

**PRE-COUNCIL MEETING  
CITY AUDIT FOR FINANCE DEPARTMENT  
MARCH 13, 2006**

**Present:** Don Herz, Finance Director; Peggy Watchorn, City Controller; Jane Tillman, Assistant City Controller, David Scheuler, City Accountant; Roger Watton, CPA for BKD; Jamie Johnson, CPA for BKD; and City Council Members: Ken Svoboda, Patte Newman, Annette McRoy, Robin Eschliman, and Dan Marvin.

**Absent:** City Council Members: Jonathan Cook, and Jon Camp.

Ken Svoboda opened the meeting at 10am. Don Herz made introductions and explained the purpose of the Pre-Council meeting is to present the City Comprehensive Annual Financial Report. He stated that BKD performed the audit of the report.

Roger Watton thanked the City Accounting Division for their corporative effort in helping them get this report done efficiently. He stated that the City of Lincoln should be proud to know that they received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, which was their twenty-second consecutive year that the City has received the award.

Roger started off his presentation by stating that they conducted their audit in accordance with the Government Auditing Standards. The first thing he wanted to point out was that a new standard was adopted this year, which was the Governmental Accounting Standards Board Statement No. 40 (also known as GASB 40) which amended the Custodial Credit Risk Disclosure Provisions. He said that he felt that the City's investment policy is written in a very strong manner and has minimized all of those risks.

Roger stated that the City's financial position continues to remain to be strong, even though the cash and net assets have slipped a little. He said that the bond ratings that the City obtained a couple of years ago really speak for that.

Jamie went over the forecast of revenue from their power point presentation, which broke down the revenue into the following four categories: Property Tax, Sales & Use, Intergovernmental, and All Other Categories. She stated that this slide referred to governmental funds, which are on a modified accrual basis, and the next slide shows the expenditures of the following six categories: General Government, Public Safety, Culture & Recreation, Capital Outlay, Debt Service, and All Other Categories.

Patte Newman asked how our debt service compares to Omaha. Don stated that he definitely knows that our General Obligation Bond is significantly lower and the percentage of the City of Lincoln's budget that we spend for debt service from the general fund is also quite a bit lower. He told the Council Members that he could get the exact figures for them if they would like. Patte asked if these numbers have been stable over the last five to ten years. Roger stated that if you would go back ten years, there would probably be more of a change throughout.

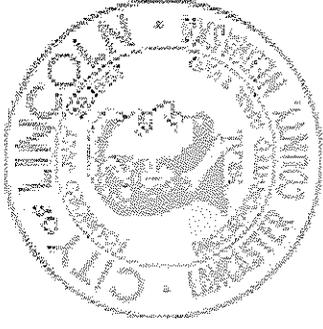
Next Roger went over other trends including the following: Population and the Governmental Activities Accrual Basis, Unreserved Net Assets, and Net Income Before Capital Contributions.

Don stated that they provided a copy of the Management Letter along with the Management Report in the City Council member's packets. Roger stated that the Management Letter included the Community Development Block Grant and the New Governmental Accounting Standards that have been published. The following Governmental Accounting Standards have been published: GASB No. 47, referring to Accounting for Termination Benefits; GASB No. 42, referring to Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries; and GASB No. 45, referring to Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.

Don stated that the GASB No. 42 is a very significant item for many cities. He feels that their major liability is that they provide health insurance for retirees, which they do pay a 100 percent of the premiums. However, he also said that there is an implicit benefit that they gain, and he feels that they should have to make some type of actuarial computation. He stated that it should be relatively moderate in comparison to cities like Omaha, since they continue to provide health insurance benefits for their retirement, at the expense of their City.

In closing, Don stated that when it was mentioned earlier that some of the cash balances have gone down, he stated that part of that is due to the significant spend down amount of bond proceeds for Water & Wastewater which contribute to some of that cash reduction.

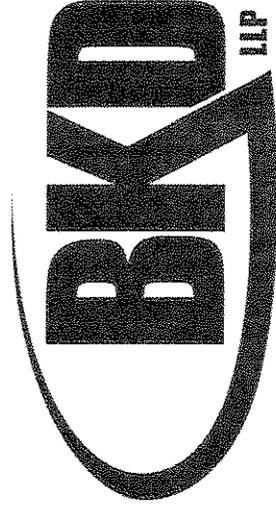
Ken Svoboda thanked the City Finance Staff and BKD for their contributing work they put into this report. He adjourned the meeting at 10:25am.



