CITY OF JORDAN
JORDAN, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2013

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

April 16, 2014

Management, Honorable Mayor, and City Council
City of 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, 2013. 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 4, 2013. 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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified However, as described in the following pages, we identified certain deficiencies in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described on the following page as item 2013-001 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 on the following pages as item 2013-002 to be a significant deficiency.

11 Civic Center Plaza, Suite 300
P.O. Box 3166
Mankato, MN 56002-3166
507.625.2727 | Fax 507.388.9139

2013-001 Material audit adjustments

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

- A material audit entry was required to adjust tax revenue and delinquent taxes.
- A material audit entry was required to adjust assessment revenue and delinquent assessments.
- A material audit entry was required to adjust State aid and other intergovernmental revenue coding.
- A material audit entry was required to record a contribution and capital asset addition related to the library building.

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:

Management will review and gain an understanding of the audit adjustments in order to reduce the number of entries necessary for future audits.

Updated progress since prior year:

The number of journal entries in 2013 increased from 35 to 41.

2013-002 Preparation of financial statements

Condition: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.

Cause: From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with out audit. This is not unusual for us to do with organizations of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation: Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your financial software information to the amount reported in the financial statements.

Management response:

The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Each year the City has a presentation from our auditor to the Council after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and the Council to monitor the deficiency.

Compliance and Other Matters

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

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. The requirements of GASB statement No. 61were adopted for the year ended December 31, 2013. We noted no transactions entered into by the City 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.

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 three 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 adjust tax revenue and delinquent taxes.
- A material audit entry was required to adjust assessment revenue and delinquent assessments.
- A material audit entry was required to adjust State aid and other intergovernmental revenue coding.
- A material audit entry was required to record a contribution and capital asset addition related to the library building.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 16, 2014.

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Bank Reconciliations

During our audit, we noted that the City had not completed an accurate bank reconciliation at year end. As a result, the cash balances were out of balance by over $5,000. Bank reconciliations are an important control activity that ensures all transactions are addressed in the accounting system. The effect of not reconciling bank statements timely is increased risk of misstatement and undetected errors in processing transactions. We recommend the City use the module available within the accounting software to reconcile the bank accounts. We can assist management in this process if the Council would find it necessary.

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, 2013.

General Fund

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

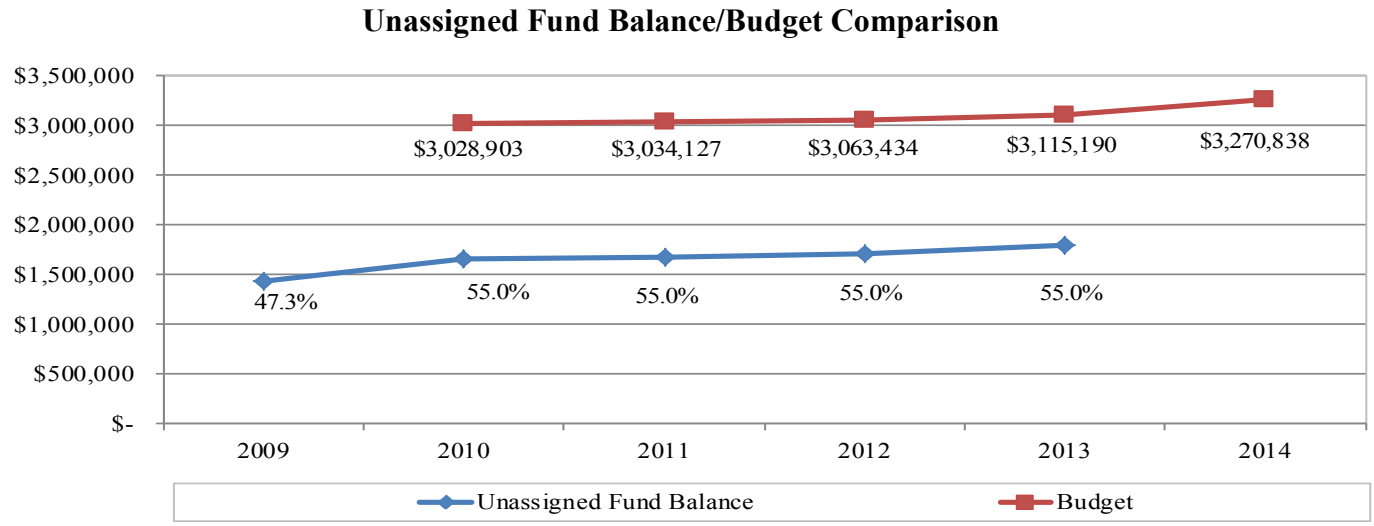
Minnesota municipalities must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each 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	Unassigned Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2009	$ 1,432,051	2010	$ 3,028,903	47.3 %
2010	1,668,244	2011	3,034,127	55.0
2011	1,684,889	2012	3,063,434	55.0
2012	1,713,027	2013	3,115,190	55.0
2013	1,798,961	2014	3,270,838	55.0

In 2010, the City established a fund balance policy to maintain the General fund balance at 55 percent.

