



# **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, 2018 and 2017**

**Cincinnati/Northern Kentucky International Airport  
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Years Ended December 31, 2018 and 2017**

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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 years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Airport's financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Airport as of December 31, 2018 and 2017, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 14 to the financial statements, in the year ended December 31, 2018 the Airport adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of GASB No. 75, the Airport reported a restatement for the change in accounting principle as of January 1, 2017. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that management's discussion and analysis, 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

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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 17, 2019 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

*Blue & Co., LLC*

Lexington, Kentucky  
June 17, 2019

# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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## **Introduction**

The following management discussion and analysis of the financial performance and activity of the Cincinnati/Northern Kentucky International Airport (the "Airport") provides an introduction and understanding of the Airport's basic financial statements ("Statements") for the calendar year ended December 31, 2018 with selected comparative information for the years ended December 31, 2017 and December 31, 2016. The Statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

The operations of the Airport are self-supporting and generate revenues from Airport users to fund all operating expenses and debt service requirements. Capital projects are funded through the issuance of revenue bonds, the collection of Passenger Facility Charges ("PFCs"), the collection of Customer Facility Charges ("CFCs"), the receipt of federal and state grants, the use of certain funds generated by the operations of the Airport and other third party funding received from tenants of the Airport for use on specified projects.

## **Airport Governance**

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

## **Airport Activity Highlights**

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

In 2017, it was announced that the Airport had been selected to serve as the future home of the primary Amazon Air ("Amazon") cargo hub; and Amazon began operating Amazon Air aircraft from the Airport in May 2017 utilizing daytime capacity at DHL's hub facility. Since the announcement, work has been underway related to planning the Amazon Air cargo hub development and to completing the necessary regulatory and permitting review processes. In March 2019, the Airport entered into a ground lease with Amazon.com Services, Inc. for an approximate 650 acre site on the south side of the Airport and an option agreement for approximately 479 acres on the north side of the Airport. Since the signing of these agreements, work has begun on the first phase of the south side development which is planned to open in 2021. Future phases of the south side development are currently planned to open in 2026 and beyond, with the actual timing being dependent on economic conditions and operational requirements. The total estimated cost of the south side development is approximately \$1.5 billion.

As of December 31, 2018, scheduled passenger service at the Airport was provided by seven airline groups through a total of twenty-one mainline and regional carriers. Scheduled cargo service was provided by three cargo operators.

# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

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Selected activity statistics for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                           | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------|-------------|-------------|
| Enplaned passengers       | 4,440,014   | 3,926,158   | 3,383,938   |
| Origin passengers(1)      | 4,161,092   | 3,652,270   | 3,007,532   |
| Landed Weights(lbs. 000s) |             |             |             |
| Passenger airlines        | 5,134,540   | 4,606,347   | 3,979,995   |
| Cargo airlines(2)         | 7,060,621   | 5,734,983   | 4,314,754   |
| Total landed weight       | 12,195,161  | 10,341,330  | 8,294,749   |
| Aircraft operations(3)    | 76,141      | 70,491      | 64,149      |

(1) as reported to the Airport by the airlines

(2) includes maintenance flights

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

The Airport's enplaned passenger activity grew by 513,856, or 13.9%, in 2018 and 542,220, or 16.0%, in 2017. This growth in enplaned passengers was the result of an increase in passengers starting flights from the Airport ("origin passengers") of 508,822, or 13.1%, in 2018 and 644,738, or 21.4%, in 2017, with the increase in 2017 offset by a 102,518, or 27.2%, decrease in passengers connecting through the Airport. The increase in origin passengers is the result of a continued diversification of the carrier base at the Airport with incumbent and low-cost carrier entrants expanding service at the Airport. This diversification has created enhanced competition at the Airport, resulting in lower air fares and the stimulation of local passenger traffic. In 2018, 2017 and 2016, origin passengers represented 93.7%, 93.0% and 88.9%, respectively, of the Airport's enplaned passengers.

In thousand-pound units (lbs. 000s), total landed weights at the Airport increased 1,853,831, or 17.9%, in 2018 and 2,046,581, or 24.7%, in 2017. This growth in landed weights reflects increases in cargo landed weights of 1,325,638, or 23.1%, in 2018 and 1,420,229, or 32.9%, in 2017, and increases in passenger airline landed weights of 528,193, or 11.5%, in 2018 and 626,352, or 15.7%, in 2017. The increases in cargo airline landed weights in 2018 and 2017 were attributable to the commencement of operations by Amazon in the second quarter of 2017 and continued growth of DHL's operations. Passenger airline landed weights grew in 2018 and 2017 due to the commencement of service by Southwest Airlines Co. ("Southwest") in June 2017, an increase in the average size of aircraft utilized by legacy carriers (American Airlines Inc. ("American"), Delta Air Lines Inc. ("Delta") and United Airlines Inc. ("United")) operating at the Airport and growth in service from low cost carriers Southwest and Allegiant Air LLC ("Allegiant") in 2018 and Frontier Airlines Inc. ("Frontier") and Allegiant in 2017.

The number of aircraft operations at the Airport grew by 5,650, or 8.0%, in 2018 and 6,342, or 9.9%, in 2017, consisting of cargo operations increasing by 3,123, or 16.4% in 2018 and 3,997, or 28.6%, in 2017 and passenger carrier operations increasing by 2,527, or 4.9%, in 2018 and 2,345, or 4.8%, in 2017. The percentage increase in the number of operations at the Airport is lower than the increases in enplanements and landed weights due to the continued increase in the average size of cargo and passenger aircraft operating from the Airport.

# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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## **Airline Rates and Charges**

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

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

The landing fee rate, terminal related rates and charges and the related NRR credits are established annually during the budget process based on projected revenues, costs and airline activity. After the close of each fiscal year, the landing fee rate, terminal related rates and charges and related NRR credits are recalculated using audited financial data. Any overpayments of such rentals, fees and charges are reflected as payable by the Board and returned to the Signatory Carriers; and any underpayments are invoiced to the Signatory Carriers. Amounts owed to the carriers as the result of this settlement process for 2018 and 2017 were \$8.8 million and \$9.8 million, respectively. As \$9.6 million of the amounts payable at December 31, 2017 had not been paid by December 31, 2018, the total amount reflected on the Balance Sheet as payable at December 31, 2018 is \$18.4 million.

The bond resolutions associated with the bonds outstanding at December 31, 2018 and 2017 require that rates and fees charged to the air carriers be determined and fixed at amounts which, together with all other revenues from the operation, use and services of the Airport, will be sufficient to 1) pay the costs of operating and maintaining the Airport, 2) fund the principal, interest and coverage requirements of 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 2018 and 2017.

As of December 31, 2018 and December 31, 2017, the Airport had eight Signatory Carriers, of which six were passenger airlines (Allegiant, American, Delta, Frontier, Southwest, and United) and two were cargo operators (DHL and Federal Express Corporation).



# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

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## Overview of the Financial Statements

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

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

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

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

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

### *Adoption of New Pronouncement*

All full-time employees of the Airport are members of the Kentucky Retirement Systems' ("KRS") County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension system. All Airport retirees drawing a pension benefit from the CERS are eligible to receive an additional benefit for group health and medical benefits. Under the provision of KRS Section 61.701, KRS administers an insurance fund that provides this benefit. Therefore, as required by the GASB, during 2018 the Airport implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires that governments participating in other postemployment benefit plans ("OPEB") report a liability, with related deferred outflows and deferred inflows, if any, for its proportionate share of unfunded OPEB liability for the OPEB they provide. Additionally, GASB Statement No. 75 requires more extensive note disclosures and required supplementary information. Related to this implementation, the Airport recorded its assigned proportionate share of the CERS' net OPEB liability, with this liability being recorded through the restatement of net position at January 1, 2017 as well as through the recording of related deferred outflows of resources and additional OPEB expense. While included in this Management's Discussion and Analysis for comparative purposes, the 2016 amounts have not been restated related to the implementation of GASB Statement No. 75.

# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

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## Summary of Financial Position

A summarized comparison of the Airport's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 31, 2018, 2017 and 2016 is set forth below (in thousands of dollars):

|   | <u>2018</u>         | <u>2017</u>         | <u>2016</u>       |
|---|---------------------|---------------------|-------------------|
| Assets  |                     |                     |                   |
| Current assets  | \$ 131,973          | \$ 91,985           | \$ 104,139        |
| Non-current assets  |                     |                     |                   |
| Capital assets  | 696,708             | 707,410             | 714,610           |
| Other non-current assets  | 180,347             | 184,833             | 156,482           |
| Total assets  | <u>1,009,028</u>    | <u>984,228</u>      | <u>975,231</u>    |
| Deferred outflows of resources                                    | 30,912              | 33,812              | 10,296            |
| Total assets and deferred outflows of resources                   | <u>\$ 1,039,940</u> | <u>\$ 1,018,040</u> | <u>\$ 985,527</u> |
| Liabilities   |                     |                     |                   |
| Current liabilities   | \$ 31,314           | \$ 27,116           | \$ 18,487         |
| Non-current liabilities   | 172,860             | 162,279             | 116,955           |
| Total liabilities   | <u>204,174</u>      | <u>189,395</u>      | <u>135,442</u>    |
| Deferred inflows of resources                                     | 10,061              | 7,350               | 2,461             |
| Net position  |                     |                     |                   |
| Unrestricted  | 20,173              | 19,616              | 54,915            |
| Net investment in capital assets                                  | 645,200             | 653,494             | 657,937           |
| Restricted  | 160,332             | 148,185             | 134,772           |
| Total net position  | <u>825,705</u>      | <u>821,295</u>      | <u>847,624</u>    |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 1,039,940</u> | <u>\$ 1,018,040</u> | <u>\$ 985,527</u> |

## Net Position

Net position is the difference between total assets, total deferrals and total liabilities, and is an indicator of the current fiscal health of the Airport. The majority of the Airport's net position at December 31, 2018, 2017 and 2016 represents its investment in capital assets less the related outstanding indebtedness used to acquire those capital assets. The Airport uses these capital assets to provide services to the airlines, passengers, service providers and other users of the Airport. While the Board's net position related to capital assets is reported net of related debt, the associated debt service is paid annually from operating revenues or other nonoperating revenues generated through the use of these capital assets.

In 2018, the Airport's net position increased by \$4.4 million. This change is the result of a \$0.6 million increase of unrestricted net position, an \$8.3 million reduction in net position invested in capital assets, net of related debt, and an increase of \$12.1 million in restricted net position.

The 2018 increase of unrestricted net position was primarily the result of \$8.0 million of grant revenue received to fund capital expenditures, a \$4.5 million increase resulting from income generated from Airport operations, \$2.3 million of income generated from investments and \$.4 million of grant revenue to fund operating expenses. This increase in unrestricted net position was substantially offset by the utilization of \$12.5 million of the cash and investments in the unrestricted Designated for Capital Projects account group to fund capital additions and by the transfer of \$2.4 million of unrestricted amounts for the funding of restricted operating reserves.

# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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The 2018 reduction in net position related to the net investment in capital assets was due to \$41.9 million of depreciation of the Airport's capital assets, which was offset in part by \$30.8 million in capital assets paid for from funds available in the restricted and unrestricted account groups and a \$3.1 million reduction in revenue bonds payable.

The 2018 increase in restricted net position was due to the receipt of \$18.1 million of PFC revenues, \$11.9 million of CFC revenues, \$2.5 million of income generated by investments and \$2.4 million transferred from unrestricted account groups for the funding of operating reserve requirements. These increases were partially offset by the utilization of \$18.3 million of funds available in the restricted account groups for the acquisition of capital assets and a \$4.3 million transfer from the restricted PFC account group for funding of the debt service requirements.

In 2017, the Airport's net position decreased by \$26.3 million. This change was the result of a \$35.3 million reduction of unrestricted net position, a \$4.4 million reduction in invested in capital assets, net of related debt net position and an increase of \$13.4 million in restricted net position.

The 2017 reduction in unrestricted net position was primarily the result of utilizing \$31.9 million of the cash and investments in the unrestricted Designated for Capital Projects account group to fund capital additions. Also contributing was a \$17.6 million reduction in unrestricted net position due to the restatement of net position required for the implementation of GASB Statement No. 75 and a \$.8 million transfer related to the required funding of reserves. These reductions in unrestricted net position were partially offset by a \$6.8 million increase in net position resulting from income generated from Airport operations, a \$5.5 million reimbursement from the restricted for Demolition of Excess Facilities account group for eligible expenditures previously made from the unrestricted Designated for Capital Project account group, \$1.6 million in grants received for capital and operating expenditures and \$1.0 million in investment income.

The 2017 reduction in the net position related to the net investment in capital assets was due to \$42.7 million of depreciation of the Airport's capital assets, which was offset in part by \$35.3 million in capital assets paid for from funds available in the restricted and unrestricted account groups and a \$3.0 million reduction in revenue bonds payable.

The increase in restricted net position during 2017 was due to the receipt of \$16.0 million of PFC revenues, \$8.8 million of CFC revenues, \$0.9 million of income generated by investments and \$.8 million of reserve funding from the unrestricted Operations and Maintenance account group. These increases were partially offset by a \$5.5 million reimbursement from the restricted Demolition of Excess Facilities account group to the unrestricted Designated for Capital Projects account group for eligible demolition expenditures, a \$4.2 million transfer from the restricted PFC account group for funding of debt service requirements and the utilization of \$3.4 million of funds available in the restricted account groups for the acquisition of capital assets.

## Assets, Liabilities, and Deferrals

In 2018, total assets increased \$24.8 million, composed of a \$40.0 million increase in current assets, a \$10.7 million decrease in capital assets, and a \$4.5 million decrease in other non-current assets. The increase in current assets was primarily due to an increase in investable balances and, to take advantage of the rising interest rate environment, a reallocation of investments by the Airport from a long-term horizon to a shorter-term horizon. The decrease in capital assets was due to the depreciation of the Airport's assets and to the demolition and write-off of a passenger terminal concourse previously used for regional jet service. The decrease in other non-current assets was related to the above discussed reallocation of investments to a

## **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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shorter-term horizon, with this decrease being offset in part by an increase in investments held in trust from air carrier rates and charges settlements and an increase in invested balances as the result of 2018 PFC receipts.

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

In 2018, total liabilities increased \$14.8 million. This change includes a \$4.2 million increase in current liabilities and a \$10.6 million increase in non-current liabilities. The increase in current liabilities was due to a \$6.8 million increase in accounts payable related to both capital and operational expenditures, offset by a \$2.8 million decrease in the rates and charges settlement payables to air carriers other than Delta. The increase in non-current liabilities was primarily due to an \$8.4 million increase in the Airport's assigned proportionate share of its pension plan's net pension liability and a \$6.6 million increase in the rates and charges settlement payable to Delta. These increases are partially offset by a \$3.1 million reduction in revenue bonds payable including unamortized premium due to principal payments on the outstanding debt and a \$2.2 million decrease in the Airport's assigned proportionate share of the pension plan's net OPEB liability.

In 2017, total liabilities increased \$54.0 million. This change includes an \$8.7 million increase in current liabilities and a \$45.3 million increase in non-current liabilities. The increase in current liabilities was due to a \$5.5 million increase in accounts payable related to both capital and operational expenditures and a \$2.9 million increase in the rates and charges settlement payable to air carriers other than Delta. The increase in non-current liabilities was primarily due to the recording of an \$26.6 million liability in 2017 to reflect the Airport's assigned proportionate share of its pension plan's OPEB liability as the result of the implementation of GASB Statement No. 75, a \$16.8 million increase in the Airport's assigned proportionate share of its pension plan's net pension liability and a \$4.8 million increase in the rates and charges settlement payable to Delta. These increases are partially offset by a \$3.1 million reduction in revenue bonds payable, including unamortized premium.

In 2018, deferred outflows of resources decreased \$2.9 million and deferred inflows of resources increased \$2.7 million. The decrease in deferred outflows of resources was primarily due to the amortization of the deferred outflow recorded as the result of a 2017 change in economic assumptions made by the KRS Board. The increase in deferred inflows of resources was primarily due to KRS changes in the amortization of OPEB related actuarial adjustments for the difference between expected and actual plan experience.

In 2017, deferred outflows of resources increased \$23.5 million and deferred inflows of resources increased \$4.9 million. The increase in deferred outflows of resources was primarily due to a change in economic assumptions made by the KRS Board, which in 2017 elected to lower the assumed investment return for the multiple-employer defined benefit pension plan in which the Airport's employees participate. This change increased the Airport's proportionate share of the pension plan's net pension liabilities, with \$12.0 million of the change being recorded as a deferred outflow in accordance with GASB accounting standards. Deferred outflows also increased by \$8.5 million in 2017 related to the recording of the Airport's assigned proportionate share of its pensions plan's OPEB liability in accordance with GASB Statement No. 75. The

# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

increase in deferred inflows of resources was primarily related to a \$3.3 million change related to the amortization of the pension plan actuarial adjustment for the difference between expected and actual plan experience and projected and actual investments earnings. Also contributing was the recording of \$1.6 million in deferred inflows related to the recording of the Airport's OPEB liability.

## Summary of Financial Operations

A summary comparison of the Airport's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2018, 2017 and 2016 is set forth below (in thousands of dollars):

|  | 2018              | 2017              | 2016              |
|--|-------------------|-------------------|-------------------|
| Operating revenues   |                   |                   |                   |
| Landing fees   | \$ 21,132         | \$ 18,032         | \$ 17,236         |
| Rentals  | 18,726            | 21,395            | 20,278            |
| Parking  | 45,383            | 37,044            | 31,695            |
| Concessions  | 14,715            | 12,878            | 12,221            |
| Other  | 4,327             | 3,588             | 2,949             |
| Total operating revenues   | <u>104,283</u>    | <u>92,937</u>     | <u>84,379</u>     |
| Operating expenses   |                   |                   |                   |
| Salaries, wages and benefits   | 54,941            | 48,547            | 42,913            |
| Contracted services  | 25,458            | 22,531            | 26,641            |
| Supplies and capital items expensed  | 8,050             | 5,239             | 5,761             |
| Utilities  | 7,820             | 6,844             | 7,098             |
| General administration   | 2,585             | 2,006             | 1,344             |
| Insurance  | 1,561             | 1,293             | 1,257             |
| Total operating expenses   | <u>100,415</u>    | <u>86,460</u>     | <u>85,014</u>     |
| Operating loss, before depreciation and amortization                           | <u>3,868</u>      | <u>6,477</u>      | <u>(635)</u>      |
| Depreciation and amortization  | <u>(41,877)</u>   | <u>(42,730)</u>   | <u>(43,523)</u>   |
| Operating loss, after depreciation and amortization                            | <u>(38,009)</u>   | <u>(36,253)</u>   | <u>(44,158)</u>   |
| Nonoperating changes in net position: (decrease) increase                      |                   |                   |                   |
| Revenue bond interest, net of premium amortization                             | (1,218)           | (1,255)           | (1,130)           |
| Bond refunding - release of funds for defeasance of bonds - interest           | -                 | -                 | (1,209)           |
| Bond issuance costs  | (311)             | -                 | (607)             |
| Subordinate debt interest  | (12)              | -                 | -                 |
| Passenger facility charge revenues   | 18,143            | 16,032            | 13,575            |
| Customer facility charge revenues  | 11,930            | 8,778             | 6,726             |
| Police forfeiture program revenues   | 492               | 336               | 677               |
| Police forfeiture program revenues<br>passed through to other local government | (3)               | (2)               | (2)               |
| Grants and federal awards for operating expenses                               | 352               | 510               | 371               |
| Investment income  | 4,840             | 1,970             | 1,598             |
| Other  | (85)              | 67                | (73)              |
| Total nonoperating changes in net position,<br>before capital contributions    | <u>34,128</u>     | <u>26,436</u>     | <u>19,926</u>     |
| Capital Contributions  |                   |                   |                   |
| Grants and federal awards for capital expenditures                             | 8,056             | 1,088             | 3,773             |
| Third party funding of project costs   | 235               | 13                | 944               |
| Reversion of ownership of leased facilities                                    | -                 | -                 | 11,503            |
| Total capital contributions  | <u>8,291</u>      | <u>1,101</u>      | <u>16,220</u>     |
| Total changes in net position  | <u>4,410</u>      | <u>(8,716)</u>    | <u>(8,012)</u>    |
| Net position at the beginning of the year, previously stated                   | <u>821,295</u>    | <u>847,624</u>    | <u>855,636</u>    |
| Deferred outflows of resources   | -                 | 1,050             | -                 |
| Net other postemployment benefits liability                                    | -                 | (18,663)          | -                 |
| Restatement due to adoption of GASB 75   | -                 | (17,613)          | -                 |
| Net position at the beginning of the year, restated                            | <u>821,295</u>    | <u>830,011</u>    | <u>855,636</u>    |
| Net position at the end of the year  | <u>\$ 825,705</u> | <u>\$ 821,295</u> | <u>\$ 847,624</u> |

# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

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## Operating Revenues and Expenses

Operating revenues increased \$11.3 million in 2018 and \$8.6 million in 2017, as detailed below:

Landing fee revenue increased by \$3.1 million in 2018 and \$0.8 million in 2017. Due to the residual nature of the calculation of the landing fee rate, these increases are reflective of increases in each of these years in the airfield cost center requirements net of the portions of the NRR allocated to reduce the landing fee rate.

