41,451)
Cash paid for the direct benefit of employees	(43,082)	(39,428)
Net cash provided by operating activities	22,508	5,103
Cash flows from non-capital financing activities		
Police forfeiture program receipts	329	678
Police forfeiture program receipts passed through to other local government	(2)	(2)
Grants and federal awards receipts for operating expenses	401	385
Non-capitalizable project costs	(52)	(96)
Net cash provided by non-capital financing activities	676	965
Cash flows from capital and related financing activities		
Revenue bonds:		
Debt service payments -principal	(1,985)	(1,250)
Debt service payments -interest	(2,307)	(2,623)
Bond refunding - proceeds from issuance of bonds	-	57,351
Bond refunding - bond proceeds transferred to escrow	-	(56,736)
Bond refunding - interest and redemption account release of funds to escrow	-	(2,149)
Bond refunding - bond reserve release of funds to escrow	-	(914)
Bond refunding - bond issuance costs	-	(607)
Passenger facility charges received	15,825	13,281
Customer facility charges received	8,618	6,445
Grants and federal awards receipts for capital expenditures	4,153	2,380
Third party funding of project costs	44	922
Proceeds from sale of assets	82	63
Acquisition and construction of airport facilities	(31,244)	(9,790)
Net cash (used in) provided by capital and related financing activities	(6,814)	6,373
Cash flows from investing activities		
Proceeds from sales and maturities of investments	404,762	430,784
Purchase of investments	(419,398)	(448,697)
Investment income received	2,889	1,673
Net cash used in investing activities	(11,747)	(16,240)
Net increase (decrease) in cash	4,623	(3,799)
Cash at the beginning of the year	6,722	10,521
Cash at the end of the year	$ 11,345	$ 6,722

See report independent auditors and accompanying notes to financial statements.

Cincinnati/Northern Kentucky International Airport
Statements of Cash Flows, continued
Years Ended December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss, after depreciation and amortization	$ (34,158)	$ (44,158)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	42,730	43,523
Change in assets and liabilities		
Increase in accounts receivable	(995)	(127)
Increase in supplies inventory	(99)	(134)
Decrease in portion of interfund receivables related to operating activities	8	960
Decrease in prepaid expenses	47	278
Increase (decrease) in accounts payable and accrued expenses	2,088	(1,265)
Increase in rates and charges settlement payable to airlines	7,695	1,694
Increase (decrease) in portion of interfund payables related to operating activities	84	(454)
Increase in deferred outflow of resources	(15,040)	(1,920)
Increase (decrease) in deferred inflow of resources	3,340	(779)
Increase in net pension liability	16,808	7,485
Total adjustments	56,666	49,261
Net cash provided by operating activities	$ 22,508	$ 5,103

Noncash capital and related financing activities:

	2017	2016
Reversion of ownership of capital assets, capital contributions	$ -	$ 11,503
Amortization of revenue bond premium, payment of revenue bond debt service interest	$ 1,052	$ 526

See report of independent auditors and accompanying notes to financial statements.

(in thousands of dollars)

1. Summary of Significant Accounting Policies and Practices

Reporting Entity

The Kenton County Airport Board (the "Board") was created by the Fiscal Court of Kenton County, Kentucky on June 3, 1943. The Board is a public body politic and corporate, and has jurisdiction, control, possession and supervision of the Cincinnati/Northern Kentucky International Airport (the "Airport").

Basis of Accounting

The Airport is a business-type activity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services and are accounted for in Enterprise Funds, which utilize the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when they are earned, and expenses are recognized when incurred.

The principal operating revenues of the Airport are from sources such as the Airport's tenant airlines, concessions, customer parking, rental cars, and other third party facility and ground leases. Investment income, Passenger Facility Charges and Customer Facility Charges, federal and state operating grants and other revenues not related to the operations of the airport are considered nonoperating revenues. Operating expenses include the cost of airport and related facilities maintenance, administrative expenses, and depreciation on capital assets. Interest expense, bond issuance costs and non-capitalized project costs are considered nonoperating expenses.

As required of an Enterprise Fund, the Balance Sheets are presented with assets and liabilities classified as current and non-current. Assets are classified as current if they will be converted to cash within one year of the Balance Sheets dates and are not subject to restrictions which prohibit them from being used in the current operations of the Airport. Restricted assets are also classified as current if they will be converted to cash within one year of the Balance Sheets dates and are needed to cover current liabilities which exist at the Balance Sheets dates. Liabilities are classified as current if they are likely to be paid within one year of the Balance Sheets dates.

Adoption of New Pronouncements

During 2017, the Airport implemented GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding the presentation of payroll-related measures in RSI, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this statement affected the presentation of information related to covered payroll on the Schedule of the Proportionate Share of the Net Pension Liability table in the RSI section and did not have an effect on the Airport's basic financial statements.

(in thousands of dollars)

Significant Upcoming Implementations

All full-time employees of the Airport are members of the Kentucky Retirement Systems' County Employees Retirement System ("CERS"), a cost-sharing multiple-employer defined benefit pension system. During 2017, the CERS implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses the financial reporting of defined benefit other post-employment benefit ("OPEB") plans that are administered through trusts that meet specified criteria. This statement follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement requires more extensive note disclosures and Required Supplementary Information ("RSI") related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. As the provisions of Statement No. 74 pertain only to financial reporting of OPEB plans, the adoption of this statement does not have an effect on the Airport's current year basic financial statements. However, the CERS' 2017 implementation of Statement No. 74 will result in information necessary for the Airport to implement Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in its 2018 basic financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 and requires governments to report a liability on their financial statements for the OPEB that they provide. This statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities, including a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government, new RSI including a schedule showing the causes of increases and decreases in the OPEB liability, and a schedule comparing a government's actual OPEB contributions to its contribution requirements. This statement is effective for the Airport's fiscal year ended December 31, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes the criteria for determining if the Airport would be required to recognize a liability associated with legal obligations to perform future asset retirement activities related to its tangible capital assets and disclosure of information about the nature of the Airport's AROs, the methods and assumptions used for estimates of liabilities, and the estimated remaining useful life of the associate tangible capital assets. This statement is effective for the Airport's fiscal year ended December 31, 2019.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for the Airport's fiscal year ended December 31, 2018.

(in thousands of dollars)

In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement is effective for the Airport's fiscal year ended December 31, 2020.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for the Airport's fiscal year ended December 31, 2019.

The Airport has not determined what impact, if any, these statements will have on its financial statements.

Air Carrier Rates and Charges
Effective January 1, 2016, the Airport entered into a new Airport Use Agreement ("Use Agreement") with certain passenger and cargo air carriers operating at the Airport ("Signatory Carriers"). The Use Agreement, which expires on December 31, 2020, provides for the use of the Airport and establishes the landing fees to be paid for use of the airfield. Each passenger carrier that is a Signatory Carrier leases airport facilities under separate terminal lease agreements, with these lease agreements also expiring as of December 31, 2020. The Use Agreement establishes the methodology for calculating the various terminal related rates and charges to be paid under these terminal lease agreements. Air carriers which are not Signatory Carriers utilize the terminal facilities under an operating permit and pay per use of the facilities.

The Use Agreement employs a hybrid structure for establishing airline rates and charges. Rates charged for the use of the airfield are residual in nature in that the landing fee rates prior to any revenue offsets are established to recover the costs of providing the airfield. A commercial compensatory rate setting methodology is used to establish terminal related rates and charges wherein any unrecovered terminal costs are borne by the Airport. Under the Use Agreement, a portion of net remaining revenues ("NRR") as defined in the agreement are credited to reduce the landing fee rate and Signatory Carrier terminal related rentals. Landing fees and airline terminal rentals are reflected net of the related NRR credits in the Statement of Revenues, Expenses and Changes in Net Position.

(in thousands of dollars)

The landing fee rate, terminal related rates and charges and the related NRR credits are established annually during the budget process based on projected revenues, costs and airline activity. After the close of each fiscal year, the landing fee rate, terminal related rates and charges and related NRR credits are recalculated using audited financial data. Any overpayments of such rentals, fees and charges are returned by the Board to the Signatory Carriers and any underpayments are invoiced to the Signatory Carriers. At December 31, 2017 and 2016, $9,804 and $6,593, respectively, were payable to the carriers as the result of this settlement process. As $4.5 million of the amount payable at December 31, 2016 had not been paid by December 31, 2017, the total amount reflected on the Balance Sheet as payable at December 31, 2017 was $14.3 million.

The bond resolutions associated with the bonds outstanding at December 31, 2017 and 2016 require that rates and fees be determined and fixed to ensure that revenues from the operation, use and services of the Airport will be sufficient to 1) pay the costs of operating and maintaining the Airport, 2) fund the principal, interest and coverage requirements on the outstanding bonds, and 3) make all other transfers as required under the bond resolutions.

In addition to the landing fees and terminal rentals and any other fees and charges allowable under the Use Agreement, each Signatory Carrier is required to make extraordinary coverage protection payments to the Airport in any Fiscal Year in which the amount of operating revenues less operating expenses is or is forecasted to be less than 125% of the aggregate annual debt service requirements as calculated under the Airport's bond resolutions. No such payments were necessary for 2017 and 2016.

(in thousands of dollars)

Account Groups and Restrictions on Net Position

For administrative purposes and to ensure adherence to applicable parameters and restrictions on the allowable use of funds and their associated net positions, the Airport has established various self-balancing account groups.

The account groups and the nature of restrictions on the components of the Airport's net position are as follows:

Account Group:	Restrictions on Net Position:
Operations and Maintenance	Unrestricted
Designated for Capital Projects	Unrestricted
Designated for Group Health Coverage	Unrestricted
Repair and Replacement Reserve	Unrestricted
General Purposes	Unrestricted
Net Investment in Capital Assets	Net Investment in Capital Assets
Passenger Facility Charge	Restricted for federally approved projects
Police Forfeiture	Restricted for federally approved projects
Customer Facility Charge	Restricted for ground transportation expenditures
Operations & Maintenance Reserve	Restricted for operational cash flow needs (by bond resolutions)
Demolition of Excess Facilities	Restricted for demolition of excess facilities
Bond Interest and Redemption	Restricted for debt service
Bond Reserve	Restricted for debt service
Other Third Party Funding	Restricted for uses legally required by contributing parties

Unrestricted Account Groups

The unrestricted account groups listed in the table above are resources available for any Airport use.

Operations and Maintenance account group- unrestricted: The Operations and Maintenance account group is maintained to account for operating revenues and expenses and provide for the funding of debt service.

Designated for Capital Projects account group- unrestricted: The Airport has funds on hand which were previously received through reimbursements from federal and state grants and other third parties for eligible capital expenditures. As the Airport intends to use these funds for capital projects, they are recorded as Designated for Capital Projects as a component of unrestricted net position.

Designated for Group Health Coverage account group- unrestricted: Effective January 1, 2009, the Airport, by resolution of the Board, established an account group for all activities of the self-funded health coverages maintained for employees. By this resolution, the Airport assumed the risk financing of the health and dental coverages through self-funding of claims, subject to certain individual stop loss and group aggregate limits. Activities include contributions to the account, the payment of claims, the payment of fees and expenses, and the establishment and maintenance of reserves. Contributions to the account for the payment of claims, fees and expenses are made from the Operations and Maintenance account group and are recorded as operating expenses. Contributions to the account for the purposes of building reserves are recorded as transfers of net position from the General Purposes account group (see Note 10).

(in thousands of dollars)

Repair and Replacement Reserve account group- unrestricted: Pursuant to the requirements of the Airport's bond resolutions, the Board is required to maintain an asset balance of $10,000 in the Repair and Replacement Reserve account group, which is available for any Airport use. In the event that amounts from this reserve are used, the Airport is required, commencing from the date the deficit occurred, to replenish the balance in twenty-four equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed for other purposes. Due to temporary market value fluctuations related to investments, at December 31, 2017 and 2016 the balances in the Repair and Replacement Reserve were $9,984 and $10,018, respectively. The bond resolutions do not require the Airport to adjust the amount held in the Repair and Replacement Reserve when the balance differs from the required $10,000 solely due to temporary market value fluctuations. Actual losses due to market value fluctuations are not expected to occur due to the fixed rate nature of the investments and the Airport's practice of holding its investments to maturity. No funds from the Repair and Replacement Reserve account group were used during 2017 and 2016.

General Purposes account group- unrestricted: Pursuant to the requirements of the Airport's bond resolutions, the Board maintains a General Purposes account group, the balance of which is available for any Airport use. Amounts of revenues remaining in the Operations and Maintenance account group after satisfaction of operating expenses and other transfers required by the bond resolutions are transferred to the General Purposes account group. In 2017 and 2016, the amounts transferred to the General Purposes account group were $15,355 and $14,659, respectively.

Net Investment in Capital Assets
The Net Investment in Capital Assets account group is maintained for the recording of the balances and depreciation of capital assets, as well as any associated balances of outstanding debt.

Restricted Account Groups
The resources of the restricted account groups listed in the table above are restricted by outside parties. Accordingly, approval of these parties, as applicable, is required in order for the restricted resources to be available for use. It is the Airport's policy to first apply restricted resources when an obligation is incurred for which both restricted and unrestricted net position are available for use.

