

**CITY OF ADA
ADA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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CITY OF ADA
CITY OFFICIALS
AT DECEMBER 31, 2016

Mayor	Jim Ellefson
Council Member	Rich Pinsonneault
Council Member	John Rosenberger
Council Member	Neil Miller
Council Member	Mike Triplett
Council Member	Candy Robertson
Council Member	James Hansen
Council Member	John Hintz
City Administrator, Clerk & Treasurer	James Leiman
Liquor Dispensary Manager	Gerrie Aasland
Electric & Water / Sewer Supervisor	Brian Rasmusson



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Ada
Ada, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Ada, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and adverse audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared on the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Minnesota Statute 471.698. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Ada, as of December 31, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the City of Ada, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended on the basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ada’s basic financial statements. The budgetary comparison schedules, combining statements, and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, combining statements, and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the budgetary comparison schedules, combining statements, and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole as described in the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2017 on our consideration of the City of Ada's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

May 23, 2017

CITY OF ADA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Bridges Revenue	Community Center Maintenance
ASSETS			
Cash and Investments	\$ 286,051	\$ 939,606	\$ 330,109
Accounts Receivable - Net	8,757		
Notes Receivable			
Taxes Receivable - Delinquent	29,000		
Special Assessments - Delinquent	1,200		
Special Assessments - Noncurrent	25,500		
Due From Other Funds			
Due From Other Governments			
TOTAL ASSETS	\$ 350,508	\$ 939,606	\$ 330,109
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 23,770	\$	\$ 157,262
Contracts Payable			
Salary Payable	12,118		
Due to Other Funds			
Total Liabilities	35,888		157,262
Deferred Inflows of Resources			
Unavailable Revenues			
Notes Receivable			
Delinquent Taxes	29,000		
Special Assessments	26,700		
Total Deferred Inflows of Resources	55,700		
Fund Balances			
Restricted for Development			
Restricted for Community Center			172,847
Restricted for Debt Service			
Committed for Hospital		939,606	
Committed for Development			
Committed for Library			
Committed for Public Works			
Committed for Capital Outlay			
Unassigned	258,920		
Total Fund Balances	258,920	939,606	172,847
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 350,508	\$ 939,606	\$ 330,109

See Notes to the Financial Statements

CITY OF ADA
BALANCE SHEET – GOVERNMENTAL FUNDS - CONTINUED
DECEMBER 31, 2016

	Long-Term Designation	Lift Station	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 649,971	\$	\$ 303,938	\$ 2,509,675
Accounts Receivable				8,757
Notes Receivable			151,000	151,000
Taxes Receivable - Delinquent				29,000
Special Assessments - Delinquent	1,600			2,800
Special Assessments - Noncurrent			77,600	103,100
Due From Other Funds	366,369			366,369
Due From Other Governments		114,366		114,366
	<u>1,017,940</u>	<u>114,366</u>	<u>532,538</u>	<u>3,285,067</u>
TOTAL ASSETS	\$ 1,017,940	\$ 114,366	\$ 532,538	\$ 3,285,067
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$	\$	\$ 5,089	\$ 186,121
Contracts Payable		89,059		89,059
Salary Payable				12,118
Due to Other Funds		80,189		80,189
		<u>169,248</u>	<u>5,089</u>	<u>367,487</u>
Total Liabilities		169,248	5,089	367,487
Deferred Inflows of Resources				
Unavailable Revenues				
Notes Receivable			151,000	151,000
Delinquent Taxes				29,000
Special Assessments	1,600		77,600	105,900
	<u>1,600</u>	<u></u>	<u>228,600</u>	<u>285,900</u>
Total Deferred Inflows of Resources	1,600		228,600	285,900
Fund Balances				
Restricted for Development			12,329	12,329
Restricted for Community Center				172,847
Restricted for Debt Service			77,808	77,808
Committed for Hospital				939,606
Committed for Development			167,569	167,569
Committed for Library			7,892	7,892
Committed for Public Works			33,251	33,251
Committed for Capital Outlay	1,016,340			1,016,340
Unassigned		(54,882)		204,038
	<u>1,016,340</u>	<u>(54,882)</u>	<u>298,849</u>	<u>2,631,680</u>
Total Fund Balances	1,016,340	(54,882)	298,849	2,631,680
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,017,940	\$ 114,366	\$ 532,538	\$ 3,285,067

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Bridges Revenue	Community Center Maintenance
REVENUES			
Property Taxes	\$ 305,626	\$	\$
Special Assessments	4,592		
Licenses and Permits	13,333		
Intergovernmental	667,961		
Charges for Services	335,960		
Fines and Forfeits	6,264		
Investment Earnings	5,667	12,363	18,316
Miscellaneous	91,079	100,509	114,313
	<u>1,430,482</u>	<u>112,872</u>	<u>132,629</u>
Total Revenues			
EXPENDITURES			
Current			
General Government	283,212	40,673	
Public Safety	419,169		
Public Works	454,761		
Culture and Recreation	318,185		41,039
Economic Development	13,982		
Community Development			
Miscellaneous	25,537		
Debt Service			
Principal			
Interest and Other Charges			
Capital Outlay			
Public Safety	24,932		
Public Works	36,747		
Culture and Recreation	10,704		233,090
	<u>1,587,229</u>	<u>40,673</u>	<u>274,129</u>
Total Expenditures			
Revenues Over (Under) Expenditures	<u>(156,747)</u>	<u>72,199</u>	<u>(141,500)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	295,695		
Transfers Out	(44,000)		
	<u>251,695</u>		
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	94,948	72,199	(141,500)
Fund Balances - Beginning	163,972	867,407	314,347
Fund Balances - Ending	<u>\$ 258,920</u>	<u>\$ 939,606</u>	<u>\$ 172,847</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Long-Term Designation	Lift Station	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 45,835	\$	\$ 72,647	\$ 424,108
Special Assessments			46,249	50,841
Licenses and Permits				13,333
Intergovernmental		1,530,698	98,645	2,297,304
Charges for Services				335,960
Fines and Forfeits				6,264
Investment Earnings	10,072		3	46,421
Miscellaneous			32,633	338,534
Total Revenues	55,907	1,530,698	250,177	3,512,765
EXPENDITURES				
Current				
General Government				323,885
Public Safety				419,169
Public Works				454,761
Culture and Recreation			25,739	384,963
Economic Development				13,982
Community Development			161,450	161,450
Miscellaneous				25,537
Debt Service				
Principal			160,000	160,000
Interest and Other Charges			29,986	29,986
Capital Outlay				
Public Safety				24,932
Public Works	58,842	1,540,655	21,200	1,657,444
Culture and Recreation				243,794
Total Expenditures	58,842	1,540,655	398,375	3,899,903
Revenues Over (Under) Expenditures	(2,935)	(9,957)	(148,198)	(387,138)
OTHER FINANCING SOURCES (USES)				
Transfers In	60,000		57,200	412,895
Transfers Out				(44,000)
Total Other Financing Sources (Uses)	60,000		57,200	368,895
Net Change in Fund Balances	57,065	(9,957)	(90,998)	(18,243)
Fund Balances - Beginning	959,275	(44,925)	389,847	2,649,923
Fund Balances - Ending	\$ 1,016,340	\$ (54,882)	\$ 298,849	\$ 2,631,680

