Management Letter

City of Jordan

Jordan, Minnesota

For the Year Ended
December 31, 2016

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

May 19, 2017

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, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards and *Government Auditing Standards,* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 13, 2016. 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 financial statements does not relieve you or your management of your responsibilities.

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. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency described in the accompanying pages as item 2016-001 to be a significant deficiency.

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2016-001 Segregation of duties

Condition:	During our audit we reviewed internal control procedures over disbursements, cash receipts, utility billing, payroll and investments and found the City to have limited segregation of duties in these areas as noted below.
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:	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.

<u>Internal control over disbursements</u>

Cause:	As a result of the small number of staff, the Finance Director maintains various accounts payable records, initiates wire transfers, posts transactions to the general ledger and reconciles bank accounts.
Recommendation:	It is important that the Council is aware of this condition and monitor all financial information. We recommend that an individual, separate from the Finance Director, review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check number sequence, possible alterations and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

No progress has been made in addressing this finding in the current year.

<u>Internal control over cash receipts</u>

Cause:	As a result of the small number of staff, the Finance Director maintains various accounts receivable records, posts transactions to the general ledger and reconciles bank accounts.
Recommendation:	It is important that the Council is aware of this condition and monitor all financial information. Additional controls might include obtaining and reviewing monthly receipt information.

Management response:

No progress has been made in addressing this finding in the current year.

<u>Internal control over utility billing</u>

Cause:	As a result of the small number of staff, the Finance Director maintains various accounts receivable records, posts transactions to the general ledger and reconciles bank accounts.
Recommendation:	It is important that the Council is aware of this condition and monitor all financial information. Additional controls could include approval of customer adjustments by someone other than the Accounting Clerk.

Management response:

No progress has been made in addressing this finding in the current year.

2016-001 Segregation of duties - continued

Internal control over payroll

Cause: As a result of the small number of staff, the Finance Director maintains various payroll records, posts transactions to the general ledger, reconciles bank accounts and prepares payroll tax returns.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information. We recommend that in addition to approving payroll disbursements and wage rates the City Council review payroll registers, earnings records, and payroll reports periodically, and the amounts accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals.

Management response:

No progress has been made in addressing this finding in the current year.

Internal control over investments

Cause: As a result of the small number of staff, the Finance Director maintains various investment records, initiates investment transactions, posts transactions to the general ledger and reconciles bank accounts.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management response:

No progress has been made in addressing this finding in the current year.

The following finding was resolved during the current year as there were no material audit adjustments identified:

2015-002 Material audit adjustment

Condition: During our audit, a material adjustment was needed to record activity related to various capital projects.

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 the audit adjustments and ensure all capital asset activity is accounted for in future audits.

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 Standard* or Minnesota statutes.

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 City changed accounting policies during 2016 related to fair market value and application (GASB 72), accounting and financial reporting for pension and related assets not within the scope of GASB 68, including amendments to certain provisions GASB Statement No. 67 and No. 68 (GASB 73), and certain external investment pools and pool participants (GASB 79). Accordingly, the cumulative effect of the accounting change at the beginning of the year is disclosed in Note 8. 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. The most sensitive estimates made relate capital asset basis, the depreciation on capital assets, the allocation of payroll and the liability for the City's pensions.

- 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. Depreciation is calculated using the straight-line method

- Allocations of gross wages and payroll benefits are derived from each employee's estimated time to be spent servicing the respective functions of the City. These allocations are also used in allocating accrued compensated absences payable.

- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.

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.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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. The total number of journal entries in 2016 remained at 14.

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 Representations

We have requested certain representations from management that are included in the management representation letter dated May 19, 2017.

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

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios) which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it

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, 2016.

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.

