

**Airport Authority of the City of
Lincoln, Nebraska**

Independent Auditor's Report and Financial Statements

June 30, 2014 and 2013

 ***Lincoln Airport Authority***

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Lincoln, Nebraska
June 30, 2014 and 2013**

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Independent Auditor's Report

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

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, 2014 and 2013, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the 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, 2014 and 2013, 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 audit was 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.

BKD, LLP

Lincoln, Nebraska
September 16, 2014

Management's Discussion and Analysis June 30, 2014 and 2013

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, 2014 and 2013, with selected comparative information for the fiscal year ended June 30, 2012. 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). 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. LAA is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The balance sheets and the statements 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 is 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 three 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 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 and Lancaster County, Nebraska 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.

	2013	2012	Difference
Enplaned passengers	<u>141,584</u>	<u>134,772</u>	5%
Aircraft operations			
Air carrier	6,391	6,701	-5%
Air taxi	5,625	5,035	12%
General aviation	32,326	38,343	-16%
Military	<u>12,282</u>	<u>14,237</u>	-14%
Total operations	<u><u>56,624</u></u>	<u><u>64,316</u></u>	-12%

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 2013 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 economy of the Airport air trade area is growing and diversifying in a manner that will likely increase the local demand for air transportation services at the Airport. In addition, we believe that passenger numbers will be up again in 2014, due to the addition of new service from Delta Airlines to their Atlanta hub beginning in September 2014.

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, will begin one flight per day service to Atlanta in September. The Atlanta service is supported by a Department of Transportation Small Community Air Service Grant of \$750,000. LAA’s goal is 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. Both carriers provide service through their regional airline affiliates utilizing 50, 66 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 lieu of a landing fee for the fixed base operators and for general aviation purposes, the Authority adds 5 cents per gallon of fuel sold (flowage fee). These combined (landing & flowage fees) account for approximately 4% 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 saw a sharp decrease this past year from a sharp increase the year before. This most likely represents a return to the historic base

operations rate after an unusually high rate in 2013. 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:

	<u>2014</u>	<u>2013</u>
Landing fee (per 1,000 lbs.)	\$2.00	\$1.85
Terminal lease rates		
Finished space (per yr.)	\$32.10/sq. ft.	\$30.00/sq. ft.
Unfinished space (per yr.)	\$24.61/sq. ft.	\$23.00/sq. ft.
Loading bridge fees (per mo.)	\$900.00	\$900.00

The Authority has a professional services agreement with Standard Parking to operate the public parking facilities. Under this agreement, which expires June 30, 2015, Standard Parking receives an annual fee of approximately \$300,000. The operation of such parking facilities generates gross receipts of approximately \$1,100,000 annually.

The Authority has nonexclusive agreements with Avis Rent A Car, Budget Rent A Car, Enterprise Rent-A-Car and The Hertz Corporation to provide rental cars to the public at the airport. Rental car revenues decreased from \$589,741 in fiscal year 2013 to \$583,455 in fiscal year 2014.

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. to operate the terminal advertising concession ending January 2017. The agreement calls for the payment of 30% of gross receipts with minimum annual payments of \$30,000 for each year. Air Host, Inc. provides terminal food services and a news and gift shop for the period ending October 31, 2015. The current concession agreement establishes a minimum gross sales per year number of \$620,000. If in any given contract year (10/1 thru 9/30) gross sales are \$620,000 Air Host pays a commission of 6%, 8% on sales between \$620,000 and \$800,000 and 10% on 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 2013 contract year, the Airport paid Air Host a Breakpoint Payment of \$88,181.

General aviation activity saw a decline in operational activity last year but the sector remains strong primarily due to continued expanding maintenance and modification activity at fixed-base operator, Duncan Aviation. Duncan is completing construction of their new maintenance and modification hangar and in fact began utilizing the hangar early in 2014. Final completion is expected early this fall.

Fixed-base operator, Silverhawk Aviation continues to show growth in the past year as well, although that rate of growth has slowed somewhat from the previous year. Discussions continue regarding future growth needs and additions to their current facilities.

The Airport executed a twenty-five year land lease and work began in June 2014 on a new corporate hangar for Resort Lifestyle Communities' (RLC) aircraft. This 12,000 sq. ft. hangar facility is being built and funded by RLC and is expected to be complete by calendar year end.

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.

Lincoln Air Park West 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 97% of the 2,000,000 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 \$600,000 (approximately 10%) per year of the industrial complex income, which totaled \$5,838,344 in 2014.

Overall activity in the industrial complex is experiencing a strong increase with several projects in various stages of activity. The airport has begun the development of the north acreage into four large rail-served industrial tracts. Initial construction of the extension of NW 38th Street has begun with paving scheduled to take place in 2015. The new Sadoff Iron and Metal facility was completed and they began operations from their new location in the Fall of 2013. The project to construct a new facility for G.T. Exhaust is nearing completion with the company already utilizing a portion of the building and full occupancy expected by September 2014. We also entered into a lease with Hexagon and have begun construction of a new 110,000 sq. ft. facility to accommodate their expanding needs. We expect Hexagon to be able to partially occupy this facility in early 2015 with completion several months later.

