

Memo

To: City Council Members
From: Audit Advisory Board
CC: Mayor Beutler, Mayor's Office
Date: 6/8/2009
Re: Agreed-Up Procedures Response for the year ended August 31, 2007
Pursuant to City Council Resolution A-84939

Recommendations of Audit Advisory Board

On April 30, 2009, the Audit Advisory Board met and reviewed the Agreed-Up Procedures Report from HBE Becker Meyer Love LLP. We concur with the recommendations they had on each fund; however, with the exception of the following funds, which are: Lincoln City Libraries, Snow Removal, Keno, and Insurance Revolving. You will find those funds listed below with our recommendations.

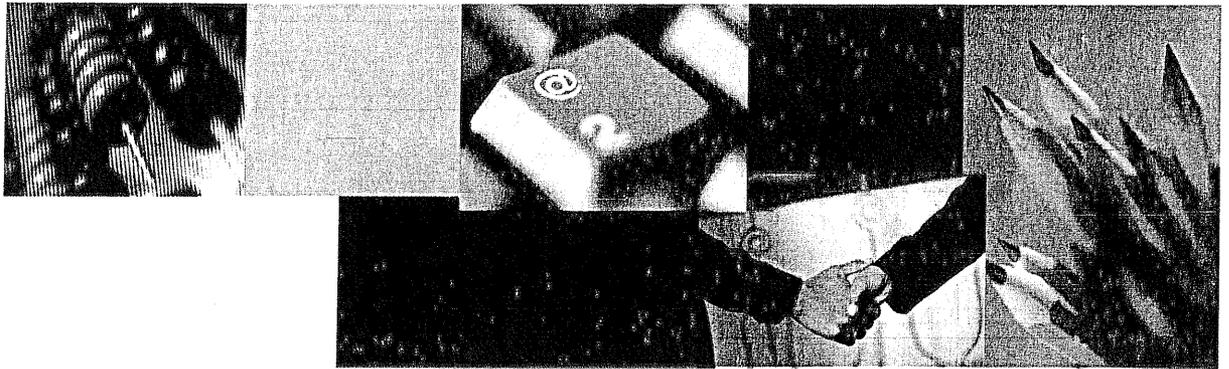
1. Lincoln City Libraries Fund, (Fund Number: 1204, Page of Report: 6): We suggest that additional analysis be completed to support the Lincoln City Library fund position, as defined in the City comments section of the report.
2. Snow Removal Fund, (Fund Number: 1208, Page of Report: 8): We agree with the City comments that there should be further review with the City Council and City Staff that include, discussion of the level of fund balance on hand.
3. Keno Fund, (Fund Number: 1213, Page of Report: 11): We are asking City Management to provide you with further analysis of the \$3.1 million fund balance of the three subject areas of Parks and Recreation, Libraries, and Human Services, back to the year of 2006-2007.
4. Insurance Revolving, (Fund Number: 2203, Page of Report, 34): We believe that more detailed information is needed to fully understand this fund.

The scope of this audit/engagement with HBE Becker Meyer Love, LLP, was limited to the provision of a Report and a Finding of Agreed-Up Procedures regarding undesignated fund balances. This Board did not make findings regarding those items found in L.M.C. Section 4.66.040 (d) (1), as those items were not addressed by the scope of this engagement.

As required by L.M.C. Section 4.66.040 (d) (2) a copy of the final audit report and the auditee response is attached.

Because of the scope of this engagement this Board did not create a separate listing of any irregularities or failures to comply with legal or administrative policies as required by L.M.C. Section 4.66.040 (d) (3).

The Board's recommendations are required by L.M.C. Section 4.66.040 (d) (4) are listed above.



**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
AND
FINDINGS OF AGREED-UPON PROCEDURES
CITY OF LINCOLN**

August 31, 2007

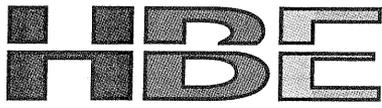
HBE BECKER MEYER LOVE LLP

City of Lincoln

For the year ended August 31, 2007

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON APPLYING AGREED-UPON PROCEDURES

The City's Audit Advisory Board
The City Council
City of Lincoln
Lincoln, Nebraska

We have performed the procedures enumerated below, which were agreed to by the City of Lincoln, the City's Audit Advisory Board, and the City Council, solely to assist you with respect to the accuracy and appropriateness of the Government Funds, Business-type Funds and Internal Service Funds schedules as of August 31, 2007. The City of Lincoln's management is responsible for the Government Funds, Business-type Funds and Internal Service Funds schedules. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures are as follows:

- 1) Verify the accuracy of the fund schedules included on pages 39 through 46.
- 2) For any funds in which the undesignated/unrestricted fund balance represents more than three months of operating expenditures, obtain an explanation/justification for the balance from management. The funds examined using this criteria are indicated with a yes on the fund schedule.
- 3) If the representation regarding the undesignated/unrestricted fund balance indicates amounts that may be in excess of operational needs, obtain additional representation about potential options to either reduce or lapse any excess fund balance.
- 4) For any funds in which the total fund balance is less than zero, obtain an explanation/justification for the balance from management. The funds examined using this criteria are indicated with a "yes" on the fund schedules on pages 39 through 46.
- 5) For any fund with a designation for debt service, determine whether the designation for debt service is in excess of the actual outstanding debt. If it is, obtain an explanation/justification for the designation from management. The funds examined using this criteria are indicated with a "yes" on the fund schedules.
- 6) Inquire of management whether there is any information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate. If so, obtain further explanations from management.

- 7) Funds not meeting the criteria specified in items 2 through 5, indicated by a "no" in all three categories on the fund schedule, were excluded from our procedures and are not included in the attached report.
- 8) Meet with the City's Audit Advisory Board and the City Council to present the report.

We have attached a summary of each fund examined along with our findings and recommendations on pages 3 through 37.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the Government Funds, Business-type Funds, and Internal Service Funds schedules as of August 31, 2007. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Lincoln, the City's Audit Advisory Board and the City Council and is not intended to be and should not be used by anyone other than those specified parties.

HBE Becker Mayer Jove LLP

March 26, 2009

STREET CONSTRUCTION FUND
GOVERNMENTAL FUND
1211 and 1402

SUMMARY:

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City. Revenues are primarily derived from state highway allocation fees and receipts from other governmental entities. State highway allocation fees are restricted by state law and must be used for the construction and maintenance of streets and highways.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures. However, the undesignated fund balance decreased from \$24.8 million as of August 31, 2007 to \$17 million as of August 31, 2008 (unaudited) due to significant capital outlays in fiscal year 2008. The fiscal year 2008 ending balance (unaudited) does not represent more than three months of operating expenditures. In addition, per management, the balances in this fund are either appropriated or have a future authorized use established. Generally accepted accounting principles do not require designation in the financial statements for appropriations not yet under contract.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

Because excess funds appear to be set aside for future projects, we recommend the Fund be maintained as is.

City of Lincoln

ADVANCE ACQUISITION
GOVERNMENTAL FUND
1201

SUMMARY:

The Advance Acquisition Fund accounts for funds to be used for the acquisition of real estate for public purposes. Net proceeds from the sale or exchange of real estate owned by the City are credited to this fund and the fund may also be increased by General Fund appropriations or proceeds from general obligation borrowing. The purpose of this Fund is established in the City Charter and cannot be changed without a vote of the people.

DISCUSSION:

The undesignated fund balance of \$1.1 million represents more than three months of operating expenditures because sales and purchases of real estate are accounted for outside of operating expenditures. These amounts are reported as other financing sources or uses. The undesignated fund balance represents the amount by which sales or exchange proceeds have exceeded purchases of real estate for public purposes.

RECOMMENDATIONS:

We recommend that this Fund be maintained in accordance with the City Charter. It doesn't appear that General Fund appropriations to this Fund are currently necessary. Further, other funds should make use of the dollars available in this Fund when projects involve the purchase of real estate for public purposes, which management represents is the City's current policy.

ATHLETIC FIELD AND FACILITIES IMPROVEMENT
GOVERNMENTAL FUND
1202

SUMMARY:

The Athletic Field and Facilities Improvement Fund accounts for proceeds from a surcharge applied to registration fees charged by the Recreation Division for various athletic activities. These monies must be used for improvements to athletic fields and facilities according to City Resolution.

DISCUSSION:

The undesignated fund balance of \$256 thousand represents more than three months of operating expenditures because athletic field and facilities improvement expenditures are accounted for outside of operating expenditures. These amounts are reported as other financing uses and very little, if any, funds are expended for operational purposes. Instead, the funds are accumulated for various projects in the future.

RECOMMENDATIONS:

We recommend that this Fund be maintained in accordance with the City Resolution.

LINCOLN CITY LIBRARIES
GOVERNMENTAL FUND
1204

SUMMARY:

The Lincoln City Libraries Fund accounts for the costs of providing library services to the citizens of Lincoln. Revenue is provided by a specific annual tax levy, fines and fees, and reimbursement from Lancaster County for services provided to County residents.

DISCUSSION:

The undesignated fund balance of \$2.5 million as of August 31, 2007, represents four months of operating expenditures. The undesignated fund balance has grown from \$1.9 million in fiscal year 2005 to \$2.5 million in fiscal year 2007. There was a decrease in undesignated fund balance in fiscal year 2008 to \$2.4 million (unaudited).

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that you consider using more of the undesignated fund balance for providing library services to the citizens of Lincoln, as is the intent of the tax levy. We understand that a reserve is necessary to manage the timing difference between the receipt of property tax dollars and the payment of operating expenditures. However, it is not necessary to increase this reserve as has occurred since at least fiscal year 2005, especially when expenditures are not increasing.

TAX SALE REVOLVING
GOVERNMENTAL FUND
1206

SUMMARY:

The Tax Sale Revolving Fund provides for the acquisition of lots sold at tax sale. The City will purchase such lots when the expected sale price will not allow for payment in full of the tax due the City. Revenue is provided by the proceeds received from the later sale of these lots as well as transfers from the Advance Acquisition Fund.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures because there were no expenditures in fiscal year 2007. Prior to fiscal year end August 31, 2007, \$720 thousand was transferred to the General Fund. The remaining balance of approximately \$7 thousand represents accrued interest.

RECOMMENDATIONS:

Upon our inquiry, management suggested, and we concur, that the remaining balance be transferred to the General Fund. We also recommend closing this Fund. All subsequent transactions of this type could be handled through the Advance Acquisition Fund.

SNOW REMOVAL
GOVERNMENTAL FUND
1208

SUMMARY:

The Snow Removal Fund accounts for the costs of providing snow and ice removal services for all streets in the City of Lincoln. Financing is provided by a percentage of wheel tax receipts and transfers from the Street Construction Fund.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures due to a reserve maintained for an especially harsh winter where actual expenditures would exceed budget. The undesignated fund balance did increase from \$1.2 million in 2007 to \$1.3 million in 2008 (unaudited).

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$1.2 million undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be a reasonable reserve for an especially harsh winter. We believe the City Council should discuss with City management the appropriateness of setting aside over five months of expenditures for this reason. Consideration should be given to the availability of financing from other funds, especially the Street Construction Fund if such an event were to occur. Any undesignated fund balance deemed to be in excess of the desired reserve should be used for other street related projects.

SOCIAL SECURITY
GOVERNMENTAL FUND
1210

SUMMARY:

The Social Security Fund accounts for the City of Lincoln's matching share of Social Security costs for employees paid from the General Fund and other funds supported primarily from general tax revenue. Financing is provided by a specific annual property tax levy, which may only be used for this purpose.

