

West Haymarket Joint Public Agency

(A Component Unit of the City of Lincoln, Nebraska)
Independent Auditor's Reports and Financial Statements

August 31, 2019

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
August 31, 2019

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Independent Auditor's Report

Board of Representatives
West Haymarket Joint Public Agency
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the West Haymarket Joint Public Agency (the Agency), a component unit of the City of Lincoln, Nebraska, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the West Haymarket Joint Public Agency as of August 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 6, 2020, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Agency's 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 Agency's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
January 6, 2020

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Management's Discussion and Analysis
August 31, 2019

As management of the West Haymarket Joint Public Agency (the Agency), we offer readers of the Agency's basic financial statements this narrative and analysis of the financial activities of the Agency as of and for the year ended August 31, 2019. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

The West Haymarket Joint Public Agency was organized as a joint public agency on April 2, 2010, created by a Joint Public Agency Agreement entered into between the City of Lincoln, Nebraska and the Board of Regents of the University of Nebraska. The Agency is a component unit of the City of Lincoln, Nebraska.

Overview of Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the Agency's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow changes only in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Agency maintains one governmental fund – the West Haymarket JPA Fund.

The Agency is not required by the Nebraska State Budget Act to adopt an annual budget, therefore, a budgetary comparison has not been provided in the basic financial statements.

West Haymarket Joint Public Agency
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Management's Discussion and Analysis
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Notes to Basic Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Agency's financial position. In the case of the West Haymarket Joint Public Agency, as of August 31, 2019, net position was \$53,478. The Agency's condensed financial information as of August 31, 2019 and 2018 is found below.

Condensed Statements of Net Position

	2019	2018
Assets		
Equity in pooled cash and investments	\$ 38,233,935	\$ 32,220,334
Other current assets	12,995,062	15,908,194
Capital assets, net of accumulated depreciation	291,877,619	297,963,598
Total assets	343,106,616	346,092,126
Liabilities		
Unearned revenue	8,091,138	8,726,181
Other liabilities	4,674,268	4,635,207
Long-term liabilities	330,287,732	330,872,707
Total liabilities	343,053,138	344,234,095
Net Position		
Net investment in capital assets	(37,369,127)	(31,621,297)
Restricted by enabling legislation	1,728,421	1,631,642
Unrestricted	35,694,184	31,847,686
Total net position	\$ 53,478	\$ 1,858,031

Total assets decreased approximately \$3 million from 2018 to 2019. Investments and assets held for resale decreased approximately \$1 million and \$2 million from 2018 to 2019, respectively. Net capital assets decreased approximately \$6 million primarily from depreciation on those assets, however this decrease was offset by a similar increase in equity in pooled cash and investments. Total liabilities remained relatively consistent from 2018 to 2019. Unearned revenue showed a slight decrease of \$635,043 from 2018 to 2019 and scheduled principal payments of \$580,000 were made on the Agency's long-term bonds payable.

West Haymarket Joint Public Agency
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August 31, 2019

Government-Wide Financial Analysis - Continued

Condensed Statements of Activities

	2019	2018
Revenues		
Occupation taxes	\$ 17,698,974	\$ 17,058,415
Intergovernmental	3,660,898	3,646,109
Parking facility revenue	2,835,866	2,461,176
Suite and premium seating revenue	2,455,378	2,518,529
Investment income	1,353,137	627,122
Sale of assets	521,758	-
Other program revenues	3,487,783	3,662,798
Total revenues	32,013,794	29,974,149
Expenses		
General government	8,050,176	7,833,029
Culture and recreation	9,416,213	5,276,961
Debt service	16,183,391	16,206,259
Capital outlay	24,037	58,306
Total expenses	33,673,817	29,374,555
Transfers (To)/From City of Lincoln, net	(144,530)	(202,280)
Change in Net Position	(1,804,553)	397,314
Net Position, Beginning of Year	1,858,031	1,460,717
Net Position, End of Year	\$ 53,478	\$ 1,858,031

Pinnacle Bank Arena, constructed by the Agency within the West Haymarket area, officially opened in September 2013. Thus, 2019 represents the sixth full year of activity for the Agency, while Pinnacle Bank Arena has been in operation. Total revenues increased approximately \$2 million from 2018 to 2019, primarily attributed to increases in occupation taxes, parking facility revenue and investment income. The Agency received an additional \$400,000 in parking revenues in 2019 related to the increased popularity of the Haymarket area.