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. This project has been in the design phase throughout the first half of 2014, and is expected to be 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, Jacob North, Lincoln Industries, Sensory Effects, TMCO, Tri-Con and UNL. The balance of the tenant base in Lincoln Air Park West is stable with no major tenants leaving during the 2014 fiscal year. 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, 2014, 2013 and 2012 and its activities for the years then ended:

Condensed Balance Sheets

	June 30			Variance			
	2014	2013	2012	2014/2013		2013/2012	
				Dollars	Percent	Dollars	Percent
Current assets	\$ 8,945,093	\$ 8,912,111	\$ 8,702,098	\$ 32,982	0.37%	\$ 210,013	2.41%
Capital assets	80,814,880	65,359,682	62,045,757	15,455,198	23.65%	3,313,925	5.34%
Investments, restricted for debt service & public safety	5,627,779	998,555	1,385,463	4,629,224	463.59%	(386,908)	-27.93%
Total assets	\$ 95,387,752	\$ 75,270,348	\$ 72,133,318	\$ 20,117,404	26.73%	\$ 3,137,030	4.35%
Current liabilities	\$ 5,708,173	\$ 3,566,489	\$ 3,316,374	\$ 2,141,684	60.05%	\$ 250,115	7.54%
Noncurrent liabilities	32,268,849	13,404,057	9,450,117	18,864,792	140.74%	3,953,940	41.84%
Total liabilities	37,977,022	16,970,546	12,766,491	21,006,476	123.78%	4,204,055	32.93%
Net investment in capital assets	49,662,204	51,252,584	51,708,565	(1,590,380)	-3.10%	(455,981)	-0.88%
Restricted for debt service	1,460,080	611,404	892,572	848,676	138.81%	(281,168)	-31.50%
Restricted for other purposes	-	1,001	8,240	(1,001)	-100.00%	(7,239)	-87.85%
Unrestricted	6,288,446	6,434,813	6,757,450	(146,367)	-2.27%	(322,637)	-4.77%
Total liabilities and net position	\$ 95,387,752	\$ 75,270,348	\$ 72,133,318	\$ 20,117,404	26.73%	\$ 3,137,030	4.35%

Condensed Statement of Revenues, Expenses and Changes in Net Position

	June 30			Variance			
	2014	2013	2012	2014/2013		2013/2012	
				Dollars	Percent	Dollars	Percent
Operating revenue							
Airport revenue	\$ 11,142,126	\$ 10,179,722	\$ 10,138,066	\$ 962,404	9.45%	\$ 41,656	0.41%
Total operating revenue	11,142,126	10,179,722	10,138,066	962,404	9.45%	41,656	0.41%
Operating expenses							
Direct operating expenses	10,417,088	9,279,276	9,393,632	1,137,812	12.26%	(114,356)	-1.22%
Indirect operating expenses	4,440,210	4,184,122	4,032,914	256,088	6.12%	151,208	3.75%
Total operating expenses	14,857,298	13,463,398	13,426,546	1,393,900	10.35%	36,852	0.27%
Operating loss	(3,715,172)	(3,283,676)	(3,288,480)	(431,496)	-13.14%	4,804	0.15%
Net nonoperating revenues (expenses)	403,227	200,573	(169,207)	202,654	101.04%	369,780	-218.54%
Capital contributions	2,422,873	2,016,078	2,505,764	406,795	20.18%	(489,686)	-19.54%
Change in net position	\$ (889,072)	\$ (1,067,025)	\$ (951,923)	\$ 177,953	16.68%	\$ (115,102)	-12.09%

In comparing fiscal year 2013 to fiscal year 2014, the change in net position increased due to an increase in capital contributions.

In fiscal year 2014, the 2013ABC Bond series was issued to construct a building to be leased to Sadoff Iron and Metal, construct a building to be leased to G.T. Exhaust, Inc., and construct various infrastructure improvements to the Authority's Lincoln Air Park West Industrial Park. In addition, a portion of the proceeds of the Series 2013 Bonds were used, together with other available moneys of the Authority, for the purpose of redeeming and refunding the Authority's outstanding Series 2007A, 2007B and 2009A Bonds during the bond issuance process. Moody's assigned an Aa1 rating to the 2013 bonds. While not completed at year end, the 2014AB Bond Anticipation Notes series (BANs) were issued to construct Building 1342 for the Nebraska State Patrol's Crime Lab, Building 96 Rail Center which will be partially occupied by Hexagon, 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.

In fiscal year 2013, the 2012A Bond series was sold to fund the t-hanger relocation project which relocated 6 nested rows. Total project costs were \$4.2 million. This project cleared the way for Duncan expansion and realigned the layout of the General Aviation area to be more in line with the Master Plan.

Normal depreciation was taken on capital assets during fiscal years 2013 and 2014.

As of June 30, 2014, the Authority has commitments under construction in the amount of \$35,000,000 as compared to June 30, 2013 of \$19,500,000. The majority of these being funded by bond proceeds or federal grants.

There was an increase to landing fee rates in fiscal year 2014 causing an increase in annual revenue between 2013 and 2014. Effective January 1, 2014, the landing fee rate was increased from \$1.85 per 1,000 pounds to \$2.00 per 1,000 pounds.

During fiscal year 2013 and 2014, terminal area revenues experienced an increase due to an adjustment in terminal rental rates and an increase in parking revenue.

Revenues in the General aviation area increased in fiscal year 2013 and 2014 due to hangar rental rate adjustments and increased rental revenue from Duncan.

Revenues in Lincoln Air Park West increased in fiscal year 2014 due to increased occupancy and rental rate adjustments with existing tenants. During fiscal year 2013, revenues in Lincoln Air Park West decreased slightly because of a tenant bankruptcy, which was partially offset by an increase in aviation related revenue.

Federal grant income from capital grants increased from \$2,016,078 in 2014 to \$2,376,398. Federally eligible projects included rehabilitation work to the terminal ramp, Runway 18/36 design work and the purchase of a new runway sweeper.

Landing field expenses increased slightly from 2013 to 2014 due to contracted services associated with wildlife control. Year-over-year the contract did not increase substantially, however execution of the contract was delayed causing costs to shift from one year to another.

Terminal area costs increased in 2014 due to salaries associated with ongoing terminal projects and utilities. In 2013, terminal expenses were also trending upward due to repairs and maintenance and contracted services.

General aviation costs for fiscal year 2013 experienced an increase due to the T-hanger relocation project. In fiscal year 2014 expenses increased due to the costs associated with issuing & paying for debt on capital expenditures. Outside of these costs the total expenses are slightly less than fiscal year 2013.

