

CITY OF JORDAN
JORDAN, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2009

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Jordan, (the City) as of and for the year ended December 31, 2009. 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 16, 2009. Professional standards also require that we communicate to you the following information related to our audit.

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

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

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

Significant Audit Findings

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the following pages as finding 2009-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the following pages as finding 2009-1 to be a significant deficiency.

**2009-1 Segregation of Duties (Finding Since 2007)**

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

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

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

Internal Control over Payroll

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

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

Updated Progress Since Prior Year

The Administrator is now reviewing bank reconciliations and signing off on them. They no longer have payroll check stock because all checks are direct deposited.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.



2009-2 Material Audit Adjustments (Finding Since 2007)

- Condition:** During our audit, adjustments were needed to record accounting and audit adjustments, two of which were material.
- 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 thoroughly reviews the entries we prepare.

Updated Progress Since Prior Year

The number of journal entries was reduced from 45 to 34 in the current year, of which 12 were made by the City staff.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below as finding 2009-3.

2009-3 Collateral Coverage

- Condition: The City had deposits in the amount of \$660,529 uncollateralized at December 31, 2009.
- Criteria: In accordance with Minnesota Statute, section 118A.03, the City is required to have pledged collateral equal to 110 percent of deposits not covered by federal deposit insurance coverage at each depository.
- Cause: The City did not accurately calculate market value of pledged collateral in relation to deposit balances at December 31, 2009.
- Effect: At year end, the City was not in compliance with the state statutes regarding collateral minimums.
- Recommendation: The Finance Director should verify correct market values are being used when determining if additional collateral is necessary.

Management Response

The City staff will obtain sufficient collateral and monitor future needs.



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. 45 were adopted and it was determined that there is no liability for the year ended December 31, 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 move the Fire Hall debt levy and related debt payments.
- A material audit entry was required to record the January tax settlement.
- An immaterial audit entry was required to adjust for over payments to contractors.

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 May 3, 2010.

Disagreements with Management

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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



Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2009.

General Fund

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

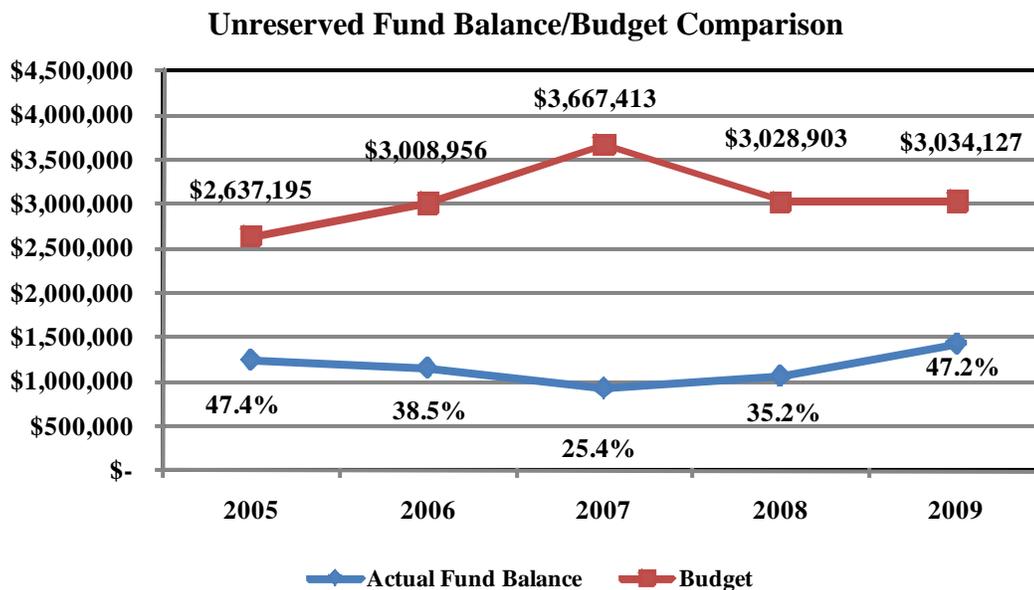
Minnesota municipalities must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each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

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

Year	Unreserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2005	\$ 1,250,460	2006	\$ 2,637,195	47.4 %
2006	1,159,538	2007	3,008,956	38.5
2007	931,289	2008	3,667,413	25.4
2008	1,066,162	2009	3,028,903	35.2
2009	1,432,051	2010	3,034,127	47.2

We have compiled peer group average fund balance information from the Cities we audit. In 2008 the average General fund balance as a percentage of expenditures was 55.0 percent. Based on comparison the peer groups, the City's General fund balance is lower than average.