Passenger Facility Charge account group- restricted: In 1994, the Federal Aviation Administration ("FAA") first granted approval to the Airport to impose a Passenger Facility Charge ("PFC") and to use the PFCs to fund specific approved projects. PFCs, which are charged at rates per qualifying enplaned passenger, are considered earned upon collection by the airline and are credited to the restricted net position of the Passenger Facility Charge account group. Amounts collected by the airlines but not yet remitted to the Airport are classified as Passenger Facility Charges receivable. As of December 31, 2017 the Airport has received approval on a total of fourteen PFC applications. The approvals authorize the Airport to collect PFCs and associated investment income for approved projects up to the amount of allowable project costs, but not to exceed $576,424. Through December 31, 2017, PFCs and associated investment income in the amount of $547,171 have been collected.

Police Forfeiture account group- restricted: The Police Forfeiture account group is maintained to account for all activity of funds received by the Airport's police department through the Equitable Sharing Programs of the U.S. Department of Justice, the U.S. Department of Treasury, and the Commonwealth of Kentucky. The use of these funds is restricted to law enforcement expenditures considered allowable under the various sharing agreements.

(in thousands of dollars)

Customer Facility Charge account group- restricted: Pursuant to an ordinance of the Board, the collection of Customer Facility Charges ("CFCs") began on April 1, 2006. The CFCs, which are charged at a rate per rental car transaction day, are being collected to provide for the planning, construction, operation, and maintenance of facilities to accommodate the ground transportation needs at the Airport. The CFCs are considered earned upon collection by the rental car companies and are recognized as nonoperating revenues in the Customer Facility Charge account group. The use of CFCs is limited by what may be legally enforceable restrictions. The total amount of CFCs collected in 2017 and 2016 was $8,778 and $6,726, respectively.

Operations & Maintenance Reserve account group- restricted: Pursuant to the requirements of the Airport's bond resolutions, the Board is required to maintain in the Operations and Maintenance Reserve an asset balance equal to twenty-five percent of the then current year budgeted operating expenses. Assets in the Operations and Maintenance Reserve account group may only be used to finance operating expenditures, when sufficient funds are not otherwise available in the Operations and Maintenance account group or from other available funding sources. Upon use of funds from this reserve, the Airport is required, commencing in the ensuing calendar year, to replenish the asset balance in twelve equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed for other purposes. At December 31, 2017 and 2016, the asset balances to be carried in the Operations and Maintenance Reserve were $19,595 and $18,808, respectively. Due to a temporary decline in the market value of the fixed rate investments held at that date, the asset balances were $19,523 and $18,796 at December 31, 2017 and 2016, respectively. The bond resolutions do not require the Airport to adjust the amount held in the Operations and Maintenance Reserve as a result of temporary market value fluctuations. Actual losses due to market value fluctuations are not expected to occur due to the fixed rate nature of the investments and the Airport's practice of holding its investments to maturity. No funds from the Operations and Maintenance Reserve account group were used during 2017 and 2016.

Demolition of Excess Facilities account group- restricted: The Airport's Master Plan calls for a consolidation of all airline operations into one terminal and into Concourse A and Concourse B, thereby allowing the demolition of excess, less cost-efficient structures at the Airport. Pursuant to a December 2013 approval of the airline counterparties to the previous use agreement, in 2015 and 2014, utilizing operating revenues, funds were accumulated by the Airport for the demolition of certain structures at the Airport. The amounts collected for this purpose and remaining at December 31, 2017 and 2016 are restricted for use on the demolition of excess facilities and are recorded in the Demolition of Excess Facilities account group. During 2017 and 2016, $5,608 and $8,748, respectively, were expended for the costs of demolition. The allowable costs included demolition costs expensed as well as those costs capitalized as part of capital projects due to being necessitated by these projects.

Bond Interest & Redemption account group- restricted: Pursuant to the requirements of the Airport's bond resolutions, the Bond Interest & Redemption account group is maintained to hold and account for contributions from the Operations and Maintenance account group for the debt service requirements of any outstanding bonds. From the Operations & Maintenance account group, debt service contributions in the amount of 1/6th of the next required interest payment and 1/12th of the next maturing principal are made to the Bond Interest and Redemption account group on a monthly basis. During 2017 and 2016, all required debt service contributions to the Bond Interest and

(in thousands of dollars)

Redemption Account were made in full. Assets included in the Bond Interest and Redemption account group are restricted for the payment of bond principal and interest.

The FAA's approvals of three of the Airport's PFC applications authorized the use of PFCs for the debt service requirements and related costs of revenue bonds ("PFC Bonds") issued to finance the projects included in those applications. The revenue bond resolutions which authorized the issuance of the PFC Bonds ("PFC Bond Resolutions") created the PFC Revenue Account (within the Operations and Maintenance account group), the PFC Interest and Redemption Account (within the Bond Interest and Redemption account group) and the PFC Bond Reserve Account (within the Bond Reserve account group). The bond resolutions provide that, through December 31, 2020, the Board must, from the Passenger Facility Charge account group, transfer to the PFC Revenue Account PFCs equal to 125% of the principal and interest requirements on the PFC Bonds. Upon transfer to the PFC Revenue Account within the Operations and Maintenance account group, these amounts are restricted for the payment of the principal and interest requirements of the PFC Bonds and any required transfers to the Bond Reserve account group. Subsequent to 2020, the Board may, but is not required to, transfer PFCs for the debt service and coverage requirements of the PFC Bonds. Any debt service requirements of the PFC Bonds for which the Board elects to not use PFCs will be paid from operating revenues of the Airport, which are pledged as security for the PFC Bonds. During 2017, the amounts of $1,985, $2,307, $1,073 were transferred from the Passenger Facility Charge account group for the principal, interest and debt service coverage requirements, respectively. During 2016, the amounts transferred for principal, interest and debt service coverage were $2,190, $2,845 and $1,258, respectively. Pursuant to the bond resolutions, at December 31, 2017 and 2016, the $1,073 and $1,258, respectively, of debt service coverage were returned to the Passenger Facility Charge account group. At December 31, 2017 and 2016, all outstanding bonds were PFC Bonds.

Bond Reserve account group- restricted: Pursuant to the requirements of the Airport's bond resolutions, the Airport must hold in the Bond Reserve account group an amount at least equal to the maximum principal and interest due on outstanding bonds in any succeeding year. Upon use of funds that results in a deficiency in the balance on hand, the Airport is required to replenish the asset balance in twelve equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed to fund operations and maintenance expenses or debt service. However, if the series of bonds for which the associated reserve is deficient are payable from PFCs, the deficiency may also be cured using funds from the Passenger Facility Charge account group. At December 31, 2017 and 2016, the required balances in the Bond Reserve were $4,241 and $4,252, respectively, while the asset balances were $4,303 and $4,282, respectively. No funds from the Operations and Maintenance Reserve account group were used during 2017 and 2016. Assets included in the Bond Reserve account group are restricted for the payment of bond principal and interest.

Other Third Party Funding account group- restricted: Assets held in the Other Third Party Funding account group are restricted for use on expenditures as contractually obligated by the outside parties from which the funding is obtained.

Cash and Investments

As more fully discussed in Note 2, the Board's cash and investments are governed by Kentucky Revised Statutes ("KRS") and the Board's Investment Policy, which was adopted on January 17,

(in thousands of dollars)

2005 and last amended on May 15, 2017. Investments are stated at their fair values based on market values quoted at December 31, 2017 and 2016.

The following items, to the extent that they are experienced during the reporting period, are included as components of investment income: 1) interest earnings, 2) amortization of premiums and accretion of discounts, 3) unrealized gains and losses due to recording investments at fair value and 4) realized gains and losses due to sale or impairment of investments.

Accounts Receivable
The Board's receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on an analysis of past due amounts that are not covered by security deposits or letters of credit. When continued collection activity results in receipts of amounts previously reserved, revenue is recognized in the period collected.

Prepaid Expenses and Supplies Inventory
Prepaid expenses consist primarily of insurance, employee benefits and any other expenditures expected to benefit future periods. Supplies inventory, which is reported at average cost, primarily consists of bulk materials used for snow removal, fuel, and materials or parts to be used for maintenance and repair or otherwise in support of airport operations.

Airport Facilities
Additions and replacements to Airport facilities with costs greater than $50 are carried as assets in the Net Investment in Capital Assets account group. Those with costs less than $50 are typically replaced every three to five years and are recorded as operating expenses. For assets with costs in excess of $50, depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, generally ranging from three to forty years, and is recognized as a component of operating expenses and a direct reduction of the Net Investment in Capital Assets net position. The cost of assets retired, as well as any related accumulated depreciation, is removed from the related accounts. The net of these amounts, less any proceeds received from disposition, is transferred to the Designated for Capital Projects unrestricted net position.

Avigation easements, when the fully-executed documentation has been obtained, are recorded at the amount incurred by the Airport to obtain such easements.

Pursuant to certain agreements between the Board and tenants of the Airport, facilities constructed by or on behalf of a tenant on property leased from the Airport are not reflected as assets of the Airport until such time as the Board assumes the risks and rights of ownership. Upon transfer of the risks and rights of ownership to the Board, the appraised fair market value of such reverted property is recorded as a capital asset and credited to the Net Investment in Capital Assets net position.

Repairs and maintenance which do not substantially increase the capacity, improve the operational efficiency, increase the value or extend the useful lives of Airport assets are expensed.

Interest During Construction
Interest costs incurred during construction of qualifying projects, rather than being recorded as interest expense, are capitalized as a cost of the assets which result from the projects. Capitalized

(in thousands of dollars)

interest consists of interest cost at the average borrowing rate on the Airport's outstanding debt in excess of the investment income on investments acquired with the proceeds of borrowings.

Capital Contributions
Capital contributions consist primarily of grants from federal and state governmental agencies, contributions to capital project costs from airlines and other tenants, and the appraised value of leased facilities where the ownership has reverted to the Airport. The Airport recognizes contributions as earned as related project costs are incurred. As discussed above, facilities that have reverted to the Board are recorded at fair value upon reversion of ownership.

Deferred Outflows/Inflows of Resources
Deferred outflows of resources represent the consumption of net position that will be recognized in a future reporting period. As such, they have a current positive effect on net position, similar to assets. Deferred inflows of resources represent an acquisition of net position that will be recognized in a future reporting period. As such, they have a current negative effect on net position, similar to liabilities.

Compensated Absences
Employees accrue vacation leave based on amounts of regularly scheduled work hours and length of service. Employees can accumulate up to 30 days of vacation time and are paid for all accumulated vacation time upon separation of employment for any reason. All accumulated vacation time is accrued and included in the current and noncurrent portions of the liabilities in accrued expenses (see Note 6).

Sick leave is earned by employees at the rate of one day per month of service, with the maximum accumulation for each employee being 60 days of sick leave. Employees are paid for all accumulated sick time upon retirement from the Airport, death or other employment separation when eligible for retirement. Accumulated sick leave is accrued when an employee's age and/or years of service are within five years of the minimum age or years of service required for retirement under the provisions of the pension plans in which the Airport's employees participate (see Note 9). Accumulated sick leave is accrued and included in the current and noncurrent portion of the liabilities in accrued expenses (see Note 6).

Bond Issuance Costs and Bond Discounts and Premiums
Bond issuance costs (excluding prepaid bond insurance, if any) are expensed at the time of bond issuance. Bond discounts and premiums are deferred in the year of issuance and amortized using the effective interest method over the life of the issuance. Gains and losses on bond refundings are deferred and amortized over the shorter of the remaining life of the original issue or the life of the new issue.

Assets Held in Trust
Amounts received from and restricted by outside parties for the accomplishment of certain projects are considered to be earned upon completion of the projects or the satisfaction of the parameters set forth in the authoritative documents. Until earned, the amounts received are considered to be liabilities, which are reflected on the Balance Sheet as assets held in trust.

(in thousands of dollars)

Grants and Federal Awards
Grant and federal award revenues include amounts received from governmental agencies through various types of agreements. Certain amounts included from federal agencies are subject to the reporting requirements of the U.S. Office of Management and Budget Uniform Guidance.

Grant and federal award reimbursements are earned and recorded when approved grants and agreements are available, the amounts are known and the related eligible expenditures are incurred. Grant and award amounts earned relating to capital expenditures are recorded as capital contributions and are credited to the Net Investment in Capital Assets net position. Amounts earned relating to operating expenses are recorded as nonoperating grant and federal award revenues in the Operations & Maintenance account group.

Net Pension Liability
All full-time employees of the Airport as of December 31, 2017 and 2016 are members of the Kentucky Retirement Systems' County Employees Retirement System ("CERS"), a cost-sharing multiple-employer defined benefit pension system (more fully described in Note 9). For purposes of measuring the net pension liabilities, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the CERS and additions to/deductions from the CERS' fiduciary net position have been determined on the same basis as they are reported by the CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized by the CERS when due and payable in accordance with the benefit terms and investments are reported at fair value.

