

Airport Authority of the City of Lincoln, Nebraska

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016



**Airport Authority of the City of
Lincoln, Nebraska
June 30, 2017 and 2016**

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Independent Auditor's Report

Board of Directors
Airport Authority of the City
of Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the Airport Authority of the City of Lincoln, Nebraska (the Authority), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority of the City of Lincoln, Nebraska as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, which consists of the schedules of cash and investments and changes in account balances; operating revenues; direct operating expenses; and indirect operating expenses, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of cash and investments and changes in account balances; operating revenues; direct operating expenses; and indirect operating expenses are the responsibility of management and were derived from and relate 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.

BKD, LLP

Lincoln, Nebraska
September 21, 2017

Management's Discussion and Analysis June 30, 2017 and 2016

The following discussion and analysis of the financial performance and activity of the Airport Authority of the City of Lincoln, Nebraska (LAA or the Authority) is to provide an introduction and overview that users need to interpret the financial statements of LAA for the fiscal years ended June 30, 2017 and 2016, with selected comparative information for the fiscal year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

LAA's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus. LAA operates as a special purpose political subdivision of the State of Nebraska engaged in business-type activities. Tenants and other users of LAA's facilities and services provide the revenues to operate and maintain LAA's facilities. LAA also receives grant funds under the Federal Airport Improvement Program (AIP).

LAA's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of LAA, including resources held by LAA but restricted for specific purposes by creditors, contributors, or enabling legislation.

The balance sheet and the statement of revenues, expenses and changes in net position report information about LAA's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that revenues and expenses are recorded when they are earned or incurred, regardless of when cash is received or paid.

These two statements report LAA's net position and changes in it. LAA's total net position – the difference between assets and deferred outflows of resources, and liabilities - is one measure of LAA's financial health or financial position. Over time, increases or decreases in LAA's net position are an indicator of whether its financial health is improving or deteriorating.

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The LAA Board of Directors has retained staff to operate and manage the daily affairs and all of the assets of the Lincoln Airport Authority.

Airport Activity and Financial Highlights

The Airport presently encompasses an area of approximately 5,500 acres and is located approximately five miles northwest of downtown Lincoln, Nebraska (the City). Interstate 80 and U.S. Highway 34 border the Airport. The Airport, classified by the Federal Aviation Administration (FAA) as a primary non-hub airport, is the principal air carrier airport serving the City, Lancaster County and surrounding communities in close proximity to the City. The most current available passenger information is based on a calendar year comparison and is not available for a fiscal year comparison.

	Calendar Year			Percent Variance	
	2016	2015	2014	2016 / 2015	2015 / 2014
Enplaned passengers	165,017	163,465	143,944	0.95%	13.56%
Aircraft operations					
Air carrier	8,698	8,165	7,166	6.53%	13.94%
Air taxi	4,583	4,667	5,448	-1.80%	-14.34%
General aviation	37,055	37,344	31,207	-0.77%	19.67%
Military	11,750	12,793	10,027	-8.15%	27.59%
Total operations	<u>62,086</u>	<u>62,969</u>	<u>53,848</u>	<u>-1.40%</u>	<u>16.94%</u>

Most passengers begin or end their travel in the City rather than connecting for flights to other communities. While airline service continues to be a challenge due to Lincoln's proximity to Omaha's Eppley Airfield, calendar year 2016 saw passenger numbers stable from 2015 and 14% higher than 2014. The increase from 2014 can be attributed in part to the addition of new service by Delta Airlines to their Atlanta hub which began in September 2014. LAA officials continue to work with consultants and the airlines to stabilize fares, especially in relation to fares out of Eppley Airfield in Omaha.

Lincoln continues to be served by two air carriers providing daily service. United Airlines provides three to four flights per day to Chicago and two to four flights per day to Denver based on seasonal adjustments. Delta provides two to three flights per day to Minneapolis and one flight, five to six days per week to Atlanta. The Airport Authority continues to explore service options with various airlines, including those currently serving Lincoln.

The Authority reviews and establishes landing fees on an annual basis. In addition to landing fees assessed to commercial air service operators, the Authority adds 6 cents per gallon of fuel sold (flowage fee) to aircraft weighing less than 60,000 pounds. These combined landing and flowage fees account for approximately 3.5% of operating revenues. The Nebraska Air National Guard operates from a base adjacent to and surrounded by the Airport and utilizes the Airport landing area under a joint-use agreement. The term of the agreement is for 10 years subject to periodic renewal. The Guard continues to provide the aircraft rescue and fire-fighting capabilities on the airfield for both military and civilian operations in exchange for an annual sum of \$70,000.

Scheduled airlines operate in Lincoln under annual operating and lease agreements. The Airport Authority adjusts rates and charges for airline operations annually. Airline rates and charges for the noted calendar years are as follows:

	Calendar Year		
	2017	2016	2015
Landing fee (per 1,000 lbs.)	\$ 2.25	\$ 2.20	\$ 2.10
Terminal lease rates			
Finished space (per year)	\$36.09/sq. ft.	\$35.56/sq. ft.	\$33.71/sq. ft.
Unfinished space (per year)	\$27.67/sq. ft.	\$27.26/sq. ft.	\$25.84/sq. ft.
Loading bridge fees (per month)	\$ 1,010.00	\$ 995.00	\$ 945.00

In 2016, the Authority entered into a new professional services agreement with SP+, previously known as Standard Parking, to operate the public parking facilities. SP+ received an annual fee of approximately \$255,000 and \$287,000 for 2017 and 2016, respectively. The operation of such parking facilities generated annual gross receipts of approximately \$1,450,000 and \$1,570,000 in 2017 and 2016, respectively.

The Authority has nonexclusive agreements with Avis Rent A Car, Budget Rent A Car, Enterprise Rent-A-Car, National Car Rental and The Hertz Corporation to provide rental cars to the public at the airport. Rental car revenues decreased by 4% in 2017, falling from \$664,549 in fiscal year 2016 to \$637,262 in fiscal year 2017.

In addition to parking and rental car agreements, the Authority has entered into agreements with other concessionaires to provide services customarily found in an airport terminal complex, including food service, advertising displays and gift and newsstand services.

The Authority has an agreement ending January 31, 2018 with Interspace Advertising, Inc., dba Clear Channel Airports, to operate the terminal advertising displays. The agreement calls for the payment of 30% of gross receipts with minimum annual payments of \$30,000.

Air Host, Inc. provides terminal food services and a news and gift shop for a contract that has been extended to October 31, 2018. The current concession agreement establishes minimum gross sales per year of \$620,000. If in any given contract year (10/1 thru 9/30) gross sales are equal to or above \$620,000, then Air Host pays a 6% commission on \$620,000, plus an 8% commission on sales between \$620,000 and \$800,000, and a 10% commission on any sales in excess of \$800,000. If however, in any given year that gross sales are less than \$620,000 (“Breakpoint Receipts”) there is a formula utilized whereby the Airport Authority pays Air Host an amount which makes them whole and keeps the operation from losing money in that year (“Breakpoint Payment”). In no event shall the Breakpoint Payment paid by the Airport Authority to Air Host be in excess of \$105,000. The Breakpoint Payment is calculated by subtracting actual gross receipts from the Breakpoint Receipts, dividing that by two and subtracting from this figure 6% of actual gross receipts. For the 2016 and 2015 contract years, the Airport paid Air Host a Breakpoint Payment of \$86,000 and \$90,000 respectively.