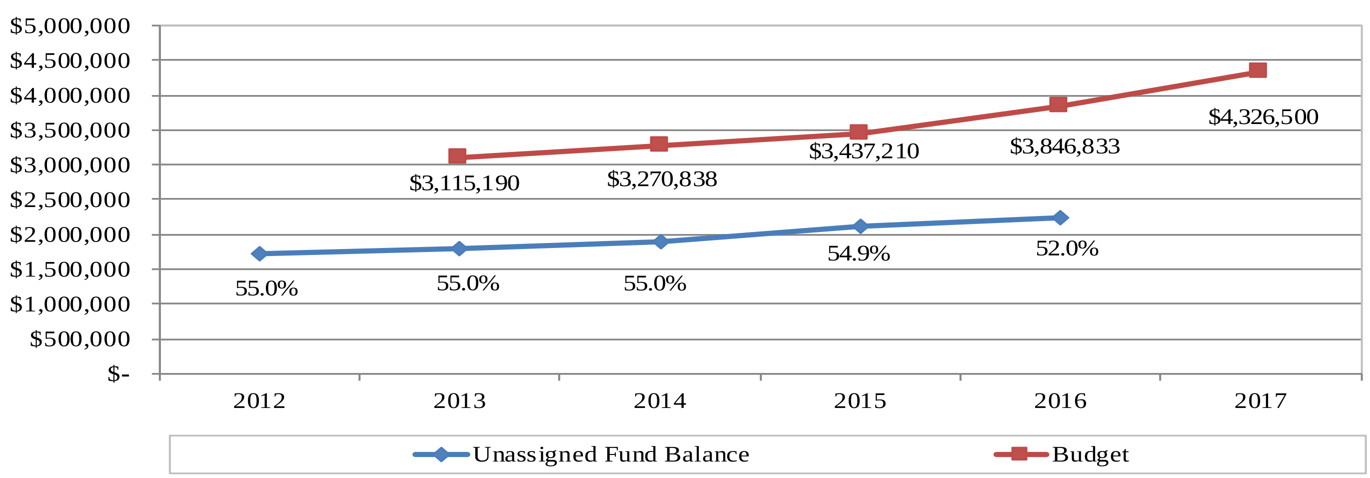
As you can see from the following information, it is necessary to maintain fund balance in order to keep pace with the increasing operating budget. *This information is also presented in graphic form below.*

Year	Unassigned Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2012	$ 1,713,027	2013	$ 3,115,190	55.0 %
2013	1,798,961	2014	3,270,838	55.0
2014	1,890,466	2015	3,437,210	55.0
2015	2,110,959	2016	3,846,833	54.9
2016	2,251,559	2017	4,326,500	52.0

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:

Unassigned Fund Balance/Budget Comparison



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 2014 and 2015, the average General fund balance as a percentage of expenditures was 75 percent and 78 percent, respectively. The City's total General fund balance is 69.8 percent of expenditures per the City's fund balance policy to transfer excess dollars to various capital replacement funds. Based on comparison to the peer groups, the City's General fund balance is just below that average.

The unassigned fund balance increased by $140,600 in 2016. The total unassigned fund balance of $2,251,559 represents 52.0 percent of the 2017 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 unassigned fund balance for working capital be approximately 40 percent to 50 percent of planned disbursements. So at the current level, the unassigned 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 2016 General fund operations are summarized as follows:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 3,845,333	$ 3,845,333	$ 3,710,586	$ (134,747)
Expenditures	3,439,013	3,439,013	3,224,679	214,334
Excess (deficiency) of revenues over (under) expenditures	406,320	406,320	485,907	79,587
Other financing sources (uses)				
Sale of assets	1,500	1,500	3,990	2,490
Transfers in	-	-	140,850	140,850
Transfers out	(407,820)	(407,820)	(490,147)	(82,327)
Total other financing sources (uses)	(406,320)	(406,320)	(345,307)	61,013
Net change in fund balances	$ -	$ -	140,600	$ 140,600
Fund balances, January 1			2,110,959	
Fund balances, December 31			$ 2,251,559	

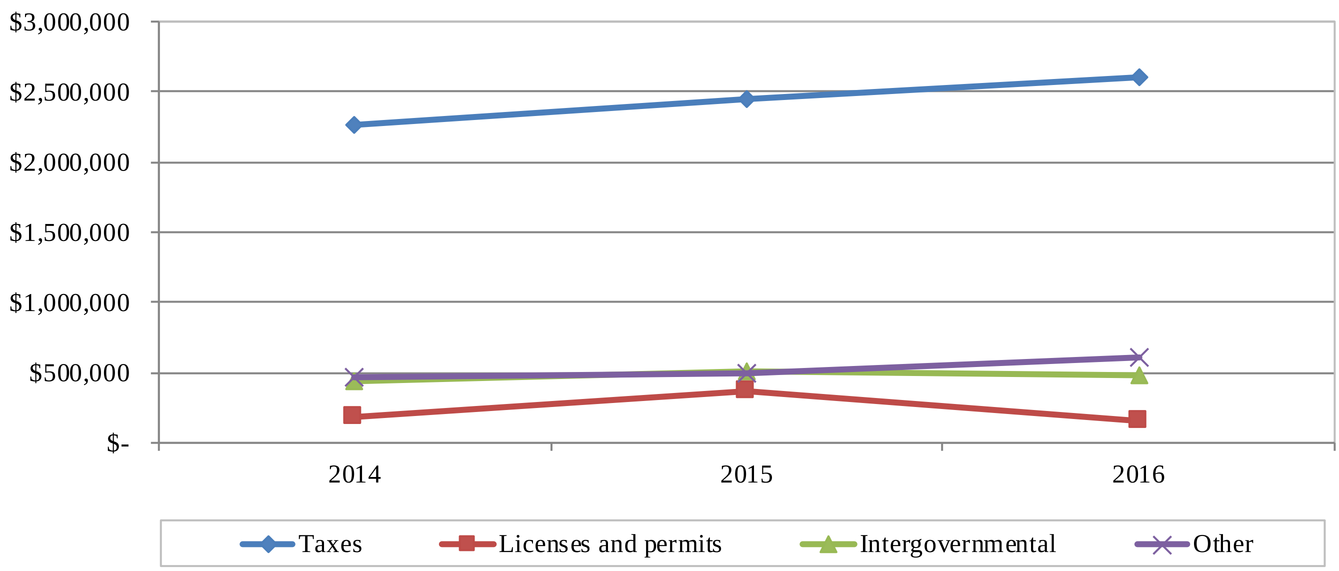
Some of the larger budget variances are as follows:

- Property taxes exceeded budgeted amounts by $116,949.
- Intergovernmental revenue was under budget by $171,807 related to allocating Municipal State Aid dollars to the appropriate capital project funds.
- Total charges for services were under budget by $67,164 mainly due to project administration revenue and township fire contracts.
- Expenditures in planning and zoning exceeded budgeted amounts by $87,878 due to general engineering for projects not accounted for in capital project funds.
- Building inspection expenditures were over budget by $46,578 due to the payment of building inspection at the new school.
- Total capital outlay was under budget by $202,864 due to the timing and priority of various projects.
- Transfers in were over budget by $140,850 to reimburse funds for various engineering costs.

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

Source	2014	2015	2016	Percent of Total	Per Capita
Taxes	$ 2,264,229	$ 2,451,065	$ 2,612,757	67.7 %	$ 424
Special assessments	5,437	4,444	5,686	0.1	1
Licenses and permits	180,351	369,861	158,085	4.1	26
Intergovernmental	435,194	507,822	474,793	12.3	77
Charges for services	375,620	386,740	403,444	10.5	66
Fines and forfeits	56,155	300	2,582	0.1	-
Investment earnings (loss)	14,509	26,033	21,538	0.6	4
Miscellaneous	12,791	72,082	31,701	0.8	5
Sale of assets	10	140	3,990	0.1	1
Transfers in	-	-	140,850	3.7	23
Total revenues and other sources	$ 3,344,296	$ 3,818,487	$ 3,855,426	100.0 %	$ 627

General Fund Revenues by Source



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

Program	2014	2015	2016	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 808,933	$ 809,514	$ 874,955	23.6 %	$ 142	$ 133
Public safety	1,360,749	1,306,737	1,456,611	39.1	237	236
Streets and highways	390,096	374,145	379,043	10.2	62	112
Culture and recreation	166,066	159,611	236,389	6.4	38	59
Miscellaneous	155,657	178,709	170,839	4.6	28	16
Total current	2,881,501	2,828,716	3,117,837	83.9	507	556
Capital outlay	102,191	186,375	106,842	2.9	17	29
Transfers out	269,099	582,903	490,147	13.2	80	N/A
Total expenditures and transfers	$ 3,252,791	$ 3,597,994	$ 3,714,826	100.0 %	$ 604	$ 585

General Fund Expenditures by Program

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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 2016 and 2015 and the net change:

Fund	Fund Balances December 31 2016	Fund Balances December 31 2015	Increase (Decrease)
Nonmajor			
Contributions and Donations	$ 83,316	$ 95,279	$ (11,963)
Municipal State Aid	161,208	89,094	72,114
Police Forfeiture	9,547	19,350	(9,803)
Police DARE Program	4,430	3,417	1,013
Police Car Seat	1,440	1,434	6
Police Reserves	3,118	2,749	369
Veterans Park	101,586	103,784	(2,198)
Broadway Market TIF Project	3,805	3,104	701
Jordan Center TIF Project	15,432	13,601	1,831
Jordan Valley Townhomes TIF	19,838	17,062	2,776
Oak Terrace Senior Housing	36,445	25,244	11,201
Economic Development Authority	273,356	544,712	(271,356)
Total	$ 713,521	$ 918,830	$ (205,309)

