Cincinnati/Northern Kentucky International Airport

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

December 31, 2016

Cincinnati/Northern Kentucky International Airport
Table of Contents
December 31, 2016

Page(s)

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Members of the Kenton County Airport Board
Cincinnati/Northern Kentucky International Airport

The Basic Financial Statements of the Cincinnati/Northern Kentucky International Airport (the "Airport") for the year ended December 31, 2016 ("Statements") are hereby submitted. To the best of our knowledge and belief, the data presented is accurate in all material respects; and it is reported in a manner that fairly presents the financial position and changes thereof, as well as the cash flows of the Airport, and includes all disclosures necessary to enable the reader to gain an understanding of the Airport's financial activities.

The Statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Prior to 2016, the Airport's financial statements were presented on a basis of accounting designed to comply with the Airport's bond resolutions and use agreements ("use-agreement basis"). The Airport utilized the use-agreement basis as it believed the basis provided more useful information to the users of the financial statements, given that the presentation clearly reflected compliance with the provisions of the Airport's bond resolutions and required computations of amounts due to the airlines for excess landing fees.

Prior to 2016, the Airport did not maintain a separate set of accounting records in conformity with GAAP. Therefore, GAAP basis comparative information for 2015 is not available for purposes of management's discussion and analysis ("MD&A") and, accordingly, the MD&A has been omitted from the Statements. The omission of MD&A did not affect the opinion reflected in the independent auditor's report, such opinion stating that the Statements are presented fairly, in all material respects, with GAAP.

Management is responsible for establishing and maintaining internal accounting controls to provide reasonable assurance that assets are safeguarded against loss, theft or misuse and that financial records for preparing financial statements and maintaining accountability for assets are reliable. The internal control system is designed to provide reasonable, rather than absolute, assurance that these objectives are met and that the financial statements are free from material misstatement. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control and the evaluation of costs and benefits require estimates and judgments by management. We believe the Airport's internal controls adequately safeguard assets and provide reasonable assurance that financial transactions are properly recorded.

As a recipient of federal and state financial assistance, the Airport is required to undergo a "Single Audit" and report certain information in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* All schedules and reports required under these federal regulations are included in the compliance section of this report. The Airport is also responsible for establishing an adequate internal control system to ensure compliance with applicable laws and regulations related to those programs. As part of the Airport's Single Audit, tests are performed to determine the adequacy of the internal control system, including that portion related to federal and state financial assistance programs, as well as to determine the Airport's compliance with applicable laws and regulations. The results of the Airport's Single Audit for the year ended December 31, 2016 included no instances of material weaknesses in the internal control system or violations of applicable laws and regulations.

Respectfully submitted,

Sheila R. Hammons

Sheila R. Hammons, CPA
Chief Financial Officer, Kenton County Airport Board

CPAs / ADVISORS

blue

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Report of Independent Auditors

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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 of the Airport as of December 31, 2016, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the schedule of the proportionate share of the net pension liability of the Kentucky Retirement System's County Employees Retirement System, and the schedule of the employer contributions to the Kentucky Retirement System's County Employees Retirement System (the required supplementary information), as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2017 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Airport's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, KY
June 19, 2017

Cincinnati/Northern Kentucky International Airport
Balance Sheet
December 31, 2016

(in thousands of dollars)

Assets		
Current assets		
Cash - unrestricted	$	4,392
Cash - restricted		1,361
Investments (at fair value) - unrestricted		84,176
Investments (at fair value) - restricted		1,044
Investment income receivable		158
Accounts receivable		3,913
Grants and federal awards receivable		3,720
Prepaid expenses		1,308
Supplies inventory		4,067
Total current assets		104,139
Non-current assets		
Cash - restricted		969
Investments (at fair value) - unrestricted		26,004
Investments (at fair value) - restricted		126,544
Investment income receivable		322
Passenger facility charges receivable		1,775
Customer facility charges receivable		606
Prepaid expenses		262
Capital assets, non-depreciable		209,340
Capital assets, net of accumulated depreciation		505,270
Total non-current assets		871,092
Total assets	$	975,231
Deferred Outflow of Resources		
Pension	$	10,296
Total deferred outflow of resources	$	10,296
Total assets and deferred outflow of resources	$	985,527
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	$	12,445
Rates and charges settlement payable to airlines		6,593
Contract retainage payable		1,098
Assets held in trust		40
Revenue bonds payable, inclusive of unamortized premium		3,037
Total current liabilities		23,213
Non-current liabilities		
Accounts payable and accrued expenses		1,396
Revenue bonds payable, inclusive of unamortized premium		52,538
Net pension liability		58,295
Total non-current liabilities		112,229
Total liabilities	$	135,442
Deferred Inflow of Resources		
Pension	$	2,461
Total deferred inflow of resources	$	2,461
Net Position		
Unrestricted	$	54,915
Net investment in capital assets		657,937
Restricted:		
For federally approved projects		61,731
For ground transportation expenditures		44,477
For operational cash flow shortages (by bond resolutions)		18,750
For demolition of excess facilities		5,546
For debt service		4,268
Total net position	$	847,624
Total liabilities, deferred inflow of resources and net position	$	985,527

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, 2016

(in thousands of dollars)

Operating revenues	
Landing fees	$ 17,236
Rentals:	
Terminal	12,014
Ground	3,968
Ramp	3,430
Other	866
Parking	31,695
Concessions	12,221
Rebilled services	1,616
Ground transportation	649
Other	684
Total operating revenues	84,379
Operating expenses	
Salaries, wages and benefits	43,417
Contracted services	25,417
Utilities	7,098
Supplies and capital items expensed	5,761
General administration	2,064
Insurance	1,257
Total operating expenses	85,014
Operating loss, before depreciation and amortization	(635)
Depreciation and amortization	(43,523)
Operating loss, after depreciation and amortization	(44,158)
Nonoperating changes in net position: increase (decrease)	
Revenue bonds:	
Revenue bond interest expense, net of premium amortization	(1,130)
Bond refunding - release of funds for defeasance of bonds - interest	(1,209)
Bond refunding - bond issuance costs	(607)
Passenger facility charge revenues	13,575
Customer facility charge revenues	6,726
Police forfeiture program revenues	677
Police forfeiture program revenues passed through to other local government	(2)
Grants and federal awards for operating expenses	371
Investment income	1,598
Net gain on disposal of capital assets	17
Non-capitalized project costs	(90)
Total nonoperating changes in net position, before capital contributions	19,926
Capital Contributions	
Reversion of ownership of leased facilities	11,503
Grants and federal awards for capital expenditures	3,773
Third party funding of project costs	944
Total capital contributions	16,220
Total changes in net position	(8,012)
Net position at the beginning of year	855,636
Net position at the end of year	$ 847,624