Air Park West costs for fiscal year 2013 experienced a decrease of approximately \$250,000. This is due to a sizable bad debt expense in 2012. During fiscal year 2014, Lincoln Air Park West expenses have increased significantly due to the costs associated with issuing debt and interest expense to fund capital expenditures. Outside of debt related expenses, cost increased due to insurance, utilities, salaries and benefits, and a small amount of bad debt.

Public safety expenses are those associated with having a responsibility to provide a police department, communications center & crash, fire and rescue services. In fiscal year 2013 these costs decreased due to a full year under the renegotiated joint use agreement with the Guard to provide crash, fire and rescue services. This renegotiation reduced the annual cost by \$10,000. In 2014, public safety related costs increased primarily due to workers compensation insurance expense for employees and contracted police officers.

Service equipment expenses have increased in 2013 and 2014 each year by 5% and 8%, respectively. Repairs and maintenance and insuring equipment are the primary reasons for these increases. The Airport utilizes mostly its own employees to maintain service equipment.

General and administrative expenses increased in 2013, primarily due to implementation of GASB Statement No. 65, which required the expensing of bond issuance costs. These costs are allocated to the location of the airport associated with the debt. General and administrative expenses reflect an increase of 5% for 2014.

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. Runway 18-36 Rehabilitation
2. Replace Airfield Sensor System
3. Replace Snow Removal Plows and/or Runway Sweeper/Blowers
4. Rehabilitate Runway 14/32
5. Construct Southwest Service Road
6. Construct Southeast Service Road
7. Construct ARFF Access Road
8. Develop/Expand General Aviation Selective Repair Runway 17-35 Support Facilities

The Airport Authority remains on a sound financial footing. Modernizing and redeveloping the Airport Industrial Park will position the park to recruit new tenants and create new jobs for the Lincoln area. The recent new tenants mentioned previously are an indication of the positive effects of the improvements. 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, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	\$ 5,618,374	\$ 5,393,310
Investments	2,250,736	2,744,000
Accounts receivable, net	332,950	374,042
Grants receivable	367,306	43,990
Prepaid expenses	375,727	356,769
Total current assets	8,945,093	8,912,111
Restricted Cash and Cash Equivalents	5,627,779	998,555
Capital Assets, At Cost, Net of Accumulated Depreciation	80,814,880	65,359,682
Total assets	\$ 95,387,752	\$ 75,270,348

Liabilities and Net Position

Current Liabilities		
Accounts payable and accrued expenses	\$ 2,956,613	\$ 2,110,781
Current maturities of long-term debt	1,460,000	630,000
Unearned revenue	700,698	604,197
Interest payable	590,862	221,511
Total current liabilities	5,708,173	3,566,489
Noncurrent Liabilities		
Long-term debt	31,180,000	12,240,000
Compensated absences	356,426	321,624
Unearned revenue	732,423	842,433
Total noncurrent liabilities	32,268,849	13,404,057
Total liabilities	37,977,022	16,970,546
Net Position		
Net investment in capital assets	49,662,204	51,252,584
Restricted for debt service	1,460,080	611,404
Restricted for public safety	-	1,001
Unrestricted	6,288,446	6,434,813
Total net position	57,410,730	58,299,802
Total liabilities and net position	\$ 95,387,752	\$ 75,270,348

**Airport Authority of the City of
Lincoln, Nebraska**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Landing field	\$ 447,154	\$ 409,122
Terminal	2,722,818	2,543,274
General aviation	1,989,515	1,829,544
Air Park West	5,838,344	5,244,293
Air Park South	144,295	153,489
	<u>11,142,126</u>	<u>10,179,722</u>
Total operating revenues		
Direct Operating Expenses		
Landing field	1,055,679	995,033
Terminal	2,085,493	1,955,404
General aviation	454,973	399,500
Air Park West	1,685,310	831,866
Air Park South	45,606	49,472
Depreciation	5,090,027	5,048,001
	<u>10,417,088</u>	<u>9,279,276</u>
Total direct operating expenses		
Operating Income After Direct Expenses	<u>725,038</u>	<u>900,446</u>
Indirect Operating Expenses		
Public safety	1,378,738	1,317,704
Service equipment	501,986	464,552
General and administrative	2,093,885	1,996,647
Depreciation	465,601	405,219
	<u>4,440,210</u>	<u>4,184,122</u>
Total indirect operating expenses		
Operating Loss	<u>(3,715,172)</u>	<u>(3,283,676)</u>
Nonoperating Revenues		
Investment income	11,309	28,917
Farm income, net of expense	211,176	118,353
Gain on sale of assets	43,958	-
Insurance proceeds	79,682	-
Other	57,102	53,303
	<u>403,227</u>	<u>200,573</u>
Total nonoperating revenues		
Decrease in Net Position Before Capital Grants	(3,311,945)	(3,083,103)
Capital Grants		
State & local grants	46,475	-
Federal grants	2,376,398	2,016,078
	<u>2,422,873</u>	<u>2,016,078</u>
Total capital grants		
Decrease in Net Position	(889,072)	(1,067,025)
Net Position, Beginning of Year	<u>58,299,802</u>	<u>59,366,827</u>
Net Position, End of Year	<u>\$ 57,410,730</u>	<u>\$ 58,299,802</u>

