

Airport Authority of the City of Lincoln, Nebraska

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015



**Airport Authority of the City of
Lincoln, Nebraska
June 30, 2016 and 2015**

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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 basic financial statements of the Airport Authority of the City of Lincoln, Nebraska (the Authority), which are comprised of balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the 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 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 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, 2016 and 2015, 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 listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 as a whole. 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. 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 basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Authority's internal control over financial reporting and 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 the 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 Authority's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
September 15, 2016

Management's Discussion and Analysis June 30, 2016 and 2015

The following discussion and analysis of the financial performance and activity of the Airport Authority of the City of Lincoln, Nebraska (LAA) is to provide an introduction and overview that users need to interpret the financial statements of LAA for the fiscal years ended June 30, 2016 and 2015, with selected comparative information for the fiscal year ended June 30, 2014. 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'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 all of the current year's revenues and expenses are taken into account 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 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). Interstates 80 and 180 and U.S. Highway 34 border the Airport. The Airport, classified by the Federal Aviation Administration (FAA) as a 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	
	2015	2014	2013	2015 / 2014	2014 / 2013
Enplaned passengers	163,465	143,944	141,584	13.56%	1.67%
Aircraft operations					
Air carrier	8,165	7,166	6,391	13.94%	12.13%
Air taxi	4,667	5,448	5,625	-14.34%	-3.15%
General aviation	37,344	31,207	32,326	19.67%	-3.46%
Military	12,793	10,027	12,282	27.59%	-18.36%
Total operations	62,969	53,848	56,624	16.94%	-4.90%

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 2015 saw passenger numbers increase from the previous year. This can be attributed to a narrowing of the fare gap the airlines charge for flights from Lincoln compared to similar flights from Omaha. The increase can also be attributed to the addition of new service by Delta Airlines to their Atlanta hub which began in September 2014. Passenger numbers are expected to stabilize with the continuation of this service throughout 2016.

Lincoln continues to be served by two air carriers providing daily service. United Airlines provides four flights a day to Chicago and three to four flights a day to Denver based on seasonal adjustments. Delta continues to provide three flights a day to Minneapolis and, as noted above, began one flight per day service to Atlanta in September 2014. The Atlanta service was supported by a Department of Transportation (DOT) Small Community Air Service Grant of \$750,000. LAA's goal was to not require the use of the grant funds, but rather through positive load factors ensure profitability for Delta and service beyond the grant period. With an average load factor of seventy-five percent, LAA's final obligation was approximately \$556,000 related to this new service. Marketing costs in excess of those contributed by community partners totaled \$61,000 and in-kind landing fees of \$55,000. At the end of 2016, LAA had a grant receivable from the DOT for \$556,550 related to this Small Community Air Service Grant. Both carriers provide service through their regional airline affiliates utilizing 50, 65 and 76 seat regional jets. The Airport Authority continues to talk to airlines both currently serving Lincoln and those not serving Lincoln about adding service. As the economy continues to improve both locally and nationally, and the airlines respond with some additional capacity, we remain hopeful that additional service will be forth coming in the future.

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. Military operations on the airfield decreased in 2015 due to pavement rehabilitation that closed Runway 18/36 for four months. The Guard continues to provide the aircraft rescue and fire-fighting capabilities on the air field 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		
	2016	2015	2014
Landing fee (per 1,000 lbs.)	\$ 2.20	\$ 2.10	\$ 2.00
Terminal lease rates			
Finished space (per year)	\$35.56/sq. ft.	\$33.71/sq. ft.	\$32.10/sq. ft.
Unfinished space (per year)	\$27.26/sq. ft.	\$25.84/sq. ft.	\$26.41/sq. ft.
Loading bridge fees (per month)	\$ 995.00	\$ 945.00	\$ 900.00

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 \$287,000 and \$350,000 for 2016 and 2015, respectively. The operation of such parking facilities generated annual gross receipts of approximately \$1,570,000 and \$1,350,000 in 2016 and 2015, 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 increased from \$613,507 in fiscal year 2015 to \$664,549 in fiscal year 2016.

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 with Interspace Advertising, Inc., dba ClearChannel Airports, to operate the terminal advertising displays ending January 2017. 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 term ending October 31, 2016. 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 2015 and 2014 contract years, the Airport paid Air Host a Breakpoint Payment of approximately \$90,000 each year.

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.

As part of a twenty-five year land lease, Resort Lifestyle Communities (RLC) completed construction of a 12,000 sq. ft. hangar facility in early 2015.

The Airport has 165 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, Department of Aeronautics 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 renamed Lincoln Air Park West, 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 110,000 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 16%) per year of the industrial complex income, which totaled approximately \$8,211,000 in 2016, an increase of 12% from 2015.

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 being the largest physical change. Construction of a new facility for G.T. Exhaust was completed in 2015 and vacated in 2016 due to the Company's insolvency. This vacancy has resulted in ongoing litigation against G.T. Exhaust and an allowance of over \$9.5 million for amounts owed under the related lease agreement (see Note 12). Construction was completed in 2016 on a new 110,000 sq. ft. rail center building which is partially occupied by Hexagon Lincoln. LAA continues to look for a long term tenant for the remaining bay.

Finally, the Airport Authority was selected by the State of Nebraska to construct a special purpose building to house the Nebraska State Patrol Crime Lab. Construction began on this project in early 2014 and was completed in October 2015. 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, TMCO, Tri-Con and UNL. The balance of the tenant base in LNK Enterprise Park is stable with no major tenants leaving during the 2016 and 2015 fiscal years, with the exception of G.T. Exhaust. The Authority believes that relationships with its lessees are good and the income received will continue into the future.