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

Cincinnati/Northern Kentucky International Airport
Statement of Cash Flows
Year Ended December 31, 2016

(in thousands of dollars)

Cash flows from operating activities	
Cash received from customers	$ 79,389
Cash paid to suppliers	(34,858)
Cash paid for the direct benefit of employees	(39,428)
Net cash provided by operating activities	5,103
Cash flows from non-capital financing activities	
Police forfeiture program receipts	678
Police forfeiture program receipts passed through to other local government	(2)
Grants and federal awards receipts for operating expenses	385
Non-capitalizable project costs	(96)
Net cash provided by non-capital financing activities	965
Cash flows from capital and related financing activities	
Revenue bonds:	
Debt service payments - principal	(1,250)
Debt service payments - interest	(2,623)
Bond refunding - proceeds from issuance of bonds	57,351
Bond refunding - bond proceeds transferred to escrow	(56,736)
Bond refunding - interest and redemption account release of funds to escrow	(2,149)
Bond refunding - bond reserve release of funds to escrow	(914)
Bond refunding - bond issuance costs	(607)
Passenger facility charges received	13,281
Customer facility charges received	6,445
Grants and federal awards receipts for capital expenditures	2,380
Third party funding of project costs	922
Proceeds from sale of assets	63
Acquisition and construction of airport facilities	(9,790)
Net cash provided by capital and related financing activities	6,373
Cash flows from investing activities	
Proceeds from sales and maturities of investments	430,784
Purchase of investments	(448,697)
Investment income received	1,673
Net cash used in investing activities	(16,240)
Net decrease in cash	(3,799)
Cash at the beginning of the year	10,521
Cash at the end of the year	$ 6,722

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, 2016

(in thousands of dollars)

Reconciliation of operating loss to net cash provided by operating activities	
Operating loss, after depreciation and amortization	$ (44,158)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization	43,523
Change in assets and liabilities	
Increase in accounts receivable	(127)
Increase in supplies inventory	(134)
Decrease in interfund receivable	960
Decrease in prepaid expenses	278
Decrease in accounts payable and accrued expenses	(1,265)
Increase in rates and charges settlement payable to airlines	1,694
Decrease in interfund payables	(454)
Increase in deferred outflow of resources	(1,920)
Decrease in deferred inflow of resources	(779)
Increase in net pension liability	7,485
Total adjustments	49,261
Net cash provided by operating activities	$ 5,103

Noncash capital and related financing activities:	
Reversion of ownership of capital assets, capital contributions	$ 11,503
Amortization of revenue bond premium, payment of revenue bond debt service interest	$ 526

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

(in thousands of dollars)

1. Summary of Significant Accounting Policies and Practices

Reporting Entity

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

Basis of Accounting

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

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

As required of an Enterprise Fund, the Balance Sheet is 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.

Adoption of New Pronouncements

During 2016, the Airport implemented GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015. The statement required the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It requires governments to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset and the income approach converts future amounts (such as cash flows or income and expenses) to a single current discounted amount. The Airport utilized the market approach to mark-to-market the fair value of its investments holdings.

(in thousands of dollars)

Statement No. 72 also established a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among the underlying mortgage of a mortgage-backed security. The Airport has utilized Level 1 inputs in reporting each of its various holdings.

Significant Upcoming Implementations

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses the financial reporting of defined benefit other post-employment benefit ("OPEB") plans that are administered through trusts that meet specified criteria. This statement follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement requires more extensive note disclosures and Required Supplementary Information ("RSI") related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. 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.

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.

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, these statements will have on its financial statements.

(in thousands of dollars)

Air Carrier Rates and Charges

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

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

The landing fee rate, terminal related rates and charges and the related NRR credits are established annually during the budget process based on projected revenues, costs and airline activity. After the close of each fiscal year, the landing fee rate, terminal related rates and charges and related NRR credits are recalculated using audited financial data. Any overpayments of such rentals, fees and charges are returned by the Board to the Signatory Carriers and any underpayments are invoiced to the Signatory Carriers. At December 31, 2016, $6,593 was payable to the carriers as the result of this settlement process.

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

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

Account Groups and Restrictions on Net Position

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

(in thousands of dollars)

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

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

Unrestricted Account Groups
The unrestricted account groups listed above are resources available for any Airport use.

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

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

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

Repair and Replacement Reserve account group- unrestricted: Pursuant to the requirements of the Airport's bond resolutions, the Board is required to maintain an asset balance of $10,000 in the Repair and Replacement Reserve account group, which is available for any Airport use. In the event

(in thousands of dollars)

that amounts from this reserve are used, the Airport is required, commencing from the date the deficit occurred, to replenish the balance in twenty-four equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed for other purposes. At December 31, 2016, the balance in the Repair and Replacement Reserve was $10,018. No funds from the Repair and Replacement Reserve account group were used during 2016.

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

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

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

Passenger Facility Charge account group- restricted: In 1994, the Federal Aviation Administration ("FAA") first granted approval to the Airport to impose a Passenger Facility Charge ("PFC") and to use the PFCs to fund specific approved projects. PFCs, which are charged at rates per qualifying enplaned passenger, are considered earned upon collection by the airline and are credited to the restricted net position of the Passenger Facility Charge account group. Amounts collected by the airlines but not yet remitted to the Airport are classified as Passenger Facility Charges receivable. As of December 31, 2016, the Airport has received approval on a total of fourteen PFC applications. The approvals authorize the Airport to collect PFCs and associated investment income for approved projects up to the amount of allowable project costs, but not to exceed $576,424. Through December 31, 2016, PFC and associated investment income in the amount of $530,556 has been collected.

