CITY OF JORDAN
JORDAN, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2010

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

May 25, 2011

11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

Management, Honorable Mayor, and City Council
City of Jordan
Jordan, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Jordan, (the City) as of and for the year ended December 31, 2010. Professional standards require that we provide you with information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 17, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Also, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are responsible for communicating significant matters related to audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the following pages as finding 2010-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the following pages as finding 2010-1 to be a significant deficiency.

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2010-1 Segregation of duties

Condition: During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, and investment transactions and found the City to have limited segregation of duties in these areas.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Internal control over payroll

Cause: As a result of the small number of staff, the Finance Director approves some time cards, approves payroll run, posts activity to general ledger, and prepares payroll tax returns.

Recommendation: We recommend that in addition to approving payroll disbursements and wage rates the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Also, we recommend somebody approve the quarterly 941s.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. The Administrator now reviews bank reconciliations and signs off on them. The City no longer has payroll check stock because all checks are direct deposited.

Updated progress since prior year:

During 2010, the Administrator now reviews and approves payroll summaries and quarterly and annual payroll reports.

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2010-2 Material audit adjustments

Condition: During our audit, adjustments were needed to record accounting and audit adjustments, two of which were material.

- A material audit entry was required to restate prior period amounts for accrued interest payable and related interest expense in the Water Utility fund for $33,955, Sewer Utility fund $18,010, Storm Sewer Utility fund $7,758, and Governmental activities $46,695.

- A material audit entry was required to book additional accounts receivable in the General fund totaling $51,054.

Criteria: The financial statements are the responsibility of the City's management.

Cause: City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.

Effect: This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management response:

The prior period adjustments noted above were discovered by City staff during the current year audit. However, they related to the prior period resulting in a restatement of the financial statements.

Updated progress since prior year:

The number of journal entries was reduced from 34 to 22 in the current year, of which 3 were made by the City staff.

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Compliance and Other Matters

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you through various means.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period, except for a prior period restatement was required to properly account for accrued interest and interest expense in the prior year.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of capital asset basis is based on estimated historical cost of the capital assets and depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed two journal entries that we consider to be audit entries or corrections of management decisions. They related to the following situations:

- A material audit entry was required to restate prior period amounts for accrued interest payable and related interest expense in the Water, Sewer, and Storm Sewer Utility funds and Governmental activities.
- A material audit entry was required to record additional accounts receivable in the General fund.

We also assisted in preparing a number of year end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances. The City should establish more detailed processes and procedures to reduce the total number of entries in each category. The City will receive better and timelier information if the preparation of year end entries is completed internally.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 25, 2011.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2010.

General Fund

All general governmental functions of the City which are not accounted for in separate funds are included in the General fund.

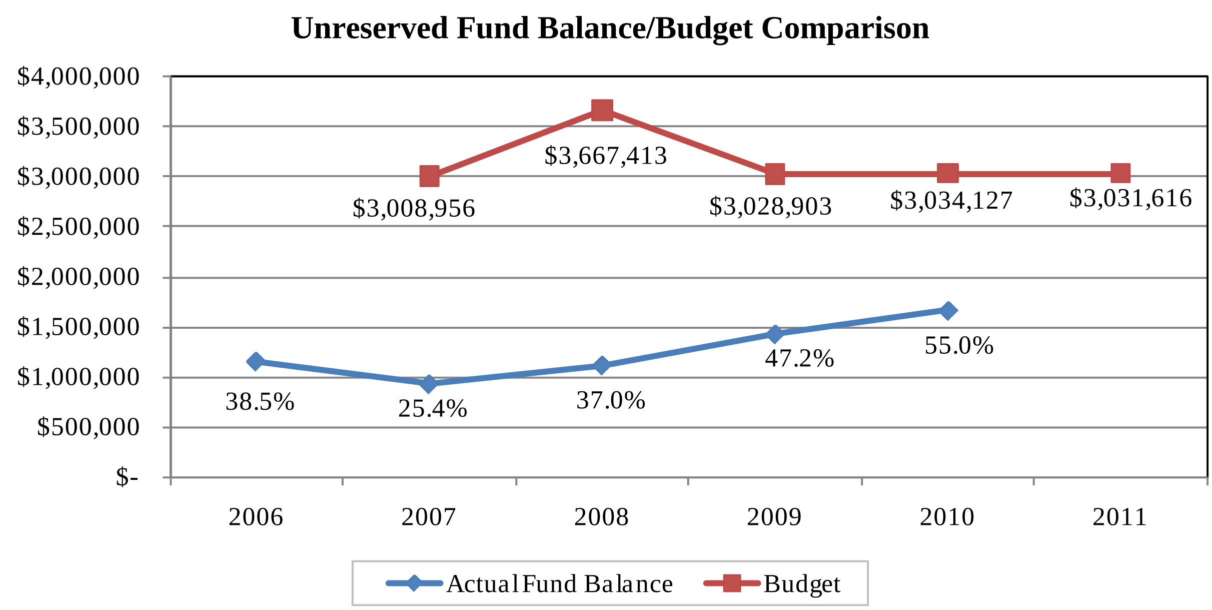
Minnesota municipalities must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each six-month cycle.