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

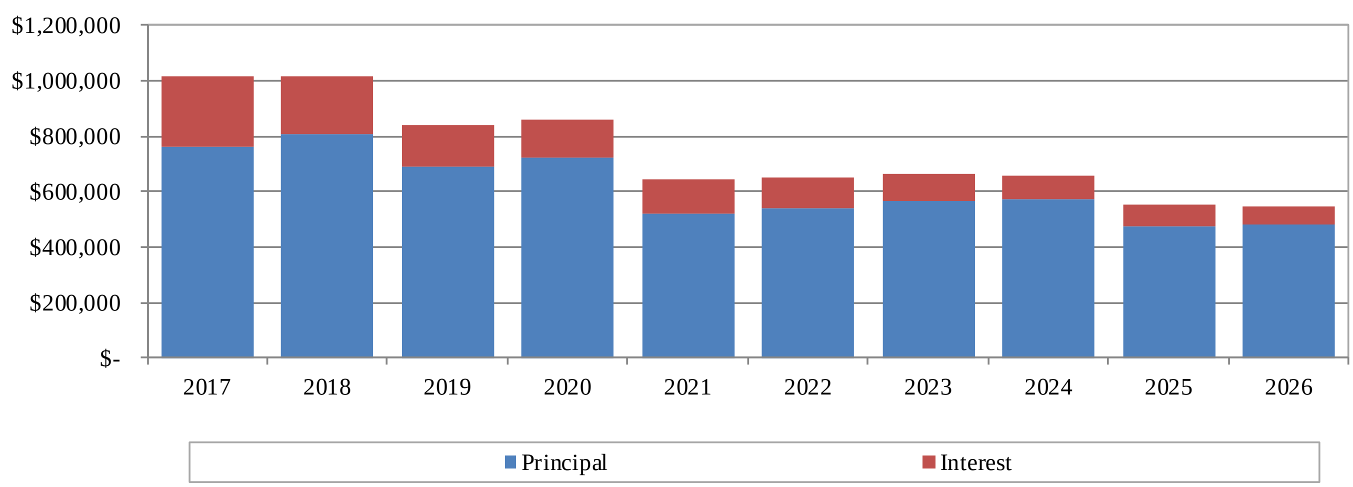
The following is a summary of Debt Service fund assets and outstanding debt as of December 31, 2016:

Debt Description	Total Cash and Investments		Total Assets		Outstanding Debt	Maturity Date
G.O. Bonds						
G.O. Capital Improvement Bonds of 2008A	$ 86,504		$ 86,504		$ 1,320,000	02/01/18
G.O. Taxable Library Note of 2012	3,948		3,948		838,000	02/01/32
G.O. Bonds of 2013A	200,604		200,604		230,000	02/01/18
G.O. Street Construction Bonds of 2013C	283,851		283,851		1,250,000	08/01/29
G.O. Bonds of 2016A	134,312		293,230		1,885,000	02/01/32
G.O. Refunding Bonds of 2016B	(14,041)	*	1,858,985	*	1,215,000	02/01/29
Total G.O. Bonds	695,178		2,727,122		6,738,000	
G.O. Special Assessment Bonds						
G.O. Improvement Bonds of 2008B	101,203		144,232		780,000	02/01/18
G.O. Refunding Bonds of 2011A	486,871		505,839		300,000	02/01/20
G.O. Refunding Bonds of 2012A	564,619		708,285		655,145	02/01/20
G.O. Improvement Bonds of 2015A	123,671		310,591		1,155,000	02/01/31
G.O. Refunding Bonds of 2016B	-	*	-	*	580,000	02/01/29
Total G.O. Special Assessment Bonds	1,276,364		1,668,947		3,470,145	
Total All Debt Service Funds	$ 1,971,542		$ 4,396,069		$ 10,208,145	
Future Interest on Debt					$ 1,483,420	

* Combined into one single debt service fund

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.

The annual debt service requirements for the next 10 years for the debt detailed above are as follows:



Note: Above graph excludes crossover payments on advance refunding bond issues.