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

Customer Facility Charge account group- restricted: Pursuant to an ordinance of the Board, the collection of Customer Facility Charges ("CFCs") began on April 1, 2006. The CFCs, which are charged at a rate per rental car transaction day, are being collected to provide for the planning, construction, operation, and maintenance of facilities to accommodate the ground transportation needs at the Airport. The CFCs are considered earned upon collection by the rental car companies and are recognized as nonoperating revenues in the Customer Facility Charge account group. The

(in thousands of dollars)

use of CFCs is limited by what may be legally enforceable restrictions. The total amount of CFCs collected in 2016 was $6,726.

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

Demolition of Excess Facilities account group- restricted: 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 airline counterparties to the previous use agreement, in 2015 and 2014, utilizing operating revenues, funds were accumulated by the Airport for the demolition of certain structures at the Airport. The amounts collected for this purpose and remaining at December 31, 2016 are restricted for use on the demolition of excess facilities and are recorded in the Demolition of Excess Facilities account group. During 2016, $9,036 was expended for the costs of demolition.

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

The FAA's approvals of three of the Airport's PFC applications authorized the use of PFCs for the debt service requirements and related costs of revenue bonds ("PFC Bonds") issued to finance the projects included in those applications. The revenue bond resolutions which authorized the issuance of the PFC Bonds ("PFC Bond Resolutions") created the PFC Revenue Account (within the Operations and Maintenance account group), the PFC Interest and Redemption Account (within the Bond Interest and Redemption account group) and the PFC Bond Reserve Account (within the Bond Reserve account group). The bond resolutions provide that, through December 31, 2020, the Board

(in thousands of dollars)

must, from the Passenger Facility Charge account group, transfer to the PFC Revenue Account PFCs equal to 125% of the principal and interest requirements on the PFC Bonds. Upon transfer to the PFC Revenue Account within the Operations and Maintenance account group, these amounts are restricted for the payment of the principal and interest requirements of the PFC Bonds and any required transfers to the Bond Reserve account group. Subsequent to 2020, the Board may, but is not required to, transfer PFCs for the debt service and coverage requirements of the PFC Bonds. Any debt service requirements of the PFC Bonds for which the Board elects to not use PFCs will be paid from operating revenues of the Airport, which are pledged as security for the PFC Bonds. During 2016, the amounts of $2,190, $2,845 and $1,258 were transferred from the Passenger Facility Charge account group for the principal, interest and debt service coverage requirements, respectively, of the PFC Bonds. Pursuant to the bond resolutions, at December 31, 2016, the $1,258 of debt service coverage was returned to the Passenger Facility Charge account group. At December 31, 2016, all outstanding bonds were PFC Bonds.

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

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

Cash and Investments

As more fully discussed in Note 2, the Board's cash and investments are governed by Kentucky Revised Statutes ("KRS") and the Board's Investment Policy, which was adopted on January 17, 2005 and last amended on March 21, 2016. Investments are stated at their fair values based on market values quoted at December 31, 2016.

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

Accounts Receivable

The Board's receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on an analysis of past due amounts that are not covered by security deposits or letters of credit.

(in thousands of dollars)

When continued collection activity results in receipts of amounts previously reserved, revenue is recognized in the period collected.

Prepaid Expenses and Supplies Inventory

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

Airport Facilities

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

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

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

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

Interest During Construction

Interest costs incurred during construction of qualifying projects, rather than being recorded as interest expense, are capitalized as a cost of the assets which result from the projects. Capitalized interest consists of interest cost at the average borrowing rate on the Airport’s outstanding debt in excess of the investment income on investments acquired with the proceeds of borrowings.

Capital Contributions

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

(in thousands of dollars)

Deferred Outflows/Inflows of Resources

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

Compensated Absences

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

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

Bond Issuance Costs and Bond Discounts and Premiums

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

Assets Held in Trust

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

Grants and Federal Awards

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

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

(in thousands of dollars)

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

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

2. Cash and Investments

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

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

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

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

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

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

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

(in thousands of dollars)

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

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

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

The limits related to portfolio diversification are as follows:

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

(in thousands of dollars)

Maximum investment term/maturity: The policy provides that, unless matched to a specific cash flow need, the Airport's funds should not, in general, be invested in securities maturing more than three years from the date of purchase. However, in accordance with the Airport's bond resolutions, provided that the average aggregate weighted term to maturity for the Bond Reserve Accounts does not exceed five years, funds in the Bond Reserve Accounts may be invested in securities 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 consist of U.S. Treasury securities, securities issued by U.S. government sponsored enterprises and direct obligations of the Commonwealth of Kentucky, as well as those of certain of its agencies and instrumentalities. Except for deposits collateralized with a Federal Home Loan Bank Letter of Credit, deposits must be collateralized at a minimum of 102% of the market value of principal plus accrued interest. As provided by KRS Section 41.240(4), amounts collateralized with a Federal Home Loan Bank Letter of Credit may be collateralized at 100%. All securities pledged as collateral are required to be held by an independent third-party custodian.

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

(in thousands of dollars)

Cash and Investments Held

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

	Cost	Fair Value
Cash	$ 6,722	$ 6,722
Investments		
Investment in money market mutual funds		
First American Government Obligation Fund	$ 26,089	$ 26,089
Securities		
U.S Treasury	61,970	61,319
U.S. government sponsored enterprises	102,973	102,558
Commercial paper	47,643	47,802
Total investments	$ 238,675	$ 237,768

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

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

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, 2016, as permitted by the policy, consisted of instruments issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. All securities in

(in thousands of dollars)

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

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

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

All securities held by the Airport at December 31, 2016 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 assets of the following account groups at December 31, 2016 are subject to restrictions which limit the purposes for which they may be used:

	2016
Passenger Facility Charge	$ 59,787
Police Forfeiture	1,965
Customer Facility Charge	44,961
Operations and Maintenance Reserve	18,796
Demolition of Excess Facilities	6,086
Bond Interest and Redemption	-
Bond Reserve	4,282
Other Third Party Funding	62
	$ 135,939

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

(in thousands of dollars)

4. Capital Assets

Capital assets are comprised of the following:

	Balance 12/31/2015	Additions/ transfers	Retirements/ transfers	Balance 12/31/2016
Land (non-depreciable)	$ 167,627	$ 982	$ -	$ 168,609
Runways, taxiways and other land improvements	661,919	3,419		665,338
Buildings and building renovations	374,394	11,657	(20,095)	365,956
Utility systems	85,004	632		85,636
Equipment	127,755	5,911	(247)	133,419
Easements (non-depreciable)	40,729	2		40,731
Construction-in-progress	5,962	7,890	(10,034)	3,818
Total capital assets	1,463,390	30,493	(30,376)	1,463,507
Less accumulated depreciation				
Runways, taxiways and other land improvements	444,344	22,955	(23)	467,276
Buildings and building renovations	144,777	11,225	(20,095)	135,907
Utility systems	62,323	3,001		65,324
Equipment	74,235	6,342	(187)	80,390
Total accumulated depreciation	725,679	43,523	(20,305)	748,897
Total capital assets, net of accumulated depreciation	$ 737,711	$ (13,030)	$ (10,071)	$ 714,610
Total non-depreciable capital assets	$ 208,356	$ 984	$ -	$ 209,340
Total depreciable capital assets, net of accumulated depreciation	529,355	(14,014)	(10,071)	505,270
Total capital assets, net of accumulated depreciation	$ 737,711	$ (13,030)	$ (10,071)	$ 714,610

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

(in thousands of dollars)

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

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

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

5. Lease of Airport Facilities

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

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

For the years 2017, 2018, 2019, 2020 and 2021, minimum future rentals for noncancelable leases (other than noncancelable rentals charged to the Signatory Carriers under the use agreements and other long-term terminal facility leases) are $7,169, $5,769, $5,306, $4,977 and $3,343, respectively.

For the years 2017, 2018, 2019 and 2020, prior to adjustment in the Signatory Carrier rates and charges through the calculation method outlined in Note 1, noncancelable rentals under the use agreements (exclusive of landing fees) and other long-term terminal facility leases pertaining to the Signatory Carriers are projected to be $27,121, $27,079, $27,079 and $27,079, respectively. As outlined in Note 1, these amounts will likely be reduced based on projected, and then actual, air carrier activity, Airport cost of operation, and applicable revenues during those periods. For 2016, the gross and net amounts of revenues related to Signatory Carrier noncancelable leases were $25,638 and $14,404, respectively. As the Use Agreement and other long-term Terminal facility leases expire on December 31, 2020, as of December 31, 2016 no amount of Signatory Carrier noncancelable rentals exists for 2021. Such amounts will be determined upon execution of the use agreement and facility rental agreements, or such other rate making methodology permitted under applicable law, to become effective January 1, 2021.

(in thousands of dollars)

6. Long-Term Liabilities

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

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

Series 2016 Refunding Bonds, 2.00% to 5.00%, due 2018-2033	$	46,535

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

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

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

2017	$	1,052
2018		1,010
2019		947
2020		884
2021		750
2022-2026		3,010
2027-2031		1,318
2032		69
	$	9,040

(in thousands of dollars)

The required funding of bond principal and interest subsequent to December 31, 2016 is as follows:

	Principal	Interest	Total Debt Service
2017	$ 1,985	$ 2,307	$ 4,292
2018	2,065	2,227	4,292
2019	2,165	2,124	4,289
2020	2,280	2,016	4,296
2021	2,390	1,902	4,292
2022-2026	13,865	7,594	21,459
2027-2031	17,695	3,762	21,457
2032	4,090	205	4,295
	$ 46,535	$ 22,137	$ 68,672

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

For the year ended December 31, 2016, interest expense on outstanding revenue bonds and the amortization of bond premium were $1,656 and $526, respectfully. On the Statement of Revenues, Expenses and Changes in Net Position these amounts have been combined and presented as $1,130 of revenue bond interest expense, net of premium amortization.

Other Long-Term Liabilities

At December 31, 2016, the Airport's other liabilities which have portions due after one year consisted of rental deposits, compensated absences, estimated amounts potentially due for incidents not covered by commercial insurance, estimated amounts due under a frequent parking rewards program, and the Airport's assigned proportionate share of net pension liability from its participation in the pension plans discussed in Note 9. Amounts related to these liabilities are shown below.

Long-Term Liability Activity

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

(in thousands of dollars)

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Amounts Due within One Year	Amounts Due after One Year
Accounts Payable						
Deposits	$ 90	$ 89	$ (83)	$ 96	$ 55	$ 41
Accrued Expenses						
Compensated absences	2,935	1,055	(548)	3,442	2,295	1,147
Uninsured losses	31	185	(192)	24	4	20
Parking rewards	487	84	(10)	561	373	188
Revenue bonds payable	58,590	47,785	(59,840)	46,535	1,985	44,550
Revenue bond premium	-	9,566	(526)	9,040	1,052	7,988
Net pension liability	50,810	7,485	-	58,295	-	58,295
	$ 112,943	$ 66,249	$ (61,199)	$ 117,993	$ 5,764	$ 112,229

7. Special Facility Revenue Bonds

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

8. Major Lessees

In 2016, the operating revenues received from Delta Airlines, Inc. (“Delta”) and DHL Worldwide Express, Inc. (“DHL”), represented approximately 21.41% and 11.01%, respectively, of total operating revenues.

Landing fees received from Delta and DHL in 2016 represented 24.99% and 48.42%, respectively, of total billed landing fees.

(in thousands of dollars)

9. Retirement Plans and Post Retirement Benefits

Defined Benefit Pension Plans

All full-time employees of the Airport as of December 31, 2016 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 System. The assets of the insurance fund are invested as a whole.

(in thousands of dollars)

Benefits provided: Nonhazardous

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

(in thousands of dollars)

Benefits provided: Hazardous

	Tier 1 Hazardous Participation beginning prior to 9/1/2008	Tier 2 Hazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Hazardous Participation beginning on or after 01/01/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 3 fiscal years (must contain at least 24 months and a minimum of 3 fiscal years)	Average of the highest 3 fiscal years; Each year must contain 12 months.	No final compensation factor
Benefit Factor:	2.50%	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 year ended June 30, 2016.