As you can see from the following information, it is necessary to maintain fund balance in order to keep pace with the increasing operating budget. *This information is also presented in graphic form below*.

Year	Unreserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2006	$ 1,159,538	2007	$ 3,008,956	38.5 %
2007	931,289	2008	3,667,413	25.4
2008	1,119,924	2009	3,028,903	37.0
2009	1,432,051	2010	3,034,127	47.2
2010	1,667,383	2011	3,031,616	55.0

In 2010, the City has established a fund balance policy to maintain the General fund balance at 55 percent. We have compiled peer group average fund balance information from the Cities we audit. In 2009 the average General fund balance as a percentage of expenditures was 65.94 percent. Based on comparison with the peer group, the City's General fund balance is a little below average.

The following is an analysis of the General fund's unreserved fund balance for the past five years compared to the following year's budget:



The fund balance increased by $236,207 in 2010. The total unreserved fund balance of $1,667,383 represents 55.0 percent of the 2011 budget. Many other organizations, including the Office of the State Auditor (the OSA) and League of Minnesota Cities (LMC) recommend that a fund balance reserve be anywhere from 35 to 50 percent of planned expenditures. We concur with those recommendations.

Although there is no legislation regulating fund balance, it is a good policy to designate intended use of fund balance. This helps address citizen concerns as to the use of fund balance and tax levels. The City should consider documenting designations for intended use of fund balance at and above the fifty percent level. This documentation could be accomplished by an annual resolution to identify intended use of available fund balance. We recommend a minimum fund balance for working capital be approximately 40 percent to 50 percent of planned disbursements. So at the current level, the fund balance is considered about what is recommended.

The purposes and benefits of a fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.

- The City is vulnerable to legislative actions at the State and Federal level. The State imposed reductions of market value credit aid and local government aid for some cities for 2009 and 2010. The Governor has recently presented increased reductions of 2010 funding as well as reductions of 2011 funding. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments and levy limits.

- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

The 2010 General fund operations are summarized as follows:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 2,934,561	$ 2,934,561	$ 2,788,692	$ (145,869)
Expenditures	2,807,128	2,807,128	2,566,472	240,656
Excess of revenues over expenditures	127,433	127,433	222,220	94,787
Other financing sources (uses)				
Sale of assets	1,500	1,500	-	(1,500)
Transfers in	175,000	175,000	443,995	268,995
Transfers out	(227,000)	(227,000)	(430,008)	(203,008)
Total other financing sources (uses)	(50,500)	(50,500)	13,987	64,487
Net change in fund balances	$ 76,933	$ 76,933	236,207	$ 159,274
Fund balances, January 1			1,453,051	
Fund balances, December 31			$ 1,689,258	