Use of Estimates
The preparation of financial statements in conformity with the basis of accounting described in these notes requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications
Certain balances in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

2. Cash and Investments

The investing of Airport funds is done in compliance with the Airport's investment policy (the "policy"), such policy being in accordance with the Kentucky Revised Statutes ("KRS") and the applicable provisions of the bond resolutions in effect. The policy expressly establishes the preservation of capital through the minimization of credit risk and the maintaining of sufficient liquidity to be the primary and secondary objectives, respectively, of the Airport's investment program. The policy was designed specifically to address those risks inherent in an investment program. Those risks, as outlined in GASB Statement No. 40, consist of: 1) credit risk including custodial credit risk and concentration of credit risk and 2) interest rate risk.

(in thousands of dollars)

GASB Statement No. 40
GASB Statement No. 40 defines the following types of risk which apply to the Airport's investment portfolio:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Provisions of the Policy
To substantially reduce the likelihood of significant loss related to these items of risk, the policy sets forth parameters related to the types of investments which may be purchased, the credit quality of issuers, portfolio diversification as it relates to both type of investment and issuer, the maximum investment term/maturity, proper safekeeping and custody procedures, and the amounts and types of required collateralization.

Types of investments and credit quality of issuers: In addition to collateralized/insured deposits in interest-bearing accounts and certificates of deposit, the policy permits investment in U.S. Treasury obligations and other obligations backed by the full faith and credit of the United States (collectively, "U.S. Treasury securities"). Investments in securities issued by certain associations and corporations established by the government of the United States ("U.S. government sponsored enterprises") are also allowed. Such investments are permitted provided that at the time of purchase, the corporation is rated by at least one Nationally Recognized Statistical Rating Organization ("NRSRO") at the greater of "AA" or the highest current NRSRO rating on U.S. Treasury obligations. Subject to restrictions on maturities and requirements for minimum ratings by the NRSROs of "AA" or "AAA" on long-term instruments and "A-1" on short-term instruments, the policy also permits investment in certain repurchase agreements, uncollateralized certificates of deposit, banker acceptances, commercial paper, state and municipal obligations, money market mutual funds and supranational bonds.

Portfolio diversification: To eliminate the risk of a significant loss from an over concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer, the policy establishes maximum percentages of the Airport's portfolio which may be invested in each type of permitted investment and in securities by any individual issuer, counterparty or depository.

(in thousands of dollars)

The limits related to portfolio diversification are as follows:

	Maximum Allowable % of Portfolio	
	Investment Type	**Individual issuer, counterparty or depository**
Investment Types		
U.S. Treasury securities	100%	100%
U.S. government sponsored enterprises	100%	35%
Repurchase agreements	50%	25%
Supranational bonds	10%	5%
Commercial paper	20%	5%
Bankers acceptances	20%	5%
Collateralized/insured certificates of deposit	25%	5%
Collateralized/insured deposit accounts	100%	40%
Uncollateralized certificates of deposit	20%	5%
State and municipal obligations	20%	5%
Money market mutual funds	100%	50%

Maximum investment term/maturity: The policy provides that, unless matched to a specific cash flow need, the Airport's funds should not, in general, be invested in securities maturing more than three years from the date of purchase. However, in accordance with the Airport's bond resolutions, provided that the average aggregate weighted term to maturity for the Bond Reserve Accounts does not exceed five years, funds in the Bond Reserve Accounts may be invested in securities that mature or are redeemable within five years from the date of purchase.

Safekeeping and custody procedures: To ensure proper safekeeping and control over investment assets, investment securities are required to be secured through third-party custody and safekeeping procedures. To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all security transactions are required to be conducted on a delivery-versus-payment basis.

Collateralization: For the purpose of protecting balances deposited in financial institutions, as outlined in the table above, the policy establishes a limit for the amount which may be deposited in any single institution. In addition, the policy requires all cash and other deposits maintained in any financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") to be collateralized. The instruments permitted to be used as collateral for deposits consist of U.S. Treasury securities, securities issued by U.S. government sponsored enterprises and direct obligations of the Commonwealth of Kentucky, as well as those of certain of its agencies and instrumentalities. Except for deposits collateralized with a Federal Home Loan Bank Letter of Credit, deposits must be collateralized at a minimum of 102% of the market value of principal plus accrued interest. As provided by KRS Section 41.240(4), amounts collateralized with a Federal Home Loan Bank Letter of Credit may be collateralized at 100%. All securities pledged as collateral are required to be held by an independent third-party custodian.

The policy also requires that the Board's portfolio remain sufficiently liquid to enable the Airport to meet all cash flow requirements. As set forth in the policy, this is accomplished by the proper structuring of investment maturities and by investing in securities permitted by the policy, such securities having active secondary or resale markets.

(in thousands of dollars)

Cash and Investments Held

At December 31, 2017 and 2016, the Airport's cash and investments were comprised of the following:

	2017		2016	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash	$ 11,345	$ 11,345	$ 6,722	$ 6,722
Investments				
Investment in money market mutual funds				
First American Government Obligation Fund	$ 28,594	$ 28,594	$ 26,089	$ 26,089
Securities				
U.S Treasury	49,447	49,163	61,970	61,319
U.S. government sponsored enterprises	121,015	120,164	102,973	102,558
Commercial paper	52,775	53,024	47,643	47,802
Total investments	$ 251,831	$ 250,945	$ 238,675	$ 237,768

In the above table, the cost of securities includes the face value of the investments combined with any premiums and discounts at purchase.

Cash deposits are maintained at the Airport's depository bank in demand deposit accounts. Accounts other than the Bond Reserve and Bond Interest and Redemption Accounts are non-interest bearing and are fully collateralized by a letter of credit issued and held in the Airport's name by the Federal Home Loan Bank of Cincinnati. The Bond Reserve and Bond Interest and Redemption Accounts are interest bearing. Collateral for amounts deposited in these accounts in excess of amounts insured by the FDIC is pledged by the depository bank and held in safe-keeping by the Federal Reserve Bank in the Airport's name. At December 31, 2017 and 2016 such collateral was comprised of U.S. Treasury securities and securities issued by certain U.S. government sponsored enterprises. At December 31, 2017 and 2016 the collateral instruments had a combined market value of $20,505 and $13,299, respectively.

The First American Government Obligation Fund is a money market fund which invests primarily in direct obligations of the U.S. Treasury and U.S. government sponsored enterprises and in other securities collateralized by such obligations. The Airport's investments in this fund are maintained by the Trust Department of the Airport's custodial bank in the name of the Kenton County Airport Board.

The U.S. Treasury securities in which the Airport invests are direct obligations of the U.S. Treasury and are unconditionally backed by the full faith and credit of the United States government. The Airport's investment in U.S. government sponsored enterprise securities at December 31, 2017 and 2016, as permitted by the policy, consisted of instruments issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. All securities in which the Airport was invested were held in the Airport's name by the Trust Department of the Airport's custodial bank.

(in thousands of dollars)

The commercial paper instruments in which the Airport was invested at December 31, 2017 and 2016 were unsecured short-term financing obligations issued by corporations or banks. In accordance with the requirements of the policy, these instruments had maturities of no greater than 270 days, the amount invested in any single issuing corporation did not exceed five percent (5%) of the total amount of funds invested by the Board (based on book value on the date of acquisition), and the instruments were issued by corporations with individual net worths of at least $50,000 and short-term debt ratings of no less than "A-1" (or its equivalent) by at least two NRSROs. The commercial paper held at December 31, 2017 and/or December 31, 2016 consisted of instruments issued by Bank of Montreal, Bank of Tokyo-Mitsubishi Canadian Imperial Bank Holding Co., BNP Paribas Financial Inc., Credit Agricole Corporate and Investment Bank, ING "U.S." Funding LLC, JP Morgan Securities and Toyota Motor Credit Co. All obligations in which the Airport was invested were held in the Airport's name by the Trust Department of the Airport's custodial bank.

The maturities of investments held at December 31, 2017 and 2016 were as follows:

	2017 Investment Maturities (at fair value)					
Investment Type	**1-3 months**	**4-6 months**	**7-9 months**	**10-12 months**	**13 -36 months**	**Total**
Investment in money market mutual funds						
First American Government Obligation Fund	$ 28,594	$ -	$ -	$ -	$ -	$ 28,594
Securities						
U.S. Treasury	14,768	15,872	1,489	9,609	7,425	49,163
U.S. government sponsored enterprises	13,446	4,977	15,717	3,959	82,065	120,164
Commercial paper	28,050	14,605	10,369	-	-	53,024
Total	$ 84,858	$ 35,454	$ 27,575	$ 13,568	$ 89,490	$ 250,945

	2016 Investment Maturities (at fair value)					
Investment Type	**1-3 months**	**4-6 months**	**7-9 months**	**10-12 months**	**13 -36 months**	**Total**
Investment in money market mutual funds						
First American Government Obligation Fund	$ 26,089	$ -	$ -	$ -	$ -	$ 26,089
Securities						
U.S. Treasury	22,111	13,093	9,453	2,390	14,272	61,319
U.S. government sponsored enterprises	2,502	17,331	4,989	13,978	63,758	102,558
Commercial paper	17,479	19,908	10,415	-	-	47,802
Total	$ 68,181	$ 50,332	$ 24,857	$ 16,368	$ 78,030	$ 237,768

All securities held by the Airport at December 31, 2017 and 2016 carried ratings of AAA/Aaa or their equivalents, the highest quality rating strata issued by the NRSROs.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same, which is to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between

(in thousands of dollars)

market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following tables show the fair value and the fair value measurements for the Airport's investments, subject to the provisions of GASB No. 72, at December 31, 2017 and 2016:

	2017 Investments Measured at Fair Value			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investment in money market mutual funds				
First American Government				
Obligation Fund	$ 28,594	$ -	$ 28,594	$ -
Securities				
U.S Treasury	49,163	49,163	-	-
U.S. government sponsored				
enterprises	120,164	-	120,164	-
Commercial paper	53,024	-	53,024	-
Total investments	$ 250,945	$ 49,163	$ 201,782	$ -

	2016 Investments Measured at Fair Value			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investment in money market mutual funds				
First American Government				
Obligation Fund	$ 26,089	$ -	$ 26,089	$ -
Securities				
U.S Treasury	61,319	61,319	-	-
U.S. government sponsored				
enterprises	102,558	-	102,558	-
Commercial paper	47,802	-	47,802	-
Total investments	$ 237,768	$ 61,319	$ 176,449	$ -

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy, are as follows:

First American Government Obligations Funds: Invests exclusively in short-term U.S. government securities, including repurchase agreements secured by U.S. government securities. The fund is not publicly traded. Fair value is based on published fair value per share (unit).

(in thousands of dollars)

U.S. Treasuries: Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. government sponsored enterprises: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Commercial paper: Valued using pricing models maximizing the use of observable inputs for similar securities.

3. Restricted Assets

The assets of the following account groups at December 31, 2017 and 2016 are subject to restrictions which limit the purposes for which they may be used:

	2017	2016
Passenger Facility Charge	$ 72,106	$ 59,787
Police Forfeiture	2,138	1,965
Customer Facility Charge	51,750	44,961
Operations & Maintenance Reserve	19,523	18,796
Demolition of Excess Facilities	5,465	6,086
Bond Interest & Redemption	1	-
Bond Reserve	4,303	4,282
Other Third Party Funding	22	62
	$ 155,308	$ 135,939

As previously discussed in Note 1, assets included in the Passenger Facility Charge account group are federally restricted for use on specific FAA approved projects. As applicable, assets in the Police Forfeiture account group are restricted by the federal government or the Commonwealth of Kentucky for expenditures allowable under the Equitable Sharing Programs of the U.S. Department of Justice, the U.S. Department of Treasury, and the Commonwealth of Kentucky. Customer Facility Charge assets, being subject to legally enforceable restrictions, may only be used for ground transportation related expenditures. In accordance with the Airport's bond resolutions, assets in the Operations and Maintenance Reserve may only be used to finance operating expenditures, when sufficient funds are not otherwise available in the Operations and Maintenance account group or from other available funding sources. In accordance with a contractual obligation with the tenant airlines, assets included in the Demolition of Excess Facilities account group are restricted to fund the demolition of excess facilities at the airport. Also pursuant to the requirements of the Airport's bond resolutions, assets included in the Bond Reserve and the Bond Interest and Redemption account groups are restricted for the payment of bond principal and interest. Assets held in the Other Third Party Funding account group are restricted for use on expenditures as contractually obligated by the outside parties from which the funding was received.