**Airport Authority of the City of
Lincoln, Nebraska
Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating Activities		
Cash received from providing services	\$ 11,165,445	\$ 10,654,523
Cash paid to suppliers	(4,125,416)	(3,837,705)
Cash paid to employees	(4,162,633)	(3,961,225)
Interest paid	(790,618)	(399,748)
	<u>2,086,778</u>	<u>2,455,845</u>
Capital and Related Financing Activities		
Purchase of property and equipment	(20,005,577)	(8,260,192)
Proceeds from issuance of long-term debt	20,330,000	4,200,000
Capital grants received	2,099,557	2,288,282
Principal payments on long-term debt	(560,000)	(870,000)
Proceeds from sale of equipment	50,996	-
Other	136,784	53,303
	<u>2,051,760</u>	<u>(2,588,607)</u>
Investing Activities		
Proceeds from sale of investments	2,744,000	3,738,000
Purchases of investments	(2,250,736)	(3,242,000)
Farm income	211,176	118,353
Interest received on investments	11,310	28,917
	<u>715,750</u>	<u>643,270</u>
Increase in Cash and Cash Equivalents	4,854,288	510,508
Cash and Cash Equivalents, Beginning of Year	<u>6,391,865</u>	<u>5,881,357</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,246,153</u>	<u>\$ 6,391,865</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	\$ 5,618,374	\$ 5,393,310
Restricted cash and cash equivalents	5,627,779	998,555
	<u>\$ 11,246,153</u>	<u>\$ 6,391,865</u>

Airport Authority of the City of Lincoln, Nebraska

Statements of Cash Flows - Continued Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (3,715,172)	\$ (3,283,676)
Items not requiring cash		
Depreciation	5,555,628	5,453,220
Capitalized interest included in capital asset additions	(324,512)	(215,022)
Changes in operating assets and liabilities		
Accounts receivable	41,092	(59,806)
Prepaid expenses	(18,958)	(20,995)
Accounts payable and accrued expenses	192,858	16,590
Unearned revenue	(13,509)	516,060
Interest payable	369,351	49,474
Net Cash Provided by Operating Activities	\$ 2,086,778	\$ 2,455,845
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 2,089,513	\$ 1,401,737

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2014 and 2013

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. Investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. 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, 2014 and 2013, 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, 2014 and 2013**

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.

Fair value of the equity in the External Investment Pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

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, 2014 and 2013.

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>2014</u>	<u>2013</u>
Interest costs capitalized	\$ 324,512	\$ 215,022
Interest costs charged to expense	<u>835,457</u>	<u>234,200</u>
Total interest incurred	<u><u>\$ 1,159,969</u></u>	<u><u>\$ 449,222</u></u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2014 and 2013

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 \$1,433,121 and \$1,446,630, for the years ended June 30, 2014 and 2013, 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, 2014 and 2013

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.”

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The 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.

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, 2014 and 2013

Note 2: Deposits, Investments and Investment Income – Continued

Investments - Continued

At June 30, 2014 and 2013, the Authority had the following investments:

	<u>Maturities in Years</u>			Credit Rating Moody's / S&P
	Fair Value	Less Than 1	1 - 5	
June 30, 2014				
External investment pool	\$ 2,740,282	\$ 2,740,282	\$ -	N/A
Negotiable certificates of deposit	747,000	747,000	-	Not rated
Government securities money market funds	6,695,854	6,695,854	-	Aaa-mf/ AAAM
	<u>\$ 10,183,136</u>	<u>\$ 10,183,136</u>	<u>\$ -</u>	
	<u>Maturities in Years</u>			Credit Rating Moody's / S&P
	Fair Value	Less Than 1	1 - 5	
June 30, 2013				
External investment pool	\$ 2,736,340	\$ 2,736,340	\$ -	N/A
Negotiable certificates of deposit	1,244,000	1,244,000	-	Not rated
Government securities money market funds	1,568,620	1,568,620	-	Aaa-mf/ AAAM
	<u>\$ 5,548,960</u>	<u>\$ 5,548,960</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 and external investment pool 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.

Credit ratings of the external investment pool are not available, however, the pool is invested in U.S. agency obligations.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2014 and 2013

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, 2014 and 2013, \$5,627,778 and \$997,555, respectively, of the money market funds are held with one 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:

	2014	2013
Deposits	\$ 3,313,753	\$ 3,586,905
Investments	10,183,136	5,548,960
	\$ 13,496,889	\$ 9,135,865

Included in the following balance sheet captions:

	2014	2013
Current assets		
Operations and maintenance fund	\$ (103,158)	\$ (112,246)
Employee pay flex	2,434	2,945
Revenue fund	459,784	1,513,699
Airport parking account	1,135,163	1,010,470
Capital improvement fund	233,644	591,196
Insurance fund	3,858,788	2,365,158
Airport CNG station fund	31,719	22,088
Total cash and cash equivalents	5,618,374	5,393,310
Investments - insurance fund	2,250,736	2,744,000

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2014 and 2013

Note 2: Deposits, Investments and Investment Income – Continued

Summary of Carrying Values - Continued

	2014	2013
Restricted cash and cash equivalents		
Airport bond fund	\$ 2,050,942	\$ 832,915
Airport bond project fund	3,576,837	164,639
Police department equitable sharing revenue	-	1,001
Total restricted cash and cash equivalents	5,627,779	998,555
	\$ 13,496,889	\$ 9,135,865

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 damage not covered by insurance and environmental protection costs. Funds in the airport bond fund are to be applied solely for the purpose of paying the principal and interest on bonds when due.

Investment Income

Investment income was \$11,309 and \$28,917 for the years ended June 30, 2014 and 2013, respectively, and was comprised entirely of interest and dividend income.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2014 and 2013

Note 3: Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013 was:

	2014				Ending Balance
	Beginning Balance	Additions	Less Retirements	Transfers	
Land	\$ 2,350,187	\$ -	\$ -	\$ -	\$ 2,350,187
Buildings	116,404,056	44,916	-	6,028,539	122,477,511
Furniture and equipment	8,571,422	742,583	146,836	167,773	9,334,942
Runways	61,294,280	-	-	3,425,160	64,719,440
Construction in progress	6,580,703	20,240,793	-	(9,621,472)	17,200,024
	<u>195,200,648</u>	<u>21,028,292</u>	<u>146,836</u>	<u>-</u>	<u>216,082,104</u>
Less accumulated depreciation					
Buildings	72,870,604	3,787,989	-	-	76,658,593
Furniture and equipment	6,565,842	448,699	129,370	-	6,885,171
Runways	50,404,520	1,318,940	-	-	51,723,460
	<u>129,840,966</u>	<u>5,555,628</u>	<u>129,370</u>	<u>-</u>	<u>135,267,224</u>
Capital assets, net	<u>\$ 65,359,682</u>	<u>\$ 15,472,664</u>	<u>\$ 17,466</u>	<u>\$ -</u>	<u>\$ 80,814,880</u>