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

The following condensed financial statements summarize the financial position of the Authority as of June 30, 2016, 2015 and 2014 and its activities for the years then ended:

Condensed Balance Sheets

	June 30			Variance			
	2016	2015	2014	2016 / 2015		2015 / 2014	
				Dollars	Percent	Dollars	Percent
Current assets	\$ 10,890,080	\$ 10,654,194	\$ 8,945,093	\$ 235,886	2.21%	\$ 1,709,101	19.11%
Capital assets	106,686,289	106,002,902	80,814,880	683,387	0.64%	25,188,022	31.17%
Restricted cash and cash equivalents	5,342,066	7,862,208	5,627,779	(2,520,142)	-32.05%	2,234,429	39.70%
Total assets	\$ 122,918,435	\$ 124,519,304	\$ 95,387,752	\$ (1,600,869)	-1.29%	\$ 29,131,552	30.54%
Current liabilities	\$ 5,177,734	\$ 31,283,682	\$ 5,708,173	\$ (26,105,948)	-83.45%	\$ 25,575,509	448.05%
Noncurrent liabilities	57,065,212	31,589,522	32,268,849	25,475,690	80.65%	(679,327)	-2.11%
Total liabilities	62,242,946	62,873,204	37,977,022	(630,258)	-1.00%	24,896,182	65.56%
Net investment in capital assets	52,845,585	52,263,467	49,662,204	582,118	1.11%	2,601,263	5.24%
Restricted for debt service	1,858,824	1,530,071	1,460,080	328,753	21.49%	69,991	4.79%
Unrestricted	5,971,080	7,852,562	6,288,446	(1,881,482)	-23.96%	1,564,116	24.87%
Total liabilities and net position	\$ 122,918,435	\$ 124,519,304	\$ 95,387,752	\$ (1,600,869)	-1.29%	\$ 29,131,552	30.54%

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30			Variance			
	2016	2015	2014	2016 / 2015		2015 / 2014	
				Dollars	Percent	Dollars	Percent
Operating revenue							
Airport revenue	\$ 14,237,712	\$ 12,971,172	\$ 11,142,126	\$ 1,266,540	9.76%	\$ 1,829,046	16.42%
Total operating revenue	14,237,712	12,971,172	11,142,126	1,266,540	9.76%	1,829,046	16.42%
Operating expenses							
Direct operating expenses	11,782,181	10,385,007	10,417,088	1,397,174	13.45%	(32,081)	-0.31%
Indirect operating expenses	4,466,819	5,084,292	4,440,210	(617,473)	-12.14%	644,082	14.51%
Total operating expenses	16,249,000	15,469,299	14,857,298	779,701	5.04%	612,001	4.12%
Operating loss	(2,011,288)	(2,498,127)	(3,715,172)	486,839	19.49%	1,217,045	32.76%
Net nonoperating revenues	186,250	852,166	403,227	(665,916)	-78.14%	448,939	111.34%
Capital contributions	854,427	5,881,331	2,422,873	(5,026,904)	-85.47%	3,458,458	142.74%
Change in net position	\$ (970,611)	\$ 4,235,370	\$ (889,072)	\$ (5,205,981)	122.92%	\$ 5,124,442	576.38%

In comparing fiscal year 2015 to fiscal year 2016, the change in net position decreased primarily due to an increase in operating expenses and a decrease in capital contributions. The increase in net position when comparing fiscal year 2015 and fiscal year 2014 is due primarily to an increase in operating revenues and capital contributions.

In fiscal year 2015, the Series 2014AB Bond Anticipation Notes (BANs) were issued to construct Building 1342 for the Nebraska State Patrol's Crime Lab, Building 96 Rail Center which is partially occupied by Hexagon Lincoln, Terminal building improvements and additional Air Park infrastructure. Moody's assigned a MIG 1 rating to the 2014 BANs and reaffirmed the Aa1 rating on the 2013 bonds. The 2015ABC Bonds were issued as long term debt to redeem the 2014AB BANs. Moody's assigned an Aa1 rating on the 2015ABC Bonds.

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

There was an increase to landing fee rates in fiscal year 2016 and Delta's holiday from landing fees for the Atlanta flight ended which caused an increase in annual revenue between 2016 and 2015. Effective January 1, 2016, the landing fee rate was increased from \$2.10 per 1,000 pounds to \$2.20 per 1,000 pounds.

During fiscal years 2015 and 2016, terminal area revenues experienced an increase due to an adjustment in terminal rental rates and an increase in parking and rental car revenue.

Revenues in the General aviation area increased slightly in fiscal years 2015 and 2016 due to periodic rental rate adjustments from a variety of tenants.

Revenues in LNK Enterprise Park, formerly Lincoln Air Park West, increased in fiscal year 2016 due to completed capital construction and rental rate adjustments with existing tenants. The most significant increases are attributed to Hexagon Lincoln's partial occupancy of Building 96 and the Nebraska State Patrol's occupancy of Building 1342. Revenues in LNK Enterprise Park increased in fiscal year 2015 due to G.T. Exhaust's occupancy of Building 1445.

Federal grant income from capital grants decreased from approximately \$5,500,000 in 2015 to \$600,000 in 2016. Federally eligible projects included Runway 18/36 design and rehabilitation work and Runway 14/32 sealcoat work.

Landing field expenses remained relatively flat year over year with a slight decrease.

In 2015 and 2016, terminal area costs decreased due to the Airport's new contract with SP+ for parking management services. The Airport's contract realized a large decrease as the Airport expended capital funds for improvements to the system rather than having SP+ make these upgrades. The Airport utilized the 2014A BANs and subsequently the 2015A Bonds to fund these improvements.

General aviation costs for fiscal year 2016 were slightly higher than 2015 due to the costs associated with contracted janitorial services and employee salaries and benefits.

LNK Enterprise Park costs for fiscal year 2016 increased significantly due to interest expense on debt related to capital expenditures, bad debt related to the insolvency of G.T. Exhaust, insurance and utility expenses on new and vacant buildings and contracted services to convert office space to warehouse space. During fiscal year 2015, LNK Enterprise Park expenses decreased greatly due to less interest expense and bond issuance costs.