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Capital Projects Funds

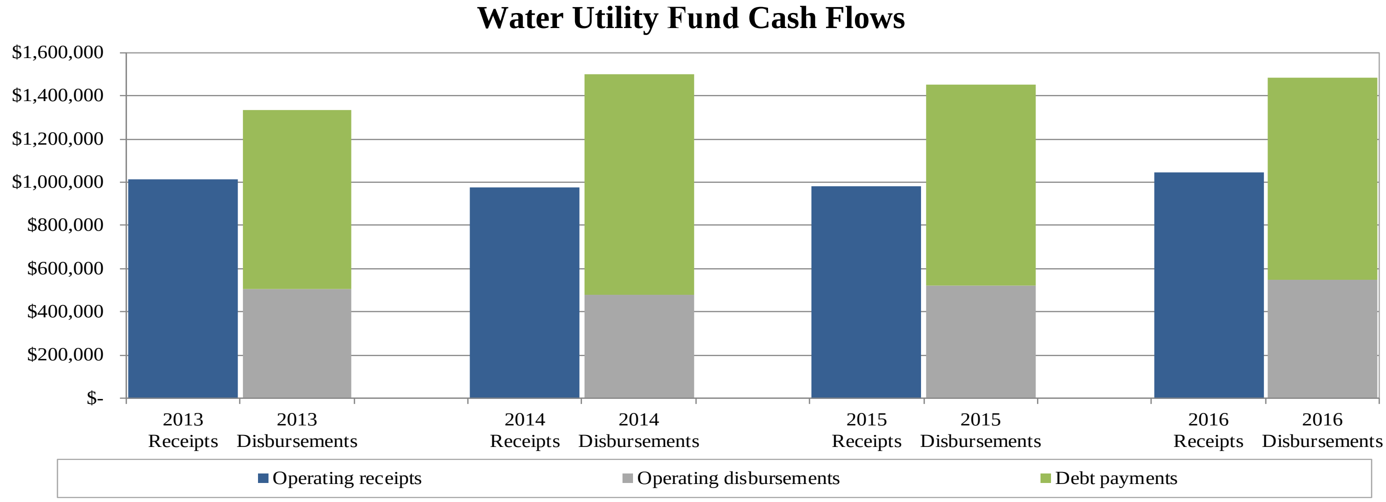
Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. The table below compares 2016 fund balances with 2015:

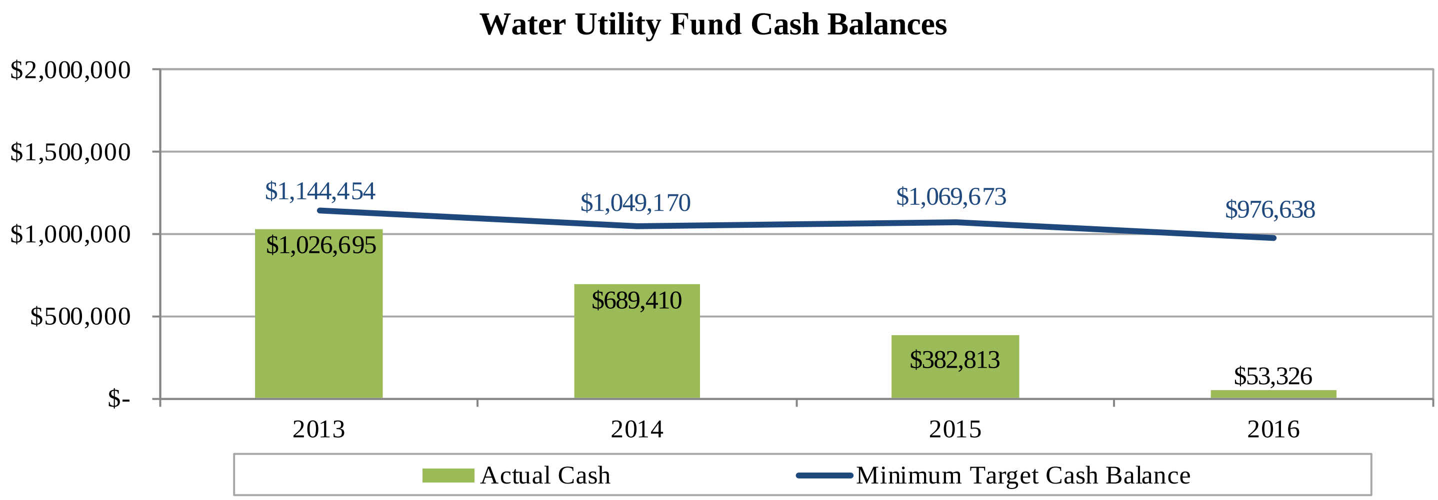
Fund	Fund Balances December 31 2016	Fund Balances December 31 2015	Increase (Decrease)
Major			
2015 Street Improvements	$ (457,836)	$ (600,289)	$ 142,453
2016 Street Improvements	170,925	(113,930)	284,855
City Facilities Capital	(645,751)	479,566	(1,125,317)
Nonmajor			
Emergency Siren	4,570	2,050	2,520
Capital Projects Revolving	52,755	52,305	450
190th Street Construction Project	161,092	159,248	1,844
CR 61 and CR 66 Construction	204,037	195,522	8,515
Fire Vehicle	84,335	78,742	5,593
Development District No. 1	7,619	7,546	73
Park Improvement	384,984	444,888	(59,904)
Park Capital	33,490	33,169	321
Park Equipment Improvement	73,247	142,547	(69,300)
2010 Basketball Court	800	792	8
Street Equipment Fee	148,846	113,629	35,217
General Capital	(36,153)	(36,153)	-
Downtown Master Plan Improvements	-	-	-
Varner Bridge Project	(35,383)	(7,862)	(27,521)
2017 Sewer and Valley View Project	(355,818)	-	(355,818)
Total	$ (204,241)	$ 951,770	$ (1,156,011)