	2013				Ending Balance
	Beginning Balance	Additions	Less Retirements	Transfers	
Land	\$ 2,350,187	\$ -	\$ -	\$ -	\$ 2,350,187
Buildings	111,718,265	-	645,990	5,331,781	116,404,056
Furniture and equipment	7,689,309	218,869	-	663,244	8,571,422
Runways	60,106,153	-	-	1,188,127	61,294,280
Construction in progress	5,215,552	8,548,303	-	(7,183,152)	6,580,703
	<u>187,079,466</u>	<u>8,767,172</u>	<u>645,990</u>	<u>-</u>	<u>195,200,648</u>
Less accumulated depreciation					
Buildings	69,866,746	3,649,821	645,963	-	72,870,604
Furniture and equipment	6,171,501	394,341	-	-	6,565,842
Runways	48,995,462	1,409,058	-	-	50,404,520
	<u>125,033,709</u>	<u>5,453,220</u>	<u>645,963</u>	<u>-</u>	<u>129,840,966</u>
Capital assets, net	<u>\$ 62,045,757</u>	<u>\$ 3,313,952</u>	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ 65,359,682</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements June 30, 2014 and 2013

Note 4: Long-Term Liabilities

The following is a summary of long-term liability transactions for the Authority for the year ended June 30, 2014:

	2014				Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balances	
Airport bonds	\$ 12,870,000	\$ 23,025,000	\$ 3,255,000	\$ 32,640,000	\$ 1,460,000
Compensated absences	606,624	297,534	273,732	630,426	274,000
Unearned revenue	1,446,630	555,464	568,973	1,433,121	700,698
 Total long-term liabilities	 <u>\$ 14,923,254</u>	 <u>\$ 23,877,998</u>	 <u>\$ 4,097,705</u>	 <u>\$ 34,703,547</u>	 <u>\$ 2,434,698</u>

The following is a summary of the terms and provisions the Authority's long-term debt outstanding at June 30, 2014:

Type of Debt	Maturity	Interest Rates	Original Issue Amount	Date Callable	Outstanding at June 30, 2014
Airport Bonds					
Series 2009B	July 2029	2.00% - 4.75%	\$ 3,755,000	July 2014	\$ 3,195,000
Series 2010	July 2019	1.25% - 3.80%	2,435,000	July 2015	1,275,000
Series 2011A	July 2031	0.55% - 4.00%	1,150,000	Sept. 2016	1,045,000
Series 2012A	July 2042	0.30% - 4.00%	4,200,000	July 2017	4,100,000
Series 2013A	July 2033	0.75% - 4.00%	1,265,000	Various	1,265,000
Series 2013B	July 2029	0.75% - 3.75%	1,440,000	Various	1,440,000
Series 2013C	July 2033	0.64% - 5.01%	20,320,000	Various	20,320,000
					<u>\$ 32,640,000</u>

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2014 and 2013

Note 4: Long-Term Liabilities - Continued

The following is a summary of long-term liability transactions for the Authority for the year ended June 30, 2013:

	2013				
	Beginning Balance	Increases	Decreases	Ending Balances	Due Within One Year
Airport bonds	\$ 9,540,000	\$ 4,200,000	\$ 870,000	\$ 12,870,000	\$ 630,000
Compensated absences	588,254	303,453	285,083	606,624	285,000
Unearned revenue	930,570	913,452	397,392	1,446,630	604,197
Total long-term liabilities	<u>\$ 11,058,824</u>	<u>\$ 5,416,905</u>	<u>\$ 1,552,475</u>	<u>\$ 14,923,254</u>	<u>\$ 1,519,197</u>

The following is a summary of the terms and provisions the Authority's long-term debt outstanding at June 30, 2013:

Type of Debt	Maturity	Interest Rates	Original Issue Amount	Date Callable	Outstanding at June 30, 2013
Airport Bonds					
Series 2007A	July 2027	3.70% - 4.40%	\$ 700,000	July 2012	\$ 570,000
Series 2007B	July 2027	3.90% - 4.75%	1,000,000	July 2012	805,000
Series 2009A	December 2028	1.65% - 4.45%	1,670,000	Dec. 2013	1,390,000
Series 2009B	July 2029	2.00% - 4.75%	3,755,000	July 2014	3,340,000
Series 2010	July 2019	1.25% - 3.80%	2,435,000	July 2015	1,470,000
Series 2011A	July 2031	0.55% - 4.00%	1,150,000	Sept. 2016	1,095,000
Series 2012A	July 2042	0.30% - 4.00%	4,200,000	July 2017	4,200,000
					<u>\$ 12,870,000</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 \$47,726,921, with annual payments expected to require approximately 24 percent of net revenues. Principal and interest for the current year and net operating revenues were \$1,343,051 and \$11,142,126, respectively.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2014 and 2013

Note 4: Long-Term Liabilities - Continued

The debt service requirements at June 30, 2014 are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2015	\$ 2,633,818	\$ 1,460,000	\$ 1,173,818
2016	2,601,785	1,445,000	1,156,785
2017	2,595,081	1,460,000	1,135,081
2018	2,591,300	1,485,000	1,106,300
2019	2,580,994	1,510,000	1,070,994
2020 - 2024	11,932,497	7,245,000	4,687,497
2025 - 2029	11,505,445	8,325,000	3,180,445
2030 - 2034	9,267,642	7,995,000	1,272,642
2035 - 2039	1,124,609	885,000	239,609
2040 - 2043	893,750	830,000	63,750
	<u>\$ 47,726,921</u>	<u>\$ 32,640,000</u>	<u>\$ 15,086,921</u>

Bond Refunding

In July 2013, the Authority issued \$23,025,000 of Airport Bonds, Series 2013A, 2013B and 2013C, to finance the construction of new facilities in Lincoln Air Park West, finance various infrastructure improvements, and redeem and refund a portion of the Authority's outstanding Series 2007A, 2007B and 2009A Bonds. From the net proceeds of the issuance, \$1,957,670 was used to redeem a portion of the outstanding bonds and \$769,170 was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments until the remaining bonds were called in December 2013. The Authority completed the refunding to reduce its total debt service payments over the next 16 years by approximately \$109,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$111,000.