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2016

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments	\$ 165,586	\$	\$ 290,464	\$ 456,050
Accounts Receivable - Net	90,451	298,415		388,866
Special Assessments Receivable - Noncurrent	194,130			194,130
Inventories	9,648	30,972	30,879	71,499
Total Current Assets	<u>459,815</u>	<u>329,387</u>	<u>321,343</u>	<u>1,110,545</u>
Capital Assets				
Land	4,000		1,267	5,267
Buildings	573,622		103,441	677,063
Equipment and Fixtures		61,896	90,598	152,494
Distribution Systems	7,716,454	1,618,341		9,334,795
Construction in Process	232,082			232,082
Less: Accumulated Depreciation	<u>(3,002,364)</u>	<u>(1,380,473)</u>	<u>(140,737)</u>	<u>(4,523,574)</u>
Net Capital Assets	<u>5,523,794</u>	<u>299,764</u>	<u>54,569</u>	<u>5,878,127</u>
Total Assets	<u>5,983,609</u>	<u>629,151</u>	<u>375,912</u>	<u>6,988,672</u>
DEFERRED OUTFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	<u>32,553</u>	<u>14,796</u>	<u>53,269</u>	<u>100,618</u>
Total Deferred Outflows of Resources	<u>32,553</u>	<u>14,796</u>	<u>53,269</u>	<u>100,618</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	23,064	136,668	8,912	168,644
Accrued Interest	10,908			10,908
Salaries Payable	8,856	4,346	12,664	25,866
Unearned Revenue		1,529		1,529
Customer Deposits		29,273		29,273
Due to Other Funds		286,180		286,180
Current Portion - Long-Term Debt	<u>286,570</u>			<u>286,570</u>
Total Current Liabilities	<u>329,398</u>	<u>457,996</u>	<u>21,576</u>	<u>808,970</u>
Long-Term Liabilities				
Bonds Payable, Net of Discount	3,684,165			3,684,165
Net Pension Liability	77,704	35,320	127,152	240,176
Compensated Absences	6,227	3,557	6,683	16,467
Less: Current Portion - Long-Term Debt	<u>(286,570)</u>			<u>(286,570)</u>
Total Long-Term Liabilities	<u>3,481,526</u>	<u>38,877</u>	<u>133,835</u>	<u>3,654,238</u>
Total Liabilities	<u>3,810,924</u>	<u>496,873</u>	<u>155,411</u>	<u>4,463,208</u>
DEFERRED INFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	<u>15,172</u>	<u>6,896</u>	<u>24,827</u>	<u>46,895</u>
Total Deferred Inflows of Resources	<u>15,172</u>	<u>6,896</u>	<u>24,827</u>	<u>46,895</u>
NET POSITION				
Net Investment in Capital Assets	1,839,629	299,764	54,569	2,193,962
Unrestricted	<u>350,437</u>	<u>(159,586)</u>	<u>194,374</u>	<u>385,225</u>
Total Net Position	<u>\$ 2,190,066</u>	<u>\$ 140,178</u>	<u>\$ 248,943</u>	<u>\$ 2,579,187</u>