General aviation activity saw an increase in operational activity in the current year as Duncan Aviation and Silverhawk, both fixed-base operators, continue to show growth. Silverhawk entered into a thirty year lease with LAA in May 2017 for 36,500 square feet of land adjacent to the general aviation ramp to build a 28,000 square foot hangar.

The Airport has 172 aircraft storage hangars available for general aviation use and 5 private corporate hangars. The airport continues to see 90-95% occupancy in these individual storage hangars or t-hangars. Other aircraft related industries such as the FAA, Nebraska Department of Transportation and Transportation Security Administration (TSA) additionally occupy space in the general aviation area. Planning discussions have begun on an expansion of the general aviation area to the north within the next five years to be able to accommodate continued demand.

In 2015, the LAA Board, upon recommendation from the Industrial Park Board, changed the name of the Airport's industrial park from Lincoln Air Park West to LNK Enterprise Park. LNK Enterprise Park is a vital component of the Airport. Part of the former U.S. Air Force Base, this industrial complex covers 1,400 acres. The industrial complex has buildings varying in size from 1,000 square feet to 173,000 square feet. Currently, the Authority has under lease approximately 85% of the 2,200,000 square feet available. These leases vary in length from month-to-month to 30 years and include a diverse base of users. The Authority also leases to other governmental agencies, on a year-to-year basis, and this income amounts to approximately \$1,300,000 (approximately 17%) per year of the industrial complex income, which totaled approximately \$7,700,000 in 2017, down from \$8,211,000 in 2016, a decrease of 6%. The decrease is primarily due to both the liquidation of G.T. Exhaust during the 2016 fiscal year and the termination of the Jacob North lease in December 2016, following Firespring's acquisition of the Company.

Overall activity in the industrial complex has started to slow as several projects have been completed over the last few years. The Airport continues the development of the north acreage into four large rail-served industrial tracts. Infrastructure improvements to extend NW 38th Street represent the largest physical change. Construction of a new facility for G.T. Exhaust was completed in 2015 and was vacated in 2016 due to the Company's insolvency. This vacancy resulted in litigation against G.T. Exhaust and an allowance of over \$9.5 million for amounts owed under the related lease agreement. After it was determined that there was little to no likelihood of collection, and upon advice from the Airport's legal counsel, the debt was written off during fiscal year 2017 (see Note 11). Construction was completed in 2016 on a new 110,000 square foot rail center building which is partially occupied by Hexagon Lincoln. LAA continues to look for long term tenants for the remaining bay on the rail center building as well as for the vacated G.T. Exhaust and Jacob North buildings.

Some of the other entities leasing space from the Authority include Duncan Aviation, Van Sickle Paint, Plastic Companies, Hexagon Lincoln, Weathercraft, Daitron, Lincoln Industries, Sensory Effects, Tri-Con and UNL. The balance of the tenant base in LNK Enterprise Park is stable with no major tenants leaving during the 2017 and 2016 fiscal years, with the exception of G.T. Exhaust and Jacob North. The Authority does not anticipate other major vacancies in the near future.

Overall, the Airport Authority's financial outlook remains strong, primarily due to its wide diversification both on the airfield, with two airlines and a strong general aviation community, and in the industrial park with a wide variety of unrelated industries leasing space.

The following condensed financial statements summarize the financial position of the Authority as of June 30, 2017, 2016 and 2015 and its activities for the years then ended:

Condensed Balance Sheets

	June 30			Variance			
	2017	2016	2015	2017 / 2016		2016 / 2015	
				Dollars	Percent	Dollars	Percent
Current assets	\$ 12,950,227	\$ 10,890,080	\$ 10,654,194	2,060,147	18.92%	\$ 235,886	2.21%
Capital assets	103,496,830	106,686,289	106,002,902	(3,189,459)	-2.99%	683,387	0.64%
Restricted cash and cash equivalents	3,795,046	5,342,066	7,862,208	(1,547,020)	-28.96%	(2,520,142)	-32.05%
Deferred loss on bond refunding	934,517	-	-	934,517	100.00%	-	0.00%
Total assets and deferred outflows of resources	\$ 121,176,620	\$ 122,918,435	\$ 124,519,304	\$ (1,741,815)	-1.42%	\$ (1,600,869)	-1.29%
Current liabilities	\$ 5,227,380	\$ 5,177,734	\$ 31,283,682	\$ 49,646	0.96%	\$ (26,105,948)	-83.45%
Noncurrent liabilities	55,958,080	57,065,212	31,589,522	(1,107,132)	-1.94%	25,475,690	80.65%
Total liabilities	61,185,460	62,242,946	62,873,204	(1,057,486)	-1.70%	(630,258)	-1.00%
Net investment in capital assets	48,293,521	52,845,585	52,263,467	(4,552,064)	-8.61%	582,118	1.11%
Restricted for debt service	2,406,331	1,858,824	1,530,071	547,507	29.45%	328,753	21.49%
Unrestricted	9,291,308	5,971,080	7,852,562	3,320,228	55.61%	(1,881,482)	-23.96%
Total liabilities and net position	\$ 121,176,620	\$ 122,918,435	\$ 124,519,304	\$ (1,741,815)	-1.42%	\$ (1,600,869)	-1.29%

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30			Variance			
	2017	2016	2015	2017 / 2016		2016 / 2015	
				Dollars	Percent	Dollars	Percent
Operating revenue							
Airport revenue	\$ 14,145,375	\$ 14,237,712	\$ 12,971,172	\$ (92,337)	-0.65%	\$ 1,266,540	9.76%
Total operating revenue	14,145,375	14,237,712	12,971,172	(92,337)	-0.65%	1,266,540	9.76%
Operating expenses							
Direct operating expenses	12,286,413	11,782,181	10,385,007	504,232	4.28%	1,397,174	13.45%
Indirect operating expenses	4,483,877	4,466,819	5,084,292	17,058	0.38%	(617,473)	-12.14%
Total operating expenses	16,770,290	16,249,000	15,469,299	521,290	3.21%	779,701	5.04%
Operating loss	(2,624,915)	(2,011,288)	(2,498,127)	(613,627)	-30.51%	486,839	19.49%
Net nonoperating revenues	153,565	186,250	852,166	(32,685)	-17.55%	(665,916)	-78.14%
Capital contributions	1,787,021	854,427	5,881,331	932,594	109.15%	(5,026,904)	-85.47%
Change in net position	\$ (684,329)	\$ (970,611)	\$ 4,235,370	\$ 286,282	29.50%	\$ (5,205,981)	122.92%

The change in net position from 2016 to 2017 increased by approximately 29%. Revenues in 2017 were down 1% and expenses were up approximately 3% from 2016, but capital contributions in 2017 were almost double compared to 2016. In comparing fiscal year 2016 to fiscal year 2015, the change in net position decreased primarily due to an increase in operating expenses and a decrease in capital contributions.

In October 2016, Series 2016A Bonds were issued to refinance the 2013C Bonds, which were used to fund the G.T. Exhaust building as well as the Sadoff and Rudoy Industries building. The 2013C bonds were refunded and are currently held in escrow until they can be called in July 2018. For financial reporting purposes, the 2013C Bonds are legally defeased and have been removed from the balance sheet. The 2016A Bonds were assigned an Aa1 rating by Moody's Investors Service.