(in thousands of dollars)

4. Capital Assets

Capital assets are comprised of the following:

	Balance 12/31/2015	Additions/ transfers	Retirements/ transfers	Balance 12/31/2016	Additions/ transfers	Retirements/ transfers	Balance 12/31/2017
Land (non-depreciable)	$ 167,627	$ 982	$ -	$ 168,609	$ 324	$ (98)	$ 168,835
Runways, taxiways							
and other land improvements	661,919	3,419	-	665,338	13,372	(4)	678,706
Buildings and building renovations	374,394	11,657	(20,095)	365,956	1,776	4	367,736
Utility systems	85,004	632	-	85,636	4,834	-	90,470
Equipment	127,755	5,911	(247)	133,419	8,014	(1,312)	140,121
Easements (non-depreciable)	40,729	2	-	40,731	17	-	40,748
Construction-in-progress	5,962	7,890	(10,034)	3,818	34,282	(26,991)	11,109
Total capital assets	1,463,390	30,493	(30,376)	1,463,507	62,619	(28,401)	1,497,725
Less accumulated depreciation							
Runways, taxiways							
and other land improvements	444,344	22,955	(23)	467,276	22,089	-	489,365
Buildings and building renovations	144,777	11,225	(20,095)	135,907	11,220	-	147,127
Utility systems	62,323	3,001	-	65,324	2,696	-	68,020
Equipment	74,235	6,342	(187)	80,390	6,725	(1,312)	85,803
Total accumulated depreciation	725,679	43,523	(20,305)	748,897	42,730	(1,312)	790,315
Total capital assets, net of							
accumulated depreciation	$ 737,711	$ (13,030)	$ (10,071)	$ 714,610	$ 19,889	$ (27,089)	$ 707,410
Total non-depreciable capital assets	$ 208,356	$ 984	$ -	$ 209,340	$ 341	$ (98)	$ 209,583
Total depreciable capital assets, net of							
accumulated depreciation	529,355	(14,014)	(10,071)	505,270	19,548	(26,991)	497,827
Total capital assets, net of							
accumulated depreciation	$ 737,711	$ (13,030)	$ (10,071)	$ 714,610	$ 19,889	$ (27,089)	$ 707,410

Capital assets purchased are reported at cost. Easements are acquired and attached in perpetuity to the deeds of certain parcels purchased and/or sound insulated in the Airport's land and noise mitigation programs. Accordingly, the costs of obtaining these easements are recorded as land until such time as the easement documents are executed. Thereafter, the costs are transferred and recorded as easements. Those assets acquired through donation or contractual reversion of ownership are reported at the fair value determined at the time of ownership transfer. The costs of construction projects are recorded as construction-in-process until such time as the projects are substantially complete. Upon substantial completion, the costs are transferred to the appropriate fixed asset classification as shown in the above table. Related to construction-in-process and capital assets, the Airport had contract retainage and accounts payable of $7,249 and $2,061 at December 31, 2017 and 2016, respectively.

(in thousands of dollars)

Useful Lives
The Airport's capital assets are depreciated over useful lives as follows:

	Years
Runways, taxiways and other land improvements	15 - 31.5
Buildings	25 - 40
Building improvements and renovations	10 - 20
Utility systems	20 - 40
Equipment	3 - 30

Substantially all capital assets of the Airport are held for direct or indirect utilization in the Airport's principal activities of leasing land, buildings and airfield facilities to third party lessees.

5. Lease of Airport Facilities

Airport facilities are leased to third parties to serve the public through the operation of airline terminal and airfield facilities, as well as through concession and warehousing operations.

The concession agreements generally provide for the Airport's receipt of fixed rentals plus certain contingent rentals which are based on the tenants' gross revenues. Contingent rentals amounted to $11,068 and $9,508 for the years ended December 31, 2017 and 2016, respectively.

For the years 2018, 2019, 2020, 2021 and 2022, minimum future rentals for noncancelable leases (other than noncancelable rentals charged to the Signatory Carriers under the Use Agreement and other long-term terminal facility leases) are $8,042, $6,805, $6,489, $5,048 and $3,969, respectively.

For the years 2018, 2019 and 2020, prior to adjustment in the Signatory Carrier rates and charges through the calculation method outlined in Note 1, noncancelable rentals under the Use Agreement (exclusive of landing fees) and other long-term terminal facility leases pertaining to the Signatory Carriers are projected to be $30,552, $30,288 and $30,523, respectively. As outlined in Note 1, these amounts will likely be reduced based on projected, and then actual, air carrier activity, Airport cost of operation, and applicable revenues during those periods. For the years 2017 and 2016, the gross amounts of revenues related to Signatory Carrier noncancelable leases were $27,882 and $25,638, respectively. The net amounts for 2017 and 2016 were $15,046 and $14,404, respectively. As the Use Agreement and other long-term terminal facility leases expire on December 31, 2020, as of December 31, 2017 and 2016, no amount of Signatory Carrier noncancelable rentals exists for 2021 or 2022. Such amounts will be determined upon execution of a new Use Agreement and facility rental agreements, or upon the implementation of such other rate making methodology permitted under applicable law, to become effective January 1, 2021.

(in thousands of dollars)

6. Long-Term Liabilities

During 2017 and 2016 the Airport's long-term liabilities and related activity consisted of the following:

Revenue Bonds
The following revenue bonds were outstanding at December 31, 2017 and 2016. The maturities occur on January 1 of each year.

	2017	2016
Series 2016 Refunding Bonds, 4.00% to 5.00%, due 2019-2033	$ 44,550	$ 46,535

In June 2016, the Board issued $47,785 of Series 2016 refunding bonds, the proceeds of which were used to refund the Series 2003B Bonds. The Board refunded the previously outstanding indebtedness to reduce its total debt service payments throughout the term of the bonds and to provide for the enactment of updated bond resolutions which include provisions more consistent with the new Use Agreement. The total reduction in debt service payments of $13,088 represented a net present value savings at the time of issuance of $9,638.

The refunding bonds, which bear fixed interest rates, were issued under the terms of both a general bond resolution and a resolution specific to the Series 2016 refunding bonds. In accordance with the applicable bond resolutions, the bonds are secured by the operating revenues of the Airport and by amounts on deposit in the PFC Revenue Account. As the Series 2016 Refunding Bonds were issued for the defeasance of the Series 2003B Bonds, which were issued to fund the cost of specific PFC eligible, FAA approved projects, the debt service requirements of the Series 2016 Refunding Bonds, including any debt service coverage or required deposits to the Bond Reserve account group, are authorized by the FAA to be paid with PFCs (see Note 1).

The Series 2016 Refunding Bonds were issued at a premium of $9,566, which is being amortized over the life of the bonds, based on the effective interest method, as a reduction of bond interest expense. The amortization of the bond premium subsequent to December 31, 2017 is as follows:

2018	$ 1,010
2019	947
2020	884
2021	750
2022	750
2023-2027	2,659
2028-2032	988
	$ 7,988

(in thousands of dollars)

The required funding of bond principal and interest subsequent to December 31, 2017 is as follows:

	Principal	Interest	Total Debt Service
2018	$ 2,065	$ 2,227	$ 4,292
2019	2,165	2,124	4,289
2020	2,280	2,016	4,296
2021	2,390	1,902	4,292
2022	2,510	1,782	4,292
2023-2027	14,560	6,901	21,461
2028-2032	18,580	2,879	21,459
	$ 44,550	$ 19,831	$ 64,381

At December 31, 2017 and 2016, the current and non-current portions of revenue bonds payable as shown above have been combined with the current and non-current portions of the unamortized bond premium for presentation on the Balance Sheet. The current amounts of revenue bonds payable, inclusive of unamortized bond premium, at December 31, 2017 and 2016 were $3,075 and $3,037, respectively. The non-current portions at December 31, 2017 and 2016 were $49,463 and $52,538, respectively.

For the years ended December 31, 2017 and 2016, interest expense on outstanding revenue bonds was $2,307 and $1,636, respectively, and the amortization of bond premium was $1,052 and $506, respectively. On the Statement of Revenues, Expenses and Changes in Net Position these amounts have been combined and presented as $1,255 and $1,130 of revenue bond interest expense, net of premium amortization, at December 31, 2017 and 2016, respectively.

Other Long-Term Liabilities

At December 31, 2017, the Airport's other liabilities which have portions due after one year consisted of rental deposits, compensated absences, estimated amounts potentially due for incidents not covered by commercial insurance, estimated amounts due under a frequent parking rewards program, landing fees in excess of requirements from the prior use agreement, rates and charges settlement payable to the airlines and the Airport's assigned proportionate share of net pension liability from its participation in the pension plans discussed in Note 9. Amounts related to these liabilities are shown below.

(in thousands of dollars)

Long-Term Liability Activity

For the year ended December 31, 2017 and 2016, components of the Airport's liabilities which had non-current activity or balances were as follows:

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Amounts Due within One Year	Amounts Due after One Year
Accounts payable and accrued expenses						
Deposits	$ 96	$ 250	$ (90)	$ 256	$ 63	$ 193
Compensated absences	3,442	1,704	(1,563)	3,583	2,472	1,111
Uninsured losses	24	117	(119)	22	2	20
Parking rewards	561	148	(13)	696	516	180
Landing fees in excess of requirements from the prior use agreement	242	-	-	242	-	242
Rates and charges settlement payable to airlines	4,484	4,848	-	9,332	-	9,332
Revenue bonds payable	46,535	-	(1,985)	44,550	2,065	42,485
Revenue bond premium	9,040	-	(1,052)	7,988	1,010	6,978
Net pension liability	58,295	16,808	-	75,103	-	75,103
	$ 122,719	$ 23,875	$ (4,822)	$ 141,772	$ 6,128	$ 135,644

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amounts Due within One Year	Amounts Due after One Year
Accounts payable and accrued expenses						
Deposits	$ 90	$ 89	$ (83)	$ 96	$ 55	$ 41
Compensated absences	2,935	1,055	(548)	3,442	2,295	1,147
Uninsured losses	31	185	(192)	24	4	20
Parking rewards	487	84	(10)	561	373	188
Landing fees in excess of requirements from the prior use agreement	242	-	-	242	-	242
Rates and charges settlement payable to airlines	-	4,484	-	4,484	-	4,484
Revenue bonds payable	58,590	47,785	(59,840)	46,535	1,985	44,550
Revenue bond premium	-	9,566	(526)	9,040	1,052	7,988
Net pension liability	50,810	7,485	-	58,295	-	58,295
	$ 113,185	$ 70,733	$ (61,199)	$ 122,719	$ 5,764	$ 116,955

(in thousands of dollars)

7. Special Facility Revenue Bonds

Special Facility Revenue Bonds ("SFRBs") Series 2001A totaling $22,500 were issued in July 2001 to finance the construction of a pilot training facility for FlightSafety International, Inc. ("FlightSafety"). Although taking the legal form of a financing lease between the Board and FlightSafety, the substance of the arrangement is that the SFRBs constitute special and limited obligations and do not constitute a debt, liability or general obligation of the Board or a pledge of Airport revenues. As such, no liability relating to the SFRBs is included in the accompanying financial statements. Information related to the amounts outstanding on the SFRBs is not readily available to management of the Airport. For additional information regarding the SRFBs, readers should contact FlightSafety.

8. Major Lessees

In 2017, the operating revenues received from Delta Airlines, Inc. ("Delta") and DHL Worldwide Express, Inc. ("DHL"), represented approximately 19.59% and 9.36%, respectively, of total operating revenues. The comparable amounts for 2016 for Delta and DHL were 21.41% and 11.01%, respectively.

Landing fees received from Delta and DHL in 2017 represented 20.85% and 42.76%, respectively, of total billed landing fees. The comparable amounts for 2016 for Delta and DHL were 24.99% and 48.42%, respectively.

9. Retirement Plans and Post Retirement Benefits

Defined Benefit Pension Plans
All full-time employees of the Airport are members of the Kentucky Retirement Systems' County Employees Retirement System, a cost-sharing multiple-employer defined benefit pension system consisting of two employee plans, Nonhazardous and Hazardous. The plan in which employees participate is determined by the type of position held by the employee.

General Information about the Pension Plan

Plan Description
Created by the Kentucky General Assembly pursuant to the provisions of KRS Section 78.520, the assets of CERS, in addition to the assets of the Kentucky Employers Retirement System ("KERS") and the State Police Retirement System ("SPRS"), collectively referred to as the System ("System"), are administered by the Kentucky Retirement System Board of Trustees ("KRS Board"). In accordance with the provisions of KRS Sections 16.555, 61.570, and 78.630, the assets of the System are invested as a whole, while each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs.

Under the provisions of KRS Section 61.701, the KRS Board also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the System. The assets of the insurance fund are invested as a whole.

(in thousands of dollars)

Benefits provided: Nonhazardous

	Tier 1 Nonhazardous Participation beginning prior to 9/1/2008	Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Nonhazardous Participation beginning on or after 01/01/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceding retirement; Each year must contain 12 months.	No final compensation factor
Benefit Factor:	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment:	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 1 month of service.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service.
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

(in thousands of dollars)

Benefits provided: Hazardous

	Tier 1 Hazardous Participation beginning prior to 9/1/2008	Tier 2 Hazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Hazardous Participation beginning on or after 01/01/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 3 fiscal years (must contain at least 24 months and a minimum of 3 fiscal years)	Average of the highest 3 fiscal years; Each year must contain 12 months.	No final compensation factor
Benefit Factor:	2.50% if 60 months or greater, 2.00% if less than 60 months	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. Additional years above 25 = 2.50% (2.50% benefit factor only applies to service earned in excess of 25 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS board based on member's accumulated account balance.
Cost of Living Adjustment:	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 1 month of service.	Any age with 25 years of service. Age 60 with 5 years of service.	Any age with 25 years of service. Age 60 with 5 years of service.
Reduced Retirement Benefit:	Age 50 with 15 years of service but less than 20 years of service.	Age 50 with 15 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

Contributions

Employer contribution rates are governed by KRS Section 61.565 and require the Airport to contribute at an actuarially determined rate. The KRS Board sets the employer contribution rates on the basis of this annual actuarial valuation last preceding the July 1 of a new biennium. If it is determined on the new basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted, then the KRS Board may amend contribution rates as of the first day of July of the second year of a biennium.

