

**CITY OF ADA
ADA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CITY OF ADA
CITY OFFICIALS
AT DECEMBER 31, 2015

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, 2015, 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 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of each major fund and the aggregate remaining fund information of the City of Ada, as of December 31, 2015, and the regulatory basis revenues, expenses and changes in financial position, and, where applicable, regulatory basis cash flows thereof for the year then ended on the basis of accounting described in Note 1.

Emphasis of Matter

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 2 to the financial statements, the City has retroactively restated the previously reported Net Position in accordance with these statements.

Our opinions are not modified with respect to this matter.

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 March 23, 2016 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

March 23, 2016

CITY OF ADA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	General	Bridges Revenue	Community Center Maintenance
ASSETS			
Cash and Investments	\$ 186,022	\$ 867,407	\$ 409,234
Accounts Receivable - Net	13,129		
Notes Receivable			
Taxes Receivable - Delinquent	26,000		
Special Assessments - Delinquent			
Special Assessments - Noncurrent	26,100		
Due From Other Governments			
TOTAL ASSETS	\$ 251,251	\$ 867,407	\$ 409,234
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 25,719	\$	\$ 94,887
Contracts Payable			
Salary Payable	9,460		
Total Liabilities	35,179		94,887
Deferred Inflows of Resources			
Unavailable Revenues			
Notes Receivable			
Delinquent Taxes	26,000		
Special Assessments	26,100		
Total Deferred Inflows of Resources	52,100		
Fund Balances			
Restricted for Development			
Restricted for Community Center			314,347
Restricted for Debt Service			
Committed for Hospital		867,407	
Committed for Development			
Committed for Library			
Committed for Public Works			
Committed for Capital Outlay			
Unassigned	163,972		
Total Fund Balances	163,972	867,407	314,347
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 251,251	\$ 867,407	\$ 409,234

See Notes to the Financial Statements

CITY OF ADA
BALANCE SHEET – GOVERNMENTAL FUNDS - CONTINUED
AS OF DECEMBER 31, 2015

	<u>Long-Term Designation</u>	<u>Lift Station</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 959,275	\$ 23,101	\$ 422,417	\$ 2,867,456
Accounts Receivable				13,129
Notes Receivable			61,400	61,400
Taxes Receivable - Delinquent				26,000
Special Assessments - Delinquent	1,600			1,600
Special Assessments - Noncurrent			116,400	142,500
Due From Other Governments		242,861		242,861
	<u>959,275</u>	<u>242,861</u>	<u>422,417</u>	<u>2,867,456</u>
TOTAL ASSETS	\$ <u>960,875</u>	\$ <u>265,962</u>	\$ <u>600,217</u>	\$ <u>3,354,946</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$	\$	\$ 32,570	\$ 153,176
Contracts Payable		310,887		310,887
Salary Payable				9,460
		<u>310,887</u>	<u>32,570</u>	<u>473,523</u>
Total Liabilities		<u>310,887</u>	<u>32,570</u>	<u>473,523</u>
Deferred Inflows of Resources				
Unavailable Revenues				
Notes Receivable			61,400	61,400
Delinquent Taxes				26,000
Special Assessments	1,600		116,400	144,100
	<u>1,600</u>		<u>116,400</u>	<u>144,100</u>
Total Deferred Inflows of Resources	<u>1,600</u>		<u>177,800</u>	<u>231,500</u>
Fund Balances				
Restricted for Development			26,989	26,989
Restricted for Community Center				314,347
Restricted for Debt Service			163,100	163,100
Committed for Hospital				867,407
Committed for Development			154,999	154,999
Committed for Library			6,827	6,827
Committed for Public Works			37,932	37,932
Committed for Capital Outlay	959,275			959,275
Unassigned		(44,925)		119,047
	<u>959,275</u>	<u>(44,925)</u>	<u>389,847</u>	<u>2,649,923</u>
Total Fund Balances	<u>959,275</u>	<u>(44,925)</u>	<u>389,847</u>	<u>2,649,923</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ <u>960,875</u>	\$ <u>265,962</u>	\$ <u>600,217</u>	\$ <u>3,354,946</u>

