Cincinnati/Northern Kentucky International Airport

Special Purpose Financial Statements
December 31, 2015 and 2014

Cincinnati/Northern Kentucky International Airport
Table of Contents
December 31, 2015 and 2014

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

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

We have audited the accompanying special purpose financial statements (hereby referred to as the financial statements) of the business-type activities and the internal service fund 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, 2015 and 2014, 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 the financial statements in accordance with the basis of accounting as prescribed by various revenue bond resolutions and use agreements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the internal service fund of the Airport as of December 31, 2015 and 2014, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis accounting as prescribed by various revenue bond resolutions and use agreements rather than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 10 to the financial statements, the Airport adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

The basis of accounting described in Note 1 requires that the 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.

Blue & Co., LLC

Lexington, KY
June 20, 2016

The following 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 special purpose financial statements (herein referred to as the "financial statements") for the calendar year ended December 31, 2015 with selected comparative information for the years ended December 31, 2014 and December 31, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

1. Introduction

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 and has jurisdiction, control, possession and supervision of the Airport. 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 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.

2. Airport Activity

The Airport serves as the primary airport for scheduled passenger service to the Cincinnati Consolidated Metropolitan Statistical Area. It additionally serves as DHL Express Inc.'s Network Operations (USA), Inc. ("DHL") main international cargo hub for North America and South America. As of December 31, 2015, scheduled passenger service at the Airport was provided by seven airline groups through a total of twenty-three mainline and regional carriers. Scheduled cargo service was provided by two cargo airlines.

Selected activity statistics for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Enplaned passengers	3,160,248	2,964,657	2,874,788
Origin passengers(1)	2,669,588	2,299,489	2,171,371
Landed Weights(lbs. 000s)			
Passenger airlines	3,705,061	3,502,443	3,599,538
Cargo airlines(2)	4,036,565	3,652,864	3,431,112
Total landed weight	7,741,626	7,155,307	7,030,650
Aircraft operations(3)	126,939	128,035	132,673

(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 increased 6.6% in 2015 after a 3.1% increase in 2014. These increases in enplanements were the result of the 16.1% and 5.9% increases in originating passengers in 2015 and 2014, respectively. The changes in enplanements and originating passengers reflect the continued transition of the Airport from primarily serving as a connecting hub to primarily serving the residents of, and visitors to, the Cincinnati region. Delta Air Lines, Inc. (“Delta”) had operated a sizable connecting hub at the Airport and with Delta’s continued restructuring of its hub over the last ten years, incumbent airlines and new low-cost entrants expanded service at the Airport. As a result, over the last several years the carrier base at the Airport has diversified, enhancing competition, lowering airfares and stimulating local passenger traffic. In 2015, origin passengers represented 84.5% of the Airport’s enplaned passengers, increasing from 77.6% in 2014 and 75.5% in 2013.

Total landed weights at the Airport increased 8.2% in 2015 and 1.8% in 2014. These increases reflect 2015 and 2014 increases in cargo landed weights of 10.5% and 6.5%, respectively. Also contributing to the increase in 2015 was a 5.8% increase in passenger airline landed weights. In 2014, the cargo landed weight increase was partially offset by a 2.7% decrease in passenger airline landed weights. The positive changes in cargo airline landed weights were due to continued growth by DHL after re-establishment of its international sorting hub at the Airport in July 2009. Passenger airline landing weights grew in 2015 as the result of the previously discussed growth in incumbent and low-cost carriers at the Airport, while in 2014 the incumbent and low cost carrier landed weight growth was more than offset by a decline in Delta landed weights.

The number of aircraft operations at the Airport declined by .9% and 3.5% in 2015 and 2014, respectively. While both enplanements and landed weights at the Airport have increased, aircraft operations have decreased as the result of an increase in the average size of aircraft operating at the Airport. This increase in average aircraft size is due to the growth in larger cargo aircraft as well as an increase in average size of passenger airline aircraft with the continued phase out of the smaller regional aircraft by the legacy carriers and an increase in the number of larger mainline aircraft operations due to the increase in low cost carrier flights.

3. Airline Rates and Charges

Through December 31, 2015, the Airport Use Agreement (the “use agreements”) in effect with American Airlines, Inc.(“American”), Delta, and United Airlines, Inc.(“United”), (collectively, the “signatory airlines”) governs landing fee rates and other charges to these airlines for the use of Airport facilities. The landing fee formula under the use agreements is “residual” and provides that the signatory airlines pay landing fees in an amount that will make operating revenues (landing fees plus all other operating revenues) equal operating expenses plus 125% of the required debt service on the Airport’s long-term borrowings (“requirements”).

Under the use agreements, the signatory airlines pay landing fees during the course of the year at the landing fee rate calculated as part of the budget process. At year-end, signatory airline landing fees are adjusted to reflect any over/under collection of landing fees based upon the use agreement residual landing fee formula. If it is determined at year-end that there has been an over collection of signatory landing fees, the excess landing fees are removed from revenues, recorded as a liability entitled “landing fees in excess of requirements” and refunded to the signatory airlines over the course of the subsequent year. If it is determined at year-end that there has been an under collection of landing fees, the shortfall is to be paid by the signatory airlines within twenty days following receipt of notice from the Airport of such shortfall.

4. Financial Statements

Basis of Accounting and Overview of Financial Statements

As more fully described in Note 1 to the financial statements, the basis of accounting followed by the Airport through December 31, 2015 is designed to account for compliance with various bond resolutions and the use agreements governing the periods for which the statements are issued. The Airport complies with all applicable Governmental Accounting Standards Board ("GASB") statements to the extent they do not conflict with the provisions of the use agreements or the various bond resolutions.

The Airport is a business-type activity and, as such, is accounted for as an Enterprise Fund. For purposes of financial reporting, the Airport's Enterprise Fund is segregated into the following account groups: Available for Current Operations, Restricted for Debt Service and Restricted for Airport Facilities. These account groups have been established to reflect the flow of funds and restrictions under the Airport's various bond resolutions and use agreements. Additionally, the Airport's financial statements include an Internal Service Fund ("ISF") that was established by resolution of the Board to account for all activities of the self-funded group health and dental coverages provided to employees. The financial statements are prepared on the basis of accounting described in Note 1, with this basis of accounting including the recognition of revenues when earned and expenses when incurred.

The Airport's financial report includes three financial statements for both 2015 and 2014. The first is the Balance Sheet that presents the financial position of the Airport at the end of the fiscal year and includes all assets, deferred outflows, liabilities, deferred inflows and net position (assets and deferred outflows minus liabilities and deferred inflows) of the Airport. Net position is generally an indicator of the current fiscal health of the Airport. The second is the Statement of Revenues, Expenses, and Changes in Net Position. The change in net position is generally an indicator of whether the overall fiscal condition of the organization has improved or worsened during the year. The third statement is the Statement of Cash Flows. The Statement of Cash Flows provides additional information about the Airport's financial results by reporting the major sources and uses of cash.

Adoption of New Pronouncement

All full-time employees of the Airport as of December 31, 2015 are members of the Kentucky Retirement Systems' County Employee Retirement Systems ("CERS"), a cost-sharing multiple-employer defined benefit pension system. Therefore, as required, during 2015 the Airport implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date–an amendment of GASB Statement No. 68*. These statements require cost-sharing entities providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, establishes the accounting and financial reporting standards for measuring and recognizing the subsequent liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Related to the implementation of GASB 68, the Airport recorded its assigned proportionate share of the CERS' net pension liability, with this liability being recorded through the restatement of net position at January 1, 2014 as well as through the recording of related deferred inflows and outflows of resources and additional pension expense. While included in this Management's Discussion and Analysis for comparative purposes, the 2013 amounts have not been restated related to the implementation of GASB 68.

Balance Sheet
A summarized comparison of the Airport's assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position at December 31, 2015, 2014 and 2013 is set forth below (in thousands of dollars):

	2015	2014	2013
Assets			
Current assets	$ 79,894	$ 74,030	$ 114,752
Non-current assets			
Capital assets	736,895	756,001	787,919
Other non-current assets	165,116	157,788	147,630
Total assets	981,905	987,819	1,050,301
Deferred outflow of resources	8,376	1,712	0
Total assets and deferred outflow of resources	$ 990,281	$ 989,531	$ 1,050,301
Liabilities			
Current liabilities	$ 23,907	$ 23,938	$ 65,933
Non-current liabilities	112,246	99,284	63,635
Total liabilities	136,153	123,222	129,568
Deferred inflow of resources	3,240	4,050	0
Net position			
Unrestricted	(40,566)	(40,566)	0
Invested in capital assets, net of related debt	678,305	697,412	702,268
Restricted	213,149	205,413	218,465
Total net position	850,888	862,259	920,733
Total liabilities, deferred inflow of resources and net position	$ 990,281	$ 989,531	$ 1,050,301

In 2015 and 2014, the Airport's net position decreased by $11.4 million or 1.3 % and $58.5 million or 6.4%, respectively. The 2014 decrease includes a $41.2 million reduction in net position due to the restatement of net position required for the implementation of GASB 68. The 2015 decrease in net position is the result of a $5.9 million decrease in total assets and a $12.9 million increase in total liabilities offset in part by a $6.6 million increase in deferred outflows of resources and a $.8 million decrease in deferred inflows of resources.

The 2015 decrease in total assets includes a $5.9 million increase in current assets and an $11.8 million decrease in non-current assets. The increase in current assets is primarily related to a net increase in current cash and investment balances in the Available for Current Operations Account Group, as discussed in the Statement of Cash Flows section included herein. Non-current assets decreased principally due to a decrease in capital assets, net of accumulated depreciation, resulting from capital additions in 2015 being less than the combined effect of capital retirements and the increase in accumulated depreciation, as discussed in the Capital Assets and Debt Administration section included herein. Also contributing was a decrease in grants, federal awards and other transaction agreements receivable due to the drawdown of grant amounts related to a runway and taxiway rehabilitation project completed in 2014. These decreases were offset in part by a net increase in the non-current cash and investment balances, as discussed in the Statement of Cash Flows section included herein.

The 2015 increase in total liabilities includes a $.03 million decrease in current liabilities and a $13.0 million increase in non-current liabilities. The decrease in current liabilities is primarily the result of a decrease in the liability related to landing fees collected in excess of requirements offset by an increase in accounts payable related to increased expenditure activity at year-end 2015. The decrease in landing fees collected in excess of requirements is due to the 2015 excess landing fees owed to the airlines under the use agreement residual landing fee formula being lower than the 2014 excess revenues. This decrease is offset in part by an increase in the balance of prior year excess landing fees not fully refunded to the signatory airlines as of year-end.

Non-current liabilities increased due to an increase in the net pension liability recorded pursuant to GASB 68. The 2015 increase in net pension liability is primarily the result of CERS' use of updated demographic and economic assumptions that affect the measurement of the total pension liability.

The 2015 increase in deferred outflow of resources is primarily due to changes in pension plan actuarial assumptions in 2015, while the decrease in deferred inflow of resources is related to the amortization of the pension plan actuarial adjustment for the difference between expected and actual plan experience.