Employee contributions are deducted from an active employee's salary and remitted to the CERS by the Airport along with the employer's portion of the contribution.

(in thousands of dollars)

The Airport has met 100% of its contribution funding requirements for the plan fiscal years ended June 30, 2017 and June 30, 2016.

The contribution rates in effect and contributions remitted relating to the CERS and the CERS portion of the Insurance Fund for the fiscal year ended December 31, 2017 were as follows:

	CERS		CERS Portion of Insurance Fund	
	Non Hazardous	Hazardous	Non Hazardous	Hazardous
Employee Contribution rates:				
Tier 1 : Participation prior to 9/1/2008	5.00%	8.00%		
Tier 2 : Participation 9/1/2008 through 12/31/2013	6.00%	9.00%		
Tier 3 : Participation after 1/1/2014	6.00%	9.00%		
Airport Contribution rates:				
July 1, 2017 - December 31, 2017	14.48%	22.20%	4.70%	9.35%
July 1, 2016 - June 30, 2017	13.95%	21.71%	4.73%	9.35%
July 1, 2015 - June 30, 2016	12.42%	20.26%	4.64%	12.69%
July 1, 2014 - June 30, 2015	12.75%	20.73%	4.92%	13.58%
Employee Contributions				
2017	$ 989	$ 660		
2016	$ 926	$ 602		
2015	$ 901	$ 605		
Airport Contributions				
2017	$ 2,591	$ 1,770	$ 859	$ 755
2016	$ 2,263	$ 1,546	$ 802	$ 798
2015	$ 2,140	$ 1,518	$ 813	$ 972
Amount of payroll on which employee and employer contributions were based				
2017	$ 18,215	$ 8,056	$ 18,215	$ 8,056
2016	$ 17,101	$ 7,346	$ 17,101	$ 7,346
2015	$ 17,014	$ 7,409	$ 17,014	$ 7,409
Contributions made by Airport and employees as a percentage of contributions required of of Airport and employees 2017, 2016, and 2015	100%	100%	100%	100%

(in thousands of dollars)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and December 31, 2016, the Airport reported a liability of $75,103 and $58,295, respectively, for its assigned proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. The Airport's proportion of the net pension liability was based on a projection of the Airport's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2017, and June 30, 2016, the Airport's proportionate shares of the CERS nonhazardous plan were 0.73166% and 0.70381%, respectively. At June 30, 2017, and June 30, 2016, the Airport's proportionate share of the CERS hazardous plan were 1.44268% and 1.37778%, respectively.

For CERS plan years ending June 30, 2017 and June 30, 2016, the Airport's proportionate shares of plan pension expense were $7,297 and $4,721, respectively, for nonhazardous and $5,156 and $2,676, respectively, for hazardous.

In May and July 2017, the KRS Board voted to change certain economic assumptions and actuarial rates for the CERS hazardous and nonhazardous plans. These changes of assumptions, net of other pension actuarial activities between June 30, 2016 and June 30, 2017, contributed to the year over year increase in the Airport's net pension liability. A summary of the adopted changes is as follows:

Description of Assumption	2017	2016
Assumed investment rate of return	6.25%	7.50%
Assumed rate of inflation	2.30%	3.25%
Payroll growth assumption	2.00%	4.00%

(in thousands of dollars)

At December 31, 2017 and December 31, 2016 the Airport reported deferred inflows and outflows directly related to the net pension liability recorded as a component of its proportionate share of net pension liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net
Deferred Outflows and Inflows at December 31, 2015	$ 8,376	$ (3,240)	$ 5,136
Prior year contributions subsequent to measurement date	$ (1,861)	$ -	$ (1,861)
Difference between expected and actual experience	(356)	-	(356)
Changes in assumptions	(2,588)	-	(2,588)
Net differences between projected and actual earnings on pension plan investments	4,774	810	5,584
Changes in proportion and differences between contributions and proportionate share of contributions	68	(31)	37
Contributions subsequent to measurement date	1,883	-	1,883
Deferred Outflows and Inflows at December 31, 2016	$ 10,296	$ (2,461)	$ 7,835
Prior year contributions subsequent to measurement date	$ (1,883)	$ -	$ (1,883)
Difference between expected and actual experience	886	(1,087)	(201)
Changes in assumptions	12,113	-	12,113
Net differences between projected and actual earnings on pension plan investments	336	(2,267)	(1,931)
Changes in proportion and differences between contributions and proportionate share of contributions	1,312	14	1,326
Contributions subsequent to measurement date	2,276	-	2,276
Deferred Outflows and Inflows at December 31, 2017	$ 25,336	$ (5,801)	$ 19,535

The $2,276 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in 2018, 2019, 2020, 2021 and 2022 in the amounts of $5,568, $5,568, $5,194, $1,510, and ($581) respectively.

Actuarial Assumptions
The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.00%, average, including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

(in thousands of dollars)

The mortality table used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again by the KRS Board's actuary when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations.

(a) Discount rate: The discount rate used to measure the total pension liability was 6.25%

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(c) Long term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

(d) Municipal bond rate: the discount rate determination does not use a municipal bond rate.

(e) Periods of projected benefit payments: projected future benefit payments for all current plan members were projected through 2117.

(in thousands of dollars)

(f) Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Eqvivalent	2%	(0.25)%
Total	100%	

(g) Sensitivity Analysis: The following presents the net pension liability of the Airport, calculated using the discount rate of percent, as well as what the Airport's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.25 percent) or one percentage point higher (7.25 percent) than the current rate for nonhazardous and hazardous:

Asset Class	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Airport's net pension liability - Nonhazardous	$ 54,013	$ 42,826	$ 33,468
Airport's net pension liability - Hazardous	40,582	32,277	25,418
Total	$ 94,595	$ 75,103	$ 58,886

Pension Plan Fiduciary Net Position

Detailed information about CERS' fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Comprehensive Annual Financial Report (which is a matter of public record). The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or can be obtained in an electronic format by visiting the website at www.kyret.ky.gov.

(in thousands of dollars)

Deferred Compensation Plans
The Airport's employees are also eligible to participate in two deferred compensation plans which are authorized under KRS Sections 18A.230 – 18A.275 and administered by the Kentucky Public Employees' Deferred Compensation Authority ("KDCA"). These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their compensation until future years. Deferred compensation is not available to employees until termination, retirement or death, or in certain circumstances of financial hardship. There were no employer contributions to the 457 or 401(k) plans for the years ended December 31, 2017 and 2016. Employee contributions in total were approximately $1,301 and $1,033, respectively, for the years ended December 31, 2017 and 2016.

Additional information about the deferred compensation plans may be obtained from the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862.

10. Self-funded Group Health Coverage

As previously discussed in Note 1, effective January 1, 2009, the Airport, by resolution of the Board, established an account group for all activities of the self-funded health coverages maintained for employees. By this resolution, the Airport assumed the risk financing of the health and dental coverages through self-funding of claims, subject to certain individual stop loss and group aggregate limits.

Commercially procured coverages assume any liabilities for claims which exceed the established limits. Third party administrators are utilized to manage the claims handling activities of the plans. Activities in the Designated for Group Health Coverage account group include contributions to the account, the payment of claims, the payment of fees and expenses, and the establishment and maintenance of reserves. Contributions to the account for the payment of claims, fees and expenses are made from the Operations and Maintenance account group and are recorded as operating expenses. Contributions to the account for the purposes of building reserves are recorded as transfers of net position from the General Purposes account group.

Any assets of the Designated for Group Health Coverage account group which are determined by the Airport's Chief Financial Officer to no longer be necessary for the self-funded health coverage programs are returned to the General Purposes account group, with a corresponding transfer of net position, in the period in which the determination is made.

(in thousands of dollars)

The changes in the balances of the claims liability and reserves in the Designated for Group Health Coverage account group consisted of the following:

		Claims Liability
Liability at January 1, 2016	$	427
Claims and changes in estimates for 2016		4,888
Claims paid in 2016		(4,921)
Changes in receivables related to claims		27
Liability at December 31, 2016	$	421
Claims and changes in estimates for 2017		5,302
Claims paid in 2017		(5,196)
Changes in receivables related to claims		(53)
Liability at December 31, 2017	$	474

		Reserve
Reserves at January 1, 2016	$	4,905
Contributions from Operations and Maintenance		4,637
Investment Income		39
Claims, premiums and fees incurred		(5,078)
Reserves at December 31, 2016	$	4,503
Contributions from Operations and Maintenance		5,537
Investment Income		18
Claims, premiums and fees incurred		(5,555)
Reserves at December 31, 2017	$	4,503

The Airport purchases both aggregate and specific stop loss coverage for the health insurance coverage. The specific stop loss insurance assumes the risk for claims on any individual covered by the plan. During 2017 and 2016, the individual stop loss coverage to which the Airport's claims liability was limited was $150. The aggregate insurance during 2017 and 2016 provided full coverage for aggregate claims in excess of 125% of expected claims amounts actuarially calculated by a third party. These amounts, given enrollment levels, limited total medical coverage risk financing by the Airport during 2017 and 2016 to approximately $5,371 and $4,362 each year, respectively.

11. Risk Management

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; general liability claims; and natural disasters. The Airport manages these risks through the purchase of commercial insurance.

(in thousands of dollars)

12. Commitments and Contingencies

At December 31, 2017, the Airport is committed, either through contracts or Board proceedings, to the eventual expenditure of approximately $20,805, which consists primarily of rehabilitation of existing facilities and additions to Airport facilities through construction activities. Of the total estimated costs, approximately $13,245 will be funded by federal grants, state grants, PFCs, CFCs and/or tenant funds, with the remainder to be funded by available capital funds.

Environmental Mitigation and Remediation
The Airport is currently investigating the causes and extent of fuel leakage discovered during 2017 in the soil around the Airport Rescue and Fire Fighting training facility located on the Airport. The Airport has contracted with a geotechnical and environmental investigation firm to determine the extent of the contamination and to develop and recommend a remediation action plan. At this time, the amount of any resulting remediation obligation or liability is not reasonably estimable. As such, in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, no amounts have been reflected in the financial statements. The Airport maintains pollution legal liability insurance which provides a $5,000 aggregate limit of liability inclusive of remediation expense for onsite new and pre-existing conditions subject to a $100 self-insured retention. The Airport currently believes that this level of insurance will be sufficient to cover any costs of remediation which will be required.

(in thousands of dollars)

Schedule of the Proportionate Share of the Net Pension Liability of the
Kentucky Retirement System's County Employees Retirement System
Last 10 years *
As of June 30

	2017	2016	2015	2014
Plan's total pension liability	$ 16,995,820	$ 14,791,127	$ 14,353,633	$ 13,061,349
Plan's fiduciary net position	$ 8,905,233	$ 8,151,573	$ 8,519,002	$ 8,615,148
Plan's net pension liability	$ 8,090,586	$ 6,639,554	$ 5,834,631	$ 4,446,200
Plan's fiduciary net position as a percentage of the total pension liability	52.40%	55.11%	59.35%	65.96%
Airport's proportionate share of the net pension liability	$ 75,103	$ 58,295	$ 50,810	$ 38,228
Airport's proportion of the net pension liability	0.9283%	0.8780%	0.8708%	0.8598%
Airport's covered payroll	$ 26,271	$ 24,447	$ 24,423	$ 22,641
Airport's proportionate share of the net pension liability as a percentage of its covered payroll	285.88%	238.45%	208.04%	168.84%

(in thousands of dollars)

Schedule of the Employer Contributions of the
Kentucky Retirement System's County Employees Retirement System
Last 10 years
As of December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution for pension	$ 4,361	$ 3,809	$ 3,658	$ 3,561	$ 3,455	$ 3,086	$ 2,700	$ 2,535	$ 2,157	$ 2,079
Airport's contributions in relation to the statutorily required contribution	(4,361)	(3,809)	(3,658)	(3,561)	(3,455)	(3,086)	(2,700)	(2,535)	(2,157)	(2,079)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Airport's covered payroll	$ 26,271	$ 24,447	$ 24,423	$ 22,641	$ 22,148	$ 21,500	$ 20,782	$ 21,441	$ 20,237	$ 21,023
Contributions as a percentage of the Airport's covered payroll	16.60%	15.58%	14.98%	15.73%	15.60%	14.35%	12.99%	11.82%	10.66%	9.89%

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Balance Sheet Information
December 31, 2017

(in thousands of dollars)