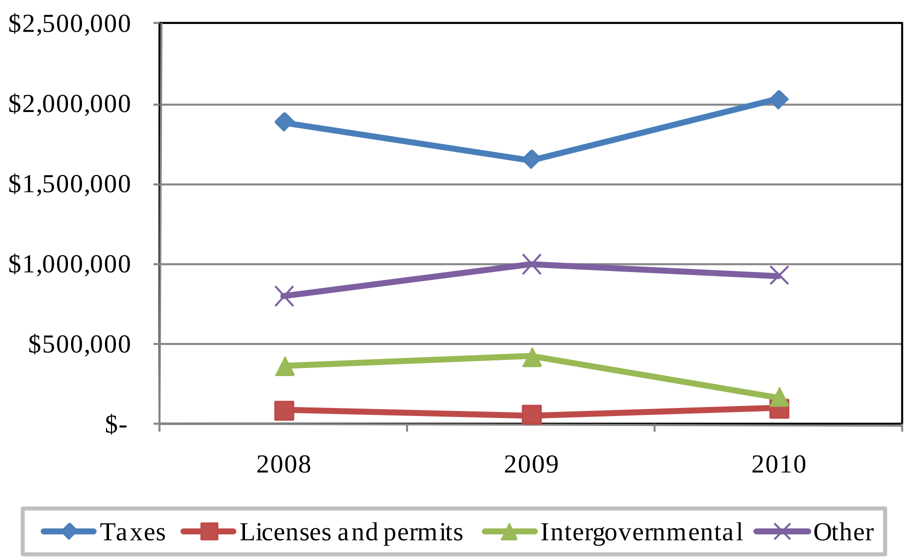
Some of the larger budget variances are as follows:

- Licenses and permits exceeded budget by $66,128.
- Total intergovernmental revenues were $195,626 under budget.
- Revenues from charges for services fell below budget by $85,137.
- Expenditures overall were under budget by $240,656.
- Transfers in exceeded budget by $268,995 while transfers out were over budget by $203,008.

A comparison of General fund revenues and transfers for the last three years is presented below:

Source	2008	2009	2010	Percent of Total	Per Capita
Taxes	$ 1,888,172	$ 1,650,582	$ 2,028,655	62.8 %	$ 376
Special assessments	8,060	5,039	11,747	0.4	2
Licenses and permits	87,321	60,972	102,669	3.2	19
Intergovernmental	368,856	425,909	172,570	5.3	32
Charges for services	534,373	400,238	309,821	9.6	57
Fines and forfeits	48,012	54,889	76,669	2.4	14
Investment earnings	70,035	40,333	40,192	1.2	7
Miscellaneous	8,699	5,481	46,369	1.4	9
Transfers in	134,334	493,782	443,995	13.7	82
Total revenues and transfers	$ 3,147,862	$ 3,137,225	$ 3,232,687	100.0 %	$ 598

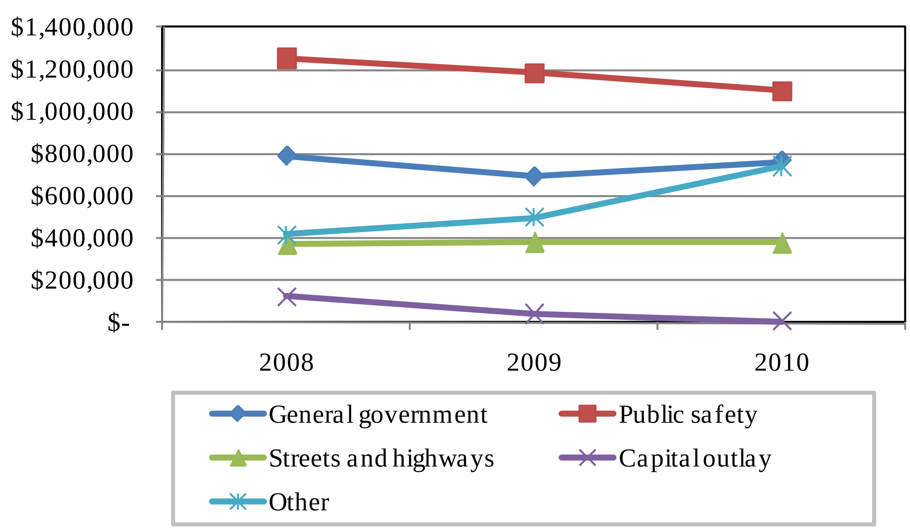
General Fund Revenues by Source



A comparison of General fund expenditures and transfers for the last three years is presented below:

Program	2008	2009	2010	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 788,526	$ 693,007	$ 765,820	25.5 %	$ 142	$ 129
Public safety	1,252,921	1,185,457	1,100,002	36.6	203	206
Streets and highways	375,002	383,515	380,160	12.7	70	113
Culture and recreation	152,048	161,118	143,587	4.8	27	50
Miscellaneous	126,289	130,594	82,554	2.8	15	13
Total current	2,694,786	2,553,691	2,472,123	82.4	457	511
Capital outlay	125,469	43,558	8,234	0.3	2	310
Debt service	100,972	87,204	86,115	2.9	16	n/a
Transfers out	38,000	119,769	430,008	14.4	80	n/a
Total expenditures and transfers	$ 2,959,227	$ 2,804,222	$ 2,996,480	100.0 %	$ 555	$ 821

General Fund Expenditures by Program



Special Revenue Funds

Special revenue funds have revenue from specific sources to be used for specific purpose. Listed below are the special revenue funds of the City along with the fund balances for 2010 and 2009 and the net change:

Fund	Fund Balances December 31, 2010	Fund Balances December 31, 2009	Increase (Decrease)
Economic Development Authority	$ 355,429	$ 298,561	$ 56,868
Contributions and Donations	22,935	25,724	(2,789)
Police Forfeiture	3,399	7,317	(3,918)
Police Dare Program	4,237	3,437	800
Police Car Seat	3,883	3,773	110
Emergency Siren	1,907	1,873	34
Municipal State Aid	65,727	22,768	42,959
Historical	861	815	46
Total	$ 458,378	$ 364,268	$ 94,110

Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt Service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital project fund
- Investment earnings
- State or Federal grants
- Transfers from other funds

The following is a summary of Debt Service fund assets and outstanding debt as of December 31, 2010:

Debt Description	Total Cash and Investments	Total Assets	Outstanding Debt	Maturity Date
G.O. Special Assessment Bonds:				
G.O. Refunding Bonds of 2002B	$ 33,526	$ 80,663	$ 61,612	2011
G.O. Refunding Bonds of 2003A	(194)	(194)	-	Matured
G.O. Improvement Refunding Bonds of 2004B	354,012	778,823	2,290,000	2020
G.O. Improvement Bonds of 2004A	654,553	1,256,073	1,641,572	2020
G.O. Improvement Bonds of 2008	167,603	252,043	1,230,000	2024
G.O. Refunding Bonds of 2008A	287,565	317,239	1,075,000	2018
G.O. Capital Improvement Bonds of 2008C	70,056	70,056	1,740,000	2029
Total G.O. Special Assessment Bonds	$ 1,567,121	$ 2,754,703	$ 8,038,184	
Future Interest on Debt			$ 1,906,269	

The City's outstanding debt is required to be funded by various resources such as special assessments, tax increments, property taxes, transfers from enterprise funds, etc. Special assessments and tax increments are usually certified once to the County for collection, but tax levies need to be certified annually. We recommend management pay particular attention to annual tax levies and transfers listed in each bond issue book to ensure proper funding of debt service.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. The table below compares 2010 fund balances (deficits) with 2009:

Fund	Fund Balances (Deficits) December 31, 2010	Fund Balances (Deficits) December 31, 2009	Increase (Decrease)
Major funds			
2006 - 2007 Capital Improvements	$ (36,130)	$ (19,260)	$ (16,870)
2008 Improvement Projects	78,771	204,565	(125,794)
Firehall Expansion	47,579	63,941	(16,362)
Nonmajor funds			
Capital Projects Revolving	274,712	-	274,712
Fire Vehicle	41,865	45,604	(3,739)
Development District No. 1	7,019	6,897	122
190th Street Construction Project	147,748	145,179	2,569
Broadway Market TIF Project	(1,465)	(2,073)	608
Street Equipment Fee	27,994	21,327	6,667
CR 61 and CR 66 Construction	522,562	526,661	(4,099)
Jordan Center TIF Project	2,524	608	1,916
Park Equipment Improvement	87,256	70,619	16,637
Park Improvement	127,212	223,719	(96,507)
Park Capital	69,055	371	68,684
Jordan Valley Townhomes TIF	2,196	(474)	2,670
2010 Basketball Court	13,990	-	13,990
Total	$ 1,412,888	$ 1,287,684	$ 125,204

The City should analyze project's status each year and close those that are completed. Any deficits should be evaluated to ensure they are consistent with financing expectations.