Public safety expenses are those associated with having a responsibility to provide a police department, a communications center and crash, fire and rescue services. In fiscal year 2015 and 2016, public safety related costs have trended upwards due to workers compensation insurance expense for employees and contracted police officers and salary and benefit related expenses.

In 2016, service equipment expenses decreased primarily due to cheaper fuel prices. In 2015, service equipment expenses increased primarily due to repairs and maintenance and equipment insurance expenses. The Airport utilizes mostly its own employees to maintain service equipment.

General and administrative expenses decreased in 2016 primarily due to approximately \$596,000 for a revenue guarantee and increased marketing expenses related to the Delta Airlines Atlanta flight which began in September 2014 and was recorded in 2015. The revenue guarantee liability is covered mostly by the federal grant income from the Small Community Air Service Development Grant, and \$50,000 of the increased marketing costs are covered by contributions from local individuals and organizations.

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 were considered acceptable for future federal project application:

1. Rehabilitate Runway 14-32
2. Runway 18/36 Lights & Vault
3. Replace Snow Removal Plows and/or Runway Sweeper/Blowers
4. Airport Master Plan
5. Terminal Ramp Rehabilitation – Phase II
6. Develop/Expand General Aviation Selective Repair Runway 17-35 Support Facilities

The Airport Authority remains on a sound financial footing, however capital investments by way of bonded indebtedness or use of Airport cash has slowed. The Airport developed and implemented a cash reserve policy in 2016 that will provide much needed structure for these funds. 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 but this has not come at zero impact to the Airport Authority. Overall debt is at a historically high level making additional debt funded growth unlikely 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, 2016 and 2015

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 7,669,563	\$ 7,158,174
Investments	1,743,000	2,241,000
Accounts receivable, net	470,711	327,302
Grants receivable	561,028	555,025
Prepaid expenses	445,778	372,693
Total current assets	10,890,080	10,654,194
Restricted Cash and Cash Equivalents	5,342,066	7,862,208
Capital Assets, At Cost, Net of Accumulated Depreciation	106,686,289	106,002,902
Total assets	\$ 122,918,435	\$ 124,519,304

Liabilities and Net Position

Current Liabilities		
Accounts payable and accrued expenses	\$ 1,413,164	\$ 4,426,754
Current maturities of long-term debt	2,045,000	1,530,000
Bond anticipation notes	-	24,089,755
Unearned revenue	671,052	666,579
Interest payable	1,048,518	570,594
Total current liabilities	5,177,734	31,283,682
Noncurrent Liabilities		
Long-term debt	53,908,716	30,680,000
Compensated absences	341,424	313,068
Unearned revenue	2,815,072	596,454
Total noncurrent liabilities	57,065,212	31,589,522
Total liabilities	62,242,946	62,873,204
Net Position		
Net investment in capital assets	52,845,585	52,263,467
Restricted for debt service	1,858,824	1,530,071
Unrestricted	5,971,080	7,852,562
Total net position	60,675,489	61,646,100
Total liabilities and net position	\$ 122,918,435	\$ 124,519,304

**Airport Authority of the City of
Lincoln, Nebraska**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Landing field	\$ 496,019	\$ 455,837
Terminal	3,227,892	2,942,230
General aviation	2,120,023	2,081,299
Air Park West/LNK Enterprise Park	8,211,264	7,334,434
Air Park South	182,514	157,372
	<u>14,237,712</u>	<u>12,971,172</u>
Total operating revenues		
Direct Operating Expenses		
Landing field	1,007,525	1,032,650
Terminal	2,023,322	2,269,012
General aviation	425,652	416,282
Air Park West/LNK Enterprise Park	2,409,221	1,369,857
Air Park South	62,162	55,433
Depreciation	5,854,299	5,241,773
	<u>11,782,181</u>	<u>10,385,007</u>
Total direct operating expenses		
Operating Income After Direct Expenses	<u>2,455,531</u>	<u>2,586,165</u>
Indirect Operating Expenses		
Public safety	1,460,844	1,417,406
Service equipment	518,619	528,292
General and administrative	1,974,637	2,664,764
Depreciation	512,719	473,830
	<u>4,466,819</u>	<u>5,084,292</u>
Total indirect operating expenses		
Operating Loss	<u>(2,011,288)</u>	<u>(2,498,127)</u>
Nonoperating Revenues		
Investment income	59,682	15,092
Farm income, net of expense	96,995	217,210
Gain on sale of assets	10,735	29,059
Federal grants	-	486,911
Other	18,838	103,894
	<u>186,250</u>	<u>852,166</u>
Total nonoperating revenues		
Decrease in Net Position Before Capital Grants	<u>(1,825,038)</u>	<u>(1,645,961)</u>
Capital Grants		
State & local grants	237,097	363,564
Federal grants	617,330	5,517,767
	<u>854,427</u>	<u>5,881,331</u>
Total capital grants		
Increase (Decrease) in Net Position	(970,611)	4,235,370
Net Position, Beginning of Year	<u>61,646,100</u>	<u>57,410,730</u>
Net Position, End of Year	<u>\$ 60,675,489</u>	<u>\$ 61,646,100</u>