# CITY OF LINCOLN

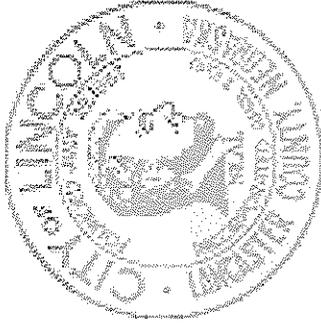
## Audit Presentation

Presented By:



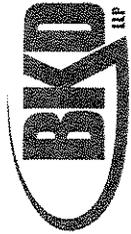
March 13, 2006

# CITY OF LINCOLN

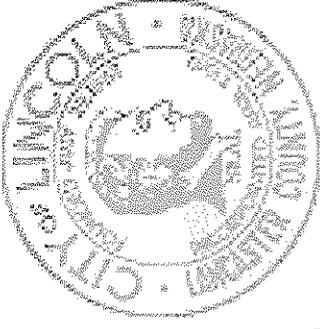


## Governmental Funds      2002-2005 Trends (Modified Accrual)

	2005	3 yr Avg. Annual
<u>Revenue</u>	<u>% of total</u>	<u>Growth Rate</u>
Property Tax	20.3%	4.4%
Sales & Use	24.1%	4.4%
Intergovernmental	28.4%	2.4%
All Other	27.2%	5.4%
	<hr/> <b>100%</b> <hr/>	

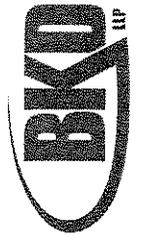


# CITY OF LINCOLN

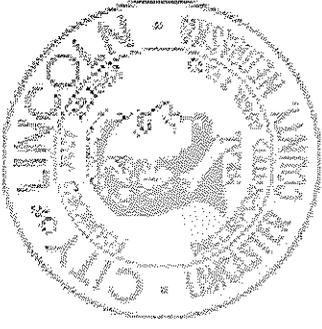


## Governmental Funds      2002-2005 Trends (Modified Accrual)

	2005	3 yr Avg. Annual
<u>Expenditures</u>	<u>% of total</u>	<u>Growth Rate</u>
General Government	13.1%	5.9%
Public Safety	23.6%	5.4%
Culture & Recreation	8.7%	8.0%
Capital Outlay	26.5%	9.6%
Debt Service	4.2%	11.1%
All Other	23.9%	2.2%
	<hr/>	
	<b>100%</b>	
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# CITY OF LINCOLN



## Other Trends

3 yr Avg. Annual

### Growth Rate

Population

2005 - 238,625

.97%

City Employees, General Government

2005 - 1,942 FTE's

.83%

Governmental Activities Accrual Basis:

Expenses

4.92%

Program Revenues

3.57%

General Revenues

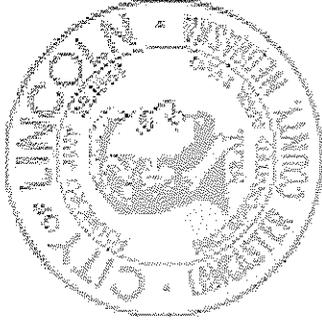
4.30%

Tax Revenue

4.15%



# CITY OF LINCOLN



## Governmental Funds (Modified Accrual)

### Unreserved Net Assets

Balance

August 31, 2005

Days of Operating

(In Thousands)

Expenditures

General Fund

\$29,456

103 days

Special Revenue Funds

46,920

181 days

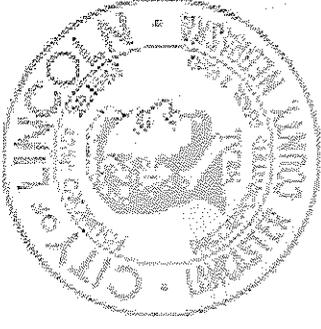
Debt Service Funds

7,071

246 days



# CITY OF LINCOLN



## Business – Type Activities

	Net Income (Loss) Before Capital Contributions		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Lincoln Electric System	\$(1,826,000)	\$7,332,000	\$12,790,000
Lincoln Water & Wastewater	5,417,000	6,381,000	4,970,000
Parking Facilities	482,000	733,000	825,000
Golf	(160,000)	(320,000)	(416,000)
Pershing	(745,000)	(773,000)	(629,000)
Sanitary Landfill	(452,000)	467,000	1,714,000
Emergency Medical	(496,000)	(105,000)	18,000
	<u>\$5,872,000</u>	<u>\$13,715,000</u>	<u>\$19,272,000</u>





The Honorable Mayor  
and Members of the City Council  
City of Lincoln, Nebraska

As part of our audit of the financial statements of the City of Lincoln, Nebraska for the year ended August 31, 2005, we studied and evaluated the City's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all opportunities for improvement. We observed the following matters and offer these comments and suggestions.