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, 2015

	General	Bridges Revenue	Community Center Maintenance
REVENUES			
Property Taxes	\$ 303,098	\$	\$
Special Assessments	6,173		
Licenses and Permits	13,328		
Intergovernmental	711,241		
Charges for Services	361,913		
Fines and Forfeits	5,729		
Investment Earnings	2,029	5,764	4,927
Miscellaneous	94,991	179,319	
Total Revenues	1,498,502	185,083	4,927
EXPENDITURES			
Current			
General Government	304,000	160,565	
Public Safety	481,602		
Public Works	413,299		
Culture and Recreation	326,297		34,956
Economic Development	17,561		
Community Development			
Miscellaneous	26,774		
Debt Service			
Principal			
Interest and Other Charges			
Capital Outlay			
Public Safety	18,153		
Public Works	8,415		
Culture and Recreation	4,417		142,000
Total Expenditures	1,600,518	160,565	176,956
Revenues Over (Under) Expenditures	(102,016)	24,518	(172,029)
OTHER FINANCING SOURCES (USES)			
Transfers In	233,772	3,000	
Transfers Out	(36,604)		
Total Other Financing Sources (Uses)	197,168	3,000	
Net Change in Fund Balances	95,152	27,518	(172,029)
Fund Balances - Beginning	68,820	839,889	486,376
Fund Balances - Ending	\$ 163,972	\$ 867,407	\$ 314,347

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, 2015

	Long-Term Designation	Lift Station	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 45,104	\$	\$ 68,725	\$ 416,927
Special Assessments			49,840	56,013
Licenses and Permits				13,328
Intergovernmental		904,176	27,995	1,643,412
Charges for Services				361,913
Fines and Forfeits				5,729
Investment Earnings	1,819		2	14,541
Miscellaneous		59,331	13,100	346,741
Total Revenues	46,923	963,507	159,662	2,858,604
EXPENDITURES				
Current				
General Government				464,565
Public Safety				481,602
Public Works				413,299
Culture and Recreation			16,090	377,343
Economic Development				17,561
Community Development			58,315	58,315
Miscellaneous				26,774
Debt Service				
Principal			75,000	75,000
Interest and Other Charges			22,494	22,494
Capital Outlay				
Public Safety				18,153
Public Works	129,474	963,954	16,200	1,118,043
Culture and Recreation			6,828	153,245
Total Expenditures	129,474	963,954	194,927	3,226,394
Revenues Over (Under) Expenditures	(82,551)	(447)	(35,265)	(367,790)
OTHER FINANCING SOURCES (USES)				
Transfers In	95,100		33,604	365,476
Transfers Out				(36,604)
Total Other Financing Sources (Uses)	95,100		33,604	328,872
Net Change in Fund Balances	12,549	(447)	(1,661)	(38,918)
Fund Balances - Beginning	946,726	(44,478)	391,508	2,688,841
Fund Balances - Ending	\$ 959,275	\$ (44,925)	\$ 389,847	\$ 2,649,923