Rental revenues decreased \$2.7 million in 2018 and increased \$1.1 million in 2017. The primary components of the decrease in 2018 were a \$3.2 million net decrease in terminal and ramp related rentals due to the increase in the portion of the NRR available to be credited to reduce the Signatory Carrier terminal related rentals in 2018 more than offsetting an increase in the terminal related airline cost center requirements, with this overall decrease being partially offset by a \$0.5 million increase in ground rentals resulting from additional commercial development leasing activity. The primary components of the increase in 2017 were a \$0.3 million net increase in terminal related rentals, a \$0.1 million increase in ground rentals resulting from additional commercial development leasing activity, and a \$0.6 million increase in per-turn terminal and ramp rentals received for the use of non-leased gates.

Parking revenues increased \$8.3 in 2018 and \$5.3 million in 2017 related to increased use of the Airport's parking facilities stemming from the continued growth in origin passengers. Also contributing to the 2018 increase was an increase in the rates charged for use of the parking facilities.

Concession revenues increased \$1.8 million in 2018 and \$0.7 million in 2017 related to the additional passengers utilizing the Airport, with the primary components of the increase being revenues from car rentals and food and beverage sales in both 2018 and 2017.

Operating expenses increased \$14.0 million in 2018 and \$1.4 million in 2017.

Salaries, wages and benefits expenses increased \$6.4 million in 2018 and \$5.6 million in 2017. In 2018, salaries and wages increased \$1.4 million and benefits expense increased \$5.0 million, with the benefits expense increase being the result of an increase in pension and OPEB expense, partially offset by a decrease in the cost of employee group health coverage. In 2017, salaries and wages increased \$2.3 million and benefits expense increased \$3.3 million, with the benefits expense increase resulting from an increase in pension expense and increases in the cost of employee group health coverage.

Contracted services expenses increased \$2.9 million in 2018 and decreased \$4.1 million in 2017. The increase in 2018 was the result of Master Plan consulting costs incurred during 2018 and increased administrative and safety related projects, offset by a decrease in costs of airfield and terminal repair and maintenance projects. The decrease in 2017 was the result of the majority of a project to demolish excess facilities at the Airport being completed by the end of 2016, with this decrease being offset in part by the cost of a number of large airfield and terminal area repair and maintenance projects undertaken in 2017.

Supplies and capital items expensed increased \$2.8 million in 2018 and decreased \$0.5 million in 2017. The increase in 2018 was due to increased purchases of supplies and small, expensed equipment to be used in various Airport maintenance activities and increased utilization of snow supplies during the 2018 winter season. The decrease in 2017 was primarily due to decreased utilization of snow supplies during a milder 2017 winter season.

General administration expenses increased \$0.6 in 2018 and \$0.7 million in 2017. The 2018 increase was due to increased travel and training related expenses and increased marketing expenses related to the

# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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increased utilization of the Airport's air service incentive program. The 2017 increase was also due to marketing expenses related to the air service incentive program, with this program being implemented in 2017 with the goals being to increase the number of air carriers operating at the Airport as well as the destinations served.

Depreciation and amortization decreased \$0.9 million in 2018 and \$0.8 million in 2017. The decreases were due to certain airfield assets becoming fully depreciated.

## Nonoperating Changes in Net Position

The nonoperating changes in net position increased \$7.7 million in 2018 and \$6.5 million in 2017. Contributing to these increases were the following:

PFC revenues, which are funds collected at a Federal Aviation Administration approved rate per qualifying enplaned passenger, increased \$2.1 million in 2018, and \$2.5 million in 2017, as the result of the continued increase in enplanements.

CFCs are funds collected at a rate charged per rental car transaction day. CFC revenues increased \$3.2 million in 2018 and \$2.1 million in 2017, principally due to increases in the rate charged per rental car transaction day in January 2018 and November 2016. Also contributing was an increase in the number of rental car transactions, resulting from the increase in passengers utilizing the Airport.

The 2018 increase in net position due to nonoperating changes in net position was slightly offset by the incurrence of \$.3 million of bond issuance costs for bonds issued in March 2019 (see the Debt Administration section for further discussion). The 2017 increase includes a \$1.8 million increase due to the Airport recording a nonoperating decrease in net position in 2016 related to the costs incurred in the 2016 refunding of outstanding bonds. No such costs were incurred in 2017.

Investment income increased \$2.9 million in 2018 due to an increasing interest rate environment and in 2017 due to increased investable balances.

## Capital Contributions

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

In 2018, capital contributions increased by \$7.2 million. This was due primarily to an increase in grants and federal awards for capital expenditures in 2018 as the result of increases in the amount of federal grant funds available and the eligible project costs incurred.

In 2017, capital contributions decreased by \$15.1 million with this decrease primarily being related to the Airport recognizing \$11.5 million of capital contributions in 2016 as the result of the reversion of ownership of two facilities. There were no such reversions in 2017. Grants and federal awards for capital expenditures decreased \$2.7 million in 2017 as the result of a reduction in the amount of federal grant funds available and the eligible project costs incurred in 2017. Third party funding of project costs decreased \$0.9 million in 2017 due to 2016 including tenant funding of \$0.9 million of environmental mitigation related costs required for a tenant to construct facilities on the Airport and no such funding being received in 2017.

# Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017

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## Summary of Cash Flows

A comparative summary of the Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 is as follows (in thousands of dollars):

|   | <u>2018</u>     | <u>2017</u>      | <u>2016</u>     |
|---|-----------------|------------------|-----------------|
| Net cash provided by operating activities                               | \$ 22,522       | \$ 22,508        | \$ 5,103        |
| Net cash provided by non-capital financing activities                   | 848             | 676              | 965             |
| Net cash provided by (used in) capital and related financing activities | 2,369           | (6,814)          | 6,373           |
| Net cash used in investing activities                                   | <u>(35,738)</u> | <u>(11,747)</u>  | <u>(16,240)</u> |
| Net (decrease) increase in cash   | (9,999)         | 4,623            | (3,799)         |
| Cash at the beginning of the year                                       | <u>11,345</u>   | <u>6,722</u>     | <u>10,521</u>   |
| Cash at the end of the year   | <u>\$ 1,346</u> | <u>\$ 11,345</u> | <u>\$ 6,722</u> |

The Airport's overall cash position decreased \$10.0 million in 2018 and increased \$4.6 million in 2017.

Net cash provided by operating activities remained stable in 2018 as compared to the amount provided in 2017.

Net cash provided by operating activities increased \$17.4 million in 2017 as compared to 2016. The 2017 increase is related to the \$7.1 million increase in operating income before depreciation and amortization as well as an increase of \$0.8 million in operating cash provided by the differences in the timing of cash receipts and payments in 2017 as compared to 2016 reflected in the changes in operating related receivables and payables and \$2.5 million in non-cash operating expenses recorded as the result of the changes in pension and OPEB related liabilities and deferred inflows and outflows. Also contributing were 1) a \$3.2 million increase in the amount of rates and charges collected during 2017 as compared to 2016 which, based on the year-end settlement process, were determined to be overpayments and, therefore, were owed back to the air carriers and 2) a \$2.5 million decrease in the amount actually refunded to the air carriers in 2017 as compared to 2016.

Net cash provided by non-capital financing activities increased \$0.2 million in 2018 and decreased \$0.3 million in 2017, both of which were primarily due to fluctuations in the amount of cash received under law enforcement federal asset forfeiture programs.

Net cash provided by capital and related financial activities increased \$9.2 million in 2018. This was primarily due to a \$5.6 million increase in cash provided by PFCs and CFC's and a \$4.1 million decrease in cash used for acquisition of capital assets. These sources of cash were partially offset by a \$1.0 million decrease in cash provided by grants.

Net cash used by capital and related financing activities increased \$13.2 million in 2017. This was primarily due to a \$21.4 million increase in cash used for acquisition of capital assets and a \$.9 million decrease in cash provided by third parties for funding of capital project costs. These increases in cash used were



# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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partially offset by a \$3.0 million decrease in cash used due to their being no bond refunding related costs in 2017 and by a \$6.5 million increase in cash provided by PFCs, CFC's and grants.

Net cash used in investing activities increased by \$24.0 million in 2018. This was due to a \$26.4 million increase in net investment purchases (investment purchases less investment maturities), offset by a \$2.4 million increase in investment income received. During 2018, the Airport initiated the use of overnight sweep vehicles to facilitate movement of cash balances into money market funds, allowing the Airport to generate additional investment earnings on these amounts. This change resulted in a significant increase in investment balances and a corresponding decrease in cash balances.

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

## **Capital Assets**

As of December 31, 2018, the Airport's capital assets balance, net of accumulated depreciation, was \$696.7 million. As detailed in note 4 to the Statements, during 2018 the amount of capital assets gross of depreciation increased \$0.8 million and accumulated depreciation increased \$11.5 million. In 2018 additions to gross capital assets were principally related to the ongoing construction of a consolidated ground transportation facility and related terminal roadway improvements as well as the rehabilitation of aircraft parking ramp and various projects related to the improvement and modernization of terminal facilities. In 2018, capital retirements includes a \$26,175 write off of the remaining value of a passenger terminal concourse that was demolished to enable the construction of additional aircraft parking ramp and deicing facilities. Operations from the concourse ceased in 2009 and the facility was fully depreciated at the time of its write-off.

The Airport's Master Plan provides both near-term and long-term road maps for the Airport's facilities to be developed to efficiently serve future aviation needs. Under Federal Aviation Administration ("FAA") guidelines, the Master Plan must periodically be updated to reflect operational changes at the Airport and changes in the industry. The Airport is in the process of updating its Master Plan to reflect the changes in the nature of operations occurring at the Airport, including the diversification of air carrier operations at the Airport, the growth in origin passengers, the anticipated growth in both DHL and Amazon Air cargo operations and increased demand for aeronautical and non-aeronautical land development. The goal of the ongoing Master Plan update is to provide a plan to be used to help guide and ensure the development of facilities at the Airport which efficiently serve future aviation needs while preserving the Airport's flexibility to respond to changing aviation conditions. The Master Plan update will result in the selection of a preferred future terminal passenger facility plan to help guide future terminal investment decisions. The selection criteria for determining the preferred terminal passenger facility include providing a high level of customer service, maximizing the reuse of existing facilities and allowing for flexible incremental expansion based on demand. The Master Plan update is intended to provide forecasts of aviation activity and facility needs at the airport through approximately the year 2050 and is anticipated to be completed by the end of 2019.

# **Cincinnati/Northern Kentucky International Airport Management's Discussion and Analysis Years Ended December 31, 2018 and 2017**

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## **Debt Administration**

As of December 31, 2018, the Airport's only outstanding bonds were the Series 2016 fixed rate revenue bonds with a principal balance of \$42.5 million. Pursuant to approvals previously received from the FAA, the debt service on the Series 2016 bonds, while secured by the revenues of the Airport, is fully payable with on-hand PFC funding and currently approved future collections of PFCs. At December 31, 2018, the Airport's underlying long-term bond ratings were "A2" from Moody's Investor Services with a "positive" outlook and "A+" from Fitch Ratings, with a "stable" outlook. In February 2019, Moody's Investor Services upgraded the rating on the Series 2016 fixed rate revenue bonds from "A2" with a "positive" outlook to "A1" with a "stable" outlook.

In March 2019, the Board issued \$130.1 million in Series 2019 Customer Facility Charge Revenue Bonds ("Series 2019 CFC Bonds") and \$32.9 million in Series 2019 Revenue Bonds ("Series 2019 Revenue Bonds") to fund the construction of a Consolidated Ground Transportation Facility ("Facility") and the associated roadway improvements necessitated by the Facility. The Series 2019 CFC Bonds are special limited obligations of the Board. These bonds are secured by a pledge of CFCs collected by the rental car companies operating both on-Airport and off-Airport and, pursuant to the terms of the agreements with the rental cars operating from the Facility, by the rental cars to mitigate funding requirement deficiencies as defined in the agreements. The Series 2019 Revenue Bonds are funded by net revenues of the Airport. However, the majority of the effect on net revenues will be offset by utilizing PFCs as an additional source of revenues, the approval for which was received from the FAA in May 2019.

For the Series 2019 CFC Bonds, Fitch Ratings assigned a long-term bond rating of "A-" with a stable outlook and Moody's Investors Service assigned a long-term bond rating of "A3" with a stable outlook. For the Series 2019 Revenue Bonds, Fitch Ratings assigned a long-term bond rating of "A+" with a stable outlook and Moody's Investors Service assigned a long-term bond rating of "A1" with a stable outlook.

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

## **Requests for Information**

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

# Cincinnati/Northern Kentucky International Airport

## Balance Sheets

### December 31, 2018 and 2017

(in thousands of dollars)

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Current assets  |                     |                     |
| Unrestricted  |                     |                     |
| Cash  | \$ 975              | \$ 7,597            |
| Investments (at fair value)                                       | 104,592             | 64,912              |
| Investment income receivable                                      | 289                 | 217                 |
| Accounts receivable   | 3,968               | 4,866               |
| Grants and federal awards receivable                              | 5,753               | 738                 |
| Prepaid expenses  | 1,763               | 1,294               |
| Supplies inventory  | 4,849               | 4,166               |
| Total unrestricted current assets                                 | <u>122,189</u>      | <u>83,790</u>       |
| Restricted  |                     |                     |
| Cash  | 370                 | 1,876               |
| Investments (at fair value)                                       | 9,412               | 6,313               |
| Investment income receivable                                      | 2                   | -                   |
| Accounts receivable   | -                   | 6                   |
| Total restricted current assets                                   | <u>9,784</u>        | <u>8,195</u>        |
| Total current assets  | <u>131,973</u>      | <u>91,985</u>       |
| Non-current assets  |                     |                     |
| Unrestricted  |                     |                     |
| Investments (at fair value)                                       | 12,611              | 38,450              |
| Prepaid expenses  | 147                 | 177                 |
| Capital assets, non-depreciable                                   | 210,904             | 209,583             |
| Capital assets, net of accumulated depreciation                   | 485,804             | 497,827             |
| Total unrestricted non-current assets                             | <u>709,466</u>      | <u>746,037</u>      |
| Restricted  |                     |                     |
| Cash  | 1                   | 1,872               |
| Investments (at fair value)                                       | 164,431             | 141,270             |
| Investment income receivable                                      | 411                 | 426                 |
| Accounts receivable   | 323                 | -                   |
| Passenger facility charges receivable                             | 1,571               | 1,973               |
| Customer facility charges receivable                              | 852                 | 665                 |
| Total restricted non-current assets                               | <u>167,589</u>      | <u>146,206</u>      |
| Total non-current assets  | <u>877,055</u>      | <u>892,243</u>      |
| Total assets  | <u>1,009,028</u>    | <u>984,228</u>      |
| <b>Deferred Outflows of Resources</b>                             |                     |                     |
| Pension   | 22,227              | 25,336              |
| Other postemployment benefits                                     | 8,685               | 8,476               |
| Total deferred outflows of resources                              | <u>30,912</u>       | <u>33,812</u>       |
| Total assets and deferred outflows of resources                   | <u>\$ 1,039,940</u> | <u>\$ 1,018,040</u> |
| <b>Liabilities</b>  |                     |                     |
| Current Liabilities   |                     |                     |
| Accounts payable and accrued expenses                             | \$ 24,495           | \$ 17,707           |
| Rates and charges settlement payable to airlines                  | 2,182               | 4,956               |
| Contract retainage payable  | 1,348               | 1,378               |
| Revenue bonds payable, inclusive of unamortized premium           | 3,112               | 3,075               |
| Subordinate debt obligation                                       | 177                 | -                   |
| Total current liabilities   | <u>31,314</u>       | <u>27,116</u>       |
| Non-current liabilities   |                     |                     |
| Accounts payable and accrued expenses                             | 1,972               | 1,502               |
| Rates and charges settlement payable to airlines                  | 16,200              | 9,576               |
| Revenue bonds payable, inclusive of unamortized premium           | 46,351              | 49,463              |
| Subordinate debt obligation                                       | 435                 | -                   |
| Net pension liability   | 83,454              | 75,103              |
| Net other postemployment benefits                                 | 24,448              | 26,635              |
| Total non-current liabilities                                     | <u>172,860</u>      | <u>162,279</u>      |
| Total liabilities   | <u>204,174</u>      | <u>189,395</u>      |
| <b>Deferred Inflows of Resources</b>                              |                     |                     |
| Pension   | 5,206               | 5,801               |
| Other postemployment benefits                                     | 4,855               | 1,549               |
| Total deferred inflows of resources                               | <u>10,061</u>       | <u>7,350</u>        |
| <b>Net Position</b>   |                     |                     |
| Unrestricted  | 20,173              | 19,616              |
| Net investment in capital assets                                  | 645,200             | 653,494             |
| Restricted:   |                     |                     |
| For federally approved projects                                   | 89,634              | 74,036              |
| For ground transportation expenditures                            | 44,121              | 50,391              |
| For operational cash flow shortages (by bond resolutions)         | 22,271              | 19,469              |
| For debt service  | 4,306               | 4,289               |
| Total net position  | <u>825,705</u>      | <u>821,295</u>      |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 1,039,940</u> | <u>\$ 1,018,040</u> |

# Cincinnati/Northern Kentucky International Airport

## Statements of Revenues, Expenses and Changes in Net Position

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

|  | 2018       | 2017       |
|--|------------|------------|
| <b>Operating revenues</b>  |            |            |
| Landing fees   | \$ 21,132  | \$ 18,032  |
| Rentals:   |            |            |
| Terminal   | 8,724      | 12,315     |
| Ramp   | 4,433      | 3,993      |
| Ground   | 4,403      | 4,110      |
| Other  | 1,166      | 977        |
| Parking  | 45,383     | 37,044     |
| Concessions  | 14,715     | 12,878     |
| Rebilled services  | 2,341      | 1,862      |
| Ground transportation  | 1,294      | 1,043      |
| Other  | 692        | 683        |
| Total operating revenues   | 104,283    | 92,937     |
| <b>Operating expenses</b>  |            |            |
| Salaries, wages and benefits   | 54,941     | 48,547     |
| Contracted services  | 25,458     | 22,531     |
| Supplies and capital items expensed  | 8,050      | 5,239      |
| Utilities  | 7,820      | 6,844      |
| General administration   | 2,585      | 2,006      |
| Insurance  | 1,561      | 1,293      |
| Total operating expenses   | 100,415    | 86,460     |
| Operating income, before depreciation and amortization                         | 3,868      | 6,477      |
| Depreciation and amortization  | (41,877)   | (42,730)   |
| Operating loss, after depreciation and amortization                            | (38,009)   | (36,253)   |
| <b>Nonoperating changes in net position: (decrease) increase</b>               |            |            |
| Revenue bond interest, net of premium amortization                             | (1,218)    | (1,255)    |
| Bond issuance costs  | (311)      | -          |
| Subordinate debt interest  | (12)       | -          |
| Passenger facility charge revenues   | 18,143     | 16,032     |
| Customer facility charge revenues  | 11,930     | 8,778      |
| Police forfeiture program revenues   | 492        | 336        |
| Police forfeiture program revenues<br>passed through to other local government | (3)        | (2)        |
| Grants and federal awards for operating expenses                               | 352        | 510        |
| Investment income  | 4,840      | 1,970      |
| Net gain on disposal of capital assets   | 189        | 33         |
| Non-capitalized project costs  | (274)      | (24)       |
| Other  | -          | 58         |
| Total nonoperating changes in net position, before capital contributions       | 34,128     | 26,436     |
| <b>Capital Contributions</b>   |            |            |
| Grants and federal awards for capital expenditures                             | 8,056      | 1,088      |
| Third party funding of project costs   | 235        | 13         |
| Total capital contributions  | 8,291      | 1,101      |
| Total changes in net position  | 4,410      | (8,716)    |
| Net position at the beginning of the year, previously stated                   | 821,295    | 847,624    |
| Deferred outflows of resources   | -          | 1,050      |
| Net other postemployment benefits liability                                    | -          | (18,663)   |
| Restatement due to adoption of GASB 75   | -          | (17,613)   |
| Net position at the beginning of the year, restated                            | 821,295    | 830,011    |
| <b>Net position at the end of the year</b>                                     | \$ 825,705 | \$ 821,295 |