Statement of Revenues, Expenses, and Changes in Net Position

The analysis below is a summary of the Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2015, 2014 and 2013 (in thousands of dollars):

	2015	2014	2013
Operating revenues			
Field			
Landing fees	$ 18,686	$ 14,762	$ 24,035
Ramp rentals	5,220	5,159	4,997
Other	152	149	154
Concessions	41,430	36,588	34,666
Fixed rentals	19,365	19,292	19,074
Rebilled services	2,754	2,730	2,808
Passenger facility charges transferred from airport facilities	3,628	5,967	7,443
Customer facility charges	5,744	4,365	4,305
Grants, federal awards and other transaction agreements	532	433	467
Police forfeiture revenues transferred from airport facilities	175	64	85
Investment income	168	162	255
Miscellaneous	214	343	285
Total operating revenues	98,068	90,014	98,574
Operating expenses			
Salaries, wages and benefits	41,326	34,879	34,176
Contracted services	18,312	16,710	14,721
Utilities	7,270	8,324	7,813
General administration	17,148	12,908	6,092
Supplies and capital items expensed	9,139	6,792	5,886
Insurance	1,245	1,383	1,231
Total operating expenses	94,440	80,996	69,919
Net operating revenues	3,628	9,018	28,655
Nonoperating changes in net position: increase (decrease)			
Grants and federal awards	8,150	8,106	17,547
Passenger facility charges	12,651	11,347	11,107
Passenger facility charges transferred to operations	(3,628)	(5,967)	(7,443)
Customer facility charges transferred from operations as general administrative expense	5,744	4,365	4,305
Customer facility charges returned to operations	-	-	(51)
Demolition of excess facilities funding transferred from operations as general administrative expense	9,800	7,445	-
Demolition of excess facilities funding returned to operations	-	(1)	-
Police forfeiture program revenues	774	490	571
Police forfeiture program revenues from sale of assets	-	6	-
Police forfeiture program revenues transferred to operations	(175)	(64)	(85)
Police forfeiture program revenues passed through to other local government	(2)	-	-
Investment income	199	353	217
Debt service interest funded from operations	(2,902)	(3,358)	(5,097)
Depreciation and amortization	(45,434)	(48,715)	(48,782)
Debt service and/or improvements to airport account funds transferred to operations as landing fee revenues	-	-	(1,000)
Noncapitalizable project costs	(280)	(800)	(182)
Net loss on disposal of capital assets	(394)	(426)	(2,103)
Third party funding of project costs	697	112	500
Reversion of ownership of leased faculties	-	142	-
Self funded health coverage			
Contributions from operations	4,422	4,532	4,418
Contributions from airport facilities	44	72	87
Contributions from employees	310	305	219
Claims incurred	(4,382)	(4,263)	(4,063)
Administrative fees	(229)	(201)	(151)
Premiums for stop loss and aggregate coverages	(364)	(408)	(372)
Pension adjustment due to adoption of GASB 68	-	657	-
Other	-	2	-
Total nonoperating changes in net position	(14,999)	(26,269)	(30,358)
Total changes in net position	(11,371)	(17,251)	(1,703)
Net position at the beginning of the year, previously stated	862,259	920,733	922,436
Restatement due to adoption of GASB 68	-	(41,223)	-
Net position at the beginning of the year, restated	862,259	879,510	922,436
Net position at the end of the year	$ 850,888	$ 862,259	$ 920,733

Operating Revenues and Expenses

Operating Revenues increased $8.1 million in 2015 after an $8.6 million decrease in 2014. As described in the Airline Rates and Charges section, under the residual use agreement landing fee formula, the overall increase in operating revenues from 2014 to 2015 is the result of a net increase in requirements. This net increase in requirements was comprised of a $13.4 million increase in operating expenses offset by a $5.4 million decrease in debt service related requirements.

Field revenues, which primarily consist of landing fees, increased by $3.9 million in 2015. Landing fees represent the balancing figure under the Airport's residual landing fee formula. Therefore, as discussed above, this change in landing fee revenues reflects the net variance in all other components of operating revenues, operating expenses and debt service.

Concession revenues increased $4.8 million primarily because of increased parking revenues driven by origin passenger growth.

PFCs transferred from airport facilities decreased by $2.3 million in 2015. PFCs transferred to operations from airport facilities represent PFCs transferred to meet the debt service requirements on Airport revenue bonds authorized to be paid from PFCs, as well as PFCs transferred to fund PFC eligible operating expenses. The 2015 decrease in PFCs transferred from airport facilities relates to a reduction in PFC funded debt service due to the 2014 early redemption of the Series 2003B bonds' March 1, 2015 and 2016 maturities.

CFCs are a per-rental-car-transaction day fee being collected by the Board to fund ground transportation related improvements. CFC revenues increased in 2015 primarily as the result of an increase in the per-rental-car-transaction day fee effective as of May 1, 2015. Also contributing was an increase in rental car transaction days related to the growth in origin passengers.

The primary components of the $13.4 million increase in 2015 operating expenses were a $6.4 million increase in salaries, wages and benefits, a $1.6 million increase in contracted services, a $4.2 million increase in general administration expense and a $2.3 million increase in supplies and capital items expensed. These increases were offset by a $1.1 million decrease in utilities.

The increase in salaries, wage and benefits was comprised of a $5.2 million increase in 2015 pension expense and a $1.2 million increase in other salaries, wages and benefits. The increase in pension expense was principally related to the implementation of GASB 68, which required the recording of $5.1 million of pension expense in addition to the amount recognized as expense as contributions were made during the year. Other salaries, wages and benefits increased largely as the result of wage increases, as well as an increase in the number of full time equivalent positions.

The 2015 growth in contracted services was related to repair and clean-up of various components of the Airport's storm water system, one-time moving sidewalk and escalator repairs, the relocation of the Board's administrative offices, maintenance on the Airport's aircraft fire training system, electrical system repairs and parking customer service enhancements.

Utilities costs decreased primarily due to lower electric and natural gas rates, as well as less usage in 2015 as compared to 2014.

As approved by the signatory airlines and described in Note 1 to the financial statements, included as general administration expense are the transfers of CFCs and funds being accumulated for demolition of excess facilities to the Restricted for Airport Facilities Account Group. CFCs and demolition funds returned to the Available for Current Operations Account Group to reimburse qualifying operating expenditures are recorded as reductions of general administration expense. The increase in general administration expense is related to an increase in the funds transferred in 2015 for the demolition of excess facilities pursuant to the terms of the signatory airline approval for the accumulation of these funds and an increase in CFCs transferred to the Restricted for Airport Facilities Account Group due to the previously discussed increase in CFC revenues. These increases are offset in part by a decrease in the amount of CFC reimbursed operating expenses which served to reduce general administration expense.

The $2.3 million increase in supplies and capital items expensed was primarily due to an increase in expensed small capital purchases in 2015 as compared to the amount required for 2014.

The 2015 decrease in debt service related requirements was the result of the 2014 early redemption of the Series 2002A, 2003C and 2007B bonds on March 1, 2014 as well as the early redemption of the March 1, 2015 and 2016 maturities of the Series 2003B bonds on October 15, 2014.

Nonoperating Changes In Net Position

PFCs collections increased by $1.3 million primarily as the result of the increase in enplanements. Also impacting PFC collections was an increase in the percentage of enplanements on which PFCs were collected due to the change in the mix of airlines operating at the Airport and origin passengers representing a larger percentage of total enplanements.

PFCs transferred to operations, as discussed above, decreased by $2.3 million in 2015 as compared to 2014 due to decreased PFC funded debt service requirements. The 2015 increase in CFCs transferred from operations was the result of the increase in CFC operating revenues, as discussed above.

The demolition of excess facilities funding transferred from operations represents the transfer of funds being accumulated for the demolition of excess facilities which, as previously discussed, increased in 2015 pursuant to the terms of the signatory airline approval pertaining to the accumulation of these funds.

Depreciation and amortization decreased in 2015 by $3.3 million due to a number of assets constructed as part of a large expansion project completed in 1994 becoming fully amortized in 2014.

Statement of Cash Flows

A comparative summary of the Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands of dollars):

	2015	2014	2013
Cash received from operations	$ 95,403	$ 92,156	$ 99,139
Cash paid for operations	(87,484)	(87,191)	(76,348)
Net cash provided by operating activities	7,919	4,965	22,791
Net cash provided by non-capital financing activities	2,587	5,830	6,640
Net cash provided by (used in) capital and related financing activities	10,478	(43,638)	(35,065)
Net cash (used in) provided by investing activities	(72,127)	6,816	20,985
Net cash used in non-capital, capital, financing and investing activities	(59,062)	(30,992)	(7,440)
Net (decrease) increase in cash	(51,143)	(26,027)	15,351
Cash at the beginning of the year	61,664	87,691	72,340
Cash at the end of the year	$ 10,521	$ 61,664	$ 87,691

The Airport's overall cash position decreased $51.1 million in 2015 after a $26.0 million decrease in 2014.

Net cash provided by operating activities in 2015 was $3.0 million more than the cash provided by operating activities in 2014. While net operating revenues decreased by $5.4 million in 2015, net cash provided by operating activities increased due to differences in the timing of cash receipts and payments as reflected in the 2015 and 2014 changes in asset and liability balances in the Available for Current Operations Account Group and the effect on the residual landing fee formula of the GASB 68 required recording of additional pension expense.

In 2015, $59.1 million of cash was used in non-capital, capital, financing and investing activities, representing a $28.1 million fluctuation from the $31.0 million of cash used in these activities in 2014. The $28.1 million increase in usage was the result of $3.2 million less cash being provided by non-capital financing activities and $78.9 million more cash being used in investing activities offset in part by $54.2 million less cash being used in capital and related financing activities.

The 2015 decrease in cash provided by non-capital financing activities was primarily due to a decrease in revenues in excess of operating expenses and debt service generated in 2015 as compared to 2014. Under the use agreement landing fee formula, this reduction is the result of reduced debt service requirements. The increase in cash being used in investing activities was the result of shifting funds from cash to investments over the course of the year.

The primary reasons for the $54.2 million decrease in cash used in capital and related financing activities was the 2014 use of $24.5 million to redeem bonds and the resulting 2015 decrease in cash used due to a decrease in required payments to bondholders. Also contributing to the increase in cash provided by capital and related financing activities were increases in CFC, PFC and grants and federal awards receipts as well as in the amount of funds accumulated for the demolition of excess facilities. These increases in cash provided were offset in part by an increase in capital expenditures.

5. Capital Assets and Debt Administration

Capital Assets

As of December 31, 2015, the Airport's capital assets balance, net of accumulated depreciation, was $736.9 million. As detailed in Note 4 to the financial statements, during 2015 the amount of capital assets gross of depreciation increased $21.7 million and accumulated depreciation increased $40.8 million. The increase in gross capital assets during 2015 was primarily related to the rehabilitation of an aircraft parking apron, the construction/renovation of facilities to which the Board's administrative offices and various other functions were relocated, baggage system improvements, capital improvements necessary to enable the demolition of Terminals 1 and 2, implementation of an enterprise asset management system, and the purchase of snow removal and other operational equipment.

Debt Administration

As of December 31, 2015, the Airport's only outstanding bonds were the Series 2003B fixed rate revenue bonds with an outstanding principal balance of $58.6 million. Pursuant to approvals previously received from the Federal Aviation Administration, the debt service on the Series 2003B 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, 2015, the Airport's underlying long-term bond ratings were "A3" from Moody's Investor Services, and "A-" from Standard and Poor's ("S&P"), both with a "stable" outlook, and "A-" from Fitch Ratings, with a "positive outlook". Other than refunding the currently outstanding 2003B bonds (see below), the Board does not currently have plans to issue new debt.

6. Subsequent Events

Airline Rates and Charges

A new use agreement with various airlines serving the Airport became effective on January 1, 2016. This agreement expires on December 31, 2020. Allegiant Air, Delta, DHL, Federal Express, Frontier Airlines and United have entered into the use agreement. On June 6, 2016, the Board received correspondence stating that American is in the process of signing the use agreement.

The new use agreement establishes the methodology for calculating the landing fees as well as the various terminal related rates and charges to be paid by any airlines which are parties to the new use agreement (hereinafter referred to as the "new agreement signatory airlines") under separate terminal lease agreements. The terms of these lease agreements expire coincident with the term of the new use agreements. The airline rates and charges methodology under the new use agreement provides that operating expenses as well as 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 costs allocated to the airfield net of revenue offsets allocated to the airfield are fully recovered through the payment of landing fees and terminal ramp area rentals. The costs allocated to the terminal net of the revenue offsets allocated to the terminal are recovered based the percentage of terminal space leased. In addition to the revenue offsets specifically allocated to the airfield and terminal for purposes of calculating rates, a portion of the net remaining revenues as defined in the use agreement are credited to reduce the terminal rentals to be paid by the new agreement signatory airlines under the separate terminal lease agreements.

In addition to the landing fees and terminal rentals and any other fees and charges allowable under the new use agreement, each new agreement signatory airline is required to make extraordinary coverage protection payments in any fiscal year in which the amount of revenues less operations and maintenance expenses as defined in the use agreement is or is forecasted to be less than 125% of the aggregate annual debt service requirement as calculated under the bond resolution in place at that time to secure the payment of the Airport's revenue bonds.

Debt Administration

On March 24, 2016, Moody's upgraded the Airport's long-term bond rating on the outstanding 2003B bonds to "A2" with a "stable" outlook.

On May 16, 2016, the Board authorized the issuance of Series 2016 bonds to fully refund the Series 2003B bonds. The Series 2016 bonds are planned to be sold as fixed rate revenue bonds and are anticipated to result in substantial interest savings and a reduction in the Airport's outstanding debt balance.

Also on May 16, 2016, the Board approved a new bond resolution to be implemented with the issuance of the Series 2016 bonds. Under this resolution, new funds and accounts will be established to provide for the deposit and flow of net revenues (revenues less operating and maintenance expenses as defined in the resolution) to be pledged for payment of the Series 2016 bonds and future revenue bonds to be issued by the Airport.