The contribution rates in effect and contributions remitted relating to the CERS and the CERS portion of the Insurance Fund for the fiscal year ended December 31, 2016 were as follows:

	CERS		**CERS Portion of Insurance Fund**	
	Non Hazardous	**Hazardous**	**Non Hazardous**	**Hazardous**
Employee Contribution rates:				
Tier 1 : Participation prior to 9/1/2008	5.00%	8.00%		
Tier 2 : Participation 9/1/2008 through 12/31/2013	6.00%	9.00%		
Tier 3 : Participation after 1/1/2014	6.00%	9.00%		
Airport Contribution rates:				
July 1, 2016 - December 31, 2016	13.95%	21.71%	4.73%	9.35%
July 1, 2015 - June 30, 2016	12.42%	20.26%	4.64%	12.69%
July 1, 2014 - June 30, 2015	12.75%	20.73%	4.92%	13.58%
July 1, 2013 - June 30, 2014	13.74%	21.77%	5.15%	13.93%
Employee Contributions				
2016	$ 926	$ 602		
2015	$ 901	$ 605		
2014	$ 831	$ 571		
Airport Contributions				
2016	$ 2,263	$ 1,546	$ 802	$ 798
2015	$ 2,140	$ 1,518	$ 813	$ 972
2014	$ 2,069	$ 1,492	$ 787	$ 965
Amount of payroll on which employee and employer contributions were based				
2016	$ 17,101	$ 7,346	$ 17,101	$ 7,346
2015	$ 17,014	$ 7,409	$ 17,014	$ 7,409
2014	$ 15,622	$ 7,019	$ 15,622	$ 7,019
Contributions made by Airport and employees as a percentage of contributions required of of Airport and employees 2016, 2015 and 2014	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, 2016, the Airport reported a liability of $58,295 for its assigned proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the Airport's proportionate shares of the CERS Nonhazardous and CERS Hazardous plan were 0.70381% and 1.37778%, respectively.

For CERS plan years ending June 30, 2016, the Airport's proportionate share of plan pension expense was $4,721 for Nonhazardous and $2,676 for Hazardous.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net
Deferred Outflows and Inflows at December 31, 2015	$ 8,376	$ (3,240)	$ 5,136
Prior year contributions subsequent to measurement date	(1,861)	-	(1,861)
Difference between expected and actual experience	(356)	-	(356)
Changes in assumptions	(2,588)	-	(2,588)
Net differences between projected and actual earnings on pension plan investments	4,774	810	5,584
Changes in proportion and differences between contributions and proportionate share of contributions	68	(31)	37
Contributions subsequent to measurement date	1,883	-	1,883
Deferred Outflows and Inflows at December 31, 2016	$ 10,296	$ (2,461)	$ 7,835

The $1,883 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in 2017, 2018, 2019, 2020 and 2021 in the amounts of $1,127, $1,127, $1,127, $1,937 and $634, respectively.

Actuarial Assumptions
The total pension liability in the June 30, 2016 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 the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again by the KRS Board's actuary when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 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 Equivalent	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	$ 43,316	$ 34,653	$ 27,375
Airport's net pension liability - Hazardous	$ 29,789	$ 23,642	$ 18,677
Total	$ 73,105	$ 58,295	$ 46,052

(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, 2016 audited financial statements				
Actuarial value of assets ("AVA")	$ 6,535,372	$ 2,139,119	$ 2,079,811	$ 1,135,784
Actuarial accrued liability ("AAL")	11,076,456	3,704,456	2,988,121	1,558,818
	$ (4,541,084)	$ (1,565,337)	$ (908,310)	$ (423,034)
AVA as a percentage of AAL	59.00%	57.74%	69.60%	72.86%
Unfunded AAL as a percentage of total covered payroll	193.01%	317.60%	38.60%	85.80%
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	27 years	27 years	27 years	27 years
Asset valuation method	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market

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

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 year ended

(in thousands of dollars)

December 31, 2016. Employee contributions in total were approximately $1,033 for the year ended December 31, 2016.

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

10. Self-funded Group Health Coverage

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

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

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

(in thousands of dollars)

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

		Claims Liability
Liability at January 1, 2015	$	314
Claims and changes in estimates for 2015		4,382
Claims paid in 2015		(4,150)
Changes in receivables related to claims		(119)
Liability at December 31, 2015	$	427
Claims and changes in estimates for 2016		4,888
Claims paid in 2016		(4,921)
Changes in receivables related to claims		27
Liability at December 31, 2016	$	421

		Reserve
Reserves at January 1, 2015	$	5,087
Contributions from all sources		4,776
Investment Income		16
Claims, premiums and fees incurred		(4,974)
Reserves at December 31, 2015	$	4,905
Contributions from all sources		4,972
Investment Income		39
Claims, premiums and fees incurred		(5,413)
Reserves at December 31, 2016	$	4,503

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

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, 2016, the Airport is committed, either through contracts or Board proceedings, to the eventual expenditure of approximately $16,705, which consists primarily of demolition of excess facilities and rehabilitation of existing facilities. Of the total estimated costs, approximately $902 will be funded by federal grants, state grants, PFCs, CFCs and/or tenant funds, with the remainder to be funded by available capital funds.

(in thousands of dollars)

13. Subsequent Events

Amazon Fulfillment Service
In January 2017, Amazon Fulfillment Service, Inc. ("Amazon") announced plans to invest approximately $1.49 billion dollars in facilities at the Airport. The Board and Amazon subsequently entered into a non-binding term sheet. The Board also authorized the Airport's Chief Executive Officer to negotiate and, as appropriate, enter into a development framework agreement related to the leasing of land for construction of improvements to be used primarily as an air cargo facility. The plan proposed by Amazon would include the Airport serving as the principle hub for Amazon's Prime Air cargo operations.

Southwest Airlines
Effective June 1, 2017, Southwest Airlines Co. ("Southwest") entered into a Use Agreement with the Airport to become a Signatory Carrier and executed a separate terminal lease agreement, both expiring as of December 31, 2020. Southwest commenced operations at the Airport on June 4, 2017.