**Airport Authority of the City of
Lincoln, Nebraska
Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Activities		
Cash received from providing services	\$ 16,317,394	\$ 12,812,240
Cash paid to suppliers	(4,560,192)	(4,316,849)
Cash paid to employees	(4,394,230)	(4,593,053)
Interest paid	(1,237,048)	(1,356,263)
	<u>6,125,924</u>	<u>2,546,075</u>
Noncapital Financing Activities		
Other receipts	<u>18,838</u>	<u>103,894</u>
	<u>18,838</u>	<u>103,894</u>
Capital and Related Financing Activities		
Purchase of property and equipment	(9,371,666)	(29,041,160)
Redemption of bond anticipation notes	(24,060,000)	-
Proceeds from issuance of long-term debt	25,283,109	25,174,305
Capital grants received	848,424	6,180,523
Principal payments on long-term debt	(1,530,000)	(1,460,000)
Proceeds from sale of equipment	<u>21,941</u>	<u>28,554</u>
	<u>(8,808,192)</u>	<u>882,222</u>
Net cash provided by (used in) capital and related financing activities		
Investing Activities		
Proceeds from sale of investments	2,241,000	1,503,736
Purchases of investments	(1,743,000)	(1,494,000)
Farm income	96,995	217,210
Interest received on investments	<u>59,682</u>	<u>15,092</u>
	<u>654,677</u>	<u>242,038</u>
Net cash provided by investing activities		
Change in Cash and Cash Equivalents	(2,008,753)	3,774,229
Cash and Cash Equivalents, Beginning of Year	<u>15,020,382</u>	<u>11,246,153</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,011,629</u>	<u>\$ 15,020,382</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	\$ 7,669,563	\$ 7,158,174
Restricted cash and cash equivalents	<u>5,342,066</u>	<u>7,862,208</u>
	<u>\$ 13,011,629</u>	<u>\$ 15,020,382</u>

Airport Authority of the City of Lincoln, Nebraska

Statements of Cash Flows - Continued Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,011,288)	\$ (2,498,127)
Items not requiring cash		
Depreciation	6,367,018	5,715,603
Amortization of issuance premiums	(39,148)	(54,045)
Capitalized interest included in capital asset additions	(569,456)	(750,755)
Changes in operating assets and liabilities		
Accounts receivable	(143,409)	5,648
Prepaid expenses	(73,085)	3,034
Accounts payable and accrued expenses	(105,723)	315,073
Unearned revenue	2,223,091	(170,088)
Interest payable	477,924	(20,268)
Net Cash Provided by Operating Activities	\$ 6,125,924	\$ 2,546,075
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 321,712	\$ 3,201,223
Refunding of revenue bond principal	\$ -	\$ 3,045,000

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015**

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

Investments and Investment Income

All investments 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. With the exception of the receivable discussed in Note 12, management does not believe an allowance for doubtful accounts is necessary at June 30, 2016 and 2015.

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>2016</u>	<u>2015</u>
Interest costs capitalized	\$ 569,456	\$ 750,755
Interest costs charged to expense	<u>1,106,368</u>	<u>530,690</u>
Total interest incurred	<u>\$ 1,675,824</u>	<u>\$ 1,281,445</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2016 and 2015

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

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 \$3,486,124 and \$1,263,033, for the years ended June 30, 2016 and 2015, 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:

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. 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.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

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

Net Position Classification - Continued

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.”

New Accounting Pronouncement

GASB issued Statement No. 72, *Fair Value Measurement and Application*, in March 2015. This Statement requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also expands fair value application guidance and related disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on financial position. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and were adopted by the Authority in 2016. The implementation of this Statement did not have a significant impact on the Authority’s financial statements.

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.

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.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 2: Deposits, Investments and Investment Income - Continued

Investments - Continued

At June 30, 2016 and 2015, 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, 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>	

	<u>Maturities in Years</u>			Credit Rating Moody's / S&P
	Total	Less Than 1	1 - 5	
June 30, 2015				
Cash held at trustee	\$ 1,587,101	\$ 1,587,101	\$ -	N/A
Negotiable certificates of deposit	2,241,000	2,241,000	-	Not rated
Government securities money market funds	<u>7,356,695</u>	<u>7,356,695</u>	<u>-</u>	Aaa-mf/AAAm
	<u>\$ 11,184,796</u>	<u>\$ 11,184,796</u>	<u>\$ -</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.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 2: Deposits, Investments and Investment Income - Continued

Investments - Continued

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.

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, 2016 and 2015, \$4,997,442 and \$6,275,107, 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, 2016 and 2015, 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:

	2016	2015
Deposits	\$ 5,589,974	\$ 6,076,586
Investments	9,164,655	11,184,796
	\$ 14,754,629	\$ 17,261,382

Included in the following balance sheet captions:

	2016	2015
Current assets		
Operations and maintenance fund	\$ (108,047)	\$ (403,853)
Employee pay flex	2,064	1,226
Revenue fund	1,953,703	1,084,794
Airport parking account	1,533,674	1,335,889
Capital improvement fund	560,063	1,210,716
Insurance fund	3,725,572	3,875,189
Airport CNG station fund	2,534	54,213
Total cash and cash equivalents	7,669,563	7,158,174
Investments - insurance fund	1,743,000	2,241,000

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 2: Deposits, Investments and Investment Income - Continued

Summary of Carrying Values - Continued

	2016	2015
Restricted cash and cash equivalents		
Airport bond funds	\$ 2,907,342	\$ 2,116,103
Airport bond project funds	2,434,724	5,746,105
Total restricted cash and cash equivalents	5,342,066	7,862,208
	\$ 14,754,629	\$ 17,261,382

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 an insurance 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 \$59,682 and \$15,092 for the years ended June 30, 2016 and 2015, respectively, and was comprised entirely of interest and dividend income.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2016 and 2015

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 and 2015.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 4: Capital Assets

Capital asset activity for the years ended June 30, 2016 and 2015 was:

	2016				Ending Balance
	Beginning Balance	Additions	Less Retirements	Transfers	
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>

	2015				Ending Balance
	Beginning Balance	Additions	Less Retirements	Transfers	
Land	\$ 2,350,187	\$ -	\$ -	\$ -	\$ 2,350,187
Buildings	122,477,511	8,588	-	19,530,334	142,016,433
Furniture and equipment	9,334,942	69,490	52,639	177,848	9,529,641
Runways	64,719,440	-	-	5,986,147	70,705,587
Construction in progress	17,200,024	30,825,547	-	(25,694,329)	22,331,242
	<u>216,082,104</u>	<u>30,903,625</u>	<u>52,639</u>	<u>-</u>	<u>246,933,090</u>
Less accumulated depreciation					
Buildings	76,658,593	3,951,430	-	-	80,610,023
Furniture and equipment	6,885,171	451,063	52,639	-	7,283,595
Runways	51,723,460	1,313,110	-	-	53,036,570
	<u>135,267,224</u>	<u>5,715,603</u>	<u>52,639</u>	<u>-</u>	<u>140,930,188</u>
Capital assets, net	<u>\$ 80,814,880</u>	<u>\$ 25,188,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,002,902</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 5: Bond Anticipation Notes

The Authority issued bond anticipation notes, Series 2014A and Series 2014B in August 2014 in the amounts of \$12,990,000 and \$11,070,000, respectively, to finance various capital projects. The Series 2014A and 2014B notes were issued at a premium and bore interest at 1.00% and 0.50%, respectively. The bond anticipation notes matured in December 2015, and the Authority redeemed the notes with the proceeds of long-term bonds in December 2015.