Enterprise Funds

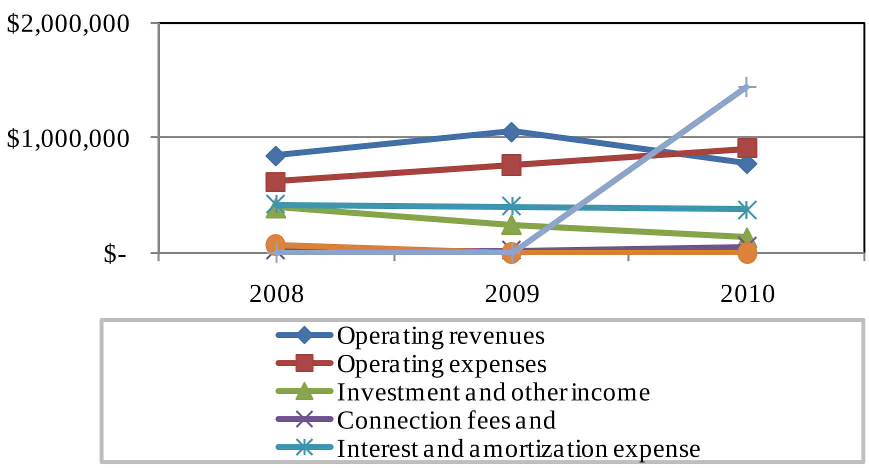
Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water Utility Fund

A comparison of Water Utility fund operations for the past three years is as follows:

	2008		2009		2010	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 843,375	100.0 %	$ 1,053,250	100.0 %	$ 774,537	100.0 %
Operating expenses	(622,567)	(73.8)	(763,579)	(72.5)	(912,096)	(117.8)
Operating income (loss)	220,808	26.2	289,671	27.5	(137,559)	(17.8)
Investment and other income	392,202	46.5	247,231	23.5	132,001	17.0
Connection fees and capital charges	22,476	2.7	26,314	2.5	60,783	7.7
Interest and amortization expense	(424,390)	(50.3)	(405,429)	(38.5)	(377,950)	(48.8)
Income (loss) before contributions and transfers	211,096	25.1	157,787	15.0	(322,725)	(41.9)
Capital contributions	67,264	8.0	-	-	-	-
Transfers in	-	-	512,939	48.7	-	-
Transfers out	-	-	-	-	(1,443,117)	(186.3)
Change in net assets	$ 278,360	33.1 %	$ 670,726	63.7 %	$ (1,765,842)	(228.2) %
Cash and temporary investments	$ 6,146,128		$ 3,807,287		$ 1,960,471	
Bonds payable	$ 10,419,324		$ 9,724,693		$ 9,174,880	