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

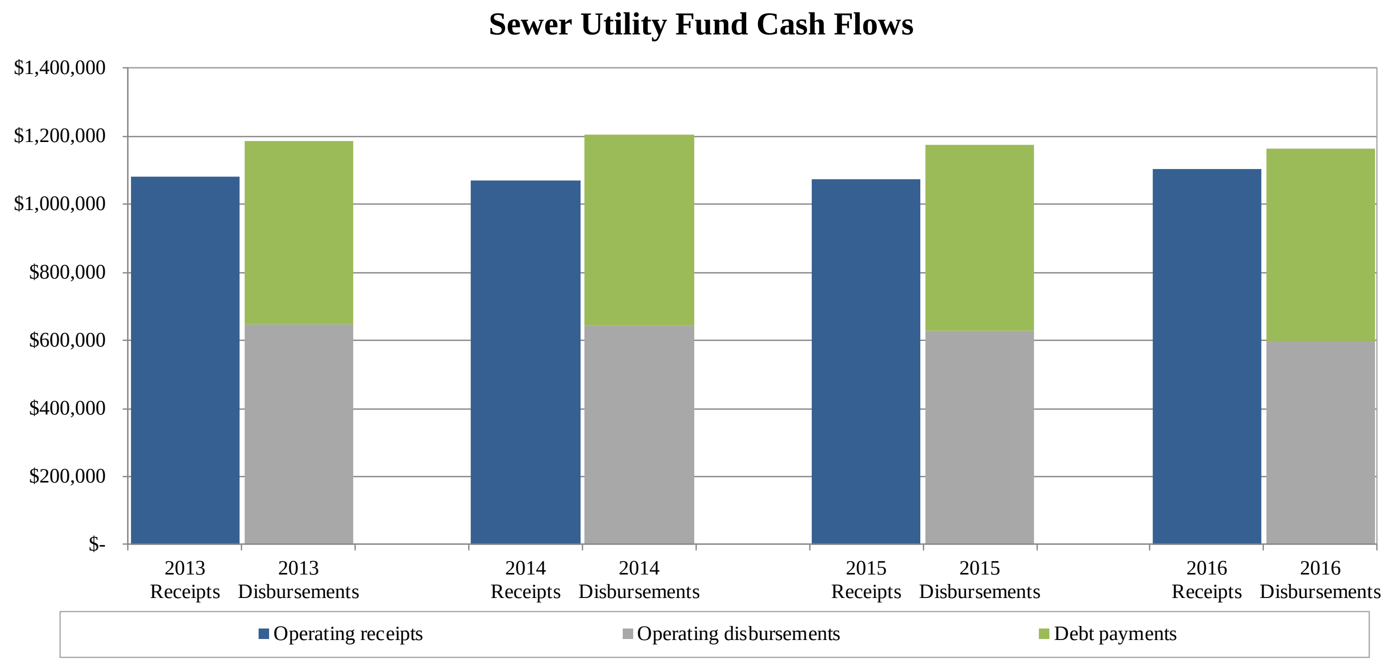
Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.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