On June 6, 2016, Moody's affirmed its "A2" rating with a "stable" outlook on the Board's 2003B bonds while outstanding and assigned this rating and outlook to the 2016 refunding bonds to be issued.

On June 7, 2016, Fitch Ratings upgraded the Board's rating to "A+" with a "stable" outlook and assigned this rating to the 2003B bonds while outstanding and to the 2016 refunding bonds to be issued.

7. 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 Sheet
December 31, 2015

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Assets						
Current assets						
Cash	$ 5,670	$ 976	$ 1,931	$ 8,577	$ 756	$ 9,333
Investments (at fair value)	11,250	-	51,889	63,139	172	63,311
Accrued investment income receivable	-	-	35	35	-	35
Interaccount group investment income receivable	71	-	-	71	-	71
Accounts receivable	3,603	-	-	3,603	-	3,603
Interaccount group receivable	891	-	-	891	-	891
Interfund receivable	501	-	-	501	-	501
Grants, federal awards and other transaction agreements receivable	128	-	-	128	-	128
Customer facility charges receivable	458	-	-	458	-	458
Prepaid expenses	1,563	-	-	1,563	-	1,563
Total current assets	24,135	976	53,855	78,966	928	79,894
Non-current assets						
Cash	126	912	-	1,038	-	1,038
Cash - police forfeiture assets	-	-	150	150	-	150
Investments (at fair value)	600	4,297	146,056	150,953	4,559	155,512
Investments (at fair value) - police forfeiture assets	-	-	1,300	1,300	-	1,300
Accrued investment income receivable	-	-	245	245	8	253
Interaccount group investment income receivable	-	-	8	8	-	8
Accounts receivable	-	-	-	-	102	102
Interaccount group receivable	-	-	2,540	2,540	-	2,540
Interfund receivable	-	-	-	-	235	235
Grants, federal awards and other transaction agreements receivable	-	-	2,265	2,265	-	2,265
Passenger facility charges receivable	-	-	1,481	1,481	-	1,481
Prepaid expenses	232	-	-	232	-	232
Capital assets, non-depreciable	-	-	208,357	208,357	-	208,357
Capital assets, net of accumulated depreciation	-	-	528,538	528,538	-	528,538
Total non-current assets	958	5,209	890,940	897,107	4,904	902,011
Total assets	$ 25,093	$ 6,185	$ 944,795	$ 976,073	$ 5,832	$ 981,905
Deferred Outflow of Resources						
Pension	$ 8,376	$ -	$ -	$ 8,376	$ -	$ 8,376
Total deferred outflow of resources	8,376	-	-	8,376	-	8,376
Total assets and deferred outflow of resources	$ 33,469	$ 6,185	$ 944,795	$ 984,449	$ 5,832	$ 990,281
Liabilities						
Current Liabilities						
Accounts payable	$ 8,465	$ -	$ 2,575	$ 11,040	$ 427	$ 11,467
Accrued expenses	974	-	-	974	-	974
Interaccount group payable	2,540	-	891	3,431	-	3,431
Interfund payable	233	-	2	235	501	736
Interaccount group investment income payable	-	8	71	79	-	79
Contract retainage payable	28	-	1,285	1,313	-	1,313
Landing fees in excess of requirements	4,899	-	-	4,899	-	4,899
Assets held in trust	-	-	40	40	-	40
Funded revenue bonds payable	-	-	-	-	-	-
Accrued interest payable	-	968	-	968	-	968
Revenue bonds payable	-	-	-	-	-	-
Total current liabilities	17,139	976	4,864	22,979	928	23,907
Non-current liabilities						
Accounts payable	50	-	-	50	-	50
Accrued expenses	2,796	-	-	2,796	-	2,796
Revenue bonds payable	-	-	58,590	58,590	-	58,590
Net pension liability	50,810	-	-	50,810	-	50,810
Total non-current liabilities	53,656	-	58,590	112,246	-	112,246
Total liabilities	70,795	976	63,454	135,225	928	136,153
Deferred Inflow of Resources						
Pension	$ 3,240	$ -	$ -	$ 3,240	$ -	$ 3,240
Total deferred inflow of resources	3,240	-	-	3,240	-	3,240
Net Position						
Unrestricted	(40,566)	-	-	(40,566)	-	(40,566)
Invested in capital assets, net of related debt	-	-	678,305	678,305	-	678,305
Restricted	-	5,209	203,036	208,245	4,904	213,149
Total net position	(40,566)	5,209	881,341	845,984	4,904	850,888
Total liabilities , deferred inflow of resources and net position	$ 33,469	$ 6,185	$ 944,795	$ 984,449	$ 5,832	$ 990,281

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

Cincinnati/Northern Kentucky International Airport
Balance Sheet
December 31, 2014

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Assets						
Current assets						
Cash	$ 11,435	$ 976	$ 13,191	$ 25,602	$ 528	$ 26,130
Investments (at fair value)	-	-	40,596	40,596	144	40,740
Accrued investment income receivable	-	-	49	49	-	49
Interaccount group investment income receivable	43	-	-	43	-	43
Accounts receivable	3,241	-	-	3,241	-	3,241
Interaccount group receivable	1,093	-	610	1,703	-	1,703
Interfund receivable	358	-	-	358	-	358
Grants, federal awards and other transaction agreements receivable	90	-	-	90	-	90
Customer facility charges receivable	342	-	-	342	-	342
Prepaid expenses	1,334	-	-	1,334	-	1,334
Total current assets	17,936	976	54,446	73,358	672	74,030
Non-current assets						
Cash	1,194	846	32,414	34,454	-	34,454
Cash - police forfeiture assets	-	-	1,080	1,080	-	1,080
Investments (at fair value)	-	4,365	98,141	102,506	4,613	107,119
Accrued investment income receivable	-	-	142	142	7	149
Interaccount group investment income receivable	-	-	7	7	-	7
Accounts receivable	-	-	99	99	196	295
Interaccount group receivable	-	-	2,591	2,591	-	2,591
Interfund receivable	-	-	-	-	187	187
Grants, federal awards and other transaction agreements receivable	-	-	10,346	10,346	-	10,346
Passenger facility charges receivable	-	-	1,244	1,244	-	1,244
Prepaid expenses	232	-	-	232	84	316
Capital assets, non-depreciable	-	-	206,858	206,858	-	206,858
Capital assets, net of accumulated depreciation	-	-	549,143	549,143	-	549,143
Total non-current assets	1,426	5,211	902,065	908,702	5,087	913,789
Total assets	$ 19,362	$ 6,187	$ 956,511	$ 982,060	$ 5,759	$ 987,819
Deferred Outflow of Resources						
Pension	$ 1,712	$ -	$ -	$ 1,712	$ -	$ 1,712
Total deferred outflow of resources	1,712	-	-	1,712	-	1,712
Total assets and deferred outflow of resources	$ 21,074	$ 6,187	$ 956,511	$ 983,772	$ 5,759	$ 989,531
Liabilities						
Current Liabilities						
Accounts payable	$ 4,686	$ -	$ 3,585	$ 8,271	$ 314	$ 8,585
Accrued expenses	1,804	-	-	1,804	-	1,804
Interaccount group payable	3,201	-	1,093	4,294	-	4,294
Interfund payable	185	-	2	187	358	545
Interaccount group investment income payable	-	7	43	50	-	50
Contract retainage payable	-	-	631	631	-	631
Landing fees in excess of requirements	7,020	-	-	7,020	-	7,020
Assets held in trust	-	-	40	40	-	40
Funded revenue bonds payable	-	-	-	-	-	-
Accrued interest payable	-	969	-	969	-	969
Revenue bonds payable	-	-	-	-	-	-
Total current liabilities	16,896	976	5,394	23,266	672	23,938
Non-current liabilities						
Accounts payable	31	-	-	31	-	31
Accrued expenses	2,435	-	-	2,435	-	2,435
Revenue bonds payable	-	-	58,590	58,590	-	58,590
Net pension liability	38,228	-	-	38,228	-	38,228
Total non-current liabilities	40,694	-	58,590	99,284	-	99,284
Total liabilities	57,590	976	63,984	122,550	672	123,222
Deferred Inflow of Resources						
Pension	$ 4,050	$ -	$ -	$ 4,050	$ -	$ 4,050
Total deferred inflow of resources	4,050	-	-	4,050	-	4,050
Net Position						
Unrestricted	(40,566)	-	-	(40,566)	-	(40,566)
Invested in capital assets, net of related debt	-	-	697,412	697,412	-	697,412
Restricted	-	5,211	195,115	200,326	5,087	205,413
Total net position	(40,566)	5,211	892,527	857,172	5,087	862,259
Total liabilities, deferred inflow of resources and net position -restated	$ 21,074	$ 6,187	$ 956,511	$ 983,772	$ 5,759	$ 989,531

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

Cincinnati/Northern Kentucky International Airport
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2015

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Operating revenues						
Field						
Landing fees	$ 18,686	$ -	$ -	$ 18,686	$ -	$ 18,686
Ramp rentals	5,220	-	-	5,220	-	5,220
Other	152	-	-	152	-	152
Concessions	41,430	-	-	41,430	-	41,430
Fixed rentals	19,365	-	-	19,365	-	19,365
Rebilled services	2,754	-	-	2,754	-	2,754
Passenger facility charges transferred from airport facilities	3,628	-	-	3,628	-	3,628
Customer facility charges	5,744	-	-	5,744	-	5,744
Grants, federal awards and other transaction agreements	532	-	-	532	-	532
Police forfeiture revenues transferred from airport facilities	175	-	-	175	-	175
Investment income	168	-	-	168	-	168
Miscellaneous	214	-	-	214	-	214
Total operating revenues	98,068	-	-	98,068	-	98,068
Operating expenses						
Salaries, wages and benefits	41,326	-	-	41,326	-	41,326
Contracted services	18,312	-	-	18,312	-	18,312
Utilities	7,270	-	-	7,270	-	7,270
General administration	17,148	-	-	17,148	-	17,148
Supplies and capital items expensed	9,139	-	-	9,139	-	9,139
Insurance	1,245	-	-	1,245	-	1,245
Total operating expenses	94,440	-	-	94,440	-	94,440
Net operating revenues	3,628	-	-	3,628	-	3,628
Nonoperating changes in net position: increase (decrease)						
Disposition of net operating revenues						
Debt service						
Revenue bond principal	-	-	-	-	-	-
Revenue bond interest, excluding capitalized interest	(2,902)	2,902	-	-	-	-
Total debt service	(2,902)	2,902	-	-	-	-
Excess revenues over debt service						
Depreciation account	-	-	-	-	-	-
Restricted for debt service and/or improvements to airport accounts	-	-	-	-	-	-
Passenger facility charge project account	(726)	-	726	-	-	-
Total excess revenues over debt service	(726)	-	726	-	-	-
Total disposition of net operating revenues	$ (3,628)	$ 2,902	$ 726	$ -	$ -	$ -

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

Cincinnati/Northern Kentucky International Airport
Statement of Revenues, Expenses, and Changes in Net Position, continued
Year Ended December 31, 2015

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Other nonoperating changes in net position						
Grants and federal awards	$ -	$ -	$ 8,150	$ 8,150	$ -	$ 8,150
Passenger facility charges	-	-	12,651	12,651	-	12,651
Passenger facility charges transferred to operations	-	-	(3,628)	(3,628)	-	(3,628)
Customer facility charges transferred from operations as general administration expense	-	-	5,744	5,744	-	5,744
Demolition of excess facilities funding transferred from operations as general administration expense	-	-	9,800	9,800	-	9,800
Police forfeiture program revenues	-	-	774	774	-	774
Police forfeiture program revenues transferred to operations	-	-	(175)	(175)	-	(175)
Police forfeiture program revenues passed through to other local government	-	-	(2)	(2)	-	(2)
Investment income	-	(2)	185	183	16	199
Debt service interest funded from operations	-	(2,902)	-	(2,902)	-	(2,902)
Depreciation and amortization	-	-	(45,434)	(45,434)	-	(45,434)
Noncapitalizable project costs	-	-	(280)	(280)	-	(280)
Net loss on disposal of capital assets	-	-	(394)	(394)	-	(394)
Third party funding of project costs	-	-	697	697	-	697
Self funded health coverage						
Contributions from operations	-	-	-	-	4,422	4,422
Contributions from airport facilities	-	-	-	-	44	44
Contributions from employees	-	-	-	-	310	310
Claims incurred	-	-	-	-	(4,382)	(4,382)
Administrative fees	-	-	-	-	(229)	(229)
Premiums for stop loss and aggregate coverages	-	-	-	-	(364)	(364)
Total other nonoperating changes in net position	-	(2,904)	(11,912)	(14,816)	(183)	(14,999)
Total changes in net position	-	(2)	(11,186)	(11,188)	(183)	(11,371)
Net position at the beginning of year	(40,566)	5,211	892,527	857,172	5,087	862,259
Net position at the end of year	$ (40,566)	$ 5,209	$ 881,341	$ 845,984	$ 4,904	$ 850,888