DISCUSSION:

The undesignated fund balance of \$1.6 million represents 10 months of operating expenditures. In developing the fiscal year 2009 budget, management determined that the undesignated fund balance was greater than necessary. Therefore, extra fund balances (approximately \$85 thousand) were appropriated as a revenue source in fiscal year 2009. It is management's intent to continue to appropriate the excess fund balance as a revenue source over the next four fiscal years (approximately \$200 thousand per year).

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We agree that the undesignated fund balance be appropriated as a revenue source. However, consideration should be given to accelerating the planned appropriation of the excess fund.

UNEMPLOYMENT COMPENSATION
GOVERNMENTAL FUND
1212

SUMMARY:

The Unemployment Compensation Fund accounts for the cost of unemployment benefits paid to former employees of departments supported primarily by tax revenues. The City reimburses the State for actual costs rather than a percentage of payroll. Financing was provided by a specific annual property tax levy. Currently, the only revenue source is investment income.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures due to a reserve maintained in case actual unemployment costs exceed investment income. In fiscal years 2007 and 2008 (unaudited), the undesignated fund balance decreased \$8 thousand to \$141 thousand and \$34 thousand to \$106 thousand, respectively. The decline is consistent with the unemployment trends that occur during times of economic instability.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that the undesignated fund balance be maintained as is. The undesignated fund balance should be monitored as the City continues to weather the economic downturn. Consideration should be given to anticipated budget cuts. Subsequent reduction in personnel should be used as an indicator as to whether the fund balance continues to remain appropriate. Management represents that this is the City's current policy.

KENO
GOVERNMENTAL FUND
1213

SUMMARY:

The Keno Fund accumulates resources from the City's percentage of Keno revenue in the City and accounts for the activities financed with Keno revenues. Currently, these funds are restricted for expenditure as follows:

- 65% Parks and Recreation
- 30% Libraries
- 5% Human Services

DISCUSSION:

The undesignated fund balance of \$3.1 million represents over 11 months of operating expenditures and other financing uses. The allocations from these funds are largely used to finance capital projects. During fiscal year 2008, the City issued revenue anticipation notes (RANs) for Antelope Valley projects. The City committed the past and future Parks and Recreation revenue allocations from this fund for the debt service requirements of the RANs.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that the undesignated fund balance as of August 31, 2007 be evaluated for appropriateness. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving separate consideration to the amounts restricted to parks and recreation, libraries and human services. Specifically, when evaluating the parks and recreation portion of the fund balance, consideration should be given to the cash flow needed for the Antelope Valley project as well as the potential to pay down the outstanding principal of the revenue anticipation notes and their continued debt service requirements.

City of Lincoln

SPECIAL ASSESSMENTS
GOVERNMENTAL FUNDS
1215, 1303 and 1410

SUMMARY:

The Special Assessments Special Revenue Fund (1215) accounts for the receipt and disbursement of special assessment bond proceeds and other income which is derived from, interest income, developers' share of districts and City subsidies. This fund is also used to account for the administrative cost of the collection and accounting for special assessments levied against benefited properties.

The Special Assessments Debt Service Fund (1303) accumulates resources for payment of principal and interest on special assessment bond issues. Income is derived from special assessment tax collections, interest on special assessment taxes and interest from investments.

The Special Assessments Capital Projects Fund (1410) accounts for the cost of capital improvements to be assessed against benefited properties. Resources are derived from fund transfers from the Special Assessments Special Revenue Fund and interest on investments.

These three funds should be considered as one.

DISCUSSION:

The Special Assessments Debt Service Fund (1303) should not have had a designation for debt service. The debt was paid in full and the fund balance designation should have been removed. The \$9.9 million fund balance represents an accumulation of interest earnings over the history of the fund. As of August 31, 2008, this Fund was closed out to the Special Assessments Special Revenue Fund (1215). This increased the fund balance in this special revenue fund to \$10.8 million.

Assessment payments are still being received and improvements are being made using new assessment districts. However, current operating revenues are exceeding current operating expenditures.

RECOMMENDATIONS:

Upon our inquiry, management suggested, and we concur, that the majority of the combined undesignated fund balance be lapsed for other purposes. Management suggests maintaining \$2 million of the undesignated fund balance for continued operating expenditures, for management of timing differences between receipts and expenditures, and for potential use in developing future districts.

BUILDING AND SAFETY
GOVERNMENTAL FUND
1217

SUMMARY:

The Building & Safety Fund accounts for the cost of providing building and safety permit and inspection services to the citizens of Lincoln. Financing is provided through permit and inspection fee revenues and a subsidy from the General Fund.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures due to a reserve maintained for periods of economic downturn. The undesignated fund balance decreased \$467 thousand to \$4.3 million in fiscal year 2007 and \$663 thousand to \$3.6 million in fiscal year 2008 (unaudited).

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$4.3 million undesignated fund balance as of August 31, 2007 be evaluated. As the undesignated fund balance was intended to act as a reserve for periods of economic decline such as the current decline, we recommend that the fund balance be considered for expenditure in the upcoming fiscal years. Consideration should be given to budgeted fiscal year 2009 changes in fund balance.

PROPERTY TAX REFUNDS
GOVERNMENTAL FUND
1216

SUMMARY:

The Property Tax Refunds Fund accumulates resources for reimbursement of taxes on centrally assessed property per a previous court order. Resources are derived from collection of prior years' tax levies and interest earned on those collections.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures because there were no expenditures in fiscal year 2007. The activity in the fund creating the \$6 thousand undesignated balance is mostly a result of interest earnings. This Fund is otherwise considered inactive.

RECOMMENDATIONS:

Upon our inquiry, management suggested, and we concur, that the undesignated fund balance be transferred to the General Fund and the fund be closed.

City of Lincoln

IMPACT FEES
GOVERNMENTAL FUND
1220

SUMMARY:

The Impact Fees Fund accounts for the receipts and disbursements of impact fees in accordance with City Ordinance.

DISCUSSION:

The Fund is only allowed to keep 2% of collections for administrative costs, while the remaining collections are distributed to the various funds designated to receive impact fees. As of August 31, 2007, the undesignated fund balance is negative approximately \$7 thousand because administrative expenses were greater than 2% of collections. Management believes that the deficit will continue to grow in the near future. As of August 31, 2008, the undesignated fund balance is negative approximately \$16 thousand (unaudited).

RECOMMENDATIONS:

We recommend that a plan to eliminate current and future deficits be established and the fund be closely monitored.

PARKS AND RECREATION SPECIAL PROJECTS
GOVERNMENTAL FUND
3111

SUMMARY:

The Parks & Recreation Special Projects Fund accounts for the proceeds of various trusts, donations and special park event fees.

DISCUSSION:

The undesignated fund balance represents over three years of operating expenditures and other financing uses of \$770 thousand. Per management, these funds are to be used for the development of various projects, such as a mini-park, an observatory, landscaping, etc.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that appropriateness of the undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving consideration to the expected timing of the projects and donor restrictions.

SENIORS FOUNDATION OF LINCOLN AND LANCASTER COUNTY
GOVERNMENTAL FUND
3112

SUMMARY:

The Seniors Foundation of Lincoln & Lancaster County Fund accounts for the proceeds of fund-raising activities by and donations to the Lincoln/Lancaster Senior Center Foundation. These funds are turned over to the City to be used for special projects at the discretion of the Foundation.

DISCUSSION:

The undesignated fund balance of \$293 thousand represents more than three months of operating expenditures because monies come into this fund for specific purposes and investment earnings thereon remain to be spent.

RECOMMENDATIONS:

We recommend that the undesignated fund balance be maintained or expended in accordance with donor intentions and the Foundation's recommendations, which management represents is the City's current policy.

LIBRARY SPECIAL TRUST
GOVERNMENTAL FUND
3113

SUMMARY:

The Library Special Trust Fund accounts for the receipt of investment earnings from the following trusts:

Charles Gere Library Fund – To be used as directed by the Library Board for the benefit of the Lincoln City Libraries.

Lillian Polley Trust – To be used for the Polley Music Library.

DISCUSSION:

The undesignated fund balance of \$318 thousand represents nearly three years of operating expenditures. The undesignated fund balance represents unspent investment earnings.

RECOMMENDATIONS:

We recommend that the undesignated fund balance be expended in accordance with donor intentions, which management represents is the City's current policy.

STORM SEWER CONSTRUCTION
GOVERNMENTAL FUND
1401

SUMMARY:

The Storm Sewer Construction Fund accounts for the cost of improving and extending storm sewers. Financing is provided by property tax revenue.

DISCUSSION:

The undesignated fund balance of \$189 thousand represents more than three months of operating expenditures because monies that came into this fund for specific purposes were not spent. Per management, these funds have been set aside for future projects.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We would recommend that the appropriateness of the \$189 thousand undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving consideration to the expected timing of the projects.

VEHICLE TAX
GOVERNMENTAL FUND
1403

SUMMARY:

The Vehicle Tax Fund accounts for monies derived from the payment of wheel tax which is to be used for street improvements in the City. This Fund can only be used for the purposes allowed in State Statute 18-1214. This statute states that funds can be used for "constructing, resurfacing, maintaining, or improving streets, roads, alleys, public ways, or parts thereof or for the amortization of bonded indebtedness when created for such purposes".

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures. However, the undesignated fund balance decreased from \$7.1 million as of August 31, 2007 to \$2.8 million as of August 31, 2008 (unaudited) due to significant transfers out to other funds to support street projects and snow removal. Per management, the remaining balance in this fund is either appropriated or a future authorized use has been established.

RECOMMENDATIONS:

Due to State Statute 18-1214 restrictions and because excess funds appear to be allocated for future projects, we recommend the Fund be maintained as is.

1991 GOVP BONDS
GOVERNMENTAL FUND
1404

SUMMARY:

The 1991 G.O. Various Purpose Bonds Fund accounts for the cost of providing improvements to the City's existing library system, including the expansion and equipping of Gere Branch Library and to purchase and equip a new bookmobile; and providing improvements to the City's existing storm sewer and drainage system. Financing is provided by general obligation bonds.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures because there were no expenditures in fiscal year 2007. The undesignated fund balance of \$49 thousand as of August 31, 2007 is from investment earnings accumulating since at least 1997. The undesignated fund balance increased to \$52 thousand as of August 31, 2008 (unaudited). This bond issue was repaid with a later bond issue, the 1999 G.O. Various Purpose Bonds.

RECOMMENDATIONS:

Upon our inquiry, management suggested, and we concur, that the undesignated fund balance be used to pay debt service on the 1999 G.O. Various Purpose Bonds.

STORM SEWER BONDS
GOVERNMENTAL FUND
1407

SUMMARY:

The Storm Sewer Bonds Fund accounts for the cost of providing improvements and extensions to the City's storm water sewer and drainage system. Financing is provided by a combination of general obligation bond issue proceeds, tax increment financing and reimbursement funds from the Federal Emergency Management Agency.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures because storm water bond issues are deposited in this Fund until construction is funded. As of August 31, 2007, the undesignated fund balance was \$11.9 million as a result of a 2007 bond issue totaling \$8.3 million for which construction was just beginning. The undesignated fund balance decreased to \$6.6 million at fiscal year end 2008 (unaudited). Per management, the balances in this Fund are either appropriated, have future authorized uses established, or have been transferred back to pay debt service in the last two budget resolutions.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$11.9 million undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of budgeted expenditures for improvements and extensions to the system. We believe the City Council should discuss with City management the appropriateness of the balance, giving consideration to the expected timing of the improvements and extensions. Any excess balance should be used to pay down the bonds.