# Cincinnati/Northern Kentucky International Airport

## Statements of Cash Flows

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

|   | <u>2018</u>     | <u>2017</u>      |
|---|-----------------|------------------|
| <b>Cash flows from operating activities</b>                                 |                 |                  |
| Cash received from customers  | \$ 109,038      | \$ 98,348        |
| Cash paid to suppliers  | (40,254)        | (32,758)         |
| Cash paid for the direct benefit of employees                               | (46,262)        | (43,082)         |
| Net cash provided by operating activities                                   | <u>22,522</u>   | <u>22,508</u>    |
| <b>Cash flows from non-capital financing activities</b>                     |                 |                  |
| Police forfeiture program receipts  | 499             | 329              |
| Police forfeiture program receipts passed through to other local government | (3)             | (2)              |
| Grants and federal awards receipts for operating expenses                   | 352             | 401              |
| Non-capitalizable project costs   | -               | (52)             |
| Net cash provided by non-capital financing activities                       | <u>848</u>      | <u>676</u>       |
| <b>Cash flows from capital and related financing activities</b>             |                 |                  |
| Revenue bond debt service - principal                                       | (2,065)         | (1,985)          |
| Revenue bond debt service - interest  | (2,228)         | (2,307)          |
| Subordinate debt service - principal  | (117)           | -                |
| Subordinate debt service - interest   | (12)            | -                |
| Passenger facility charges received   | 18,554          | 15,825           |
| Customer facility charges received  | 11,471          | 8,618            |
| Grants and federal awards receipts for capital expenditures                 | 3,095           | 4,153            |
| Third party funding of project costs  | 472             | 44               |
| Bond issuance costs   | (17)            | -                |
| Proceeds from sale of assets  | 315             | 82               |
| Acquisition and construction of airport facilities                          | (27,099)        | (31,244)         |
| Net cash provided by (used in) capital and related financing activities     | <u>2,369</u>    | <u>(6,814)</u>   |
| <b>Cash flows from investing activities</b>                                 |                 |                  |
| Proceeds from sales and maturities of investments                           | 588,007         | 404,762          |
| Purchase of investments   | (629,081)       | (419,398)        |
| Investment income received  | 5,336           | 2,889            |
| Net cash used in investing activities                                       | <u>(35,738)</u> | <u>(11,747)</u>  |
| Net (decrease) increase in cash   | (9,999)         | 4,623            |
| Cash at the beginning of the year   | <u>11,345</u>   | <u>6,722</u>     |
| <b>Cash at the end of the year</b>  | <u>\$ 1,346</u> | <u>\$ 11,345</u> |

# Cincinnati/Northern Kentucky International Airport

## Statements of Cash Flows, continued

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| <b>Reconciliation of operating loss to net cash provided by operating activities</b>    |                  |                  |
| Operating loss, after depreciation and amortization                                     | \$ (38,009)      | \$ (36,253)      |
| Adjustments to reconcile operating loss to net cash provided by operating activities    |                  |                  |
| Depreciation and amortization   | 41,877           | 42,730           |
| Change in assets and liabilities  |                  |                  |
| Decrease (increase) in accounts receivable  | 902              | (995)            |
| Increase in supplies inventory  | (683)            | (99)             |
| (Increase) decrease in portion of interfund receivables related to operating activities | (170)            | 8                |
| (Increase) decrease in prepaid expenses   | (440)            | 47               |
| Increase in accounts payable and accrued expenses                                       | 3,308            | 1,845            |
| Increase in rates and charges settlement payable to airlines                            | 3,850            | 7,938            |
| Increase in contracts retainage payable   | 28               | -                |
| Increase in portion of interfund payables related to operating activities               | 82               | 84               |
| Decrease (increase) in deferred outflows of resources                                   | 2,902            | (22,466)         |
| Increase in deferred inflows of resources   | 2,711            | 4,889            |
| Increase in net pension liability   | 8,351            | 16,808           |
| (Decrease) increase in net other postemployment benefits liability                      | (2,187)          | 7,972            |
| Total adjustments   | <u>60,531</u>    | <u>58,761</u>    |
| Net cash provided by operating activities   | <u>\$ 22,522</u> | <u>\$ 22,508</u> |
| <br><b>Noncash capital and related financing activities:</b>                            |                  |                  |
| Amortization of revenue bond premium, payment of revenue bond debt service interest     | <u>\$ 1,010</u>  | <u>\$ 1,052</u>  |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

#### 1. Summary of Significant Accounting Policies and Practices

##### **Reporting Entity**

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

##### **Basis of Accounting**

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

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

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

##### **Adoption of New Pronouncements**

All full-time employees of the Airport are members of the Kentucky Retirement Systems’ County Employees Retirement System (“CERS”), a cost-sharing multiple-employer defined benefit pension system. During 2017, the CERS implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses the financial reporting of defined benefit other postemployment benefit plans (“OPEB”) that are administered through trusts that meet specified criteria. This statement follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement requires more extensive note disclosures and Required Supplementary Information (“RSI”) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. As the provisions of Statement No. 74 pertain only to OPEB plans, the adoption of this statement by the CERS resulted in

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

information necessary to be reported by the Airport in its 2018 basic financial statements through the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (see Note 10).

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 and requires governments to report a liability on their financial statements for the OPEB that they provide. This statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities, including a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government, new RSI including a schedule showing the causes of increases and decreases in the OPEB liability, and a schedule comparing a government's actual OPEB contributions to its contribution requirements. This statement is effective for the Airport's fiscal year ended December 31, 2018. As required by GASB Statement No. 75, applicable 2017 amounts in these comparative financial statements have been retroactively restated to reflect this implementation (see Note 14).

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

During 2018, the Airport implemented GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement did not have an effect on the Airports basic financial statements.

During 2018, the Airport early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of capital assets reported in an Enterprise fund. This statement requires prospective application, and thus no restatement of previously reported historical costs of capital assets is required. The implementation of GASB Statement No. 89 had no effect on the 2018 basic financial statements.



# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

#### **Significant Upcoming Implementations**

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

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

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

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

#### **Air Carrier Rates and Charges**

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

# **Cincinnati/Northern Kentucky International Airport**

## **Notes to Financial Statements**

### **Years Ended December 31, 2018 and 2017**

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*(in thousands of dollars)*

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

The landing fee rate, terminal related rates and charges and the related NRR credits are established annually during the budget process and are 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 recorded as a payable and returned by the Board to the Signatory Carriers. Any underpayments are invoiced to the Signatory Carriers and recorded as revenues in the year to which they pertain. For the years ended December 31, 2018 and 2017, \$8,806 and \$9,806, respectively, were payable to the carriers as the result of this settlement process. As \$9,576 of the amount payable at December 31, 2017 had not been paid by December 31, 2018, the total amount reflected on the Balance Sheet as payable at December 31, 2018 is \$18,382.

The bond resolutions associated with the bonds outstanding at December 31, 2018 and 2017 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 of 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 2018 and 2017.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

#### Account Groups and Restrictions on Net Position

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

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

| <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 in the table above are resources available for any Airport use.

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

*Designated for Capital Projects account group- unrestricted:* The Airport has funds on hand which were previously received through reimbursements from federal and state grants and other third parties for eligible capital expenditures. As the Airport intends to use these funds for capital projects, they are recorded as Designated for Capital Projects and reflected 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 transfers of net position. 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 11).

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

*Repair and Replacement Reserve account group- unrestricted:* Pursuant to the requirements of the Airport's bond resolutions, the Board is required to maintain an asset balance of \$10,000 in the Repair and Replacement Reserve account group, which is available for any Airport use. In the event that amounts from this reserve are used, the Airport is required, commencing from the date the deficit occurred, to replenish the balance in twenty-four equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed for other purposes. Due to temporary market value fluctuations related to investments, at December 31, 2018 and 2017 the balances in the Repair and Replacement Reserve were \$10,033 and \$9,984, respectively. The bond resolutions do not require the Airport to adjust the amount held in the Repair and Replacement Reserve when the balance differs from the required \$10,000 solely due to temporary market value fluctuations. Actual losses due to market value fluctuations are not expected to occur due to the fixed rate nature of the investments and the Airport's practice of holding its investments to maturity. No funds from the Repair and Replacement Reserve account group were used during 2018 and 2017.

*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 2018 and 2017, the amounts transferred to the General Purposes account group were \$17,878 and \$15,355, respectively.

#### Net Investment in Capital Assets

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

#### Restricted Account Groups

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

*Passenger Facility Charge account group- restricted:* In 1994, the Federal Aviation Administration ("FAA") first granted approval to the Airport to impose a Passenger Facility Charge ("PFC") and to use the PFCs to fund specific approved projects. PFCs, which are charged at rates per qualifying enplaned passenger, are considered earned upon collection by the airline and are credited to the restricted net position of the Passenger Facility Charge account group. Amounts collected by the airlines but not yet remitted to the Airport are classified as Passenger Facility Charges receivable. As of December 31, 2018 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 \$569,899. Through December 31, 2018, PFCs and associated investment income in the amount of \$566,838 had 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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

*Customer Facility Charge account group- restricted:* Pursuant to an ordinance of the Board, the collection of Customer Facility Charges (“CFCs”) began on April 1, 2006. The CFCs, which are charged at a rate per rental car transaction day, are being collected to provide for the planning, construction, operation, and maintenance of facilities to accommodate the ground transportation needs at the Airport. The CFCs are considered earned upon collection by the rental car companies and are recognized as nonoperating revenues in the Customer Facility Charge account group. The use of CFCs is limited by what may be legally enforceable restrictions. The total amount of CFCs collected in 2018 and 2017 was \$11,930 and \$8,778, respectively.

*Operations & Maintenance Reserve account group- restricted:* Pursuant to the requirements of the Airport’s bond resolutions, the Board is required to maintain in the Operations and Maintenance Reserve an asset balance equal to twenty-five percent of the then current year budgeted operating expenses. Assets in the Operations and Maintenance Reserve account group may only be used to finance operating expenditures, when sufficient funds are not otherwise available in the Operations and Maintenance account group or from other available funding sources. Upon use of funds from this reserve, the Airport is required, commencing in the ensuing calendar year, to replenish the asset balance in twelve equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed for other purposes. At December 31, 2018 and 2017, the asset balances to be carried in the Operations and Maintenance Reserve were \$22,009 and \$19,595, respectively. Due to temporary fluctuations in the market value of the fixed rate investments, at December 31, 2018 and 2017 the asset balances in the Operations and Maintenance account group were \$22,088 and \$19,523, respectively. The bond resolutions do not require the Airport to adjust the amount held in the Operations and Maintenance Reserve as a result of temporary market value fluctuations. Actual losses due to market value fluctuations are not expected to occur due to the fixed rate nature of the investments and the Airport’s practice of holding its investments to maturity. No funds from the Operations and Maintenance Reserve account group were used during 2018 and 2017.

*Demolition of Excess Facilities account group- restricted:* The Airport’s Master Plan calls for a consolidation of all airline operations into one terminal and into Concourse A and Concourse B, thereby allowing the demolition of excess, less cost-efficient structures at the Airport. Pursuant to a December 2013 approval of the airline counterparties to the previous use agreement, in 2015 and 2014, utilizing operating revenues, funds were accumulated by the Airport for the demolition of certain structures at the Airport. The amounts collected for this purpose and remaining at December 31, 2017 were restricted for use on the demolition of excess facilities and recorded in the Demolition of Excess Facilities account group. During 2018 and 2017, \$0 and \$5,608, respectively, were expended for the costs of demolition. The allowable costs included demolition costs expensed as well as those costs capitalized as part of capital projects due to being necessitated by these projects.

*Bond Interest & Redemption account group- restricted:* Pursuant to the requirements of the Airport’s bond resolutions, the Bond Interest & Redemption account group is maintained to hold and account for contributions from the Operations and Maintenance account group for the debt service requirements of any outstanding bonds. From the Operations & Maintenance account group, debt service contributions in the amount of 1/6th of the next required interest payment and 1/12th of the next maturing principal are made to the Bond Interest and Redemption account group on a monthly basis. During 2018 and 2017, 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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

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 Bond Reserve Account. The bond resolutions provide that, through December 31, 2020, the Board must, from the Passenger Facility Charge account group, transfer to the PFC Revenue Account PFCs equal to 125% of the principal and interest requirements on the PFC Bonds. Upon transfer to the PFC Revenue Account within the Operations and Maintenance account group, these amounts are restricted for the payment of the principal and interest requirements of the PFC Bonds and any required transfers to the Bond Reserve account group. Subsequent to 2020, the Board may, but is not required to, transfer PFCs for the debt service and coverage requirements of the PFC Bonds. Any debt service requirements of the PFC Bonds for which the Board elects to not use PFCs will be paid from operating revenues of the Airport, which are pledged as security for the PFC Bonds. During 2018, the amounts of \$2,065, \$2,228 and \$1,073 were transferred from the Passenger Facility Charge account group for the principal, interest and debt service coverage requirements, respectively. During 2017, the amounts transferred for principal, interest and debt service coverage were \$1,985, \$2,307 and \$1,073, respectively. Pursuant to the bond resolutions, at December 31, 2018 and 2017, the \$1,073 of debt service coverage was returned to the Passenger Facility Charge account group. At December 31, 2018 and 2017, all outstanding bonds were PFC Bonds.

*Bond Reserve account group- restricted:* Pursuant to the requirements of the Airport's bond resolutions, the Airport must hold in the Bond Reserve account group an amount at least equal to the maximum principal and interest due on outstanding bonds in any succeeding year. Upon use of funds that results in a deficiency in the balance on hand, the Airport is required to replenish the asset balance in twelve equal monthly installments from the Operations and Maintenance account group, provided the funds are not needed to fund operations and maintenance expenses or debt service. However, if the series of bonds for which the associated reserve is deficient and is payable from PFCs, the deficiency may also be cured using funds from the Passenger Facility Charge account group. At December 31, 2018 and 2017, the required balances in the Bond Reserve were \$4,239 and \$4,241, respectively, while the actual balances were \$4,331 and \$4,303, respectively. No funds from the Bond Reserve account group were used during 2018 and 2017. 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 May 15, 2017. Investments are stated at their fair values based on market values quoted at December 31, 2018 and 2017.

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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

of discounts, 3) unrealized gains and losses due to recording investments at fair value and 4) realized gains and losses due to sale or impairment of investments.

#### **Accounts Receivable**

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

#### **Prepaid Expenses and Supplies Inventory**

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

#### **Airport Facilities**

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

Avigation easements, when the fully-executed documentation has been obtained, are recorded at the amount incurred by the Airport to obtain such easements. The Avigation easements were obtained by the Board through land and sound insulation transactions incurred during past noise mitigation programs. As the easements do not expire, they are accounted for as non-depreciable assets.

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

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

#### **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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(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 as 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 or, if eligible for retirement from the Airport, upon death or other employment separation. 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 as 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.



# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

#### **Net Pension and Net Other Postemployment Benefits Liabilities**

As previously discussed, all full-time employees of the Airport as of December 31, 2018 and 2017 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, the 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 all 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.

For purposes of measuring the net other postemployment benefits ("OPEB") liability (more fully described in Note 10), the deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the Kentucky Retirement Systems' Insurance Fund ("the Insurance Fund") and additions to/deductions from the Insurance Fund fiduciary net position have all been determined on the same basis as they are reported by the Kentucky Retirement System. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Use of Estimates**

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

#### **Reclassifications**

Certain balances in the 2017 financial statements have been reclassified to conform with the 2018 presentation.

## **2. Cash and Investments**

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

#### **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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

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

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

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

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

#### **Provisions of the Policy**

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

*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.

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

The limits related to portfolio diversification are as follows:

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

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

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

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

The policy also requires that the Board's portfolio remain sufficiently liquid to enable the Airport to meet all cash flow requirements. As set forth in the policy, this is accomplished by the proper

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

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

#### Cash and Investments Held

At December 31, 2018 and 2017, the Airport's cash and investments were comprised of the following:

|   | 2018              |                   | 2017              |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Cost              | Fair Value        | Cost              | Fair Value        |
| Cash                                      | \$ 1,346          | \$ 1,346          | \$ 11,345         | \$ 11,345         |
| Investments                               |                   |                   |                   |                   |
| Investment in money market mutual funds   |                   |                   |                   |                   |
| First American Government Obligation Fund | \$ 31,360         | \$ 31,360         | \$ 28,594         | \$ 28,594         |
| Securities                                |                   |                   |                   |                   |
| U.S Treasury                              | 117,380           | 117,555           | 49,447            | 49,163            |
| U.S. government sponsored enterprises     | 84,733            | 84,241            | 121,015           | 120,164           |
| Commercial paper                          | 57,513            | 57,890            | 52,775            | 53,024            |
| Total investments                         | <u>\$ 290,986</u> | <u>\$ 291,046</u> | <u>\$ 251,831</u> | <u>\$ 250,945</u> |

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 by the Treasury Department of the Airport's depository bank in demand deposit accounts ("DDA"). In November 2018, for the majority of its DDAs, the Airport initiated the use of overnight sweep vehicles to facilitate investment of the cash balances in money market funds, allowing the Airport to generate investment earnings on these amounts. The cash balances of the Airport's DDAs, whether held in cash or in transit between the DDAs and the money market fund, are insured by the FDIC up to the applicable FDIC limit. For all accounts other than the Bond Reserve and Bond Interest and Redemption Accounts, any balances greater than the amount insured by the FDIC are collateralized by a letter of credit, which is issued and held in the Airport's name by the Federal Home Loan Bank of Cincinnati. For the Bond Reserve and Bond Interest and Redemption Accounts, any balances greater than the amount insured by the FDIC are collateralized by U.S. Treasury securities and securities issued by certain U.S. government sponsored enterprises, with these securities being pledged by the Airport's depository bank and held in safe-keeping by the Federal Reserve Bank in the Airport's name. At December 31, 2018 and 2017, the combined values of the letter of credit and collateral securities were \$6,248 and \$20,505, respectively.

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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

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, 2018 and 2017, as permitted by the policy, consisted of instruments issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. All securities in which the Airport was invested were held in the Airport's name by the Trust Department of the Airport's custodial bank.

The commercial paper instruments in which the Airport was invested at December 31, 2018 and 2017 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, 2018 and/or December 31, 2017 consisted of instruments issued by Bank of Montreal, Bank of Tokyo-Mitsubishi, BNP Paribas Financial Inc., Credit Agricole Corporate and Investment Bank, ING "U.S." Funding LLC, JP Morgan Securities and Toyota Motor Credit Co. All obligations in which the Airport was invested were held in the Airport's name by the Trust Department of the Airport's custodial bank.

The maturities of investments held at December 31, 2018 and 2017 were as follows:

| Investment Type                              | 2018 Investment Maturities (at fair value) |                  |                  |                 |                  | Total             |
|--|--|------------------|------------------|-----------------|------------------|-------------------|
|  | 1-3 months                                 | 4-6 months       | 7-9 months       | 10-12 months    | 13 -36 months    |                   |
| Investment in money market mutual funds      |  |                  |                  |                 |                  |                   |
| First American Government<br>Obligation Fund | \$ 31,360                                  | \$ -             | \$ -             | \$ -            | \$ -             | \$ 31,360         |
| Securities                                   |  |                  |                  |                 |                  |                   |
| U.S. Treasury                                | 54,681                                     | 36,786           | 18,358           | 6,255           | 1,475            | 117,555           |
| U.S. government sponsored<br>enterprises     | 18,949                                     | 11,519           | 24,566           | 3,281           | 25,926           | 84,241            |
| Commercial paper                             | 14,268                                     | 19,671           | 23,951           | -               | -                | 57,890            |
| Total investments                            | <u>\$ 119,258</u>                          | <u>\$ 67,976</u> | <u>\$ 66,875</u> | <u>\$ 9,536</u> | <u>\$ 27,401</u> | <u>\$ 291,046</u> |

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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

All securities held by the Airport at December 31, 2018 and 2017 carried ratings of AAA/Aaa or their equivalents, the highest quality rating strata issued by the NRSROs.