Note 6: Long-Term Liabilities

The following is a summary of the terms and provisions of the Authority's long-term debt outstanding at June 30, 2016:

Type of Debt	Maturity	Interest Rates	Original Issue Amount	Date Callable	Outstanding at June 30, 2016	Outstanding at June 30, 2015
Airport Bonds						
Series 2010	July 2019	1.25% - 3.80%	\$ 2,435,000	July 2015	\$ 875,000	\$ 1,080,000
Series 2011A	July 2031	0.55% - 4.00%	1,150,000	Sept. 2016	945,000	995,000
Series 2012A	July 2042	0.30% - 4.00%	4,200,000	July 2017	3,900,000	4,000,000
Series 2013A	July 2033	0.75% - 4.00%	1,265,000	July 2018	1,135,000	1,200,000
Series 2013B	July 2029	0.75% - 3.75%	1,440,000	July 2018	1,280,000	1,360,000
Series 2013C	July 2033	0.64% - 5.01%	20,320,000	July 2018	18,705,000	19,500,000
Series 2014C	July 2029	2.00% - 3.00%	3,055,000	December 2019	2,850,000	3,055,000
Series 2014D	July 2029	2.90% - 4.00%	1,020,000	December 2019	990,000	1,020,000
Series 2015A	July 2045	2.00% - 5.00%	10,285,000	July 2025	10,285,000	-
Series 2015B	July 2045	0.976% - 4.634%	14,010,000	July 2025	14,010,000	-
Series 2015C	July 2025	3.35%	505,000	Not Callable	505,000	-
					<u>\$ 55,480,000</u>	<u>\$ 32,210,000</u>

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>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 6: Long-Term Liabilities - Continued

The following is a summary of long-term liability transactions for the Authority for the year ended June 30, 2015:

	2015				Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Airport bonds	\$ 32,640,000	\$ 4,075,000	\$ 4,505,000	\$ 32,210,000	\$ 1,530,000
Compensated absences	630,426	401,064	509,422	522,068	209,000
Unearned revenue	1,433,121	531,032	701,120	1,263,033	666,579
Total long-term liabilities	<u>\$ 34,703,547</u>	<u>\$ 5,007,096</u>	<u>\$ 5,715,542</u>	<u>\$ 33,995,101</u>	<u>\$ 2,405,579</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 \$83,051,025, with annual payments expected to require approximately 28 percent of net revenues. Principal and interest for the current year and net operating revenues were \$2,767,048 and \$14,237,712, respectively.

The debt service requirements at June 30, 2016 are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2017	\$ 4,087,372	\$ 2,045,000	\$ 2,042,372
2018	4,042,938	2,075,000	1,967,938
2019	4,203,416	2,280,000	1,923,416
2020	4,194,379	2,325,000	1,869,379
2021	3,967,433	2,155,000	1,812,433
2022-2026	20,274,219	12,260,000	8,014,219
2027-2031	18,766,563	13,290,000	5,476,563
2032-2036	13,408,143	10,695,000	2,713,143
2037-2041	5,393,595	4,075,000	1,318,595
2042-2046	4,712,967	4,280,000	432,967
	<u>\$ 83,051,025</u>	<u>\$ 55,480,000</u>	<u>\$ 27,571,025</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 6: Long-Term Liabilities - Continued

Bond Refunding

In December 2014, the Authority issued \$3,055,000 of Airport Bonds, Series 2014C to redeem and refund a portion of the Authority's outstanding Series 2009B Bonds. The Authority completed the refunding to reduce its total debt service payments over the next 15 years by approximately \$493,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$375,000.

Letter of Credit

During 2014, the Authority obtained a standby letter of credit in support of revenues under an agreement with an airline. The total amount available under the letter of credit is \$750,000 and any amounts drawn on this letter of credit bear interest at the bank's prime rate plus 4.0%. The letter of credit expired on December 31, 2015. No amounts were drawn against this letter of credit during the fiscal years 2016 and 2015.

Note 7: 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 \$153,000 for both 2016 and 2015. Contributions to the plan by the Authority were approximately \$261,000 and \$284,000 for 2016 and 2015, respectively. No forfeitures were used to offset Authority contributions during 2016 and 2015. The Plan has a 10 year vesting schedule for Authority contributions.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2016 and 2015

Note 7: Retirement Plans - Continued

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 8: 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.

A schedule of approximate minimum future rentals from noncancellable operating leases in each of the five years subsequent to June 30, 2016, is as follows:

2017	\$ 8,736,856
2018	5,362,715
2019	4,771,782
2020	4,102,836
2021	2,977,146

Note 9: 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 \$5,500,000 at June 30, 2016, which are expected to be funded through federal grants or by the use of bond proceeds.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2016 and 2015

Note 10: 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, 2016 and 2015.

Note 11: Significant Estimates and Concentrations

Revenue Concentration

Revenues from two and four tenants comprised approximately 24% and 42% of total operating revenues for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, 25% and 48% of accounts receivable were owed from one and two customers, respectively.

Note 12: Litigation

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 has 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 has 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.