City of Lincoln

1999 GOVP BONDS
GOVERNMENTAL FUND
1411

SUMMARY:

The 1999 G.O. Various Purpose Bonds Fund accounts for the cost of financing, acquiring, and improving interactive recreational facilities for children and families, referred to as the Lincoln Children's Museum; financing the construction and equipping of two new park and recreational facilities; and financing construction and equipping of two public libraries and necessary site improvements.

DISCUSSION:

The undesignated fund balance of \$79 thousand as of August 31, 2007 represents the remaining proceeds from the Lincoln Children's Museum bond issue from the late 1990s plus investment earnings. The balance has been maintained by the City for use by the Lincoln Children's Museum for building improvements. However, only \$13 thousand and \$9 thousand of expenditures were incurred during fiscal years 2007 and 2008 (unaudited), respectively.

RECOMMENDATIONS:

We recommend establishing a timeframe for which the funds would remain available for use by the Lincoln Children's Museum. Any funds remaining after this time period should be used for debt service.

OTHER CAPITAL PROJECTS
GOVERNMENTAL FUND
1409

SUMMARY:

The Other Capital Projects Fund accounts for the cost of acquiring or improving various fixed assets. Funding is received from various sources including operating transfers from other funds and bond proceeds for appropriated projects.

DISCUSSION:

The undesignated fund balance of \$2.5 million represents more than three months of operating expenditures. However, per management, the balances in this fund are either appropriated or have a future authorized use established.

There is no information that would lead management to believe the fiscal year 2007 fund balance designations are not appropriate.

RECOMMENDATIONS:

Because excess funds appear to be set aside for future projects, we recommend the Fund be maintained as is.

COMMUNITY HEALTH ENDOWMENT
GOVERNMENTAL FUND
3119

SUMMARY:

The Community Health Endowment Fund accounts for proceeds from the sale of Lincoln General Hospital and the receipt of investment earnings. Earnings in this fund are to be used for health and health-related programs that further the health, safety or welfare of the citizens of Lincoln.

DISCUSSION:

The undesignated fund balance represents more than three months of operating expenditures. Since August 31, 2004 through August 31, 2007, the undesignated fund balance has increased from \$8.8 million to \$13.1 million as investment earnings have exceeded expenditures. The fund balance did decrease slightly in 2008 (unaudited), but still remains in excess of \$13 million.

It is management's understanding that the Community Health Endowment Board has generally decided to grow the proceeds from the sale of Lincoln General hospital at an inflation-adjusted basis to preserve the purchasing power of the funds. However, this policy has not been adopted by ordinance or resolution.

RECOMMENDATIONS:

We recommend that an investment and spending policy be formally adopted for this Fund. If growing the proceeds in relation to inflation is approved, a method for tracking the inflation adjustment should be established. Undesignated funds exceeding the cumulative inflation adjustments should be used for current health and health-related programs, in accordance with the Lincoln General Hospital sale agreement.

J.J. HOMPES
GOVERNMENTAL FUND
3118

SUMMARY:

The J.J. Hompes Fund accounts for the receipt of investment earnings to be used at the discretion of the head librarian. The trust requests, but does not direct, that the funds be used to buy books, magazines and other periodicals.

DISCUSSION:

The undesignated fund balance of \$530 thousand represents more than 27 years of operating expenditures because the fund had only \$19 thousand of expenditures during fiscal year 2007. The undesignated fund balance did decrease slightly in 2008 to \$492 thousand (unaudited).

Management represents that the trust agreement only allows for the expenditure of interest and dividend earnings on the funds. Though not restricted on the fund schedule, management represents that the unrealized gains are not spendable. Management also represents that annual expenditures approximately equal annual interest and dividend earnings.

RECOMMENDATIONS:

We recommend that the undesignated fund balance of \$530 thousand as of August 31, 2007 be maintained and spent in accordance with the trust agreement. Legal requirements of the trust agreement and the appropriate accounting of restricted funds should be reviewed in comparison to current practice.

LINCOLN WASTEWATER SYSTEM
BUSINESS-TYPE FUND
2108

SUMMARY:

The Lincoln Wastewater System Fund accounts for the operations of the City-owned wastewater utility.

DISCUSSION:

Unrestricted net assets of \$6.5 million represent more than three months of operating expenditures. Management has been setting aside money for the capital improvement projects and over \$17 million of projects are planned for the fiscal year 2009 Capital Improvement Program of which \$12.7 million will be financed with revenue bonds.

RECOMMENDATIONS:

Because excess funds have been budgeted for capital projects to occur in fiscal year 2009, we recommend the fund be maintained as is.

LINCOLN WATER SYSTEM
BUSINESS-TYPE FUND
2109

SUMMARY:

The Lincoln Water System Fund accounts for the operations of the City-owned water utility.

DISCUSSION:

Unrestricted net assets of \$26.3 million represent more than three months of operating expenditures. Management has been setting aside money for the capital improvement projects and over \$19 million of projects are planned for the fiscal year 2009 Capital Improvement Program.

RECOMMENDATIONS:

Because excess funds have been budgeted for capital projects to occur in fiscal year 2009, we recommend the fund be maintained as is.

PARKING LOT REVOLVING
BUSINESS-TYPE FUND
2101

SUMMARY:

The Parking Lot Revolving Fund accounts for the operations of several City-owned parking lots.

DISCUSSION:

Unrestricted net assets of \$1.3 million represent more than three months of operating expenditures. The balance increased by \$45 thousand in fiscal year 2008 (unaudited). Management has been setting aside money for the acquisition of additional parking lots.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$1.3 million unrestricted net assets as of August 31, 2007 be evaluated. Considerations should include the expected purchase date and estimated cost of upcoming capital projects and the availability of financing from other funds and sources.



PARKING FACILITIES
BUSINESS-TYPE FUND
2103

SUMMARY:

The Parking Facilities Fund accounts for the operations of seven downtown parking garages: Carriage Park, Que Place, Center Park, Cornhusker Square, University Square, Market Place and Haymarket. The fund is required, by bond covenants, to maintain net revenue at least equal to 150% of the required debt service payments in the year with the maximum debt service requirements. For fiscal year 2007, this percentage was 174%.

DISCUSSION:

Unrestricted net assets represent more than three months of operating expenditures. Unrestricted net assets increased from \$4.2 million at August 31, 2007 to \$5 million at August 31, 2008 (unaudited). Management has been setting aside money for the construction of two additional parking facilities.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$4.2 million unrestricted net assets as of August 31, 2007 be evaluated. Considerations should include debt service requirements, an estimate of the additional cash flow that would be needed for upcoming capital projects and the availability of financing from other funds and sources.

EMERGENCY MEDICAL SERVICES
BUSINESS-TYPE FUND
2111

SUMMARY:

The Emergency Medical Services Fund accounts for the costs of providing emergency and non-emergency ambulance services.

DISCUSSION:

This Fund has a net deficit. Management has taken action to improve the financial performance of this fund through rate increases and contracting with a collection agency for past due balances. This action had an impact on the net deficit in fiscal year 2008 (unaudited) as the unrestricted deficit decreased by \$233 thousand. The unrestricted net deficit as of August 31, 2008 was \$830 thousand (unaudited). Management anticipates this trend to continue as debt related to the initial purchase of the ambulances was paid in full in fiscal year 2008. However, if future capital purchases are necessary the fund deficit may not decrease as anticipated.

RECOMMENDATIONS:

We recommend, and management concurs, that the actions taken in fiscal year 2008 continue. Special focus should be paid to the amounts charged for services and the collection of balances due. We recommend the fund perform an annual review of the amounts charged for services considering anticipated operating expenditures and capital purchases. Fees should be increased as necessary each year. Management represents that this is the City's current policy.

City of Lincoln

INFORMATION SYSTEMS
INTERNAL SERVICE FUND
2201

SUMMARY:

The Information Systems Fund accounts for the costs of operating a central data processing facility for the City of Lincoln and Lancaster County. Revenue is provided by fees for services provided to City of Lincoln and Lancaster County departments on a full cost recovery basis.

DISCUSSION:

Unrestricted net assets represent more than three months of operating expenditures. Unrestricted net assets did decrease from \$2.4 million at August 31, 2007 to \$2 million at August 31, 2008 (unaudited). Management has been setting aside money for capital projects estimated to cost \$1.2 million.

RECOMMENDATIONS:

We recommend that the appropriateness of the \$2.4 million unrestricted net assets as of August 31, 2007 be evaluated. Considerations should include upcoming capital projects estimated to cost \$1.2 million and the availability of financing from other funds and sources. We further recommend the fund perform an annual review of the amounts charged for services and evaluate the possibility of decreasing rates to benefit each department during a difficult economic period. Management represents that this is the City's current policy.

ENGINEERING REVOLVING
INTERNAL SERVICE FUND
2202

SUMMARY:

The Engineering Revolving Fund accounts for the costs of providing engineering services for capital projects. Revenue is provided by billings to the various capital improvement projects that may have City, County, State and Federal participation.

DISCUSSION:

This fund has a net deficit. It is management's opinion, that in the past, other City funds have utilized the services of this fund, but were not adequately charged for the services provided. Management has taken actions to monitor the financial performance of this fund with regular meetings focusing on amounts charged for services. These actions had an impact on the net deficit in fiscal year 2008 (unaudited) as the unrestricted net deficit decreased by \$688 thousand. The unrestricted net deficit as of August 31, 2008 (unaudited) was \$383 thousand. Management is also in the process of implementing a Developmental Services Center to streamline the services provided by this and other funds.

RECOMMENDATIONS:

We recommend that the actions taken in the 2008 fiscal year continue and special focus be paid to the appropriate billing of services to each project and corresponding fund.

INSURANCE REVOLVING
INTERNAL SERVICE FUND
2203

SUMMARY:

The Insurance Revolving Fund accounts for the cost of providing a self-insurance program for workers' compensation, health, dental, long-term disability, liability and property insurance. Revenue is provided by billings to the participating departments.

DISCUSSION:

Unrestricted net assets of \$ 10.5 million represent more than three months of operating expenditures. According to management, actuarial studies are performed annually to determine the appropriate reserve for each type of insurance. Based on the results of these studies rates charged to participating departments are modified.

RECOMMENDATIONS:

We recommend the City continue to obtain actuarial studies to determine the appropriate balance of provisions for claims payable and claims incurred but not reported. These liabilities should be recorded in the financial statements. The City should also develop a policy for utilizing the savings, if any, from the self-insurance programs.

POLICE GARAGE
INTERNAL SERVICE FUND
2205

SUMMARY:

The Police Garage Fund provides for the purchase, operation and maintenance of all City vehicles weighing less than one ton. Revenue is provided by fees for services provided to departments within the City of Lincoln on a per mile basis.

DISCUSSION:

Unrestricted net assets of \$1.7 million represent more than three months of operating expenditures. It is management's intent for this balance to act as a reserve for future vehicle purchases. The fiscal year 2009 budget does include \$1.2 million of vehicle and related purchases.

RECOMMENDATIONS:

We recommend that the unrestricted net assets be evaluated for appropriateness, if the above mentioned purchases are not made. If the above purchases are made in 2009, the unrestricted net assets will likely fall below the threshold of three months of operating expenditures.

COMMUNICATION SERVICES
INTERNAL SERVICE FUND
2206

SUMMARY:

The Communication Services Fund provides graphic design and telecommunications services. Revenue is provided by fees for services provided to the City of Lincoln and Lancaster County departments on a per radio basis which varies depending on the type of radio.

DISCUSSION:

Unrestricted net assets of \$161 thousand represent more than three months of operating expenditures. It is management's intent for this balance to act as a reserve for potential capital purchases. No specific purchases have been identified at this time.

RECOMMENDATIONS:

We recommend that appropriateness of unrestricted net assets of \$161 thousand at August 31, 2007 be evaluated. Considerations should include the desired reserve for future purchases.