#### Fair Value Measurement

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

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

The following tables show the fair value and the fair value measurements for the Airport's investments, subject to the provisions of GASB No. 72, at December 31, 2018 and 2017:

|  | 2018 Investments Measured at Fair Value |                   |                   |             |
|--|---|-------------------|-------------------|-------------|
|  | Fair Value                              | Level 1           | Level 2           | Level 3     |
| Investment in money market mutual funds      |   |                   |                   |             |
| First American Government<br>Obligation Fund | \$ 31,360                               | \$ -              | \$ 31,360         | \$ -        |
| Securities                                   |   |                   |                   |             |
| U.S Treasury                                 | 117,555                                 | 117,555           | -                 | -           |
| U.S. government sponsored<br>enterprises     | 84,241                                  | -                 | 84,241            | -           |
| Commercial paper                             | 57,890                                  | -                 | 57,890            | -           |
| Total investments                            | <u>\$ 291,046</u>                       | <u>\$ 117,555</u> | <u>\$ 173,491</u> | <u>\$ -</u> |

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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

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

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

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

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

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

### 3. Restricted Assets

The assets of the following account groups at December 31, 2018 and 2017 are subject to restrictions which limit the purposes for which they may be used:

|                                     | <u>2018</u>       | <u>2017</u>       |
|-------------------------------------|-------------------|-------------------|
| Operations & Maintenance            | \$ 1,075          | \$ 1,073          |
| Passenger Facility Charge           | 87,480            | 72,106            |
| Police Forfeiture                   | 2,330             | 2,138             |
| Customer Facility Charge            | 52,095            | 51,750            |
| Operations & Maintenance Reserve    | 22,088            | 19,523            |
| Demolition of Excess Facilities     | -                 | 5,465             |
| Bond Interest & Redemption          | 5                 | 1                 |
| Bond Reserve                        | 4,331             | 4,303             |
| Other Third Party Funding           | 16,911            | 22                |
| Less: interfund receivable balances | (8,942)           | (1,980)           |
|                                     | <u>\$ 177,373</u> | <u>\$ 154,401</u> |

The restricted amounts in the Operations and Maintenance account group represent amounts which, as discussed in Note 1, have been transferred from the PFC account group to satisfy the debt service requirements of the PFC Bonds. As also 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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

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.

#### 4. Capital Assets

Capital assets are comprised of the following:

|   | Balance<br>12/31/2016 | Additions/<br>transfers | Retirements/<br>transfers | Balance<br>12/31/2017 | Additions/<br>transfers | Retirements/<br>transfers | Balance<br>12/31/2018 |
|---|-----------------------|-------------------------|---------------------------|-----------------------|-------------------------|---------------------------|-----------------------|
| Land (non-depreciable)  | \$ 168,609            | \$ 324                  | \$ (98)                   | \$ 168,835            | \$ 2,228                | \$ (1,371)                | \$ 169,692            |
| Runways, taxiways   |                       |                         |                           |                       |                         |                           |                       |
| and other land improvements                                       | 665,338               | 13,372                  | (4)                       | 678,706               | 7,123                   | (1,675)                   | 684,154               |
| Buildings and building renovations                                | 365,956               | 1,776                   | 4                         | 367,736               | 7,541                   | (26,175)                  | 349,102               |
| Utility systems   | 85,636                | 4,834                   | -                         | 90,470                | 362                     | -                         | 90,832                |
| Equipment   | 133,419               | 8,014                   | (1,312)                   | 140,121               | 2,808                   | (2,574)                   | 140,355               |
| Easements (non-depreciable)                                       | 40,731                | 17                      | -                         | 40,748                | 464                     | -                         | 41,212                |
| Construction-in-progress  | 3,818                 | 34,282                  | (26,991)                  | 11,109                | 29,596                  | (17,576)                  | 23,129                |
| Total capital assets  | 1,463,507             | 62,619                  | (28,401)                  | 1,497,725             | 50,122                  | (49,371)                  | 1,498,476             |
| Less accumulated depreciation                                     |                       |                         |                           |                       |                         |                           |                       |
| Runways, taxiways   |                       |                         |                           |                       |                         |                           |                       |
| and other land improvements                                       | 467,276               | 22,089                  | -                         | 489,365               | 22,757                  | (1,675)                   | 510,447               |
| Buildings and building renovations                                | 135,907               | 11,220                  | -                         | 147,127               | 11,197                  | (26,175)                  | 132,149               |
| Utility systems   | 65,324                | 2,696                   | -                         | 68,020                | 2,941                   | -                         | 70,961                |
| Equipment   | 80,390                | 6,725                   | (1,312)                   | 85,803                | 4,982                   | (2,574)                   | 88,211                |
| Total accumulated depreciation                                    | 748,897               | 42,730                  | (1,312)                   | 790,315               | 41,877                  | (30,424)                  | 801,768               |
| Total capital assets, net of accumulated depreciation             | \$ 714,610            | \$ 19,889               | \$ (27,089)               | \$ 707,410            | \$ 8,245                | \$ (18,947)               | \$ 696,708            |
| Total non-depreciable capital assets                              | \$ 209,340            | \$ 341                  | \$ (98)                   | \$ 209,583            | \$ 2,692                | \$ (1,371)                | \$ 210,904            |
| Total depreciable capital assets, net of accumulated depreciation | 505,270               | 19,548                  | (26,991)                  | 497,827               | 5,553                   | (17,576)                  | 485,804               |
| Total capital assets, net of accumulated depreciation             | \$ 714,610            | \$ 19,889               | \$ (27,089)               | \$ 707,410            | \$ 8,245                | \$ (18,947)               | \$ 696,708            |

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



# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

Airport had contract retainage and accounts payable of \$11,153 and \$7,249 at December 31, 2018 and 2017, respectively.

#### Useful Lives

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

|   | <u>Years</u> |
|---|--------------|
| 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.

#### Subsequent Event

In March 2019, Amazon.com Services, Inc. ("Amazon") and the Airport entered into a fifty year ground lease agreement to enable the construction of the Amazon Prime Air Global Hub. Per the agreement, Amazon donated to the Airport approximately 208 acres of land which Amazon had recently purchased from third parties and which is contiguous to existing Airport properties. Amazon purchased this land at a cost of approximately \$19,933. This amount, which represents the fair market value of the land, will be reflected as a donated addition to non-depreciable capital assets on the Airport's 2019 financial statements.

## 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 \$13,128 and \$11,068 for the years ended December 31, 2018 and 2017, respectively.

For the years 2019, 2020, 2021, 2022 and 2023, minimum future rentals for noncancelable leases (other than noncancelable rentals charged to the Signatory Carriers under the Use Agreement and other long-term terminal facility leases) are \$8,960, \$7,875, \$7,381, \$6,170 and \$5,993, respectively.

For the years 2019 and 2020, prior to adjustment in the Signatory Carrier rates and charges through the calculation method outlined in Note 1, noncancelable rentals under the Use Agreement (exclusive of landing fees) and other long-term terminal facility leases pertaining to the Signatory Carriers are projected to be \$31,765 and \$31,873, respectively. As outlined in Note 1, these amounts will likely be reduced based on projected, and then actual, air carrier activity, Airport cost of operation, and applicable revenues during those periods. For the years 2018 and 2017, the gross amounts of revenues related to Signatory Carrier noncancelable leases were \$30,620 and \$27,882, respectively. The net amounts for 2018 and 2017 were \$11,137 and \$15,046, respectively. As the Use Agreement

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

and other long-term terminal facility leases expire on December 31, 2020, no amount of Signatory Carrier noncancelable rentals exists for 2021, 2022 or 2023. Such amounts will be determined upon execution of a new Use Agreement and facility rental agreements, or upon the implementation of such other rate making methodology permitted under applicable law, to become effective January 1, 2021.

#### 6. Long-Term Liabilities

During 2018 and 2017 the Airport's long-term liabilities and related activity consisted of the following:

##### Revenue Bonds

The following revenue bonds were outstanding at December 31, 2018 and 2017. The maturities occur on January 1 of each year.

|   | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| Series 2016 Refunding Bonds, 5.00%, due 2020-2033 | \$ 42,486   | \$ 44,550   |

The Series 2016 Refunding Bonds, which bear fixed interest rates, were issued under the terms of both a general bond resolution and a resolution specific to the 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, 2018 is as follows:

|           |                 |
|-----------|-----------------|
| 2019      | \$ 947          |
| 2020      | 884             |
| 2021      | 750             |
| 2022      | 750             |
| 2023      | 682             |
| 2024-2028 | 2,309           |
| 2029-2033 | 655             |
|           | <u>\$ 6,977</u> |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

The required funding of bond principal and interest subsequent to December 31, 2018 is as follows:

|           | <u>Principal</u> | <u>Interest</u>  | <u>Total<br/>Debt Service</u> |
|-----------|------------------|------------------|-------------------------------|
| 2019      | \$ 2,165         | \$ 2,124         | \$ 4,289                      |
| 2020      | 2,280            | 2,016            | 4,296                         |
| 2021      | 2,390            | 1,902            | 4,292                         |
| 2022      | 2,510            | 1,782            | 4,292                         |
| 2023      | 2,635            | 1,657            | 4,292                         |
| 2024-2028 | 15,285           | 6,173            | 21,458                        |
| 2029-2033 | 15,221           | 1,949            | 17,170                        |
|           | <u>\$ 42,486</u> | <u>\$ 17,603</u> | <u>\$ 60,089</u>              |

At December 31, 2018 and 2017, the current and non-current portions of revenue bonds payable as shown above have been combined with the current and non-current portions of the unamortized bond premium for presentation on the Balance Sheet. The current amounts of revenue bonds payable, inclusive of unamortized bond premium, at December 31, 2018 and 2017 were \$3,112 and \$3,075, respectively. The non-current portions at December 31, 2018 and 2017 were \$46,351 and \$49,463, respectively.

For the years ended December 31, 2018 and 2017, interest expense on outstanding revenue bonds was \$2,228 and \$2,307, respectively, and the amortization of bond premium was \$1,010 and \$1,052, respectively. On the Statement of Revenues, Expenses and Changes in Net Position these amounts have been combined and presented as \$1,218 and \$1,255 of revenue bond interest expense, net of premium amortization, at December 31, 2018 and 2017, respectively.

#### **Subsequent Event**

On March 20, 2019, the Board issued \$103,130 principal amount of Series 2019 Customer Facility Charge Revenue Bonds (“Series 2019 CFC Bonds”) in order to fund the construction of a Consolidated Ground Transportation Facility at the Airport. The Series 2019 CFC Bonds are special limited obligations of the Board secured by a pledge of Customer Facility Charges collected by the rental car companies operating both on-Airport and off-Airport. Deficiencies, if any, are to be paid by the rental car companies operating under rental car agreements. No other revenues of the Board are pledged to the payment of the Series 2019 CFC Bonds.

Also on March 20, 2019, the Board issued \$32,935 principal amount of Series 2019 Revenue Bonds at a premium in order to fund the reconfiguration of the main terminal roadways, resulting in more direct access to the terminal and accommodation of the construction of the Consolidated Ground Transportation Facility. The Series 2019 Revenue Bonds are subject to the Airport’s general bond resolution and as well as a resolution specific to the Series 2019 Revenue Bonds that establishes new funds and accounts to provide for the deposit and flow of net revenues (revenues less operating and maintenance expenses as defined in the resolution) which are pledged for payment of the Series 2019 Bonds. In January 2019, the Airport’s fifteenth PFC application was submitted to the FAA for review and approval. Among other projects, the application included a request for authorization to use PFC’s

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

to fund the majority of the debt service requirements of the Series 2019 Revenue Bonds. FAA approval of the application was received in May 2019.

#### Other Long-Term Liabilities

At December 31, 2018, the Airport's other liabilities which have portions due after one year consisted of rental and other deposits, compensated absences, estimated amounts potentially due for incidents not covered by commercial insurance, estimated amounts due under a frequent parking rewards program, rates and charges settlement amounts payable to the airlines, subordinate debt obligations for equipment procured under capital leases and the Airport's assigned proportionate shares of net pension and OPEB liabilities from its participation in the pension and OPEB plans discussed in Notes 1, 9 and 10. Amounts related to these liabilities are shown below.

#### Long-Term Liability Activity

For the year ended December 31, 2018 and 2017, components of the Airport's liabilities which had non-current activity or balances were as follows:

|  | Balance           |                  |                    | Balance<br>12/31/2018 | Amounts Due        |                   |
|--|-------------------|------------------|--------------------|-----------------------|--------------------|-------------------|
|  | 12/31/2017        | Additions        | Reductions         |                       | within<br>One Year | after<br>One Year |
| Accounts payable and accrued expenses            |                   |                  |                    |                       |                    |                   |
| Deposits   | \$ 256            | \$ 236           | \$ (240)           | \$ 252                | \$ 44              | \$ 208            |
| Compensated absences                             | 3,583             | 1,224            | (887)              | 3,920                 | 2,562              | 1,358             |
| Uninsured losses                                 | 22                | 364              | (66)               | 320                   | 173                | 147               |
| Parking rewards                                  | 696               | 123              | (14)               | 805                   | 546                | 259               |
| Rates and charges settlement payable to airlines | 14,532            | 8,806            | (4,956)            | 18,382                | 2,182              | 16,200            |
| Revenue bonds payable                            | 44,550            | -                | (2,065)            | 42,485                | 2,165              | 40,320            |
| Revenue bond premium                             | 7,988             | -                | (1,010)            | 6,978                 | 947                | 6,031             |
| Subordinate debt obligations                     | -                 | 729              | (117)              | 612                   | 177                | 435               |
| Net pension liability                            | 75,103            | 8,351            | -                  | 83,454                | -                  | 83,454            |
| Net other postemployment benefits liability      | 26,635            | -                | (2,187)            | 24,448                | -                  | 24,448            |
|  | <u>\$ 173,365</u> | <u>\$ 19,833</u> | <u>\$ (11,542)</u> | <u>\$ 181,656</u>     | <u>\$ 8,796</u>    | <u>\$ 172,860</u> |

|  | Balance           |                  |                   | Balance<br>12/31/2017 | Amounts Due        |                   |
|--|-------------------|------------------|-------------------|-----------------------|--------------------|-------------------|
|  | 12/31/2016        | Additions        | Reductions        |                       | within<br>One Year | after<br>One Year |
| Accounts payable and accrued expenses            |                   |                  |                   |                       |                    |                   |
| Deposits   | \$ 96             | \$ 250           | \$ (90)           | \$ 256                | \$ 63              | \$ 193            |
| Compensated absences                             | 3,442             | 1,704            | (1,563)           | 3,583                 | 2,472              | 1,111             |
| Uninsured losses                                 | 24                | 117              | (119)             | 22                    | 2                  | 20                |
| Parking rewards                                  | 561               | 148              | (13)              | 696                   | 518                | 178               |
| Rates and charges settlement payable to airlines | 6,835             | 10,048           | (2,351)           | 14,532                | 4,956              | 9,576             |
| Revenue bonds payable                            | 46,535            | -                | (1,985)           | 44,550                | 2,065              | 42,485            |
| Revenue bond premium                             | 9,040             | -                | (1,052)           | 7,988                 | 1,010              | 6,978             |
| Net pension liability                            | 58,295            | 16,808           | -                 | 75,103                | -                  | 75,103            |
| Net other postemployment benefits liability      | 18,663            | 7,972            | -                 | 26,635                | -                  | 26,635            |
|  | <u>\$ 143,491</u> | <u>\$ 37,047</u> | <u>\$ (7,173)</u> | <u>\$ 173,365</u>     | <u>\$ 11,086</u>   | <u>\$ 162,279</u> |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

#### **7. Special Facility Revenue Bonds**

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

#### **8. Major Lessees**

In 2018, the operating revenues received from Delta Airlines, Inc. (“Delta”) and DHL Worldwide Express, Inc. (“DHL”), represented approximately 15.22% and 9.24%, respectively, of total operating revenues. The comparable amounts for 2017 for Delta and DHL were 19.59% and 9.36%, respectively.

Landing fees received from Delta and DHL in 2018 represented 18.86% and 41.31%, respectively, of total billed landing fees. The comparable amounts for 2017 for Delta and DHL were 20.85% and 42.76%, respectively.

#### **9. Retirement Plans**

##### **Defined Benefit Pension Plans**

All full-time employees of the Airport are members of the Kentucky Retirement Systems’ County Employees Retirement System (“CERS”), a cost-sharing multiple-employer defined benefit pension system 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 Employees 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.

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

(in thousands of dollars)

## CERS benefits provided: Nonhazardous

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

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

(in thousands of dollars)

## *CERS benefits provided: Hazardous*

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

## *Contributions*

Employer pension 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 pension contributions are governed by KRS Section 61.560, deducted from active employees' salaries, and remitted to the CERS by the Airport along with the employer's portion of the contribution.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

The Airport has met 100% of its contribution funding requirements for the plan fiscal years ended June 30, 2018 and June 30, 2017.

The contribution rates in effect and contributions remitted relating to the CERS for the fiscal year ended December 31, 2018 were as follows:

|   | <b>Contributions to<br/>CERS</b> |                  |
|---|----------------------------------|------------------|
|   | <b>Non<br/>Hazardous</b>         | <b>Hazardous</b> |
| 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  | 5.00%                            | 8.00%            |
| Tier 3 : Participation after 1/1/2014   | 5.00%                            | 8.00%            |
| Airport contribution rates:   |                                  |                  |
| July 1, 2018 - December 31, 2018  | 16.22%                           | 24.86%           |
| July 1, 2017 - June 30, 2018  | 14.48%                           | 22.20%           |
| July 1, 2016 - June 30, 2017  | 13.95%                           | 21.71%           |
| July 1, 2015 - June 30, 2016  | 12.42%                           | 20.26%           |
| Employee contributions:   |                                  |                  |
| 2018  | \$ 973                           | \$ 663           |
| 2017  | \$ 904                           | \$ 639           |
| 2016  | \$ 855                           | \$ 588           |
| Airport contributions:  |                                  |                  |
| 2018  | \$ 3,019                         | \$ 2,023         |
| 2017  | \$ 2,591                         | \$ 1,770         |
| 2016  | \$ 2,263                         | \$ 1,546         |
| Amount of payroll on which employee and<br>employer contributions were based:   |                                  |                  |
| 2018  | \$ 19,687                        | \$ 8,609         |
| 2017  | \$ 18,215                        | \$ 8,056         |
| 2016  | \$ 17,101                        | \$ 7,346         |
| Contributions made by Airport and employees<br>as a percentage of contributions required of<br>of Airport and employees 2018, 2017 and 2016 |                                  |                  |
|   | 100%                             | 100%             |



# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

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

At December 31, 2018 and December 31, 2017, the Airport reported a liability of \$83,454 and \$75,103, respectively, for its assigned proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2018 and June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. The Airport's proportion of the net pension liability was based on a projection of the Airport's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2018, and June 30, 2017, the Airport's proportionate shares of the CERS nonhazardous plan were 0.77450% and 0.73166%, respectively. At June 30, 2018, and June 30, 2017, the Airport's proportionate shares of the CERS hazardous plan were 1.50030% and 1.44268%, respectively.

Based on its proportionate shares of pension expense as assigned by the CERS, for the Airport's fiscal years ended December 31, 2018 and December 31, 2017, the Airport recognized pension expense of \$15,908 and \$9,468, respectively. The 2018 and 2017 amounts include \$5,042 and \$4,361, respectively, of contributions made to the plan and \$10,866 and \$5,107, respectively, of non-cash expense recognized pursuant to the requirements of GASB Statement No. 68.

At December 31, 2018 and December 31, 2017, the Airport reported deferred inflows of resources and deferred outflows of resources from the following sources:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> | <b>Net</b>       |
|--|---|--|------------------|
| Deferred Outflows and Inflows at December 31, 2016   | \$ 10,296                                 | \$ (2,461)                               | \$ 7,835         |
| Prior year contributions subsequent to measurement date  | (1,883)                                   | -  | (1,883)          |
| Difference between expected and actual experience  | 886                                       | (1,087)                                  | (201)            |
| Changes in assumptions   | 12,113                                    | -  | 12,113           |
| Net differences between projected and actual earnings on pension plan investments                    | 336                                       | (2,267)                                  | (1,931)          |
| Changes in proportion and differences between contributions and proportionate share of contributions | 1,312                                     | 14                                       | 1,326            |
| Contributions subsequent to measurement date   | 2,276                                     | -  | 2,276            |
| Deferred Outflows and Inflows at December 31, 2017   | <u>\$ 25,336</u>                          | <u>\$ (5,801)</u>                        | <u>\$ 19,535</u> |
| Prior year contributions subsequent to measurement date  | \$ (2,276)                                | \$ -                                     | \$ (2,276)       |
| Difference between expected and actual experience  | 3,190                                     | 397                                      | 3,587            |
| Changes in assumptions   | (5,870)                                   | -  | (5,870)          |
| Net differences between projected and actual earnings on pension plan investments                    | (1,969)                                   | 184                                      | (1,785)          |
| Changes in proportion and differences between contributions and proportionate share of contributions | 1,201                                     | 14                                       | 1,215            |
| Contributions subsequent to measurement date   | 2,615                                     | -  | 2,615            |
| Deferred Outflows and Inflows at December 31, 2018   | <u>\$ 22,227</u>                          | <u>\$ (5,206)</u>                        | <u>\$ 17,021</u> |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

The \$2,615 reported as a deferred outflow 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in 2019, 2020, 2021, 2022 and 2023 in the amounts of \$6,458, \$6,082, \$2,400, \$(557), and \$23 respectively.

#### *Actuarial Assumptions*

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |       |
|---------------------------|-------|
| Inflation                 | 2.30% |
| Salary increases          | 3.05% |
| Investment rate of return | 6.25% |

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, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017 for use with the June 30, 2018 valuation in order to reflect future economic expectations.