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, 2016

	Total	Airport Bonds	Airport Bonds	Airport Bonds Series 2012A		Airport Bonds Series 2013A	
		Series 2010	Series 2011A	Debt Service	Project Fund	Debt Service	Project Fund
Account Balance, Beginning of Year	\$ 17,261,382	\$ 221,797	\$ 64,635	\$ 164,369	\$ 39,609	\$ 82,269	\$ 22,100
Receipts							
Operations	16,165,168	-	-	-	-	-	-
Interest	32,398	8	3	92	4	50	12
Bond proceeds	25,283,109	-	-	-	-	-	-
Grants	848,424	-	-	-	-	-	-
Other	97,836	-	-	-	-	-	-
Total Receipts	<u>42,426,935</u>	<u>8</u>	<u>3</u>	<u>92</u>	<u>4</u>	<u>50</u>	<u>12</u>
Disbursements							
Operations and maintenance	8,679,815	-	-	-	-	-	-
Property and equipment acquisition	9,371,666	-	-	-	-	-	-
Retirement of long-term debt	25,590,000	205,000	50,000	100,000	-	65,000	-
Interest	1,237,048	31,184	29,033	128,375	-	34,289	-
Other	55,159	-	-	-	-	-	-
Total Disbursements	<u>44,933,688</u>	<u>236,184</u>	<u>79,033</u>	<u>228,375</u>	<u>-</u>	<u>99,289</u>	<u>-</u>
Transfers, net	<u>-</u>	<u>238,774</u>	<u>78,795</u>	<u>228,019</u>	<u>(39,613)</u>	<u>99,048</u>	<u>(22,112)</u>
Account Balance, End of Year	<u>\$ 14,754,629</u>	<u>\$ 224,395</u>	<u>\$ 64,400</u>	<u>\$ 164,105</u>	<u>\$ -</u>	<u>\$ 82,078</u>	<u>\$ -</u>
Represented by							
Current Assets							
Cash and cash equivalents	\$ 7,669,563	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	1,743,000	-	-	-	-	-	-
	<u>9,412,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted Assets							
Cash and cash equivalents	5,342,066	224,395	64,400	164,105	-	82,078	-
	<u>5,342,066</u>	<u>224,395</u>	<u>64,400</u>	<u>164,105</u>	<u>-</u>	<u>82,078</u>	<u>-</u>
	<u>\$ 14,754,629</u>	<u>\$ 224,395</u>	<u>\$ 64,400</u>	<u>\$ 164,105</u>	<u>\$ -</u>	<u>\$ 82,078</u>	<u>\$ -</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, 2016

	Airport Bonds Series 2013B	Airport Bonds Series 2013C	Bond Anticipation Notes Series 2014A		Bond Anticipation Notes Series 2014B		Airport Bonds Series 2014C
			Debt Service	Project Fund	Debt Service	Project Fund	
Account Balance, Beginning of Year	\$ 98,688	\$ 1,180,066	\$ 10,825	\$ 4,446,881	\$ 4,613	\$ 960,411	\$ 241,151
Receipts							
Operations	-	-	-	-	-	-	-
Interest	59	684	1	12,533	-	5	7
Bond proceeds	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total Receipts	<u>59</u>	<u>684</u>	<u>1</u>	<u>12,533</u>	<u>-</u>	<u>5</u>	<u>7</u>
Disbursements							
Operations and maintenance	-	-	-	-	-	-	-
Property and equipment acquisition	-	-	-	-	-	-	-
Retirement of long-term debt	80,000	795,000	12,990,000	-	11,070,000	-	205,000
Interest	37,068	766,872	77,363	-	27,675	-	70,244
Other	-	-	-	-	-	-	-
Total Disbursements	<u>117,068</u>	<u>1,561,872</u>	<u>13,067,363</u>	<u>-</u>	<u>11,097,675</u>	<u>-</u>	<u>275,244</u>
Transfers, net	<u>116,763</u>	<u>1,563,657</u>	<u>13,056,537</u>	<u>(3,865,681)</u>	<u>11,093,062</u>	<u>(960,416)</u>	<u>243,190</u>
Account Balance, End of Year	<u>\$ 98,442</u>	<u>\$ 1,182,535</u>	<u>\$ -</u>	<u>\$ 593,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,104</u>
Represented by							
Current Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Restricted Assets							
Cash and cash equivalents	98,442	1,182,535	-	593,733	-	-	209,104
	<u>98,442</u>	<u>1,182,535</u>	<u>-</u>	<u>593,733</u>	<u>-</u>	<u>-</u>	<u>209,104</u>
	<u>\$ 98,442</u>	<u>\$ 1,182,535</u>	<u>\$ -</u>	<u>\$ 593,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,104</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, 2016

	Airport Bonds Series 2014D		Airport Bonds Series 2015A	Airport Bonds Series 2015B		Airport Bonds Series 2015C	
	Debt Service	Project Fund		Debt Service	Project Fund	Debt Service	Project Fund
Account Balance, Beginning of Year	\$ 47,690	\$ 277,104	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts							
Operations	-	-	-	-	-	-	-
Interest	2	7	11	14	79	2	4,462
Bond proceeds	-	-	10,768,109	-	14,010,000	-	505,000
Grants	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total Receipts	<u>2</u>	<u>7</u>	<u>10,768,120</u>	<u>14</u>	<u>14,010,079</u>	<u>2</u>	<u>509,462</u>
Disbursements							
Operations and maintenance	-	-	-	-	-	-	-
Property and equipment acquisition	-	-	-	-	-	-	-
Retirement of long-term debt	30,000	-	-	-	-	-	-
Interest	34,945	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total Disbursements	<u>64,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transfers, net	<u>89,510</u>	<u>(272,555)</u>	<u>(10,523,818)</u>	<u>556,269</u>	<u>(12,673,667)</u>	<u>9,439</u>	<u>(9,439)</u>
Account Balance, End of Year	<u>\$ 72,257</u>	<u>\$ 4,556</u>	<u>\$ 244,302</u>	<u>\$ 556,283</u>	<u>\$ 1,336,412</u>	<u>\$ 9,441</u>	<u>\$ 500,023</u>
Represented by							
Current Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted Assets							
Cash and cash equivalents	<u>72,257</u>	<u>4,556</u>	<u>244,302</u>	<u>556,283</u>	<u>1,336,412</u>	<u>9,441</u>	<u>500,023</u>
	<u>72,257</u>	<u>4,556</u>	<u>244,302</u>	<u>556,283</u>	<u>1,336,412</u>	<u>9,441</u>	<u>500,023</u>
	<u>\$ 72,257</u>	<u>\$ 4,556</u>	<u>\$ 244,302</u>	<u>\$ 556,283</u>	<u>\$ 1,336,412</u>	<u>\$ 9,441</u>	<u>\$ 500,023</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, 2016