Total expenses increased approximately \$4.3 million from 2018 to 2019, which results from a corresponding increase in culture and recreation expenses in 2019. Culture and recreation expenses increased from 2018 to 2019 as a result of land being transferred to the Lincoln Parks Foundation for future park development.

Capital Assets

The Agency's investment in capital assets as of August 31, 2019 amounts to \$291,877,619.

Additional information on the Agency's capital assets can be found in the notes to the financial statements.

West Haymarket Joint Public Agency
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Management's Discussion and Analysis
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Debt Administration

At August 31, 2019, the Agency had total bonded debt outstanding of \$325,400,000, which was used to fund a portion of the Agency's construction costs. Additional information on the Agency's debt can be found in the notes to the financial statements.

Occupation Taxes

Beginning January 1, 2011, occupation taxes were imposed within the City of Lincoln at a rate of 2% on bar and restaurant revenues and a rate of 4% on car rental and hotel revenues. This tax revenue is generated to finance the activities of the Agency and is pledged to repayment of any outstanding Agency bonds. Occupation tax revenue increased by 3.8% in 2019 compared to 2018. The Agency expects occupation tax revenue to continue growing by 2% annually.

Financial Analysis of the Agency's Funds

The Agency has one governmental fund, the West Haymarket JPA Fund. The West Haymarket JPA Fund is considered a major fund and is used to account for the Agency's general operations, construction, and debt activities. Activity during the year ended August 31, 2019, resulted in an increase in fund balance of \$3,751,639, resulting in a total fund balance at August 31, 2019 of \$40,878,626. The fund balance is a result of the issuance of bonds in prior years, occupation tax and donation revenue, less the Agency's expenditures for construction, debt service and general operations.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln Finance Department, 555 South 10th Street, Lincoln, NE 68508.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Governmental Fund Balance Sheet/Statement of Net Position
August 31, 2019

	West Haymarket JPA Fund	Adjustments (Note 1)	Statement of Net Position
Assets			
Cash	\$ 27,726	\$ -	\$ 27,726
Equity in pooled cash and investments	38,233,935	-	38,233,935
Investments	7,773,195	-	7,773,195
Occupation taxes receivable	1,728,421	-	1,728,421
Accounts receivable	369,680	-	369,680
Interest receivable	286,912	-	286,912
Due from other governments	764,617	-	764,617
Prepaid expenses	305,746	-	305,746
Assets held for resale	1,738,765	-	1,738,765
Capital assets, net of accumulated depreciation of \$31,388,758	-	291,877,619	291,877,619
Total assets	51,228,997	291,877,619	343,106,616
Liabilities			
Accounts payable	306,967	-	306,967
Interest payable	-	3,371,258	3,371,258
Due to other City funds	442,572	-	442,572
Due to other governments	370,471	-	370,471
Security deposits	183,000	-	183,000
Unearned revenue	8,091,138	-	8,091,138
Long-term liabilities			
Payable within one year	-	605,000	605,000
Payable in more than one year	-	329,682,732	329,682,732
Total liabilities	9,394,148	333,658,990	343,053,138
Deferred Inflows of Resources			
Unavailable revenues	956,223	(956,223)	-
Fund Balance/Net Position			
Fund Balance			
Nonspendable	305,746	(305,746)	-
Restricted for capital projects	1,040,986	(1,040,986)	-
Restricted by enabling legislation	1,728,421	(1,728,421)	-
Assigned for debt service	37,803,473	(37,803,473)	-
Total fund balance	40,878,626	(40,878,626)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 51,228,997		
Net Position			
Net investment in capital assets		(37,369,127)	(37,369,127)
Restricted by enabling legislation		1,728,421	1,728,421
Unrestricted		35,694,184	35,694,184
Total net position		\$ 53,478	\$ 53,478