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



We have compiled a peer group average derived from information we have requested from the Office of the State Auditor for Cities of the 4th class which have populations of 2,500-10,000. In 2011 and 2012, the average General fund balance as a percentage of expenditures was 69 percent and 76 percent, respectively. Based on comparison to the peer groups, the City's General fund balance is below that average.

The fund balance increased by $85,934 in 2013. The total unassigned fund balance of $1,798,961 represents 55.0 percent of the 2014 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 assign 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 assignments 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 continually adjusts the local government aid formulas. We also have seen the State mandate levy limits for cities over 2,500 in population. 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 2013 General fund operations are summarized as follows:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 3,113,690	$ 3,113,690	$ 3,103,003	$ (10,687)
Expenditures	2,852,190	2,852,190	2,811,914	40,276
Excess (deficiency) of revenues over (under) expenditures	261,500	261,500	291,089	29,589
Other financing sources (uses)				
Sale of assets	1,500	1,500	594	(906)
Transfers in	-	-	8,638	8,638
Transfers out	(263,000)	(263,000)	(214,387)	48,613
Total other financing sources (uses)	(261,500)	(261,500)	(205,155)	56,345
Net change in fund balances	$ -	$ -	85,934	$ 85,934
Fund balances, January 1			1,713,027	
Fund balances, December 31			$ 1,798,961	

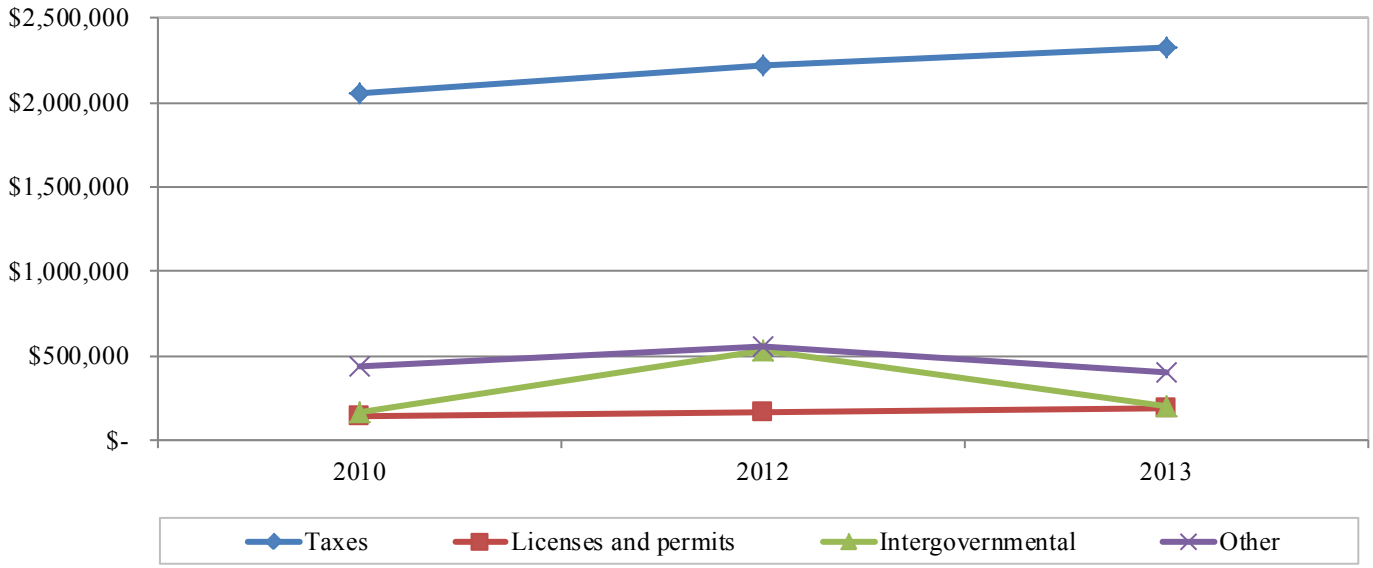
Some of the larger budget variances are as follows:

- Property taxes exceeded budgeted amounts by $146,665.
- Licenses and permits were over budget by $139,433 due to conservative budgeting due to economic conditions.
- Municipal State aid was $161,044 under budget due to less payment request reimbursements over the prior year.
- Investment earnings were under budget by $63,877 due to market value decreases at the end of the year.
- Other services and charges in planning and zoning exceeded budget by $66,551 due to an increase in planning and engineering for new projects.
- Capital outlay in streets and highways was under budget by $35,000.