	Operations and Maintenance Fund	Revenue Fund	Airport CNG Station Fund	Capital Improvement Fund	Airport Parking Fund	Insurance Fund	Employee Pay Flex
Account Balance, Beginning of Year	\$ (403,853)	\$ 1,084,794	\$ 54,213	\$ 1,210,716	\$ 1,335,889	\$ 6,116,189	\$ 1,226
Receipts							
Operations	-	14,592,800	4,249	-	1,568,119	-	-
Interest	-	719	-	19	134	13,491	-
Bond proceeds	-	-	-	-	-	-	-
Grants	-	-	-	848,424	-	-	-
Other	-	96,995	-	2	1	-	838
Total Receipts	<u>-</u>	<u>14,690,514</u>	<u>4,249</u>	<u>848,445</u>	<u>1,568,254</u>	<u>13,491</u>	<u>838</u>
Disbursements							
Operations and maintenance	8,581,009	-	2,698	-	-	96,108	-
Property and equipment acquisition	-	-	-	9,371,666	-	-	-
Retirement of long-term debt	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Other	-	18,563	1,595	21	34,980	-	-
Total Disbursements	<u>8,581,009</u>	<u>18,563</u>	<u>4,293</u>	<u>9,371,687</u>	<u>34,980</u>	<u>96,108</u>	<u>-</u>
Transfers, net	<u>8,876,815</u>	<u>(13,803,042)</u>	<u>(51,635)</u>	<u>7,872,589</u>	<u>(1,335,489)</u>	<u>(565,000)</u>	<u>-</u>
Account Balance, End of Year	<u>\$ (108,047)</u>	<u>\$ 1,953,703</u>	<u>\$ 2,534</u>	<u>\$ 560,063</u>	<u>\$ 1,533,674</u>	<u>\$ 5,468,572</u>	<u>\$ 2,064</u>
Represented by							
Current Assets							
Cash and cash equivalents	\$ (108,047)	\$ 1,953,703	\$ 2,534	\$ 560,063	\$ 1,533,674	\$ 3,725,572	\$ 2,064
Investment securities	-	-	-	-	-	1,743,000	-
	<u>(108,047)</u>	<u>1,953,703</u>	<u>2,534</u>	<u>560,063</u>	<u>1,533,674</u>	<u>5,468,572</u>	<u>2,064</u>
Restricted Assets							
Cash and cash equivalents	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (108,047)</u>	<u>\$ 1,953,703</u>	<u>\$ 2,534</u>	<u>\$ 560,063</u>	<u>\$ 1,533,674</u>	<u>\$ 5,468,572</u>	<u>\$ 2,064</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Operating Revenues
Years Ended June 30, 2016 and 2015**

	2016	2015	Increase (Decrease)
Landing Field			
Landing Fees			
Delta Airlines	\$ 143,459	\$ 86,854	\$ 56,605
United Airlines	204,070	241,313	(37,243)
Flowage Fees			
Duncan Aviation	31,377	30,841	536
Silverhawk Aviation	45,603	50,648	(5,045)
Corporate	7,428	5,182	2,246
Other	64,082	40,999	23,083
	<u>496,019</u>	<u>455,837</u>	<u>40,182</u>
Terminal			
Airline Rentals			
Delta Airlines	329,473	296,464	33,009
United Airlines	395,819	367,028	28,791
Land Transportation Facilities			
Avis Rent A Car	162,176	147,314	14,862
Budget Rent A Car	45,675	44,131	1,544
Enterprise Rent-A-Car	120,891	109,091	11,800
The Hertz Corporation	152,262	155,365	(3,103)
National Car Rental System	183,545	157,606	25,939
Cab companies	1,800	1,500	300
Concessions			
Standard Parking	1,568,119	1,364,704	203,415
Interspace	30,000	30,000	-
Utility surcharges	140,082	144,653	(4,571)
Air Freight terminal	27,588	32,604	(5,016)
Other	70,462	91,770	(21,308)
	<u>3,227,892</u>	<u>2,942,230</u>	<u>285,662</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Operating Revenues - Continued
Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
General Aviation			
U.S. Government	\$ 176,920	\$ 171,133	\$ 5,787
State of Nebraska	111,170	110,598	572
Duncan Aviation, Inc., shop hangar	786,236	781,178	5,058
Silverhawk Aviation	170,361	171,018	(657)
Hill Aero	72,705	76,201	(3,496)
Executive T-Hangar	231,596	216,986	14,610
Other T-Hangars	570,334	553,916	16,418
Other	701	269	432
Total general aviation	<u>2,120,023</u>	<u>2,081,299</u>	<u>38,724</u>
Air Park West/LNK Enterprise Park			
Air Park West/LNK Enterprise Park	7,428,978	6,610,745	818,233
Storage annex	73,974	69,146	4,828
Air Park aviation	541,497	530,033	11,464
Other	166,815	124,510	42,305
Total air park west/LNK enterprise park	<u>8,211,264</u>	<u>7,334,434</u>	<u>876,830</u>
Air Park South			
Lincoln Air Park South	<u>182,514</u>	<u>157,372</u>	<u>25,142</u>
Total operating revenues	<u>\$ 14,237,712</u>	<u>\$ 12,971,172</u>	<u>\$ 1,266,540</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Direct Operating Expenses
Years Ended June 30, 2016 and 2015**