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





The fund balance increased by \$333,127 in 2009. The total unreserved fund balance of \$1,432,051 represents 47.2 percent of the 2010 budget. Many other organizations, including the Office of the State Auditor (the OSA) and League of Minnesota Cities (LMC) recommend that a fund balance reserve be anywhere from 35 to 50 percent of planned expenditures. We concur with those recommendations.

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

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

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State imposed reductions of market value credit aid and local government aid for some cities for 2009 and 2010. The Governor has recently presented increased reductions of 2010 funding as well as reductions of 2011 funding. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments and levy limits.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.



The 2009 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	\$ 3,043,440	\$ 2,643,567	\$ (399,873)
Expenditures	2,804,983	2,684,453	120,530
Excess (deficiency) of revenues over (under) expenditures	<u>238,457</u>	<u>(40,886)</u>	<u>(279,343)</u>
Other financing sources (uses)			
Transfers in	60,000	493,782	433,782
Transfers out	<u>(224,000)</u>	<u>(119,769)</u>	<u>104,231</u>
Total other financing sources (uses)	<u>(164,000)</u>	<u>374,013</u>	<u>538,013</u>
Net change in fund balances	<u>\$ 74,457</u>	333,127	<u>\$ 258,670</u>
Fund balances, January 1		<u>1,119,924</u>	
Fund balances, December 31		<u>\$ 1,453,051</u>	

Some of the larger budget variances are as follows:

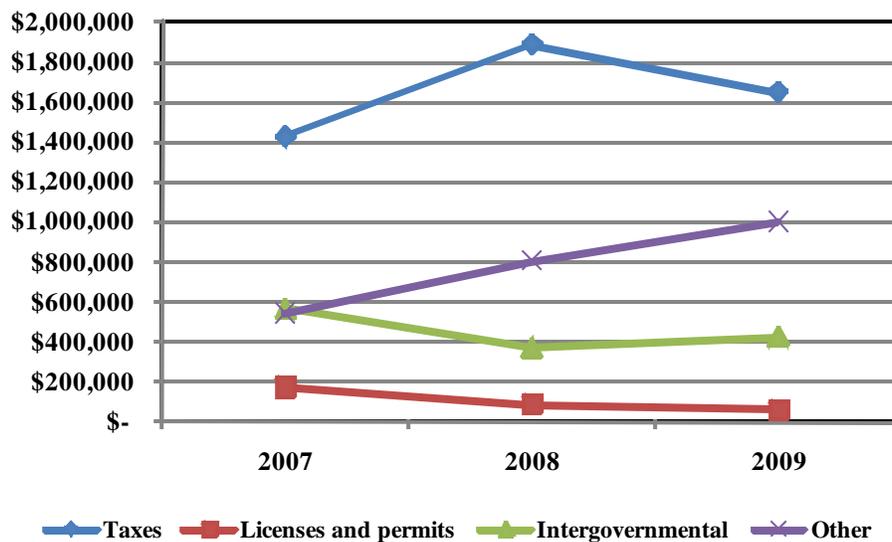
- Licenses and permits fell short of budget by \$68,378
- Intergovernmental revenues were \$278,779 under budget in local government aid and municipal state aid - streets
- Revenues from charges for services fell below budget by \$45,115
- Legal services exceeded budget by \$63,880
- Public safety expenditures fell under budget by \$70,273
- Streets and highways expenditures fell under budget by \$45,072



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

Source	2007	2008	2009	Percent of Total	Per Capita
Taxes	\$ 1,426,534	\$ 1,888,172	\$ 1,650,582	52.6 %	\$ 305
Special assessments	6,145	8,060	5,039	0.2	1
Licenses and permits	172,651	87,321	60,972	1.9	11
Intergovernmental	567,322	368,856	425,909	13.6	79
Charges for services	404,620	534,373	400,238	12.8	74
Fines and forfeits	56,392	48,012	54,889	1.7	10
Investment earnings	50,272	70,035	40,333	1.3	7
Miscellaneous	26,187	8,699	5,605	0.2	1
Transfers in	-	134,334	493,782	15.7	91
Total revenues and transfers	\$ 2,710,123	\$ 3,147,862	\$ 3,137,349	100.0 %	\$ 579