			Unrestricted Account Groups				
	Total	Eliminations	Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
Assets							
Current assets							
Cash - unrestricted	$ 7,597	$ -	$ 5,610	$ 1,328	$ 376	$ 138	$ 145
Cash - restricted	1,876	-	166	-	-	-	-
Investments (at fair value) - unrestricted	64,912	-	26,321	12,971	1,453	5,275	18,892
Investments (at fair value) - restricted	6,313	-	907	-	-	-	-
Investment income receivable	217	-	57	31	18	35	76
Accounts receivable	4,872	-	4,725	-	141	-	-
Interfund receivable	-	(22,115)	579	5,760	313	-	15,463
Grants and federal awards receivable	738	-	37	701	-	-	-
Prepaid expenses	1,294	-	1,293	-	1	-	-
Supplies inventory	4,166	-	4,166	-	-	-	-
Total current assets	91,985	(22,115)	43,861	20,791	2,302	5,448	34,576
Non-current assets							
Cash - restricted	1,872	-	-	-	-	-	-
Investments (at fair value) - unrestricted	38,450	-	4,957	4,934	2,675	4,536	21,348
Investments (at fair value) - restricted	141,270	-	-	-	-	-	-
Investment income receivable	426	-	-	-	-	-	-
Interfund receivable	-	(1,980)	-	-	-	-	-
Passenger facility charges receivable	1,973	-	-	-	-	-	-
Customer facility charges receivable	665	-	-	-	-	-	-
Prepaid expenses	177	-	177	-	-	-	-
Capital assets, non-depreciable	209,583	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	497,827	-	-	-	-	-	-
Total non-current assets	892,243	(1,980)	5,134	4,934	2,675	4,536	21,348
Total assets	$ 984,228	$ (24,095)	$ 48,995	$ 25,725	$ 4,977	$ 9,984	$ 55,924
Deferred Outflow of Resources							
Pension	$ 25,336	$ -	$ 25,336	$ -	$ -	$ -	$ -
Total deferred outflow of resources	$ 25,336	$ -	$ 25,336	$ -	$ -	$ -	$ -
Total assets and deferred outflow of resources	$ 1,009,564	$ (24,095)	$ 74,331	$ 25,725	$ 4,977	$ 9,984	$ 55,924
Liabilities							
Current Liabilities							
Accounts payable and accrued expenses	$ 17,707	$ -	$ 11,362	$ 4,519	$ 474	$ -	$ -
Rates and charges settlement payable to airlines	4,956	-	4,956	-	-	-	-
Interfund payable	-	(24,095)	17,666	224	-	33	401
Contract retainage payable	1,378	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	3,075	-	-	-	-	-	-
Total current liabilities	27,116	(24,095)	33,984	4,743	474	33	401
Non-current liabilities							
Accounts payable and accrued expenses	1,746	-	1,746	-	-	-	-
Rates and charges settlement payable to airlines	9,332	-	9,332	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	49,463	-	-	-	-	-	-
Net pension liability	75,103	-	75,103	-	-	-	-
Total non-current liabilities	135,644	-	86,181	-	-	-	-
Total liabilities	$ 162,760	$ (24,095)	$ 120,165	$ 4,743	$ 474	$ 33	$ 401
Deferred Inflow of Resources							
Pension	$ 5,801	$ -	$ 5,801	$ -	$ -	$ -	$ -
Total deferred inflow of resources	$ 5,801	$ -	$ 5,801	$ -	$ -	$ -	$ -
Net Position							
Unrestricted	$ 39,324	$ -	$ (51,635)	$ 20,982	$ 4,503	$ 9,951	$ 55,523
Net investment in capital assets	653,494	-	-	-	-	-	-
Restricted:							
For federally approved projects	74,036	-	-	-	-	-	-
For ground transportation expenditures	50,391	-	-	-	-	-	-
For operational cash flow shortages (by bond resolutions)	19,469	-	-	-	-	-	-
For demolition of excess facilities	-	-	-	-	-	-	-
For debt service	4,289	-	-	-	-	-	-
Total net position	$ 841,003	$ -	$ (51,635)	$ 20,982	$ 4,503	$ 9,951	$ 55,523
Total liabilities, deferred inflow of resources and net position	$ 1,009,564	$ (24,095)	$ 74,331	$ 25,725	$ 4,977	$ 9,984	$ 55,924

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Balance Sheet Information, continued
December 31, 2017

(in thousands of dollars)

	Net Investment in Capital Assets	Restricted Account Groups: Passenger Facility Charge	Police Forfeiture	Customer Facility Charge	Operations & Maintenance Reserve	Demolition of Excess Facilities	Bond Interest & Redemption	Bond Reserve	Other Third Party Funding
Assets									
Current assets									
Cash - unrestricted	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash - restricted	-	-	208	1,359	54	59	-	14	16
Investments (at fair value) - unrestricted	-	-	-	-	-	-	-	-	-
Investments (at fair value) - restricted	-	-	-	-	-	5,406	-	-	-
Investment income receivable	-	-	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-	-	6
Interfund receivable	-	-	-	-	-	-	-	-	-
Grants and federal awards receivable	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Supplies inventory	-	-	-	-	-	-	-	-	-
Total current assets	-	-	208	1,359	54	5,465	-	14	22
Non-current assets									
Cash - restricted	-	1,215	126	73	386	-	-	72	-
Investments (at fair value) - unrestricted	-	-	-	-	-	-	-	-	-
Investments (at fair value) - restricted	-	67,651	1,765	48,684	18,966	-	-	4,204	-
Investment income receivable	-	169	2	190	51	-	1	13	-
Interfund receivable	-	1,098	37	779	66	-	-	-	-
Passenger facility charges receivable	-	1,973	-	-	-	-	-	-	-
Customer facility charges receivable	-	-	-	665	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Capital assets, non-depreciable	209,583	-	-	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	497,827	-	-	-	-	-	-	-	-
Total non-current assets	707,410	72,106	1,930	50,391	19,469	-	1	4,289	-
Total assets	$ 707,410	$ 72,106	$ 2,138	$ 51,750	$ 19,523	$ 5,465	$ 1	$ 4,303	$ 22
Deferred Outflow of Resources									
Pension	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total deferred outflow of resources	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total assets and deferred outflow of resources	$ 707,410	$ 72,106	$ 2,138	$ 51,750	$ 19,523	$ 5,465	$ 1	$ 4,303	$ 22
Liabilities									
Current Liabilities									
Accounts payable and accrued expenses	$ -	$ -	$ 47	$ 1,304	$ -	$ 1	$ -	$ -	$ -
Rates and charges settlement payable to airlines	-	-	-	-	-	-	-	-	-
Interfund payable	-	-	161	55	54	5,464	1	14	22
Contract retainage payable	1,378	-	-	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	3,075	-	-	-	-	-	-	-	-
Total current liabilities	4,453	-	208	1,359	54	5,465	1	14	22
Non-current liabilities									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Rates and charges settlement payable to airlines	-	-	-	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	49,463	-	-	-	-	-	-	-	-
Net pension liability	-	-	-	-	-	-	-	-	-
Total non-current liabilities	49,463	-	-	-	-	-	-	-	-
Total liabilities	$ 53,916	$ -	$ 208	$ 1,359	$ 54	$ 5,465	$ 1	$ 14	$ 22
Deferred Inflow of Resources									
Pension	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total deferred inflow of resources	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Position									
Unrestricted	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net investment in capital assets	653,494	-	-	-	-	-	-	-	-
Restricted:									
For federally approved projects	-	72,106	1,930	-	-	-	-	-	-
For ground transportation expenditures	-	-	-	50,391	-	-	-	-	-
For operational cash flow shortages (by bond resolutions)	-	-	-	-	19,469	-	-	-	-
For demolition of excess facilities	-	-	-	-	-	-	-	-	-
For debt service	-	-	-	-	-	-	-	4,289	-
Total net position	$ 653,494	$ 72,106	$ 1,930	$ 50,391	$ 19,469	$ -	$ -	$ 4,289	$ -
Total liabilities, deferred inflow of resources and net position	$ 707,410	$ 72,106	$ 2,138	$ 51,750	$ 19,523	$ 5,465	$ 1	$ 4,303	$ 22

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Balance Sheet Information
December 31, 2016

(in thousands of dollars)

			Unrestricted Account Groups				
	Total	Eliminations	Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
Assets							
Current assets							
Cash - unrestricted	$ 4,392	$ -	$ 3,253	$ 277	$ 521	$ 209	$ 132
Cash - restricted	1,361	-	608	-	-	-	-
Investments (at fair value) - unrestricted	84,176	-	29,493	37,454	3,914	2,530	10,785
Investments (at fair value) - restricted	1,044	-	651	-	-	-	-
Investment income receivable	158	-	3	67	14	29	45
Accounts receivable	3,913	-	3,730	-	162	-	-
Interfund receivable	-	(15,490)	516	27	260	28	14,659
Grants and federal awards receivable	3,720	-	62	3,658	-	-	-
Prepaid expenses	1,308	-	1,255	-	53	-	-
Supplies inventory	4,067	-	4,067	-	-	-	-
Total current assets	104,139	(15,490)	43,638	41,483	4,924	2,796	25,621
Non-current assets							
Cash - restricted	969	-	-	-	-	-	-
Investments (at fair value) - unrestricted	26,004	-	-	8,407	-	7,222	10,375
Investments (at fair value) - restricted	126,544	-	-	-	-	-	-
Investment income receivable	322	-	-	-	-	-	-
Interfund receivable	-	(4,556)	-	-	-	-	-
Passenger facility charges receivable	1,775	-	-	-	-	-	-
Customer facility charges receivable	606	-	-	-	-	-	-
Prepaid expenses	262	-	262	-	-	-	-
Capital assets, non-depreciable	209,340	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	505,270	-	-	-	-	-	-
Total non-current assets	871,092	(4,556)	262	8,407	-	7,222	10,375
Total assets	$ 975,231	$ (20,046)	$ 43,900	$ 49,890	$ 4,924	$ 10,018	$ 35,996
Deferred Outflow of Resources							
Pension	$ 10,296	$ -	$ 10,296	$ -	$ -	$ -	$ -
Total deferred outflow of resources	$ 10,296	$ -	$ 10,296	$ -	$ -	$ -	$ -
Total assets and deferred outflow of resources	$ 985,527	$ (20,046)	$ 54,196	$ 49,890	$ 4,924	$ 10,018	$ 35,996
Liabilities							
Current Liabilities							
Accounts payable and accrued expenses	$ 12,203	$ -	$ 9,382	$ 1,377	$ 421	$ -	$ -
Rates and charges settlement payable to airlines	2,109	-	2,109	-	-	-	-
Interfund payable	-	(20,046)	17,247	2,592	-	22	81
Contract retainage payable	1,098	-	-	-	-	-	-
Assets held in trust	40	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	3,037	-	-	-	-	-	-
Total current liabilities	18,487	(20,046)	28,738	3,969	421	22	81
Non-current liabilities							
Accounts payable and accrued expenses	1,638	-	1,638	-	-	-	-
Rates and charges settlement payable to airlines	4,484	-	4,484	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	52,538	-	-	-	-	-	-
Net pension liability	58,295	-	58,295	-	-	-	-
Total non-current liabilities	116,955	-	64,417	-	-	-	-
Total liabilities	$ 135,442	$ (20,046)	$ 93,155	$ 3,969	$ 421	$ 22	$ 81
Deferred Inflow of Resources							
Pension	$ 2,461	$ -	$ 2,461	$ -	$ -	$ -	$ -
Total deferred inflow of resources	$ 2,461	$ -	$ 2,461	$ -	$ -	$ -	$ -
Net Position							
Unrestricted	$ 54,915	$ -	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915
Net investment in capital assets	657,937	-	-	-	-	-	-
Restricted:							
For federally approved projects	61,731	-	-	-	-	-	-
For ground transportation expenditures	44,477	-	-	-	-	-	-
For operational cash flow shortages (by bond resolutions)	18,750	-	-	-	-	-	-
For demolition of excess facilities	5,546	-	-	-	-	-	-
For debt service	4,268	-	-	-	-	-	-
Total net position	$ 847,624	$ -	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915
Total liabilities, deferred inflow of resources and net position	$ 985,527	$ (20,046)	$ 54,196	$ 49,890	$ 4,924	$ 10,018	$ 35,996

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Balance Sheet Information, continued
December 31, 2016

(in thousands of dollars)