	2016	2015	Increase (Decrease)
Landing Field			
Salaries	\$ 424,924	\$ 393,533	\$ 31,391
Employee benefits	151,586	140,812	10,774
Repairs and maintenance	165,973	239,242	(73,269)
Contracted services	134,101	131,255	2,846
Utilities	74,420	78,956	(4,536)
Insurance	31,712	34,435	(2,723)
Professional services	22,448	9,331	13,117
Other	2,361	5,086	(2,725)
Total landing field	<u>1,007,525</u>	<u>1,032,650</u>	<u>(25,125)</u>
Terminal			
Salaries	538,964	583,855	(44,891)
Employee benefits	202,159	223,774	(21,615)
Repairs and maintenance	136,144	168,369	(32,225)
Contracted services	358,365	346,345	12,020
Utilities	352,802	382,107	(29,305)
Insurance	76,299	69,859	6,440
Professional services	259,218	391,417	(132,199)
Bond issuance costs	24,932	13,720	11,212
Other	74,439	89,566	(15,127)
Total terminal	<u>2,023,322</u>	<u>2,269,012</u>	<u>(245,690)</u>
General Aviation			
Salaries	40,513	32,771	7,742
Employee benefits	19,781	18,866	915
Repairs and maintenance	12,609	22,614	(10,005)
Contracted services	51,569	35,208	16,361
Utilities	50,854	56,402	(5,548)
Insurance	46,771	39,265	7,506
Professional services	3,201	4,599	(1,398)
Interest expense	200,234	206,437	(6,203)
Other	120	120	-
Total general aviation	<u>425,652</u>	<u>416,282</u>	<u>9,370</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Direct Operating Expenses - Continued
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Air Park West/LNK Enterprise Park			
Salaries	\$ 280,193	\$ 262,355	\$ 17,838
Employee benefits	144,123	145,523	(1,400)
Repairs and maintenance	23,401	42,817	(19,416)
Contracted services	168,699	61,765	106,934
Utilities	176,541	146,179	30,362
Insurance	199,601	170,743	28,858
Professional services	19,806	28,058	(8,252)
Bond issuance costs	241,370	186,408	54,962
Interest expense	906,134	324,253	581,881
Bad debt expense	249,353	1,756	247,597
	<u>2,409,221</u>	<u>1,369,857</u>	<u>1,039,364</u>
Air Park South			
Salaries	8,195	9,490	(1,295)
Employee benefits	2,810	2,951	(141)
Repairs and maintenance	22,759	17,192	5,567
Contracted services	7,777	5,141	2,636
Utilities	18,175	18,397	(222)
Insurance	2,325	2,153	172
Other	121	109	12
	<u>62,162</u>	<u>55,433</u>	<u>6,729</u>
Subtotal Direct Operating Expenses	<u>5,927,882</u>	<u>5,143,234</u>	<u>784,648</u>
Depreciation Expense			
Landing field	1,764,105	1,577,060	187,045
Terminal	563,729	624,695	(60,966)
General aviation	682,371	719,738	(37,367)
Air Park West/LNK Enterprise Park	2,804,953	2,281,668	523,285
Lincoln Air Park South	39,141	38,612	529
	<u>5,854,299</u>	<u>5,241,773</u>	<u>612,526</u>
Total depreciation expense	<u>5,854,299</u>	<u>5,241,773</u>	<u>612,526</u>
	<u>\$ 11,782,181</u>	<u>\$ 10,385,007</u>	<u>\$ 1,397,174</u>

Airport Authority of the City of Lincoln, Nebraska

Schedule of Indirect Operating Expenses Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Public Safety			
Salaries	\$ 895,124	\$ 882,394	\$ 12,730
Employee benefits	359,675	285,766	73,909
Repairs and maintenance	70,245	81,702	(11,457)
Contracted services	22,743	34,038	(11,295)
Utilities	5,376	5,376	-
Insurance	16,643	23,345	(6,702)
Professional services	83,970	93,934	(9,964)
Other	7,068	10,851	(3,783)
Total public safety	<u>1,460,844</u>	<u>1,417,406</u>	<u>43,438</u>
Service Equipment			
Salaries	162,567	158,180	4,387
Employee benefits	73,564	77,679	(4,115)
Repairs and maintenance	129,148	119,055	10,093
Contracted services	11,117	4,926	6,191
Utilities	86,233	113,110	(26,877)
Insurance	52,298	51,598	700
Other	3,692	3,744	(52)
Total service equipment	<u>518,619</u>	<u>528,292</u>	<u>(9,673)</u>
General and Administrative			
Salaries	782,848	804,972	(22,124)
Employee benefits	368,478	386,175	(17,697)
Repairs and maintenance	32,196	43,054	(10,858)
Contracted services	17,239	19,951	(2,712)
Utilities	52,474	58,287	(5,813)
Insurance	31,070	35,635	(4,565)
Professional services	599,856	1,172,123	(572,267)
Other	90,476	144,567	(54,091)
Total general and administrative	<u>1,974,637</u>	<u>2,664,764</u>	<u>(690,127)</u>
Depreciation Expense			
Service equipment	386,909	380,761	6,148
General and administrative	125,810	93,069	32,741
Total depreciation expense	<u>512,719</u>	<u>473,830</u>	<u>38,889</u>
Total Indirect Operating Expenses	<u>\$ 4,466,819</u>	<u>\$ 5,084,292</u>	<u>\$ (617,473)</u>

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

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

We have audited, 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, the basic financial statements of the Airport Authority of the City of Lincoln, Nebraska (the Authority), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted a certain matter that we reported to the Authority's management in a separate letter dated September 15, 2016.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Lincoln, Nebraska
September 15, 2016