COPY SERVICES
INTERNAL SERVICE FUND
2208

SUMMARY:

The Copy Services Fund provides copy services to the City of Lincoln and Lancaster County. Revenue is provided by fees for services provided to the City of Lincoln and Lancaster County departments on a per copy basis.

DISCUSSION:

Unrestricted net assets of \$282 thousand represent more than three months of operating expenditures. It is management's intent to lower the per copy fee for fiscal year 2010 in order for each department to benefit from the excess balance.

RECOMMENDATIONS:

We recommend that the per copy fee be lowered as discussed above. In addition, we recommend that management evaluate the possibility of accelerating the rate decrease to benefit each department during a difficult economic period.

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City of Lincoln
Governmental Funds
August 31, 2007

Fund Number	General Fund 1101	Street Construction 1211/1402	Federal Grants 1214	Advance Acquisition 1201	Athletic Field & Fac Impr 1202	Cable Access 1203	Lincoln City Libraries 1204	Lincoln Area Ag on Aging 1205
Fiscal Year 2004/2005								
Beginning Fund Balance	\$ 35,973,419	\$ 38,732,945	\$ 16,340,308	\$ 826,799	\$ 303,869	\$ -	\$ 2,661,182	\$ 317,387
Operating Revenues	104,565,234	41,262,739	21,313,952	76,652	67,924	-	7,393,820	1,439,494
Operating Expenditures	(91,578,950)	(55,760,315)	(23,389,461)	(47,346)	-	-	(7,345,809)	(4,394,757)
Net Other Financing Sources/Uses	(17,556,429)	4,566,014	282,733	2,518,610	(9,400)	-	(13,066)	2,995,252
Ending Fund Balance	31,403,274	28,801,383	14,547,532	3,374,715	362,393	-	2,696,127	357,376
Fiscal Year 2005/2006								
Operating Revenues	109,388,803	34,214,006	22,921,047	83,191	67,698	217,386	7,646,264	1,531,776
Operating Expenditures	(96,184,725)	(50,949,185)	(20,528,480)	(1,224,323)	-	(80,754)	(7,427,043)	(4,424,039)
Net Other Financing Sources/Uses	(15,315,314)	5,598,107	635,728	(1,030,015)	(224,237)	-	920	2,949,382
Ending Fund Balance	29,292,038	17,664,311	17,575,827	1,203,568	205,854	136,632	2,916,268	414,495
Fiscal Year 2006/2007								
Operating Revenues	108,876,525	32,461,555	22,681,905	38,503	68,389	381,788	7,644,770	1,456,586
Operating Expenditures	(95,289,084)	(37,136,717)	(22,215,483)	(51,866)	-	(444,981)	(7,339,835)	(4,310,244)
Net Other Financing Sources/Uses	(12,466,775)	33,528,568	516,293	(134,291)	(18,010)	-	516	2,690,983
Ending Fund Balance	\$ 30,412,704	\$ 46,517,717	\$ 18,558,542	\$ 1,055,914	\$ 256,233	\$ 73,439	\$ 3,221,719	\$ 251,820
Fiscal Year 2006/2007 Ending Fund Balance:								
Reserved For:								
Inventories	\$ 531,436	\$ 59,243	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Items	417,321	-	-	-	-	-	-	-
Grantor Loan Programs	-	-	19,143,000	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Health Care (non-expendable)	-	-	-	-	-	-	-	-
Trust Donations (non-expendable)	-	-	-	-	-	-	-	-
Improvements	1,593,303	-	-	-	-	-	-	-
Restricted Funds	654,710	-	-	-	-	-	-	-
Total Reserved	3,196,770	59,243	19,143,000	-	-	-	-	-
Unreserved:								
Designated for Debt Service	379,035	-	-	-	-	-	-	-
Designated for Subsequent Yrs Exp	3,079,398	9,309	-	-	-	85	616,422	8,296
Designated for Encumbrances	569,068	21,659,898	-	-	-	36,438	70,247	28,727
Undesignated	23,188,433	24,789,267	(584,458)	1,055,914	256,233	36,916	2,535,050	214,797
Total Unreserved	27,215,934	46,458,474	(584,458)	1,055,914	256,233	73,439	3,221,719	251,820
Fund Balance	\$ 30,412,704	\$ 46,517,717	\$ 18,558,542	\$ 1,055,914	\$ 256,233	\$ 73,439	\$ 3,221,719	\$ 251,820

Undesignated Fund Balance > 3 Mo. Expenditures
Total Fund Balance < 0
Designated Debt Service > Debt

No Yes No No No
No No No No No
No No No No No

City of Lincoln
Governmental Funds
August 31, 2007

Fund Fund Number	Tax Sale Revolving 1206	Linc/Lanc Co Health 1207	Snow Removal 1208	911 Communication 1209	Social Security 1210	Police & Fire Pension Contb 1219	StarTran 1218	Unemployment Compensation 1212
Fiscal Year 2004/2005								
Beginning Fund Balance	\$ 656,620	\$ 221,966	\$ 879,710	\$ 103,860	\$ 1,402,452	\$ -	\$ 1,908,297	\$ 270,200
Operating Revenues	13,770	4,962,893	1,043,408	1,624,682	1,967,317	2,282,159	3,000,967	5,588
Operating Expenditures	-	(10,102,558)	(2,347,315)	(3,133,871)	(1,841,663)	(2,282,159)	(8,169,080)	(20,873)
Net Other Financing Sources/Uses	-	5,041,265	1,700,045	1,487,947	-	-	5,508,255	-
Ending Fund Balance	670,390	123,566	1,275,848	82,618	1,528,106	-	2,248,439	254,915
Fiscal Year 2005/2006								
Operating Revenues	19,373	5,467,596	1,058,222	1,414,779	1,923,631	2,909,024	3,336,042	7,245
Operating Expenditures	-	(16,216,113)	(2,131,618)	(3,148,213)	(1,842,394)	(2,909,024)	(8,761,749)	(17,275)
Net Other Financing Sources/Uses	689,763	10,924,668	1,582,417	1,727,350	-	-	5,684,963	-
Ending Fund Balance	-	299,717	1,784,869	76,534	1,609,343	-	2,507,695	244,885
Fiscal Year 2006/2007								
Operating Revenues	36,568	5,246,322	1,109,195	1,531,680	2,133,856	2,899,912	8,300,490	12,581
Operating Expenditures	-	(10,351,267)	(2,810,817)	(3,143,079)	(1,950,491)	(2,899,912)	(14,731,219)	(21,378)
Net Other Financing Sources/Uses	(719,513)	5,021,645	1,678,957	1,857,930	-	-	5,859,834	-
Ending Fund Balance	\$ 6,818	\$ 216,417	\$ 1,762,204	\$ 323,065	\$ 1,792,708	\$ -	\$ 1,936,800	\$ 236,088
Fiscal Year 2006/2007 Ending Fund Balance:								
Reserved For:	\$ -	\$ -	\$ 202,045	\$ -	\$ -	\$ -	\$ 480,205	\$ -
Inventories	-	-	-	-	-	-	-	-
Prepaid Items	-	-	-	-	-	-	-	-
Grantor Loan Programs	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Health Care (non-expendable)	-	-	-	-	-	-	-	-
Trust Donations (non-expendable)	-	-	-	-	-	-	-	-
Improvements	-	-	-	8,500	-	-	-	-
Restricted Funds	-	-	-	-	-	-	-	-
Total Reserved	-	-	202,045	8,500	-	-	480,205	-
Unreserved:								
Designated for Debt Service	-	-	-	-	-	-	-	-
Designated for Subsequent Yrs Exp	-	23,780	1,077	7,953	179,431	-	20,008	95,000
Designated for Encumbrances	-	19,148	367,141	-	-	-	1,008,000	-
Undesignated	6,818	173,489	1,191,941	306,612	1,613,277	-	428,587	141,088
Total Unreserved	6,818	216,417	1,560,159	314,565	1,792,708	-	1,456,595	236,088
Fund Balance	\$ 6,818	\$ 216,417	\$ 1,762,204	\$ 323,065	\$ 1,792,708	\$ -	\$ 1,936,800	\$ 236,088

Undesignated Fund Balance > 3 Mo. Expenditures
Total Fund Balance < 0
Designated Debt Service > Debt

Yes No
No No
No No

No Yes
No No
No No

No No
No No
No No

City of Lincoln
Governmental Funds
August 31, 2007

Fund Number	Keno 1213	Special Assessments 1215	Building & Safety 1217	Property Tax Refunds 1216	Impact Fees 1220	Parks & Rec Spec Projects 3111	Seniors Found of Linc/Lanc 3112	Library Special Trust 3113
Fiscal Year 2004/2005								
Beginning Fund Balance	\$ 3,202,274	\$ 131,606	\$ 4,955,797	\$ 5,325	\$ (2,666)	\$ 486,082	\$ 260,763	\$ 446,802
Operating Revenues	3,076,903	32,607	4,379,426	116	85,948	372,323	57,679	93,937
Operating Expenditures	(1,762,333)	(643,947)	(5,188,128)	-	(91,499)	(252,090)	(58,752)	(151,787)
Net Other Financing Sources/Uses	(1,544,885)	485,036	807,043	-	-	(11,941)	-	-
Ending Fund Balance	2,971,959	5,302	4,954,138	5,441	(8,217)	594,374	259,690	388,952
Fiscal Year 2005/2006								
Operating Revenues	2,835,328	75,192	4,280,185	159	98,575	277,181	69,724	97,094
Operating Expenditures	(1,462,530)	(610,999)	(5,252,672)	-	(98,225)	(199,340)	(49,761)	(164,593)
Net Other Financing Sources/Uses	(1,018,581)	817,758	793,919	-	-	(157)	-	-
Ending Fund Balance	3,326,176	287,253	4,775,570	5,600	(7,867)	672,058	279,653	321,453
Fiscal Year 2006/2007								
Operating Revenues	2,976,753	59,486	4,101,492	299	108,901	304,492	51,031	104,209
Operating Expenditures	(1,858,974)	(639,283)	(5,292,116)	-	(108,114)	(197,162)	(38,137)	(107,526)
Net Other Financing Sources/Uses	(1,357,211)	528,694	756,400	-	-	(1,188)	-	-
Ending Fund Balance	\$ 3,086,744	\$ 236,150	\$ 4,341,346	\$ 5,899	\$ (7,080)	\$ 778,200	\$ 292,547	\$ 318,136
Fiscal Year 2006/2007 Ending Fund Balance:								
Reserved For:								
Inventories	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Items	-	-	-	-	-	-	-	-
Grantor Loan Programs	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Health Care (non-expendable)	-	-	-	-	-	-	-	-
Trust Donations (non-expendable)	-	-	-	-	-	-	-	-
Improvements	-	-	-	-	-	-	-	-
Restricted Funds	-	-	-	-	-	-	-	-
Total Reserved	-	-	-	-	-	-	-	-
Unreserved:								
Designated for Debt Service	-	-	-	-	-	-	-	-
Designated for Subsequent Yrs Exp	-	-	12,976	-	-	-	-	-
Designated for Encumbrances	3,613	-	20,432	-	-	-	-	-
Undesignated	3,083,131	236,150	4,307,938	5,899	(7,080)	8,500	292,547	318,136
Total Unreserved	3,086,744	236,150	4,341,346	5,899	(7,080)	769,700	292,547	318,136
Fund Balance	\$ 3,086,744	\$ 236,150	\$ 4,341,346	\$ 5,899	\$ (7,080)	\$ 778,200	\$ 292,547	\$ 318,136