General Fund Revenues by Source

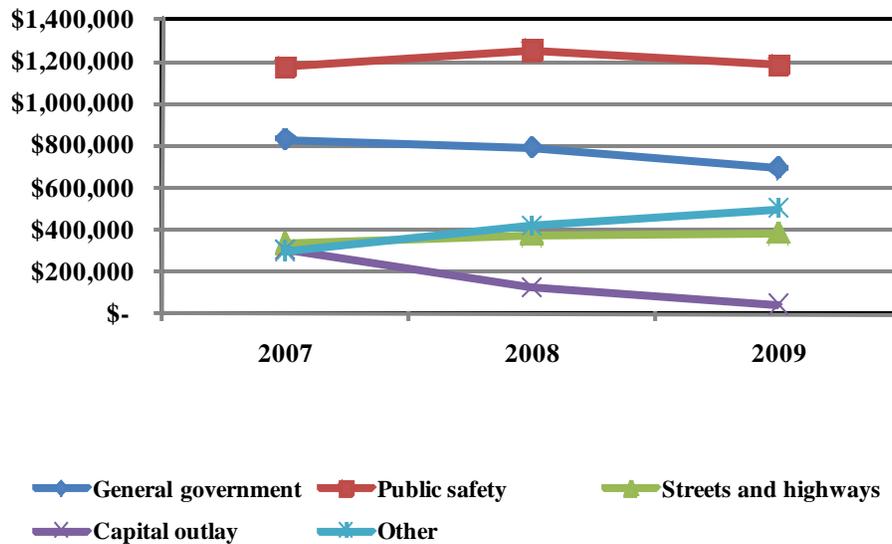




A comparison of General fund expenditures and transfers for the last three years is presented below:

Program	2007	2008	2009	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	\$ 828,164	\$ 788,526	\$ 693,007	24.7 %	\$ 128	\$ 141
Public safety	1,174,023	1,252,921	1,185,457	42.2	219	205
Streets and highways	335,529	375,002	383,515	13.7	71	115
Culture and recreation	136,428	152,048	161,118	5.7	30	52
Miscellaneous	62,231	126,289	130,594	4.7	24	14
Total current	2,536,375	2,694,786	2,553,691	91.0	472	527
Capital outlay	303,578	125,469	43,558	1.6	8	323
Debt service	-	100,972	87,204	3.1	16	n/a
Transfers out	98,419	38,000	119,769	4.3	22	n/a
Total expenditures and transfers	\$ 2,938,372	\$ 2,959,227	\$ 2,804,222	100.0 %	\$ 518	\$ 850

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 2009 and 2008 and the net change:

Fund	Fund Balances December 31,		Increase (Decrease)
	2009	2008	
Economic Development Authority	\$ 298,561	\$ 247,725	\$ 50,836
Contributions and Donations	25,724	28,109	(2,385)
Police Forfeiture	7,317	11,028	(3,711)
Police Dare Program	3,437	5,179	(1,742)
Police Car Seat	3,773	3,431	342
Emergency Siren	1,873	1,808	65
Municipal State Aid	22,768	1,742	21,026
Historical Fund	815	748	67
Total	<u>\$ 364,268</u>	<u>\$ 299,770</u>	<u>\$ 64,498</u>

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, 2009:

<u>Debt Description</u>	<u>Total Cash and Investments</u>	<u>Total Assets</u>	<u>Outstanding Debt</u>	<u>Maturity Date</u>
G.O. Special Assessment Bonds:				
G.O. Refunding Bonds of 2002B	\$ 37,967	\$ 109,487	\$ 123,493	2011
G.O. Refunding Bonds of 2003A	(1,993)	6,236	50,000	2010
G.O. Improvement Refunding Bonds of 2004B	344,325	857,255	2,570,000	2020
G.O. Improvement Bonds of 2004A	624,612	1,299,528	1,775,766	2020
G.O. Improvement Bonds of 2008	135,433	233,863	1,275,000	2024
G.O. Refunding Bonds of 2008A	264,547	300,924	1,355,000	2018
G.O. Capital Improvement Bonds of 2008C	63,418	63,418	1,805,000	2029
Total G.O. Special Assessment Bonds	<u>1,468,309</u>	<u>2,870,711</u>	<u>8,954,259</u>	
Future Interest on Debt			<u>\$ 2,232,050</u>	

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 2009 fund balances (deficits) with 2008:

Fund	Fund Balances (Deficits)		Increase (Decrease)
	December 31,		
	2009	2008	
Major funds			
2006 - 2007 Capital Improvements	\$ (19,260)	\$ (19,260)	\$ -
2008 Improvement Projects	204,565	1,908,535	(1,703,970)
Firehall Expansion	63,941	413,446	(349,505)
Nonmajor funds			
Fire Vehicle	45,604	23,953	21,651
Development District No. 1	6,897	6,658	239
190th Street Construction Project	145,179	140,224	4,955
Broadway Market TIF Project	(2,073)	(2,750)	677
Street Equipment Fee	21,327	19,314	2,013
CR 61 and CR 66 Construction	526,661	508,381	18,280
Jordan Center TIF Project	608	(824)	1,432
Park Equipment Improvement	70,619	63,335	7,284
Park Improvement	223,719	432,072	(208,353)
Park Capital	371	358	13
Jordan Valley Townhomes TIF	(474)	(583)	109
Total	<u>\$ 1,287,684</u>	<u>\$ 3,492,859</u>	<u>\$ (2,205,175)</u>

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



Enterprise Funds

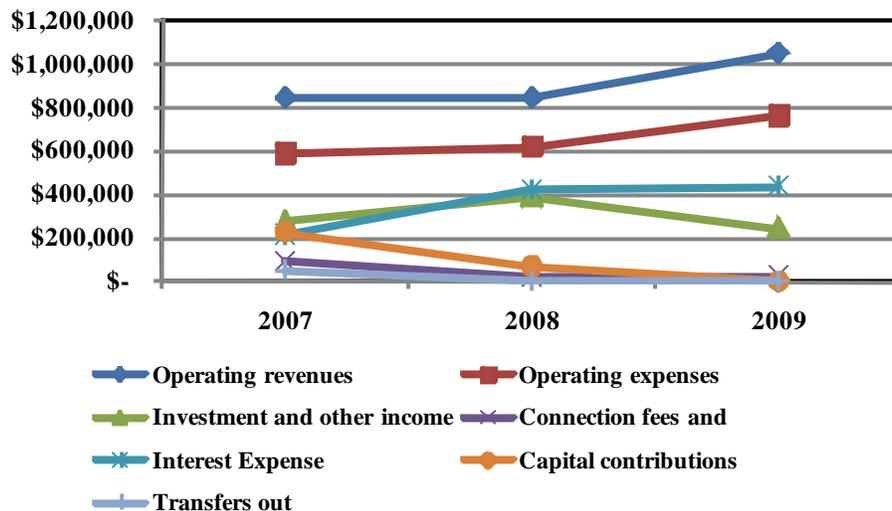
Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water Utility Fund

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

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 843,988	100.0 %	\$ 843,375	100.0 %	\$ 1,053,250	100.0 %
Operating expenses	(589,477)	(69.8)	(622,567)	(73.8)	(763,579)	(72.5)
Operating income	254,511	30.2	220,808	26.2	289,671	27.5
Investment and other income	276,660	32.8	392,202	46.5	247,231	23.5
Connection fees and capital charges	92,926	11.0	22,476	2.7	26,314	2.4
Interest expense	(215,064)	(25.5)	(424,390)	(50.3)	(439,384)	(41.7)
Income before contributions and transfers	409,033	48.5	211,096	25.1	123,832	11.7
Capital contributions	226,092	26.8	67,264	8.0	-	-
Transfers in	-	-	-	-	512,939	48.7
Transfers out	(53,606)	(6.4)	-	-	-	-
Change in net assets	\$ 581,519	68.9 %	\$ 278,360	33.1 %	\$ 636,771	60.4 %
Cash and investments	\$ 9,249,406		\$ 6,146,128		\$ 3,807,287	
Bonds payable	\$ 10,717,940		\$ 10,419,324		\$ 9,724,693	