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

Source	2011	2012	2013	Percent of Total	Per Capita
Taxes	$ 2,051,573	$ 2,219,302	$ 2,326,394	74.6 %	$ 404
Special assessments	18,094	4,985	5,848	0.2	1
Licenses and permits	136,797	168,575	183,235	5.9	32
Intergovernmental	165,420	532,465	195,746	6.3	34
Charges for services	357,069	395,575	342,020	11.0	59
Fines and forfeits	96,017	75,903	64,597	2.1	11
Investment earnings (loss)	(35,104)	72,302	(28,877)	(0.9)	(5)
Miscellaneous	1,503	10,214	14,040	0.5	2
Transfers in	-	-	8,638	0.3	1
Total revenues and transfers	$ 2,791,369	$ 3,479,321	$ 3,111,641	100.0 %	$ 539

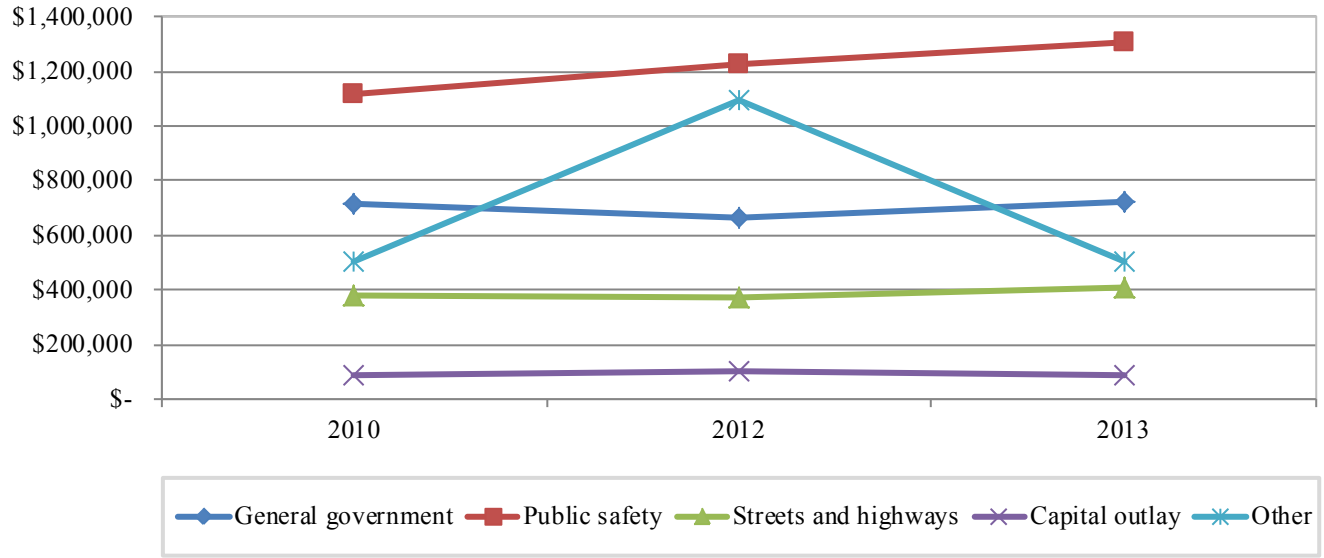
General Fund Revenues by Source



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

Program	2011	2012	2013	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 714,791	$ 662,064	$ 720,549	23.8 %	$ 125	$ 125
Public safety	1,114,846	1,227,512	1,305,565	43.1	226	218
Streets and highways	376,096	371,129	408,656	13.5	71	106
Culture and recreation	139,934	145,826	138,899	4.6	24	54
Miscellaneous	89,935	89,076	150,229	5.0	26	12
Total current	2,435,602	2,495,607	2,723,898	90.0	472	515
Capital outlay	84,798	105,213	88,016	2.9	15	34
Debt service	80,684	77,430	-	-	-	N/A
Transfers out	195,725	780,638	214,387	7.1	37	N/A
Total expenditures and transfers	$ 2,796,809	$ 3,458,888	$ 3,026,301	100.0 %	$ 524	$ 549