Undesignated Fund Balance > 3 Mo. Expenditures
Total Fund Balance < 0
Designated Debt Service > Debt

Yes No Yes No Yes No Yes No Yes No

City of Lincoln
Governmental Funds
August 31, 2007

Fund Fund Number	Tax Allocation 1301	Bond Interest & Redempt 1302	Tax Supported Bonds 1304/1305/1306	Special Assessments 1303	Storm Sewer Construction 1401	Vehicle Tax 1403	1991 GOVP Bonds 1404	Downtown Redev Bds 1405
Fiscal Year 2004/2005								
Beginning Fund Balance	\$ 5,233,865	\$ 6,910,648	\$ 3,187,150	\$ 7,344,884	\$ 207,403	\$ 2,839,207	\$ 44,677	\$ 121,906
Operating Revenues	1,751,506	5,759,145	1,435,325	1,561,069	78,495	8,252,191	941	793
Operating Expenditures	(901,711)	(6,320,847)	(3,236,002)	(104,433)	(1,045,084)	-	-	-
Net Other Financing Sources/Uses	(502,663)	284,268	1,818,460	(1,730,805)	924,921	(5,419,006)	-	(116,597)
Ending Fund Balance	5,580,997	6,633,214	3,204,933	7,070,715	165,735	5,672,392	45,618	6,102
Fiscal Year 2005/2006								
Operating Revenues	1,843,752	3,184,839	1,640,345	1,895,311	23,888	8,419,997	1,299	39
Operating Expenditures	(877,660)	(7,154,778)	(2,983,736)	(95)	(180,515)	-	-	-
Net Other Financing Sources/Uses	(1,336,797)	561,977	1,566,138	(474,196)	17,413	(8,252,800)	-	(6,141)
Ending Fund Balance	5,210,292	3,225,252	3,427,680	8,491,735	26,521	5,839,589	46,917	-
Fiscal Year 2006/2007								
Operating Revenues	2,273,894	6,016,213	1,872,208	1,988,294	16,438	9,426,531	2,485	-
Operating Expenditures	(977,211)	(7,057,740)	(3,474,569)	(88)	(42,185)	-	-	-
Net Other Financing Sources/Uses	(1,179,897)	2,582,323	2,058,434	(546,027)	191,201	(8,214,900)	-	-
Ending Fund Balance	\$ 5,327,078	\$ 4,766,048	\$ 3,883,753	\$ 9,933,914	\$ 191,975	\$ 7,051,220	\$ 49,402	\$ -
Fiscal Year 2006/2007 Ending Fund Balance:								
Reserved For:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Inventories	-	-	-	-	-	-	-	-
Prepaid Items	-	-	-	-	-	-	-	-
Grantor Loan Programs	-	-	-	-	-	-	-	-
Debt Service	5,327,078	4,766,048	3,883,753	-	-	-	-	-
Health Care (non-expendable)	-	-	-	-	-	-	-	-
Trust Donations (non-expendable)	-	-	-	-	-	-	-	-
Improvements	-	-	-	-	-	-	-	-
Restricted Funds	-	-	-	-	-	-	-	-
Total Reserved	5,327,078	4,766,048	3,883,753	-	-	-	-	-
Unreserved:								
Designated for Debt Service	-	-	-	9,933,914	-	-	-	-
Designated for Subsequent Yrs Exp	-	-	-	-	-	-	-	-
Designated for Encumbrances	-	-	-	-	3,286	-	-	-
Undesignated	-	-	-	-	188,689	7,051,220	49,402	-
Total Unreserved	-	-	-	9,933,914	191,975	7,051,220	49,402	-
Fund Balance	\$ 5,327,078	\$ 4,766,048	\$ 3,883,753	\$ 9,933,914	\$ 191,975	\$ 7,051,220	\$ 49,402	\$ -

Undesignated Fund Balance > 3 Mo. Expenditures
Total Fund Balance < 0
Designated Debt Service > Debt

No Yes No No No
No No No No No
No No No No No

City of Lincoln
Governmental Funds
August 31, 2007

Fund Number	Storm Sewer Bonds 1407	1999 GOVP Bonds 1411	2002 AntVal Bonds 1413	Other Capital Proj 1409	Special Assessments 1410	Community Health Endow 3119	JJ Hompes 3118	Total
Fiscal Year 2004/2005								
Beginning Fund Balance	\$ 13,849,424	\$ 1,811,880	\$ 2,370,831	\$ 4,079,304	\$ 180,159	\$ 45,025,744	\$ 574,054	\$ 203,866,133
Operating Revenues	882,957	27,360	152,972	1,352,077	-	1,892,881	58,111	222,325,361
Operating Expenditures	(7,725,891)	(16,306)	(1,205,811)	(7,238,144)	(1,209,605)	(1,084,554)	(13,415)	(248,664,496)
Net Other Financing Sources/Uses	10,095,926	(746,684)	-	3,883,489	1,264,759	-	-	16,012,547
Ending Fund Balance	17,102,416	1,076,250	1,317,992	2,076,726	235,313	45,834,071	618,750	193,539,545
Fiscal Year 2005/2006								
Operating Revenues	977,333	31,085	37,118	962,175	-	1,078,336	35,293	220,070,331
Operating Expenditures	(7,753,584)	-	(752,785)	(11,343,955)	(239,530)	(950,171)	(14,708)	(255,934,572)
Net Other Financing Sources/Uses	13,977	-	9,876,113	4,476	-	-	-	15,097,068
Ending Fund Balance	10,340,142	1,107,335	602,325	1,571,059	259	45,962,236	639,335	172,772,372
Fiscal Year 2006/2007								
Operating Revenues	1,340,722	48,240	16,503	1,451,351	-	5,187,198	70,089	232,297,454
Operating Expenditures	(5,143,147)	(13,317)	(618,828)	(8,021,477)	(146,268)	(1,070,533)	(19,066)	(237,522,114)
Net Other Financing Sources/Uses	7,583,504	(1,063,235)	-	8,020,961	205,290	-	-	47,380,486
Ending Fund Balance	\$ 14,121,221	\$ 79,023	\$ -	\$ 3,021,894	\$ 59,281	\$ 50,078,901	\$ 690,358	\$ 214,928,198
Fiscal Year 2006/2007 Ending Fund Balance:								
Reserved For:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,272,929
Inventories	-	-	-	-	-	-	-	417,321
Prepaid Items	-	-	-	-	-	-	-	19,143,000
Grantor Loan Programs	-	-	-	-	-	-	-	13,976,879
Debt Service	-	-	-	-	-	-	-	37,000,000
Health Care (non-expendable)	-	-	-	-	-	-	-	160,000
Trust Donations (non-expendable)	-	-	-	-	-	-	-	1,601,803
Improvements	-	-	-	-	-	-	-	654,710
Restricted Funds	-	-	-	-	-	-	-	160,000
Total Reserved	-	-	-	-	-	-	-	74,226,642
Unreserved:								
Designated for Debt Service	-	-	-	-	-	-	-	10,312,949
Designated for Subsequent Yrs Exp	-	-	-	-	-	-	-	4,053,735
Designated for Encumbrances	2,260,912	-	-	486,658	-	-	-	26,542,068
Undesignated	11,860,309	79,023	-	2,535,236	59,281	13,078,901	530,358	99,792,804
Total Unreserved	14,121,221	79,023	-	3,021,894	59,281	13,078,901	530,358	140,701,556
Fund Balance	\$ 14,121,221	\$ 79,023	\$ -	\$ 3,021,894	\$ 59,281	\$ 13,078,901	\$ 690,358	\$ 214,928,198

Yes No Yes No

Undesignated Fund Balance > 3 Mo. Expenditures
Total Fund Balance < 0
Designated Debt Service > Debt

City of Lincoln
Business-type Funds
August 31, 2007

Fund	Lincoln Wastewater System 2108	Lincoln Water System 2109	Lincoln Electric System 2110	Parking Lot Revolving 2101	Golf 2102
Fiscal Year 2004/2005					
Net Assets Beginning	\$ 161,982,591	\$ 206,548,495	\$ 208,815,000	\$ 1,696,916	\$ 5,097,840
Operating Revenues	16,985,552	24,362,174	168,487,000	210,016	3,135,521
Operating Expenditures	(15,429,573)	(19,166,149)	(146,790,000)	(277,703)	(3,182,649)
Net - Non Operating Revenue (Expense)	509,759	(1,844,312)	(23,523,000)	18,983	(112,677)
Capital Contributions/Net Transfers	4,364,378	5,231,057	(1,146,000)	11,245	93,283
Net Assets Ending	168,412,707	215,131,265	205,843,000	1,659,457	5,031,318
Fiscal Year 2005/2006					
Operating Revenues	17,997,650	25,599,610	188,369,000	219,324	2,993,431
Operating Expenditures	(16,966,654)	(20,207,151)	(174,646,000)	(200,751)	(3,072,382)
Net - Non Operating Revenue (Expense)	710,777	(1,233,077)	(20,400,000)	29,774	(96,666)
Capital Contributions/Net Transfers	5,102,101	5,932,721	(1,299,000)	-	(4,500)
Net Assets Ending	175,256,581	225,223,368	197,867,000	1,707,804	4,851,201
Fiscal Year 2006/2007					
Operating Revenues	19,402,047	25,249,632	204,527,000	217,016	2,919,968
Operating Expenditures	(17,555,222)	(21,075,573)	(177,107,000)	(215,712)	(3,063,697)
Net - Non Operating Revenue (Expense)	722,248	117,642	(28,387,000)	62,325	(95,363)
Capital Contributions/Net Transfers	3,047,677	3,420,280	3,507,000	4,049	13,427
Net Assets Ending	\$ 180,873,331	\$ 232,935,349	\$ 200,407,000	\$ 1,775,482	\$ 4,625,536
Fiscal Year 2006/2007 Net Assets Ending:					
Invested in Capital Assets, Net of Related Debt Restricted For:	\$ 173,291,909	\$ 204,223,192	\$ 235,084,000	\$ 470,288	\$ 5,150,081
Debt Service	410,983	205,715	21,974,000	-	-
Capital Projects	687,874	2,203,158	-	-	151,565
Other	-	-	-	-	-
Total Restricted	1,098,857	2,408,873	21,974,000	-	151,565
Unrestricted Net Assets	6,482,565	26,303,284	(56,651,000)	1,305,194	(676,110)
Net Assets	\$ 180,873,331	\$ 232,935,349	\$ 200,407,000	\$ 1,775,482	\$ 4,625,536

Unrestricted Net Assets > 3 Mo. Expenditures
Total Net Assets < 0
Restricted Debt Service > Debt