See Notes to the Financial Statements

CITY OF ADA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
OPERATING REVENUES				
Sales	\$	\$	\$ 550,701	\$ 550,701
Cost of Goods Sold			<u>346,933</u>	<u>346,933</u>
Gross Profit			203,768	203,768
Charges for Sales and Services	706,707	1,623,708		2,330,415
Other Receipts	<u>8,540</u>	<u>6,480</u>	<u>6,177</u>	<u>21,197</u>
Total Operating Revenues	<u>715,247</u>	<u>1,630,188</u>	<u>209,945</u>	<u>2,555,380</u>
OPERATING EXPENSES				
Other Operating Expenses	271,010	1,380,108	191,704	1,842,822
Depreciation	<u>223,523</u>	<u>24,365</u>	<u>7,318</u>	<u>255,206</u>
Total Operating Expenses	<u>494,533</u>	<u>1,404,473</u>	<u>199,022</u>	<u>2,098,028</u>
Operating Income	<u>220,714</u>	<u>225,715</u>	<u>10,923</u>	<u>457,352</u>
NONOPERATING INCOME (EXPENSE)				
Special Assessments	186,100			186,100
Interest Expense	<u>(122,233)</u>			<u>(122,233)</u>
Total Nonoperating Income (Expense)	<u>63,867</u>			<u>63,867</u>
Net Income Before Transfers	284,581	225,715	10,923	521,219
Transfers In	608,479			608,479
Transfers Out		<u>(962,374)</u>	<u>(15,000)</u>	<u>(977,374)</u>
Change in Net Position	893,060	(736,659)	(4,077)	152,324
Net Position, Beginning of Year	<u>1,297,006</u>	<u>876,837</u>	<u>253,020</u>	<u>2,426,863</u>
Net Position, End of Year	<u>\$ 2,190,066</u>	<u>\$ 140,178</u>	<u>\$ 248,943</u>	<u>\$ 2,579,187</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 710,819	\$ 1,628,043	\$ 556,878	\$ 2,895,740
Payments to Suppliers	(136,541)	(1,281,136)	(395,020)	(1,812,697)
Payments to Employees	<u>(133,665)</u>	<u>(76,577)</u>	<u>(127,987)</u>	<u>(338,229)</u>
Net Cash Provided By Operating Activities	<u>440,613</u>	<u>270,330</u>	<u>33,871</u>	<u>744,814</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from (to) Other Funds	608,479	(962,374)	(15,000)	(368,895)
Decrease in Due from Other Funds		405,864	58,303	464,167
Increase (Decrease) in Due to Other Funds	<u>(464,167)</u>	<u>286,180</u>	<u> </u>	<u>(177,987)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>144,312</u>	<u>(270,330)</u>	<u>43,303</u>	<u>(82,715)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessment Revenue Received	10,970			10,970
Purchase of Capital Assets	(232,082)			(232,082)
Payment on Construction of Accounts Payable	(7,630)			(7,630)
Proceeds from Long-Term Debt	292,200			292,200
Principal Paid on Bonds	(378,000)			(378,000)
Interest Paid	<u>(104,797)</u>			<u>(104,797)</u>
Net Cash Used By Capital And Related Financing Activities	<u>(419,339)</u>			<u>(419,339)</u>
Increase in Cash and Cash Equivalents	165,586		77,174	242,760
Cash and Cash Equivalents - Beginning of Year			<u>213,290</u>	<u>213,290</u>
Cash and Cash Equivalents - End of Year	<u>\$ 165,586</u>	<u>\$</u>	<u>\$ 290,464</u>	<u>\$ 456,050</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Water and Sewer	Light	Liquor	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 220,714	\$ 225,715	\$ 10,923	\$ 457,352
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	223,523	24,365	7,318	255,206
Effects on Operating Cash Flows due to Changes in:				
Accounts Receivable	(4,428)	(2,348)		(6,776)
Inventories	35	(503)	1,524	1,056
Deferred Outflows	(23,345)	(10,022)	(41,673)	(75,040)
Accounts Payable	9,196	31,487	1,078	41,761
Salaries Payable	1,755	673	3,111	5,539
Unearned Revenue		802		802
Customer Deposits		(599)		(599)
Net Pension Liability	9,838	131	41,692	51,661
Compensated Absences	(340)	(300)	(438)	(1,078)
Deferred Inflows	3,665	929	10,336	14,930
Total Adjustments	<u>219,899</u>	<u>44,615</u>	<u>22,948</u>	<u>287,462</u>
Net Cash Provided by Operating Activities	<u>\$ 440,613</u>	<u>\$ 270,330</u>	<u>\$ 33,871</u>	<u>\$ 744,814</u>
NONCASH CAPITAL ACTIVITIES AND RELATED FINANCING ACTIVITIES				
Bond Payment paid by Escrow	\$ 1,045,000	\$	\$	\$ 1,045,000
Interest on Bond paid by Escrow	22,120			22,120
Bond Issuance Costs withheld from Debt Proceeds	4,800			4,800

See Notes to the Financial Statements

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ada, Minnesota, (the “City”) was incorporated in 1879 as a charter city, under the provisions of the State of Minnesota. The City operates under a mayor and seven member city council. It provides the following services as authorized by its charter: public safety (police and fire), public works (streets and sanitation), culture-recreation, economic and community development, and general administrative services. Other services include utilities and a municipal liquor store.

A. Reporting Entity

The City’s policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the City is considered financially accountable.

Component units are legally separated entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered component units of the City.

B. Fund Financial Statements

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City of Ada have been prepared in conformity with the regulatory basis of accounting of the State of Minnesota. This basis differs from accounting principles generally accepted in the United States of America because the regulatory basis of accounting does not require the presentation of the Management’s Discussion and Analysis or the government-wide financial statements (Statement of Net Position and the Statement of Activities).

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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DECEMBER 31, 2016

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Nonoperating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds.

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The City's major special revenue funds are as follows:

Bridges Revenue - Accounts for the activity of the hospital.

Community Center Maintenance – Accounts for nonoperating expenditures related to the community center.

Capital Project Funds – Accounts for financial resources to be used for acquisition or construction of major capital facilities. The City's major capital project funds are as follows:

Long-Term Designation - Accounts for capital outlays not accounted for in other funds.

Lift Station – Accounts for capital outlays related to the lift station and flood mitigation projects.

Major Proprietary Funds

Water and Sewer – Accounts for the activities to operate the water and sewer utility.

Light – Accounts for the activities to operate the electric utility.

Liquor - Accounts for the activities to operate the liquor store.

D. Specific Account Information

Cash and Cash Investments – The City considers cash investments to be certificates of deposits and other highly liquid investments with original maturities of three months or less. They are carried at cost.

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments (including restricted assets) with maturity of three months or less when purchased, to be cash equivalents.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the City at periodic intervals as the taxes are collected.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Accounts Receivable – Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable in the electric fund at December 31, 2016, was \$10,000. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding on the 10th of the month. A penalty is charged on receivables that are outstanding on the 10th of the month.

Special Assessments Receivable – Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are completed or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Delinquent – amounts billed to property owners but not paid.

Noncurrent – assessment installment, which will be billed to property owners in future years.

Inventories – Inventories are valued at cost which approximates using the first in / first out (FIFO) method. The cost of governmental fund type inventories are recorded as expenditures when purchased.

Capital Assets – Governmental Funds – Capital assets are not capitalized in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds.

Capital Assets – Proprietary Funds – Capital assets are recorded in the proprietary funds only. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 7 to 50 years for buildings, 5 to 35 years for distribution systems, and 5 to 20 years for equipment and fixtures.

Capital assets not being depreciated include land and construction in progress, if any.

Long-term Obligations – In the proprietary fund types, long-term obligations are reported as liabilities in the applicable proprietary fund. Bond premiums and discounts are deferred and amortized over the life of the

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

The governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Sales Tax – Sales tax collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

Compensated Absences – The City compensates employees for unused vacation upon termination. Unused vacation may be accumulated to a maximum of 30 days. As of December 31, 2016, a liability for unused vacation has been set up for the proprietary fund employees and is included in compensated absences.

Unused sick leave may be accumulated to a maximum of 120 days. Upon termination, half of the unused accumulated sick leave up to 30 days will be paid to the employee. As of December 31, 2016, a liability for unused sick leave has been set up for the proprietary fund employees and is included in compensated absences.

Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items, one of which arises only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the first item, *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments, and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item that qualifies for reporting in this category is named *Cost Sharing Defined Benefit Pension Plan*, which represents actuarial differences within PERA pension plans.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance – The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

Nonspendable - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management.