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended August 31, 2019

	West		
	Haymarket	Adjustments	Statement of
	JPA Fund	(Note 1)	Activities
Expenditures/Expenses			
General government	\$ 7,996,618	\$ 53,558	\$ 8,050,176
Culture and recreation	4,136,299	5,279,914	9,416,213
Debt service	16,773,200	(589,809)	16,183,391
Capital outlay	119,482	(95,445)	24,037
Total expenditures/expenses	<u>29,025,599</u>	<u>4,648,218</u>	<u>33,673,817</u>
Program Revenues			
Naming rights and sponsorship revenue	1,377,311	(62,460)	1,314,851
Suite and premium seating revenue	2,455,378	-	2,455,378
Parking facility revenue	2,835,866	-	2,835,866
Charges for services	1,731,959	-	1,731,959
Facility lease and other rent revenue	440,973	-	440,973
Total program revenues	<u>8,841,487</u>	<u>(62,460)</u>	<u>8,779,027</u>
General Revenues			
Occupation taxes	17,698,974	-	17,698,974
Intergovernmental	3,658,460	2,438	3,660,898
Investment income	1,353,137	-	1,353,137
Sale of assets	1,369,710	(847,952)	521,758
Total general revenues	<u>24,080,281</u>	<u>(845,514)</u>	<u>23,234,767</u>
Other Financing Sources (Uses)			
Transfers from City of Lincoln	217,370	-	217,370
Transfers to City of Lincoln	(361,900)	-	(361,900)
Total other financing sources (uses)	<u>(144,530)</u>	<u>-</u>	<u>(144,530)</u>
Revenues in excess of expenditures and other financing sources (uses)	3,751,639	(3,751,639)	-
Change in Net Position	-	(1,804,553)	(1,804,553)
Fund Balance/Net Position			
Beginning of Year	<u>37,126,987</u>	<u>(35,268,956)</u>	<u>1,858,031</u>
End of Year	<u>\$ 40,878,626</u>	<u>\$ (40,825,148)</u>	<u>\$ 53,478</u>

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

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

Nature of Operations

The West Haymarket Joint Public Agency (the Agency) was organized as a joint public agency under the Nebraska Joint Public Agency Act on April 2, 2010, to facilitate land acquisition, relocation of existing businesses, environmental remediation, site preparation and the construction, equipping, furnishing and financing of public facilities including, but not limited to, a sports/entertainment arena, roads, streets, sidewalks, a pedestrian overpass, public plaza space, sanitary sewer mains, water mains, electric transmission lines, drainage systems, flood control, parking garages and surface parking lots (collectively considered the West Haymarket Development Project or Project) for the benefit of residents of the City of Lincoln, Nebraska (the City). The Agency was created pursuant to a Joint Public Agency Agreement entered into between the City and the Board of Regents of the University of Nebraska.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the Agency. The Agency follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The Agency is not financially accountable for any other organization. Under current GASB pronouncements, the Agency has been determined to be a component unit of the City of Lincoln, Nebraska – the primary government. As such, the Agency's financial results are included in the City of Lincoln, Nebraska's Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all of the Agency's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue which are reported as general revenues.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The government-wide financial statements are presented using the total economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in current assets, net of liabilities, and unassigned fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

The statement of net position does not equal the governmental funds balance sheet at August 31, 2019, due to net capital assets, unavailable revenues and bond principal and interest that are not payable from available spendable resources in the statement of net position.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred and is expected to be paid from available spendable resources.

Occupation taxes and intergovernmental revenues are considered to be susceptible to accrual and are recorded as revenue in the period to which they relate.