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 2013 and 2012 and the net change:

Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Economic Development Authority	$ 417,070	$ 413,611	$ 3,459
Contributions and Donations	60,617	189,520	(128,903)
Police Forfeiture	9,532	12,932	(3,400)
Police DARE Program	6,797	4,720	2,077
Police Car Seat	1,842	2,050	(208)
Police Reserves	5,438	-	5,438
Veterans Park	105,205	-	105,205
Municipal State Aid	63,956	-	63,956
Broadway Market TIF Project	1,442	475	967
Jordan Center TIF Project	9,796	7,452	2,344
Jordan Valley Townhomes TIF	11,617	8,694	2,923
Oak Terrace Senior Housing	3,788	-	3,788
Total	$ 697,100	$ 639,454	$ 57,646

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, 2013:

Debt Description	Total Cash and Investments	Total Assets	Outstanding Debt	Maturity Date
G.O. Special Assessment Bonds				
G.O. Improvement Bonds of 2008	$ 166,668	$ 227,208	$ 1,015,000	2024
G.O. Refunding Bonds of 2008A	306,583	316,229	315,000	2018
G.O. Capital Improvement Bonds of 2008C	60,298	60,298	1,540,000	2029
G.O. Refunding Bonds of 2011A	788,327	949,795	1,325,000	2020
G.O. Refunding Bonds of 2012A (2004A)	506,948	2,067,026	2,179,605	2014/2020
G.O. Taxable Library Note of 2012	131,028	131,028	1,000,000	2032
G.O. Bonds of 2013A	-	-	460,000	2021
G.O. Street Construction Bonds of 2013C	21,956	21,956	1,410,000	2029
Total G.O. Special Assessment Bonds	$ 1,981,808	$ 3,773,540	$ 9,244,605	
Future Interest on Debt			$ 488,224	

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 2013 fund balances with 2012:

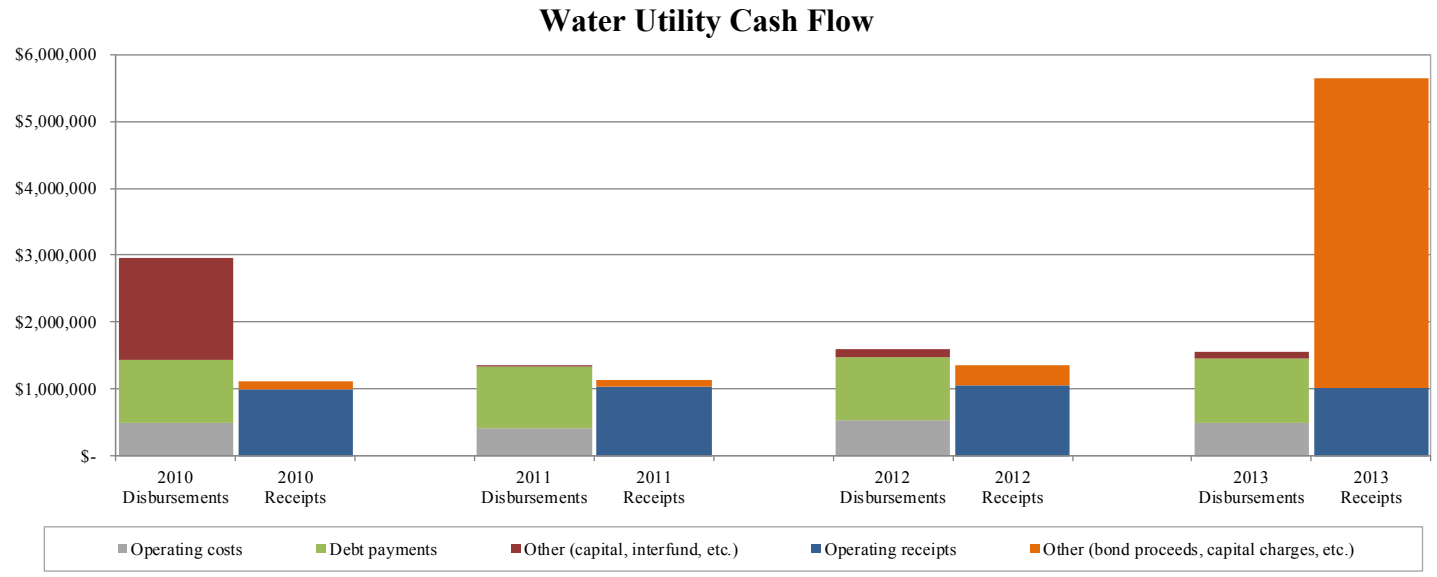
Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Major			
Firehall Expansion	$ -	$ 4,996	$ (4,996)
2013 Street Improvements	167,460	-	167,460
Nonmajor			
Capital Projects Revolving	34,393	225,056	(190,663)
Emergency Siren	2,018	1,995	23
Fire Vehicle	37,807	11,984	25,823
Development District No. 1	7,427	7,343	84
190th Street Construction Project	156,341	154,573	1,768
Street Equipment Fee	117,539	47,960	69,579
CR 61 and CR 66 Construction	199,773	359,955	(160,182)
Park Equipment Improvement	57,312	91,897	(34,585)
Park Improvement	359,468	406,743	(47,275)
Park Capital	74,920	141,088	(66,168)
2010 Basketball Court	780	771	9
City Facilities Capital	240,710	376,144	(135,434)
Total	$ 1,455,948	$ 1,830,505	$ (374,557)