Unassigned – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

E. Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the proprietary fund during the reporting period. Actual results could differ from those estimates.

NOTE 2 BUDGETARY DATA

The City is required by state statutes to adopt an annual budget for its general fund. There is no legal restriction on expenditures in excess of appropriations.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Annual budgets are adopted for the general fund and special revenue funds, except the City does not adopt a budget for the bridges revenue (special revenue) fund. All budgets are adopted on a basis consistent with the regulatory basis of accounting.

Administration may transfer budgeted amounts between line items. All unexpended appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Any changes in the total budget of each fund must be approved by a majority vote of the city council. No material supplemental appropriations were made during 2016.

NOTE 3 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2016, expenditures exceeded appropriations in the community center maintenance fund by \$274,129.

NOTE 4 DEFICIT FUND BALANCE

Deficit fund balance of individual funds at December 31, 2016, are as follows:

Lift Station	\$54,882
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The deficit is expected to be eliminated through future revenue.

NOTE 5 DEPOSITS AND INVESTMENTS

The City maintains a cash account at its depository bank. Investments are valued at amortized costs. The City considers certificates of deposit to be cash. As of December 31, 2016, the City had no investments.

Interest Rate Risk – According to the City’s formal investment policy, extended maturities may be utilized to take advantage of higher yields; however, no more than 15% of the total investments should extend beyond five (5) years and in no circumstance should any extend beyond ten (10) years.

Credit Risk – The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City's city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2016, the City was not exposed to custodial credit risk.

NOTE 6 NOTES RECEIVABLE

The City has various notes receivable from organizations at December 31, 2016, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2017 - 2021	3.0 - 5.0%	\$ 26,700
2015 Revolving Loan	2022 - 2023	1%	<u>124,300</u>
Total			<u>\$ 151,000</u>

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 7 CAPITAL ASSETS – PROPRIETARY FUNDS

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 5,267	\$	\$	\$ 5,267
Construction in progress		232,082		232,082
Total capital assets, not being depreciated	<u>5,267</u>	<u>232,082</u>		<u>237,349</u>
Capital assets, being depreciated:				
Buildings	677,063			677,063
Equipment and fixtures	152,494			152,494
Distribution systems	9,334,795			9,334,795
Total capital assets, being depreciated	<u>10,164,352</u>			<u>10,164,352</u>
Less accumulated depreciation for:				
Buildings	314,509	15,648		330,157
Equipment and fixtures	105,154	8,290		113,444
Distribution systems	3,848,705	231,268		4,079,973
Total accumulated depreciation	<u>4,268,368</u>	<u>255,206</u>		<u>4,523,574</u>
Total capital assets, being depreciated, net	<u>5,895,984</u>	<u>(255,206)</u>		<u>5,640,778</u>
Proprietary funds capital assets, net	<u>\$ 5,901,251</u>	<u>\$ (23,124)</u>	<u>\$</u>	<u>\$ 5,878,127</u>

Depreciation expense was charged to functions as follows:

Proprietary funds:	
Water and Sewer	\$ 223,523
Light	24,365
Liquor	<u>7,318</u>
Total depreciation expense - proprietary funds	<u>\$ 255,206</u>

NOTE 8 DEFINED BENEFIT PENSION PLANS-STATEWIDE

The financial statements of the City of Ada have been prepared in conformity with the regulatory basis of accounting in the State of Minnesota as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

Plan Description – The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Contributions – Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$39,785. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$30,174. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2016, the City reported a liability of \$706,397 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$9,212. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0087% which was a decrease of 0.0010% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$68,437 for its proportionate share of the General Employee Plan's pension expense. In addition, the City recognized an additional \$2,747 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 59,127
Difference between projected and actual investment earnings	137,755	
Changes in actuarial assumptions	138,312	
Changes in proportion		78,796
Contributions paid to PERA subsequent to the measurement date	19,864	
Total	\$ 295,931	\$ 137,923

\$19,864 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Year Ending December 31	Pension Expense Amount
2017	\$ 28,072
2018	28,072
2019	56,485
2020	25,515

At December 31, 2016, the City reported a liability of \$762,503 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0190% which was a decrease of 0.0010% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$133,891 for its proportionate share of the Police and Fire Plan's pension expense. The City also recognized \$1,710 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9,000,000 to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 117,846	\$ 88,945
Difference between projected and actual investment earnings	419,640	
Changes in actuarial assumptions	14,400	9,470
Changes in proportion	15,087	
Contributions paid to PERA subsequent to the measurement date	566,973	98,415
Total	\$ 566,973	\$ 98,415

\$15,087 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2017	\$ 98,307
2018	98,307
2019	98,307
2020	88,409
2021	70,141

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Actuarial Assumptions – The total pension liability in the June 30, 2016, actual valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP 2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period of July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

Pension Liability Sensitivity – The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

		City Proportionate Share of NPL		
		(6.5%)	(7.5%)	(8.5%)
GERF	\$	1,003,293	\$ 706,397	\$ 461,835
		(4.6%)	(5.6%)	(6.6%)
PEPFF	\$	1,067,403	\$ 762,503	\$ 513,377

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 9 LONG-TERM LIABILITIES

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for the governmental funds. The original amount of general obligation bonds issued in prior years was \$920,000. During the year, general obligation revenue bonds totaling \$297,000 were issued to finance construction projects.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Funds - Refunding	3.05%	\$ 540,000
Proprietary Funds	2.5%	297,000
		<u>\$ 837,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31</u>	<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$	\$ 8,236	\$	\$ 5,572
2018	85,000	15,174	26,000	7,100
2019	85,000	12,582	27,000	6,438
2020	40,000	10,676	28,000	5,750
2021	45,000	9,379	29,000	5,038
2022-2026	235,000	26,003	154,000	13,975
2027	50,000	763	33,000	413
	<u>\$ 540,000</u>	<u>\$ 82,813</u>	<u>\$ 297,000</u>	<u>\$ 44,286</u>

B. General Obligation Revenue Bonds

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$7,128,445. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Proprietary Funds	.8 - 3.5%	\$ 2,258,000
Proprietary Funds - Refunding	2.0 - 2.1%	1,100,000
		<u>\$ 3,358,000</u>