Water Utility Fund Operations



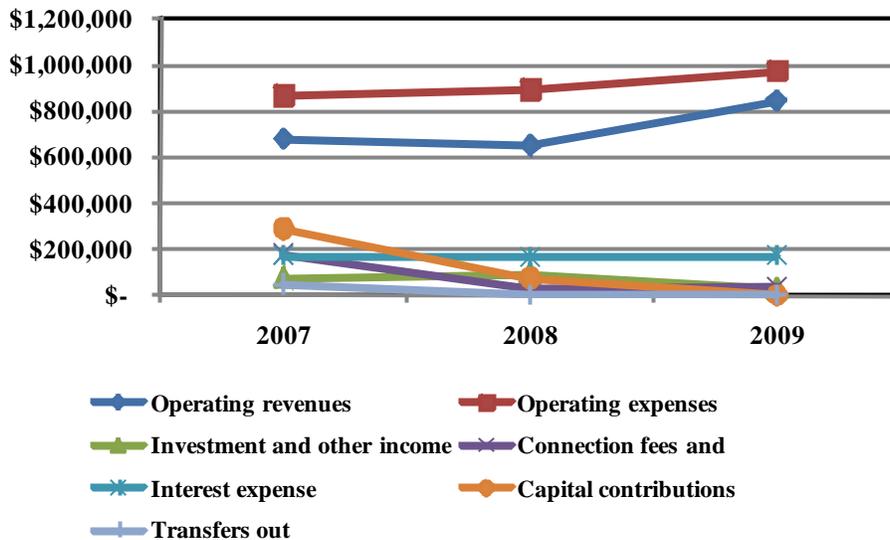


Sewer Utility Fund

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

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 679,574	100.0 %	\$ 650,803	100.0 %	\$ 842,821	100.0 %
Operating expenses	<u>(868,857)</u>	<u>(127.8)</u>	<u>(893,247)</u>	<u>(137.3)</u>	<u>(973,462)</u>	<u>(115.5)</u>
Operating loss	(189,283)	(27.8)	(242,444)	(37.3)	(130,641)	(15.5)
Investment and other income	75,755	11.1	92,328	14.2	26,274	3.1
Connection fees and capital charges	177,077	26.1	32,323	5.0	34,944	4.1
Interest expense	<u>(170,257)</u>	<u>(25.1)</u>	<u>(166,522)</u>	<u>(25.6)</u>	<u>(172,076)</u>	<u>(20.4)</u>
Loss before contributions and transfers	(106,708)	(15.7)	(284,315)	(43.7)	(241,499)	(28.7)
Capital contributions	289,916	42.7	73,331	11.3	-	-
Transfers in	-	-	-	-	270,085	32.0
Transfers out	<u>(48,897)</u>	<u>(7.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 134,311</u>	<u>19.8 %</u>	<u>\$ (210,984)</u>	<u>(32.4) %</u>	<u>\$ 28,586</u>	<u>3.3 %</u>
Cash and investments	<u>\$ 1,278,729</u>		<u>\$ 779,360</u>		<u>\$ 309,870</u>	
Bonds payable	<u>\$ 6,531,767</u>		<u>\$ 6,090,238</u>		<u>\$ 5,628,078</u>	