(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, 2016

	2016	2015	2014
Plan's net pension liability	$ 6,639,554	$ 5,834,631	$ 4,446,200
Airport's proportion of the net pension liability	0.8780%	0.8708%	0.8598%
Airport's proportionate share of the net pension liability	$ 58,295	$ 50,810	$ 38,228
Covered-employee payroll	$ 24,447	$ 24,423	$ 22,641
Proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll	238.45%	208.04%	168.84%
Plan's total pension liability	$ 14,791,128	$ 14,353,633	$ 13,061,348
Plan's fiduciary net position	$ 8,151,568	$ 8,519,002	$ 8,615,149
Plan's fiduciary net position as a percentage of the total pension liability	55.11%	59.35%	65.96%

* Fiscal year 2014 was the 1st year of implementation, therefore only three years are shown

(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, 2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution for pension	$ 3,392	$ 3,658	$ 3,561	$ 3,455	$ 3,086	$ 2,700	$ 2,535	$ 2,157	$ 2,079	$ 1,849
Airport's contributions in relation to the statutorily required contribution	(3,392)	(3,658)	(3,561)	(3,455)	(3,086)	(2,700)	(2,535)	(2,157)	(2,079)	(1,849)
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	$ 24,447	$ 24,423	$ 22,641	$ 22,148	$ 21,500	$ 20,782	$ 21,441	$ 20,237	$ 21,023	$ 20,742
Contributions as a percentage of its covered employee payroll	13.87%	14.98%	15.73%	15.60%	14.35%	12.99%	11.82%	10.66%	9.89%	8.91%

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

(in thousands of dollars)

			Unrestricted Account Groups				
	Total	Eliminations	Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
Assets							
Current assets							
Cash - unrestricted	$ 4,392	$ -	$ 3,252	$ 277	$ 522	$ 209	$ 132
Cash - restricted	1,361	-	608	-	-	-	-
Investments (at fair value) - unrestricted	84,176	-	29,493	37,454	3,914	2,530	10,785
Investments (at fair value) - restricted	1,044	-	651	-	-	-	-
Investment income receivable	158	-	3	67	14	29	45
Accounts receivable	3,913	-	3,730	-	162	-	-
Interfund receivable	-	(15,490)	517	27	259	28	14,659
Grants and federal awards receivable	3,720	-	62	3,658	-	-	-
Prepaid expenses	1,308	-	1,255	-	53	-	-
Supplies inventory	4,067	-	4,067	-	-	-	-
Total current assets	104,139	(15,490)	43,638	41,483	4,924	2,796	25,621
Non-current assets							
Cash - restricted	969	-	-	-	-	-	-
Investments (at fair value) - unrestricted	26,004	-	-	8,407	-	7,222	10,375
Investments (at fair value) - restricted	126,544	-	-	-	-	-	-
Investment income receivable	322	-	-	-	-	-	-
Interfund receivable	-	(4,556)	-	-	-	-	-
Passenger facility charges receivable	1,775	-	-	-	-	-	-
Customer facility charges receivable	606	-	-	-	-	-	-
Prepaid expenses	262	-	262	-	-	-	-
Capital assets, non-depreciable	209,340	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	505,270	-	-	-	-	-	-
Total non-current assets	871,092	(4,556)	262	8,407	-	7,222	10,375
Total assets	$ 975,231	$ (20,046)	$ 43,900	$ 49,890	$ 4,924	$ 10,018	$ 35,996
Deferred Outflow of Resources							
Pension	$ 10,296	$ -	$ 10,296	$ -	$ -	$ -	$ -
Total deferred outflow of resources	$ 10,296	$ -	$ 10,296	$ -	$ -	$ -	$ -
Total assets and deferred outflow of resources	$ 985,527	$ (20,046)	$ 54,196	$ 49,890	$ 4,924	$ 10,018	$ 35,996
Liabilities							
Current Liabilities							
Accounts payable and accrued expenses	$ 12,445	-	9,624	1,377	421	-	-
Rates and charges settlement payable to airlines	6,593	-	6,593	-	-	-	-
Interfund payable	-	(20,046)	17,247	2,592	-	22	81
Contract retainage payable	1,098	-	-	-	-	-	-
Assets held in trust	40	-	-	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	3,037	-	-	-	-	-	-
Total current liabilities	23,213	(20,046)	33,464	3,969	421	22	81
Non-current liabilities							
Accounts payable and accrued expenses	1,396	-	1,396	-	-	-	-
Revenue bonds payable, inclusive of unamortized premium	52,538	-	-	-	-	-	-
Net pension liability	58,295	-	58,295	-	-	-	-
Total non-current liabilities	112,229	-	59,691	-	-	-	-
Total liabilities	$ 135,442	$ (20,046)	$ 93,155	$ 3,969	$ 421	$ 22	$ 81
Deferred Inflow of Resources							
Pension	$ 2,461	$ -	$ 2,461	$ -	$ -	$ -	$ -
Total deferred inflow of resources	$ 2,461	$ -	$ 2,461	$ -	$ -	$ -	$ -
Net Position							
Unrestricted	$ 54,915	$ -	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915
Net investment in capital assets	657,937	-	-	-	-	-	-
Restricted:							
For federally approved projects	61,731	-	-	-	-	-	-
For ground transportation expenditures	44,477	-	-	-	-	-	-
For operational cash flow shortages (by bond resolutions)	18,750	-	-	-	-	-	-
For demolition of excess facilities	5,546	-	-	-	-	-	-
For debt service	4,268	-	-	-	-	-	-
Total net position	$ 847,624	$ -	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915
Total liabilities, deferred inflow of resources and net position	$ 985,527	$ (20,046)	$ 54,196	$ 49,890	$ 4,924	$ 10,018	$ 35,996

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

(in thousands of dollars)

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

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

(in thousands of dollars)