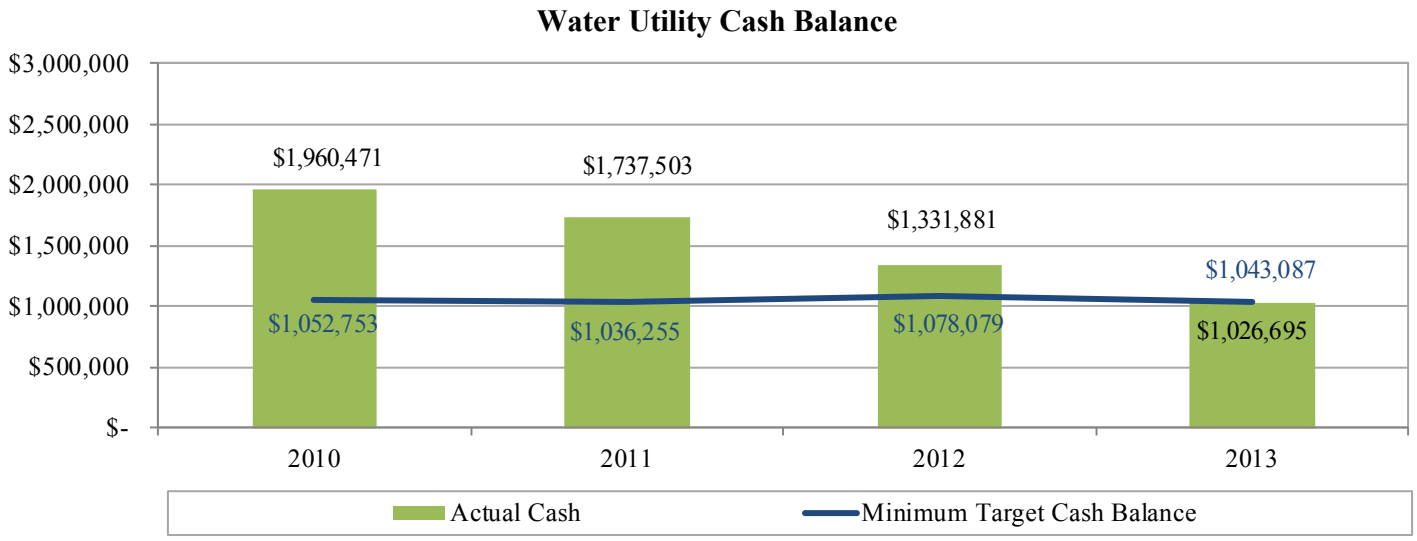
The City should analyze project's status each year and close those that are completed. Any deficits should be evaluated to ensure they are consistent with financing expectations.

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.

The results of the operations in terms of cash flow and the breakdown of the cash balances for the past four years are as follows:

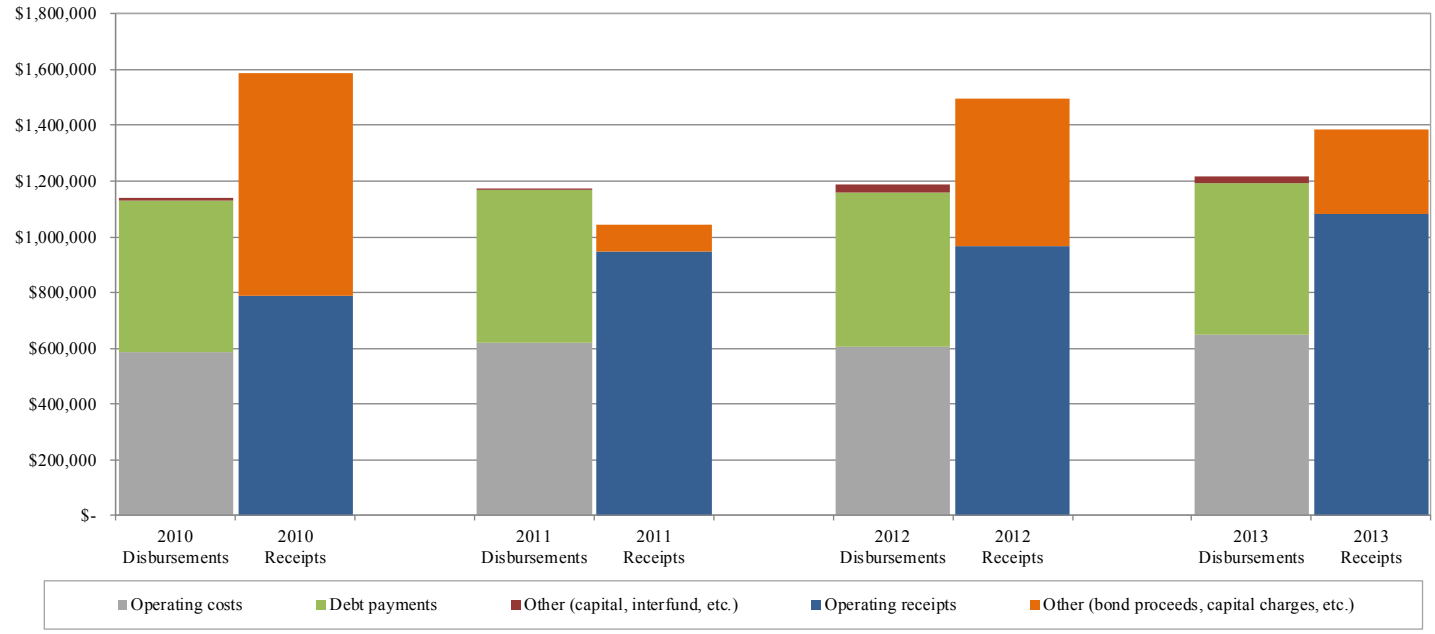




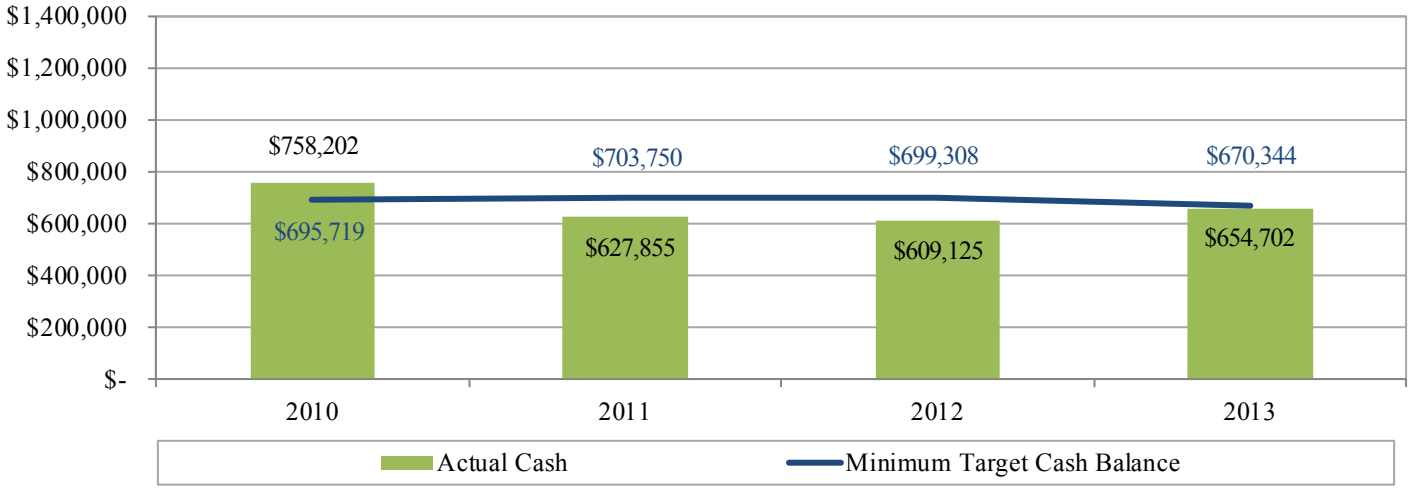
Cash and investment balances in the fund increased in 2013 due to the issuance of debt during the year. Although there is a healthy cash balance, it appears that operations are not providing enough cash flow to pay operating and debt costs. It is important to continuously monitor rates to ensure they are sufficient to maintain reserves, pay debt and keep up with increasing system costs. The minimum target cash balance is based off of 25 percent of operating costs plus next year's debt payments.