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

Cincinnati/Northern Kentucky International Airport
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2014

(in thousands of dollars)

	Enterprise Fund: Available for Current Operations	Enterprise Fund: Restricted for Debt Service	Enterprise Fund: Restricted for Airport Facilities	Total	Internal Service Fund: Self-funded health coverage	Total
Operating revenues						
Field						
Landing fees	$ 14,762	$ -	$ -	$ 14,762	$ -	$ 14,762
Ramp rentals	5,159	-	-	5,159	-	5,159
Other	149	-	-	149	-	149
Concessions	36,588	-	-	36,588	-	36,588
Fixed rentals	19,292	-	-	19,292	-	19,292
Rebilled services	2,730	-	-	2,730	-	2,730
Passenger facility charges transferred from airport facilities	5,967	-	-	5,967	-	5,967
Customer facility charges	4,365	-	-	4,365	-	4,365
Grants, federal awards and other transaction agreements	433	-	-	433	-	433
Police forfeiture revenues transferred from airport facilities	64	-	-	64	-	64
Investment income	162	-	-	162	-	162
Miscellaneous	343	-	-	343	-	343
Total operating revenues	90,014	-	-	90,014	-	90,014
Operating expenses						
Salaries, wages and benefits	34,879	-	-	34,879	-	34,879
Contracted services	16,710	-	-	16,710	-	16,710
Utilities	8,324	-	-	8,324	-	8,324
General administration	12,908	-	-	12,908	-	12,908
Supplies and capital items expensed	6,792	-	-	6,792	-	6,792
Insurance	1,383	-	-	1,383	-	1,383
Total operating expenses	80,996	-	-	80,996	-	80,996
Net operating revenues	9,018	-	-	9,018	-	9,018
Nonoperating changes in net position: increase (decrease)						
Disposition of net operating revenues						
Debt service						
Revenue bond principal	(3,856)	3,856	-	-	-	-
Revenue bond interest, excluding capitalized interest	(3,358)	3,358	-	-	-	-
Total debt service	(7,214)	7,214	-	-	-	-
Excess revenues over debt service						
Depreciation account	-	-	-	-	-	-
Restricted for debt service and/or improvements to airport accounts	(610)	-	610	-	-	-
Passenger facility charge project account	(1,194)	-	1,194	-	-	-
Total excess revenues over debt service	(1,804)	-	1,804	-	-	-
Total disposition of net operating revenues	$ (9,018)	$ 7,214	$ 1,804	$ -	$ -	$ -

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

Cincinnati/Northern Kentucky International Airport
Statement of Revenues, Expenses, and Changes in Net Position, continued
Year Ended December 31, 2014

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Other nonoperating changes in net position						
Grants and federal awards	$ -	$ -	$ 8,106	$ 8,106	$ -	$ 8,106
Passenger facility charges	-	-	11,347	11,347	-	11,347
Passenger facility charges transferred to operations	-	-	(5,967)	(5,967)	-	(5,967)
Customer facility charges transferred from operations as general administration expense	-	-	4,365	4,365	-	4,365
Demolition of excess facilities funding transferred from operations as general administration expense	-	-	7,445	7,445	-	7,445
Demolition of excess facilities funding returned to operations as a reduction of general administration expense	-	-	(1)	(1)	-	(1)
Police forfeiture program revenues	-	-	490	490	-	490
Police forfeiture program revenues from sale of assets	-	-	6	6	-	6
Police forfeiture program revenues transferred to operations	-	-	(64)	(64)	-	(64)
Investment income	-	5	325	330	23	353
Debt service principal funded from operations	-	(3,856)	3,856	-	-	-
Debt service interest funded from operations	-	(3,358)	-	(3,358)	-	(3,358)
Transfer of passenger facility charges for redemption of a portion of 2003B revenue bonds	-	2,848	(2,848)	-	-	-
Redemption of portion of 2003B revenue bonds	-	(2,848)	2,848	-	-	-
Release of bond reserve for redemption of the outstanding 2002A, 2003C and 2007B revenue bonds	-	(19,880)	19,880	-	-	-
Release of excess Interest and Redemption account funds for redemption of 2002A, 2003C and 2007B revenue bonds	-	(477)	477	-	-	-
Depreciation and amortization	-	-	(48,715)	(48,715)	-	(48,715)
Noncapitalizable project costs	-	-	(800)	(800)	-	(800)
Net loss on disposal of capital assets	-	-	(426)	(426)	-	(426)
Third party funding of project costs	-	-	112	112	-	112
Reversion of ownership of leased facilities	-	-	142	142	-	142
Self funded health coverage						
Contributions from operations	-	-	-	-	4,532	4,532
Contributions from airport facilities	-	-	-	-	72	72
Contributions from employees	-	-	-	-	305	305
Claims incurred	-	-	-	-	(4,263)	(4,263)
Administrative fees	-	-	-	-	(201)	(201)
Premiums for stop loss and aggregate coverages	-	-	-	-	(408)	(408)
Pension adjustment due to adoption of GASB 68	657	-	-	657	-	657
Other	-	-	2	2	-	2
Total other nonoperating changes in net position	657	(27,566)	580	(26,329)	60	(26,269)
Total changes in net position	657	(20,352)	2,384	(17,311)	60	(17,251)
Net position at the beginning of year, previously stated	-	25,563	890,143	915,706	5,027	920,733
Deferred outflow of resources	1,790	-	-	1,790	-	1,790
Net pension liability	(43,013)	-	-	(43,013)	-	(43,013)
Restatement due to adoption of GASB 68	(41,223)	-	-	(41,223)	-	(41,223)
Net position at the beginning of year, restated	(41,223)	25,563	890,143	874,483	5,027	879,510
Net position at the end of year, restated	$ (40,566)	$ 5,211	$ 892,527	$ 857,172	$ 5,087	$ 862,259

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

Cincinnati/Northern Kentucky International Airport
Statement of Cash Flows
Year Ended December 31, 2015

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Cash flows from operating activities						
Cash received from customers	$ 90,803	$ -	$ -	$ 90,803	$ -	$ 90,803
Cash received from restricted account groups	4,600	-	-	4,600	-	4,600
Cash paid to suppliers	(31,774)	-	-	(31,774)	-	(31,774)
Cash paid for the direct benefit of employees	(33,943)	-	-	(33,943)	-	(33,943)
Cash paid to restricted account groups	(16,891)	-	-	(16,891)	-	(16,891)
Cash paid to internal service fund	(4,876)	-	-	(4,876)	-	(4,876)
Net cash provided by operating activities	7,919	-	-	7,919	-	7,919
Cash flows from non-capital financing activities						
Transfers of cash to or from current operations account group						
Prior year revenues in excess of operating expenses and debt service	-	-	1,804	1,804	-	1,804
Contributions for employee health coverage	-	-	-	-	4,566	4,566
Police forfeiture program transfers	-	-	(176)	(176)	-	(176)
Health coverage contributions from employees	-	-	-	-	310	310
Police forfeiture program receipts	-	-	774	774	-	774
Police forfeiture program revenues paid to other local government	-	-	(2)	(2)	-	(2)
Claims paid	-	-	-	-	(4,150)	(4,150)
Administrative fees	-	-	-	-	(175)	(175)
Premiums for stop loss and aggregate coverages	-	-	-	-	(364)	(364)
Net cash provided by non-capital financing activities	-	-	2,400	2,400	187	2,587
Cash flows from capital and related financing activities						
Transfers of cash to or from current operations account group						
Debt service	(2,902)	2,902	-	-	-	-
Customer facility charges	-	-	5,482	5,482	-	5,482
Passenger facility charges	-	-	(3,628)	(3,628)	-	(3,628)
Funds for demolition of excess facilities	-	-	9,604	9,604	-	9,604
Demolition of excess facilities	-	-	(125)	(125)	-	(125)
Acquisition and construction of airport facilities - reimbursement of capitalized labor	-	-	(538)	(538)	-	(538)
Non-capitalizable project costs	-	-	(143)	(143)	-	(143)
Grants, federal awards and other transaction agreements	-	-	16,232	16,232	-	16,232
Passenger facility charge receipts	-	-	12,414	12,414	-	12,414
Acquisition and construction of airport facilities	-	-	(26,914)	(26,914)	-	(26,914)
Proceeds from sale of fixed assets	-	-	200	200	-	200
Debt service interest paid on revenue bonds	-	(2,902)	-	(2,902)	-	(2,902)
Third party funding of project costs	-	-	796	796	-	796
Net cash (used in) provided by capital and related financing activities	(2,902)	-	13,380	10,478	-	10,478
Cash flows from investing activities						
Proceeds from sales and maturities of investments	6,600	5,838	389,871	402,309	9,015	411,324
Purchase of investments	(18,450)	(5,838)	(450,985)	(475,273)	(9,007)	(484,280)
Investment income	1	81	847	929	33	962
Transfers of investment income						
From current operations account group	-	-	1	1	-	1
To current operations account group	-	-	(133)	(133)	-	(133)
To restricted for airport facilities account group	(1)	(15)	15	(1)	-	(1)
Net cash (used in) provided by investing activities	(11,850)	66	(60,384)	(72,168)	41	(72,127)
Net (decrease) increase in cash	(6,833)	66	(44,604)	(51,371)	228	(51,143)
Cash at the beginning of the year	12,629	1,822	46,685	61,136	528	61,664
Cash at the end of the year	$ 5,796	$ 1,888	$ 2,081	$ 9,765	$ 756	$ 10,521

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

Cincinnati/Northern Kentucky International Airport
Statement of Cash Flows, continued
Year Ended December 31, 2015

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	**Restricted for Debt Service**	**Restricted for Airport Facilities**	**Total**	**Self-funded health coverage**	**Total**
Reconciliation of net operating revenues to net cash provided by operating activities						
Net operating revenues	$ 3,628	$ -	$ -	$ 3,628	$ -	$ 3,628
Adjustments to reconcile net operating revenues to net cash provided by operating activities						
Current year excess revenues over debt service						
Restricted for debt service and/or improvements to airport accounts	-	-	-	-	-	-
Passenger facility charge project account	(726)	-	-	(726)	-	(726)
Change in assets and liabilities						-
Increase in interaccount group investment income receivables	(28)	-	-	(28)	-	(28)
Increase in accounts receivables	(362)	-	-	(362)	-	(362)
Decrease in interaccount group receivables	202	-	-	202	-	202
Increase in interfund receivables	(143)	-	-	(143)	-	(143)
Increase in grants, federal awards and other transaction agreements receivables	(38)	-	-	(38)	-	(38)
Increase in customer facility charges receivables	(116)	-	-	(116)	-	(116)
Increase in prepaid expenses	(229)	-	-	(229)	-	(229)
Increase in accounts payables	3,798	-	-	3,798	-	3,798
Decrease in accrued expenses	(469)	-	-	(469)	-	(469)
Increase in contract retainage payables	28	-	-	28	-	28
Decrease in interaccount group payables	(661)	-	-	(661)	-	(661)
Increase in interfund payables	48	-	-	48	-	48
Decrease in landing fees in excess of requirement	(2,121)	-	-	(2,121)	-	(2,121)
Increase in net pension liability and related deferred inflow/outflow of resources	5,108	-	-	5,108	-	5,108
Total adjustments	4,291	-	-	4,291	-	4,291
Net cash provided by operating activities	$ 7,919	$ -	$ -	$ 7,919	$ -	$ 7,919

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

Cincinnati/Northern Kentucky International Airport
Statement of Cash Flows
Year Ended December 31, 2014