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Proprietary Funds	
	Principal	Interest
2017	\$ 284,000	\$ 50,588
2018	357,000	60,416
2019	358,000	54,957
2020	370,000	49,275
2021	347,000	43,253
2022-2026	1,172,000	133,361
2027-2031	285,000	52,263
2032-2035	185,000	13,214
	\$ 3,358,000	\$ 457,327

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	\$ 700,000	\$	\$ 160,000	\$ 540,000	\$
Total Governmental Fund	\$ 700,000	\$	\$ 160,000	\$ 540,000	\$
Proprietary Fund					
General Obligation Bonds	\$	\$ 297,000	\$	\$ 297,000	\$
General Obligation Revenue Bonds	4,781,000		1,423,000	3,358,000	284,000
Bond Premium	31,735		2,570	29,165	2,570
Compensated Absences	17,545		1,078	16,467	
Total Proprietary Fund	\$ 4,830,280	\$ 297,000	\$ 1,426,648	\$ 3,700,632	\$ 286,570

The City's interest expense for the year ended December 31, 2016, was \$146,524.

The compensated absences are generally liquidated by the proprietary funds.

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 10 CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued Multifamily Housing Development Revenue Note Series 2012A and 2012B to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. The Notes are secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Notes are not reported as a

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

liability in the accompanying financial statements. The Series 2012A original issue amount totaled \$2,850,000, and Series 2012B original issue amount totaled \$540,000.

As of December 31, 2016, the aggregate principal amount payable of the Series 2012A and 2012B was \$2,646,971.

NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2016, is as follows:

Due to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Long-Term Designation	Light	\$ 286,180
Long-Term Designation	Lift Station	80,189
Total		<u>\$ 366,369</u>

The purpose of the interfund loans is to cover the cash shortage.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Light	\$ 280,695
General	Liquor	15,000
Long-Term Designation	Light	60,000
Nonmajor Governmental	General	44,000
Nonmajor Governmental	Light	13,200
Water and Sewer	Light	608,479
Total		<u>\$ 1,021,374</u>

The purpose of the transfers is to finance various programs.

NOTE 12 COMMITTED CONTRACTS

As of December 31, 2016, the City had construction commitments of \$45,285 for the Flood Mitigation Project and the Rage Addition.

NOTE 13 CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 14 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of damage, and destruction of assets; errors and omissions; injuries to employees; and disasters. The City participates in a group workers' compensation plan with the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota cities. The plan is administered by Berkley Administrators.

The workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims, liabilities and other expenses. The City has entered into a regular premium adjustment after annual actual salaries are determined. All charges are distributed to each City department based upon salary and workers' compensation class code. LMCIT is responsible for Workers' Compensation Reinsurance Association premiums and for the general, administrative and claim expenses.

The City continues to carry commercial insurance for employee health, standard liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years. There has been no substantial change in coverage from the prior year.

NOTE 15 NEW PRONOUNCEMENTS

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, 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 is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 82, Pension Issues – an Amendment of GASB Statements No. 67 and No. 73, provides further guidance 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. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. 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.

Management has not yet determined the effect these Statements will have on the City's financial statements.

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CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUES			
Property Tax	\$ 312,000	\$ 305,626	\$ (6,374)
Special Assessments	2,500	4,592	2,092
Licenses and Permits	8,500	13,333	4,833
Intergovernmental			
Local Government Aid	617,697	617,697	
PERA Aid	3,353	3,353	
Fire Aid	23,073	4,353	(18,720)
Police Aid	14,115	26,057	11,942
Other State Aid		16,501	16,501
Total Intergovernmental	<u>658,238</u>	<u>667,961</u>	<u>9,723</u>
Charges for Services			
Public Works	12,000	12,855	855
Parks and Recreation	114,000	114,887	887
Public Safety	39,000	43,310	4,310
Public Works - Sanitation	175,000	148,846	(26,154)
Other	12,800	16,062	3,262
Total Charges for Services	<u>352,800</u>	<u>335,960</u>	<u>(16,840)</u>
Fines and Forfeits	6,000	6,264	264
Investment Earnings	19,000	5,667	(13,333)
Miscellaneous	12,000	91,079	79,079
Total Revenues	<u>1,371,038</u>	<u>1,430,482</u>	<u>59,444</u>
OTHER FINANCING SOURCES			
Transfers In	295,695	295,695	
Total Other Financing Sources	<u>295,695</u>	<u>295,695</u>	
Total Revenue and Other Financing Sources	<u>1,666,733</u>	<u>1,726,177</u>	<u>59,444</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council	42,478	39,793	(2,685)
Clerk / Treasurer	199,073	169,858	(29,215)
Election	3,000	3,317	317
Assessor	7,700	7,357	(343)
Auditing	14,700	15,600	900
Legal	35,000	30,487	(4,513)
City Hall, General Government Buildings	16,470	16,800	330
Total General Government	<u>318,421</u>	<u>283,212</u>	<u>(35,209)</u>

cont.

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
EXPENDITURES - Continued			
Current			
Public Safety			
Police Protection	358,592	351,786	(6,806)
Fire Protection	68,176	63,998	(4,178)
Civil Defense and Flood Control	660	3,385	2,725
Total Public Safety	<u>427,428</u>	<u>419,169</u>	<u>(8,259)</u>
Public Works			
Highway and Street Construction	267,582	269,602	2,020
Street Lighting	17,450	18,330	880
Sanitation	170,206	166,829	(3,377)
Total Public Works	<u>455,238</u>	<u>454,761</u>	<u>(477)</u>
Culture and Recreation			
Recreation	13,625	23,026	9,401
Community Center	248,460	233,486	(14,974)
Parks	63,100	56,250	(6,850)
Other	6,340	5,423	(917)
Total Culture and Recreation	<u>331,525</u>	<u>318,185</u>	<u>(13,340)</u>
Economic Development	12,550	13,982	1,432
Miscellaneous	23,136	25,537	2,401
Capital Outlay			
Public Safety	15,700	24,932	9,232
Public Works	28,500	36,747	8,247
Culture and Recreation	10,000	10,704	704
Total Capital Outlay	<u>54,200</u>	<u>72,383</u>	<u>18,183</u>
Total Expenditures	<u>1,622,498</u>	<u>1,587,229</u>	<u>(35,269)</u>
OTHER FINANCING USES			
Transfers Out	44,000	44,000	
Total Other Financing Uses	<u>44,000</u>	<u>44,000</u>	
Total Expenditures and Other Financing Uses	<u>1,666,498</u>	<u>1,631,229</u>	<u>(35,269)</u>
Net Change in Fund Balance	235	94,948	94,713
Fund Balance - Beginning	<u>163,972</u>	<u>163,972</u>	
Fund Balance - Ending	<u>\$ 164,207</u>	<u>\$ 258,920</u>	<u>\$ 94,713</u>