Fund Accounting

The accounts of the Agency are organized on the basis of funds. The operations of the West Haymarket JPA Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues and expenditures. Resources are allocated to and accounted for in the West Haymarket JPA Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The major fund presented in the accompanying basic financial statements is the West Haymarket JPA Fund. The West Haymarket JPA Fund is the Agency's only fund and is used to account for general government operational activities.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

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

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 amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Deposits and Investments

The Agency participates in a cash management pool managed by the City. The pool consists of bank deposits and investments. Cash balances in excess of current requirements are invested along with cash from other City funds and interest earned on these investments is allocated monthly to the various funds by the City Treasurer on a pro rata basis of using aggregate quarterly balances. The Agency's interest in the pool is shown as equity in pooled cash and investments in the statement of net position. Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

The Agency may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council and City Investment Policy in effect on the date the investment is made. The Agency's investments in Tax Increment Financing investments are valued using discounted cash flow techniques.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Occupation Taxes

Beginning January 1, 2011, occupation taxes were imposed within the City of Lincoln at a rate of 2% on bar and restaurant revenues and a rate of 4% on car rental and hotel revenues. As stated in the related ordinance, occupation taxes, less any administrative expenses, shall be used to fund expenditures of the Agency.

Capital Assets

Arena and infrastructure planning, design and construction costs are capitalized on the government-wide financial statements. At August 31, 2019, certain arena and infrastructure assets were in-service, and are being depreciated on a straight-line basis over their estimated useful lives of 25-50 years.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2019

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

Unearned Revenue

Unearned revenue is primarily comprised of advance payments received for various arena suites, loge boxes and club seats, the arena naming rights and prepaid parking. Revenue for these agreements will be recognized when the term of the related agreements commence on September 1, 2019.

Fund Balance Classification

Fund balances are shown only in the governmental fund financial statements. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*, fund balance is required to be classified into four components – nonspendable, restricted, committed and/or assigned. These classifications are defined as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted - includes fund balance amounts that are constrained for specific purposes as stipulated by constitution; external resource providers, such as donors or creditors; or through enabling legislation.

Committed - includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority.

Assigned - includes fund balance amounts that are not classified as either nonspendable, restricted, or committed.

When expenditures are incurred for purposes for which amounts in more than one category of fund balance are available for use, it is the Agency's policy to use the restricted amounts first, followed by the committed and assigned amounts.

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:

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

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

Net Position Classification - Continued

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

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the net investment in capital assets or restricted components of net position.

When both restricted and unrestricted resources are available for use, it is Agency's policy to use restricted resources first, then unrestricted as they are needed.

Adjustments Column

The adjustments column on the governmental fund balance sheet/statement of net position represents the recording of certain assets and liabilities as required by GASB Statement No. 34.

The adjustments column on the governmental fund balance sheet/statement of net position is comprised of the following as of August 31, 2019:

Amounts reported for the Project Fund are different from the statement of net position because of

Capital assets, net of accumulated depreciation	\$ 291,877,619
Interest payable	(3,371,258)
Unavailable revenue	956,223
Long-term liabilities	<u>(330,287,732)</u>
Total adjustment amount	<u><u>\$ (40,825,148)</u></u>

West Haymarket Joint Public Agency
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Notes to Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Adjustments Column - Continued

The adjustments column on the statement of governmental fund revenues, expenditures and changes in fund balance/statement of activities is comprised of the following for the year ended August 31, 2019:

Amounts reported for the Project Fund are different from the statement of activities because of

Capital outlay	\$ 95,445
Capital outlay - general government	7,182
Sale of capital asset	(847,952)
Depreciation expense	(5,340,654)
Debt service	589,809
Change in unavailable revenue	<u>(60,022)</u>
Total adjustment amount	<u><u>\$ (5,556,192)</u></u>

Note 2: Deposits, Investments and Investment Return

Deposits

State statutes require banks either to provide a bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The Agency has been allocated a portion of the City's pooled cash and investments. The City'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 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial credit risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The Agency generally follows the investment policy adopted by the City Council and utilized by the City Treasurer. The Agency may legally invest in U.S. government securities and agencies, U.S. government sponsored agencies, and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances and investment agreements.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2019

Note 2: Deposits, Investments and Investment Return - Continued

At August 31, 2019, the Agency had the following investments, maturities and credit ratings:

Type	Fair Value	Maturities (in Years)		Credit Ratings Moody's/ S&P
		5 to 10	More than 10	
Tax Increment Financing Investments	\$ 7,773,195	\$ 3,466,371	\$ 4,306,824	Not rated