	Net Investment in Capital Assets	Restricted Account Groups							
		Passenger Facility Charge	Police Forfeiture	Customer Facility Charge	Operations & Maintenance Reserve	Demolition of Excess Facilities	Bond Interest & Redemption	Bond Reserve	Other Third Party Funding
Assets									
Current assets									
Cash - unrestricted	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash - restricted	-	-	21	484	47	147	-	13	41
Investments (at fair value) - unrestricted	-	-	-	-	-	-	-	-	-
Investments (at fair value) - restricted	-	-	-	-	-	393	-	-	-
Investment income receivable	-	-	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-	-	21
Interfund receivable	-	-	-	-	-	-	-	-	-
Grants and federal awards receivable	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Supplies inventory	-	-	-	-	-	-	-	-	-
Total current assets	-	-	21	484	47	540	-	13	62
Non-current assets									
Cash - restricted	-	511	190	97	89	-	-	82	-
Investments (at fair value) - unrestricted	-	-	-	-	-	-	-	-	-
Investments (at fair value) - restricted	-	53,872	1,753	42,932	18,613	5,200	-	4,174	-
Investment income receivable	-	117	1	143	47	1	-	13	-
Interfund receivable	-	3,512	-	699	-	345	-	-	-
Passenger facility charges receivable	-	1,775	-	-	-	-	-	-	-
Customer facility charges receivable	-	-	-	606	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Capital assets, non-depreciable	209,340	-	-	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	505,270	-	-	-	-	-	-	-	-
Total non-current assets	714,610	59,787	1,944	44,477	18,749	5,546	-	4,269	-
Total assets	$ 714,610	$ 59,787	$ 1,965	$ 44,961	$ 18,796	$ 6,086	$ -	$ 4,282	$ 62
Deferred Outflow of Resources									
Pension	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total deferred outflow of resources	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total assets and deferred outflow of resources	$ 714,610	$ 59,787	$ 1,965	$ 44,961	$ 18,796	$ 6,086	$ -	$ 4,282	$ 62
Liabilities									
Current Liabilities									
Accounts payable and accrued expenses	$ -	$ -	$ 4	$ 484	$ -	$ 535	$ -	$ -	$ -
Rates and charges settlement payable to airlines	-	-	-	-	-	-	-	-	-
Interfund payable	-	-	17	-	46	5	-	14	22
Contract retainage payable	1,098	-	-	-	-	-	-	-	-
Assets held in trust	-	-	-	-	-	-	-	-	40
Revenue bonds payable, inclusive of unamortized premium	3,037	-	-	-	-	-	-	-	-
Total current liabilities	4,135	-	21	484	46	540	-	14	62
Non-current liabilities									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Rates and charges settlement payable to airlines	-	-	-	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	52,538	-	-	-	-	-	-	-	-
Net pension liability	-	-	-	-	-	-	-	-	-
Total non-current liabilities	52,538	-	-	-	-	-	-	-	-
Total liabilities	$ 56,673	$ -	$ 21	$ 484	$ 46	$ 540	$ -	$ 14	$ 62
Deferred Inflow of Resources									
Pension	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total deferred inflow of resources	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Position									
Unrestricted	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net investment in capital assets	657,937	-	-	-	-	-	-	-	-
Restricted:									
For federally approved projects	-	59,787	1,944	-	-	-	-	-	-
For ground transportation expenditures	-	-	-	44,477	-	-	-	-	-
For operational cash flow shortages (by bond resolutions)	-	-	-	-	18,750	-	-	-	-
For demolition of excess facilities	-	-	-	-	-	5,546	-	-	-
For debt service	-	-	-	-	-	-	-	4,268	-
Total net position	$ 657,937	$ 59,787	$ 1,944	$ 44,477	$ 18,750	$ 5,546	$ -	$ 4,268	$ -
Total liabilities, deferred inflow of resources and net position	$ 714,610	$ 59,787	$ 1,965	$ 44,961	$ 18,796	$ 6,086	$ -	$ 4,282	$ 62

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

(in thousands of dollars)

		Unrestricted Account Groups				
	Total	Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
Operating revenues						
Landing fees	$ 18,032	$ 18,032	$ -	$ -	$ -	$ -
Rentals:						
Terminal	12,315	12,315	-	-	-	-
Ground	4,110	4,110	-	-	-	-
Ramp	3,993	3,993	-	-	-	-
Other	977	977	-	-	-	-
Parking	37,044	37,044	-	-	-	-
Concessions	12,878	12,878	-	-	-	-
Rebilled services	1,862	1,862	-	-	-	-
Ground transportation	1,043	1,043	-	-	-	-
Other	683	683	-	-	-	-
Total operating revenues	92,937	92,937	-	-	-	-
Operating expenses						
Salaries, wages and benefits	46,452	41,511	-	4,907	-	-
Contracted services	22,531	20,951	-	648	-	770
Utilities	6,844	6,844	-	-	-	-
Supplies and capital items expensed	5,239	5,129	-	-	-	-
General administration	2,006	1,989	-	-	-	-
Insurance	1,293	1,293	-	-	-	-
Total operating expenses	84,365	77,717	-	5,555	-	770
Operating income (loss), before depreciation and amortization	8,572	15,220	-	(5,555)	-	(770)
Depreciation and amortization	(42,730)	-	-	-	-	-
Operating income (loss), after depreciation and amortization	(34,158)	15,220	-	(5,555)	-	(770)
Nonoperating changes in net position: increase (decrease)						
Revenue bonds:						
Transfer of revenue bond debt service - principal	-	(1,985)	-	-	-	-
Transfer of revenue bond debt service - interest	-	(2,307)	-	-	-	-
Payment of revenue bond debt service - principal	-	-	-	-	-	-
Revenue bond interest expense, net of premium amortization	(1,255)	-	-	-	-	-
Transfer of general puposes to fund bond reserve	-	-	-	-	-	(30)
Bond refunding - release of funds for defeasance of bonds - principal	-	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - interest	-	-	-	-	-	-
Bond refunding - bond issuance costs	-	-	-	-	-	-
Passenger facility charge revenues	16,032	-	-	-	-	-
Customer facility charge revenues	8,778	-	-	-	-	-
Police forfeiture program revenues	336	-	-	-	-	-
Police forfeiture program revenues (state portion) passed through to other local government	(2)	-	-	-	-	-
Grants and federal awards for operating expenses	510	402	-	-	-	108
Investment income	1,970	949	308	18	(45)	(170)
Net gain on disposal of capital assets	33	-	81	-	-	7
Non-capitalized project costs	(24)	-	-	-	-	-
Capitalization of expenditures	-	-	(31,890)	-	-	-
Other	58	-	-	-	-	-
Transfers:						
Balance from previous years in excess of current requirements	-	(5,108)	-	-	-	5,108
Required reserve funding	-	(786)	-	-	-	-
Group Health Coverage	-	(5,537)	-	5,537	-	-
Reimbursement of demolition expenditures	-	-	5,464	-	-	-
Debt service requirements	-	4,292	-	-	-	-
Reimbursement of eligible expenditures	-	-	4	-	-	-
Current year remaining revenues	-	(15,355)	-	-	-	15,355
Total nonoperating changes in net position, before capital contributions	26,436	(25,435)	(26,033)	5,555	(45)	20,378
Capital Contributions						
Reversion of ownership of leased facilities	-	-	-	-	-	-
Grants and federal awards for capital expenditures	1,088	-	1,088	-	-	-
Third party funding of project costs	13	-	6	-	-	-
Total capital contributions	1,101	-	1,094	-	-	-
Total changes in net position	(6,621)	(10,215)	(24,939)	-	(45)	19,608
Net position at the beginning of year (deficit)	847,624	(41,420)	45,921	4,503	9,996	35,915
Net position at the end of year (deficit)	$ 841,003	$ (51,635)	$ 20,982	$ 4,503	$ 9,951	$ 55,523

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Revenues, Expenses and Changes in Net Position, continued
Year Ended December 31, 2017

(in thousands of dollars)

	Net Investment in Capital Assets	Restricted Account Groups							
		Passenger Facility Charge	Police Forfeiture	Customer Facility Charge	Operations & Maintenance Reserve	Demolition of Excess Facilities	Bond Interest & Redemption	Bond Reserve	Other Third Party Funding
Operating revenues									
Landing fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Rentals:									
Terminal	-	-	-	-	-	-	-	-	-
Ground	-	-	-	-	-	-	-	-	-
Ramp	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Parking	-	-	-	-	-	-	-	-	-
Concessions	-	-	-	-	-	-	-	-	-
Rebilled services	-	-	-	-	-	-	-	-	-
Ground transportation	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total operating revenues	-	-	-	-	-	-	-	-	-
Operating expenses									
Salaries, wages and benefits	-	-	-	34	-	-	-	-	-
Contracted services	-	-	19	136	-	7	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Supplies and capital items expensed	-	-	110	-	-	-	-	-	-
General administration	-	-	17	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Total operating expenses	-	-	146	170	-	7	-	-	-
Operating income (loss), before depreciation and amortization	-	-	(146)	(170)	-	(7)	-	-	-
Depreciation and amortization	(42,730)	-	-	-	-	-	-	-	-
Operating income (loss), after depreciation and amortization	(42,730)	-	(146)	(170)	-	(7)	-	-	-
Nonoperating changes in net position: increase (decrease)									
Revenue bonds:									
Transfer of revenue bond debt service - principal	-	-	-	-	-	-	1,985	-	-
Transfer of revenue bond debt service - interest	-	-	-	-	-	-	2,307	-	-
Payment of revenue bond debt service - principal	1,985	-	-	-	-	-	(1,985)	-	-
Revenue bond interest expense, net of premium amortization	1,052	-	-	-	-	-	(2,307)	-	-
Transfer of general puposes to fund bond reserve	-	-	-	-	-	-	-	30	-
Bond refunding - release of funds for defeasance of bonds - principal	-	-	-	-	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - interest	-	-	-	-	-	-	-	-	-
Bond refunding - bond issuance costs	-	-	-	-	-	-	-	-	-
Passenger facility charge revenues	-	16,032	-	-	-	-	-	-	-
Customer facility charge revenues	-	-	-	8,778	-	-	-	-	-
Police forfeiture program revenues	-	-	336	-	-	-	-	-	-
Police forfeiture program revenues (state portion) passed through to other local government	-	-	(2)	-	-	-	-	-	-
Grants and federal awards for operating expenses	-	-	-	-	-	-	-	-	-
Investment income	-	583	12	329	(67)	62	-	(9)	-
Net gain on disposal of capital assets	(55)	-	-	-	-	-	-	-	-
Non-capitalized project costs	(24)	-	-	-	-	-	-	-	-
Capitalization of expenditures	35,271	-	(214)	(3,023)	-	(137)	-	-	(7)
Other	58	-	-	-	-	-	-	-	-
Transfers:									
Balance from previous years in excess of current requirements	-	-	-	-	-	-	-	-	-
Required reserve funding	-	-	-	-	786	-	-	-	-
Group Health Coverage	-	-	-	-	-	-	-	-	-
Reimbursement of demolition expenditures	-	-	-	-	-	(5,464)	-	-	-
Debt service requirements	-	(4,292)	-	-	-	-	-	-	-
Reimbursement of eligible expenditures	-	(4)	-	-	-	-	-	-	-
Current year remaining revenues	-	-	-	-	-	-	-	-	-
Total nonoperating changes in net position, before capital contributions	38,287	12,319	132	6,084	719	(5,539)	-	21	(7)
Capital Contributions									
Reversion of ownership of leased facilities	-	-	-	-	-	-	-	-	-
Grants and federal awards for capital expenditures	-	-	-	-	-	-	-	-	-
Third party funding of project costs	-	-	-	-	-	-	-	-	7
Total capital contributions	-	-	-	-	-	-	-	-	7
Total changes in net position	(4,443)	12,319	(14)	5,914	719	(5,546)	-	21	-
Net position at the beginning of year (deficit)	657,937	59,787	1,944	44,477	18,750	5,546	-	4,268	-
Net position at the end of year (deficit)	$ 653,494	$ 72,106	$ 1,930	$ 50,391	$ 19,469	$ -	$ -	$ 4,289	$ -

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2016

(in thousands of dollars)

	Total	Unrestricted Account Groups				
		Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
Operating revenues						
Landing fees	$ 17,236	$ 17,236	$ -	$ -	$ -	$ -
Rentals:						
Terminal	12,014	12,014	-	-	-	-
Ground	3,968	3,968	-	-	-	-
Ramp	3,430	3,430	-	-	-	-
Other	866	866	-	-	-	-
Parking	31,695	31,695	-	-	-	-
Concessions	12,221	12,221	-	-	-	-
Rebilled services	1,616	1,616	-	-	-	-
Ground transportation	649	649	-	-	-	-
Other	684	684	-	-	-	-
Total operating revenues	84,379	84,379	-	-	-	-
Operating expenses						
Salaries, wages and benefits	42,913	38,339	-	4,574	-	-
Contracted services	26,641	17,073	-	504	-	-
Utilities	7,098	7,098	-	-	-	-
Supplies and capital items expensed	5,761	5,665	-	-	-	-
General administration	1,344	1,323	-	-	-	-
Insurance	1,257	1,257	-	-	-	-
Total operating expenses	85,014	70,755	-	5,078	-	-
Operating income (loss), before depreciation and amortization	(635)	13,624	-	(5,078)	-	-
Depreciation and amortization	(43,523)	-	-	-	-	-
Operating income (loss), after depreciation and amortization	(44,158)	13,624	-	(5,078)	-	-
Nonoperating changes in net position: increase (decrease)						
Revenue bonds:						
Transfer of revenue bond debt service - principal	-	(2,190)	-	-	-	-
Transfer of revenue bond debt service - interest	-	(2,845)	-	-	-	-
Payment of revenue bond debt service - principal	-	-	-	-	-	-
Revenue bond interest expense, net of premium amortization	(1,130)	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - principal	-	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - interest	(1,209)	-	-	-	-	-
Bond refunding - bond issuance costs	(607)	-	-	-	-	-
Passenger facility charge revenues	13,575	-	-	-	-	-
Customer facility charge revenues	6,726	-	-	-	-	-
Police forfeiture program revenues	677	-	-	-	-	-
Police forfeiture program revenues (state portion) passed through to other local government	(2)	-	-	-	-	-
Grants and federal awards for operating expenses	371	371	-	-	-	-
Investment income	1,598	432	373	39	(4)	75
Net gain on disposal of capital assets	17	-	-	-	-	-
Non-capitalized project costs	(90)	-	-	-	-	-
Capitalization of expenditures	-	-	(7,466)	-	-	-
Transfers:						
Group Health Coverage	-	(4,637)	-	4,637	-	-
Initial funding of reserve	-	-	(184)	-	212	(28)
Debt service requirements	-	5,118	-	-	-	-
Reimbursement of eligible expenditures	-	-	(2,170)	-	-	-
Current year remaining revenues	-	(14,659)	-	-	-	14,659
Total nonoperating changes in net position, before capital contributions	19,926	(18,410)	(9,447)	4,676	208	14,706
Capital Contributions						
Reversion of ownership of leased facilities	11,503	-	-	-	-	-
Grants and federal awards for capital expenditures	3,773	-	3,773	-	-	-
Third party funding of project costs	944	-	-	-	-	-
Total capital contributions	16,220	-	3,773	-	-	-
Total changes in net position	(8,012)	(4,786)	(5,674)	(402)	208	14,706
Net position at the beginning of year (deficit)	855,636	(36,634)	51,595	4,905	9,788	21,209
Net position at the end of year (deficit)	$ 847,624	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915