	Total	Operations & Maintenance	Designated for Capital Projects	Designated for Group Health Coverage	Repair & Replacement Reserve	General Purposes
		Unrestricted Account Groups				
Operating revenues						
Landing fees	$ 17,236	$ 17,236	$ -	$ -	$ -	$ -
Rentals:						
Terminal	12,014	12,014	-	-	-	-
Ground	3,968	3,968	-	-	-	-
Ramp	3,430	3,430	-	-	-	-
Other	866	866	-	-	-	-
Parking	31,695	31,695	-	-	-	-
Concessions	12,221	12,221	-	-	-	-
Rebilled services	1,616	1,616	-	-	-	-
Ground transportation	649	649	-	-	-	-
Other	684	684	-	-	-	-
Total operating revenues	84,379	84,379	-	-	-	-
Operating expenses						
Salaries, wages and benefits	43,417	42,976	-	441	-	-
Contracted services	25,417	16,353	-	-	-	-
Utilities	7,098	7,098	-	-	-	-
Supplies and capital items expensed	5,761	5,665	-	-	-	-
General administration	2,064	2,043	-	-	-	-
Insurance	1,257	1,257	-	-	-	-
Total operating expenses	85,014	75,392	-	441	-	-
Operating loss, before depreciation and amortization	(635)	8,987	-	(441)	-	-
Depreciation and amortization	(43,523)	-	-	-	-	-
Operating loss, after depreciation and amortization	(44,158)	8,987	-	(441)	-	-
Nonoperating changes in net position: increase (decrease)						
Revenue bonds:						
Transfer of revenue bond debt service - principal	-	(2,190)	-	-	-	-
Transfer of revenue bond debt service - interest	-	(2,845)	-	-	-	-
Payment of revenue bond debt service - principal	-	-	-	-	-	-
Revenue bond interest expense, net of premium amortization	(1,130)	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - principal	-	-	-	-	-	-
Bond refunding - release of funds for defeasance of bonds - interest	(1,209)	-	-	-	-	-
Bond refunding - bond issuance costs	(607)	-	-	-	-	-
Passenger facility charge revenues	13,575	5,118	(2,170)	-	-	-
Customer facility charge revenues	6,726	-	-	-	-	-
Police forfeiture program revenues	677	-	-	-	-	-
Police forfeiture program revenues passed through to other local government	(2)	-	-	-	-	-
Grants and federal awards for operating expenses	371	371	-	-	-	-
Investment income	1,598	432	373	39	(4)	75
Net gain on disposal of capital assets	17	-	-	-	-	-
Non-capitalized project costs	(90)	-	-	-	-	-
Capitalization of expenditures	-	-	(7,466)	-	-	-
Transfer of remaining revenues	-	(14,659)	-	-	-	14,659
Other	-	-	(184)	-	212	(28)
Total nonoperating changes in net position, before capital contributions	19,926	(13,773)	(9,447)	39	208	14,706
Capital Contributions						
Reversion of ownership of leased facilities	11,503	-	-	-	-	-
Grants and federal awards for capital expenditures	3,773	-	3,773	-	-	-
Third party funding of project costs	944	-	-	-	-	-
Total capital contributions	16,220	-	3,773	-	-	-
Total changes in net position	(8,012)	(4,786)	(5,674)	(402)	208	14,706
Net position at the beginning of year (deficit)	855,636	(36,634)	51,595	4,905	9,788	21,209
Net position at the end of year (deficit)	$ 847,624	$ (41,420)	$ 45,921	$ 4,503	$ 9,996	$ 35,915

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

(in thousands of dollars)

	Net Investment in Capital Assets	Restricted Account Groups							
		Passenger Facility Charge	Police Forfeiture	Customer Facility Charge	Operations & Maintenance Reserve	Demolition of Excess Facilities	Bond Interest & Redemption	Bond Reserve	Other Third Party Funding
Operating revenues									
Landing fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Rentals:									
Terminal	-	-	-	-	-	-	-	-	-
Ground	-	-	-	-	-	-	-	-	-
Ramp	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Parking	-	-	-	-	-	-	-	-	-
Concessions	-	-	-	-	-	-	-	-	-
Rebilled services	-	-	-	-	-	-	-	-	-
Ground transportation	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total operating revenues	-	-	-	-	-	-	-	-	-
Operating expenses									
Salaries, wages and benefits	-	-	-	-	-	-	-	-	-
Contracted services	-	-	6	24	-	9,034	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Supplies and capital items expensed	-	-	94	-	-	2	-	-	-
General administration	-	-	21	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Total operating expenses	-	-	121	24	-	9,036	-	-	-
Operating loss, before depreciation and amortization	-	-	(121)	(24)	-	(9,036)	-	-	-
Depreciation and amortization	(43,523)	-	-	-	-	-	-	-	-
Operating loss, after depreciation and amortization	(43,523)	-	(121)	(24)	-	(9,036)	-	-	-
Nonoperating changes in net position: increase (decrease)									
Revenue bonds:									
Transfer of revenue bond debt service - principal	-	-	-	-	-	-	2,190	-	-
Transfer of revenue bond debt service - interest	-	-	-	-	-	-	2,845	-	-
Payment of revenue bond debt service - principal	1,250	-	-	-	-	-	(1,250)	-	-
Revenue bond interest expense, net of premium amortization	506	-	-	-	-	-	(1,636)	-	-
Bond refunding - release of funds for defeasance of bonds - principal	1,854	-	-	-	-	-	(940)	(914)	-
Bond refunding - release of funds for defeasance of bonds - interest	-	-	-	-	-	-	(1,209)	-	-
Bond refunding - bond issuance costs	(607)	-	-	-	-	-	-	-	-
Passenger facility charge revenues	-	10,627	-	-	-	-	-	-	-
Customer facility charge revenues	-	-	-	6,726	-	-	-	-	-
Police forfeiture program revenues	-	-	677	-	-	-	-	-	-
Police forfeiture program revenues passed through to other local government	-	-	(2)	-	-	-	-	-	-
Grants and federal awards for operating expenses	-	-	-	-	-	-	-	-	-
Investment income	13	362	3	343	(58)	48	-	(28)	-
Net gain on disposal of capital assets	12	-	5	-	-	-	-	-	-
Non-capitalized project costs	(90)	-	-	-	-	-	-	-	-
Capitalization of expenditures	9,183	-	(37)	(1,024)	-	288	-	-	(944)
Transfer of remaining revenues	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total nonoperating changes in net position, before capital contributions	12,121	10,989	646	6,045	(58)	336	-	(942)	(944)
Capital Contributions									
Reversion of ownership of leased facilities	11,503	-	-	-	-	-	-	-	-
Grants and federal awards for capital expenditures	-	-	-	-	-	-	-	-	-
Third party funding of project costs	-	-	-	-	-	-	-	-	944
Total capital contributions	11,503	-	-	-	-	-	-	-	944
Total changes in net position	(19,899)	10,989	525	6,021	(58)	(8,700)	-	(942)	-
Net position at the beginning of year (deficit)	677,836	48,798	1,419	38,456	18,808	14,246	-	5,210	-
Net position at the end of year (deficit)	$ 657,937	$ 59,787	$ 1,944	$ 44,477	$ 18,750	$ 5,546	$ -	$ 4,268	$ -