Yes No Yes No

City of Lincoln
Business-type Funds
August 31, 2007

Fund	Parking Facilities 2103	Pershing Municipal Auditorium 2104	Solid Waste Management 2105	Emergency Medical Services 2111	Total
Fiscal Year 2004/2005					
Net Assets Beginning	\$ 25,771,711	\$ 738,857	\$ 16,545,764	\$ (146,575)	\$ 627,050,599
Operating Revenues	5,214,542	1,466,639	4,002,925	3,333,307	227,197,676
Operating Expenditures	(4,017,019)	(2,203,091)	(6,746,059)	(3,761,659)	(201,573,902)
Net - Non Operating Revenue (Expense)	(715,926)	(8,594)	2,291,067	(67,232)	(23,451,932)
Capital Contributions/Net Transfers	-	540,529	(680,600)	-	8,413,892
Net Assets Ending	26,253,308	534,340	15,413,097	(642,159)	637,636,333
Fiscal Year 2005/2006					
Operating Revenues	5,697,352	1,884,342	4,136,879	3,289,883	250,187,471
Operating Expenditures	(3,815,459)	(2,396,654)	(6,139,526)	(3,708,255)	(231,152,832)
Net - Non Operating Revenue (Expense)	(583,793)	(6,088)	2,521,344	(84,780)	(19,142,509)
Capital Contributions/Net Transfers	949,005	575,000	(596,012)	-	10,659,315
Net Assets Ending	28,500,413	590,940	15,335,782	(1,145,311)	648,187,778
Fiscal Year 2006/2007					
Operating Revenues	6,264,527	1,620,806	5,259,855	3,764,181	269,225,032
Operating Expenditures	(3,829,128)	(2,262,670)	(6,565,811)	(3,588,888)	(235,263,701)
Net - Non Operating Revenue (Expense)	(406,432)	339	2,584,598	(90,430)	(25,492,073)
Capital Contributions/Net Transfers	(267,857)	525,000	(643,304)	-	9,606,272
Net Assets Ending	\$ 30,261,523	\$ 474,415	\$ 15,971,120	\$ (1,060,448)	\$ 666,263,308
Fiscal Year 2006/2007 Net Assets Ending:					
Invested in Capital Assets, Net of Related Debt	\$ 25,173,962	\$ 265,476	\$ 15,285,119	\$ 3,412	\$ 658,947,439
Restricted For:					
Debt Service	165,653	-	-	-	22,756,351
Capital Projects	694,072	8,900	174,748	-	3,920,317
Other	-	92,890	-	-	92,890
Total Restricted	859,725	101,790	174,748	-	26,769,558
Unrestricted Net Assets	4,227,836	107,149	511,253	(1,063,860)	(19,453,689)
Net Assets	\$ 30,261,523	\$ 474,415	\$ 15,971,120	\$ (1,060,448)	\$ 666,263,308

Unrestricted Net Assets > 3 Mo. Expenditures
Total Net Assets < 0
Restricted Debt Service > Debt

Yes	No	No	No	No
No	No	No	No	Yes
No	No	No	No	No

City of Lincoln
Internal Service Funds
August 31, 2007

Fund	Information Services 2201	Engineering Revolving 2202	Insurance Revolving 2203	Fleet Services 2204	Police Garage 2205	Communication Services 2206	Copy Services 2208	Total
Fiscal Year 2004/2005								
Net Assets Beginning	\$ 2,122,933	\$ (182,930)	\$ 6,586,997	\$ 7,015,053	\$ 3,770,753	\$ 76,446	\$ 351,825	\$ 19,741,077
Operating Revenues	6,106,048	7,004,113	6,189,498	5,595,906	2,758,538	238,563	337,758	28,230,424
Operating Expenditures	(6,208,883)	(7,097,835)	(5,704,387)	(5,925,899)	(2,828,502)	(201,944)	(364,911)	(28,332,361)
Net - Non Operating Revenue (Expense)	25,553	19,466	278,868	127,746	12,804	1,639	6,515	472,591
Capital Contributions/Net Transfers	(33,175)	11,483	-	290,359	54,888	-	-	323,555
Net Assets Ending	2,012,476	(245,703)	7,350,976	7,103,165	3,768,481	114,704	331,187	20,435,286
Fiscal Year 2005/2006								
Operating Revenues	6,226,233	6,598,271	8,161,460	6,334,403	3,016,567	208,630	310,479	30,856,043
Operating Expenditures	(5,792,987)	(7,147,710)	(8,614,980)	(6,126,158)	(3,119,512)	(193,594)	(346,583)	(31,341,524)
Net - Non Operating Revenue (Expense)	34,598	197,579	407,352	224,576	31,780	3,332	9,031	908,248
Capital Contributions/Net Transfers	229,051	49,391	-	443,366	33,333	-	-	755,141
Net Assets Ending	2,709,371	(548,172)	7,304,808	7,979,352	3,730,649	133,072	304,114	21,613,194
Fiscal Year 2006/2007								
Operating Revenues	6,130,173	6,584,629	23,364,598	6,481,115	3,114,940	218,475	333,560	46,227,490
Operating Expenditures	(6,180,731)	(7,382,878)	(21,036,963)	(7,134,004)	(3,366,492)	(196,414)	(369,818)	(45,667,300)
Net - Non Operating Revenue (Expense)	83,436	164,338	837,502	125,716	69,486	7,278	14,179	1,301,935
Capital Contributions/Net Transfers	-	366,382	-	114,664	33,333	3,688	-	518,067
Net Assets Ending	\$ 2,742,249	\$ (815,701)	\$ 10,469,945	\$ 7,566,843	\$ 3,581,916	\$ 166,099	\$ 282,035	\$ 23,993,386
Fiscal Year 2006/2007 Net Assets Ending:								
Invested in Capital Assets, Net of Related Debt	\$ 349,963	\$ 256,339	\$ 9,628	\$ 7,525,275	\$ 1,869,171	\$ 5,008	\$ -	\$ 10,015,384
Restricted For:	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total Restricted	-	-	-	-	-	-	-	-
Unrestricted	2,392,286	(1,072,040)	10,460,317	41,568	1,712,745	161,091	282,035	13,978,002
Net Assets	\$ 2,742,249	\$ (815,701)	\$ 10,469,945	\$ 7,566,843	\$ 3,581,916	\$ 166,099	\$ 282,035	\$ 23,993,386

Unrestricted Net Assets > 3 Mo. Expenditures
Total Net Assets < 0
Restricted Debt Service > Debt

Yes No Yes No Yes No Yes No Yes No Yes No

Memo

To: Audit Advisory Board
From: Don Herz, Finance Director
CC: Peggy Tharnish, City Controller
Marcee Brownlee, Assistant City Attorney
Date: April 27, 2009
Re: Agreed-Upon Procedures Response

On April 13, 2009, I provided you with a copy of the Agreed-Upon Procedures report from HBE Becker Meyer Love LLP (HBE) which included their findings. Attached are the City's responses to those findings. Again, as a reminder, I have included the Board's responsibilities included in Section 4.66.040 of the Lincoln Municipal Code.

(d) Report to the Mayor and the City Council, in the form of a board audit report, within sixty days of receiving the final audit report. The Board audit report shall be simultaneously transmitted to the Mayor and the City Council. Three copies of the Board audit report shall be placed on file with the City Clerk for public examination. The board audit report shall include:

- (1) The Board's findings, based on the final audit report and the response of the auditee as to whether:
 - (i) Activities and programs are being conducted and funds expended in compliance with applicable laws;*
 - (ii) Revenues are being properly collected, deposited and accounted for;*
 - (iii) Resources are adequately safeguarded, controlled and used in an effective and efficient manner; and/or*
 - (iv) There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management;**
- (2) A copy of the final audit report and auditee's response thereto;*
- (3) A separate listing, if any, of irregularities or failures to comply with legal or administrative policies; and*
- (4) The Board's recommendations. (Ord. 19007 §4; October 8, 2007).*

Encl: Response of the City

Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
HBE Becker Meyer Love LLP

The procedures that the City, City Council and the Audit Advisory Board requested HBE to perform are listed on pages one and two of the accountants report. A brief explanation of these procedures is listed below. A summary response from the City is bolded in italics.

1. Verify the accuracy of the fund schedules on pages 39 to 46.

The fund schedules were prepared by the Audit Advisory Board with assistance from the Finance Department staff and then provided to HBE. HBE traced these amounts to the audited financial statements for the year ended August 31, 2007.

2. For any fund with fund balances greater than three month of operating expenditures, obtain representation and explanation from the City.

The fund schedules on pages 39 to 46 of HBE's report identifies any fund in which the undesignated/ unrestricted fund balance was greater than three months of operating expenditures. Three months was selected because that is a standard that would allow a fund to have an adequate amount of operating reserves.

3. Obtain additional representation about potential options to reduce or lapse excess fund balances.

There will be certain situations that will warrant higher reserves due to various circumstances such as timing of receipts and expenditures, accumulation of reserves for capital purchases, receivables that may take several months to convert to cash and other factors. If these circumstances do not exist, options will be provided to either reduce or lapse fund balances.

4. Obtain explanation for any fund with less than a zero fund balance.

Any fund with less than a zero fund balance should have a plan to increase revenues or decrease expenditures to ensure that the fund returns to a positive balance.

5. Determine whether any designation for debt service is in excess of outstanding debt.

The designation for debt service should not exceed the amount of outstanding debt.

6. Inquire of management whether the fiscal year 2007 fund balance designations are not appropriate.

Fund balance designations should be appropriate.

**Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
HBE Becker Meyer Love LLP**

For each fund in which the auditors made a recommendation, a response is provided.

Fund Name: Street Construction Fund

Fund Number: 1211 and 1402

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Recommendation: Because excess funds appear to be set aside for future projects, we recommend the Fund be maintained as is.

City Comment(s): The fund balance at August 31, 2007 included proceeds from the 2006 Highway Allocation Bonds that were issued on December 5, 2006. As a result it would be very likely to have a fund balance in excess of 3 months of expenditures. The auditors note that by August 31, 2008, the fund balance had been reduced to less than three months of expenditures.

Fund Name: Advance Acquisition Fund

Fund Number: 1201

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Recommendation: We recommend that this Fund be maintained in accordance with the City Charter. It doesn't appear that the General Fund appropriations to this Fund are currently necessary. Further, other funds should make use of the dollars available in this Fund when projects involve the purchase of real estate for public purposes, which management represents is the City's current policy.

City Comment(s): This fund has been and will continue to be maintained in accordance with the City Charter. The City agrees that appropriations from the General Fund are currently not necessary. It should be noted that the City Charter restricts any balances in this fund to be used for future purchases of real estate and can not be lapsed to any fund to be used for operations.

Fund Name: Athletic Field and Facilities Improvement Fund

Fund Number: 1202

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Recommendation: We recommend that this Fund be maintained in accordance with the City Resolution.

City Comment(s): The balance in this fund are accumulated for future capital projects. The amount of operational expenses for this fund are minimal and as a result, it would be normal that the fund balance will always exceed operational expenses by more than the three months test for a fund with operational expenditures.

Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
HBE Becker Meyer Love LLP

Fund Name: Lincoln City Libraries

Fund Number: 1204

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Recommendation: We recommend that you consider using more of the undesignated fund balance for providing library services to the citizens of Lincoln, as is the intent of the tax levy. We understand that a reserve is necessary to manage the timing difference between the receipt of property tax dollars and the payment of operating expenditures. However, it is not necessary to increase this reserve as has occurred since at least fiscal year 2005, especially when expenditures are not increasing.

City Comment(s): We disagree that more of the fund balance should be used. This fund receives most of its revenues from property taxes, the majority of which are collected in the spring and late summer. It is necessary to manage both the fund balance and the daily cash balance to meet operating needs. Our August 31st financial statements capture the fund balance at a high point in the year. At the end of March 2008 the cash balance was less than \$500,000 and \$447,000 at the end of March 2009. With a \$7.3 million budget, the low point of the cash balance is as low as we believe it should be and is less than one months operating costs.

Fund Name: Tax Sale Revolving

Fund Number: 1206

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Recommendation: Upon our inquiry, management suggested, and we concur, that the remaining balance be transferred to the General Fund. We also recommend closing this Fund. All subsequent transactions of this type could be handled through the Advance Acquisition Fund.

City Comment(s): This fund is no longer required and it is the intent of the City to close it during the 2009/2010 budget process. As of April 20, 2009 the cash balance was \$580.19. This amount will be transferred to the General Fund.