- (a) Discount rate: The discount rate used to measure the total pension liability was 6.25%
- (b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The actuarially determined contribution rate is adjusted to reflect the phase-in of anticipated gains on the 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

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

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:

| <u>Asset Class</u>                             | <u>Target Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|--|--------------------------|---|
| Combined equity                                | 35%                      | 5.10%   |
| Combined fixed income                          | 28%                      | 5.30%   |
| Real return (Diversified inflation strategies) | 10%                      | 7.00%   |
| Real estate                                    | 5%                       | 9.00%   |
| Absolute return (Diversified hedge funds)      | 10%                      | 5.00%   |
| Private equity                                 | 10%                      | 6.50%   |

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

| <u>Asset Class</u>                             | <u>1% Decrease<br/>5.25%</u> | <u>Current<br/>Discount<br/>Rate 6.25%</u> | <u>1% Increase<br/>7.25%</u> |
|--|------------------------------|--|------------------------------|
| Airport's net pension liability - nonhazardous | \$ 59,382                    | \$ 47,170                                  | \$ 36,938                    |
| Airport's net pension liability - hazardous    | 45,462                       | 36,284                                     | 28,697                       |
| Total  | <u>\$ 104,844</u>            | <u>\$ 83,454</u>                           | <u>\$ 65,635</u>             |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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#### *Pension Plan Fiduciary Net Position*

Detailed information about CERS' fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Comprehensive Annual Financial Report (which is a matter of public record). The report may be obtained by writing to Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601, or can be obtained in an electronic format by visiting the website at [www.kyret.ky.gov](http://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. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their compensation until future years. Deferred compensation is not available to employees until termination, retirement or death, or in certain circumstances of financial hardship. There were no employer contributions to the 457 or 401(k) plans for the years ended December 31, 2018 and 2017. Employee contributions in total were approximately \$1,234 and \$1,301, respectively, for the years ended December 31, 2018 and 2017.

Additional information about the deferred compensation plans may be obtained from the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

## **10. Other Postemployment Benefits**

### **General Information about the OPEB Plan**

#### *Plan description*

Under the provisions of KRS Section 61.701, the KRS Board administers the Kentucky Retirement Systems' Insurance Fund ("the 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 and pays a prescribed contribution for whole or partial payment of required insurance premiums. The assets of the Insurance fund, combined with the assets of the System, are invested as a whole, while each system's assets are used only for payment of benefits to the members of that plan, and a pro-rata share of administrative costs.

#### *Benefits provided*

The Insurance Fund provides access to group health insurance coverage for retirees of the System, including all nonhazardous and hazardous members of the CERS. The coverage is optional and available to retirees until they become eligible for Medicare, at which time coverage is available through a Medicare eligible supplement plan offered by the Insurance Fund.

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

## Insurance fund benefits provided: Nonhazardous

|                                    | <u>Tier 1 Nonhazardous<br/>Participation beginning prior<br/>to 7/1/2003</u>  | <u>Tier 2 Nonhazardous<br/>Participation beginning<br/>7/1/2003 through 8/31/2008</u>   | <u>Tier 3 Nonhazardous<br/>Participation beginning<br/>on or after 9/01/2008</u>  |
|------------------------------------|---|---|---|
| <b>Benefit Eligibility:</b>        | Recipient of a retirement allowance   | Recipient of a retirement allowance with at least 120 months of service at retirement   | Recipient of a retirement allowance with at least 180 months of service at retirement   |
| <b>Benefit Amounts:</b>            | Percentage of member premium paid by Retirement System:<br>Less than 4 years = 0%.<br>4-9 years = 25%.<br>10-14 years = 50%.<br>15-19 years = 75%.<br>20 or more years = 100% | Monthly contribution: ten dollars for each year of earned service, increased by 1.5% each July 1. Upon the retiree's death, the surviving spouse may continue coverage (if in receipt of a retirement allowance) but is responsible for 100% of the premiums. | Monthly contribution: ten dollars for each year of earned service, increased by 1.5% each July 1. Upon the retiree's death, the surviving spouse may continue coverage (if in receipt of a retirement allowance) but is responsible for 100% of the premiums. |
| <b>Duty Disability Retirement:</b> | Disability a result of injuries sustained while in the line of duty; 100% of the maximum contribution for the member and dependents   | Disability a result of injuries sustained while in the line of duty; a benefit equal to at least 20 times the nonhazardous monthly contribution   | Disability a result of injuries sustained while in the line of duty; a benefit equal to at least 20 times the nonhazardous monthly contribution   |
| <b>Duty Death in Service:</b>      | Active employee's death a result of injuries sustained while in the line of duty; spouse and children receive 100% of the maximum contribution                                | Active employee's death a result of injuries sustained while in the line of duty; spouse and children receive a benefit equal to at least 20 times the nonhazardous monthly contribution.   | Active employee's death a result of injuries sustained while in the line of duty; spouse and children receive a benefit equal to at least 20 times the nonhazardous monthly contribution.   |

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

## Insurance fund benefits provided: Hazardous

|                                       | <u>Tier 1 Hazardous<br/>Participation beginning prior<br/>to 7/1/2003</u>   | <u>Tier 2 Hazardous<br/>Participation beginning<br/>7/1/2003 through 8/31/2008</u>   | <u>Tier 3 Hazardous<br/>Participation beginning on<br/>or after 9/01/2008</u>  |
|---------------------------------------|---|--|--|
| <b>Benefit Eligibility:</b>           | Recipient of a retirement allowance   | Recipient of a retirement allowance with at least 120 months of service at retirement  | Recipient of a retirement allowance with at least 180 months of service at retirement  |
| <b>Benefit Amounts:</b>               | Percentage of member & dependent premium paid by Retirement System:<br>Less than 4 years = 0%.<br>4-9 years = 25%.<br>10-14 years = 50%. 15-19 years = 75%.<br>20 or more years = 100%  | Monthly contribution of Fifteen dollars for each year of earned hazardous service. The monthly contribution is increased by 1.5% each July 1. Upon the retiree's death, the surviving spouse of a hazardous duty member will receive a monthly contribution of ten dollars for each year of hazardous service. | Monthly contribution of Fifteen dollars for each year of earned hazardous service. The monthly contribution is increased by 1.5% each July 1. Upon the retiree's death, the surviving spouse of a hazardous duty member will receive a monthly contribution of ten dollars for each year of hazardous service. |
| <b>Duty Disability Retirement:</b>    | Disability a result of injuries sustained while in the line of duty; 100% of the maximum contribution for the member and dependents   | Disability a result of injuries sustained while in the line of duty; a benefit equal to at least 20 times the hazardous monthly contribution   | Disability a result of injuries sustained while in the line of duty; a benefit equal to at least 20 times the hazardous monthly contribution   |
| <b>Duty Death in Service:</b>         | Active employee's death was a result of injuries sustained while in the line of duty; the member's spouse and children receive 100% of the maximum contribution.  | Active employee's death was a result of injuries sustained while in the line of duty; the member's spouse and children receive a benefit equal to at least 20 times the hazardous monthly contribution.  | Active employee's death was a result of injuries sustained while in the line of duty; the member's spouse and children receive a benefit equal to at least 20 times the hazardous monthly contribution.  |
| <b>Non-Duty Death in Service:</b>     | Surviving spouses in receipt of a pension allowance: eligible for continued health coverage with the percentage of premium paid for by the retirement system based on the member's years of hazardous service at the time of death. | Surviving spouse in receipt of a pension allowance: eligible for continued health coverage with percentage of the premium paid for by the retirement system based on the member's years of hazardous service at the time of death.   | Surviving spouse in receipt of a pension allowance: eligible for continued health coverage with percentage of the premium paid for by the retirement system based on the member's years of hazardous service at the time of death.   |
| <b>Surviving Spouse of a Retiree:</b> | Surviving spouse in receipt of a pension allowance: a premium subsidy based on the member's years of hazardous service  | No surviving spouse coverage   | No surviving spouse coverage   |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

#### *Contributions*

Employer insurance 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 the 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 insurance contributions are governed by KRS Section 61.702, deducted from active employees' salaries, and remitted to the CERS by the Airport along with the employer's portion of the contribution.

The Airport has met 100% of its contribution funding requirements for the plan fiscal years ended June 30, 2018 and June 30, 2017. GASB Statement No. 75 requires participating employers to include an adjustment related to an implicit subsidy, which is calculated as the difference between the underlying retiree claims costs and the overall health care premiums paid on behalf of retirees. This adjustment is needed for the purpose of the deferred outflows related to contributions made after the measurement date. The Airport's OPEB contributions amount, outlined in the schedule below, does not include the implicit subsidy reported in the amount of \$98 and (\$12) for the years ended December 31, 2018 and 2017, respectively.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

The contribution rates in effect and contributions remitted relating to the Insurance Fund for the fiscal year ended December 31, 2018 were as follows:

|  | <b>Contributions to the<br/>Insurance Fund</b> |                  |
|--|--|------------------|
|  | <b>Non<br/>Hazardous</b>                       | <b>Hazardous</b> |
| Employee contribution rates:   |  |                  |
| Tier 1 : Participation prior to 7/1/2003   | 0%   | 0%               |
| Tier 2 : Participation 7/1/2003 through 8/31/2008  | 1.00%  | 1.00%            |
| Tier 3 : Participation on or after 9/1/2008  | 1.00%  | 1.00%            |
| Airport contribution rates:  |  |                  |
| July 1, 2018 - December 31, 2018   | 5.26%  | 10.48%           |
| July 1, 2017 - June 30, 2018   | 4.70%  | 9.35%            |
| July 1, 2016 - June 30, 2017   | 4.73%  | 9.35%            |
| July 1, 2015 - June 30, 2016   | 4.64%  | 12.69%           |
| Employee contributions:  |  |                  |
| 2018   | \$ 103   | \$ 29            |
| 2017   | \$ 85  | \$ 21            |
| 2016   | \$ 71  | \$ 14            |
| Airport contributions:   |  |                  |
| 2018   | \$ 980   | \$ 852           |
| 2017   | \$ 859   | \$ 755           |
| 2016   | \$ 802   | \$ 798           |
| Amount of payroll on which employee and<br>employer contributions were based:  |  |                  |
| 2018   | \$ 19,687                                      | \$ 8,609         |
| 2017   | \$ 18,215                                      | \$ 8,056         |
| 2016   | \$ 17,101                                      | \$ 7,346         |
| Contributions made by Airport and employees<br>as a percentage of contributions required of<br>of Airport and employees 2018, 2017, and 2016 |  |                  |
|  | 100%   | 100%             |

#### *OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At December 31, 2018 and December 31, 2017, the Airport reported liabilities of \$24,448 and \$26,635, respectively, for its assigned proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of those dates. The Airport's proportion of the net OPEB liability was based on a projection of the Airport's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities. At June 30, 2018, and June 30, 2017, the Airport's proportionate shares of the CERS nonhazardous plan were 0.77448% and 0.73166%, respectively. At June 30, 2018, and June 30, 2017, the Airport's proportionate share of the CERS hazardous plan were 1.50039% and 1.44268%, respectively.



# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

Based on its proportionate shares of OPEB expense as assigned by the Insurance Fund, for the Airport's fiscal years ended December 31, 2018 and December 31, 2017, the Airport recognized OPEB expense of \$2,742 and \$3,709, respectively. The 2018 and 2017 amounts include \$1,832 and \$1,614, respectively, of contributions made to the plan and \$910 and \$2,095, respectively, of non-cash expense recognized pursuant to the requirements of GASB Statement No. 75.

At December 31, 2018 and December 31, 2017, the Airport reported deferred inflows of resources and deferred outflows of resources from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> | <u>Net</u>      |
|--|---|--|-----------------|
| Deferred Outflows and Inflows at December 31, 2016   | \$ 1,050                                  | \$ -                                     | \$ 7,835        |
| Prior year contributions subsequent to measurement date  | (1,056)                                   | -  | (1,056)         |
| Prior year implicit subsidies subsequent to measurement date   | 6   | -  | 6               |
| Difference between expected and actual experience  | -   | (69)                                     | (69)            |
| Changes in assumptions   | 7,600                                     | -  | 7,600           |
| Net differences between projected and actual earnings on pension plan investments                    | -   | (1,444)                                  | (1,444)         |
| Changes in proportion and differences between contributions and proportionate share of contributions | -   | (36)                                     | (36)            |
| Contributions subsequent to measurement date   | 827                                       | -  | 827             |
| Implicit subsidies subsequent to measurement date  | 49  | -  | 49              |
| Deferred Outflows and Inflows at December 31, 2017   | <u>\$ 8,476</u>                           | <u>\$ (1,549)</u>                        | <u>\$ 6,927</u> |
| Prior year contributions subsequent to measurement date  | \$ (827)                                  | \$ -                                     | \$ (827)        |
| Prior year implicit subsidies subsequent to measurement date   | (49)                                      | -  | (49)            |
| Difference between expected and actual experience  | -   | (2,732)                                  | (2,732)         |
| Changes in assumptions   | (717)                                     | (61)                                     | (778)           |
| Net differences between projected and actual earnings on pension plan investments                    | -   | (520)                                    | (520)           |
| Changes in proportion and differences between contributions and proportionate share of contributions | 763                                       | 7  | 770             |
| Contributions subsequent to measurement date   | 949                                       | -  | 949             |
| Implicit subsidies subsequent to measurement date  | 90  | -  | 90              |
| Deferred Outflows and Inflows at December 31, 2018   | <u>\$ 8,685</u>                           | <u>\$ (4,855)</u>                        | <u>\$ 3,830</u> |

The \$949 reported as a deferred outflow of resources related to OPEB resulting from contributions subsequent to the measurement date and the \$90 reported as a deferred outflow of resources resulting from the calculation of the implicit subsidy will be recognized as reductions of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in 2019, 2020, 2021, 2022, 2023 and 2024 in the amounts of \$715, \$715, \$715, \$714, \$140 and (\$208) respectively.

# Cincinnati/Northern Kentucky International Airport Notes to Financial Statements Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

## Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |  |
|---------------------------|--|
| Inflation                 | 2.30%  |
| Payroll Growth Rate       | 2.00%  |
| Salary Increases          | 3.05%, average   |
| Investment rate of return | 6.25%  |
| Healthcare Trend Rates:   |  |
| Pre-65 years of age       | Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years  |
| Post-65 years of age      | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles, in order to reflect future economic expectations.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

| Asset Class                                    | Target Allocation | Long-Term Expected<br>Real Rate of Return |
|--|-------------------|---|
| Combined equity                                | 35%               | 5.10%                                     |
| Combined fixed income                          | 28%               | 5.30%                                     |
| Real return (Diversified inflation strategies) | 10%               | 7.00%                                     |
| Real estate                                    | 5%                | 9.00%                                     |
| Absolute return (Diversified hedge funds)      | 10%               | 5.00%                                     |
| Private equity                                 | 10%               | 6.50%                                     |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

*Discount rate:* The projection of cash flows used to determine the discount rate of 5.85% for CERS nonhazardous, and 5.97% for CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the Insurance Fund's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Insurance Fund's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity Analysis - Discount Rate:* The following presents the net OPEB liability of the Airport, calculated using the discount rate of percent, as well as what the Airport's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85% and 4.97% for nonhazardous and hazardous, respectively) or one percentage point higher (6.85% and 6.97% for nonhazardous and hazardous, respectively) than the current rate for the nonhazardous and hazardous plans:

| Asset Class                                 | 1% Decrease | Current Discount Rate | 1% Increase |
|---|-------------|-----------------------|-------------|
|   | 4.85%       | 5.85%                 | 6.85%       |
| Airport's net OPEB liability - nonhazardous | \$ 17,860   | \$ 13,751             | \$ 10,250   |
|   | 4.97%       | 5.97%                 | 6.97%       |
| Airport's net OPEB liability - hazardous    | \$ 14,870   | \$ 10,697             | \$ 7,357    |

*Sensitivity Analysis - Healthcare Cost Trend Rate:* The following presents the net OPEB liability of the Airport, as well as what the Airport's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates for the hazardous and nonhazardous plans:

| Asset Class                              | 1% Decrease                                 | Current Healthcare Cost Trend Rate | 1% Increase |
|--|---|------------------------------------|-------------|
|  | Airport's net OPEB liability - nonhazardous | \$ 10,238                          | \$ 13,751   |
| Airport's net OPEB liability - hazardous | \$ 7,285                                    | \$ 10,697                          | \$ 14,923   |

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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*(in thousands of dollars)*

#### *OPEB Plan Fiduciary Net Position*

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

#### **11. Self-funded Group Health Coverage**

As 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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(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<br>Liability |
|---|---------------------|
| Liability at December 31, 2016                | \$ 421              |
| Claims and changes in estimates for 2017      | 5,302               |
| Claims paid in 2017                           | (5,196)             |
| Changes in receivables related to claims      | (53)                |
| Liability at December 31, 2017                | <u>\$ 474</u>       |
| Claims and changes in estimates for 2018      | 4,766               |
| Claims paid in 2018                           | (4,810)             |
| Changes in receivables related to claims      | -                   |
| Liability at December 31, 2018                | <u>\$ 430</u>       |
|   | Reserve             |
| Reserves at December 31, 2016                 | \$ 4,503            |
| Contributions from Operations and Maintenance | 5,537               |
| Investment income                             | 18                  |
| Claims, premiums and fees incurred            | (5,555)             |
| Reserves at December 31, 2017                 | <u>\$ 4,503</u>     |
| Contributions from Operations and Maintenance | 5,087               |
| Investment income                             | 72                  |
| Claims, premiums and fees incurred            | (5,159)             |
| Reserves at December 31, 2018                 | <u>\$ 4,503</u>     |

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 2018 and 2017, the individual stop loss coverage to which the Airport's claims liability was limited was \$150. The aggregate insurance during 2018 and 2017 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 2018 and 2017 to approximately \$6,177 and \$5,371 each year, respectively.

## 12. 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.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

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(in thousands of dollars)

#### 13. Commitments and Contingencies

At December 31, 2018, the Airport is committed, either through contracts or Board proceedings, to the eventual expenditure of approximately \$37,358, which consists primarily of rehabilitation of existing facilities and additions to Airport facilities through construction activities. Of the total estimated costs, approximately \$35,144 will be funded by federal grants, state grants, PFCs, CFCs, bonds and/or tenant funds, with the remainder to be funded by internally generated capital funds.

##### *Environmental Mitigation and Remediation*

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

#### 14. Change in Accounting Principle

During 2018, the Airport adopted GASB Statement. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and requires governments providing OPEB benefits to their employees to recognize their proportionate share of the plan's net OPEB liability or net OPEB asset, establishes the accounting and financial reporting standards for measuring and recognizing the subsequent liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures (see Note 10). The purpose is to improve accounting and financial reporting by state and local governments for postemployment benefits and improve information provided by state and local governmental employers about financial support for OPEB that are provided by other entities. The cumulative effect of the required retroactive adoption of this new guidance resulted in increases in net OPEB liability of \$18,663 and deferred outflows of resources of \$1,050, respectively, and a \$17,613 reduction in net position as of January 1, 2017. These effects are reflected on the 2017 Statement of Revenues, Expenses, and Changes in Net Position.