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investment securities that are in the possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments held in construction funds, operating funds, and other nonoperating funds are limited to ten-year maturities. Tax Increment Financing investments are allowed to exceed 10 years as the interest rates are guaranteed by the fund and the investment is made within the City's funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy establishes requirements for certain investment securities to be rated at certain rates or higher without having collateral pledged to the City. The following investment types must be rated at the minimum rates noted below:

	S & P	Moody's
Money Markets	AAm	---
Corporate Notes	AA-	Aa3
Investment Agreements	AA-	Aa3
Commercial Paper	A-1	P-1
Bankers' Acceptance	A-1	P-1
Local Government Debt	AA	Aa

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2019

Note 2: Deposits, Investments and Investment Return - Continued

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments the Agency has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. At August 31, 2019, the Agency's investments were comprised entirely of Tax Increment Financing investments.

Summary of Carrying Values

The carrying values of deposits and investments are as follows:

Cash	\$ 27,726
Investments	7,773,195
Equity in pooled cash and investments	<u>38,233,935</u>
	<u><u>\$ 46,034,856</u></u>

Investment Income

Investment income, consisting of interest income and fair market value adjustments, was \$1,353,137 for the year ended August 31, 2019.

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

Investments

The only investments held by the Agency at August 31, 2019 are Tax Increment Financing investments, which are valued by the Agency on a recurring basis using discounted cash flow techniques, and are classified within Level 2 of the fair value hierarchy at August 31, 2019.

West Haymarket Joint Public Agency
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Note 4: Capital Assets

As of August 31, 2019, the Agency's capital assets consisted of the following:

Depreciable assets, net of depreciation	
Buildings and improvements	\$ 222,643,531
Machinery and equipment	<u>353,841</u>
Total depreciable assets, net of depreciation	<u>222,997,372</u>
Nondepreciable assets	
Land	<u>68,880,247</u>
Total capital assets, net	<u><u>\$ 291,877,619</u></u>

Capital asset activity for 2019 was:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Buildings and improvements	\$ 253,849,921	\$ 101,754	\$ -	\$ -	\$ 253,951,675
Land	69,708,404	-	(828,157)	-	68,880,247
Machinery and equipment	434,455	-	-	-	434,455
Construction in progress	<u>18,922</u>	<u>873</u>	<u>(19,795)</u>	<u>-</u>	<u>-</u>
Total capital assets	324,011,702	102,627	(847,952)	-	323,266,377
Less accumulated depreciation	<u>(26,048,104)</u>	<u>(5,340,654)</u>	<u>-</u>	<u>-</u>	<u>(31,388,758)</u>
Capital assets, net	<u><u>\$ 297,963,598</u></u>	<u><u>\$ (5,238,027)</u></u>	<u><u>\$ (847,952)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 291,877,619</u></u>

Depreciation was charged to functions/programs as follows:

General government	\$ 60,740
Culture and recreation	<u>5,279,914</u>
Total depreciation expense	<u><u>\$ 5,340,654</u></u>

In January 2019, the Agency's board of representatives approved a Purchase Agreement with a local developer, providing for the sale of certain property within the West Haymarket Development Project area to the developer for approximately \$1,555,000. This Purchase Agreement also contained provisions allowing the Agency to regain title of the property if certain conditions are not satisfied in connection with the developer's future development of the property. Because of these conditions, the Agency has recorded the initial installment payment from this developer, in the amount of approximately \$520,000, within unearned revenue on the balance sheet at August 31, 2019.

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Notes to Financial Statements
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Note 5: Long-term Liabilities

Long-term liability activity for 2019 was:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 325,980,000	\$ -	\$ 580,000	\$ 325,400,000	\$ 605,000
Unamortized bond premium	4,892,707	-	4,975	4,887,732	-
Net bonds payable	<u>\$ 330,872,707</u>	<u>\$ -</u>	<u>\$ 584,975</u>	<u>\$ 330,287,732</u>	<u>\$ 605,000</u>

In September 2010, the Agency issued \$100,000,000 in General Obligation Facility Bonds, Taxable Series 2010A. Semi-annual interest payments began in December 2010. Annual principal payments begin in December 2020 at amounts that range from \$2,440,000 to \$5,855,000 with the final maturity in December 2045. The bonds are Build America Bonds and, as such, the Agency has elected to receive a federal subsidy of 35 percent from the United States Department of Treasury (Treasury) for a portion of the interest payable on the bonds. The interest rates on the bonds range from 3.50 to 5.00 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to approximately 3.20 percent.