Fund Name: Snow Removal

Fund Number: 1208

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Recommendation: We recommend that the appropriateness of the \$1.2 million undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be a reasonable reserve for an especially harsh winter. We believe the City Council should discuss with City management the appropriateness of setting aside over five months of expenditures for this reason. Consideration should be given to the availability of financing from other funds, especially the Street Construction Fund if such an event were to occur. Any

**Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
HBE Becker Meyer Love LLP**

undesignated fund balance deemed to be in excess of the desired reserve should be used for other street related projects.

City Comment(s): We disagree with this recommendation. With out any reserve, there would be a 50 percent probability that the fund would not be able to pay for the appropriate level of snow removal that could occur. In a year in which there was a significant late season snow event, it would be difficult to seek last minute emergency appropriations. We believe a \$1.2 million cash balance from prior years is an appropriate target to carryover. The annual review of the City budget with the City Council and City staff has included discussions of the level of fund balance on hand. On occasion, when the balance has been deemed more than the required minimum, the money has been transferred to Street projects or used to purchase additional snow removal related equipment.

Fund Name: Social Security

Fund Number: 1210

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Recommendation: We agree that the undesignated fund balance be appropriated as a revenue source. However, consideration should be given to accelerating the planned appropriation of the excess fund.

City Comment(s): This fund depends on property taxes for its revenues and on August 31 cash balances will always be high because second half property taxes are collected in August. In developing the FY08-09 budget it was determined that lowest balance in the fund during the year was more than needed. We appropriated extra fund balances as a revenue source for the FY08-09 budget and intend to do the same for the next four years – similar to the way we utilize any excess General Fund balances.

Fund Name: Unemployment Compensation

Fund Number: 1212

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Recommendation: We recommend that the undesignated fund balance be maintained as is. The undesignated fund balance should be monitored as the City continues to weather the economic downturn. Consideration should be given to anticipated budget cuts. Subsequent reduction in personnel should be used as an indicator as to whether the fund balance continues to remain appropriate. Management represents that this is the City's current policy.

City Comment(s): This fund balance is analyzed every year as part of the City's budget process, taking into account anticipated economic conditions, and increases in current needs.

**Response of the City of Lincoln
To
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HBE Becker Meyer Love LLP**

Fund Name: Keno

Fund Number: 1213

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Recommendation: We recommend that the undesignated fund balance as of August 31, 2007, be evaluated for appropriateness. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving separate consideration to the amounts restricted to parks and recreation, libraries and human services. Specifically, when evaluating the parks and recreation portion of the fund balance, consideration should be given to the cash flow needed for the Antelope Valley project as well as the potential to pay down the outstanding principal of the revenue anticipation notes and their continued debt service requirements.

City Comment(s): The use of these funds is determined by City ordinance which specifies it be used for Parks & Recreation, Libraries and Human Services. These funds are not used for operations but rather designated projects, usually Capital Projects. The fund balance is analyzed every year as part of the City's budget process and appropriations are made according to each area's remaining share of revenues and the projects they have planned.

Fund Name: Special Assessments

Fund Number: 1215, 1303 and 1410

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Recommendation: Upon our inquiry, management suggested, and we concur, that the majority of the combined undesignated fund balance be lapsed for other purposes. Management suggests maintaining \$2 million of the undesignated fund balance for continued operating expenditures, for management of timing differences between receipts and expenditures, and for potential use in developing future districts.

City Comment(s): The recommendation accurately represents our position.

Fund Name: Building and Safety

Fund Number: 1217

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Recommendation: We recommend that the appropriateness of the \$4.3 million undesignated fund balance as of August 31, 2007 be evaluated. As the undesignated fund balance was intended to act as a reserve for periods of economic decline such as the current decline, we recommend that the fund balance be considered for expenditure in the upcoming fiscal years. Consideration should be given to budgeted fiscal year 2009 changes in fund balance.

**Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
HBE Becker Meyer Love LLP**

City Comment(s): The Department has reduced about ten positions due to the slowing of the economy. The fund balance and cash balance has declined significantly since August of 2007 so the fund balance has been and continues to fund operations during the downturn. Since August 31, 2008, the fund has experienced an additional \$300 thousand decrease in its cash balances. Some fee increases have been recently implemented to attempt to slow the pace of this decline during the economic downturn. The existing fund balances may be needed to avoid tax support in the near future until local building activity rebounds.

Fund Name: Property Tax Refunds

Fund Number: 1216

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Recommendation: Upon our inquiry, management suggested, and we concur, that the undesignated fund balance be transferred to the General Fund and the fund be closed.

City Comment(s): This fund is no longer required and it is the intent of the City to close it during the 2009/2010 budget process. As of April, 2009 the cash balance was \$6,247.59. This amount will be transferred to the General Fund.

Fund Name: Impact Fees

Fund Number: 1220

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Recommendation: We recommend that a plan to eliminate current and future deficits be established and the fund be closely monitored.

City Comment(s): The City will continue to monitor this fund balance and may need to transfer dollars from another fund if it does not recover as the economy rebounds.

Fund Name: Parks and Recreation Special Projects

Fund Number: 3111

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Recommendation: We recommend that the appropriateness of the undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving consideration to the expected timing of the projects and donor restrictions.

Response of the City of Lincoln
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City Comment(s): Revenues into this fund are donated for specific purposes. It is the policy of the City to spend these dollars in accordance with donor intentions.

Fund Name: Seniors Foundation of Lincoln and Lancaster County

Fund Number: 3112

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Recommendation: We recommend that the undesignated fund balance be maintained or expended in accordance with donor intentions and the Foundation's recommendations, which management represents is the City's current policy.

City Comment(s): We agree with the recommendation which is also the City's policy.

Fund Name: Library Special Trust

Fund Number: 3113

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Recommendation: We recommend that the undesignated fund balance be expended in accordance with donor intentions, which management represents is the City's current policy.

City Comment(s): We agree with the recommendation which is also the City's policy.

Fund Name: Storm Sewer Construction

Fund Number: 1401

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Recommendation: We recommend that the appropriateness of the \$189 thousand undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of planned capital projects. We believe the City Council should discuss with City management the appropriateness of the balance giving consideration to the expected timing of the projects.

City Comment(s): This fund is used to account for storm water related projects funded by the General Fund and receives some intergovernmental revenues which is usually the Natural Resource District's share of the projects. By their nature, projects will vary in size and timing. Management believes that the balance is appropriate in light of expected projects.

**Response of the City of Lincoln
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Fund Name: Vehicle Tax

Fund Number: 1403

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Recommendation: Due to State Statute 18-1214 restrictions and because excess funds appear to be allocated for future projects, we recommend the Fund be maintained as is.

City Comment(s): We agree with the recommendation. Money that is expected to be available is appropriated annually through the City's capital improvement program taking into consideration fund balance as well as new collections. The balances in the fund have been appropriated for capital projects through the City's Capital Improvement Program.

Fund Name: 1991 GOVP Bonds

Fund Number: 1404

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Recommendation: Upon our inquiry, management suggested, and we concur, that the undesignated fund balance be used to pay debt service on the 1999 G.O. Various Purpose Bonds.

City Comment(s): It is the intent of the City to close this fund during the 2009/2010 budget process. As of April, 2009 the cash balance was \$52,386.71. This amount will be transferred to the Bond Interest & Redemption Fund to pay debt service.

Fund Name: Storm Sewer Bonds

Fund Number: 1407

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Recommendation: We recommend that the appropriateness of the \$11.9 million undesignated fund balance as of August 31, 2007 be evaluated. Management deems the undesignated fund balance to be reasonable in light of budgeted expenditures for improvements and extensions to the system. We believe the City Council should discuss with City management the appropriateness of the balance, giving consideration to the expected timing of the improvements and extensions. Any excess balance should be used to pay down the bonds.

City Comment(s): The majority of this fund balance is from the 2007 bond issue, construction for which was just getting under way. The other balances in these funds are either appropriated, have a future authorized use in mind, or have been transferred back to

**Response of the City of Lincoln
To
Findings of Agreed-Upon Procedures Engagement
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pay debt service in the last two budget resolutions. This is monitored every year and we will continue to make transfers back to the debt service fund when there are balances not needed for projects.

Fund Name: 1999 GOVP

Fund Number: 1411

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Recommendation: We recommend establishing a timeframe for which the funds would remain available for use by the Lincoln Children's Museum. Any funds remaining after this time period should be used for debt service.

City Comment(s): This balance is remaining proceeds from the Children's Museum issue from the late 90's and interest earned. This building has had some ongoing problems and this money has been left here to address some of those issues. The balance has dropped to \$72,497 as of April, 2009.

Fund Name: Other Capital Projects

Fund Number: 1409

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Recommendation: Because excess funds appear to be set aside for future projects, we recommend the Fund be maintained as is.

City Comment(s): We agree with the recommendation. This is mostly for TIF construction, Arbitrage rebate, Municipal Infrastructure Redevelopment Funds and miscellaneous capital projects. The balance varies depending on the current projects underway. In any case the money in this fund is designated or limited in its possible use.

Fund Name: Community Health Endowment

Fund Number: 3119

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Recommendation: We recommend that an investment and spending policy be formally adopted for this Fund. If growing the proceeds in relation to inflation is approved, a method for tracking the inflation adjustment should be established. Undesignated funds exceeding the cumulative inflation adjustments should be used for current health and health-related programs, in accordance with the Lincoln General Hospital sale agreement.

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City Comment(s): The voters of the State recently passed a Constitutional amendment allowing the use of the prudent investor method of managing permanent endowments such as the Community Health Endowment. Enabling legislation is expected to be passed by the State Legislature this year. When the CHE is able to broaden its investment options, it would be appropriate to update their investment policies and at that time formalize its policy of retaining some of its earnings to enable the fund to grow with inflation. The CHE currently has an investment policy that it follows based on the restrictions imposed by State Constitution.

Fund Name: J.J. Hompes

Fund Number: 3118

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Recommendation: We recommend that the undesignated fund balance of \$530 thousand as of August 31,2007 be maintained and spent in accordance with the trust agreement. Legal requirements of the trust agreement and the appropriate accounting of restricted funds should be reviewed in comparison to current practice.

City Comment(s): The monies coming into this fund are donated for a specific purpose and are not available for general use. It is the policy of the City to spend donations in accordance with donor intentions.

Fund Name: Lincoln Wastewater System

Fund Number: 2108

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Recommendation: Because excess funds have been budgeted for capital projects to occur in fiscal year 2009, we recommend the fund be maintained as is.

City Comment(s): Extra funds needed to be on hand to finance large capital improvement projects going on at this time. Unrestricted balance does not greatly exceed 3 months operating.

Fund Name: Lincoln Water System

Fund Number: 2109

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Recommendation: Because excess funds have been budgeted for capital projects to occur in fiscal year 2009, we recommend the fund be maintained as is.

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City Comment(s): Extra funds needed to be on hand to finance large capital improvement projects going on at this time. Unrestricted balance does not greatly exceed 3 months operating.

Fund Name: Parking Lot Revolving

Fund Number: 2101

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Recommendation: We recommend that the appropriateness of the \$1.3 million unrestricted net assets as of August 31,2007 be evaluated. Considerations should include the expected purchase date and estimated cost of upcoming capital projects and the availability of financing from other funds and sources.

City Comment(s): Management's practice has been and will continue to be to evaluate fund balances on an ongoing basis. The Parking Lot Revolving fund must maintain a fund balance for acquiring and building additional surface lots. Existing reserves have been accumulating in anticipation of acquiring an additional surface lot. These parking facilities can represent a crucial economic development tool.

Fund Name: Parking Facilities

Fund Number: 2103

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Recommendation: We recommend that the appropriateness of the \$4.2 million unrestricted net assets as of August 31,2007 be evaluated. Considerations should include debt service requirements, an estimate of the additional cash flow that would be needed for upcoming capital projects and the availability of financing from other funds and sources.