Cincinnati/Northern Kentucky International Airport
Combining Schedule of Revenues, Expenses and Changes in Net Position, continued
Year Ended December 31, 2016

(in thousands of dollars)

	Net Investment in Capital Assets	Restricted Account Groups							
		Passenger Facility Charge	Police Forfeiture	Customer Facility Charge	Operations & Maintenance Reserve	Demolition of Excess Facilities	Bond Interest & Redemption	Bond Reserve	Other Third Party Funding
Operating revenues									
Landing fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Rentals:									
Terminal	-	-	-	-	-	-	-	-	-
Ground	-	-	-	-	-	-	-	-	-
Ramp	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Parking	-	-	-	-	-	-	-	-	-
Concessions	-	-	-	-	-	-	-	-	-
Rebilled services	-	-	-	-	-	-	-	-	-
Ground transportation	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total operating revenues	-	-	-	-	-	-	-	-	-
Operating expenses									
Salaries, wages and benefits	-	-	-	-	-	-	-	-	-
Contracted services	-	-	6	24	-	9,034	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Supplies and capital items expensed	-	-	94	-	-	2	-	-	-
General administration	-	-	21	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Total operating expenses	-	-	121	24	-	9,036	-	-	-
Operating income (loss), before depreciation and amortization	-	-	(121)	(24)	-	(9,036)	-	-	-
Depreciation and amortization	(43,523)	-	-	-	-	-	-	-	-
Operating income (loss), after depreciation and amortization	(43,523)	-	(121)	(24)	-	(9,036)	-	-	-
Nonoperating changes in net position: increase (decrease)									
Revenue bonds:									
Transfer of revenue bond debt service - principal	-	-	-	-	-	-	2,190	-	-
Transfer of revenue bond debt service - interest	-	-	-	-	-	-	2,845	-	-
Payment of revenue bond debt service - principal	1,250	-	-	-	-	-	(1,250)	-	-
Revenue bond interest expense, net of premium amortization	506	-	-	-	-	-	(1,636)	-	-
Bond refunding - release of funds for defeasance of bonds - principal	1,854	-	-	-	-	-	(940)	(914)	-
Bond refunding - release of funds for defeasance of bonds - interest	-	-	-	-	-	-	(1,209)	-	-
Bond refunding - bond issuance costs	(607)	-	-	-	-	-	-	-	-
Passenger facility charge revenues	-	13,575	-	-	-	-	-	-	-
Customer facility charge revenues	-	-	-	6,726	-	-	-	-	-
Police forfeiture program revenues	-	-	677	-	-	-	-	-	-
Police forfeiture program revenues (state portion) passed through to other local government	-	-	(2)	-	-	-	-	-	-
Grants and federal awards for operating expenses	-	-	-	-	-	-	-	-	-
Investment income	13	362	3	343	(58)	48	-	(28)	-
Net gain on disposal of capital assets	12	-	5	-	-	-	-	-	-
Non-capitalized project costs	(90)	-	-	-	-	-	-	-	-
Capitalization of expenditures	9,183	-	(37)	(1,024)	-	288	-	-	(944)
Transfers:									
Group Health Coverage	-	-	-	-	-	-	-	-	-
Initial funding of reserve	-	-	-	-	-	-	-	-	-
Debt service requirements	-	(5,118)	-	-	-	-	-	-	-
Reimbursement of eligible expenditures	-	2,170	-	-	-	-	-	-	-
Current year remaining revenues	-	-	-	-	-	-	-	-	-
Total nonoperating changes in net position, before capital contributions	12,121	10,989	646	6,045	(58)	336	-	(942)	(944)
Capital Contributions									
Reversion of ownership of leased facilities	11,503	-	-	-	-	-	-	-	-
Grants and federal awards for capital expenditures	-	-	-	-	-	-	-	-	-
Third party funding of project costs	-	-	-	-	-	-	-	-	944
Total capital contributions	11,503	-	-	-	-	-	-	-	944
Total changes in net position	(19,899)	10,989	525	6,021	(58)	(8,700)	-	(942)	-
Net position at the beginning of year (deficit)	677,836	48,798	1,419	38,456	18,808	14,246	-	5,210	-
Net position at the end of year (deficit)	$ 657,937	$ 59,787	$ 1,944	$ 44,477	$ 18,750	$ 5,546	$ -	$ 4,268	$ -

Cincinnati/Northern Kentucky International Airport
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

(in thousands of dollars)

Name of Agency or Department	CFDA or Other No.	Name of Program	Federal Awards with Expenditure Activity in 2017: Award Amount	Federal Awards with Expenditure Activity in 2017: Total Awards Expended
US Dept of Transportation	20.106	Airport Improvement Program*	$ 27,534	$ 1,191
US Dept of Justice	16.922	Equitable Sharing Program	2,261	357
Federal Highway Administration (Passed through the Kentucky Transportation Cabinet)	20.205	Highway Planning and Construction	2,717	5
US Dept of Transportation (Passed through the Kentucky Transportation Cabinet Office of Highway Safety)	20.600	State and Community Highway Safety Program	10	2
		Total awards expended		$ 1,555

* AIP was tested as a major program

See report of independent auditors and accompanying notes to Schedule of Expenditures of Federal Awards

(in thousands of dollars)

1. General

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") presents the activity of all federal financial assistance programs of the Kenton County Airport Board ("the Airport"). The Airport's reporting entity is defined in Note 1 to the Airport's financial statements. All federal financial assistance was received directly from federal agencies, unless otherwise indicated on the Schedule. No amounts from federal sources were provided to subrecipients and the airport did not elect to use the 10% de minimis indirect cost rate.

The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Airport. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Airport and is presented in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance, UG).

3. Reconciliation to Financial Statements

Following is a reconciliation of amounts per the Schedule to the 2017 financial statements (amounts rounded to nearest thousand):

		2017
Grants and federal awards, nonoperating changes in net position		510
Less: Federal receipts not subject to Uniform Guidance requirements		(397)
Less: Local government grants not funded by federal sources		(3)
Grants and federal awards, capital contributions		1,088
Police forfeiture revenues expended for operations, operating expenses		146
Less: State portion		(3)
Police forfeiture revenues expended for capital projects, nonoperating changes in net position		214
Expenditures of revenues from federal sources reported on the Schedule	$	1,555

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the members of the Kenton
County Airport Board
Hebron, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of the Cincinnati/Northern Kentucky International Airport (the Airport), which is controlled and operated by the Kenton County Airport Board, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Airport's financial statements (hereby referred to as the financial statements), and have issued our report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the members of the Kenton
County Airport Board
Hebron, Kentucky

Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
June 25, 2018

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the members of the Kenton
County Airport Board
Hebron, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Cincinnati/Northern Kentucky International Airport's (hereby referred to as the Airport) which is controlled and operated by the Kenton County Airport Board, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Airport's major federal programs for the year ended December 31, 2017. The Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Airport's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

To the members of the Kenton
County Airport Board
Hebron, Kentucky

Page Two

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
June 25, 2018

(in thousands of dollars)

Section I - Summary of Auditor's Results

Type of auditor's report issued:	unmodified	
Internal Control over financial reporting:		
Material weakness(es) identified?	______ yes	__X__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ yes	__X__ none reported
Noncompliance material to financial statements noted?	______ yes	__X__ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	______ yes	__X__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ yes	__X__ none reported
Type of auditor's report issued on compliance for major programs:	unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	______ yes	__X__ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as a low-risk auditee?	__X__ yes	______ no

Section II - Findings related to financial statements reported in accordance with *Governmental Auditing Standards*

None reported.

Section III - Findings and questioned costs related to federal awards

None reported.

Federal Award Findings and Questioned Costs

No findings or questioned costs for federal award programs were reported for the year ended December 31, 2016.

Cincinnati/Northern Kentucky International Airport
Schedule of Passenger Facility Charges Collected and Expended
Year Ended December 31, 2017

Federal Aviation Administration
Application 1 #94-01-C-00-CVG, Application 2 #95-02-C-00-CVG
Application 3 #98-03-C-00-CVG, Application 4 #98-04-C-00-CVG
Application 5 #99-05-C-00-CVG, Application 6 #01-06-C-00-CVG
Application 7 #01-07-C-00-CVG, Application 8 #02-08-C-00-CVG
Application 9 #05-09-C-00-CVG, Application 10 #06-10-C-00-CVG
Application 11 #07-11-C-00-CVG, Application 12 #08-12-C-00-CVG
Application 13 #11-13-C-00-CVG, Application 14 #13-14-C-00-CVG

Quarter Ended	Collections from Airlines	Investment Earnings	Total Received	Expenditures on Approved Projects	Debt Service on Approved Projects	Total Expenditures	PFCs and Earnings Net of Expenditures
Beginning balance	$ 484,263	$ 46,293	$ 530,556	$ (312,753)	$ (158,016)	$ (470,769)	$ 59,787
Q1-17	3,739	176	3,915	(3)	(83)	(86)	
Q2-17	3,583	79	3,662	-	(1,342)	(1,342)	
Q3-17	4,216	164	4,380	(1)	(1,342)	(1,343)	
Q4-17	4,296	153	4,449	-	(1,341)	(1,341)	
Total 2017	15,834	572	16,406	(4)	(4,108)	(4,112)	12,294
Change in accrual	198	11	209	-	(184)	(184)	25
Total program to date	$ 500,295	$ 46,876	$ 547,171	$ (312,757)	$ (162,308)	$ (475,065)	
PFC funds to be used for future eligible expenditures							$ 72,106

1. General

The accompanying Schedule of Passenger Facility Charges Collected and Expended presents all passenger facility charge activities of the Kenton County Airport Board (the "Airport"). The Airport's reporting entity is defined in Note 1 to the Airport's financial statements. The Schedule of Passenger Facility Charges Collected and Expended includes all the PFCs and the interest earnings thereon collected by the Airport beginning June 1, 1994 through December 31, 2017. Passenger Facility Charges are collected pursuant to Federal Aviation Administration approved applications.

2. Basis of Presentation

The accompanying Schedule of Passenger Facility Charges Collected and Expended of the Airport is presented in accordance with accounting principles generally accepted in the United States of America. Passenger Facility Charges are recorded as restricted revenue until expended in compliance with applicable Final Agency Decisions from the Federal Aviation Administration.

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE FEDERAL AVIATION ADMINISTRATION

To the members of the Kenton
County Airport Board
Hebron, Kentucky

Report on Compliance of Passenger Facility Charges

We have audited the Cincinnati/Northern Kentucky International Airport's (hereby referred to as the Airport) which is controlled and operated by the Kenton County Airport Board, compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), that could have a direct and material effect on its passenger facility charge Program for the year ended December 31, 2017.

Management's Responsibility

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, and regulations, applicable to the passenger facility charge program. Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

Opinion on Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Passenger Facility Charge program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's 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 Passenger Facility Charge Program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Passenger Facility Charge 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 Passenger Facility Charge 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the members of the Kenton
County Airport Board
Hebron, Kentucky

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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 that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
June 25, 2018

Summary of Auditor's Results

We have issued an unmodified opinion, dated June 25, 2018 on the financial statements of Cincinnati/Northern Kentucky International Airport (the Airport) as of and for the year ended December 31, 2017.

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over the passenger facility charge program.

Our audit disclosed no instances of non-compliance which are material to the Airport's financial statements.

We have issued an unmodified opinion, dated June 25, 2018 on the Airport's compliance for its passenger facility charge program.

Our audit disclosed no findings required to be reported under the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide).

Findings Relating to the Financial Statements

Our audit disclosed no findings which are required to be reported in accordance with the Guide.

Findings and Questioned Costs for the Passenger Facility Charge Program

Our audit disclosed no findings or questioned costs for passenger facility charge program as defined by the Guide.

Cincinnati/Northern Kentucky International Airport
Schedule of Prior Year Passenger Facility Charge Findings and Their Resolutions
Year Ended December 31, 2016

No findings that are required to be reported in accordance with the provisions of the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration were reported for the year ended December 31, 2016.