In December 2010, the Agency issued \$67,965,000 in General Obligation Facility Bonds, Taxable Series 2010B. Semi-annual interest payments began in June 2011. Annual principal payments begin in December 2020 at amounts that range from \$2,440,000 to \$4,650,000 with the final maturity in December 2039. The bonds are direct pay Build America Bonds, with a federal subsidy of 35 percent from the Treasury for a portion of the interest payable on the bonds. The interest rates on the bonds range from 4.00 to 6.00 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to approximately 3.73 percent.

In December 2010, the Agency issued \$32,035,000 in General Obligation Recovery Zone Economic Development Bonds, Taxable Series 2010C. Semi-annual interest payments began in June 2011. Annual principal payments begin in December 2040 at amounts that range from \$4,865,000 to \$5,855,000 with the final maturity in December 2045. The bonds are direct pay General Obligation Recovery Zone Economic Development Bonds, with a federal subsidy of 45 percent from the Treasury for a portion of the interest payable on the bonds. The interest rate on the bonds is 6.75 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to approximately 3.79 percent.

In August 2011, the Agency issued \$100,000,000 in General Obligation Facility Bonds, Series 2011. Semi-annual interest payments began in December 2011. Annual principal payments begin in December 2021 at amounts that range from \$3,115,000 to \$6,660,000 with the final maturity in December 2042. The interest rates on the bonds range from 3.50 to 5.00 percent.

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Note 5: Long-term Liabilities - Continued

In December 2013, the Agency issued \$28,175,000 in General Obligation Facility Bonds, Series 2013. Semi-annual interest payments began in June 2014. Annual principal payments began in December 2014 at amounts that range from \$540,000 to \$1,595,000 with the final maturity in December 2043. The interest rates on the bonds range from 2.00 to 5.00 percent.

The Series 2010A, 2010B and 2010C bonds are callable at the option of the Agency in whole or in part at any time. The Series 2011 bonds are callable at the option of the Agency in whole or in part at any time on or after December 15, 2021. The Series 2013 bonds are callable at the option of the Agency in whole or in part at any time on or after December 15, 2023.

All bonds were issued to provide a portion of the funds necessary to pay the costs of constructing, equipping, furnishing, and financing the development of the West Haymarket facilities. The full faith and credit and the taxing powers of the City are pledged for the payment of the principal and interest on the bonds.

Annual requirements to pay principal and interest to maturity on outstanding debt is as follow:

Years Ending			Interest	Net	Total
August 31	Principal	Interest	Subsidy	Interest	Debt Service
2020	\$ 605,000	\$ 16,168,647	\$ (3,670,161)	\$ 12,498,486	\$ 13,103,486
2021	5,510,000	16,052,447	(3,868,253)	12,184,194	17,694,194
2022	8,790,000	15,756,207	(3,801,967)	11,954,240	20,744,240
2023	9,050,000	15,361,728	(3,730,836)	11,630,892	20,680,892
2024	9,325,000	14,946,252	(3,654,326)	11,291,926	20,616,926
2025-2029	51,345,000	68,005,970	(16,929,888)	51,076,082	102,421,082
2030-2034	61,180,000	55,296,171	(14,175,013)	41,121,158	102,301,158
2035-2039	73,840,000	39,029,582	(10,625,301)	28,404,281	102,244,281
2040-2044	82,775,000	17,781,268	(5,835,241)	11,946,027	94,721,027
2045-2046	22,980,000	1,363,000	(555,350)	807,650	23,787,650
	<u>\$ 325,400,000</u>	<u>\$ 259,761,272</u>	<u>\$ (66,846,336)</u>	<u>\$ 192,914,936</u>	<u>\$ 518,314,936</u>

The Series 2010A, 2010B and 2010C bonds were issued as direct pay Build America Bonds and General Obligation Recovery Zone Economic Development Bonds, respectively, in accordance with the American Recovery and Reinvestment Act of 2009, which allows the Agency to receive a U.S. Treasury subsidy equal to 35% and 45%, respectively, of the amount of interest payable on those bonds. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments to certain state and local government filers claiming refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds are subject to sequestration. The refund payments processed on or after October 1, 2019 and on or before September 30, 2020 will be reduced by the fiscal year 2020 sequestration rate of 5.9%.