# Cincinnati/Northern Kentucky International Airport

## Notes to Financial Statements

### Years Ended December 31, 2018 and 2017

(in thousands of dollars)

The following table summarizes the effects of the implementation of GASB No. 75 on beginning net position as of January 1, 2017:

|                                  | As Previously<br>Reported January 1,<br>2017 | Record Effects of<br>GASB 75 to<br>Beginning Net<br>Position | As Adjusted<br>January 1, 2017 |
|----------------------------------|--|--|--------------------------------|
| Total assets                     | \$ 975,231                                   | \$ -   | \$ 975,231                     |
| Deferred outflows of resources   | 10,296                                       | 1,050  | 11,346                         |
| Total liabilities                | 135,442                                      | 18,663   | 154,105                        |
| Deferred inflows or resources    | 2,461  | -  | 2,461                          |
| Net position                     |  |  |                                |
| Net investment in capital assets | \$ 657,937                                   | \$ -   | \$ 657,937                     |
| Restricted                       | 134,772                                      | -  | 134,772                        |
| Unrestricted                     | 54,915                                       | (17,613)   | 37,302                         |
| Total Net Position               | <u>\$ 847,624</u>                            | <u>\$ (17,613)</u>   | <u>\$ 830,011</u>              |

The following tables summarize the effects of the implementation of GASB 75 on the Balance Sheet at December 31, 2017 and on the Statement of Revenues, Expenditures, and Changes in Net Position for the year ended December 31, 2017:

|                                  | As Previously<br>Reported December<br>31, 2017 | Record Effects of<br>GASB 75 to<br>Ending Net<br>Position | As Adjusted<br>December 31, 2017 |
|----------------------------------|--|---|----------------------------------|
| Total assets                     | \$ 984,228                                     | \$ -  | \$ 984,228                       |
| Deferred outflows of resources   | 25,336   | 8,476   | 33,812                           |
| Total liabilities                | 162,760  | 26,635  | 189,395                          |
| Deferred inflows or resources    | 5,801  | 1,549   | 7,350                            |
| Net position                     |  |   |                                  |
| Net investment in capital assets | \$ 653,494                                     | \$ -  | \$ 653,494                       |
| Restricted                       | 148,185  | -   | 148,185                          |
| Unrestricted                     | 39,324   | (19,708)  | 19,616                           |
| Total Net Position               | <u>\$ 841,003</u>                              | <u>\$ (19,708)</u>  | <u>\$ 821,295</u>                |

|  | As Previously<br>Reported December<br>31, 2017 | Record Effects of<br>GASB 75 to<br>Ending Net<br>Position | As Adjusted<br>December 31, 2017 |
|--|--|---|----------------------------------|
| Total operating revenues                                 | \$ 92,937                                      | \$ -  | \$ 92,937                        |
| Total operating expenses                                 | 84,365   | 2,095   | 86,460                           |
| Operating income before depreciation<br>and amortization | 8,572  | (2,095)   | 6,477                            |
| Depreciation and amortization                            | 42,730   | -   | 42,730                           |
| Operating loss, after depreciation<br>and amortization   | (34,158)                                       | (2,095)   | (36,253)                         |
| Nonoperating changes in net position                     | 26,436   | -   | 26,436                           |
| Capital contributions                                    | 1,101  | -   | 1,101                            |
| Total changes in net position                            | (6,621)  | (2,095)   | (8,716)                          |
| Net position at the beginning of the year                | 847,624  | (17,613)  | 830,011                          |
| Net position at the end of the year                      | <u>\$ 841,003</u>                              | <u>\$ (19,708)</u>  | <u>\$ 821,295</u>                |

# Cincinnati/Northern Kentucky International Airport Required Supplementary Information

(in thousands of dollars)

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

|   | 2018          | 2017          | 2016          | 2015          | 2014          |
|---|---------------|---------------|---------------|---------------|---------------|
| Plan's total pension liability  | \$ 17,876,062 | \$ 16,995,820 | \$ 14,791,127 | \$ 14,353,633 | \$ 13,061,349 |
| Plan's fiduciary net position   | 9,367,300     | 8,905,233     | 8,151,573     | 8,519,002     | 8,615,148     |
| Plan's net pension liability  | \$ 8,508,762  | \$ 8,090,587  | \$ 6,639,554  | \$ 5,834,631  | \$ 4,446,201  |
| Plan's fiduciary net position as a percentage<br>of the total pension liability                         | 52.40%        | 52.40%        | 55.11%        | 59.35%        | 65.96%        |
| Airport's proportionate share of the net<br>pension liability   | \$ 83,454     | \$ 75,103     | \$ 58,295     | \$ 50,810     | \$ 38,228     |
| Airport's proportion of the net pension liability   | 0.9808%       | 0.9283%       | 0.8780%       | 0.8708%       | 0.8598%       |
| Airport's covered payroll   | \$ 28,296     | \$ 26,271     | \$ 24,447     | \$ 24,423     | \$ 22,641     |
| Airport's proportionate share of the net pension<br>liability as a percentage of its<br>covered payroll | 294.93%       | 285.88%       | 238.45%       | 208.04%       | 168.84%       |

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



# Cincinnati/Northern Kentucky International Airport Required Supplementary Information

(in thousands of dollars)

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

|   | 2018      | 2017      | 2016      | 2015      | 2014      | 2013      | 2012      | 2011      | 2010      | 2009      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Statutorily required contributions for pension                                  | \$ 5,042  | \$ 4,361  | \$ 3,809  | \$ 3,658  | \$ 3,561  | \$ 3,455  | \$ 3,086  | \$ 2,700  | \$ 2,535  | \$ 2,157  |
| Airport's contributions in relation to the statutorily required contributions   | (5,042)   | (4,361)   | (3,809)   | (3,658)   | (3,561)   | (3,455)   | (3,086)   | (2,700)   | (2,535)   | (2,157)   |
| Annual contribution deficiency (excess)   | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Contributions as a percentage of statutorily required contributions for pension | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   |
| Airport's covered payroll   | \$ 28,296 | \$ 26,271 | \$ 24,447 | \$ 24,423 | \$ 22,641 | \$ 22,148 | \$ 21,500 | \$ 20,782 | \$ 21,441 | \$ 20,237 |
| Contributions as a percentage of the Airport's covered payroll                  | 17.82%    | 16.60%    | 15.58%    | 14.98%    | 15.73%    | 15.60%    | 14.35%    | 12.99%    | 11.82%    | 10.66%    |

# Cincinnati/Northern Kentucky International Airport Notes to Required Supplementary Information

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*(in thousands of dollars)*

## 1. Defined Benefit Pension Plans

Outlined below are the factors that have significantly affected trends in the amounts reported for the ten years presented in the Required Supplementary Information related to the net pension liability.

### **Changes of benefit terms**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 for the year(s) listed below:

2009

A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014

As cash balance plan was introduced for members whose participation date is on or after January 1, 2014

### **Changes of assumption**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 for the year(s) listed below:

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females.
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

## Cincinnati/Northern Kentucky International Airport Required Supplementary Information

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(in thousands of dollars)

Schedule of the Proportionate Share of the Net OPEB Liability of the  
Kentucky Retirement System's County Employees Portion of the Insurance Fund  
Last 10 years \*  
As of June 30

|  | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
| Plan's total OPEB liability  | \$ 6,183,547     | \$ 6,238,551     |
| Plan's fiduciary net position  | <u>3,695,108</u> | <u>3,401,537</u> |
| Plan's net OPEB liability  | \$ 2,488,439     | \$ 2,837,014     |
| Plan's fiduciary net position as a percentage<br>of the total OPEB liability                         | 59.76%           | 54.52%           |
| Airport's proportionate share of the net<br>OPEB liability   | \$ 24,448        | \$ 26,635        |
| Airport's proportion of the net OPEB liability   | 0.9825%          | 0.9388%          |
| Airport's covered payroll  | \$ 28,296        | \$ 26,271        |
| Airport's proportionate share of the net OPEB<br>liability as a percentage of its<br>covered payroll | 86.40%           | 101.39%          |

\* Fiscal year 2017 was the 1st year of implementation, therefore only two years are shown

# Cincinnati/Northern Kentucky International Airport Required Supplementary Information

Schedule of the Employer OPEB Contributions of the  
Kentucky Retirement System's Insurance Fund  
Last 10 years  
As of December 31

|   | 2018      | 2017      | 2016      | 2015      | 2014      | 2013      | 2012      | 2011      | 2010      | 2009      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Statutorily required contributions for OPEB                                   | \$ 1,832  | \$ 1,614  | \$ 1,600  | \$ 1,785  | \$ 1,752  | \$ 2,009  | \$ 2,258  | \$ 2,162  | \$ 2,255  | \$ 1,955  |
| Airport's contributions in relation to the statutorily required contributions | (1,832)   | (1,614)   | (1,600)   | (1,785)   | (1,752)   | (2,009)   | (2,258)   | (2,162)   | (2,255)   | (1,955)   |
| Annual contribution deficiency (excess)                                       | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Contributions as a percentage of statutorily required contributions for OPEB  | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   |
| Airport's covered payroll   | \$ 28,296 | \$ 26,271 | \$ 24,447 | \$ 24,423 | \$ 22,641 | \$ 22,148 | \$ 21,500 | \$ 20,782 | \$ 21,441 | \$ 20,237 |
| Contributions as a percentage of the Airport's covered payroll                | 6.47%     | 6.14%     | 6.54%     | 7.31%     | 7.74%     | 9.07%     | 10.50%    | 10.40%    | 10.52%    | 9.66%     |

# Cincinnati/Northern Kentucky International Airport Combining Schedule of Balance Sheet Information December 31, 2018

(in thousands of dollars)

|   | Unrestricted Account Groups |              |                          |                                 |                                      |                              | General Purposes |
|---|-----------------------------|--------------|--------------------------|---------------------------------|--------------------------------------|------------------------------|------------------|
|   | Total                       | Eliminations | Operations & Maintenance | Designated for Capital Projects | Designated for Group Health Coverage | Repair & Replacement Reserve |                  |
| <b>Assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Current assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Unrestricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | \$ 975                      | \$ -         | \$ 943                   | \$ -                            | \$ 32                                | \$ -                         | \$ -             |
| Investments (at fair value)                                       | 104,592                     | -            | 34,142                   | 27,854                          | 4,408                                | 7,734                        | 30,454           |
| Investment income receivable                                      | 289                         | -            | 74                       | 70                              | 7                                    | 35                           | 103              |
| Accounts receivable   | 3,968                       | -            | 3,823                    | -                               | 145                                  | -                            | -                |
| Interfund receivable  | -                           | (21,181)     | 2,341                    | 405                             | 59                                   | -                            | 18,376           |
| Grants and federal awards receivable                              | 5,753                       | -            | 44                       | 5,709                           | -                                    | -                            | -                |
| Prepaid expenses  | 1,763                       | -            | 1,763                    | -                               | -                                    | -                            | -                |
| Supplies inventory  | 4,849                       | -            | 4,849                    | -                               | -                                    | -                            | -                |
| Total unrestricted current assets                                 | 122,189                     | (21,181)     | 47,979                   | 34,038                          | 4,651                                | 7,769                        | 48,933           |
| <b>Restricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | 370                         | -            | -                        | -                               | -                                    | -                            | -                |
| Investments (at fair value)                                       | 9,412                       | -            | 1,074                    | -                               | -                                    | -                            | -                |
| Investment income receivable                                      | 2                           | -            | 1                        | -                               | -                                    | -                            | -                |
| Accounts receivable   | -                           | -            | -                        | -                               | -                                    | -                            | -                |
| Total restricted current assets                                   | 9,784                       | -            | 1,075                    | -                               | -                                    | -                            | -                |
| Total current assets  | 131,973                     | (21,181)     | 49,054                   | 34,038                          | 4,651                                | 7,769                        | 48,933           |
| <b>Non-current assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Unrestricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Investments (at fair value)                                       | 12,611                      | -            | -                        | -                               | 1,475                                | 2,264                        | 8,872            |
| Prepaid expenses  | 147                         | -            | 147                      | -                               | -                                    | -                            | -                |
| Capital assets, non-depreciable                                   | 210,904                     | -            | -                        | -                               | -                                    | -                            | -                |
| Capital assets, net of accumulated depreciation                   | 485,804                     | -            | -                        | -                               | -                                    | -                            | -                |
| Total unrestricted non-current assets                             | 709,466                     | -            | 147                      | -                               | 1,475                                | 2,264                        | 8,872            |
| <b>Restricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | 1                           | -            | -                        | -                               | -                                    | -                            | -                |
| Investments (at fair value)                                       | 164,431                     | -            | -                        | -                               | -                                    | -                            | -                |
| Investment income receivable                                      | 411                         | -            | -                        | -                               | -                                    | -                            | -                |
| Accounts receivable   | 323                         | -            | -                        | -                               | -                                    | -                            | -                |
| Interfund receivable  | -                           | (8,942)      | -                        | -                               | -                                    | -                            | -                |
| Passenger facility charges receivable                             | 1,571                       | -            | -                        | -                               | -                                    | -                            | -                |
| Customer facility charges receivable                              | 852                         | -            | -                        | -                               | -                                    | -                            | -                |
| Total restricted non-current assets                               | 167,589                     | (8,942)      | -                        | -                               | -                                    | -                            | -                |
| Total non-current assets  | 877,055                     | (8,942)      | 147                      | -                               | 1,475                                | 2,264                        | 8,872            |
| Total assets  | 1,009,028                   | (30,123)     | 49,201                   | 34,038                          | 6,126                                | 10,033                       | 57,805           |
| <b>Deferred Outflows of Resources</b>                             |                             |              |                          |                                 |                                      |                              |                  |
| Pension   | 22,227                      | -            | 22,227                   | -                               | -                                    | -                            | -                |
| Other postemployment benefits                                     | 8,685                       | -            | 8,685                    | -                               | -                                    | -                            | -                |
| Total deferred outflows of resources                              | 30,912                      | -            | 30,912                   | -                               | -                                    | -                            | -                |
| Total assets and deferred outflows of resources                   | \$ 1,039,940                | \$ (30,123)  | \$ 80,113                | \$ 34,038                       | \$ 6,126                             | \$ 10,033                    | \$ 57,805        |
| <b>Liabilities</b>  |                             |              |                          |                                 |                                      |                              |                  |
| <b>Current Liabilities</b>  |                             |              |                          |                                 |                                      |                              |                  |
| Accounts payable and accrued expenses                             | \$ 24,495                   | \$ -         | \$ 14,201                | \$ 2,056                        | \$ 430                               | \$ -                         | \$ -             |
| Rates and charges settlement payable to airlines                  | 2,182                       | -            | 2,182                    | -                               | -                                    | -                            | -                |
| Interfund payable   | -                           | (30,123)     | 26,886                   | 518                             | 1,193                                | 67                           | 446              |
| Contract retainage payable  | 1,348                       | -            | 28                       | -                               | -                                    | -                            | -                |
| Revenue bonds payable, inclusive of unamortized premium           | 3,112                       | -            | -                        | -                               | -                                    | -                            | -                |
| Subordinate debt obligation                                       | 177                         | -            | -                        | -                               | -                                    | -                            | -                |
| Total current liabilities   | 31,314                      | (30,123)     | 43,297                   | 2,574                           | 1,623                                | 67                           | 446              |
| <b>Non-current liabilities</b>                                    |                             |              |                          |                                 |                                      |                              |                  |
| Accounts payable and accrued expenses                             | 1,972                       | -            | 1,972                    | -                               | -                                    | -                            | -                |
| Rates and charges settlement payable to airlines                  | 16,200                      | -            | -                        | -                               | -                                    | -                            | -                |
| Revenue bonds payable, inclusive of unamortized premium           | 46,351                      | -            | -                        | -                               | -                                    | -                            | -                |
| Subordinate debt obligation                                       | 435                         | -            | -                        | -                               | -                                    | -                            | -                |
| Net pension liability   | 83,454                      | -            | 83,454                   | -                               | -                                    | -                            | -                |
| Net other postemployment benefits liability                       | 24,448                      | -            | 24,448                   | -                               | -                                    | -                            | -                |
| Total non-current liabilities                                     | 172,860                     | -            | 109,874                  | -                               | -                                    | -                            | -                |
| Total liabilities   | 204,174                     | (30,123)     | 153,171                  | 2,574                           | 1,623                                | 67                           | 446              |
| <b>Deferred Inflows of Resources</b>                              |                             |              |                          |                                 |                                      |                              |                  |
| Pension   | 5,206                       | -            | 5,206                    | -                               | -                                    | -                            | -                |
| Other postemployment benefits                                     | 4,855                       | -            | 4,855                    | -                               | -                                    | -                            | -                |
| Total deferred inflows of resources                               | 10,061                      | -            | 10,061                   | -                               | -                                    | -                            | -                |
| <b>Net Position</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Unrestricted  | 20,173                      | -            | (83,119)                 | 31,464                          | 4,503                                | 9,966                        | 57,359           |
| Net investment in capital assets                                  | 645,200                     | -            | -                        | -                               | -                                    | -                            | -                |
| <b>Restricted:</b>  |                             |              |                          |                                 |                                      |                              |                  |
| For federally approved projects                                   | 89,634                      | -            | -                        | -                               | -                                    | -                            | -                |
| For ground transportation expenditures                            | 44,121                      | -            | -                        | -                               | -                                    | -                            | -                |
| For operational cash flow shortages (by bond resolutions)         | 22,271                      | -            | -                        | -                               | -                                    | -                            | -                |
| For debt service  | 4,306                       | -            | -                        | -                               | -                                    | -                            | -                |
| Total net position  | 825,705                     | -            | (83,119)                 | 31,464                          | 4,503                                | 9,966                        | 57,359           |
| Total liabilities, deferred inflows of resources and net position | \$ 1,039,940                | \$ (30,123)  | \$ 80,113                | \$ 34,038                       | \$ 6,126                             | \$ 10,033                    | \$ 57,805        |

# Cincinnati/Northern Kentucky International Airport Combining Schedule of Balance Sheet Information, continued December 31, 2018

(in thousands of dollars)

|   | Net<br>Investment in<br>Capital<br>Assets | Restricted Account Groups       |                      |                                |  |                                       |                                  |                 | Other<br>Third Party<br>Funding |
|---|---|---------------------------------|----------------------|--------------------------------|--|---------------------------------------|----------------------------------|-----------------|---------------------------------|
|   |   | Passenger<br>Facility<br>Charge | Police<br>Forfeiture | Customer<br>Facility<br>Charge | Operations &<br>Maintenance<br>Reserve | Demolition<br>of Excess<br>Facilities | Bond<br>Interest &<br>Redemption | Bond<br>Reserve |                                 |
| <b>Assets</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| <b>Current assets</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Unrestricted  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Cash  | \$ -                                      | \$ -                            | \$ -                 | \$ -                           | \$ -                                   | \$ -                                  | \$ -                             | \$ -            | \$ -                            |
| Investments (at fair value)                                       | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Investment income receivable                                      | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Accounts receivable   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Interfund receivable  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Grants and federal awards receivable                              | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Prepaid expenses  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Supplies inventory  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total unrestricted current assets                                 | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Restricted  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Cash  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 370                             |
| Investments (at fair value)                                       | -   | 175                             | 1                    | 7,975                          | 158                                    | -                                     | 4                                | 25              | -                               |
| Investment income receivable                                      | -   | -                               | -                    | -                              | -                                      | -                                     | 1                                | -               | -                               |
| Accounts receivable   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total restricted current assets                                   | -   | 175                             | 1                    | 7,975                          | 158                                    | -                                     | 5                                | 25              | 370                             |
| Total current assets  | -   | 175                             | 1                    | 7,975                          | 158                                    | -                                     | 5                                | 25              | 370                             |
| <b>Non-current assets</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Unrestricted  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Investments (at fair value)                                       | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Prepaid expenses  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Capital assets, non-depreciable                                   | 210,904                                   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Capital assets, net of accumulated depreciation                   | 485,804                                   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total unrestricted non-current assets                             | 696,708                                   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Restricted  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Cash  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 1                               |
| Investments (at fair value)                                       | -   | 84,477                          | 2,326                | 42,087                         | 21,688                                 | -                                     | -                                | 4,287           | 9,566                           |
| Investment income receivable                                      | -   | 151                             | 3                    | 170                            | 41                                     | -                                     | -                                | 19              | 27                              |
| Accounts receivable   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 323                             |
| Interfund receivable  | -   | 1,106                           | -                    | 1,011                          | 201                                    | -                                     | -                                | -               | 6,624                           |
| Passenger facility charges receivable                             | -   | 1,571                           | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Customer facility charges receivable                              | -   | -                               | -                    | 852                            | -                                      | -                                     | -                                | -               | -                               |
| Total restricted non-current assets                               | -   | 87,305                          | 2,329                | 44,120                         | 21,930                                 | -                                     | -                                | 4,306           | 16,541                          |
| Total non-current assets  | 696,708                                   | 87,305                          | 2,329                | 44,120                         | 21,930                                 | -                                     | -                                | 4,306           | 16,541                          |
| Total assets  | 696,708                                   | 87,480                          | 2,330                | 52,095                         | 22,088                                 | -                                     | 5                                | 4,331           | 16,911                          |
| <b>Deferred Outflows of Resources</b>                             |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Pension   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Other postemployment benefits                                     | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total deferred outflows of resources                              | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total assets and deferred outflows of resources                   | \$ 696,708                                | \$ 87,480                       | \$ 2,330             | \$ 52,095                      | \$ 22,088                              | \$ -                                  | \$ 5                             | \$ 4,331        | \$ 16,911                       |
| <b>Liabilities</b>  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| <b>Current Liabilities</b>  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Accounts payable and accrued expenses                             | \$ 31                                     | \$ -                            | \$ -                 | \$ 7,777                       | \$ -                                   | \$ -                                  | \$ -                             | \$ -            | \$ -                            |
| Rates and charges settlement payable to airlines                  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Interfund payable   | 82  | 175                             | 1                    | 197                            | 158                                    | -                                     | 5                                | 25              | 370                             |
| Contract retainage payable  | 1,320                                     | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Revenue bonds payable, inclusive of unamortized premium           | 3,112                                     | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Subordinate debt obligation                                       | 177                                       | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total current liabilities   | 4,722                                     | 175                             | 1                    | 7,974                          | 158                                    | -                                     | 5                                | 25              | 370                             |
| <b>Non-current liabilities</b>                                    |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Accounts payable and accrued expenses                             | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Rates and charges settlement payable to airlines                  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 16,200                          |
| Revenue bonds payable, inclusive of unamortized premium           | 46,351                                    | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Subordinate debt obligation                                       | 435                                       | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Net pension liability   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Net other postemployment benefits liability                       | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total non-current liabilities                                     | 46,786                                    | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 16,200                          |
| Total liabilities   | 51,508                                    | 175                             | 1                    | 7,974                          | 158                                    | -                                     | 5                                | 25              | 16,570                          |
| <b>Deferred Inflows of Resources</b>                              |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Pension   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Other postemployment benefits                                     | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total deferred inflows of resources                               | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| <b>Net Position</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Unrestricted  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Net investment in capital assets                                  | 645,200                                   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Restricted:   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| For federally approved projects                                   | -   | 87,305                          | 2,329                | -                              | -                                      | -                                     | -                                | -               | -                               |
| For ground transportation expenditures                            | -   | -                               | -                    | 44,121                         | -                                      | -                                     | -                                | -               | -                               |
| For operational cash flow shortages (by bond resolutions)         | -   | -                               | -                    | -                              | 21,930                                 | -                                     | -                                | -               | 341                             |
| For debt service  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | 4,306           | -                               |
| Total net position  | 645,200                                   | 87,305                          | 2,329                | 44,121                         | 21,930                                 | -                                     | -                                | 4,306           | 341                             |
| Total liabilities, deferred inflows of resources and net position | \$ 696,708                                | \$ 87,480                       | \$ 2,330             | \$ 52,095                      | \$ 22,088                              | \$ -                                  | \$ 5                             | \$ 4,331        | \$ 16,911                       |