#### **Community Development Block Grant Program**

The CDBG loan program utilizes federal funding and is thus subject to the provisions of the Office of Management and Budget Circular A-133. The City utilizes a significant portion of the available funding to extend loans to Companies for business start-ups and expansion. The City has a comprehensive process for application and approval of these loans, including a loan committee review. As Companies meet their jobs creation and investment goals, the City has the ability to forgive these loans. Currently, there is not a written policy and procedures for loan forgiveness. We recommend that written policies be developed for the forgiveness process, which would include verification and the results prompting forgiveness and approval by the CDBG loan committee.

#### **New Auditing and Accounting Pronouncements**

##### ***Governmental Accounting Standards Board Statement No. 47, Accounting for Termination Benefits***

The Governmental Accounting Standards Board (GASB) has published Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting and financial reporting standards for termination benefits. The statement defines termination benefits as benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services.

The Statement establishes measurement and recognition requirements for the various types of termination benefits. The cost of termination benefits should include any fringe benefits related to the termination benefits and any directly resulting changes in the estimated costs of other employee benefits such as compensated absences, if reliably measurable. The Statement addresses measurement for both healthcare-related and non-healthcare-related termination benefits.

In financial statements prepared on the modified accrual basis of accounting, when the employees accept the offer and the amounts can be estimated, an employer should recognize the liability and expense for voluntary termination benefits. An employer should recognize a liability and expense for involuntary termination benefits, in financial statements prepared on the accrual basis of accounting, when a plan of termination has been approved by those with the authority to commit the employer to the plan, the plan has been communicated to the employees, and the amounts can be estimated. In governmental fund financial statements, which are prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Disclosure requirements include a description of the termination benefit arrangement – for example, information about the type of benefit provided, the number of employees affected, and the period of time over which benefits are expected to be provided. The cost of termination benefits should be disclosed if that information is not otherwise identifiable from information on the face of the financial statements. In all periods in which termination benefit liabilities are reported, the employer should disclose the significant methods and assumptions used to determine the liabilities. If a termination benefit that otherwise meets the recognition criteria of this standard is not recognized because the expected benefits are not estimable, the employer should disclose that fact.

Statement 47 is effective in the year ending August 31, 2008 for payments under existing defined benefit Other Post Employment Benefit plans and in the year ending August 31, 2006 for all other termination benefits.

The following Auditing and Accounting Pronouncements were presented in a letter dated January 19, 2005.

**Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries***

The Governmental Accounting Standards Board (GASB) has published Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, that requires governments to report the effects of capital asset impairment in their financial statements when it occurs. The guidance also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner.

Statement 42 is effective in the year ending August 31, 2006.

**Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***

The Governmental Accounting Standards Board has published Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* to establish standards for the measurement, recognition, and display of *other postemployment benefits* (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial report.

Statement 45 is effective in the year ending August 31, 2008.

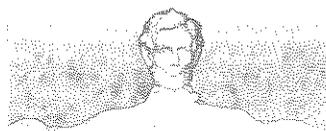
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We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the City's overall internal control structure; it does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide implementation assistance for changes or improvements you may require within the constraints of applicable professional standards on independence.

This letter is intended solely for the information and use of the Mayor, City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 30, 2005



# CITY OF LINCOLN NEBRASKA

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March 13, 2006

The Honorable Mayor  
and Members of City Council  
City of Lincoln, Nebraska

## RESPONSE TO MANAGEMENT LETTER DATED DECEMBER 30, 2005

### Community Development Block Grant Program

The CDBG loan program utilizes federal funding and is thus subject to the provisions of the Office of Management and Budget Circular A-133. The City utilizes a significant portion of the available funding to extend loans to Companies for business start-ups and expansion. The City has a comprehensive process for application and approval of these loans, including a loan committee review. As Companies meet their jobs creation and investment goals, the City has the ability to forgive these loans. Currently, there is not a written policy and procedures for loan forgiveness. We recommend that written policies be developed for the forgiveness process, which would include verification and the results prompting forgiveness and approval by the CDBG loan committee.

#### **Department Response:**

We agree with this recommendation. The Urban Development department will review current procedures related to CDBG loans and expand established written policies to include procedures for forgiving CDBG funded loans. These policies will be distributed to all individuals and committees involved in the loan process to ensure procedures are consistently followed.

Peggy Watchorn  
City Controller