	2010	2011	2012	2013
Bonds payable	$ 9,178,321	$ 8,609,317	$ 8,170,847	$ 12,058,443

Sewer Utility Cash Flow

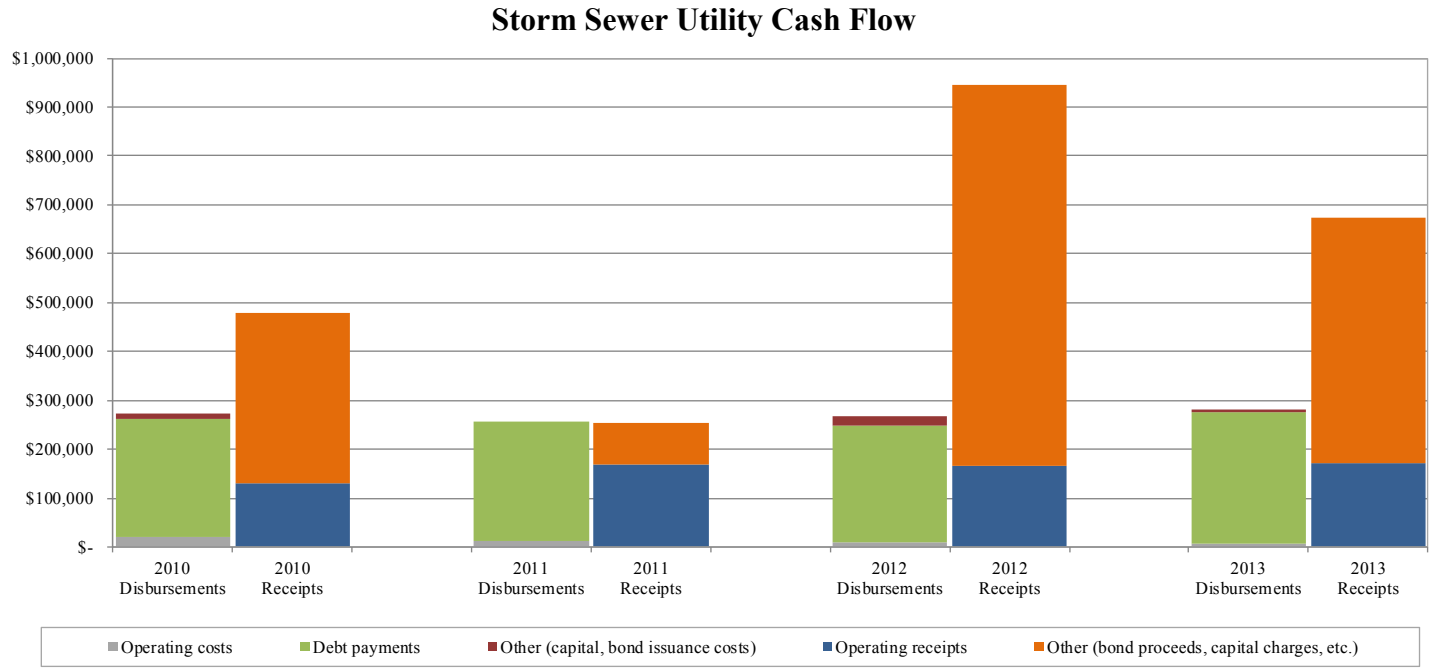


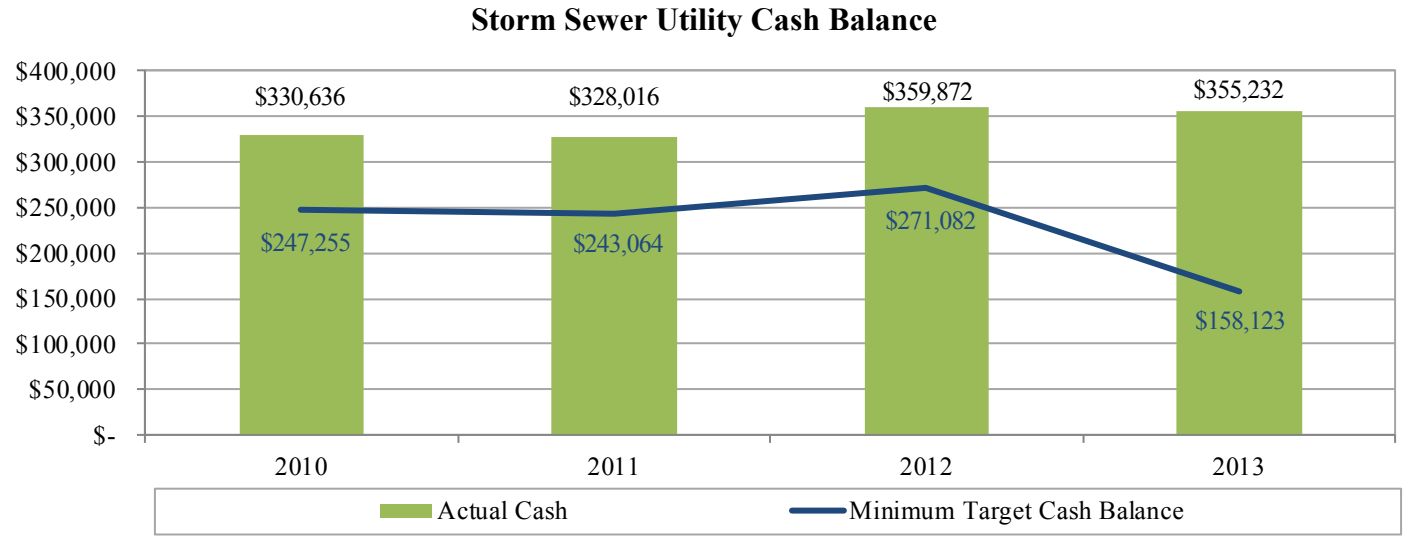
Sewer Utility Cash Balance



Cash and investment balances in the fund increased in 2013 due to the issuance of debt during the year. Although there is a healthy cash balance, it appears that operations are not providing enough cash flow to pay operating and debt costs. It is important to continuously monitor rates to ensure they are sufficient to maintain reserves, pay debt and keep up with increasing system costs. The minimum target cash balance is based off of 25 percent of operating costs plus next year's debt payments.

	2010	2011	2012	2013
Bonds payable	$ 5,236,020	$ 4,821,369	$ 4,736,794	$ 4,439,975





Cash and investment balances in the fund increased in 2013 due to the issuance of debt during the year. Although there is a healthy cash balance, it appears that operations are not providing enough cash flow to pay operating and debt costs. It is important to continuously monitor rates to ensure they are sufficient to maintain reserves, pay debt and keep up with increasing system costs. The minimum target cash balance is based off of 25 percent of operating costs plus next year's debt payments.

	2010	2011	2012	2013
Bonds payable	$ 2,163,049	$ 2,001,003	$ 2,505,485	$ 2,755,584

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 we have requested and compiled from 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			
			2010	2011	2012	2013
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	50% *90%*	60% *106%*	60% *106%*	63% *N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 6,084 *$ 2,774*	$ 4,106 *$ 2,826*	$ 3,679 *$ 2,626*	$ 4,904 *N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 520 *$ 458*	$ 582 *$ 500*	$ 584 *$ 480*	$ 580 *N/A*
Current expenditures per capita	Governmental fund current expenditures / population	Governmental funds	$ 506 *$ 624*	$ 490 *$ 640*	$ 479 *$ 649*	$ 542 *N/A*
Capital expenditures per capita	Governmental fund capital expenditures / population	Governmental funds	$ 499 *$ 265*	$ 51 *$ 229*	$ 362 *$ 298*	$ 454 *N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	68% *68%*	58% *64%*	58% *65%*	59% *N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	80% *68%*	76% *65%*	74% *63%*	72% *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.

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements: [1]

GASB Statement No. 67 - *The Financial Reporting for Pension Plans- an Amendment to GASB Statement No. 25*

Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

GASB Statement No. 68 - *The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*

Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, Business Combinations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchnage Financial Guarantees*

Summary

Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68*

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

[1] *Note*. From GASB Pronouncements Summaries.

* * * * * * *

This communication is intended solely for the information and use of management, the City Council, others within the City, and the Minnesota Office of the State Auditor and is not intended to be, and should not be, used by anyone other than these 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

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
April 16, 2014