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 expires on December 31, 2015. No amounts were drawn against this letter of credit during the fiscal year 2014.

Airport Authority of the City of Lincoln, Nebraska

Notes to Financial Statements

June 30, 2014 and 2013

Note 5: Retirement Plans

The Authority has a 414(d) 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 \$140,000 and \$144,000 for 2014 and 2013, respectively. Contributions to the plan by the Authority were approximately \$270,000 and \$278,000 for 2014 and 2013, respectively.

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 6: 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, 2014, is as follows:

2015	\$ 8,399,448
2016	7,034,998
2017	6,168,808
2018	4,776,068
2019	4,468,236

Note 7: 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 \$35,000,000 at June 30, 2014, 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, 2014 and 2013

Note 8: 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, 2014 and 2013.

Note 9: Significant Estimates and Concentrations

Revenue Concentration

Revenues from one tenant comprised approximately 13% and 14% of total operating revenues for the years ended June 30, 2014 and 2013, respectively. At both June 30, 2014 and 2013, 52% of accounts receivable were owed from three customers.

Note 10: Subsequent Events

In August 2014, the Authority issued \$12,990,000 of Bond Anticipation Notes, Tax-Exempt 2014 Series A and \$11,070,000 of Bond Anticipation Notes, Taxable 2014 Series B, to finance, on an interim basis, improvements to the airport terminal, various infrastructure improvements, and the construction of new tenant facilities in Lincoln Air Park West. The Authority intends to convert these Notes to long-term bonds upon completion of the improvements and facilities.

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, 2014

	Total	Airport Bonds Series 2007A	Airport Bonds Series 2007B	Airport Bonds Series 2009A	Airport Bonds Series 2009B	Airport Bonds Series 2010	Airport Bonds Series 2011A	
							Debt Service	Project Fund
Account Balance, Beginning of Year	\$ 9,135,465	\$ 41,737	\$ 57,859	\$ 72,831	\$ 215,270	\$ 215,410	\$ 65,037	\$ 78,900
Receipts								
Operations	11,063,629	-	-	-	-	-	-	-
Interest	11,310	-	-	65	4	-	3	2
Bond proceeds	20,330,000	-	-	-	-	-	-	-
Grants	2,099,557	-	-	-	-	-	-	-
Other	234,150	-	-	-	-	-	-	-
Total Receipts	<u>33,738,646</u>	<u>-</u>	<u>-</u>	<u>65</u>	<u>4</u>	<u>-</u>	<u>3</u>	<u>2</u>
Disbursements								
Operations and maintenance	7,974,338	-	-	-	-	-	-	-
Property and equipment acquisition	20,005,577	-	-	-	-	-	-	-
Retirement of long-term debt	560,000	30,000	40,000	-	145,000	195,000	50,000	-
Interest	790,618	11,737	17,859	35,041	138,715	39,199	29,895	-
Other	46,689	-	-	-	-	-	-	-
Total Disbursements	<u>29,377,222</u>	<u>41,737</u>	<u>57,859</u>	<u>35,041</u>	<u>283,715</u>	<u>234,199</u>	<u>79,895</u>	<u>-</u>
Transfers, net	-	-	-	(37,855)	286,894	232,585	79,716	-
Account Balance, End of Year	<u>\$ 13,496,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,453</u>	<u>\$ 213,796</u>	<u>\$ 64,861</u>	<u>\$ 78,902</u>
Represented by								
Current Assets								
Cash and cash equivalents	\$ 5,618,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	2,250,736	-	-	-	-	-	-	-
	<u>7,869,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted Assets								
Cash and cash equivalents	5,627,779	-	-	-	218,453	213,796	64,861	78,902
	<u>5,627,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,453</u>	<u>213,796</u>	<u>64,861</u>	<u>78,902</u>
	<u>\$ 13,496,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,453</u>	<u>\$ 213,796</u>	<u>\$ 64,861</u>	<u>\$ 78,902</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, 2014

	Airport Bonds Series 2012A		Airport Bonds Series 2013A		Airport Bonds Series 2013B	Airport Bonds Series 2013C	
	Debt Service	Project Fund	Debt Service	Project Fund		Debt Service	Project Fund
Account Balance, Beginning of Year	\$ 164,771	\$ 85,739	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts							
Operations	-	-	-	-	-	-	305
Interest	8	11	3	8	4	61	1,222
Bond proceeds	-	-	-	10,000	-	-	20,320,000
Grants	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total Receipts	<u>8</u>	<u>11</u>	<u>3</u>	<u>10,008</u>	<u>4</u>	<u>61</u>	<u>20,321,527</u>
Disbursements							
Operations and maintenance	-	-	-	-	-	-	-
Property and equipment acquisition	-	-	-	-	-	-	-
Retirement of long-term debt	100,000	-	-	-	-	-	-
Interest	129,375	-	16,051	-	17,402	355,344	-
Other	-	-	-	-	-	-	-
Total Disbursements	<u>229,375</u>	<u>-</u>	<u>16,051</u>	<u>-</u>	<u>17,402</u>	<u>355,344</u>	<u>-</u>
Transfers, net	<u>229,215</u>	<u>(13,923)</u>	<u>98,563</u>	<u>12,089</u>	<u>116,386</u>	<u>1,562,993</u>	<u>(16,917,516)</u>
Account Balance, End of Year	<u>\$ 164,619</u>	<u>\$ 71,827</u>	<u>\$ 82,515</u>	<u>\$ 22,097</u>	<u>\$ 98,988</u>	<u>\$ 1,207,710</u>	<u>\$ 3,404,011</u>
Represented by							
Current Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	-	-	-	-	-	-	-
Total Current Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted Assets							
Cash and cash equivalents	164,619	71,827	82,515	22,097	98,988	1,207,710	3,404,011
Total Restricted Assets	<u>164,619</u>	<u>71,827</u>	<u>82,515</u>	<u>22,097</u>	<u>98,988</u>	<u>1,207,710</u>	<u>3,404,011</u>
	<u>\$ 164,619</u>	<u>\$ 71,827</u>	<u>\$ 82,515</u>	<u>\$ 22,097</u>	<u>\$ 98,988</u>	<u>\$ 1,207,710</u>	<u>\$ 3,404,011</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, 2014