Water Utility Fund Operations

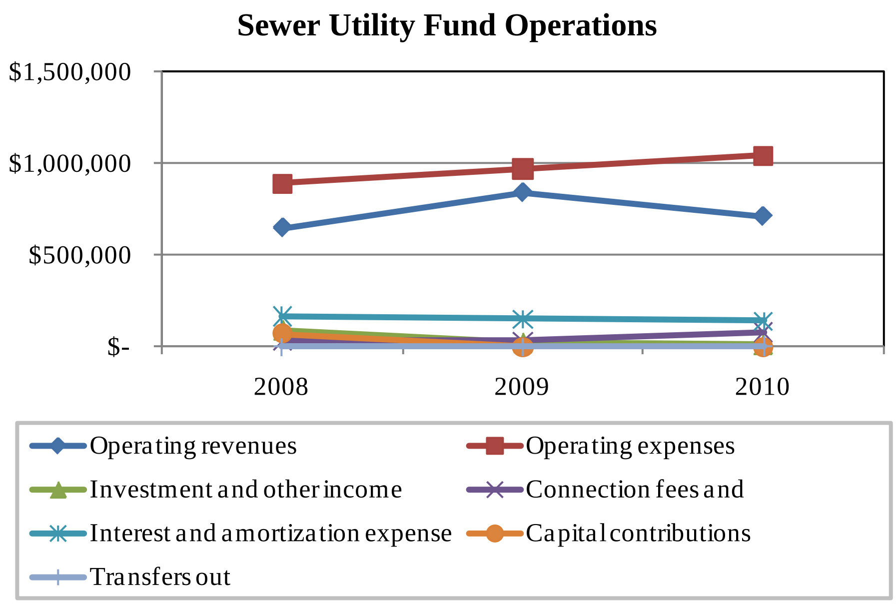


Operating income decreased in 2010. The cash and investment balance on the fund also decreased in 2010. Even though there is a healthy cash balance, it is important to monitor rates to ensure they are sufficient to maintain reserves, pay debt and keep up with increasing system costs.

Sewer Utility Fund

A comparison of Sewer Utility fund operations for the past three years is as follows:

	2008		2009		2010	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 650,803	100.0 %	$ 842,821	100.0 %	$ 712,771	100.0 %
Operating expenses	(893,247)	(137.1)	(973,462)	(115.4)	(1,042,972)	(146.3)
Operating loss	(242,444)	(37.1)	(130,641)	(15.4)	(330,201)	(46.3)
Investment and other income	92,328	14.3	26,274	3.1	16,371	2.3
Connection fees and capital charges	32,323	5.0	34,944	4.1	80,415	11.3
Interest and amortization expense	(166,522)	(25.5)	(154,066)	(18.3)	(141,446)	(19.8)
Loss before contributions and transfers	(284,315)	(43.3)	(223,489)	(26.5)	(374,861)	(52.5)
Capital contributions	73,331	11.3	-	-	-	-
Transfers in	-	-	270,085	32.0	700,000	98.2
Transfers out	-	-	-	-	(4,745)	(0.7)
Change in net assets	$ (210,984)	(32.0) %	$ 46,596	5.5 %	$ 320,394	45.0 %
Cash and temporary investments	$ 779,360		$ 309,870		$ 758,202	
Bonds payable	$ 6,090,238		$ 5,628,078		$ 5,228,894	



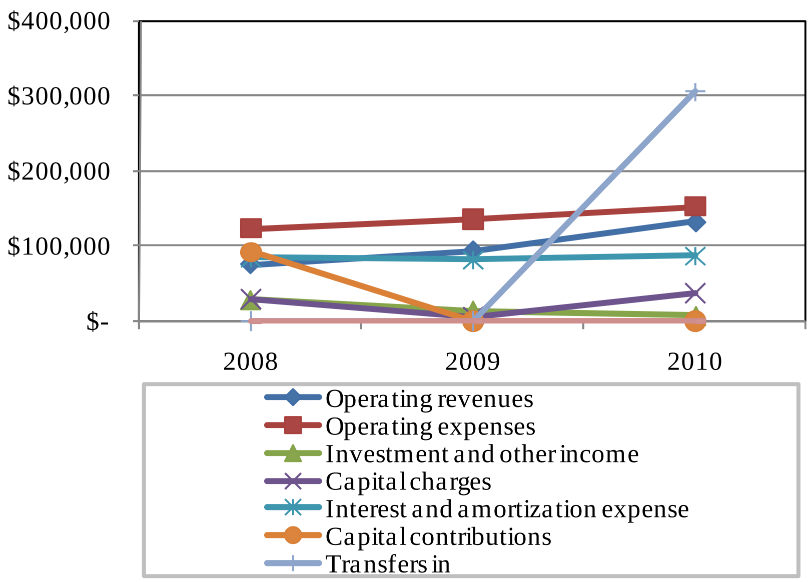
Although operating losses have been incurred for the years presented, depreciation has been a significant component of the total expenses. Since cash is not required for this expense, the fund has been able to generate positive cash flow from operations.