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Cash flows from operating activities						
Cash received from customers	$ 85,312	$ -	$ -	$ 85,312	$ -	$ 85,312
Cash received from restricted account groups	6,844	-	-	6,844	-	6,844
Cash paid to suppliers	(33,081)	-	-	(33,081)	-	(33,081)
Cash paid for the direct benefit of employees	(32,318)	-	-	(32,318)	-	(32,318)
Cash paid to restricted account groups	(16,862)	-	-	(16,862)	-	(16,862)
Cash paid to internal service fund	(4,930)	-	-	(4,930)	-	(4,930)
Net cash provided by operating activities	4,965	-	-	4,965	-	4,965
Cash flows from non-capital financing activities						
Transfers of cash to or from current operations account group						
Prior year revenues in excess of operating expenses and debt service	-	-	5,731	5,731	-	5,731
Passenger facility charges	-	-	(376)	(376)	-	(376)
Contributions for employee health coverage	-	-	-	-	4,625	4,625
Police forfeiture program transfers	-	-	(60)	(60)	-	(60)
Health coverage contributions from employees	-	-	-	-	305	305
Police forfeiture program receipts	-	-	490	490	-	490
Claims paid	-	-	-	-	(4,276)	(4,276)
Administrative fees	-	-	-	-	(201)	(201)
Premiums for stop loss and aggregate coverages	-	-	-	-	(408)	(408)
Net cash provided by non-capital financing activities	-	-	5,785	5,785	45	5,830
Cash flows from capital and related financing activities						
Transfers of cash to or from current operations account group						
Debt service	(7,214)	7,214	-	-	-	-
Customer facility charges	-	-	4,305	4,305	-	4,305
Passenger facility charges	-	-	(5,968)	(5,968)	-	(5,968)
Funds for demolition of excess facilities	-	-	6,825	6,825	-	6,825
Acquisition and construction of airport facilities - reimbursement of capitalized labor	-	-	(277)	(277)	-	(277)
Transfer of passenger facility charges for redemption of a portion of 2003B revenue bonds	-	2,848	(2,848)	-	-	-
Redemption of a portion of 2003B revenue bonds with passenger facility charges	-	(2,848)	-	(2,848)	-	(2,848)
Redemption of a portion of 2003B revenue bonds with Interest and Redemption account funds	-	(1,377)	-	(1,377)	-	(1,377)
Redemption of outstanding 2003A, 2003C and 2007B revenue bonds with bond reserve funds	-	(19,880)	-	(19,880)	-	(19,880)
Redemption of outstanding 2003A, 2003C and 2007B bonds with excess Interest and Redemption account funds	-	(477)	-	(477)	-	(477)
Non-capitalizable project costs	-	-	(789)	(789)	-	(789)
Grants, federal awards and other transaction agreements	-	-	3,032	3,032	-	3,032
Passenger facility charge receipts	-	-	11,275	11,275	-	11,275
Acquisition and construction of airport facilities	-	-	(16,414)	(16,414)	-	(16,414)
Third party funding of project costs	-	-	212	212	-	212
Proceeds from sale of fixed assets	-	-	46	46	-	46
Debt service principal paid on revenue bonds	-	(17,735)	-	(17,735)	-	(17,735)
Debt service interest paid on revenue bonds	-	(3,555)	-	(3,555)	-	(3,555)
Other	-	-	(13)	(13)	-	(13)
Net cash used in capital and related financing activities	(7,214)	(35,810)	(614)	(43,638)	-	(43,638)
Cash flows from investing activities						
Proceeds from sales and maturities of investments	-	1,540	404,919	406,459	4,527	410,986
Purchase of investments	-	(2,080)	(398,098)	(400,178)	(5,040)	(405,218)
Investment income	-	84	1,085	1,169	41	1,210
Transfers of investment income						
From current operations account group	-	-	1	1	-	1
To current operations account group	-	(3)	(160)	(163)	-	(163)
To restricted for airport facilities account group	-	(13)	13	-	-	-
Net cash (used in) provided by investing activities	-	(472)	7,760	7,288	(472)	6,816
Net (decrease) increase in cash	(2,249)	(36,282)	12,931	(25,600)	(427)	(26,027)
Cash at the beginning of the year	14,878	38,104	33,754	86,736	955	87,691
Cash at the end of the year	$ 12,629	$ 1,822	$ 46,685	$ 61,136	$ 528	$ 61,664

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

Cincinnati/Northern Kentucky International Airport
Statement of Cash Flows, continued
Year Ended December 31, 2014

(in thousands of dollars)

	Enterprise Fund				Internal Service Fund	
	Available for Current Operations	Restricted for Debt Service	Restricted for Airport Facilities	Total	Self-funded health coverage	Total
Reconciliation of net operating revenues to net cash provided by operating activities						
Net operating revenues	$ 9,018	$ -	$ -	$ 9,018	$ -	$ 9,018
Adjustments to reconcile net operating revenues to net cash provided by operating activities						
Current year excess revenues over debt service						
Restricted for debt service and/or improvements to airport accounts	(610)	-	-	(610)	-	(610)
Passenger facility charge project account	(1,194)	-	-	(1,194)	-	(1,194)
Change in assets and liabilities						-
Decrease in interaccount group investment income receivables	9	-	-	9	-	9
Decrease in accounts receivables	365	-	-	365	-	365
Decrease in interaccount group receivables	177	-	-	177	-	177
Increase in interfund receivables	(110)	-	-	(110)	-	(110)
Decrease in grants, federal awards and other transaction agreements receivables	67	-	-	67	-	67
Increase in customer facility charges receivables	(22)	-	-	(22)	-	(22)
Increase in prepaid expenses	(336)	-	-	(336)	-	(336)
Decrease in accounts payables	(1,286)	-	-	(1,286)	-	(1,286)
Increase in accrued expenses	179	-	-	179	-	179
Decrease in interaccount group payables	(3,199)	-	-	(3,199)	-	(3,199)
Increase in interfund payables	184	-	-	184	-	184
Increase in landing fees in excess of requirements	1,723	-	-	1,723	-	1,723
Total adjustments	(4,053)	-	-	(4,053)	-	(4,053)
Net cash provided by operating activities	$ 4,965	$ -	$ -	$ 4,965	$ -	$ 4,965

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

(in thousands of dollars)

1. Basis of Accounting

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").

The basis of accounting followed by the Airport in 2015 and prior is designed to comply with various revenue bond resolutions and "use agreements" in effect during those time periods (more fully described below). The major variances of this basis from accounting principles generally accepted in the United States of America relate to fund/account group structure and to the accounting for depreciation, debt service payments, debt defeasance including expensing gains or losses, bond issuance costs, capitalized interest, investment income, interest expense incurred on borrowings, supplies inventory, and the presentation of interaccount group and interfund receivables and payables. These items, except for the interaccount group and interfund receivables and payables, are charged/credited to the net position of the applicable account group rather than being reflected in the Balance Sheet or as revenues and expenses on the Statement of Revenues, Expenses, and Changes in Net Position. In addition, due to the requirement that they be available to finance operating expenses and/or to satisfy debt service requirements, certain sources of funds, which are typically considered to be non-operating sources, are classified as operating revenues.

Authoritative Pronouncements

The Airport complies with all applicable Governmental Accounting Standards Board ("GASB") statements to the extent they do not conflict with the provisions of the use agreements or the various bond resolutions.

The Airport is a business-type activity, as defined by 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 on the accrual basis of accounting. As such, the account groups utilized to account for the Airport's operating, capital and debt service activities collectively represent the Airport's Enterprise Fund.

Internal Service Funds, in accordance with GASB Statement No. 34, may be used to report activities which provide goods or services on a cost reimbursement basis to other funds. Effective January 1, 2009, the Airport, by resolution of the Board, established an Internal Service Fund ("ISF") to account for all activities of the self-funded health coverages maintained for employees (more fully explained in Note 9).

Due to the Airport's reporting as an Enterprise Fund, as required by GASB Statement No. 34, 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 Sheet date 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 Sheet date and are needed to cover current liabilities which exist at the Balance Sheet date. Liabilities are classified as current if they are likely to be paid within one year of the Balance Sheet date.

(in thousands of dollars)

Significant Upcoming Implementations
GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Airport has not yet determined the effects that the implementation of this statement will have on its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and* No. *68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust not covered by Statements No. 67 and No. 68. This statement is effective for the Airport's fiscal year ended December 31, 2016. The Airport has not determined what impact, if any, this statement will have on its financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses the financial reports 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. This statement also sets forth note disclosure requirements for defined contribution OPEB plans. This statement is effective for the Airport's fiscal year ended December 31, 2017. The Airport has not determined what impact, if any, this statement will have on its 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 the face of the 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. The Airport has not yet determined what impact this statement will have on its financial statements.

(in thousands of dollars)

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement replaces the requirements of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement identifies the hierarchy of generally accepted accounting principles ("GAAP"), reducing the GAAP hierarchy to two categories of authoritative GAAP and addressing the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for the Airport's fiscal year ended December 31, 2016. The Airport has not determined what impact, if any, this statement will have on its financial statements.

In March 2016, the GASB issued 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 required supplementary information, 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. This statement is effective for the Airport's fiscal year ended December 31, 2017. The Airport has not determined what impact, if any, this statement will have on its financial statements.

Operating Revenue Requirements
The provisions of the bond resolutions in effect during 2015 and 2014 require, among other things, that rates and fees charged for the use of Airport facilities must be sufficient to provide net revenues (revenues less operations and maintenance expenses) equal to at least 120% of the current principal and interest requirements of the bonds outstanding plus the required payments into the Depreciation Account (a restricted account more fully described in Note 3).

The Board has previously entered into "use agreements" with certain airlines ("signatory airlines") serving the Airport, which provide the basis for determining landing fee rates and other charges to those airlines, for the use of Airport facilities for as long as any of the revenue bonds are outstanding. The use agreements in effect during 2015 and 2014 provide that in no event shall Airport revenues be less than that required by the various bond resolutions. Under provisions of the use agreements, the signatory airlines have agreed to pay sufficient rates and charges which will, together with other revenues of the Airport and other funds lawfully available, produce Airport revenues sufficient to pay all operating, maintenance, repair and administrative expenses of the Airport (exclusive of depreciation), plus the greater of a) 125% of the amount required to be paid each year into the Bond Interest and Redemption Account ("debt service requirements"); b) the aggregate amount required to be paid each year into the Bond Interest and Redemption, the Bond Reserve and the Depreciation Accounts; or c) the amount required by the various bond resolutions as previously described (these restricted accounts are more fully described in Note 3).

In accordance with the basis of accounting described above, the primary components of operating revenues are revenues from landing fees, terminal and ramp rentals, commercial building and ground rentals, concession revenues, rebilled utilities, certain grants and facilities charges and certain portions of investment income. Sources of funding which result from capital or financing activities, as well as the portions of investment income not considered under the bond resolutions and use agreements to be operating revenues, are recorded as non-operating sources.

(in thousands of dollars)

In 2015 and 2014, operating revenues aggregating $98,068 and $90,014, respectively, were sufficient to satisfy all of the above requirements. Included in these revenues are current amounts receivable from tenants at December 31, 2015 and 2014 of $3,603 and $3,241, respectively. These amounts, which are classified as accounts receivable on the Balance Sheets, are presented net of the allowance for doubtful accounts at December 31, 2015 and 2014 of $53 and $23, respectively.

Subsequent Event
A new use agreement with various airlines serving the Airport became effective on January 1, 2016 and expires on December 31, 2020. The new use agreement establishes the methodology for calculating the landing fees as well as the various terminal related rates and charges to be paid by any airlines which are parties to the new use agreement (hereinafter referred to as the "new agreement signatory airlines") under separate terminal lease agreements. The terms of these lease agreements expire coincident with the term of the new use agreements. The airline rates and charges methodology under the new use agreement provides that operating expenses as well as 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 costs allocated to the airfield net of revenue offsets allocated to the airfield are fully recovered through the payment of landing fees and terminal ramp area rentals. The costs allocated to the terminal net of the revenue offsets allocated to the terminal are recovered based the percentage of terminal space leased. In addition to the revenue offsets specifically allocated to the airfield and terminal for purposes of calculating rates, a portion of the net remaining revenues as defined in the use agreement are credited to reduce the terminal rentals to be paid by the new agreement signatory airlines under the separate terminal lease agreements.

In addition to the landing fees and terminal rentals and any other fees and charges allowable under the new use agreement, each new agreement signatory airline is required to make extraordinary coverage protection payments in any fiscal year in which the amount of revenues less operation and maintenance expenses as defined in the use agreement is or is forecasted to be less than 125% of the aggregate annual debt service requirement as calculated under the bond resolution in place at that time to secure the payment of the Airport's revenue bonds.

Restricted Accounts
The Airport maintains restricted accounts (see Note 3) which are grouped under the following financial statement headings:

Enterprise Fund
- Available for Current Operations Account Group:
  - Passenger Facility Charge Revenue Accounts ("PFC Revenue Accounts")
- Restricted for Debt Service Account Group:
  - Bond Reserve Account
  - Bond Interest and Redemption Account
- Restricted for Airport Facilities Account Group:
  - Construction and Land Accounts
  - Depreciation Account

(in thousands of dollars)

Passenger Facility Charge Project Account ("PFC Project Account")
Customer Facility Charge Account ("CFC Account")
Police Forfeiture Account
Debt Service and/or Improvements to Airport Accounts
Demolition of Excess Facilities Account ("DEF Account")

Internal Service Fund
Self-funded Health Coverage Account

As more fully described in Note 3, some of the resources listed above are restricted by outside parties such as the Federal Aviation Administration ("FAA") and the signatory airlines. 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 apply restricted resources when an obligation is incurred for which both restricted and unrestricted net position are available for use.