	Operations and Maintenance Fund	Revenue Fund	Airport CNG Station Fund	Capital Improvement Fund	Airport Parking Fund	Insurance Fund	Airport Police Revenue	Employee Pay Flex
Account Balance, Beginning of Year	\$ (112,246)	\$ 1,513,699	\$ 22,088	\$ 591,196	\$ 1,010,070	\$ 5,109,158	\$ 1,001	\$ 2,945
Receipts								
Operations	-	9,885,571	17,880	-	1,159,873	-	-	-
Interest	-	264	-	-	72	9,583	-	-
Bond proceeds	-	-	-	-	-	-	-	-
Grants	-	-	-	2,099,557	-	-	-	-
Other	-	79,231	-	88,190	-	66,729	-	-
Total Receipts	<u>-</u>	<u>9,965,066</u>	<u>17,880</u>	<u>2,187,747</u>	<u>1,159,945</u>	<u>76,312</u>	<u>-</u>	<u>-</u>
Disbursements								
Operations and maintenance	7,873,586	-	3,833	-	-	96,919	-	-
Property and equipment acquisition	-	-	-	20,005,577	-	-	-	-
Retirement of long-term debt	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Other	374	17,237	2,819	382	25,181	185	-	511
Total Disbursements	<u>7,873,960</u>	<u>17,237</u>	<u>6,652</u>	<u>20,005,959</u>	<u>25,181</u>	<u>97,104</u>	<u>-</u>	<u>511</u>
Transfers, net	7,883,048	(11,001,744)	(1,597)	17,460,660	(1,009,671)	1,021,158	(1,001)	-
Account Balance, End of Year	<u>\$ (103,158)</u>	<u>\$ 459,784</u>	<u>\$ 31,719</u>	<u>\$ 233,644</u>	<u>\$ 1,135,163</u>	<u>\$ 6,109,524</u>	<u>\$ -</u>	<u>\$ 2,434</u>
Represented by								
Current Assets								
Cash and cash equivalents	\$ (103,158)	\$ 459,784	\$ 31,719	\$ 233,644	\$ 1,135,163	\$ 3,858,788	\$ -	\$ 2,434
Investment securities	-	-	-	-	-	2,250,736	-	-
	<u>(103,158)</u>	<u>459,784</u>	<u>31,719</u>	<u>233,644</u>	<u>1,135,163</u>	<u>6,109,524</u>	<u>-</u>	<u>2,434</u>
Restricted Assets								
Cash and cash equivalents	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (103,158)</u>	<u>\$ 459,784</u>	<u>\$ 31,719</u>	<u>\$ 233,644</u>	<u>\$ 1,135,163</u>	<u>\$ 6,109,524</u>	<u>\$ -</u>	<u>\$ 2,434</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Operating Revenues
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Landing Field			
Landing Fees			
Delta Airlines	\$ 111,832	\$ 84,306	\$ 27,526
United Airlines	204,824	194,934	9,890
Flowage Fees			
Duncan Aviation	35,199	32,112	3,087
Silverhawk Aviation	44,082	39,299	4,783
Corporate	3,606	3,600	6
Other	<u>47,611</u>	<u>54,871</u>	<u>(7,260)</u>
Total landing field	<u>447,154</u>	<u>409,122</u>	<u>38,032</u>
Terminal			
Airline Rentals			
Delta Airlines	278,156	263,765	14,391
United Airlines	373,186	334,031	39,155
Land Transportation Facilities			
Avis Rent A Car	148,737	134,434	14,303
Budget Rent A Car	47,165	48,549	(1,384)
Enterprise Rent-A-Car	96,935	117,830	(20,895)
The Hertz Corporation	160,576	153,388	7,188
National Car Rental System	130,042	135,540	(5,498)
Cab companies	1,500	1,450	50
Concessions			
Standard Parking	1,159,873	1,031,478	128,395
Interspace	32,500	30,000	2,500
Utility surcharges	156,423	154,938	1,485
Air Freight terminal	29,256	28,080	1,176
Other	<u>108,469</u>	<u>109,791</u>	<u>(1,322)</u>
Total terminal	<u>2,722,818</u>	<u>2,543,274</u>	<u>179,544</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Operating Revenues - Continued
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
General Aviation			
U.S. Government	\$ 139,315	\$ 140,285	\$ (970)
State of Nebraska	102,953	101,089	1,864
Duncan Aviation, Inc., shop hangar	797,929	750,498	47,431
Silverhawk Aviation	170,361	170,361	-
Hill Aero	62,228	47,560	14,668
Executive T-Hangar	186,852	170,721	16,131
Other T-Hangars	526,376	447,274	79,102
Utility surcharges	1,891	1,367	524
Other	1,610	389	1,221
	<u>1,989,515</u>	<u>1,829,544</u>	<u>159,971</u>
Air Park West			
Lincoln Air Park West	5,134,268	4,528,021	606,247
Storage annex	67,439	66,131	1,308
Air Park aviation	603,783	619,930	(16,147)
Other	32,854	30,211	2,643
	<u>5,838,344</u>	<u>5,244,293</u>	<u>594,051</u>
Air Park South			
Lincoln Air Park South	144,295	153,489	(9,194)
	<u>144,295</u>	<u>153,489</u>	<u>(9,194)</u>
Total operating revenues	<u>\$ 11,142,126</u>	<u>\$ 10,179,722</u>	<u>\$ 962,404</u>