Cincinnati/Northern Kentucky International Airport
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

(in thousands of dollars)

Name of Agency or Department	CFDA or Other No.	Name of Program	Federal Awards with Expenditure Activity in 2016: Award Amount	Federal Awards with Expenditure Activity in 2016: Total Awards Expended
US Dept of Transportation	20.106	Airport Improvement Program	$ 42,275	$ 3,662
Federal Highway Administration (Passed through the Kentucky Transportation Cabinet)	20.205	Highway Planning and Construction	200	111
US Dept of Justice	16.922	Equitable Sharing Program	2,105	157
US Dept of Transportation (Passed through the Kentucky Transportation Cabinet Office of Highway Safety)	20.600	State and Community Highway Safety Program	12	10
		Total awards expended		$ 3,940

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

(in thousands of dollars)

1. General

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

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

2. Basis of Presentation

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

3. Reconciliation to Financial Statements

Following is a reconciliation of amounts per the Schedule to the 2016 financial statements (amounts rounded to nearest thousand):

Grants and federal awards, nonoperating changes in net position	$ 371
Less: Federal receipts not subject to Uniform Guidance requirements	(358)
Less: Local government grants not funded by federal sources	(3)
Grants and federal awards, capital contributions	3,773
Police forfeiture revenues expended for operations, operating expenses	121
Less: State portion	(3)
Police forfeiture revenues expended for capital projects, nonoperating changes in net position	37
Police forfeiture revenues passed through to other local governments, nonoperating changes in net position	2
Expenditures of revenues from federal sources reported on the Schedule	$ 3,940

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of the Cincinnati/Northern Kentucky International Airport (the Airport), which is controlled and operated by the Kenton County Airport Board, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Airport's financial statements (hereby referred to as the financial statements), and have issued our report thereon dated June 19, 2017. Our report includes a statement that management's discussion and analysis is not included as a supplement to the financial statements as required by the Government Accounting Standards Board. This did not affect our opinion on the basic financial statements.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Lexington, KY
June 19, 2017

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Cincinnati/Northern Kentucky International Airport's (hereby referred to as the Airport) which is controlled and operated by the Kenton County Airport Board, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Airport's major federal programs for the year ended December 31, 2016. The Airport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

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

Blue & Co., LLC

Lexington, KY
June 19, 2017

(in thousands of dollars)

Section I - Summary of Auditor's Results

Type of auditor's report issued: unmodified

Internal Control over financial reporting:

Material weakness(es) identified? ______ yes __X__ no

Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ yes __X__ none reported

Noncompliance material to financial statements noted? ______ yes __X__ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ______ yes __X__ no

Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ yes __X__ none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? ______ yes __X__ no

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as a low-risk auditee? __X__ yes _______ no

Section II – Findings related to financial statements reported in accordance with *Government Auditing Standards*

None reported.

Section III – Findings and questioned costs related to federal awards

None reported.

Federal Award Findings and Questioned Costs

No findings or questioned costs for federal award programs were reported for the year ended December 31, 2015.

Cincinnati/Northern Kentucky International Airport
Schedule of Passenger Facility Charges Collected and Expended
Year Ended December 31, 2016

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

(in thousands of dollars)

Quarter Ended	Collections from Airlines	Investment Earnings	Total Received	Expenditures on Approved Projects	Debt Service on Approved Projects	Total Expenditures	PFCs and Earnings Net of Expenditures
Beginning balance	$ 470,688	$ 45,931	$ 516,619	$ (314,841)	$ (152,980)	$ (467,821)	$ 48,798
Q1-16	2,977	104	3,081	(477)	(1,142)	(1,619)	
Q2-16	3,502	84	3,586	324	(1,612)	(1,288)	
Q3-16	3,474	112	3,586	0	(1,023)	(1,023)	
Q4-16	3,328	35	3,363	2,241	(1,791)	450	
Total 2016	13,281	335	13,616	2,088	(5,568)	(3,480)	10,136
Change in accrual	294	27	321		532	532	853
Total program to date	$ 484,263	$ 46,293	$ 530,556	$ (312,753)	$ (158,016)	$ (470,769)	
PFC funds to be used for future eligible expenditures							$ 59,787

See report of independent auditors and accompanying notes to the Schedule of Passenger Facility Charges Collected and Expended.

1. General

The accompanying Schedule of Passenger Facility Charges Collected and Expended presents all passenger facility charge activities of the Kenton County Airport Board (the "Airport"). The Airport's reporting entity is defined in Note 1 to the Airport's financial statements. The Schedule of Passenger Facility Charges Collected and Expended includes all the PFCs and the interest earnings thereon collected by the Airport beginning June 1, 1994 through December 31, 2016. Passenger Facility Charges are collected pursuant to Federal Aviation Administration approved applications.

2. Basis of Presentation

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

CPAs / ADVISORS

blue

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Report of Independent Auditors on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance Required by the Federal Aviation Administration

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

We have audited the Cincinnati/Northern Kentucky International Airport's (hereby referred to as the Airport) which is controlled and operated by the Kenton County Airport Board, compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2016.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct material effect on its passenger facility charge program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

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

Blue & Co., LLC

Lexington, KY
June 19, 2017

Summary of Auditor's Results

We have issued an unmodified opinion, dated June 19, 2017 on the financial statements of Cincinnati/Northern Kentucky International Airport (the Airport) as of and for the year ended December 31, 2016.

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

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

We have issued an unmodified opinion, dated June 19, 2017 on the Airport's compliance for its passenger facility charge program.

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

Findings Relating to the Financial Statements

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

Findings and Questioned Costs for the Passenger Facility Charge Program

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

Cincinnati/Northern Kentucky International Airport
Schedule of Prior Year Passenger Facility Charge Findings and Their Resolutions
Year Ended December 31, 2015

No findings that are required to be reported in accordance with the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration were reported for the year ended December 31, 2015.