Airport Facilities

Additions to Airport facilities with costs greater than $10 are carried as assets in the Restricted for Airport Facilities Account Group. Those with costs less than $10 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, ranging from three to forty years, and is recognized as a direct reduction of the Restricted for Airport Facilities Account Group net position. Assets with costs of less than $50 are typically replaced every three to five years and the effect on the financial statements of not depreciating these assets is insignificant to the financial position of the Airport. Replacements of $50 and under are expensed and the cost of the asset replaced remains as an asset included in Airport facilities. The cost of other assets retired, as well as any related accumulated depreciation, is removed from the related account, and the net of these amounts, less any proceeds received from disposition, is transferred to the Restricted for Airport Facilities Account Group net position. In 2015 and 2014, the costs of additions and replacements which were less than the capitalization thresholds and which therefore were expensed totaled $3,007 and $1,050, respectively. These amounts are included in supplies and capital items expensed in the Statement of Revenues, Expenses and Changes in Net Position.

Repairs and maintenance which do not substantially increase the capacity, improve the operational efficiency or extend the useful lives of Airport assets are expensed. 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 the 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 fair market value of such reverted property is recorded as a capital asset in the Restricted for Airport Facilities Account Group.

For those revenue bonds which have been issued for the funding of construction projects, the interest which accrues during the expected construction period is funded from bond proceeds and is capitalized as a cost of the construction project in the Restricted for Airport Facilities Account

(in thousands of dollars)

Group. This serves to reduce the amount of interest which would otherwise be funded from operations.

Passenger Facility Charges
In 1994, the 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, are credited to the net position of the Restricted for Airport Facilities Account Group and are deposited into the PFC Project Account. Amounts collected by the airlines but not yet remitted to the Airport are classified as PFCs receivable. As of December 31, 2015, the Airport has received approval on a total of fourteen PFC applications. The approvals authorize the Airport to collect PFCs for approved projects up to the amount of allowable project costs, but not to exceed $590,732.

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 PFC Revenue Accounts (within the Available for Current Operations Account Group), PFC Interest and Redemption Accounts (within the general Bond Interest and Redemption Account in the Restricted for Debt Service Account Group) and PFC Bond Reserve Accounts (within the general Bond Reserve Account in the Restricted for Debt Service Account Group).

The PFC Bond Resolutions provide that the Board may, from the PFC Project Account, transfer to the PFC Revenue Accounts PFCs up to the amount of the debt service requirements on the PFC Bonds. Upon transfer, these amounts constitute revenues as defined by the various bond resolutions and use agreements and are available for the payment of the principal and interest requirements of the PFC Bonds. During 2015 and 2014, amounts totaling $3,628 and $5,967, respectively, were transferred from the PFC Project Account for the payment of the debt service requirements of the PFC Bonds.

Throughout the remainder of these Notes to Financial Statements, the PFC Project Account and the accounts created by the PFC Bond Resolutions, collectively, represent the "PFC Accounts."

Customer Facility Charges
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 operating revenues in the Available for Current Operations Account Group. As approved by the Signatory Airlines, the amount of CFCs collected is also recognized as general administration operating expense and transferred to the CFC Account in the Restricted for Airport Facilities Account Group. The amounts of CFCs included in general administration expense in 2015 and 2014 were $5,744 and $4,365, respectively.

Qualifying capital expenditures are paid from the CFC Account and are carried as assets in the Restricted for Airport Facilities Account Group. To reimburse expenditures for qualifying operations and maintenance activities, CFCs are returned to the Available for Current Operations

(in thousands of dollars)

Account Group where they are recorded as reductions to general administration operating expense. Amounts reported as reductions of general administration expense in 2015 and 2014 were $120 and $760, respectively.

Funds for Demolition of Excess Facilities
The Airport's Master Plan calls for a consolidation of all airline operations into Terminal 3, 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 signatory airlines, in 2015 and 2014, utilizing operating revenues, funds were accumulated by the Airport for the eventual demolition of Terminals 1 and 2, as well as certain other ancillary structures at the Airport. The amount of operating revenues collected for this purpose is also recognized as general administration operating expense and transferred to the Demolition of Excess Facilities Account ("DEF Account") in the Restricted for Airport Facilities Account Group, with all funds held in the DEF Account being restricted for use on demolition of excess facilities. The amount of demolition funds included in general administration expense in 2015 and 2014 were $9,800 and $7,445, respectively.

The costs of actual demolition of excess facilities are considered operating costs. Upon incurrence of actual demolition costs, amounts previously transferred to the DEF Account are returned to the Available for Current Operations Account Group as reductions of general administration expense. The amount of DEF funds returned as reductions of general administration expense and non capitalizable project costs in 2015 and 2014 were $161 and $18, respectively.

Debt Service
Mandatory transfers of cash to the Bond Interest and Redemption Account for the payment of the principal and interest on bonds outstanding (excluding the transfers funded by capitalized interest) and the funding of the Bond Reserve (excluding amounts funded with bond proceeds) and Depreciation Accounts are charged against operating revenues. Original issue discount and other bond defeasance and issuance costs are charged directly against the net position of the Restricted for Airport Facilities Account Group as incurred.

Investments
Investments are stated at fair value as based on market values quoted at December 31, 2015 and December 31, 2014.

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.

As required by the provisions of the use agreements and bond resolutions, the investment income on certain accounts is transferred out of the accounts in which the investment is held to other specified accounts (as more fully described below). As the Airport's general practice is to hold investments to maturity, unrealized gains and losses due to recording investments at fair value are not expected to be realized. Accordingly, this component of investment income is considered temporary and, rather than being transferred, is included in investment income in the account group in which the investment is held.

(in thousands of dollars)

Investment income of the Land, Construction, Depreciation, PFC, Demolition of Excess Facilities, CFC and Police Forfeiture Accounts is credited to the net position of the Restricted for Airport Facilities Account Group and excluded from operating revenues.

The non-temporary components of investment income of the Debt Service and/or Improvements to Airport and Bond Interest and Redemption Accounts, except those which constitute PFC accounts, as well as the investment income on funds available for current operations, are credited to operating revenues.

The non-temporary components of investment income of the Bond Reserve Accounts, except those which constitute PFC Accounts, are credited to the net position of the Restricted for Debt Service Account Group until certain funding requirements of the bond resolutions are met. Thereafter, they are transferred to the Available for Current Operations Account Group and credited to operating revenues.

Investment income of the Group Health Coverage Account is credited to the net position of the Internal Service Fund and excluded from operating revenues.

Interaccount group receivables and liabilities are recognized pending actual transfer of cash funds.

Assets Held in Trust
Amounts received from and restricted by tenants and other 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 Sheets as assets held in trust.

Grants, Federal Awards and Other Transaction Agreements
Grant, federal awards and other transaction agreement revenues include amounts received from governmental agencies through various types of agreements. Certain of the amounts included from federal agencies are subject to the reporting requirements of the U.S. Office of Management and Budget Uniform Guidance.

Grant, federal awards and other transaction agreements 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 credited to the net position of the Restricted for Airport Facilities Account Group. Amounts earned relating to operating expenses are recorded as grant and federal award revenues in the Available for Current Operations Account Group.

Net Pension Liability
All full-time employees of the Airport as of December 31, 2015 are members of the Kentucky Retirement Systems' County Employees Retirement System ("CERS"), a cost-sharing multiple-employer defined benefit pension system. As discussed in Note 13, in 2015 the Airport implemented the provisions of GASB Statement No. 68 and No. 71. Therefore, 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

(in thousands of dollars)

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 (see Note 10 for further details). Related to this change in accounting principle, the restatement of the Airport's beginning net position as of January 1, 2014 is shown in the 2014 Statement of Revenues, Expenses and Changes in Net Position.

Distribution of Net Revenues
In accordance with the various bond resolutions and use agreements, all non-PFC operating revenues in excess of total operations and maintenance expenses and in excess of the debt service, Bond Reserve and Depreciation Accounts' requirements which are charged against operating revenues (except those debt service and Bond Reserve Accounts' requirements which have been funded with PFCs) are transferred to the Debt Service and/or Improvements to Airport Accounts. All PFC operating revenues in excess of debt service and Bond Reserve requirements which have been funded with PFCs are transferred to the PFC Project Account. Interaccount group receivables and liabilities are recognized pending actual transfer of cash funds.

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 2014 financial statements have been reclassified to conform with the 2015 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 various 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.

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.

(in thousands of dollars)

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. As outlined below, the parameters regarding collateralization differ and are more restrictive as they relate to the Bond Reserve and Bond Interest and Redemption Accounts.

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. Those limits are shown in the following table:

(in thousands of dollars)

	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, 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 for periods exceeding three years if the maturity of the investments is made to coincide as nearly as practicable with the expected use of the funds.

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 maintained in the accounts other than the Bond Reserve and Bond Interest and Redemption Accounts 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. Instruments permitted to be used as collateral for deposits maintained in the Bond Reserve and Bond Interest and Redemption Accounts consist only of those defined as U.S. Treasury securities. 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

(in thousands of dollars)

structuring of investment maturities and by investing in securities permitted by the policy, such securities having active secondary or resale markets.

Cash and Investments Held

At December 31, 2015 and 2014, the Airport's cash and investments were comprised of the following:

	2015		2014	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash	$ 10,521	$ 10,521	$ 61,664	$ 61,664
Investments				
Investment in money market mutual funds				
First American Government Obligation Fund	$ 57,235	$ 57,235	$ 8,886	$ 8,886
Securities				
U.S. Treasury	53,312	52,741	31,985	31,698
U.S. government sponsored enterprises	64,815	64,488	72,339	72,191
Commercial paper	45,561	45,659	35,077	35,084
Total investments	$ 220,923	$ 220,123	$ 148,287	$ 147,859

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, 2015 and 2014, such collateral was comprised of U.S. Treasury securities and securities issued by certain U.S. government sponsored enterprises. At December 31, 2015 and 2014, the collateral instruments had combined market values of $13,487 and $71,054, 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, 2015

(in thousands of dollars)

and/or December 31, 2014, 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.

The commercial paper instruments in which the Airport was invested at December 31, 2015 and December 31, 2014 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, 2015 and/or December 31, 2014 consisted of instruments issued by Bank of Tokyo-Mitsubishi, BNP Paribas Financial Inc., Credit Agricole Corporate and Investment Bank, General Electric Capital Services, JP Morgan Securities LLC., Toyota Motor Credit Co. and US Bankcorp. 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, 2015 and 2014 were as follows:

	2015 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	$ 57,235	$ -	$ -	$ -	$ -	$ 57,235
Securities						
U.S. Treasury	-	-	3,958	9,064	39,719	52,741
U.S. government sponsored enterprises	11,995	8,982	2,909	4,921	35,681	64,488
Commercial paper	30,691	14,968	-	-	-	45,659
Total	$ 99,921	$ 23,950	$ 6,867	$ 13,985	$ 75,400	$ 220,123

	2014 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	$ 8,886	$ -	$ -	$ -	$ -	$ 8,886
Securities						
U.S. Treasury	-	-	-	24,642	7,056	31,698
U.S. government sponsored enterprises	6,152	-	50,164	6,071	9,804	72,191
Commercial paper	27,090	7,994	-	-	-	35,084
Total	$ 42,128	$ 7,994	$ 50,164	$ 30,713	$ 16,860	$ 147,859

All securities held by the Airport at December 31, 2015 and 2014 carried ratings of AAA/Aaa or their equivalents, the highest quality rating strata issued by the NRSROs.