Normal depreciation was taken on capital assets during fiscal years 2017 and 2016. As of June 30, 2017, the Authority has commitments under construction in the amount of \$2,000,000 as compared to \$5,500,000 at June 30, 2016, and \$7,600,000 at June 30, 2015. The majority of these commitments are being funded by bond proceeds or federal grants.

Landing field revenues were up 20% from 2016. There was an increase to landing fee rates in fiscal year 2017. Effective January 1, 2017, the landing fee rate under contract was increased from \$2.20 per 1,000 pounds to \$2.25 per 1,000 pounds. In addition, landing fees collected from United in 2017 were 30% higher than 2016.

Terminal area revenues experienced an increase from the prior year, as a direct result of the Authority enacting a passenger facility charge (PFC) program, starting in the 2nd quarter of the 2017 fiscal year. Under the PFC program, the Authority has the ability to collect PFC fees up to \$4.50 for every enplaned passenger departing from or arriving into the Lincoln airport. The Authority recorded revenues in the amount of \$339,227 under its PFC program for the 2017 fiscal year.

Revenues in the General Aviation area increased slightly from fiscal year 2016 due to periodic rental rate adjustments from a variety of tenants.

Revenues in LNK Enterprise Park decreased by approximately 6% in fiscal year 2017 due to G.T. Exhaust vacating their building during fiscal year 2016 and Jacob North vacating during fiscal year 2017.

Federal grant income from capital grants increased from approximately \$600,000 in 2016 to \$1.6 million in 2017. The main federally eligible project was the Runway 18/36 lighting rehabilitation.

Landing field, terminal area, and general aviation expenses all remained stable from fiscal year 2016 to 2017. Landing field expenses were approximately 5% lower than the prior year while terminal area and general aviation saw virtually no change from 2016.

LNK Enterprise Park costs for fiscal year 2017 decreased by about 1.5%, mostly due to bad debt expense recognized in 2016 due to the insolvency of G.T. Exhaust as well as a decrease in contracted services costs in 2017.

Public safety expenses are those associated with LAA's responsibility to provide a police department, a communications center, and crash, fire and rescue services. Public safety expenses increased by about 2.7% in fiscal year 2017.

In 2017, service equipment expenses decreased by 18% due to a concerted effort to keep costs low as well as lower fuel prices.

General and administrative expenses increased in 2017 by about 6% primarily due to an increase in professional services costs.

The Authority plans to fund ongoing capital improvements from contributed capital (Federal & State Grants) or from moneys available in its Capital Improvement Fund. The following capital improvement projects are being considered acceptable for future federal project application:

1. Runway 17/35 Design
2. Runway 17/35 Rehabilitation Overlay
3. Airport Master Plan
4. SRE (Snow Removal Equipment) Loader
5. SRE (Snow Removal Equipment) Sweeper
6. General Aviation Development
7. Terminal Ramp Rehabilitation

The Airport Authority remains on a sound financial footing. Modernizing and redeveloping LNK Enterprise Park has afforded the Airport Authority with the ability to recruit new tenants and create new jobs in the Lincoln area. One side effect of this growth is that the Authority's overall debt is at a historically high level, making additional debt funded growth less attractive in the near future. As a result, the Airport is evaluating potential development alternatives, including increased use of community partnerships to continue the positive economic growth that has occurred over the last 3-5 years while simultaneously protecting the assets and long term fiscal health of the Authority. This financial report is designed to provide the Airport's management, creditors, customers and citizens with a general view of LAA's finances and to demonstrate LAA's accountability for the funds it receives and expends. For additional information about this report or, if you need additional financial information, please contact:

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Airport Authority of the City of Lincoln, Nebraska

Balance Sheets June 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 11,872,728	\$ 7,669,563
Investments	-	1,743,000
Accounts receivable, net	413,210	470,711
Grants receivable	206,301	561,028
Prepaid expenses	457,988	445,778
Total current assets	12,950,227	10,890,080
Restricted Cash and Cash Equivalents	3,795,046	5,342,066
Capital Assets, At Cost, Net of Accumulated Depreciation	103,496,830	106,686,289
Total assets	120,242,103	122,918,435
Deferred Outflows of Resources		
Deferred loss on bond refunding	934,517	-
Total assets and deferred outflows of resources	\$ 121,176,620	\$ 122,918,435

Liabilities and Net Position

Current Liabilities		
Accounts payable and accrued expenses	\$ 1,174,745	\$ 1,413,164
Current maturities of long-term debt	2,405,000	2,045,000
Unearned revenue	779,957	671,052
Interest payable	867,678	1,048,518
Total current liabilities	5,227,380	5,177,734
Noncurrent Liabilities		
Long-term debt	52,957,612	53,908,716
Compensated absences	357,371	341,424
Unearned revenue	2,643,097	2,815,072
Total noncurrent liabilities	55,958,080	57,065,212
Total liabilities	61,185,460	62,242,946
Net Position		
Net investment in capital assets	48,293,521	52,845,585
Restricted for debt service	2,406,331	1,858,824
Unrestricted	9,291,308	5,971,080
Total net position	59,991,160	60,675,489
Total liabilities and net position	\$ 121,176,620	\$ 122,918,435

**Airport Authority of the City of
Lincoln, Nebraska**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Landing field	\$ 594,951	\$ 496,019
Terminal	3,498,133	3,227,892
General aviation	2,130,783	2,120,023
LNK Enterprise Park	7,736,764	8,211,264
Air Park South	<u>184,744</u>	<u>182,514</u>
Total operating revenues	<u>14,145,375</u>	<u>14,237,712</u>
Direct Operating Expenses		
Landing field	958,343	1,007,525
Terminal	2,020,649	2,023,322
General aviation	426,131	425,652
LNK Enterprise Park	2,381,169	2,409,221
Air Park South	52,640	62,162
Depreciation	<u>6,447,481</u>	<u>5,854,299</u>
Total direct operating expenses	<u>12,286,413</u>	<u>11,782,181</u>
Operating Income After Direct Expenses	<u>1,858,962</u>	<u>2,455,531</u>
Indirect Operating Expenses		
Public safety	1,499,558	1,460,844
Service equipment	425,936	518,619
General and administrative	2,101,805	1,974,637
Depreciation	<u>456,578</u>	<u>512,719</u>
Total indirect operating expenses	<u>4,483,877</u>	<u>4,466,819</u>
Operating Loss	<u>(2,624,915)</u>	<u>(2,011,288)</u>
Nonoperating Revenues		
Investment income	21,386	59,682
Farm income, net of expense	108,102	96,995
Gain on sale of assets	-	10,735
Federal grants	19,072	-
Other	<u>5,005</u>	<u>18,838</u>
Total nonoperating revenues	<u>153,565</u>	<u>186,250</u>
Decrease in Net Position Before Capital Grants	<u>(2,471,350)</u>	<u>(1,825,038)</u>
Capital Grants		
State & local grants	155,626	237,097
Federal grants	<u>1,631,395</u>	<u>617,330</u>
Total capital grants	<u>1,787,021</u>	<u>854,427</u>
Decrease in Net Position	(684,329)	(970,611)
Net Position, Beginning of Year	<u>60,675,489</u>	<u>61,646,100</u>
Net Position, End of Year	<u>\$ 59,991,160</u>	<u>\$ 60,675,489</u>