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – COMMUNITY CENTER MAINTENANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUE			
Investment Earnings	\$ 8,000	\$ 18,316	\$ 10,316
Miscellaneous		114,313	114,313
Total Revenue	<u>8,000</u>	<u>132,629</u>	<u>124,629</u>
EXPENDITURES			
Current			
Community Center		41,039	41,039
Capital Outlay			
Community Center		<u>233,090</u>	<u>233,090</u>
Total Expenditures		<u>274,129</u>	<u>274,129</u>
Net Change in Fund Balance	8,000	(141,500)	(149,500)
Fund Balance - Beginning	<u>314,347</u>	<u>314,347</u>	
Fund Balance - Ending	<u><u>\$ 322,347</u></u>	<u><u>\$ 172,847</u></u>	<u><u>\$ (149,500)</u></u>

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CITY OF ADA
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 YEARS

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
GERF	2015	\$ 41,235	\$ 41,235	\$	\$ 549,793	7.50 %
	2016	39,785	39,785		530,613	7.50
PEPFF	2015	\$ 29,233	\$ 29,233	\$	\$ 180,448	16.20 %
	2016	30,174	30,174		186,256	16.20

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

CITY OF ADA
SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	2015	0.0097 %	\$ 502,704	\$	\$ 502,704	\$ 570,680	88.09 %	78.19 %
	2016	0.0087	706,397	9,212	715,609	540,203	130.77	68.90
PEPFF	2015	0.0200 %	\$ 227,247	\$ 175,228	\$ 402,475	\$ 175,228	129.69 %	86.61 %
	2016	0.0190	762,503		762,503	183,352	415.87	63.90

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

CITY OF ADA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue Exhibit B-1	Debt Service Exhibit B-3	Exhibit A-1 Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Investments	\$ 226,130	\$ 77,808	\$ 303,938
Notes Receivable	151,000		151,000
Special Assessments - Noncurrent		77,600	77,600
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ <u>377,130</u>	\$ <u>155,408</u>	\$ <u>532,538</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ <u>5,089</u>	\$ <u> </u>	\$ <u>5,089</u>
Total Liabilities	<u>5,089</u>	<u> </u>	<u>5,089</u>
Deferred Inflows of Resources			
Unavailable Revenues - Notes Receivable	151,000		151,000
Unavailable Revenues - Special Assessments		77,600	77,600
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>151,000</u>	<u>77,600</u>	<u>228,600</u>
Fund Balances			
Restricted for Development	12,329		12,329
Restricted for Debt Service		77,808	77,808
Committed for Development	167,569		167,569
Committed for Library	7,892		7,892
Committed for Public Works	33,251		33,251
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>221,041</u>	<u>77,808</u>	<u>298,849</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>377,130</u>	\$ <u>155,408</u>	\$ <u>532,538</u>

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Exhibit A-2 Total
REVENUES			
Property Taxes	\$ 72,647	\$	\$ 72,647
Special Assessments		46,249	46,249
Intergovernmental	79,200	19,445	98,645
Investment Earnings	3		3
Miscellaneous	32,633		32,633
	<u>184,483</u>	<u>65,694</u>	<u>250,177</u>
Total Revenues			
EXPENDITURES			
Current			
Culture and Recreation	25,739		25,739
Community Development	161,450		161,450
Debt Service			
Principal		160,000	160,000
Interest and Other Charges		29,986	29,986
Capital Outlay			
Public Works	21,200		21,200
	<u>208,389</u>	<u>189,986</u>	<u>398,375</u>
Total Expenditures			
Revenues Under Expenditures	<u>(23,906)</u>	<u>(124,292)</u>	<u>(148,198)</u>
OTHER FINANCING SOURCES			
Transfers In	18,200	39,000	57,200
	<u>18,200</u>	<u>39,000</u>	<u>57,200</u>
Total Other Financing Sources			
Net Change in Fund Balances	(5,706)	(85,292)	(90,998)
Fund Balances - Beginning	226,747	163,100	389,847
Fund Balances - Ending	<u>\$ 221,041</u>	<u>\$ 77,808</u>	<u>\$ 298,849</u>

CITY OF ADA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

Exhibit B-1

	Nonmajor Funds					
	Library	Public Works	Recreation Development	EDA Revolving Loan	A.R.P. Revolving Loan	2015 Revolving Loan
ASSETS						
Cash and Investments	\$ 12,981	\$ 33,251	\$ 12,329	\$ 20,176	\$ 12,907	\$ 15,754
Notes Receivable				26,700		124,300
TOTAL ASSETS	<u>\$ 12,981</u>	<u>\$ 33,251</u>	<u>\$ 12,329</u>	<u>\$ 46,876</u>	<u>\$ 12,907</u>	<u>\$ 140,054</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 5,089					
Total Liabilities	<u>5,089</u>					
Deferred Inflows of Resources						
Unavailable Revenues						
Notes Receivable				26,700		124,300
Total Deferred Inflows of Resources				<u>26,700</u>		<u>124,300</u>
Fund Balances						
Restricted for Development			12,329			
Restricted for Community Center						
Committed for Hospital						
Committed for Development				20,176	12,907	15,754
Committed for Library	7,892					
Committed for Public Works		33,251				
Total Fund Balances	<u>7,892</u>	<u>33,251</u>	<u>12,329</u>	<u>20,176</u>	<u>12,907</u>	<u>15,754</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 12,981</u>	<u>\$ 33,251</u>	<u>\$ 12,329</u>	<u>\$ 46,876</u>	<u>\$ 12,907</u>	<u>\$ 140,054</u>

CITY OF ADA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS - CONTINUED
DECEMBER 31, 2016