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2015

	Water and Sewer	Light	Liquor	Total
ASSETS				
Current Assets				
Cash and Investments	\$	\$	\$ 213,290	\$ 213,290
Investment in Escrow	1,067,120			1,067,120
Accounts Receivable - Net	86,023	296,067		382,090
Special Assessments Receivable - Noncurrent	19,000			19,000
Due from Other Funds		405,864	58,303	464,167
Inventories	9,683	30,469	32,404	72,556
Total Current Assets	<u>1,181,826</u>	<u>732,400</u>	<u>303,997</u>	<u>2,218,223</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
Less: Accumulated Depreciation	(2,778,841)	(1,356,108)	(133,419)	(4,268,368)
Net Capital Assets	<u>5,515,235</u>	<u>324,129</u>	<u>61,887</u>	<u>5,901,251</u>
Total Assets	<u>6,697,061</u>	<u>1,056,529</u>	<u>365,884</u>	<u>8,119,474</u>
DEFERRED OUTFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	9,208	4,774	11,596	25,578
Total Deferred Outflows of Resources	<u>9,208</u>	<u>4,774</u>	<u>11,596</u>	<u>25,578</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	21,498	105,181	7,835	134,514
Accrued Interest	17,822			17,822
Salaries Payable	7,101	3,673	9,553	20,327
Unearned Revenue		727		727
Customer Deposits		29,872		29,872
Due to Other Funds	464,167			464,167
Current Portion - Long-Term Debt	315,570			315,570
Total Current Liabilities	<u>826,158</u>	<u>139,453</u>	<u>17,388</u>	<u>982,999</u>
Long-Term Liabilities				
Bonds Payable	4,812,735			4,812,735
Net Pension Liability	67,866	35,189	85,460	188,515
Compensated Absences	6,567	3,857	7,121	17,545
Less: Current Portion - Long-Term Debt	(315,570)			(315,570)
Total Long-Term Liabilities	<u>4,571,598</u>	<u>39,046</u>	<u>92,581</u>	<u>4,703,225</u>
Total Liabilities	<u>5,397,756</u>	<u>178,499</u>	<u>109,969</u>	<u>5,686,224</u>
DEFERRED INFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	11,507	5,967	14,491	31,965
Total Deferred Inflows of Resources	<u>11,507</u>	<u>5,967</u>	<u>14,491</u>	<u>31,965</u>
NET POSITION				
Net Investment in Capital Assets	1,802,499	324,129	61,887	2,188,515
Unrestricted	(505,493)	552,708	191,133	238,348
Total Net Position	<u>\$ 1,297,006</u>	<u>\$ 876,837</u>	<u>\$ 253,020</u>	<u>\$ 2,426,863</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, 2015**

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
OPERATING REVENUES				
Sales	\$	\$	\$ 492,630	\$ 492,630
Cost of Goods Sold			<u>311,459</u>	<u>311,459</u>
Gross Profit			181,171	181,171
Charges for Sales and Services	630,839	1,601,117		2,231,956
Other Receipts	<u>4,590</u>	<u>30,994</u>	<u>6,172</u>	<u>41,756</u>
Total Operating Revenues	<u>635,429</u>	<u>1,632,111</u>	<u>187,343</u>	<u>2,454,883</u>
OPERATING EXPENSES				
Other Operating Expenses	266,703	1,299,423	179,817	1,745,943
Depreciation	<u>208,108</u>	<u>29,686</u>	<u>7,318</u>	<u>245,112</u>
Total Operating Expenses	<u>474,811</u>	<u>1,329,109</u>	<u>187,135</u>	<u>1,991,055</u>
Operating Income	<u>160,618</u>	<u>303,002</u>	<u>208</u>	<u>463,828</u>
NONOPERATING EXPENSE				
Interest Expense	<u>160,753</u>			<u>160,753</u>
Total Nonoperating Expense	<u>160,753</u>			<u>160,753</u>
Net Income (Expense) Before Transfers	(135)	303,002	208	303,075
Transfers Out		<u>(318,872)</u>	<u>(10,000)</u>	<u>(328,872)</u>
Change in Net Position	(135)	(15,870)	(9,792)	(25,797)
Net Position, Beginning of Year	1,366,541	928,692	350,204	2,645,437
GASB 68 and 71 Adjustment - See Note 2	<u>(69,400)</u>	<u>(35,985)</u>	<u>(87,392)</u>	<u>(192,777)</u>
Net Position, Beginning of Year - Restated	<u>1,297,141</u>	<u>892,707</u>	<u>262,812</u>	<u>2,452,660</u>
Net Position, End of Year	\$ <u>1,297,006</u>	\$ <u>876,837</u>	\$ <u>253,020</u>	\$ <u>2,426,863</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water and Sewer	Light	Liquor	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 626,914	\$ 1,679,134	\$ 498,802	\$ 2,804,850
Payments to Suppliers	(110,326)	(1,213,337)	(356,451)	(1,680,114)
Payments to Employees	(147,500)	(97,122)	(127,532)	(372,154)
Net Cash Provided By Operating Activities	369,088	368,675	14,819	752,582
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from (to) Other Funds		(318,872)	(10,000)	(328,872)
(Increase) Decrease in Due from Other Funds		(35,302)	92,732	57,430
Decrease in Due to Other Funds	(57,430)			(57,430)
Net Cash Provided (Used) By Noncapital Financing Activities	(57,430)	(354,174)	82,732	(328,872)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessment Revenue Received	4,897			4,897
Purchase of Capital Assets	(721,183)	(14,501)		(735,684)
Payment on Construction Accounts Payable	(69,000)			(69,000)
Proceeds from Long-Term Debt	870,250			870,250
Principal Paid on Bonds	(297,000)			(297,000)
Interest Paid	(99,622)			(99,622)
Net Cash Used By Capital And Related Financing Activities	(311,658)	(14,501)		(326,159)
Increase in Cash and Cash Equivalents			97,551	97,551
Cash and Cash Equivalents - Beginning of Year			115,739	115,739
Cash and Cash Equivalents - End of Year	\$	\$	\$ 213,290	\$ 213,290