**Airport Authority of the City of
Lincoln, Nebraska
Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Activities		
Cash received from providing services	\$ 14,114,966	\$ 16,317,394
Cash paid to suppliers	(4,092,295)	(4,293,890)
Cash paid to employees	(4,373,101)	(4,394,230)
Interest paid	<u>(1,758,369)</u>	<u>(1,237,048)</u>
Net cash provided by operating activities	<u>3,891,201</u>	<u>6,392,226</u>
Noncapital Financing Activities		
Other receipts	<u>5,005</u>	<u>18,838</u>
Net cash provided by noncapital financing activities	<u>5,005</u>	<u>18,838</u>
Capital and Related Financing Activities		
Purchase of property and equipment	(3,228,369)	(9,371,666)
Redemption of bond anticipation notes	-	(24,060,000)
Proceeds from issuance of long-term debt	-	25,016,807
Capital grants received	2,160,820	848,424
Principal payments on long-term debt	(2,045,000)	(1,530,000)
Proceeds from sale of equipment	<u>-</u>	<u>21,941</u>
Net cash used in capital and related financing activities	<u>(3,112,549)</u>	<u>(9,074,494)</u>
Investing Activities		
Proceeds from sale of investments	1,743,000	2,241,000
Purchases of investments	-	(1,743,000)
Farm income	108,102	96,995
Interest received on investments	<u>21,386</u>	<u>59,682</u>
Net cash provided by investing activities	<u>1,872,488</u>	<u>654,677</u>
Change in Cash and Cash Equivalents	2,656,145	(2,008,753)
Cash and Cash Equivalents, Beginning of Year	<u>13,011,629</u>	<u>15,020,382</u>
Cash and Cash Equivalents, End of Year	<u>\$ 15,667,774</u>	<u>\$ 13,011,629</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	\$ 11,872,728	\$ 7,669,563
Restricted cash and cash equivalents	<u>3,795,046</u>	<u>5,342,066</u>
	<u>\$ 15,667,774</u>	<u>\$ 13,011,629</u>

Airport Authority of the City of Lincoln, Nebraska

Statements of Cash Flows - Continued Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,624,915)	\$ (2,011,288)
Items not requiring (providing) cash		
Depreciation	6,904,059	6,367,018
Amortization of issuance premiums	(16,104)	(39,148)
Amortization of deferred loss on bond refunding	38,938	-
Capitalized interest included in capital asset additions	(656,485)	(569,456)
Bond issuance costs paid directly with bond proceeds	240,653	266,302
Accrued interest paid with refunding bond proceeds	255,892	-
Changes in operating assets and liabilities		
Accounts receivable	57,501	(143,409)
Prepaid expenses	(12,210)	(73,085)
Accounts payable and accrued expenses	(52,218)	(105,723)
Unearned revenue	(63,070)	2,223,091
Interest payable	(180,840)	477,924
Net Cash Provided by Operating Activities	\$ 3,891,201	\$ 6,392,226
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 151,458	\$ 321,712

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Airport Authority of the City of Lincoln, Nebraska (Authority) was created pursuant to Nebraska State Law on February 25, 1959. The affairs of the Authority are conducted by a Board whose members are elected by citizens of the City.

Operating income is generated primarily from terminal, general aviation and industrial park areas pursuant to lease agreements which are recognized on the operating method. As leasing operations comprise a significant portion of the Authority's revenues, costs and expenses directly related to leasing activities are included in their respective category within operating expenses. The Authority does not receive any property tax revenue.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported balance sheet amounts and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market funds and investment pool funds.

**Airport Authority of the City of
Lincoln, Nebraska
Notes to Financial Statements
June 30, 2017 and 2016**

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Investments and Investment Income

The Authority's investments in government securities money market funds are carried at cost, which approximates fair value. Negotiable certificates of deposit are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income.

Accounts Receivable

Accounts receivable consist of amounts owed from airlines, rental car companies, tenants and other operators. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2017. With the exception of the receivable discussed in Note 11, an allowance for doubtful accounts was not considered necessary by management at June 30, 2016.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following useful lives are being used by the Authority:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 20 years
Runways	5 - 30 years

For taxable borrowings, the Authority capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. For tax-exempt borrowings, the Authority capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest incurred was:

	<u>2017</u>	<u>2016</u>
Interest costs capitalized	\$ 656,485	\$ 569,456
Interest costs charged to expense	<u>1,199,770</u>	<u>1,106,368</u>
Total interest incurred	<u>\$ 1,856,255</u>	<u>\$ 1,675,824</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Deferred Outflows of Resources

The Authority reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheet.

Grants

Certain outlays for airport capital improvements involve significant federal funding through the Airport Improvement Program of the Federal Aviation Administration (FAA). Capital and other funding provided under government grants is considered earned as the related approved outlays are incurred. Costs claimed from reimbursement are subject to audit and acceptance by the granting agency.

Compensated Absences

Authority policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, partially, as a cash payment. The Authority also has a deferred compensation program for management employees, which accrues as service is provided. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned up to a certain percentage to the extent the employee is expected to realize the benefit in cash upon retirement or death. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Unearned Revenue

Unearned revenue consists primarily of rental payments received in advance and lump-sum payments made by tenants, which relate to future year commitments. The Authority recorded unearned revenue of \$3,423,054 and \$3,486,124, for the years ended June 30, 2017 and 2016, respectively.

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification - Continued

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Reclassifications

Certain reclassifications were made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The Authority’s deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities having an aggregate value at least equal to the amount of the deposits.

The Authority’s cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a pledge account for the Authority.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 2: Deposits, Investments and Investment Income - Continued

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in repurchase agreements collateralized by U.S. Treasury securities and U.S. government agencies. It may also invest to a limited extent in municipal bonds.

At June 30, 2017 and 2016, the Authority had the following investments:

	<u>Maturities in Years</u>			Credit Rating Moody's / S&P
	Total	Less Than 1	1 - 5	
June 30, 2017				
Cash held at trustee	\$ 348,522	\$ 348,522	\$ -	N/A
Government securities				
money market funds	<u>7,269,112</u>	<u>7,269,112</u>	<u>-</u>	Aaa-mf/AAAm
	<u>\$ 7,617,634</u>	<u>\$ 7,617,634</u>	<u>\$ -</u>	
June 30, 2016				
Cash held at trustee	\$ 344,625	\$ 344,625	\$ -	N/A
Negotiable certificates of deposit	1,743,000	1,494,000	249,000	Not rated
Government securities				
money market funds	<u>7,077,030</u>	<u>7,077,030</u>	<u>-</u>	Aaa-mf/AAAm
	<u>\$ 9,164,655</u>	<u>\$ 8,915,655</u>	<u>\$ 249,000</u>	

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy requires that market conditions and investment securities be monitored to determine the maximum yield that can be obtained while minimizing the impact of rising interest rates. The government securities money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its investments in municipal bonds to the top two ratings issued by nationally recognized statistical rating authorities.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Negotiable certificates of deposit are held in the custodian's name for the benefit of the Authority.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 2: Deposits, Investments and Investment Income - Continued

Investments - Continued

Concentration of Credit Risk - The Authority's investment policy places no limit on the amount that may be invested in any one issuer. At June 30, 2017 and 2016, \$3,446,523 and \$4,997,442, respectively, of the money market funds are held with one financial depository. In addition, all of the Authority's cash held at trustee at June 30, 2017 and 2016, was held with this financial depository. This financial depository also serves as the Trustee or Paying Agent for all of the Authority's bonded debt.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2017	2016
Deposits	\$ 8,050,140	\$ 5,589,974
Investments	7,617,634	9,164,655
	\$ 15,667,774	\$ 14,754,629