West Haymarket Joint Public Agency
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Note 5: Long-term Liabilities - Continued

The interest subsidy is reflected in the table above as the Agency expects to receive these payments throughout the term of the related Bonds. Future subsidy payments are contingent on federal regulations and are subject to change. The subsidy is reflected as intergovernmental revenue in the Statement of Activities.

Note 6: Lease Agreements

West Haymarket Station Lease

In 2012, the Agency entered into a lease agreement with AMTRAK for the lease and use of West Haymarket Station (“Station”). The lease provides for a thirty-five year term, with the Agency receiving monthly payments of \$3,176, adjusted annually for inflation using the Consumer Price Index. Income from the lease totaled approximately \$41,000 during 2019 and is included in facility lease and other rent revenue on the statement of activities. Under the Second Amended and Restated Facilities Agreement (see Note 9), the Agency has contracted with the City for the City to undertake the maintenance, operation, and management of the Station.

Arena Lease and Operating Agreement

The Agency has entered into a Lease and Operating Agreement with the Board of Regents of the University of Nebraska (“UNL”) as of October 2011. The agreement is for the lease of the basketball space and other defined leased improvements within the sports/entertainment arena, for a term of 30 years commencing on September 1, 2013, with the option to extend the term for three additional periods of five years each. Under the terms of the agreement, UNL is to pay an annual lease payment to the Agency, which is initially \$750,000 and is adjusted for inflation on an annual basis beginning September 1, 2014. The agreement also provides for credits against this lease payment for the annual amount of turnback sales tax receipts the City receives from the sale of UNL basketball tickets, and a provision for lost concession revenue in an amount equal to \$300,000, which is adjusted for inflation on an annual basis beginning September 1, 2014. The net rent revenue for fiscal year 2019 was approximately \$325,000.

The Agreement also provides for UNL to receive a portion of the revenues related to certain premium seating arrangements at the Arena, based on seating type. The Agency paid approximately \$334,000 to UNL during 2019 for revenue sharing for premium seating. The suite and premium seating revenues shown in the statement of governmental fund revenues, expenditures and changes in fund balance/statement of activities are shown net of amounts owed to UNL under this provision of the Agreement.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

Note 7: Contractual Arrangements

Naming Rights and Premium Seating

The Agency has entered into a Title Sponsorship Agreement with Pinnacle Bank for the exclusive naming rights for the sports/entertainment arena through August 2038. The agreement called for Pinnacle Bank to make annual payments of \$280,000 through fiscal year 2023, when the payments increased to \$563,333 annually. The agreement also provided Pinnacle Bank with the opportunity to pay a discounted amount by making a prepayment to the Agency. Pinnacle Bank has exercised this option and has made prepayments to the Agency totaling approximately \$6,700,000. This amount is included in unearned revenue on the balance sheet at August 31, 2019 and will be recognized as revenue on a pro-rata basis over the remaining term of the agreement.

The Agency has entered into agreements with individuals and businesses for various premium seating arrangements. The agreements require an initial security deposit and annual installments from the individuals and businesses, with the option of prepayment, and have terms ranging between five and ten years. As of August 31, 2019, amounts collected by the Agency for premium seating arrangements for future years totaled approximately \$1,810,000, with approximately \$643,000 remaining to be collected for the contract period beginning September 1, 2019. The amount already collected is included in unearned revenue on the balance sheet and will be recognized as revenue in the fiscal year to which the payment relates.