Sewer Utility Fund Operations



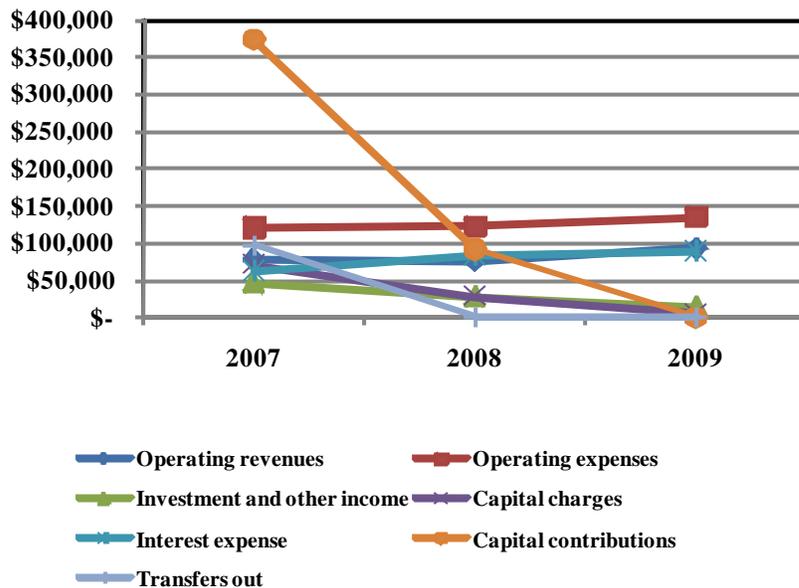


Storm Sewer Utility Fund

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

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 77,509	100.0 %	\$ 74,694	100.0 %	\$ 93,160	100.0 %
Operating expenses	(120,872)	(155.9)	(123,053)	(164.7)	(135,138)	(145.1)
Operating loss	(43,363)	(55.9)	(48,359)	(64.7)	(41,978)	(45.1)
Investment and other income	46,835	60.4	28,469	38.1	14,169	15.2
Capital charges	70,986	91.6	28,746	38.5	5,724	6.1
Interest expense	(62,053)	(80.1)	(83,567)	(111.9)	(89,233)	(95.8)
Income (loss) before contributions and transfers	12,405	16.0	(74,711)	(100.0)	(111,318)	(119.6)
Capital contributions	373,339	481.7	92,070	123.3	-	-
Transfers out	(96,108)	(124.0)	-	-	-	-
Change in net assets	<u>\$ 289,636</u>	<u>373.7 %</u>	<u>\$ 17,359</u>	<u>23.3 %</u>	<u>\$ (111,318)</u>	<u>(119.6) %</u>
Cash and investments	<u>\$ 825,553</u>		<u>\$ 451,224</u>		<u>\$ 122,748</u>	
Bonds payable	<u>\$ 2,195,559</u>		<u>\$ 2,104,180</u>		<u>\$ 2,300,970</u>	

Storm Sewer Utility Fund Operations



We recommend the City continue to review rates annually for all enterprise activities and determine if increases are required to:

- Fund continuing operating expenses.
- Maintain contingency requirements for unexpected repairs.
- Provide for capital replacement requirements.



Government-wide and Other Ratios

Ratio Analysis

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

Ratio	Calculation	Source	Year			
			2006	2007	2008	2009
Current	Current assets/current liabilities	Government-wide	2.6	4.3	2.5	3.0
			5.9	6.6	6.1	N/A
Debt to assets	Total liabilities/total assets	Government-wide	48%	52%	53%	48%
			35%	36%	34%	N/A
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	1.4	0.6	0.5	0.3
			1.7	1.8	1.6	N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 4,741	\$ 5,899	\$ 6,084	\$ 4,953
			\$ 2,505	\$ 2,673	\$ 2,677	N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 409	\$ 449	\$ 520	\$ 549
			\$ 346	\$ 382	\$ 401	N/A
Current expenditures per capita	Governmental fund current expenditures / population	Governmental funds	\$ 453	\$ 506	\$ 506	\$ 501
			N/A	\$ 553	\$ 663	N/A
Capital expenditures per capita	Governmental fund capital expenditures / population	Governmental funds	\$ 16	\$ 475	\$ 499	\$ 581
			N/A	\$ 409	\$ 323	N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	77%	70%	68%	66%
			70%	70%	70%	N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	79%	80%	80%	80%
			68%	68%	67%	N/A
Charges to total operating revenues - Governmental	Governmental charges for services/ governmental operating revenue	Government-wide	25%	26%	21%	18%
			17%	15%	14%	N/A
Unrestricted net assets to operating expenses	Unrestricted net assets/ operating expenses	Government-wide	48%	65%	55%	67%
			102%	107%	108%	N/A

Represents City of Jordan

Represents Peer Group Average

**Current Ratio (Liquidity Ratio)**

The current ratio is a comparison of a city's current assets to its current liabilities. The current ratio is an indication of a city's ability to meet short-term debt obligations. Acceptable current ratios vary from industry to industry, but a current ratio between 1 and 2 is considered standard. If a city's current assets are in this range, then it is generally considered to have good short-term financial strength. If current liabilities exceed current assets (the current ratio is below 1), then the city may have problems meeting its short-term obligations. If the current ratio is too high, then the city may not be efficiently utilizing its current assets.

Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financing with outstanding debt).

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.

**Charges for Service to Total Operating Revenues (Common-size Ratio)**

This percentage is arrived at by dividing charges for service by total operating revenues from governmental operations. This percentage indicates the percent of governmental operating revenues that are funded by user charges versus other revenues. It measures the amount of control a city has in funding its governmental operating costs.

Unrestricted Net Assets to Total Expenses (Common-size Ratio)

This percentage is arrived at by dividing total expenses by the unrestricted net assets of the city. It indicates percent of unrestricted funds available at year end to pay for a current year expenses. Approximately every 8 percent represents a month of funds available to cover expenses, so a percentage of 25 percent would indicate funds available to cover 3 months of expenses.

Other Matters**Overpayments to Contractors**

During the audit, we noted that two contractors had been paid amounts (\$19,415) that were not reflected on the contractors' pay requests. One was a change order that was paid. We recommend the City review the contractor's pay estimates to ensure proper credit is given to the City for all payments made to the contractor.



Current and Future Statute and Accounting Standard Changes

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

This statement was issued in June 2007 and is effective for periods beginning after June 15, 2009.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

This statement requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The statement provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.

GASB Statement No. 54 – *Fund Balance*

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

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

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

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



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

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

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

May 3, 2010
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
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Certified Public Accountants