Included in the following balance sheet captions:

	2017	2016
Current assets		
Operations and maintenance fund	\$ (14,467)	\$ (108,047)
Employee pay flex	2,043	2,064
Revenue fund	1,214,968	1,953,703
Airport parking account	1,415,511	1,533,674
Capital improvement fund	3,200,886	560,063
Insurance fund	6,051,726	3,725,572
Airport CNG station fund	2,061	2,534
Total cash and cash equivalents	11,872,728	7,669,563
Investments - cash reserve fund	-	1,743,000
Restricted cash and cash equivalents		
Airport bond funds	3,274,009	2,907,342
Airport bond project funds	521,037	2,434,724
Total restricted cash and cash equivalents	3,795,046	5,342,066
	\$ 15,667,774	\$ 14,754,629

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 2: Deposits, Investments and Investment Income - Continued

Summary of Carrying Values - Continued

Funds in the capital improvement fund are a result of monies transferred from the revenue fund and the airport parking account, which are to be used for improvements, extensions, betterments, renewals and replacements, payment of principal and interest on any subordinate indebtedness, purchase or redemption of bonds or for any other lawful purpose. The Authority has established a cash reserve fund for the purpose of self-insurance on losses on property damages not covered by insurance and environmental protection costs. Funds in the airport bond funds are to be applied solely for the purpose of paying the principal and interest on bonds when due.

Investment Income

Investment income was \$21,386 and \$59,682 for the years ended June 30, 2017 and 2016, respectively, and was comprised entirely of interest and dividend income.

Note 3: Disclosures About Fair Value of Assets and Liabilities

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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Authority's investments in government securities money market funds are carried at amortized cost, and thus are not included within the fair value hierarchy.

Investments

The Authority's investments in negotiable certificates of deposit are measured at fair value on a recurring basis, and are classified within Level 2 of the fair value hierarchy at June 30, 2016.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 4: Capital Assets

Capital asset activity for the years ended June 30, 2017 and 2016 was:

	2017				
	Beginning Balance	Additions	Less Retirements	Transfers	Ending Balance
Land	\$ 2,350,187	\$ -	\$ -	\$ -	\$ 2,350,187
Buildings	152,093,346	-	-	17,615,689	169,709,035
Furniture and equipment	9,607,624	-	-	73,903	9,681,527
Runways	71,382,488	-	-	-	71,382,488
Construction in progress	18,490,934	3,714,600	-	(17,689,592)	4,515,942
	<u>253,924,579</u>	<u>3,714,600</u>	<u>-</u>	<u>-</u>	<u>257,639,179</u>
Less accumulated depreciation					
Buildings	85,017,232	5,078,183	-	-	90,095,415
Furniture and equipment	7,699,536	400,954	-	-	8,100,490
Runways	54,521,522	1,424,922	-	-	55,946,444
	<u>147,238,290</u>	<u>6,904,059</u>	<u>-</u>	<u>-</u>	<u>154,142,349</u>
Capital assets, net	<u>\$ 106,686,289</u>	<u>\$ (3,189,459)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,496,830</u>

	2016				
	Beginning Balance	Additions	Less Retirements	Transfers	Ending Balance
Land	\$ 2,350,187	\$ -	\$ -	\$ -	\$ 2,350,187
Buildings	142,016,433	-	-	10,076,913	152,093,346
Furniture and equipment	9,529,641	-	59,613	137,596	9,607,624
Runways	70,705,587	-	-	676,901	71,382,488
Construction in progress	22,331,242	7,051,102	-	(10,891,410)	18,490,934
	<u>246,933,090</u>	<u>7,051,102</u>	<u>59,613</u>	<u>-</u>	<u>253,924,579</u>
Less accumulated depreciation					
Buildings	80,610,023	4,407,209	-	-	85,017,232
Furniture and equipment	7,283,595	474,857	58,916	-	7,699,536
Runways	53,036,570	1,484,952	-	-	54,521,522
	<u>140,930,188</u>	<u>6,367,018</u>	<u>58,916</u>	<u>-</u>	<u>147,238,290</u>
Capital assets, net	<u>\$ 106,002,902</u>	<u>\$ 684,084</u>	<u>\$ 697</u>	<u>\$ -</u>	<u>\$ 106,686,289</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 5: Long-Term Liabilities

The following is a summary of the terms and provisions of the Authority's long-term debt outstanding at June 30, 2017:

Type of Debt	Maturity	Interest Rates	Original Issue Amount	Date Callable	Outstanding at June 30, 2017	Outstanding at June 30, 2016
Airport Bonds						
Series 2010	July 2019	1.25% - 3.80%	\$ 2,435,000	July 2015	\$ 665,000	\$ 875,000
Series 2011A	July 2031	0.55% - 4.00%	1,150,000	Sept. 2016	895,000	945,000
Series 2012A	July 2042	0.30% - 4.00%	4,200,000	July 2017	3,800,000	3,900,000
Series 2013A	July 2033	0.75% - 4.00%	1,265,000	July 2018	1,070,000	1,135,000
Series 2013B	July 2029	0.75% - 3.75%	1,440,000	July 2018	1,200,000	1,280,000
Series 2013C	July 2033	0.64% - 5.01%	20,320,000	July 2018	-	18,705,000
Series 2014C	July 2029	2.00% - 3.00%	3,055,000	December 2019	2,675,000	2,850,000
Series 2014D	July 2029	2.90% - 4.00%	1,020,000	December 2019	935,000	990,000
Series 2015A	July 2045	2.00% - 5.00%	10,285,000	July 2025	10,285,000	10,285,000
Series 2015B	July 2045	0.98% - 4.63%	14,010,000	July 2025	13,500,000	14,010,000
Series 2015C	July 2025	3.35%	505,000	Not Callable	505,000	505,000
Series 2016A	July 2033	1.04% - 3.57%	19,375,000	July 2026	19,375,000	-
					<u>\$ 54,905,000</u>	<u>\$ 55,480,000</u>

The following is a summary of long-term liability transactions for the Authority for the year ended June 30, 2017:

	2017				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Airport bonds	\$ 55,480,000	\$ 19,375,000	\$ 19,950,000	\$ 54,905,000	\$ 2,405,000
Issuance premium	473,716	-	16,104	457,612	-
	55,953,716	19,375,000	19,966,104	55,362,612	2,405,000
Compensated absences	569,442	255,085	228,156	596,371	239,000
Unearned revenue	3,486,124	497,907	560,977	3,423,054	779,957
Total long-term liabilities	<u>\$ 60,009,282</u>	<u>\$ 20,127,992</u>	<u>\$ 20,755,237</u>	<u>\$ 59,382,037</u>	<u>\$ 3,423,957</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 5: Long-Term Liabilities - Continued

The following is a summary of long-term liability transactions for the Authority for the year ended June 30, 2016:

	2016				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Airport bonds	\$ 32,210,000	\$ 24,800,000	\$ 1,530,000	\$ 55,480,000	\$ 2,045,000
Issuance premium	-	483,109	9,393	473,716	-
	32,210,000	25,283,109	1,539,393	55,953,716	2,045,000
Compensated absences	522,068	258,848	211,492	569,424	228,000
Unearned revenue	1,263,033	2,889,670	666,579	3,486,124	671,052
Total long-term liabilities	<u>\$ 33,995,101</u>	<u>\$ 28,431,627</u>	<u>\$ 2,417,464</u>	<u>\$ 60,009,264</u>	<u>\$ 2,944,052</u>

The basic resolutions authorizing the issuance of all the Airport Bonds require compliance with certain covenants and debt service coverage ratios. Management believes the Authority is in compliance with these requirements. The bonds are not general obligations of the City of Lincoln, Nebraska, but are general obligations of the Authority. The bonds are secured by a pledge of all revenues and income derived by the Authority directly or indirectly from the ownership, use, and operation of the Airport. The total principal and interest remaining to be paid on the bonds is \$77,857,300, with annual payments expected to require approximately 29 percent of net revenues. Principal and interest for the current year and net operating revenues were \$3,803,365 and \$14,145,375, respectively.