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water and Sewer	Light	Liquor	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 160,618	\$ 303,002	\$ 208	\$ 463,828
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	208,108	29,686	7,318	245,112
Effects on Operating Cash Flows due to Changes in:				
Accounts Receivable	(8,515)	44,034		35,519
Inventories	3	479	(251)	231
Deferred Outflows	(6,313)	(3,273)	(7,950)	(17,536)
Accounts Payable	2,746	(13,449)	(1,005)	(11,708)
Salaries Payable	(1,204)	(2,320)	465	(3,059)
Unearned Revenue		(61)		(61)
Customer Deposits		3,050		3,050
Net Pension Liability	(4,429)	(2,297)	(5,578)	(12,304)
Compensated Absences	6,567	3,857	7,121	17,545
Deferred Inflows	11,507	5,967	14,491	31,965
Total Adjustments	<u>208,470</u>	<u>65,673</u>	<u>14,611</u>	<u>288,754</u>
 Net Cash Provided by Operating Activities	<u>\$ 369,088</u>	<u>\$ 368,675</u>	<u>\$ 14,819</u>	<u>\$ 752,582</u>

**NONCASH CAPITAL ACTIVITIES AND RELATED
FINANCING ACTIVITIES**

Acquisition of a Capital Asset through Accounts Payable	\$ 7,630	\$	\$	\$ 7,630
Bond Proceeds placed in Escrow	1,119,664			1,119,664
Bond Issuance Cost paid by Escrow	41,305			41,305
Interest on Bond paid by Escrow	11,060			11,060

See Notes to the Financial Statements

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

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. 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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 notes receivable activity and long-term debt payments 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.

Investment in Escrow - The investment in escrow in the water and sewer fund consists of bond proceeds held in an Escrow Account to pay issuance costs, interest coming due on the crossover refunding bonds and to pay the called principal amount of the refunded bonds on December 1, 2016.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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.

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 proprietary funds at December 31, 2015, 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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 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, 2015, 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, 2015, 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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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.

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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the City to change the accounting for the pension costs related to the City’s participation in the Public Employees Retirement Association (PERA). In addition, the City will also be recognizing a net pension liability, deferred outflows of resources, and deferred inflows of resources related to the City’s proportionate share of the collective amounts in PERA.