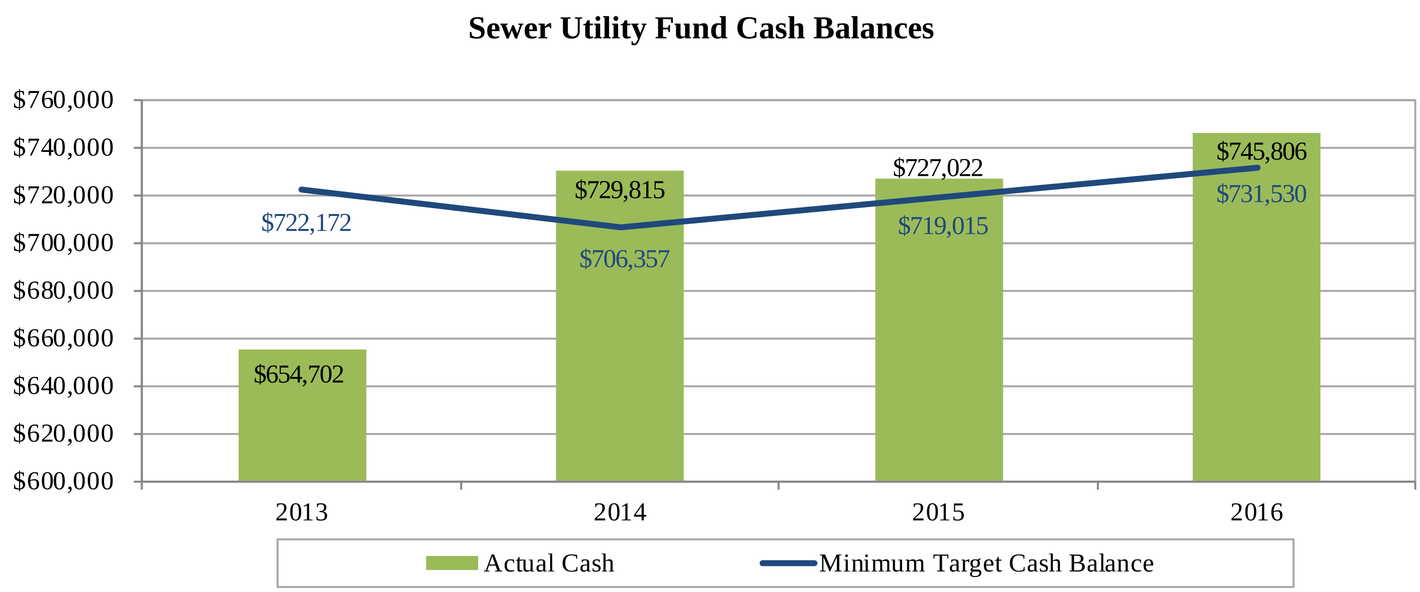




The above graphs do not reflect escrow activity. Escrow balances and bonds payable for the past four years are shown below.

	2013	2014	2015	2016
Escrowed cash	$ 4,552,352	$ 3,805,703	$ 3,769,930	$ 3,852,859
Bonds payable	$ 12,058,443	$ 10,627,434	$ 10,041,663	$ 9,993,005

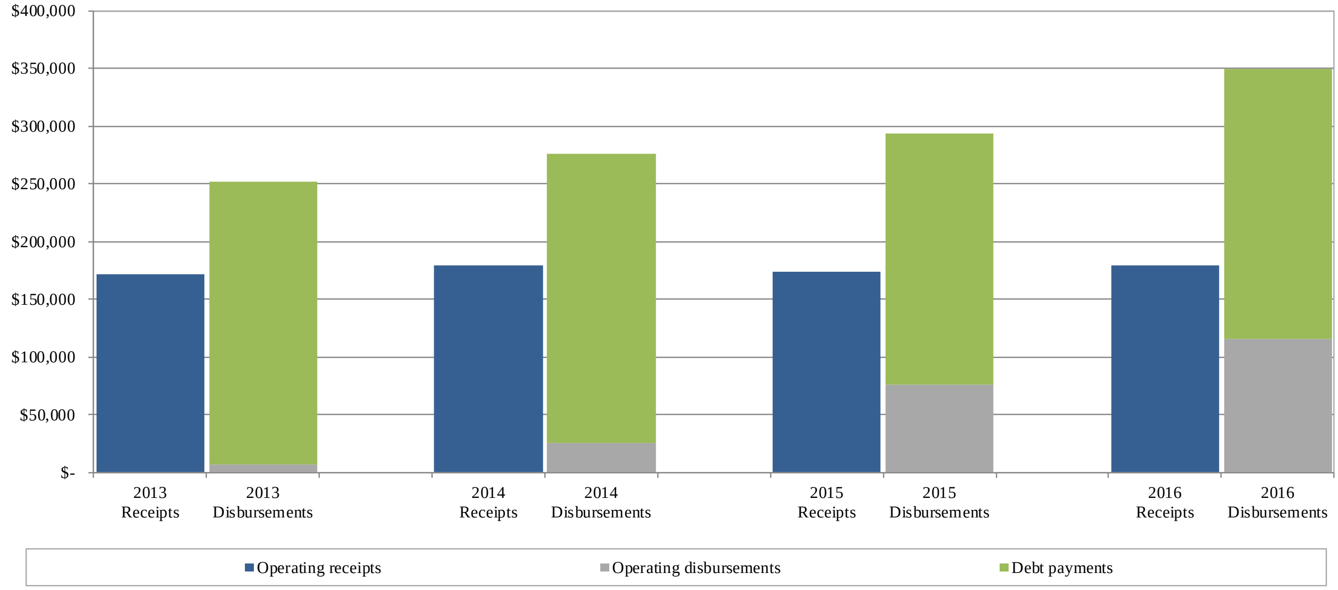




The above graphs do not reflect escrow activity. Escrow balances and bonds payable for the past four years are shown below.