(in thousands of dollars)

3. Restricted Assets

The following assets at December 31, 2015 and 2014 are subject to restrictions which limit the purposes for which they may be used:

	2015	2014
Available for Current Operations Account Group		
PFC Revenue Accounts	$ 126	$ 1,194
Restricted for Debt Service Account Group		
Bond Reserve Account	$ 5,217	$ 5,219
Bond Interest and Redemption Account	968	968
	$ 6,185	$ 6,187
Restricted for Airport Facilities Account Group		
Construction and Land Accounts	$ 53,233	$ 66,775
Depreciation Account	1,064	1,016
PFC Project Account	49,755	42,263
CFC Account	38,471	32,714
Police Forfeiture Accounts	1,450	1,080
Debt Service and/or Improvements to Airport Accounts	49,061	49,230
Demolition of Excess Facilities Account	14,866	7,432
	207,900	200,510
Capital assets, non-depreciable	208,357	206,858
Capital assets, net of accumulated depreciation	528,538	549,143
	$ 944,795	$ 956,511
Internal Service Fund		
Self-funded Health Coverage Account	$ 5,832	$ 5,759

Assets included in the PFC Revenue Accounts are restricted for the payment of PFC bond principal and interest and, if not needed for debt service, for transfer to the PFC Project Account at year-end. Assets included in the Bond Reserve and the Bond Interest and Redemption Accounts are restricted for the payment of bond principal and interest. Assets included in the Construction and Land Accounts are restricted for capital projects and land acquisitions. Assets in the Depreciation Account may be used for special or unforeseen emergencies, repairs and replacements and for additions to Airport facilities. Assets included in the PFC Project Account are restricted for use on specific FAA approved projects. Assets in the CFC Account may be used on specific Board approved projects. Assets in the Police Forfeiture Accounts are restricted for expenditures allowable under the Equitable Sharing Programs of the U.S. Department of Justice, U.S. Department of Treasury, and the Commonwealth of Kentucky. Assets included in the Demolition of Excess Facilities Account are to be used to fund the demolition of excess facilities at the airport.

Assets in the Debt Service and/or Improvements to Airport Accounts are held for improvements and expansions to the Airport or early retirement of debt in accordance with the use agreement. In the event of cash flow needs, assets in these accounts may be temporarily used to finance operating

(in thousands of dollars)

expenditures; and with the approval of the signatory airlines, they may be transferred and used as a source of operating revenues.

4. Capital Assets

Capital assets are comprised of the following:

	Balance 1/1/2014	Additions/ transfers	Retirements/ transfers	Balance 12/31/2014	Additions/ transfers	Retirements/ transfers	Balance 12/31/2015
Land (non-depreciable)	$ 166,076	$ 53	$ -	$ 166,129	$ 1,499	$ -	$ 167,628
Runways, taxiways and other land improvements	648,719	9,725	(7,088)	651,356	8,044	(1,790)	657,610
Buildings and building renovations	354,762	2,901	(439)	357,224	12,922	(347)	369,799
Utility systems	85,128	-	-	85,128	-	-	85,128
Equipment	127,522	1,434	(1,268)	127,688	5,430	(3,049)	130,069
Easements (non-depreciable)	40,729	-	-	40,729	-	-	40,729
Construction-in-progress	3,719	15,946	(12,730)	6,935	22,063	(23,036)	5,962
Total capital assets	1,426,655	30,059	(21,525)	1,435,189	49,958	(28,222)	1,456,925
Less accumulated depreciation							
Runways, taxiways and other land improvements	403,656	24,765	(7,034)	421,387	22,384	(1,790)	441,981
Buildings and building renovations	117,282	13,729	(201)	130,810	13,681	(96)	144,395
Utility systems	55,479	3,599	-	59,078	3,245	-	62,323
Equipment	62,319	6,622	(1,028)	67,913	6,125	(2,707)	71,331
Total accumulated depreciation	638,736	48,715	(8,263)	679,188	45,435	(4,593)	720,030
Total capital assets, net of accumulated depreciation	$ 787,919	$ (18,656)	$ (13,262)	$ 756,001	$ 4,523	$ (23,629)	$ 736,895
Total non-depreciable capital assets	$ 206,805	$ 53	$ -	$ 206,858	$ 1,499	$ -	$ 208,357
Total depreciable capital assets, net of accumulated depreciation	581,114	(18,709)	(13,262)	549,143	3,024	(23,629)	528,538
Total capital assets, net of accumulated depreciation	$ 787,919	$ (18,656)	$ (13,262)	$ 756,001	$ 4,523	$ (23,629)	$ 736,895

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, accounts payable, and interaccount group payables of $4,660 and $5,193 at December 31, 2015 and 2014, respectively.

Idle Facilities

Office Facility

In 2011, the Board purchased from Delta Airlines, Inc. ("Delta") the former headquarters building of Comair, Inc. ("Comair"), a 184 thousand square foot office facility which is located on the

(in thousands of dollars)

Airport. This acquisition, for which the Board paid the negotiated price of $4,000, was made for the purpose of generating and diversifying future rental revenues.

During 2014, the Board began construction and renovation in various facilities at the Airport for the purpose of re-locating all tenants and Board functions from Terminals 1 and 2, thereby facilitating the demolition of those facilities (See Note 1). Construction and renovation efforts for a portion of the office facility were completed in 2015. Upon completion, the Board's administrative offices and personnel were re-located and at December 31, 2015 occupied a significant portion of the office facility. The Board continues to actively seek tenants for the remaining portion of the facility.

Concourse C

In 2009, Comair, which was the sole airline tenant in the Airport's Concourse C, moved all of its operations from Concourse C to other facilities at the Airport. Upon completion of Comair's transfer of operations in 2009, Concourse C ceased to be utilized. Due to this change in the expected duration of use of Concourse C, which was first occupied in 1994, and the fact that there was no evidence to suggest that the reduction in utilization was temporary, Concourse C was determined to be an impaired asset under GASB Statement No. 42. Accordingly, building and equipment assets, as well as their accumulated depreciation, were written down.

Although Comair ceased all operations in Concourse C, pursuant to a 1993 lease agreement and subsequent 2001 amendment ("Amended Lease"), Comair continued to be committed to pay certain charges, which are discussed below, related to Concourse C. In December 2012, Comair, which had been a wholly owned subsidiary of Delta, was merged with Delta. As of the merger date, all real estate leases and other obligations of Comair, including those related to Concourse C, were assigned to Delta by operation of law.

After the write-downs discussed above and the depreciation incurred, the remaining amount of net book value related to Concourse C at December 31, 2015 and December 31, 2014 is $ 0 and $2,909, respectively, which represents the remaining amount of fixed rentals Delta was committed to pay pursuant to the Amended Lease. Through 2015, Delta was also committed to reimburse certain operations and maintenance costs, the charges for which were determined by a triennial calculation which is outlined in the Amended Lease.

Facilities Identified for Demolition

As discussed in Note 1, the Airport's Master Plan calls for a consolidation of all airline operations into Terminal 3, Concourse A and Concourse B, thereby allowing the demolition of excess, less cost efficient structures at the Airport. In preparation for the demolition of these facilities, which is scheduled to occur during 2016 and 2017, by the end of 2015 all Airport and tenant operations were relocated from Terminals 1 and 2, as well as from some smaller facilities located in the west service area of the Airport that were previously either utilized for Airport operations or leased to Airport tenants. One of the facilities identified for demolition was Concourse C from which, as discussed above, operations ceased in 2009. All facilities slated for demolition were fully depreciated by December 31, 2015. The costs of these facilities and related equipment reflected on the financial statements at December 31, 2015 are as follows:

(in thousands of dollars)

Terminal 1	$	7,580
Terminal 2		7,312
West service area buildings		1,378
Concourse C		26,174
Concourse C equipment		1,623
	$	44,067

The costs and accumulated depreciation as listed above will be removed from the Airport's balances upon demolition of the facilities.

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 $9,532 and $8,391 for the years ended December 31, 2015 and 2014, respectively.

For the years 2016, 2017, 2018, 2019 and 2020, minimum future rentals for noncancelable leases (other than noncancelable rentals charged to the signatory airlines under the use agreements and other long-term terminal facility leases) are $7,081, $4,772, $4,122, $4,036 and $3,700, respectively.

For the years 2016, 2017, 2018, 2019 and 2020, noncancelable rentals under the use agreements (exclusive of landing fees) and other long-term terminal facility leases pertaining to the signatory airlines are $17,382, $17,447, $17,447, $17,447 and $17,447, respectively.

(in thousands of dollars)

6. Long-Term Liabilities

During 2015 and 2014, the Airport's long-term liabilities and related activity consisted of the following:

Revenue Bonds
A summary of revenue bonds payable at December 31, 2015 and 2014 is presented below. The respective maturities occur on March 1.

	2015	2014
Series 2003B, 4.875% to 5.500%, due 2017-2033	$ 58,590	$ 58,590

The bonds listed above were issued under the terms of bond resolutions adopted by the Board and bear interest rates fixed through the date on which they are required to be redeemed. In accordance with the applicable bond resolution, the 2003B bonds outstanding at December 31, 2015 became redeemable in 2013 without premium.

Under the terms of the bond resolution, all revenue bonds outstanding at December 31, 2015 and 2014 are secured by the operating revenues of the Airport, except those operating revenues which have, in accordance with the resolutions, been returned to the PFC Project Account in the Restricted for Airport Facilities Account Group. The Series 2003B bonds were issued to fund the costs of specific PFC eligible, FAA approved projects. As such, the debt service requirements of the Series 2003B bonds are authorized by the FAA to be paid with PFCs (see Note 1).

The required funding of bond principal and interest subsequent to December 31, 2015 is as follows:

	Principal	Interest	Total Debt Service
2016	$ 1,879	$ 2,903	$ 4,782
2017	2,359	2,799	5,158
2018	2,488	2,669	5,157
2019	2,614	2,543	5,157
2020	2,748	2,412	5,160
2021-2025	15,924	9,870	25,794
2026-2030	20,222	5,576	25,798
2031-2033	10,356	823	11,179
	$ 58,590	$ 29,595	$ 88,185

Bond Redemption
Pursuant to a November 18, 2013 resolution of the Board, on March 1, 2014, $9,490 of the Series 2002A, $2,550 of the Series 2003C and $7,840 of the Series 2007B bonds, maturing on March 1, 2015, were redeemed. The redemptions were funded utilizing the $19,880 of applicable balances in the Bond Reserve Accounts and $477 of excess interest funding in the Interest and Redemption Account of the Restricted for Debt Service Account Group. The redemption amounts are included

(in thousands of dollars)

in the December 31, 2014 Statement of Revenues, Expenses, and Changes in Net Position and in the December 31, 2014 Statement of Cash Flows.

Pursuant to an August 29, 2014 resolution of the Board, on October 15, 2014, $2,065 and $2,160 of the Series 2003B bonds maturing March 1, 2015 and 2016, respectively, were redeemed. The redemptions were funded utilizing $2,848 from the PFC Project Account of the Restricted for Airport Facilities Account Group and an early release of $1,377 from the Interest and Redemption Account of the Restricted for Debt Service Account Group, with such amount of principal funding having already been transferred to the account through previous debt service contributions. The redemption amounts are included in the December 31, 2014 Statement of Revenues, Expenses, and Changes in Net Position and in the December 31, 2014 Statement of Cash Flows.

Subsequent Event
On May 16, 2016 the Board authorized the issuance of Series 2016 bonds to fully refund the Series 2003B bonds. The Series 2016 bonds are planned to be issued as fixed rate revenue bonds and are anticipated to result in interest savings and a reduction in the Airport's outstanding debt balance.

Also on May 16, 2016, the Board approved a new bond resolution to be implemented with the issuance of the Series 2016 bonds. Under this resolution, new funds and accounts will be established to provide for deposit and flow of net revenues (revenues less operating and maintenance expenses as defined in the resolution) to be pledged for payment of the Series 2016 bonds and future revenue bonds to be issued by the Airport.

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 accrued expenses liability on the balance sheets.

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 10). Amounts related to accrued compensated absences are shown below.

Other Long-Term Liabilities
At December 31, 2015 and 2014, the Airport's other liabilities which have portions due after one year consisted of rental and identification badge deposits, estimated amounts potentially due for incidents not covered by commercial insurance, estimated amounts due under a frequent parking rewards program, and the Airport's assigned proportionate share of net pension liability from its participation in the pension plans discussed in Note 10. Amounts related to these liabilities are shown below.

(in thousands of dollars)

Long-Term Liability Activity

For the years ended December 31, 2015 and 2014, components of the Airport's liabilities which had non-current activity or balances were as follows:

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/2015	Amounts Due within One Year	Amounts Due after One Year
Accounts Payable						
Deposits	$ 197	$ 83	$ (190)	$ 90	$ 40	$ 50
Accrued Expenses						
Compensated Absences	2,589	1,070	(724)	2,935	365	2,570
Uninsured losses	47	331	(347)	31	-	31
Parking rewards	448	65	(26)	487	292	195
Revenue bonds payable	58,590	-	-	58,590	-	58,590
Net pension liability	38,228	12,582	-	50,810	-	50,810
	$ 100,099	$ 14,131	$ (1,287)	$ 112,943	$ 697	$ 112,246

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014	Amounts Due within One Year	Amounts Due after One Year
Accounts Payable						
Deposits	$ 305	$ 70	$ (178)	$ 197	$ 166	$ 31
Accrued Expenses						
Compensated Absences	2,491	792	(694)	2,589	400	2,189
Uninsured losses	60	209	(222)	47	27	20
Parking rewards	375	74	(1)	448	222	226
Revenue bonds payable	100,430	-	(41,840)	58,590	-	58,590
Net pension liability	43,013	-	(4,785)	38,228	-	38,228
	$ 146,674	$ 1,145	$ (47,720)	$ 100,099	$ 815	$ 99,284

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 the Airport 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.