City Comment(s): Management's practice has been and will continue to be to evaluate fund balances on an ongoing basis. The Parking Facilities fund must maintain a fund balance for acquiring and building new parking facilities. Existing reserves have been accumulating in anticipation of a building at least two additional parking facilities. Development of those facilities will represent a significant economic development tool. The fund has over \$12 million of outstanding revenue bonds. Bond covenants require the fund to retain all accumulated earnings until all outstanding debt has been retired.

Fund Name: Emergency Medical Services

Fund Number: 2111

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Recommendation: We recommend, and management concurs, that the action's taken in fiscal year 2008 continue. Special focus should be paid to the amounts charged for services and the collection of balances due. We recommend the fund perform an annual review of the amounts charged for services considering anticipated operating expenditures and capital purchases. Fees should be increased as necessary each year. Management represents that this is the City's current policy.

City Comment(s): This City service has struggled financially for several of its operating years, resulting in the accumulation of the negative balance that is shown. The fund has operated at a profit for the two most recent fiscal years (FY06- 07 and FY07-08). It appears that the fund is again experiencing positive results during the current fiscal year. This should significantly decrease the accumulated deficit.

Fund Name: Information Systems

Fund Number: 2201

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Recommendation: We recommend that the appropriateness of the \$2.4 million unrestricted net assets as of August 31, 2007 be evaluated. Considerations should include upcoming capital projects estimated to cost \$1.2 million and the availability of financing from other funds and sources. We further recommend the fund perform an annual review of the amounts charged for services and evaluate the possibility of decreasing rates to benefit each department during a difficult economic period. Management represents that this is the City's current policy.

City Comment(s): It has been and will continue to be management's practice to evaluate this fund balance. We try to maintain about \$1,500,000 - \$1,600,000 cash & investment balance. If it consistently exceeds that amount (grows over a particular FY), we establish rates so that the fund balance is reduced the following year. That way all customers participate in the offsetting savings if a surplus is deemed to exist. We have also been attempting to establish seed money for a few significant projects: migration from Lotus Notes to Microsoft Exchange, eDiscovery, VoiP and GIS Initiatives.

Fund Name: Engineering Revolving

Fund Number: 2202

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Recommendation: We recommend that the actions taken in the 2008 fiscal year continue and special focus be paid to the appropriate billing of services to each project and corresponding fund.

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City Comment(s): This fund has been struggling in recent years. Employees paid from this fund are all too often called upon to do general governmental work for which the fund does not have an adequate way of recovering their costs plus overhead. Since 8/31/07, several actions have been taken to improve the fund balance status of this fund. There are semi-monthly or monthly meetings to review the financial activity of the fund. These meetings involve discussing things such as what kinds of activities are being performed that cannot be billed out. Some money has been transferred into the fund from other City funds that have utilized the services in the past but not been adequately charged for those services. Management will continue to monitor this fund.

Fund Name: Insurance Revolving

Fund Number: 2203

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Recommendation: We recommend the City continue to obtain actuarial studies to determine the appropriate balance of provisions for claims payable and claims incurred but not reported. These liabilities should be recorded in the financial statements. The City should also develop a policy for utilizing the savings, if any, from the self-insurance programs.

City Comment(s): We agree with the recommendation and it reflects the way the fund has been operated for many years. This fund covers several different types of insurance. The City has actuarial studies done to determine what the appropriate reserves are for each type of insurance. Departments are billed based upon their risk assessment. If balances in this fund get above or below what is recommended by the actuary, future rates charged to Departments are adjusted.

Fund Name: Police Garage

Fund Number: 2205

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Recommendation: We recommend that the unrestricted net assets be evaluated for appropriateness, if the above mentioned purchases are not made. If the above purchases are made in 2009, the unrestricted net assets will likely fall below the threshold of three months of operating expenditures.

City Comment(s): It is appropriate for this fund to have more than a three month balance. The August 31, 2007 balance appears to be about 6 months. This fund purchases vehicles for the Police Dept. This is at least several hundred thousand dollars each year. These purchases are usually done in large quantities, necessitating that cash be available. Given the nature of the fund, this balance is appropriate.

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Fund Name: Communication Services

Fund Number: 2206

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Recommendation: We recommend that appropriateness of unrestricted net assets of \$161 thousand at August 31, 2007 be evaluated. Considerations should include the desired reserve for future purchases.

City Comment(s): . In addition to day to day operations, this fund purchases communication equipment for many other Departments, to be reimbursed later. It is also responsible for maintaining the city's communications towers. When these costs occur they can be fairly large. We believe this balance to be appropriate for the services provided by this fund.

Fund Name: Copy Services

Fund Number: 2208

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Recommendation: We recommend that the per copy fee be lowered as discussed above. In addition, we recommend that management evaluate the possibility of accelerating the rate decrease to benefit each department during a difficult economic period.

City Comment(s): . We agree with the recommendation and in January of 2009 issued budget instructions including lower rates for the upcoming budget year. We had kept the user rates the same for a number of years. Holding rates steady or lowering them is the proper way to let all users utilize any accumulated fund balance.

City Audit Advisory Board
Additional Comments from the Community Health Endowment
April 30, 2009

1. The audit report indicates that CHE lacks a formally-adopted investment policy. This is not true. CHE operates by a very comprehensive investment policy that has been formally adopted by the Board of Trustees. If the Audit Advisory Board would like a copy, please contact CHE.

2. The audit report indicates that CHE lacks a "method for tracking inflation adjustment." This is not true. CHE tracks inflation adjustment regularly and it is reported to the Board of Trustees on a quarterly basis.

3. CHE is concerned with the proposition that "undesignated funds exceeding the cumulative inflation adjustment should be used for current health and health-related programs." CHE could never prepare for an economic downturn using such a strategy. If the CHE fund had excess positive returns in one year, and was required to spend out this full amount, the fund would not be in a position to provide community funding in years with excess negative returns without invading the principal. CHE's current strategy represents a very prudent investment and grantmaking strategy that is not reactionary to volatile environments and provides for stable grantgiving, even in difficult economic times.

MEMORANDUM

DATE: May 12, 2009
TO: Steve Hubka - Budget Officer
FROM: Bill Kostner - Risk Manager
RE: Audit Advisory Board Recommendations

The City of Lincoln has utilized self funding for many years to keep it's insurance costs low. Regarding the Insurance Revolving Funds, these are a series of 14 funds relating to various City Insurance or Self Insurance matters. We have used outside actuaries annually to determine the IBNR (or incurred but not reported) claims potential for most of these funds. I will summarize below our Insurance Revolving Funds and fund balances and what these are used for, as of 8/31/2007:

620, Self Insured Health, \$3,545,031. This fund is reviewed annually by our actuaries at Milliman. This reflects the City and employee premiums, plus any rebates, collected for employee health care.

621, Self Insured Dental, \$334,073. This fund is reviewed annually by our actuaries at Milliman. This reflects the City and employee premiums, collected for employee dental care.

622, COBRA & Retirees Ins Premiums, \$263,013. This fund reflects insurance costs collected for COBRA and retiree health, dental or vision insurance. Only 2% (two percent) of the COBRA fees (and none of the retiree payments) stay in this fund. All others are distributed to either the Self Insured Health Fund, Self Insured Dental fund, County, or to the health, dental or vision providers directly.

625, Health Care, \$16,377. This fund reflects money that has been earmarked for Wellness, from some years ago. Risk Management works with the City Wellness Committee annually using a \$5,500 miscellaneous Wellness budget from this fund to pay for wellness presentations and programs.

630, Workers Compensation Loss, \$5,883,575. The City of Lincoln has been Self-Insured for Workers Compensation for over 35 years. We are required by the Workers Compensation Court to check our IBNR annually through an actuarial firm, and we use Aon Risk Insurance Services West as our actuary.

631, Damaged Property, \$78,390. This fund reflects money that Risk Management has recovered for other departments that had property damaged by outside third parties. This may include money recovered for damaged light poles, signage, downed trees, etc, that the effected department may use to replace the damaged items.

632, Property Self Insured Loss, \$762,012. This fund reflects self insured dollars that Risk Management uses to pay our self insured retention and other claims under the Property Insurance policy. We have a \$50,000 self insured retention for most of these claims. This fund would also be utilized for large scale hail, tornado, fire, flood or natural disasters to property, vehicles or to unlicensed equipment.

633, Liability Self Insured Loss, \$1,056,653. This fund is reviewed annually by our actuaries at Aon Risk Services West. This fund is used for all liability claims against the City of Lincoln. We have a \$250,000 self insured retention for these claims.

634, Insurance Premiums, \$143,002. Risk Management uses this fund to pay insurance premiums on an annual basis. Usually payments are made for insurance effective September 1, and departments are billed for these insurance costs in September - October as we enter the new fiscal year.

635, Star Tran Self Insured Loss, \$895,302. This fund is reviewed annually by our actuaries at Aon Risk Services West. This fund is used for all Star Tran liability claims against the City of Lincoln. We have a \$250,000 self insured retention for these claims.

636, Excess Self Insured Loss, \$1,689,126. This fund is reviewed annually by our actuaries at Aon Risk Services West. This fund may be used for all excess claims that may rise above our existing claim funds or for any serious or catastrophic loss to the City of Lincoln.

637, Police Self Insured Loss, \$1,220,357. This fund is reviewed annually by our actuaries at Aon Risk Services West. This fund is used for all police liability claims against the City of Lincoln. We have a \$250,000 self insured retention for these claims.

638, Auto Self Insured Loss, \$762,836. This fund is reviewed annually by our actuaries at Aon Risk Services West. This fund is used for all auto liability claims against the City of Lincoln. We have a \$250,000 self insured retention for these claims.

640, Long Term Disability, \$131,765. This fund is reviewed annually by our actuaries at Milliman. This fund is used for all civilian long term disability claims against the City of Lincoln.

Thank you for this opportunity to explain our insurance funds. Please advise if you have any additional questions.

Bill Kostner MBA, ARM-P
Risk Manager
441-6009 - direct
441-6800 - fax

c: Don Herz - Finance Director
Peggy Tharnish - City Controller
Jaime Phillips - Administrative Secretary

**INSURANCE REVOLVING FUND
as of 8/31/2007 CAFR**

FUND	Cash & Invest	Street Lights Loan to General Fd	Claims Liability	Net All Other Assets/Liabilities	Fund Balance
Health 620	3,340,605	207,575	(1,390,997) @	19,734	2,176,917
Dental 621	314,998	19,587	- @	(47,605) #	286,980
Cobra & Retirees 622	247,849	15,381	-	2,224	265,454
Health Care 625	15,469	920	-	116	16,505
Worker's Comp 630	5,538,607	344,160	(2,722,000) *	2,397	3,163,164
Damaged Property 631	73,950	4,601	-	(374)	78,177
Property SI 632	718,199	44,565	-	6,479	769,243
Liability SI 633	996,009	61,917	(1,021,000) *	10,791	47,717
Ins Premiums 634	134,731	8,413	-	1,199	144,343
StarTran SI 635	843,725	52,452	(204,000) *	7,542	699,719
Excess SI 636	1,591,878	98,857	-	14,021	1,704,756
Police SI 637	1,150,033	71,514	(65,000) *	10,230	1,166,777
Auto SI 638	718,804	44,696	(347,000) *	6,092	422,592
L-T Disability 640	124,155	7,756	(605,509) *	1,199	(472,399)
totals	15,809,012	982,394	(6,355,506)	34,045	10,469,945

@ Based on actual claim data provided by Coventry and Ameritas

* Based on actuarial analysis

Includes \$50,970 dental claims Accounts Payable in 2007 which is now reported as Claims Liability beginning 2008