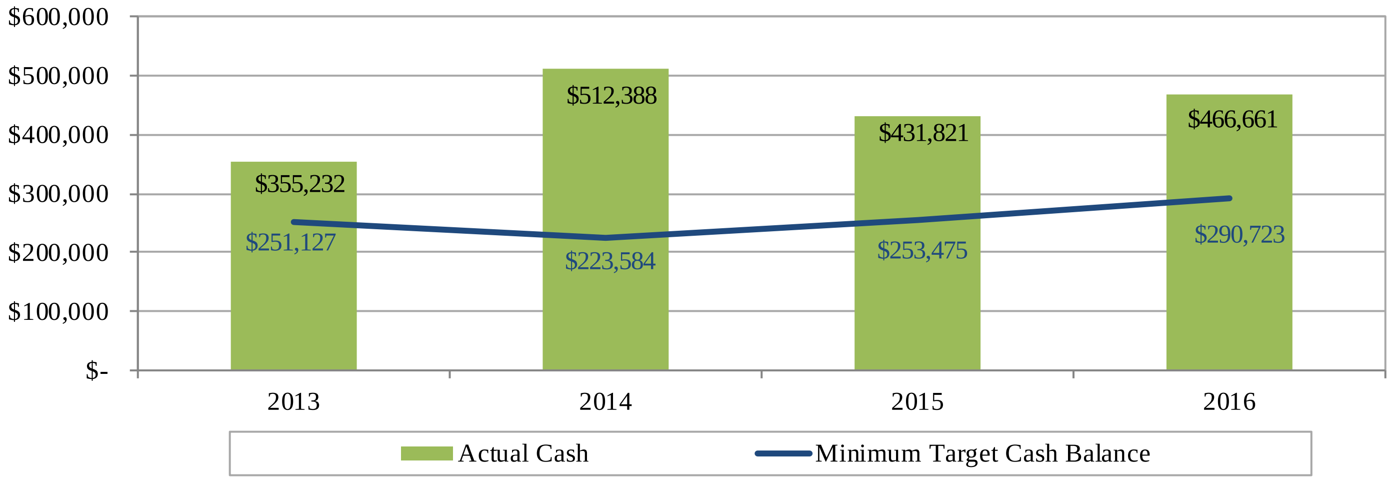
	2013	2014	2015	2016
Escrowed cash	$ 457,228	$ 106,400	$ 105,400	$ 209,957
Bonds payable	$ 4,439,975	$ 3,627,734	$ 3,292,146	$ 3,223,450

Storm Sewer Utility Fund Cash Flows



Note: The above graph excludes costs of $109,889 related to slope repair project to more accurately depict the year-to-year trend in operations.

Storm Sewer Utility Fund Cash Balances



The above graphs do not reflect escrow activity. Escrow balances and bonds payable for the past four years are shown below.

	2013	2014	2015	2016
Escrowed cash	$ 457,228	$ 106,400	$ 105,400	$ 209,957
Bonds payable	$ 4,439,975	$ 3,627,734	$ 3,292,146	$ 3,223,450

People + Process. Going Beyond the Numbers

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.

			Year			
Ratio	Calculation	Source	2013	2014	2015	2016
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	63%	71%	59%	49%
			117%	*114%*	*119%*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 4,904	$ 3,724	$ 3,666	$ 4,144
			$ 2,656	*$ 2,506*	*$ 2,517*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 580	$ 551	$ 576	$ 603
			$ 487	*$ 484*	*$ 510*	*N/A*
Current expenditures per capita	Governmental fund current expenditures / population	Governmental funds	$ 542	$ 499	$ 503	$ 538
			$ 634	*$ 674*	*$ 688*	*N/A*
Capital expenditures per capita	Governmental fund capital expenditures / population	Governmental funds	$ 454	$ 97	$ 422	$ 693
			$ 294	*$ 320*	*$ 354*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	59%	56%	55%	58%
			64%	*63%*	*63%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	72%	70%	68%	67%
			63%	*61%*	*61%*	*N/A*

Represents City of Jordan

Represents Peer Group Average

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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. 74 - *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

Summary

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans-defined benefit and defined contribution-administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

Effective Date and Transition

This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. 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 OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension*

Summary

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) 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. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

Future Accounting Standard Changes - Continued

Effective Date

This Statement is effective for fiscal years beginning after June 15, 2017. 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 OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.
- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.
- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.
- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

GASB Statement No. 80 - *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*

Summary

The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability.

GASB Statement No. 81 - *Irrevocable Split-Interest Agreements*

Summary

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

GASB Statement No. 82 - *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73*

Summary

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Future Accounting Standard Changes - Continued

Presentation of Payroll-Related Measures in Required Supplementary Information

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Selection of Assumptions

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

Classification of Employer-Paid Member Contributions

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.

GASB Statement No. 83 - *Certain Asset Retirement Obligations*

Summary

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Future Accounting Standard Changes - Continued

How the Changes in This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

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Restriction on Use

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
May 19, 2017