The Agency's future collections under the premium seating agreements are as follows:

	Annual Contract Period Beginning September 1,
2020	\$ 2,452,285
2021	2,350,899
2022	2,357,107
2023	2,377,736
2024	126,510
Thereafter	<u>280,303</u>
	<u><u>\$ 9,944,840</u></u>

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2019

Note 7: Contractual Arrangements - Continued

Advertising and Sponsorship Agreement

The Agency has entered into an agreement with IMG College, LLC (“IMG”) which grants IMG the exclusive advertising and sponsorship rights at the sports/entertainment arena, for the period of September 1, 2013 through June 30, 2021. The agreement requires IMG to make guaranteed annual payments to the Agency, and 50% of any gross collected cash revenue in excess of the revenue sharing threshold, as outlined in the agreement. Two payments totaling \$1,104,081 were received from IMG for the fiscal year ended August 31, 2019. The contracted schedule of remaining guaranteed annual payments and the revenue sharing threshold is shown below:

Annual Contract Period Beginning September 1,	Guaranteed Rights Fee	Revenue Sharing Threshold
2019	\$ 1,126,162	\$ 2,008,162
2020	1,148,686	2,052,325
	<u>\$ 2,274,848</u>	<u>\$ 4,060,487</u>

Note 8: Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Agency carries commercial insurance for risks of loss, including liability, property, pollution, errors and omissions, and workers’ compensation. The Agency has had no claims or judgments exceeding the policy limits.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2019

Note 9: Related Party Transactions

City of Lincoln (City)

The City provides certain administrative services to the Agency for which the Agency pays fees to the City. These fees amounted to approximately \$689,000 for the year ended August 31, 2019. These charges are recorded as general government expenses in the statement of governmental fund revenues, expenditures and changes in fund balance and statement of activities.

During 2014, the Agency entered into a second Amended and Restated Facilities Agreement with the City, which clarified the responsibilities for operation and maintenance of certain infrastructure assets within the West Haymarket Development Project. With the exception of certain infrastructure assets, the agreement details that ownership of arena project assets, including the related parking facilities, will remain with the Agency until such time as no associated bonds are outstanding, at which time these assets will be conveyed to the City for the sum of one dollar and other good and valuable consideration.

During 2013, the Agency entered into a Parking Garage Management Agreement with the City for the operation, management and maintenance of three parking garages constructed by the Agency within the West Haymarket Development Project. Under the agreement, the Agency made payments totaling approximately \$1,816,000 during fiscal year 2019 for the operation and maintenance of the Agency's parking garages.

As discussed in Note 1, the Agency is invested in the City of Lincoln, Nebraska's pooled cash and investment management system.

University of Nebraska (UNL)

During 2019, the Agency made payments totaling approximately \$293,000 to UNL for UNL Men's and Women's basketball tickets, for seating provided to suite and loge box users as part of their lease agreements, for the 2018-2019 and 2019-2020 basketball seasons. Payments for tickets for the 2019-2020 basketball season are recorded as prepaid expenses on the balance sheet/statement of net position at August 31, 2019.

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(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
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Note 10: Commitments

Environmental Matters

In connection with the West Haymarket Development Project, the Agency is involved with the clean-up and remediation of several development sites relating to soil and groundwater contamination. This clean-up and remediation is performed as sites are developed, as the Agency has not been designated as a potentially responsible party (PRP or equivalent status) by any regulatory agency requiring the immediate clean-up of impacted areas. Although future costs may be incurred, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory requirements. No liability has been recorded for potential future remediation activities as of August 31, 2019.

Note 11: Subsequent Events

In November 2019, the Agency issued \$100,000,000 of General Obligation Facility Refunding Bonds, Series 2019. The bond proceeds, together with other Agency funds, will be used to provide for payment of the principal of and interest on the \$100,000,000 outstanding principal amount of the Agency's General Obligation Facility Bonds, Series 2011, through the redemption date of December 15, 2021, and to redeem any remaining balance of the Series 2011 bonds on that redemption date. The refunding resulted in debt service savings of approximately \$26,858,000 and net present value savings of approximately \$21,042,000.

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

Independent Auditor's Report

Board of Representatives
West Haymarket Joint Public Agency
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 financial statements of the governmental activities and the major fund of the West Haymarket Joint Public Agency (the Agency), a component unit of the City of Lincoln, Nebraska, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 6, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Lincoln, Nebraska
January 6, 2020