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

(in thousands of dollars)

|   | Unrestricted Account Groups |              |                          |                                 |                                      |                              |                  |
|---|-----------------------------|--------------|--------------------------|---------------------------------|--------------------------------------|------------------------------|------------------|
|   | Total                       | Eliminations | Operations & Maintenance | Designated for Capital Projects | Designated for Group Health Coverage | Repair & Replacement Reserve | General Purposes |
| <b>Assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Current assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Unrestricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | \$ 7,597                    | \$ -         | \$ 5,610                 | \$ 1,328                        | \$ 376                               | \$ 138                       | \$ 145           |
| Investments (at fair value)                                       | 64,912                      | -            | 26,321                   | 12,971                          | 1,453                                | 5,275                        | 18,892           |
| Investment income receivable                                      | 217                         | -            | 57                       | 31                              | 18                                   | 35                           | 76               |
| Accounts receivable   | 4,866                       | -            | 4,725                    | -                               | 141                                  | -                            | -                |
| Interfund receivable  | -                           | (22,115)     | 579                      | 5,760                           | 313                                  | -                            | 15,463           |
| Grants and federal awards receivable                              | 738                         | -            | 37                       | 701                             | -                                    | -                            | -                |
| Prepaid expenses  | 1,294                       | -            | 1,293                    | -                               | 1                                    | -                            | -                |
| Supplies inventory  | 4,166                       | -            | 4,166                    | -                               | -                                    | -                            | -                |
| Total unrestricted current assets                                 | 83,790                      | (22,115)     | 42,788                   | 20,791                          | 2,302                                | 5,448                        | 34,576           |
| <b>Restricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | 1,876                       | -            | 166                      | -                               | -                                    | -                            | -                |
| Investments (at fair value)                                       | 6,313                       | -            | 907                      | -                               | -                                    | -                            | -                |
| Accounts receivable   | 6                           | -            | -                        | -                               | -                                    | -                            | -                |
| Total restricted current assets                                   | 8,195                       | -            | 1,073                    | -                               | -                                    | -                            | -                |
| Total current assets  | 91,985                      | (22,115)     | 43,861                   | 20,791                          | 2,302                                | 5,448                        | 34,576           |
| <b>Non-current assets</b>   |                             |              |                          |                                 |                                      |                              |                  |
| <b>Unrestricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Investments (at fair value)                                       | 38,450                      | -            | 4,957                    | 4,934                           | 2,675                                | 4,536                        | 21,348           |
| Prepaid expenses  | 177                         | -            | 177                      | -                               | -                                    | -                            | -                |
| Capital assets, non-depreciable                                   | 209,583                     | -            | -                        | -                               | -                                    | -                            | -                |
| Capital assets, net of accumulated depreciation                   | 497,827                     | -            | -                        | -                               | -                                    | -                            | -                |
| Total unrestricted non-current assets                             | 746,037                     | -            | 5,134                    | 4,934                           | 2,675                                | 4,536                        | 21,348           |
| <b>Restricted</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Cash  | 1,872                       | -            | -                        | -                               | -                                    | -                            | -                |
| Investments (at fair value)                                       | 141,270                     | -            | -                        | -                               | -                                    | -                            | -                |
| Investment income receivable                                      | 426                         | -            | -                        | -                               | -                                    | -                            | -                |
| Interfund receivable  | -                           | (1,980)      | -                        | -                               | -                                    | -                            | -                |
| Passenger facility charges receivable                             | 1,973                       | -            | -                        | -                               | -                                    | -                            | -                |
| Customer facility charges receivable                              | 665                         | -            | -                        | -                               | -                                    | -                            | -                |
| Total restricted non-current assets                               | 146,206                     | (1,980)      | -                        | -                               | -                                    | -                            | -                |
| Total non-current assets  | 892,243                     | (1,980)      | 5,134                    | 4,934                           | 2,675                                | 4,536                        | 21,348           |
| Total assets  | 984,228                     | (24,095)     | 48,995                   | 25,725                          | 4,977                                | 9,984                        | 55,924           |
| <b>Deferred Outflows of Resources</b>                             |                             |              |                          |                                 |                                      |                              |                  |
| Pension   | 25,336                      | -            | 25,336                   | -                               | -                                    | -                            | -                |
| Other postemployment benefits                                     | 8,476                       | -            | 8,476                    | -                               | -                                    | -                            | -                |
| Total deferred outflows of resources                              | 33,812                      | -            | 33,812                   | -                               | -                                    | -                            | -                |
| Total assets and deferred outflows of resources                   | \$ 1,018,040                | \$ (24,095)  | \$ 82,807                | \$ 25,725                       | \$ 4,977                             | \$ 9,984                     | \$ 55,924        |
| <b>Liabilities</b>  |                             |              |                          |                                 |                                      |                              |                  |
| <b>Current Liabilities</b>  |                             |              |                          |                                 |                                      |                              |                  |
| Accounts payable and accrued expenses                             | \$ 17,707                   | \$ -         | \$ 11,362                | \$ 4,519                        | \$ 474                               | \$ -                         | \$ -             |
| Rates and charges settlement payable to airlines                  | 4,956                       | -            | 4,956                    | -                               | -                                    | -                            | -                |
| Interfund payable   | -                           | (24,095)     | 17,666                   | 224                             | -                                    | 33                           | 401              |
| Contract retainage payable  | 1,378                       | -            | -                        | -                               | -                                    | -                            | -                |
| Revenue bonds payable, inclusive of unamortized premium           | 3,075                       | -            | -                        | -                               | -                                    | -                            | -                |
| Total current liabilities   | 27,116                      | (24,095)     | 33,984                   | 4,743                           | 474                                  | 33                           | 401              |
| <b>Non-current liabilities</b>                                    |                             |              |                          |                                 |                                      |                              |                  |
| Accounts payable and accrued expenses                             | 1,502                       | -            | 1,502                    | -                               | -                                    | -                            | -                |
| Rates and charges settlement payable to airlines                  | 9,576                       | -            | 9,576                    | -                               | -                                    | -                            | -                |
| Revenue bonds payable, inclusive of unamortized premium           | 49,463                      | -            | -                        | -                               | -                                    | -                            | -                |
| Net pension liability   | 75,103                      | -            | 75,103                   | -                               | -                                    | -                            | -                |
| Net other postemployment benefits liability                       | 26,635                      | -            | 26,635                   | -                               | -                                    | -                            | -                |
| Total non-current liabilities                                     | 162,279                     | -            | 112,816                  | -                               | -                                    | -                            | -                |
| Total liabilities   | 189,395                     | (24,095)     | 146,800                  | 4,743                           | 474                                  | 33                           | 401              |
| <b>Deferred Inflows of Resources</b>                              |                             |              |                          |                                 |                                      |                              |                  |
| Pension   | 5,801                       | -            | 5,801                    | -                               | -                                    | -                            | -                |
| Other postemployment benefits                                     | 1,549                       | -            | 1,549                    | -                               | -                                    | -                            | -                |
| Total deferred inflows of resources                               | 7,350                       | -            | 7,350                    | -                               | -                                    | -                            | -                |
| <b>Net Position</b>   |                             |              |                          |                                 |                                      |                              |                  |
| Unrestricted  | 19,616                      | -            | (71,343)                 | 20,982                          | 4,503                                | 9,951                        | 55,523           |
| Net investment in capital assets                                  | 653,494                     | -            | -                        | -                               | -                                    | -                            | -                |
| <b>Restricted:</b>  |                             |              |                          |                                 |                                      |                              |                  |
| For federally approved projects                                   | 74,036                      | -            | -                        | -                               | -                                    | -                            | -                |
| For ground transportation expenditures                            | 50,391                      | -            | -                        | -                               | -                                    | -                            | -                |
| For operational cash flow shortages (by bond resolutions)         | 19,469                      | -            | -                        | -                               | -                                    | -                            | -                |
| For debt service  | 4,289                       | -            | -                        | -                               | -                                    | -                            | -                |
| Total net position  | 821,295                     | -            | (71,343)                 | 20,982                          | 4,503                                | 9,951                        | 55,523           |
| Total liabilities, deferred inflows of resources and net position | \$ 1,018,040                | \$ (24,095)  | \$ 82,807                | \$ 25,725                       | \$ 4,977                             | \$ 9,984                     | \$ 55,924        |

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

(in thousands of dollars)

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



# Cincinnati/Northern Kentucky International Airport

## Combining Schedule of Revenues, Expenses and Changes in Net Position

### Year Ended December 31, 2018

(in thousands of dollars)

|   | Unrestricted Account Groups |                          |                                 |                                      |                              |                  |
|---|-----------------------------|--------------------------|---------------------------------|--------------------------------------|------------------------------|------------------|
|   | Total                       | Operations & Maintenance | Designated for Capital Projects | Designated for Group Health Coverage | Repair & Replacement Reserve | General Purposes |
| <b>Operating revenues</b>   |                             |                          |                                 |                                      |                              |                  |
| Landing fees  | \$ 21,132                   | \$ 21,132                | \$ -                            | \$ -                                 | \$ -                         | \$ -             |
| Rentals:  |                             |                          |                                 |                                      |                              |                  |
| Terminal  | 8,724                       | 8,724                    | -                               | -                                    | -                            | -                |
| Ramp  | 4,433                       | 4,433                    | -                               | -                                    | -                            | -                |
| Ground  | 4,403                       | 4,403                    | -                               | -                                    | -                            | -                |
| Other   | 1,166                       | 1,166                    | -                               | -                                    | -                            | -                |
| Parking   | 45,383                      | 45,383                   | -                               | -                                    | -                            | -                |
| Concessions   | 14,715                      | 14,715                   | -                               | -                                    | -                            | -                |
| Rebilled services   | 2,341                       | 2,341                    | -                               | -                                    | -                            | -                |
| Ground transportation   | 1,294                       | 1,294                    | -                               | -                                    | -                            | -                |
| Other   | 692                         | 692                      | -                               | -                                    | -                            | -                |
| Total operating revenues  | <u>104,283</u>              | <u>104,283</u>           | <u>-</u>                        | <u>-</u>                             | <u>-</u>                     | <u>-</u>         |
| <b>Operating expenses</b>   |                             |                          |                                 |                                      |                              |                  |
| Salaries, wages and benefits  | 54,941                      | 50,534                   | -                               | 4,385                                | -                            | -                |
| Contracted services   | 25,458                      | 22,357                   | -                               | 774                                  | -                            | 1,854            |
| Supplies and capital items expensed   | 8,050                       | 7,970                    | -                               | -                                    | -                            | -                |
| Utilities   | 7,820                       | 7,820                    | -                               | -                                    | -                            | -                |
| General administration  | 2,585                       | 2,553                    | -                               | -                                    | -                            | -                |
| Insurance   | 1,561                       | 1,561                    | -                               | -                                    | -                            | -                |
| Total operating expenses  | <u>100,415</u>              | <u>92,795</u>            | <u>-</u>                        | <u>5,159</u>                         | <u>-</u>                     | <u>1,854</u>     |
| Operating income (loss), before depreciation and amortization               | 3,868                       | 11,488                   | -                               | (5,159)                              | -                            | (1,854)          |
| Depreciation and amortization   | (41,877)                    | -                        | -                               | -                                    | -                            | -                |
| Operating income (loss), after depreciation and amortization                | <u>(38,009)</u>             | <u>11,488</u>            | <u>-</u>                        | <u>(5,159)</u>                       | <u>-</u>                     | <u>(1,854)</u>   |
| <b>Nonoperating changes in net position: increase (decrease)</b>            |                             |                          |                                 |                                      |                              |                  |
| Revenue bond - transfer of principal  | -                           | (2,065)                  | -                               | -                                    | -                            | -                |
| Revenue bond - transfer of interest   | -                           | (2,228)                  | -                               | -                                    | -                            | -                |
| Revenue bond - payment of principal   | -                           | -                        | -                               | -                                    | -                            | -                |
| Revenue bond interest, net of premium amortization                          | (1,218)                     | -                        | -                               | -                                    | -                            | -                |
| Bond issuance costs   | (311)                       | -                        | -                               | -                                    | -                            | -                |
| Subordinate debt - principal  | -                           | (117)                    | -                               | -                                    | -                            | -                |
| Subordinate debt - interest   | (12)                        | (12)                     | -                               | -                                    | -                            | -                |
| Passenger facility charge revenues  | 18,143                      | -                        | -                               | -                                    | -                            | -                |
| Customer facility charge revenues   | 11,930                      | -                        | -                               | -                                    | -                            | -                |
| Police forfeiture program revenues  | 492                         | -                        | -                               | -                                    | -                            | -                |
| Police forfeiture program revenues passed through to other local government | (3)                         | -                        | -                               | -                                    | -                            | -                |
| Grants and federal awards for operating expenses                            | 352                         | 352                      | -                               | -                                    | -                            | -                |
| Investment income   | 4,840                       | 1,718                    | 486                             | 72                                   | 15                           | 39               |
| Net gain on disposal of capital assets                                      | 189                         | -                        | -                               | -                                    | -                            | 189              |
| Non-capitalized project costs   | (274)                       | -                        | -                               | -                                    | -                            | -                |
| Capitalization of expenditures  | -                           | -                        | (12,476)                        | -                                    | -                            | -                |
| Other   | -                           | 175                      | -                               | -                                    | -                            | -                |
| Transfers:  |                             |                          |                                 |                                      |                              |                  |
| Funding of capital projects   | -                           | -                        | 15,318                          | -                                    | -                            | (15,318)         |
| Required reserve funding  | -                           | (2,415)                  | -                               | -                                    | -                            | -                |
| Group Health Coverage   | -                           | (5,087)                  | -                               | 5,087                                | -                            | -                |
| Debt service requirements   | -                           | 4,293                    | -                               | -                                    | -                            | -                |
| Current year remaining revenues   | -                           | (17,878)                 | -                               | -                                    | -                            | 17,878           |
| Total nonoperating changes in net position, before capital contributions    | <u>34,128</u>               | <u>(23,264)</u>          | <u>3,328</u>                    | <u>5,159</u>                         | <u>15</u>                    | <u>2,788</u>     |
| <b>Capital Contributions</b>  |                             |                          |                                 |                                      |                              |                  |
| Grants and federal awards for capital expenditures                          | 8,056                       | -                        | 7,154                           | -                                    | -                            | 902              |
| Third party funding of project costs  | 235                         | -                        | -                               | -                                    | -                            | -                |
| Total capital contributions   | <u>8,291</u>                | <u>-</u>                 | <u>7,154</u>                    | <u>-</u>                             | <u>-</u>                     | <u>902</u>       |
| Total changes in net position   | <u>4,410</u>                | <u>(11,776)</u>          | <u>10,482</u>                   | <u>-</u>                             | <u>15</u>                    | <u>1,836</u>     |
| Net position at the beginning of the year (deficit)                         | 821,295                     | (71,343)                 | 20,982                          | 4,503                                | 9,951                        | 55,523           |
| <b>Net position at the end of the year (deficit)</b>                        | <u>\$ 825,705</u>           | <u>\$ (83,119)</u>       | <u>\$ 31,464</u>                | <u>\$ 4,503</u>                      | <u>\$ 9,966</u>              | <u>\$ 57,359</u> |

# Cincinnati/Northern Kentucky International Airport

## Combining Schedule of Revenues, Expenses and Changes in Net Position, continued

### Year Ended December 31, 2018

(in thousands of dollars)

|   | Net<br>Investment in<br>Capital<br>Assets | Restricted Account Groups       |                      |                                |  |                                       |                                  |                 |                                 |
|---|---|---------------------------------|----------------------|--------------------------------|--|---------------------------------------|----------------------------------|-----------------|---------------------------------|
|   |   | Passenger<br>Facility<br>Charge | Police<br>Forfeiture | Customer<br>Facility<br>Charge | Operations &<br>Maintenance<br>Reserve | Demolition<br>of Excess<br>Facilities | Bond<br>Interest &<br>Redemption | Bond<br>Reserve | Other<br>Third Party<br>Funding |
| <b>Operating revenues</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Landing fees  | \$ -                                      | \$ -                            | \$ -                 | \$ -                           | \$ -                                   | \$ -                                  | \$ -                             | \$ -            | \$ -                            |
| Rentals:  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Terminal  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ramp  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ground  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Other   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Parking   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Concessions   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Rebilled services   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ground transportation   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Other   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total operating revenues  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| <b>Operating expenses</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Salaries, wages and benefits  | -   | -                               | -                    | 22                             | -                                      | -                                     | -                                | -               | -                               |
| Contracted services   | -   | -                               | 18                   | 455                            | -                                      | -                                     | -                                | -               | -                               |
| Supplies and capital items expensed   | -   | -                               | 80                   | -                              | -                                      | -                                     | -                                | -               | -                               |
| Utilities   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| General administration  | -   | -                               | 32                   | -                              | -                                      | -                                     | -                                | -               | -                               |
| Insurance   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total operating expenses  | -   | -                               | 130                  | 477                            | -                                      | -                                     | -                                | -               | -                               |
| Operating income (loss), before depreciation and amortization               | -   | -                               | (130)                | (477)                          | -                                      | -                                     | -                                | -               | -                               |
| Depreciation and amortization   | (41,877)                                  | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Operating income (loss), after depreciation and amortization                | (41,877)                                  | -                               | (130)                | (477)                          | -                                      | -                                     | -                                | -               | -                               |
| <b>Nonoperating changes in net position: increase (decrease)</b>            |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Revenue bond - transfer of principal  | -   | -                               | -                    | -                              | -                                      | -                                     | 2,065                            | -               | -                               |
| Revenue bond - transfer of interest   | -   | -                               | -                    | -                              | -                                      | -                                     | 2,228                            | -               | -                               |
| Revenue bond - payment of principal   | 2,065                                     | -                               | -                    | -                              | -                                      | -                                     | (2,065)                          | -               | -                               |
| Revenue bond interest, net of premium amortization                          | 1,010                                     | -                               | -                    | -                              | -                                      | -                                     | (2,228)                          | -               | -                               |
| Bond issuance costs   | (112)                                     | -                               | -                    | (199)                          | -                                      | -                                     | -                                | -               | -                               |
| Subordinate debt - principal  | 117                                       | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Subordinate debt - interest   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Passenger facility charge revenues  | -   | 18,143                          | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Customer facility charge revenues   | -   | -                               | -                    | 11,930                         | -                                      | -                                     | -                                | -               | -                               |
| Police forfeiture program revenues  | -   | -                               | 492                  | -                              | -                                      | -                                     | -                                | -               | -                               |
| Police forfeiture program revenues passed through to other local government | -   | -                               | (3)                  | -                              | -                                      | -                                     | -                                | -               | -                               |
| Grants and federal awards for operating expenses                            | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Investment income   | -   | 1,524                           | 32                   | 874                            | 46                                     | -                                     | -                                | 17              | 17                              |
| Net gain on disposal of capital assets                                      | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Non-capitalized project costs   | (274)                                     | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Capitalization of expenditures  | 30,777                                    | -                               | 8                    | (18,398)                       | -                                      | -                                     | -                                | -               | 89                              |
| Other   | -   | (175)                           | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Transfers:  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Funding of capital projects   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Required reserve funding  | -   | -                               | -                    | -                              | 2,415                                  | -                                     | -                                | -               | -                               |
| Group Health Coverage   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Debt service requirements   | -   | (4,293)                         | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Current year remaining revenues   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total nonoperating changes in net position, before capital contributions    | 33,583                                    | 15,199                          | 529                  | (5,793)                        | 2,461                                  | -                                     | -                                | 17              | 106                             |
| <b>Capital Contributions</b>  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Grants and federal awards for capital expenditures                          | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Third party funding of project costs  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 235                             |
| Total capital contributions   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 235                             |
| Total changes in net position   | (8,294)                                   | 15,199                          | 399                  | (6,270)                        | 2,461                                  | -                                     | -                                | 17              | 341                             |
| Net position at the beginning of the year (deficit)                         | 653,494                                   | 72,106                          | 1,930                | 50,391                         | 19,469                                 | -                                     | -                                | 4,289           | -                               |
| <b>Net position at the end of the year (deficit)</b>                        | \$ 645,200                                | \$ 87,305                       | \$ 2,329             | \$ 44,121                      | \$ 21,930                              | \$ -                                  | \$ -                             | \$ 4,306        | \$ 341                          |