The debt service requirements at June 30, 2017 are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	\$ 4,122,459	\$ 2,405,000	\$ 1,717,459
2019	4,132,628	2,455,000	1,677,628
2020	4,115,903	2,485,000	1,630,903
2021	3,887,890	2,305,000	1,582,890
2022	3,888,942	2,355,000	1,533,942
2023-2027	19,850,218	13,165,000	6,685,218
2028-2032	17,842,312	13,385,000	4,457,312
2033-2037	10,989,191	8,745,000	2,244,191
2038-2042	5,393,689	4,245,000	1,148,689
2043-2046	3,634,068	3,360,000	274,068
	<u>\$ 77,857,300</u>	<u>\$ 54,905,000</u>	<u>\$ 22,952,300</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2017 and 2016

Note 5: Long-Term Liabilities - Continued

Bond Refunding

In October 2016, the Authority issued \$19,375,000 of Airport Bonds, Series 2016A to redeem and refund the Authority's outstanding Series 2013C Bonds, in the amount of \$17,905,000. The Authority completed the refunding to reduce its total debt service payments over the next 17 years by approximately \$1,400,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,110,000.

Note 6: Retirement Plans

The Authority has a 414(h) retirement plan commonly known as a governmental money purchase pension plan. Under this plan, employees are required to contribute 6% of their annual compensation and the Authority contributes 12% of each participant's annual compensation to the plan. For employees hired after August 1, 2009, the Authority will contribute 6% of the participant's annual compensation to the plan. Employees' contributions to the plan were approximately \$152,000 and \$153,000 for 2017 and 2016. Contributions to the plan by the Authority were approximately \$263,000 and \$261,000 for 2017 and 2016, respectively. No forfeitures were used to offset Authority contributions during 2017 and 2016. The Plan has a 10 year vesting schedule for Authority contributions.

The Authority also offers employees a deferred compensation plan created in accordance with provisions in IRS Section 457. The deferred compensation plan allows employees to defer a portion of current salary to future years, but the deferred balance is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation under the plan and income attributed to such amounts are placed in a trust which is not under the Authority's custody. Therefore, assets and liabilities related to the deferred compensation plan are not included in the basic financial statements.

Note 7: Leases

Substantially all of the Authority's revenues from the terminal, fixed base and industrial park are derived pursuant to lease agreements. The terms of the various leases provide for fixed rentals or rentals contingent upon revenues, with or without a fixed minimum, for the term of the lease. There are also leases that are maintained on a month-to-month basis.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 7: Leases - Continued

A schedule of approximate minimum future rentals from noncancellable operating leases in each of the five years subsequent to June 30, 2017, is as follows:

2018	\$ 7,833,221
2019	5,871,631
2020	5,174,028
2021	3,929,677
2022	3,696,574

Note 8: Commitments

The Authority participates in federally assisted grant programs related to airport specific and other capital improvements. Federal financial assistance programs are subject to financial and compliance audits. There are no expenditures which were disallowed and no instances of noncompliance considered material to the financial statements at this time.

The Authority has commitments under major construction contracts of approximately \$2,000,000 at June 30, 2017, which are expected to be funded through federal grants or by the use of bond proceeds.

Note 9: Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from matters relating to theft of, damage to and destruction of assets and natural disasters, errors and omissions and employee injuries and illness. Settled claims did not exceed the commercial coverage in any of the three preceding years. The Authority is self-insured for claims for theft, damage to and destruction of assets and natural disasters up to \$50,000 per occurrence. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Management of the Authority believes no liability accrual was required at June 30, 2017 and 2016.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2017 and 2016

Note 10: Significant Estimates and Concentrations

Revenue Concentration

Revenues from three and two tenants comprised approximately 33% and 24% of total operating revenues for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, 27% and 25% of accounts receivable were owed from two and one customers, respectively.

Note 11: Tenant Delinquency

During 2016, the Authority received notification from one of its tenants that the company had become insolvent and intended to liquidate. Under the lease agreement with this tenant, in the event of default, the Authority had the right to terminate the agreement and recover any unpaid rent amounts and future rents intended to cover the costs of constructing the tenant's facility, which amounted to approximately \$9.8 million as of June 30, 2016. In August 2016, the Lancaster County District Court awarded the Authority approximately \$9.8 million in its suit against this tenant. The Authority had recorded a receivable for this amount at June 30, 2016, with an equal offsetting allowance as the ultimate likelihood and amount of recovery is unknown. During 2017, the Authority's board of directors voted to approve writing off this balance as uncollectible.

Supplementary Information

Airport Authority of the City of Lincoln, Nebraska

Schedule of Cash and Investments and Changes in Account Balances (Cash Basis) Year Ended June 30, 2017

	Total	Airport Bonds Series 2010	Airport Bonds Series 2011A	Airport Bonds Series 2012A	Airport Bonds Series 2013A	Airport Bonds Series 2013B	Airport Bonds Series 2013C	Bond Anticipation Notes (Project Funds) Series 2014A	Airport Bonds Series 2014C
Account Balance, Beginning of Year	\$ 14,754,629	\$ 224,395	\$ 64,400	\$ 164,105	\$ 82,078	\$ 98,442	\$ 1,182,535	\$ 593,733	\$ 209,104
Receipts									
Operations	14,345,359	-	-	-	-	-	-	-	-
Interest	21,386	20	7	269	145	165	399	38	19
Grants	2,160,820	-	-	-	-	-	-	-	-
Total Receipts	<u>16,527,565</u>	<u>20</u>	<u>7</u>	<u>269</u>	<u>145</u>	<u>165</u>	<u>399</u>	<u>38</u>	<u>19</u>
Disbursements									
Operations and maintenance	11,811,051	-	-	-	-	-	-	-	-
Property and equipment acquisition	-	-	-	-	-	-	-	-	-
Retirement of long-term debt	2,045,000	210,000	50,000	100,000	65,000	80,000	800,000	-	175,000
Interest	1,758,369	25,940	28,509	127,625	33,590	36,208	385,372	-	66,445
Total Disbursements	<u>15,614,420</u>	<u>235,940</u>	<u>78,509</u>	<u>227,625</u>	<u>98,590</u>	<u>116,208</u>	<u>1,185,372</u>	<u>-</u>	<u>241,445</u>
Transfers, net	<u>-</u>	<u>238,095</u>	<u>78,217</u>	<u>227,104</u>	<u>103,065</u>	<u>115,572</u>	<u>2,438</u>	<u>(577,387)</u>	<u>249,686</u>
Account Balance, End of Year	<u>\$ 15,667,774</u>	<u>\$ 226,570</u>	<u>\$ 64,115</u>	<u>\$ 163,853</u>	<u>\$ 86,698</u>	<u>\$ 97,971</u>	<u>\$ -</u>	<u>\$ 16,384</u>	<u>\$ 217,364</u>
Represented by									
Current Assets									
Cash and cash equivalents	11,872,728	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>11,872,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted Assets									
Cash and cash equivalents	3,795,046	226,570	64,115	163,853	86,698	97,971	-	16,384	217,364
	<u>3,795,046</u>	<u>226,570</u>	<u>64,115</u>	<u>163,853</u>	<u>86,698</u>	<u>97,971</u>	<u>-</u>	<u>16,384</u>	<u>217,364</u>
	<u>\$ 15,667,774</u>	<u>\$ 226,570</u>	<u>\$ 64,115</u>	<u>\$ 163,853</u>	<u>\$ 86,698</u>	<u>\$ 97,971</u>	<u>\$ -</u>	<u>\$ 16,384</u>	<u>\$ 217,364</u>