Storm Sewer Utility Fund

A comparison of Storm Sewer Utility fund operations for the past three years is as follows:

	2008		2009		2010	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 74,694	100.0 %	$ 93,160	100.0 %	$ 131,736	100.0 %
Operating expenses	(123,053)	(164.7)	(135,138)	(145.1)	(151,960)	(115.4)
Operating loss	(48,359)	(64.7)	(41,978)	(45.1)	(20,224)	(15.4)
Investment and other income	28,469	38.1	14,169	15.2	6,844	5.2
Capital charges	28,746	38.5	5,724	6.1	37,320	28.3
Interest and amortization expense	(83,567)	(111.9)	(81,475)	(87.5)	(86,549)	(65.7)
Income (loss) before contributions and transfers	(74,711)	(100.0)	(103,560)	(111.3)	(62,609)	(47.6)
Capital contributions	92,070	123.3	-	-	-	-
Transfers in	-	-	-	-	304,745	231.3
Change in net assets	$ 17,359	23.3 %	$ (103,560)	(111.3) %	$ 242,136	183.7 %
Cash and temporary investments	$ 451,224		$ 122,748		$ 330,636	
Bonds payable	$ 2,104,180		$ 2,300,970		$ 2,149,042	

Storm Sewer Utility Fund Operations



The operating loss for the Storm Water fund decreased in 2010. Cash and investments increased in 2010. We recommend that the City review rates to ensure they are sufficient to maintain reserves, pay scheduled debt related transfers, and keep up with increasing system costs.

Government-wide and Other Ratios

Ratio Analysis

The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor. The peer group averages used for the City was 4th class (2,500 - 10,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

Ratio	Calculation	Source	Year 2007	2008	2009	2010
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	1.4	0.6	0.5	0.5
			1.8	*1.6*	*2.6*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 4,741	$ 5,899	$ 6,084	$ 4,224
			$ 2,673	*$ 2,677*	*$ 2,713*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 409	$ 449	$ 520	$ 587
			$ 382	*$ 401*	*$ 399*	*N/A*
Current expenditures per capita	Governmental fund current expenditures / population	Governmental funds	$ 453	$ 506	$ 506	$ 478
			$ 553	*$ 663*	*$ 709*	*N/A*
Capital expenditures per capita	Governmental fund capital expenditures / population	Governmental funds	$ 16	$ 475	$ 499	$ 58
			$ 409	*$ 323*	*$ 158*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	77%	70%	68%	62%
			70%	*70%*	*68%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	79%	80%	80%	78%
			68%	*67%*	*67%*	*N/A*

Represents City of Jordan

Represents Peer Group Average

Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet debt service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund debt service payments, an acceptable ratio would be above 1.

Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the city and represents the amount of bonded debt obligation for each citizen of the city at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.

Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the city and represents the amount of taxes for each citizen of the city for the year. The higher this amount is, the more reliant the city is on taxes to fund its operations.

Current Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total current governmental expenditures by the population of the City and represents the amount of governmental expenditure for each citizen of the City during the year. Since this is generally based on ongoing expenditures, we would expect consistent annual per capita results.

Capital Outlay per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total governmental capital outlay expenditures by the population of the City and represents the amount of capital expenditure for each citizen of the City during the year. Since projects are not always recurring, the per capita amount will fluctuate from year to year.

Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the city's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.

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Current and Future Statute and Accounting Standard Changes

GASB Statement No. 54 - *Fund Balance*

This statement was issued in March of 2009 and is effective for periods beginning after June 15, 2010. This new standard is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and clarifying the definitions of existing governmental fund types.

GASB No. 54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following classifications and definitions will be used:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committed* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government *intends* to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund.

In addition to the classifications of fund balance, the standard clarified the definitions of individual governmental fund types, for example, special revenue funds, debt service funds, and capital project funds.

GASB Statement No. 59 - *Financial Instruments Omnibus*

Summary

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments:

- Statement 31 is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

- Statement No. 40, Deposit and Investment Risk Disclosures, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Emphasizing the applicability of SEC requirements to 2a7-like external investment pools provides practitioners with improved guidance. Finally, limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures.

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This report is intended solely for the information and use of the members of the Council, management, and others within the administration of the City and is not intended to be and should not be used by anyone other than those specified parties.

The comments and recommendations in this report are purely constructive in nature, and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.

Abdo, Eick & Meyers, LLP

May 25, 2011
Mankato, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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