Exhibit B-1

	Nonmajor Funds		Total Nonmajor Special Revenue Exhibit A-1	Major Funds		Total Special Revenue
	T.I.F. 2-2 Housing	T.I.F. 2-3 Housing		Community Center Maintenance	Bridges Revenue	
ASSETS						
Cash and Investments	\$ 82,888	\$ 35,844	\$ 226,130	\$ 330,109	\$ 939,606	\$ 1,495,845
Notes Receivable			151,000			151,000
TOTAL ASSETS	\$ 82,888	\$ 35,844	\$ 377,130	\$ 330,109	\$ 939,606	\$ 1,646,845
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ _____	\$ _____	\$ 5,089	\$ 157,262	\$ _____	\$ 162,351
Total Liabilities			5,089	157,262		162,351
Deferred Inflows of Resources						
Unavailable Revenues						
Notes Receivable			151,000			151,000
Total Deferred Inflows of Resources			151,000			151,000
Fund Balances						
Restricted for Development			12,329			12,329
Restricted for Community Center				172,847		172,847
Committed for Hospital					939,606	939,606
Committed for Development	82,888	35,844	167,569			167,569
Committed for Library			7,892			7,892
Committed for Public Works			33,251			33,251
Total Fund Balances	82,888	35,844	221,041	172,847	939,606	1,333,494
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 82,888	\$ 35,844	\$ 377,130	\$ 330,109	\$ 939,606	\$ 1,646,845

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Exhibit B-2

	Nonmajor Funds					
	Library	Public Works	Recreation Development	EDA Revolving Loan	A.R.P. Revolving Loan	2015 Revolving Loan
REVENUES						
Property Taxes	\$ 11,304	\$ 6,319	\$	\$	\$	\$
Intergovernmental						
Federal						79,200
Miscellaneous						
Investment Earnings					3	
Loan Repayments				6,237	12,143	11,653
Other	500		340	1,750		
Total Revenues	11,804	6,319	340	7,987	12,146	90,853
EXPENDITURES						
Current						
General Government						
Culture and Recreation	10,739		15,000			
Community Development				25,398	10,860	120,000
Capital Outlay						
Public Works		21,200				
Culture and Recreation						
Total Expenditures	10,739	21,200	15,000	25,398	10,860	120,000
Revenues Over (Under) Expenditures	1,065	(14,881)	(14,660)	(17,411)	1,286	(29,147)
OTHER FINANCING SOURCES						
Transfers In		10,200		3,000	5,000	
Total Other Financing Sources		10,200		3,000	5,000	
Net Change in Fund Balances	1,065	(4,681)	(14,660)	(14,411)	6,286	(29,147)
Fund Balances - Beginning	6,827	37,932	26,989	34,587	6,621	44,901
Fund Balances - Ending	\$ 7,892	\$ 33,251	\$ 12,329	\$ 20,176	\$ 12,907	\$ 15,754

cont.

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
SPECIAL REVENUE FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Exhibit B-2

	Nonmajor Funds		Total Nonmajor Special Revenue Exhibit A-2	Major Funds		Total Special Revenue
	T.I.F. 2-2 Housing	T.I.F. 2-3 Housing		Community Center Maintenance	Bridges Revenue	
REVENUES						
Property Taxes	\$ 24,868	\$ 30,156	\$ 72,647	\$	\$	\$ 72,647
Intergovernmental						
Federal			79,200			79,200
Miscellaneous						
Investment Earnings			3	18,316	12,363	30,682
Loan Repayments			30,033			30,033
Other	10		2,600	114,313	100,509	217,422
Total Revenues	<u>24,878</u>	<u>30,156</u>	<u>184,483</u>	<u>132,629</u>	<u>112,872</u>	<u>429,984</u>
EXPENDITURES						
Current						
General Government					40,673	40,673
Culture and Recreation			25,739	41,039		66,778
Community Development	5,192		161,450			161,450
Capital Outlay						
Public Works			21,200			21,200
Culture and Recreation				233,090		233,090
Total Expenditures	<u>5,192</u>		<u>208,389</u>	<u>274,129</u>	<u>40,673</u>	<u>523,191</u>
Revenues Over (Under) Expenditures	<u>19,686</u>	<u>30,156</u>	<u>(23,906)</u>	<u>(141,500)</u>	<u>72,199</u>	<u>(93,207)</u>
OTHER FINANCING SOURCES						
Transfers In			18,200			18,200
Total Other Financing Sources			<u>18,200</u>			<u>18,200</u>
Net Change in Fund Balances	19,686	30,156	(5,706)	(141,500)	72,199	(75,007)
Fund Balances - Beginning	<u>63,202</u>	<u>5,688</u>	<u>226,747</u>	<u>314,347</u>	<u>867,407</u>	<u>1,408,501</u>
Fund Balances - Ending	<u>\$ 82,888</u>	<u>\$ 35,844</u>	<u>\$ 221,041</u>	<u>\$ 172,847</u>	<u>\$ 939,606</u>	<u>\$ 1,333,494</u>

CITY OF ADA
COMBINING BALANCE SHEET – DEBT SERVICE FUNDS
DECEMBER 31, 2016

Exhibit B-3

	Nonmajor Funds			Total Debt Service
	2008 Lease Purchase	2003 G.O. Improvement		
ASSETS				
Cash and Investments	\$ 44,752	\$ 33,056	\$	77,808
Special Assessments - Noncurrent		77,600		77,600
TOTAL ASSETS	\$ 44,752	\$ 110,656	\$	155,408
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Deferred Inflows of Resources				
Unavailable Revenues - Special Assessments	\$	\$ 77,600	\$	77,600
Total Deferred Inflows of Resources		77,600		77,600
Fund Balances				
Restricted for Debt Service	44,752	33,056		77,808
Total Fund Balances	44,752	33,056		77,808
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 44,752	\$ 110,656	\$	155,408

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Exhibit B-4

	Nonmajor Funds		Total Debt Service
	2008 Lease Purchase	2003 G.O. Improvement	
REVENUES			
Intergovernmental - Local	\$ 19,445	\$	\$ 19,445
Special Assessments		46,249	46,249
Total Revenues	<u>19,445</u>	<u>46,249</u>	<u>65,694</u>
EXPENDITURES			
Debt Service			
Principal	80,000	80,000	160,000
Interest and Other Charges	23,428	6,558	29,986
Total Expenditures	<u>103,428</u>	<u>86,558</u>	<u>189,986</u>
Revenues Under Expenditures	<u>(83,983)</u>	<u>(40,309)</u>	<u>(124,292)</u>
OTHER FINANCING SOURCES			
Transfers In	<u>39,000</u>		<u>39,000</u>
Total Other Financing Sources	<u>39,000</u>		<u>39,000</u>
Net Change in Fund Balances	(44,983)	(40,309)	(85,292)
Fund Balances - Beginning	<u>89,735</u>	<u>73,365</u>	<u>163,100</u>
Fund Balances - Ending	<u>\$ 44,752</u>	<u>\$ 33,056</u>	<u>\$ 77,808</u>