# Cincinnati/Northern Kentucky International Airport

## Combining Schedule of Revenues, Expenses and Changes in Net Position

### Year Ended December 31, 2017

(in thousands of dollars)

|   | Unrestricted Account Groups |                          |                                 |                                      |                              |                  |
|---|-----------------------------|--------------------------|---------------------------------|--------------------------------------|------------------------------|------------------|
|   | Total                       | Operations & Maintenance | Designated for Capital Projects | Designated for Group Health Coverage | Repair & Replacement Reserve | General Purposes |
| <b>Operating revenues</b>   |                             |                          |                                 |                                      |                              |                  |
| Landing fees  | \$ 18,032                   | \$ 18,032                | \$ -                            | \$ -                                 | \$ -                         | \$ -             |
| Rentals:  |                             |                          |                                 |                                      |                              |                  |
| Terminal  | 12,315                      | 12,315                   | -                               | -                                    | -                            | -                |
| Ramp  | 3,993                       | 3,993                    | -                               | -                                    | -                            | -                |
| Ground  | 4,110                       | 4,110                    | -                               | -                                    | -                            | -                |
| Other   | 977                         | 977                      | -                               | -                                    | -                            | -                |
| Parking   | 37,044                      | 37,044                   | -                               | -                                    | -                            | -                |
| Concessions   | 12,878                      | 12,878                   | -                               | -                                    | -                            | -                |
| Rebilled services   | 1,862                       | 1,862                    | -                               | -                                    | -                            | -                |
| Ground transportation   | 1,043                       | 1,043                    | -                               | -                                    | -                            | -                |
| Other   | 683                         | 683                      | -                               | -                                    | -                            | -                |
| Total operating revenues  | <u>92,937</u>               | <u>92,937</u>            | <u>-</u>                        | <u>-</u>                             | <u>-</u>                     | <u>-</u>         |
| <b>Operating expenses</b>   |                             |                          |                                 |                                      |                              |                  |
| Salaries, wages and benefits  | 48,547                      | 43,606                   | -                               | 4,907                                | -                            | -                |
| Contracted services   | 22,531                      | 20,951                   | -                               | 648                                  | -                            | 770              |
| Supplies and capital items expensed   | 5,239                       | 5,129                    | -                               | -                                    | -                            | -                |
| Utilities   | 6,844                       | 6,844                    | -                               | -                                    | -                            | -                |
| General administration  | 2,006                       | 1,989                    | -                               | -                                    | -                            | -                |
| Insurance   | 1,293                       | 1,293                    | -                               | -                                    | -                            | -                |
| Total operating expenses  | <u>86,460</u>               | <u>79,812</u>            | <u>-</u>                        | <u>5,555</u>                         | <u>-</u>                     | <u>770</u>       |
| Operating income (loss), before depreciation and amortization                               | <u>6,477</u>                | <u>13,125</u>            | <u>-</u>                        | <u>(5,555)</u>                       | <u>-</u>                     | <u>(770)</u>     |
| Depreciation and amortization   | <u>(42,730)</u>             | <u>-</u>                 | <u>-</u>                        | <u>-</u>                             | <u>-</u>                     | <u>-</u>         |
| Operating income (loss), after depreciation and amortization                                | <u>(36,253)</u>             | <u>13,125</u>            | <u>-</u>                        | <u>(5,555)</u>                       | <u>-</u>                     | <u>(770)</u>     |
| <b>Nonoperating changes in net position: increase (decrease)</b>                            |                             |                          |                                 |                                      |                              |                  |
| Revenue bond - transfer of principal  | -                           | (1,985)                  | -                               | -                                    | -                            | -                |
| Revenue bond - transfer of interest   | -                           | (2,307)                  | -                               | -                                    | -                            | -                |
| Revenue bond - payment of principal   | -                           | -                        | -                               | -                                    | -                            | -                |
| Revenue bond interest, net of premium amortization  | (1,255)                     | -                        | -                               | -                                    | -                            | -                |
| Transfer of general purposes to fund bond reserve   | -                           | -                        | -                               | -                                    | -                            | (30)             |
| Passenger facility charge revenues  | 16,032                      | -                        | -                               | -                                    | -                            | -                |
| Customer facility charge revenues   | 8,778                       | -                        | -                               | -                                    | -                            | -                |
| Police forfeiture program revenues  | 336                         | -                        | -                               | -                                    | -                            | -                |
| Police forfeiture program revenues (state portion) passed through to other local government | (2)                         | -                        | -                               | -                                    | -                            | -                |
| Grants and federal awards for operating expenses  | 510                         | 402                      | -                               | -                                    | -                            | 108              |
| Investment income   | 1,970                       | 949                      | 308                             | 18                                   | (45)                         | (170)            |
| Net gain on disposal of capital assets  | 33                          | -                        | 81                              | -                                    | -                            | 7                |
| Non-capitalized project costs   | (24)                        | -                        | -                               | -                                    | -                            | -                |
| Capitalization of expenditures  | -                           | -                        | (31,890)                        | -                                    | -                            | -                |
| Other   | 58                          | -                        | -                               | -                                    | -                            | -                |
| Transfers:  |                             |                          |                                 |                                      |                              |                  |
| Balance from previous years   |                             |                          |                                 |                                      |                              |                  |
| in excess of current requirements   | -                           | (5,108)                  | -                               | -                                    | -                            | 5,108            |
| Required reserve funding  | -                           | (786)                    | -                               | -                                    | -                            | -                |
| Group Health Coverage   | -                           | (5,537)                  | -                               | 5,537                                | -                            | -                |
| Reimbursement of demolition expenditures  | -                           | -                        | 5,464                           | -                                    | -                            | -                |
| Debt service requirements   | -                           | 4,292                    | -                               | -                                    | -                            | -                |
| Reimbursement of eligible expenditures  | -                           | -                        | 4                               | -                                    | -                            | -                |
| Current year remaining revenues   | -                           | (15,355)                 | -                               | -                                    | -                            | 15,355           |
| Total nonoperating changes in net position, before capital contributions                    | <u>26,436</u>               | <u>(25,435)</u>          | <u>(26,033)</u>                 | <u>5,555</u>                         | <u>(45)</u>                  | <u>20,378</u>    |
| <b>Capital Contributions</b>  |                             |                          |                                 |                                      |                              |                  |
| Grants and federal awards for capital expenditures  | 1,088                       | -                        | 1,088                           | -                                    | -                            | -                |
| Third party funding of project costs  | 13                          | -                        | 6                               | -                                    | -                            | -                |
| Total capital contributions   | <u>1,101</u>                | <u>-</u>                 | <u>1,094</u>                    | <u>-</u>                             | <u>-</u>                     | <u>-</u>         |
| Total changes in net position   | <u>(8,716)</u>              | <u>(12,310)</u>          | <u>(24,939)</u>                 | <u>-</u>                             | <u>(45)</u>                  | <u>19,608</u>    |
| Net position at the beginning of the year, previously stated (deficit)                      | <u>847,624</u>              | <u>(41,420)</u>          | <u>45,921</u>                   | <u>4,503</u>                         | <u>9,996</u>                 | <u>35,915</u>    |
| Deferred outflows of resources  | 1,050                       | 1,050                    | -                               | -                                    | -                            | -                |
| Net other postemployment benefits liability   | (18,663)                    | (18,663)                 | -                               | -                                    | -                            | -                |
| Restatement due to adoption of GASB 75  | (17,613)                    | (17,613)                 | -                               | -                                    | -                            | -                |
| <b>Net position at the end of the year, restated (deficit)</b>                              | <u>\$ 821,295</u>           | <u>\$ (71,343)</u>       | <u>\$ 20,982</u>                | <u>\$ 4,503</u>                      | <u>\$ 9,951</u>              | <u>\$ 55,523</u> |

# Cincinnati/Northern Kentucky International Airport

## Combining Schedule of Revenues, Expenses and Changes in Net Position, continued

### Year Ended December 31, 2017

(in thousands of dollars)

|   | Net<br>Investment in<br>Capital<br>Assets | Restricted Account Groups       |                      |                                |  |                                       |                                  |                 |                                 |
|---|---|---------------------------------|----------------------|--------------------------------|--|---------------------------------------|----------------------------------|-----------------|---------------------------------|
|   |   | Passenger<br>Facility<br>Charge | Police<br>Forfeiture | Customer<br>Facility<br>Charge | Operations &<br>Maintenance<br>Reserve | Demolition<br>of Excess<br>Facilities | Bond<br>Interest &<br>Redemption | Bond<br>Reserve | Other<br>Third Party<br>Funding |
| <b>Operating revenues</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Landing fees  | \$ -                                      | \$ -                            | \$ -                 | \$ -                           | \$ -                                   | \$ -                                  | \$ -                             | \$ -            | \$ -                            |
| Rentals:  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Terminal  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ramp  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ground  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Other   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Parking   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Concessions   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Rebilled services   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Ground transportation   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Other   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total operating revenues  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| <b>Operating expenses</b>   |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Salaries, wages and benefits  | -   | -                               | -                    | 34                             | -                                      | -                                     | -                                | -               | -                               |
| Contracted services   | -   | -                               | 19                   | 136                            | -                                      | 7                                     | -                                | -               | -                               |
| Supplies and capital items expensed   | -   | -                               | 110                  | -                              | -                                      | -                                     | -                                | -               | -                               |
| Utilities   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| General administration  | -   | -                               | 17                   | -                              | -                                      | -                                     | -                                | -               | -                               |
| Insurance   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total operating expenses  | -   | -                               | 146                  | 170                            | -                                      | 7                                     | -                                | -               | -                               |
| Operating income (loss), before depreciation and amortization                               | -   | -                               | (146)                | (170)                          | -                                      | (7)                                   | -                                | -               | -                               |
| Depreciation and amortization   | (42,730)                                  | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Operating income (loss), after depreciation and amortization                                | (42,730)                                  | -                               | (146)                | (170)                          | -                                      | (7)                                   | -                                | -               | -                               |
| <b>Nonoperating changes in net position: increase (decrease)</b>                            |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Revenue bond - transfer of principal  | -   | -                               | -                    | -                              | -                                      | -                                     | 1,985                            | -               | -                               |
| Revenue bond - transfer of interest   | -   | -                               | -                    | -                              | -                                      | -                                     | 2,307                            | -               | -                               |
| Revenue bond - payment of principal   | 1,985                                     | -                               | -                    | -                              | -                                      | -                                     | (1,985)                          | -               | -                               |
| Revenue bond interest, net of premium amortization  | 1,052                                     | -                               | -                    | -                              | -                                      | -                                     | (2,307)                          | -               | -                               |
| Transfer of general purposes to fund bond reserve   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | 30              | -                               |
| Passenger facility charge revenues  | -   | 16,032                          | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Customer facility charge revenues   | -   | -                               | -                    | 8,778                          | -                                      | -                                     | -                                | -               | -                               |
| Police forfeiture program revenues  | -   | -                               | 336                  | -                              | -                                      | -                                     | -                                | -               | -                               |
| Police forfeiture program revenues (state portion) passed through to other local government | -   | -                               | (2)                  | -                              | -                                      | -                                     | -                                | -               | -                               |
| Grants and federal awards for operating expenses  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Investment income   | -   | 583                             | 12                   | 329                            | (67)                                   | 62                                    | -                                | (9)             | -                               |
| Net gain on disposal of capital assets  | (55)                                      | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Non-capitalized project costs   | (24)                                      | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Capitalization of expenditures  | 35,271                                    | -                               | (214)                | (3,023)                        | -                                      | (137)                                 | -                                | -               | (7)                             |
| Other   | 58  | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Transfers:  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Balance from previous years in excess of current requirements                               | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Required reserve funding  | -   | -                               | -                    | -                              | 786                                    | -                                     | -                                | -               | -                               |
| Group Health Coverage   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Reimbursement of demolition expenditures  | -   | -                               | -                    | -                              | -                                      | (5,464)                               | -                                | -               | -                               |
| Debt service requirements   | -   | (4,292)                         | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Reimbursement of eligible expenditures  | -   | (4)                             | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Current year remaining revenues   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Total nonoperating changes in net position, before capital contributions                    | 38,287                                    | 12,319                          | 132                  | 6,084                          | 719                                    | (5,539)                               | -                                | 21              | (7)                             |
| <b>Capital Contributions</b>  |   |                                 |                      |                                |  |                                       |                                  |                 |                                 |
| Grants and federal awards for capital expenditures  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Third party funding of project costs  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 7                               |
| Total capital contributions   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | 7                               |
| Total changes in net position   | (4,443)                                   | 12,319                          | (14)                 | 5,914                          | 719                                    | (5,546)                               | -                                | 21              | -                               |
| Net position at the beginning of the year, previously stated (deficit)                      | 657,937                                   | 59,787                          | 1,944                | 44,477                         | 18,750                                 | 5,546                                 | -                                | 4,268           | -                               |
| Deferred outflows of resources  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Net other postemployment benefits liability   | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| Restatement due to adoption of GASB 75  | -   | -                               | -                    | -                              | -                                      | -                                     | -                                | -               | -                               |
| <b>Net position at the end of the year, restated (deficit)</b>                              | \$ 653,494                                | \$ 72,106                       | \$ 1,930             | \$ 50,391                      | \$ 19,469                              | \$ -                                  | \$ -                             | \$ 4,289        | \$ -                            |

**Cincinnati/Northern Kentucky International Airport  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2018**

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*(in thousands of dollars)*

| Name of Agency or Department  | CFDA or Other No. | Name of Program                               | Federal Awards with Expenditure Activity in 2018 |                       |
|---|-------------------|---|--|-----------------------|
|   |                   |   | Award Amount                                     | Total Awards Expended |
| US Dept of Transportation   | 20.106            | Airport Improvement Program*                  | \$ 17,621  | \$ 7,965              |
| US Dept of Justice  | 16.922            | Equitable Sharing Program                     | 2,586  | 123                   |
| Federal Highway Administration<br>(Passed through the<br>Kentucky Transportation<br>Cabinet)                        | 20.205            | Highway Planning and<br>Construction          | 2,717  | 91                    |
| US Dept of Transportation<br>(Passed through the<br>Kentucky Transportation<br>Cabinet Office of<br>Highway Safety) | 20.600            | State and Community Highway<br>Safety Program | 10   | 3                     |
| Total awards expended   |                   |   |  | <u>\$ 8,182</u>       |

\* AIP was tested as a major program

# Cincinnati/Northern Kentucky International Airport

## Notes to Schedule of Expenditures of Federal Awards

### Year Ended December 31, 2018

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(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 2018 financial statements (amounts rounded to nearest thousand):

|   | <u>2018</u>     |
|---|-----------------|
| Grants and federal awards, nonoperating changes in net position   | \$ 352          |
| Less: Federal receipts not subject to Uniform Guidance requirements   | (348)           |
| Less: Local government grants not funded by federal sources   | (1)             |
| Grants and federal awards, capital contributions  | 8,056           |
| Police forfeiture revenues expended for operations, operating expenses  | 130             |
| Less: Operating expenses funded with state revenues   | (4)             |
| Less: Police forfeiture revenues, from state sources, passed through to other local governments, nonoperating changes in net position | (3)             |
| Expenditures of revenues from federal sources reported on the Schedule  | <u>\$ 8,182</u> |



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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, 2018, 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 17, 2019.

Internal Control Over Financial Reporting

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

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

*Blue & Co., LLC*

Lexington, Kentucky  
June 17, 2019





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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, 2018. 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, 2018.

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

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### Report on Internal Control Over Compliance

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

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

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

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

*Blue & Co., LLC*

Lexington, Kentucky  
June 17, 2019

**Cincinnati/Northern Kentucky International Airport  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2018**

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*(in thousands of dollars)*

Section I - Summary of Auditor's Results

Type of auditor's report issued: unmodified  
 Internal Control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes     X  no

Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes     X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes     X  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes     X  no

Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes     X  none reported

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? \_\_\_\_\_ yes     X  no

Identification of major program:

|                              |  |
|------------------------------|--|
| <u>CFDA Number</u><br>20.106 | <u>Name of Federal Program or Cluster</u><br>Airport Improvement Program |
|------------------------------|--|

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

Auditee qualified as a low-risk auditee?  X  yes    \_\_\_\_\_ no

**Cincinnati/Northern Kentucky International Airport  
Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2018**

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*(in thousands of dollars)*

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

None reported.

Section III - Findings and questioned costs related to federal awards

None reported.

**Cincinnati/Northern Kentucky International Airport  
Schedule of Prior Year Audit Findings and Their Resolutions  
Year Ended December 31, 2017**

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Federal Award Findings and Questioned Costs

No findings or questioned costs for federal award programs were reported for the year ended December 31, 2017.

**Cincinnati/Northern Kentucky International Airport  
Schedule of Passenger Facility Charges Collected and Expended  
Year Ended December 31, 2018**

**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)*

| <b>Quarter Ended</b>                                  | <b>Collections from Airlines</b> | <b>Investment Earnings</b> | <b>Total Received</b> | <b>Expenditures on Approved Projects</b> | <b>Debt Service on Approved Projects</b> | <b>Total Expenditures</b> | <b>PFCs and Earnings Net of Expenditures</b> |
|---|----------------------------------|----------------------------|-----------------------|--|--|---------------------------|--|
| Beginning balance                                     | \$ 500,295                       | \$ 46,876                  | \$ 547,171            | \$ (312,757)                             | \$ (162,308)                             | \$ (475,065)              | \$ 72,106                                    |
| Q1-18   | 3,568                            | 213                        | 3,781                 | -  | (268)                                    | (268)                     |  |
| Q2-18   | 4,872                            | 208                        | 5,080                 | -  | (1,342)                                  | (1,342)                   |  |
| Q3-18   | 4,905                            | 294                        | 5,199                 | -  | (1,341)                                  | (1,341)                   |  |
| Q4-18   | 5,200                            | 527                        | 5,727                 | (175)                                    | (1,342)                                  | (1,517)                   |  |
| Total 2018  | 18,545                           | 1,242                      | 19,787                | (175)                                    | (4,293)                                  | (4,468)                   | 15,319                                       |
| Change in accrual                                     | (402)                            | 282                        | (120)                 | -  | -  | -                         | (120)  |
| Total program to date                                 | \$ 518,438                       | \$ 48,400                  | \$ 566,838            | \$ (312,932)                             | \$ (166,601)                             | \$ (479,533)              |  |
| PFC funds to be used for future eligible expenditures |                                  |                            |                       |  |  |                           | \$ 87,305                                    |

# **Cincinnati/Northern Kentucky International Airport**

## **Notes to Schedule of Passenger Facility Charges Collected and Expended**

### **Year Ended December 31, 2018**

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#### **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 Passenger Facility Charges and the interest earnings thereon collected by the Airport beginning June 1, 1994 through December 31, 2018. 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.



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

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

### Report on Compliance of Passenger Facility Charges

We have audited the Cincinnati/Northern Kentucky International Airport's (hereby referred to as the Airport) which is controlled and operated by the Kenton County Airport Board, compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), that could have a direct and material effect on its passenger facility charge Program for the year ended December 31, 2018.

### 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.



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

Page Two

#### Opinion on Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Passenger Facility Charge program for the year ended December 31, 2018.

#### Report on Internal Control Over Compliance

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

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

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

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

Page Three

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

*Blue & Co., LLC*

Lexington, Kentucky  
June 17, 2019

# **Cincinnati/Northern Kentucky International Airport Schedule of Passenger Facility Charge Findings and Questioned Costs Year Ended December 31, 2018**

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## Summary of Auditor's Results

We have issued an unmodified opinion, dated June 17, 2019 on the financial statements of Cincinnati/Northern Kentucky International Airport (the Airport) as of and for the year ended December 31, 2018.

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 17, 2019 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, 2017**

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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, 2017.