(in thousands of dollars)

8. Major Lessees

In 2015, the operating revenues received from Delta and from DHL Worldwide Express, Inc. ("DHL"), a major cargo carrier at the Airport, represented approximately 23.33% and 11.46%, respectively, of total operating revenues. The comparable amounts for 2014 for Delta and DHL were 23.57% and 11.40%, respectively.

Landing fees received from Delta and DHL in 2015 represented 27.24% and 49.52%, respectively, of total billed landing fees. The comparable amounts for 2014 for Delta and DHL were 33.12% and 47.57% of total landing fees, respectively.

9. Internal Service Fund

The Airport provides health, dental, group life, individual life, accidental death and dismemberment, and long-term disability insurance coverages to employees. Effective January 1, 2009, 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.

Pursuant to a December 2008 resolution of the Board and as provided for under GASB Statement No. 34, an ISF was established effective January 1, 2009 to be used and restricted for the purpose of funding and managing all financial activities of the self-funded health coverages. Such activities include contributions to the ISF, the payment of claims, the payment of fees and expenses, and the establishment and maintenance of reserves.

The ISF's primary funding source is contributions from the Available for Current Operations Account Group. These contributions are included in salaries, wages and benefits expense on the Statement of Revenues, Expenses, and Changes in Net Position. Contributions are also made by employees through payroll deductions and by the Restricted for Airport Facilities Account Group for the insurance portion of labor costs incurred on capital projects.

As permitted by GASB Statement No. 34, the Airport has established reserves in the ISF for future catastrophe losses and the smoothing of cash flows. The Airport maintains these reserves up to an amount equaling one year of expected claims plus estimated fees and expenses. The reserves at December 31, 2015 and December 31, 2014 represent one year of claims, fees and expenses as expected at those dates.

Any assets of the ISF which are determined by the Airport's Chief Financial Officer to no longer be necessary for the self-funded health coverage programs cease to be restricted and are refunded to the Available for Current Operations Account Group in the period in which the determination is made.

(in thousands of dollars)

The changes in the balances of the claims liability and reserves consisted of the following:

		Claims Liability
Liability at January 1, 2014	$	184
Claims and changes in estimates for 2014		4,263
Claims paid in 2014		(4,276)
Changes in receivables and prepaids related to claims		143
Liability at December 31, 2014	$	314
Claims and changes in estimates for 2015		4,382
Claims paid in 2015		(4,150)
Changes in receivables and prepaids related to claims		(119)
Liability at December 31, 2015	$	427

		Reserve
Reserves at January 1, 2014	$	5,027
Contributions from all sources		4,909
Investment Income		23
Claims, premiums, and fees incurred		(4,872)
Reserves at December 31, 2014	$	5,087
Contributions from all sources		4,776
Investment Income		16
Claims, premiums, and fees incurred		(4,975)
Reserves at December 31, 2015	$	4,904

The Airport purchases both aggregate and specific stop loss coverage for the health insurance coverage of the ISF. The specific stop loss insurance assumes the risk for claims on any individual covered by the plan. During 2015 and 2014 the individual stop loss coverage to which the Airport's claims liability was limited were $150 and $140, respectively. The aggregate insurance during 2015 and 2014 provided full coverage for aggregate claims in excess of 125% and 120%, respectively, of expected claims amounts actuarially calculated by a third party. These amounts, given enrollment levels, limited total health coverage risk financing by the Airport during 2015 and 2014 to approximately $4,211 and $4,352 each year, respectively.

(in thousands of dollars)

10. Retirement Plans and Post Retirement Benefits

Defined Benefit Pension Plans

All full-time employees of the Airport as of December 31, 2015 are members of the Kentucky Retirement Systems' County Employees Retirement System ("CERS"), 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 three pension funds administered by the KRS Board: (1) KERS; (2) CERS; and (3) SPRS. 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%	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 months 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, 2015 and June 30, 2014.

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, 2015 was 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, 2015 - December 31, 2015		12.42%		20.26%		4.64%		12.69%
July 1, 2014 - June 30, 2015		12.75%		20.73%		4.92%		13.58%
July 1, 2013 - June 30, 2014		13.74%		21.77%		5.15%		13.93%
July 1, 2012 - June 30, 2013		12.62%		20.10%		6.93%		17.50%
Employee Contributions								
2015	$	901	$	605				
2014	$	831	$	571				
2013	$	802	$	557				
Airport Contributions								
2015	$	2,140	$	1,518	$	813	$	972
2014	$	2,069	$	1,492	$	787	$	965
2013	$	2,009	$	1,446	$	920	$	1,089
Amount of payroll on which employee and employer contributions were based								
2015	$	17,014	$	7,409	$	17,014	$	7,409
2014	$	15,622	$	7,019	$	15,622	$	7,019
2013	$	15,236	$	6,912	$	15,236	$	6,912
Contributions made by Airport and employees as a percentage of contributions required of of Airport and employees 2015, 2014 and 2013		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, 2015 and December 31, 2014, the Airport reported a liability of $50,810 and $38,228, respectively, for its assigned proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015 and June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2015, and June 30, 2014, the Airport's proportionate share of the CERS Nonhazardous plan was 0.68681% and 0.67411%, respectively. At June 30, 2015, and June 30, 2014, the Airport's proportionate share of the CERS Hazardous plan was 1.38626% and 1.36099%, respectively.

Subsequent to the June 30, 2014 measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability were updated based on an actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the KRS Board on December 4, 2014. These changes of assumptions, net of other pension actuarial activities between June 30, 2014 and June 30, 2015 contributed to the year over year increase in the Airport's net pension liability. A summary of the adopted changes are as follows:

Description of assumption	2015	2014
Assumed investment rate of return	7.50%	7.75%
Assumed rate of inflation	3.25%	3.50%
Assumed rate of wage inflation	0.75%	1.00%
Payroll growth assumption	4.00%	4.50%
Mortality tables –active members	RP-2000 Combined –Scale BB to 2013 (times 50% for males and 30% for females)	1994 Group Annuity
Mortality tables –retired members	RP-2000 Combined –Scale BB to 2013 (set back 1 year for females)	1983 Group Annuity
Mortality tables –disabled members	RP-2000 Combined Disabled – Scale BB to 2013 (set back 4 year for males)	1994 Group Annuity (set forward 5 years)
Assumed rates of retirement, withdrawal and disability	Updated to more accurately reflect experience	-

For CERS plan years ending June 30, 2015 and June 30, 2014, the Airport's proportionate share of plan pension expense was $3,322 and $1,751, respectively, for Nonhazardous and $2,045 and $1,268, respectively, for Hazardous.

(in thousands of dollars)

At December 31, 2015 and December 31, 2014 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, 2013	$ -	$ -	$ -
Difference between expected and actual experience	-	(4,050)	(4,050)
Contributions subsequent to measurement date	1,712	-	1,712
Deferred Outflows and Inflows at December 31, 2014	$ 1,712	$ (4,050)	$ (2,338)
Prior year contributions subsequent to measurement date	$ (1,712)	$ -	$ (1,712)
Difference between expected and actual experience	707	810	1,517
Changes in assumptions	4,817	-	4,817
Net differences between projected and actual earnings on pension plan investments	399	-	399
Changes in proportion and differences between contributions and proportionate share of contributions	592	-	592
Contributions subsequent to measurement date	1,861	-	1,861
Deferred Outflows and Inflows at December 31, 2015	$ 8,376	$ (3,240)	$ 5,136

The $1,861 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, 2016. Other amounts reported as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2016	$ 671
2017	$ 671
2018	$ 671
2019	$ 671
2020	$ 591

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

(in thousands of dollars)

The mortality table used for active members is 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

(a) Discount rate: The discount rate used to measure the total pension liability was 7.50%

(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 28 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.

(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:

(in thousands of dollars)

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 (6.50 percent) or one percentage point higher (8.50 percent) than the current rate for hazardous:

Asset Class	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Airport's net pension liability - Nonhazardous	$ 37,697	$ 29,529	$ 22,533
Airport's net pension liability - Hazardous	$ 27,240	$ 21,281	$ 16,344
Total	$ 64,937	$ 50,810	$ 38,877

(in thousands of dollars)

Pension Plan Fiduciary Net Position
The following table contains certain actuarial information related to the CERS and the CERS portion of the Insurance Fund:

	CERS		CERS Portion of Insurance Fund	
	Non Hazardous	Hazardous	Non Hazardous	Hazardous
Actuarial Information from the Kentucky Retirement Systems' June 30, 2015 audited financial statements				
Actuarial value of assets ("AVA")	$ 6,474,849	$ 2,096,783	$ 1,997,457	$ 1,087,707
Actuarial accrued liability ("AAL")	10,740,325	3,613,308	2,907,827	1,504,015
	$ (4,265,476)	$ (1,516,525)	$ (910,370)	$ (416,308)
AVA as a percentage of AAL	60.29%	58.03%	68.69%	72.32%
Unfunded AAL as a percentage of total covered payroll	185.70%	313.60%	39.60%	86.10%
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level Percent Closed	Level Percent Closed	Level Percent Closed	Level Percent Closed
Remaining amortization period	28 years	28 years	28 years	28 years
Asset valuation method	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market

Detailed information about CERS's 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.

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

(in thousands of dollars)

ended December 31, 2015 and 2014. Employee contributions in total were approximately $886 and $835, respectively, for the years ended December 31, 2015 and 2014.

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.

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.

12. Commitments and Contingencies

At December 31, 2015, the Airport is committed, either through contracts or Board proceedings, to the eventual expenditure of approximately $13,061, which consists primarily of demolition of excess facilities, procurement and implementation of systems and rehabilitation of existing facilities. Of the total estimated costs, approximately $809 will be funded by federal grants, state grants, PFCs, CFCs and/or tenant funds, with the remainder to be funded by available capital funds.

13. Change in Accounting Principle

During 2015, the Airport adopted GASB Statement. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements require cost-sharing entities providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, establishes the accounting and financial reporting standards for measuring and recognizing the subsequent liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures (see Note 10). The purpose is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhance their value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The cumulative effect of the adoption of this new guidance resulted in increases in net pension liability of $43,013 and deferred outflows of resources of $1,790, respectively, and reduction in net position as of January 1, 2014 of $41,223. The effects of this adoption are reflected on the 2014 Statement of Revenues, Expenses, and Changes in Net Position.

(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 December 31, 2015

	2015	2014
Plan's net pension liability	$ 5,834,631	$ 4,446,200
Airport's proportion of the net pension liability	0.8708%	0.8598%
Airport's proportionate share of the net pension liability	$ 50,810	$ 38,228
Covered-Airport employee payroll	$ 24,423	$ 22,641
Proportionate share of the net pension liability (asset) as a percentage of its covered -Airport employee payroll	208.04%	168.84%
Plan's total pension liability	$ 14,353,633	$ 13,061,348
Plan's fiduciary net position	$ 8,519,002	$ 8,615,149
Plan's fiduciary net position as a percentage of the total pension liability	59.35%	65.96%

* Fiscal year 2014 was the 1st year of implementation. Therefore only two years are shown.

Cincinnati/Northern Kentucky International Airport
Required Supplementary Information
Years Ended December 31, 2015 and 2014

(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, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution for pension	$ 3,658	$ 3,561	$ 3,455	$ 3,086	$ 2,700	$ 2,535	$ 2,157	$ 2,079	$ 1,849	$ 1,526
Airport's contributions in relation to the statutorily required contribution	(3,658)	(3,561)	(3,455)	(3,086)	(2,700)	(2,535)	(2,157)	(2,079)	(1,849)	(1,526)
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 employee payroll	$ 24,423	$ 22,641	$ 22,148	$ 21,500	$ 20,782	$ 21,441	$ 20,237	$ 21,023	$ 20,742	$ 20,307
Contributions as a percentage of its covered employee payroll	14.98%	15.73%	15.60%	14.35%	12.99%	11.82%	10.66%	9.89%	8.91%	7.51%