CITY OF ADA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance Beginning of Year	Revenues	Expenditures	Transfers In	Transfers Out	Balance End of Year
Governmental Funds						
General						
Unassigned	\$ 163,972	\$ 1,430,482	\$ 1,587,229	\$ 295,695	\$ 44,000	\$ 258,920
Special Revenue						
Library	6,827	11,804	10,739			7,892
Public Works	37,932	6,319	21,200	10,200		33,251
Recreation Development	26,989	340	15,000			12,329
EDA Revolving Loan	34,587	7,987	25,398	3,000		20,176
A.R.P. Revolving Loan	6,621	12,146	10,860	5,000		12,907
2015 Revolving Loan	44,901	90,853	120,000			15,754
Community Center Maintenance	314,347	132,629	274,129			172,847
T.I.F. 2-2 Housing	63,202	24,878	5,192			82,888
T.I.F. 2-3 Housing	5,688	30,156				35,844
Bridges Revenue	867,407	112,872	40,673			939,606
Debt Service						
2003 G.O. Improvement	73,365	46,249	86,558			33,056
2008 Lease Purchase	89,735	19,445	103,428	39,000		44,752
Capital Projects						
Long-Term Designation	959,275	55,907	58,842	60,000		1,016,340
Lift Station	(44,925)	1,530,698	1,540,655			(54,882)
Proprietary Funds						
Water and Sewer	1,297,006	901,347	616,766	608,479		2,190,066
Light	876,837	1,630,188	1,404,473		962,374	140,178
Liquor	253,020	556,878	545,955		15,000	248,943

CITY OF ADA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Amount of Issue</u>	<u>Balance 01-01-2016</u>	<u>Issued 2016</u>	<u>Retired 2016</u>	<u>Balance 12-31-2016</u>	<u>Principal Due in 2017</u>	<u>Interest Due in 2017</u>
General Obligation Bonds										
G.O. Refunding Note 2011A	3.05%	12/15/11	02/01/19	\$ 290,000	\$ 170,000	\$	\$ 80,000	\$ 90,000	\$	\$ 1,373
G.O. Refunding Note 2011A	3.05%	12/15/11	02/01/27	630,000	530,000		80,000	450,000		6,863
G.O. Improvement Bond	2.50%	11/1/16	02/01/27	297,000		<u>297,000</u>		<u>297,000</u>		<u>5,572</u>
Total					<u>700,000</u>	<u>297,000</u>	<u>160,000</u>	<u>837,000</u>		<u>13,808</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Bonds	1.09%	07/22/04	08/20/23	2,380,000	1,064,000		128,000	936,000	129,000	10,203
G.O. Water Revenue Bonds	1.09%	12/08/05	08/20/23	264,245	129,000		15,000	114,000	16,000	1,242
G.O. Water and Sewer Refunding 2009A	3.0 - 4.35%	04/01/09		1,995,000	1,155,000		1,155,000			
G.O. Utility Revenue Bond	.8 - 3.0%	08/08/12	02/01/28	535,000	475,000		70,000	405,000		4,587
G.O. Water and Sewer Refunding 2015B	2.0 - 2.1%	06/01/15	12/01/25	1,100,000	1,100,000			1,100,000	125,000	22,120
G.O. Water Revenue Bonds	1.3 - 3.5%	01/16/15	02/01/35	750,000	750,000		55,000	695,000		10,113
G.O. Utility Revenue Bond	2.30%	11/17/15	02/01/23	108,000	108,000			108,000	14,000	2,323
Total					<u>4,781,000</u>	<u></u>	<u>1,423,000</u>	<u>3,358,000</u>	<u>284,000</u>	<u>50,588</u>
TOTALS					<u>\$ 5,481,000</u>	<u>\$ 297,000</u>	<u>\$ 1,583,000</u>	<u>\$ 4,195,000</u>	<u>\$ 284,000</u>	<u>\$ 64,396</u>

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of Ada
Ada, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Ada, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2017. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

May 23, 2017

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Ada
Ada, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Ada, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Ada's financial statements and have issued our report thereon dated May 23, 2017. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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 City'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001, 2016-002, and 2016-003 that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

May 23, 2017

CITY OF ADA
SCHEDULE OF FINDINGS
DECEMBER 31, 2016

2016-001 FINDING

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with the regulatory basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2016, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The city council is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the City's annual financial statements.

Cause

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The city council is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

CITY OF ADA
SCHEDULE OF FINDINGS - CONTINUED
DECEMBER 31, 2016

2016-002 FINDING

Criteria

Generally, a system of internal control contemplates separation of duties so that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition

Lack of sufficient segregation of duties.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

CITY OF ADA
SCHEDULE OF FINDINGS - CONTINUED
DECEMBER 31, 2016

2016-003 FINDING

Criteria

A good system of internal accounting control contemplates an adequate system designed to reconcile balance sheet accounts.

Condition

The City's cash is not being reconciled to the general ledger on a timely basis.

Cause

The City does not have an internal control system designed to compare general ledger balances to reconciliations.

Effect

The City's cash was overstated approximately \$1,800 from the general ledger.

Recommendation

The City should reconcile their cash account on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on a monthly basis.

CITY OF ADA
CORRECTIVE ACTION PLAN
DECEMBER 31, 2016

2016-001 FINDING

Contact Person – James Leiman, City Administrator

Corrective Action Plan – Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date – Ongoing

2016-002 FINDING

Contact Person – James Leiman, City Administrator

Corrective Action Plan – The City has the following procedures in place to mitigate risk:

- 1) Council approves checks.
- 2) Council reviews monthly financial statements.

Completion Date – Ongoing

2016-003 FINDING

Contact Person – James Leiman, City Administrator

Corrective Action Plan – The City will reconcile the cash account to the general ledger monthly.

Completion Date – Immediately