Airport Authority of the City of Lincoln, Nebraska

Schedule of Cash and Investments and Changes in Account Balances (Cash Basis) - Continued Year Ended June 30, 2017

	Airport Bonds Series 2014D		Airport Bonds Series 2015A	Airport Bonds Series 2015B		Airport Bonds Series 2015C		Airport Bonds Series 2016A
	Debt Service	Project Fund		Debt Service	Project Fund	Debt Service	Project Fund	
Account Balance, Beginning of Year	\$ 72,257	\$ 4,556	\$ 244,302	\$ 556,283	\$ 1,336,412	\$ 9,441	\$ 500,023	\$ -
Receipts								
Operations	-	-	-	-	-	-	-	-
Interest	6	1	28	51	-	1	73	583
Grants	-	-	-	-	-	-	-	-
Total Receipts	<u>6</u>	<u>1</u>	<u>28</u>	<u>51</u>	<u>-</u>	<u>1</u>	<u>73</u>	<u>583</u>
Disbursements								
Operations and maintenance	-	-	-	-	-	-	-	-
Property and equipment acquisition	-	-	-	-	-	-	-	-
Retirement of long-term debt	55,000	-	-	510,000	-	-	-	-
Interest	33,715	-	386,789	527,490	-	17,670	-	89,016
Total Disbursements	<u>88,715</u>	<u>-</u>	<u>386,789</u>	<u>1,037,490</u>	<u>-</u>	<u>17,670</u>	<u>-</u>	<u>89,016</u>
Transfers, net	92,915	-	467,652	1,102,429	(1,336,412)	16,687	-	1,474,483
Account Balance, End of Year	<u>\$ 76,463</u>	<u>\$ 4,557</u>	<u>\$ 325,193</u>	<u>\$ 621,273</u>	<u>\$ -</u>	<u>\$ 8,459</u>	<u>\$ 500,096</u>	<u>\$ 1,386,050</u>
Represented by								
Current Assets								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted Assets								
Cash and cash equivalents	76,463	4,557	325,193	621,273	-	8,459	500,096	1,386,050
	<u>76,463</u>	<u>4,557</u>	<u>325,193</u>	<u>621,273</u>	<u>-</u>	<u>8,459</u>	<u>500,096</u>	<u>1,386,050</u>
	<u>\$ 76,463</u>	<u>\$ 4,557</u>	<u>\$ 325,193</u>	<u>\$ 621,273</u>	<u>\$ -</u>	<u>\$ 8,459</u>	<u>\$ 500,096</u>	<u>\$ 1,386,050</u>

Airport Authority of the City of Lincoln, Nebraska

Schedule of Cash and Investments and Changes in Account Balances (Cash Basis) - Continued Year Ended June 30, 2017

	Operations and Maintenance Fund	Revenue Fund	Airport CNG Station Fund	Capital Improvement Fund	Airport Parking Fund	Cash Reserve Fund	Employee Pay Flex
Account Balance, Beginning of Year	\$ (108,047)	\$ 1,953,703	\$ 2,534	\$ 560,063	\$ 1,533,674	\$ 5,468,572	\$ 2,064
Receipts							
Operations	-	12,892,196	3,595	-	1,449,568	-	-
Interest	-	970	-	85	128	18,398	-
Grants	-	-	-	2,160,820	-	-	-
Total Receipts	<u>-</u>	<u>12,893,166</u>	<u>3,595</u>	<u>2,160,905</u>	<u>1,449,696</u>	<u>18,398</u>	<u>-</u>
Disbursements							
Operations and maintenance	8,783,427	21,338	4,068	2,967,612	34,585	-	21
Property and equipment acquisition	-	-	-	-	-	-	-
Retirement of long-term debt	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total Disbursements	<u>8,783,427</u>	<u>21,338</u>	<u>4,068</u>	<u>2,967,612</u>	<u>34,585</u>	<u>-</u>	<u>21</u>
Transfers, net	<u>8,877,007</u>	<u>(13,610,563)</u>	<u>-</u>	<u>3,447,530</u>	<u>(1,533,274)</u>	<u>564,756</u>	<u>-</u>
Account Balance, End of Year	<u>\$ (14,467)</u>	<u>\$ 1,214,968</u>	<u>\$ 2,061</u>	<u>\$ 3,200,886</u>	<u>\$ 1,415,511</u>	<u>\$ 6,051,726</u>	<u>\$ 2,043</u>
Represented by							
Current Assets							
Cash and cash equivalents	<u>\$ (14,467)</u>	<u>\$ 1,214,968</u>	<u>\$ 2,061</u>	<u>\$ 3,200,886</u>	<u>\$ 1,415,511</u>	<u>\$ 6,051,726</u>	<u>\$ 2,043</u>
	<u>(14,467)</u>	<u>1,214,968</u>	<u>2,061</u>	<u>3,200,886</u>	<u>1,415,511</u>	<u>6,051,726</u>	<u>2,043</u>
Restricted Assets							
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (14,467)</u>	<u>\$ 1,214,968</u>	<u>\$ 2,061</u>	<u>\$ 3,200,886</u>	<u>\$ 1,415,511</u>	<u>\$ 6,051,726</u>	<u>\$ 2,043</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Operating Revenues
Years Ended June 30, 2017 and 2016**