**Airport Authority of the City of
Lincoln, Nebraska
Schedule of Direct Operating Expenses
Years Ended June 30, 2014 and 2013**

	2014	2013	Increase (Decrease)
Landing Field			
Salaries	\$ 401,796	\$ 392,043	\$ 9,753
Employee benefits	139,034	139,884	(850)
Repairs and maintenance	196,781	213,857	(17,076)
Contracted services	188,539	114,691	73,848
Utilities	78,290	71,583	6,707
Insurance	38,431	36,251	2,180
Professional services	9,916	12,373	(2,457)
Other	2,892	14,351	(11,459)
	<u>1,055,679</u>	<u>995,033</u>	<u>60,646</u>
Terminal			
Salaries	543,325	490,698	52,627
Employee benefits	182,363	160,730	21,633
Repairs and maintenance	163,045	135,959	27,086
Contracted services	290,065	296,346	(6,281)
Utilities	406,647	369,115	37,532
Insurance	70,638	69,653	985
Professional services	344,973	334,926	10,047
Other	84,437	97,977	(13,540)
	<u>2,085,493</u>	<u>1,955,404</u>	<u>130,089</u>
General Aviation			
Salaries	47,020	56,822	(9,802)
Employee benefits	17,069	20,086	(3,017)
Repairs and maintenance	46,702	42,954	3,748
Contracted services	42,599	54,583	(11,984)
Utilities	56,389	55,413	976
Insurance	37,374	31,773	5,601
Professional services	6,495	4,889	1,606
Bond issuance costs	9,078	72,741	(63,663)
Interest expense	192,247	59,199	133,048
Other	-	1,040	(1,040)
	<u>454,973</u>	<u>399,500</u>	<u>55,473</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Direct Operating Expenses – Continued
Years Ended June 30, 2014 and 2013

	2014	2013	Increase (Decrease)
Air Park West			
Salaries	\$ 219,068	\$ 177,484	\$ 41,584
Employee benefits	85,915	71,408	14,507
Repairs and maintenance	46,840	44,306	2,534
Contracted services	141,284	169,428	(28,144)
Utilities	88,733	51,346	37,387
Insurance	152,701	104,317	48,384
Professional services	17,678	19,268	(1,590)
Bond issuance costs	252,186	-	252,186
Interest expense	643,210	175,001	468,209
Bad debt expense	37,695	19,308	18,387
	<u>1,685,310</u>	<u>831,866</u>	<u>853,444</u>
Total air park west			
Air Park South			
Salaries	9,400	13,047	(3,647)
Employee benefits	2,797	3,873	(1,076)
Repairs and maintenance	10,891	9,323	1,568
Contracted services	2,542	3,274	(732)
Utilities	17,718	17,378	340
Insurance	2,175	2,577	(402)
Other	83	-	83
	<u>45,606</u>	<u>49,472</u>	<u>(3,866)</u>
Total air park south			
Subtotal Direct Operating Expenses	<u>5,327,061</u>	<u>4,231,275</u>	<u>1,095,786</u>
Depreciation Expense			
Landing field	1,554,922	1,651,976	(97,054)
Terminal	699,749	776,919	(77,170)
General aviation	699,677	558,577	141,100
Lincoln Air Park West	2,097,067	2,021,917	75,150
Lincoln Air Park South	38,612	38,612	-
	<u>5,090,027</u>	<u>5,048,001</u>	<u>42,026</u>
Total depreciation expense			
	<u>\$ 10,417,088</u>	<u>\$ 9,279,276</u>	<u>\$ 1,137,812</u>

**Airport Authority of the City of
Lincoln, Nebraska**
Schedule of Indirect Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013	Increase (Decrease)
Public Safety			
Salaries	\$ 846,326	\$ 847,806	\$ (1,480)
Employee benefits	296,343	283,811	12,532
Repairs and maintenance	91,619	71,983	19,636
Contracted services	19,319	19,959	(640)
Utilities	5,376	5,376	-
Insurance	28,694	-	28,694
Professional services	86,115	85,488	627
Other	4,946	3,281	1,665
	<u>1,378,738</u>	<u>1,317,704</u>	<u>61,034</u>
Total public safety			
Service Equipment			
Salaries	152,127	145,270	6,857
Employee benefits	53,462	50,487	2,975
Repairs and maintenance	116,725	104,499	12,226
Contracted services	8,472	2,746	5,726
Utilities	122,712	125,574	(2,862)
Insurance	48,488	35,976	12,512
	<u>501,986</u>	<u>464,552</u>	<u>37,434</u>
Total service equipment			
General and Administrative			
Salaries	683,691	622,165	61,526
Employee benefits	561,157	526,113	35,044
Repairs and maintenance	53,424	35,211	18,213
Contracted services	54,872	29,393	25,479
Utilities	49,097	53,824	(4,727)
Insurance	39,766	108,263	(68,497)
Professional services	544,902	509,188	35,714
Other	106,976	112,490	(5,514)
	<u>2,093,885</u>	<u>1,996,647</u>	<u>97,238</u>
Total general and administrative			
Depreciation Expense			
Service equipment	391,681	350,889	40,792
General and administrative	73,920	54,330	19,590
	<u>465,601</u>	<u>405,219</u>	<u>60,382</u>
Total depreciation expense			
Total Indirect Operating Expenses	<u>\$ 4,440,210</u>	<u>\$ 4,184,122</u>	<u>\$ 256,088</u>