	2017	2016	Increase (Decrease)
Landing Field			
Landing Fees			
Delta Airlines	\$ 148,657	\$ 143,459	\$ 5,198
United Airlines	264,293	204,070	60,223
Flowage Fees			
Duncan Aviation	30,898	31,377	(479)
Silverhawk Aviation	60,465	45,603	14,862
Corporate	4,114	7,428	(3,314)
Other	<u>86,524</u>	<u>64,082</u>	<u>22,442</u>
Total landing field	<u>594,951</u>	<u>496,019</u>	<u>98,932</u>
Terminal			
Airline Rentals			
Delta Airlines	330,275	329,473	802
United Airlines	419,906	395,819	24,087
Land Transportation Facilities			
Avis Rent A Car	142,643	162,176	(19,533)
Budget Rent A Car	45,114	45,675	(561)
Enterprise Rent-A-Car	122,768	120,891	1,877
The Hertz Corporation	156,733	152,262	4,471
National Car Rental System	170,004	183,545	(13,541)
Cab companies	1,800	1,800	-
Concessions			
Standard Parking	1,449,568	1,568,119	(118,551)
Interspace	30,000	30,000	-
Utility surcharges	139,597	140,082	(485)
Air Freight terminal	30,096	27,588	2,508
Passenger facility charges	339,227	-	339,227
Other	<u>120,402</u>	<u>70,462</u>	<u>49,940</u>
Total terminal	<u>3,498,133</u>	<u>3,227,892</u>	<u>270,241</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Operating Revenues - Continued
Years Ended June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
General Aviation			
U.S. Government	\$ 186,044	\$ 176,920	\$ 9,124
State of Nebraska	112,378	111,170	1,208
Duncan Aviation, Inc., shop hangar	785,894	786,236	(342)
Silverhawk Aviation	170,362	170,361	1
Hill Aero	63,961	72,705	(8,744)
Executive T-Hangar	231,033	231,596	(563)
Other T-Hangars	580,821	570,334	10,487
Other	290	701	(411)
	<u>2,130,783</u>	<u>2,120,023</u>	<u>10,760</u>
Total general aviation			
	<u>2,130,783</u>	<u>2,120,023</u>	<u>10,760</u>
LNK Enterprise Park			
LNK Enterprise Park	7,018,776	7,428,978	(410,202)
Storage annex	74,468	73,974	494
Air Park aviation	538,673	541,497	(2,824)
Other	104,847	166,815	(61,968)
	<u>7,736,764</u>	<u>8,211,264</u>	<u>(474,500)</u>
Total LNK enterprise park			
	<u>7,736,764</u>	<u>8,211,264</u>	<u>(474,500)</u>
Air Park South			
Lincoln Air Park South	184,744	182,514	2,230
	<u>184,744</u>	<u>182,514</u>	<u>2,230</u>
Total operating revenues			
	<u>\$ 14,145,375</u>	<u>\$ 14,237,712</u>	<u>\$ (92,337)</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Direct Operating Expenses
Years Ended June 30, 2017 and 2016**

	2017	2016	Increase (Decrease)
Landing Field			
Salaries	\$ 360,623	\$ 424,924	\$ (64,301)
Employee benefits	130,243	151,586	(21,343)
Repairs and maintenance	233,954	165,973	67,981
Contracted services	111,453	134,101	(22,648)
Utilities	70,060	74,420	(4,360)
Insurance	37,728	31,712	6,016
Professional services	6,665	22,448	(15,783)
Other	7,617	2,361	5,256
	<u>958,343</u>	<u>1,007,525</u>	<u>(49,182)</u>
Terminal			
Salaries	501,045	538,964	(37,919)
Employee benefits	186,737	202,159	(15,422)
Repairs and maintenance	144,823	136,144	8,679
Contracted services	393,638	358,365	35,273
Utilities	372,092	352,802	19,290
Insurance	86,406	76,299	10,107
Professional services	276,448	259,218	17,230
Bond issuance costs	-	24,932	(24,932)
Other	59,460	74,439	(14,979)
	<u>2,020,649</u>	<u>2,023,322</u>	<u>(2,673)</u>
General Aviation			
Salaries	43,738	40,513	3,225
Employee benefits	21,000	19,781	1,219
Repairs and maintenance	6,679	12,609	(5,930)
Contracted services	49,525	51,569	(2,044)
Utilities	52,431	50,854	1,577
Insurance	50,272	46,771	3,501
Professional services	9,688	3,201	6,487
Interest expense	192,798	200,234	(7,436)
Other	-	120	(120)
	<u>426,131</u>	<u>425,652</u>	<u>479</u>
Total general aviation			

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Direct Operating Expenses - Continued
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>
LNK Enterprise Park			
Salaries	\$ 358,015	\$ 280,193	\$ 77,822
Employee benefits	162,490	144,123	18,367
Repairs and maintenance	28,674	23,401	5,273
Contracted services	124,230	168,699	(44,469)
Utilities	174,547	176,541	(1,994)
Insurance	213,696	199,601	14,095
Professional services	51,478	19,806	31,672
Bond issuance costs	240,653	241,370	(717)
Interest expense	1,006,972	906,134	100,838
Bad debt expense	20,414	249,353	(228,939)
	<u>2,381,169</u>	<u>2,409,221</u>	<u>(28,052)</u>
Total LNK enterprise park			
Air Park South			
Salaries	8,755	8,195	560
Employee benefits	2,702	2,810	(108)
Repairs and maintenance	17,313	22,759	(5,446)
Contracted services	3,419	7,777	(4,358)
Utilities	17,843	18,175	(332)
Insurance	2,608	2,325	283
Other	-	121	(121)
	<u>52,640</u>	<u>62,162</u>	<u>(9,522)</u>
Total air park south			
Subtotal Direct Operating Expenses	<u>5,838,932</u>	<u>5,927,882</u>	<u>(88,950)</u>
Depreciation Expense			
Landing field	1,704,074	1,764,105	(60,031)
Terminal	597,318	563,729	33,589
General aviation	609,150	682,371	(73,221)
LNK Enterprise Park	3,496,738	2,804,953	691,785
Lincoln Air Park South	40,201	39,141	1,060
	<u>6,447,481</u>	<u>5,854,299</u>	<u>593,182</u>
Total depreciation expense			
	<u>\$ 12,286,413</u>	<u>\$ 11,782,181</u>	<u>\$ 504,232</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Indirect Operating Expenses
Years Ended June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
Public Safety			
Salaries	\$ 899,060	\$ 895,124	\$ 3,936
Employee benefits	357,223	359,675	(2,452)
Repairs and maintenance	81,187	70,245	10,942
Contracted services	31,899	22,743	9,156
Utilities	5,376	5,376	-
Insurance	27,179	16,643	10,536
Professional services	81,946	76,470	5,476
Other	15,688	14,568	1,120
	<u>1,499,558</u>	<u>1,460,844</u>	<u>38,714</u>
Total public safety			
Service Equipment			
Salaries	152,216	162,567	(10,351)
Employee benefits	72,479	73,564	(1,085)
Repairs and maintenance	62,141	129,148	(67,007)
Contracted services	4,509	11,117	(6,608)
Utilities	79,421	86,233	(6,812)
Insurance	55,170	52,298	2,872
Other	-	3,692	(3,692)
	<u>425,936</u>	<u>518,619</u>	<u>(92,683)</u>
Total service equipment			
General and Administrative			
Salaries	781,702	782,848	(1,146)
Employee benefits	382,493	368,478	14,015
Repairs and maintenance	27,998	32,196	(4,198)
Contracted services	5,981	17,239	(11,258)
Utilities	54,590	52,474	2,116
Insurance	41,085	31,070	10,015
Professional services	683,857	599,856	84,001
Other	124,099	90,476	33,623
	<u>2,101,805</u>	<u>1,974,637</u>	<u>127,168</u>
Total general and administrative			
Depreciation Expense			
Service equipment	325,339	386,909	(61,570)
General and administrative	131,006	125,810	5,196
Public safety	233	-	233
	<u>456,578</u>	<u>512,719</u>	<u>(56,141)</u>
Total depreciation expense			
Total Indirect Operating Expenses	<u>\$ 4,483,877</u>	<u>\$ 4,466,819</u>	<u>\$ 17,058</u>