As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of January 1, 2015 as follows:

	Water and Sewer	Light	Liquor
Net Pension Liability	\$ (72,295)	\$ (37,486)	\$ (91,038)
Cost Sharing Defined Benefit Pension Plan	2,895	1,501	3,646
Decrease in Net Position	<u>\$ (69,400)</u>	<u>\$ (35,985)</u>	<u>\$ (87,392)</u>

NOTE 3 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.

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 accounting principles generally accepted in the United States of America.

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 2015.

NOTE 4 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2015, expenditures exceeded appropriations in the general fund by \$50,356 and in the community center maintenance fund by \$176,956. The over expenditures were funded by greater than anticipated revenues in the general fund.

NOTE 5 DEFICIT FUND BALANCES

Deficit fund balances or retained earnings of individual funds at December 31, 2015, are as follows:

Lift Station	\$44,925
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The deficit is expected to be eliminated through future revenue.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 6 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, 2015, 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.
- (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, 2015, the City was not exposed to custodial credit risk.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 7 NOTES RECEIVABLE

The City has various notes receivable from organizations at December 31, 2015, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2016- 2021	3.0 - 5.0%	\$ 32,200
A.R.P. Revolving Loan	2018	4%	14,200
2015 Revolving Loan	2022	1%	15,000
Total			<u>\$ 61,400</u>

NOTE 8 CAPITAL ASSETS – PROPRIETARY FUNDS

Capital asset activity for the year ended December 31, 2015, 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	<u>112,010</u>		<u>112,010</u>	
Total capital assets, not being depreciated	<u>117,277</u>		<u>112,010</u>	<u>5,267</u>
Capital assets, being depreciated:				
Buildings	677,063			677,063
Equipment and fixtures	152,396	14,500	14,402	152,494
Distribution systems	<u>8,493,972</u>	<u>840,823</u>		<u>9,334,795</u>
Total capital assets, being depreciated	<u>9,323,431</u>	<u>855,323</u>	<u>14,402</u>	<u>10,164,352</u>
Less accumulated depreciation for:				
Buildings	298,861	15,648		314,509
Equipment and fixtures	111,266	8,290	14,402	105,154
Distribution systems	<u>3,627,531</u>	<u>221,174</u>		<u>3,848,705</u>
Total accumulated depreciation	<u>4,037,658</u>	<u>245,112</u>	<u>14,402</u>	<u>4,268,368</u>
Total capital assets, being depreciated, net	<u>5,285,773</u>	<u>610,211</u>		<u>5,895,984</u>
Proprietary funds capital assets, net	<u>\$ 5,403,050</u>	<u>\$ 610,211</u>	<u>\$ 112,010</u>	<u>\$ 5,901,251</u>

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Depreciation expense was charged to functions as follows:

Proprietary funds:	
Water and sewer	\$ 208,108
Light	29,686
Liquor	7,318
Total depreciation expense - proprietary funds	\$ 245,112

NOTE 9 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 defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF 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 Fund (PEPFF)

The PEPFF, 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 PEPFF 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.

GERF Benefits

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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

PEPFF Benefits

Benefits for the PEPFF 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 PEPFF 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 PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$41,235. The City's contributions were equal to the required contributions for each year as set by state statute.

PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$29,233. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2015, the City reported a liability of \$502,704 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0097%.

For the year ended December 31, 2015, the City recognized pension expense of \$47,045 for its proportionate share of GERF's pension expense.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

At December 31, 2015, the City reported its proportionate share of the GERF'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	\$	\$ 25,345
Difference between projected and actual investment earnings	47,589	
Changes in proportion		59,893
Contributions paid to PERA subsequent to the measurement date	20,618	
Total	<u>\$ 68,207</u>	<u>\$ 85,238</u>

\$20,618 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, 2016. 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
2016	\$ (16,516)
2017	(16,516)
2018	(16,516)
2019	11,897

At December 31, 2015, the City reported a liability of \$227,247 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.02%.

For the year ended December 31, 2015, the City recognized pension expense of \$42,760 for its proportionate share of PEPFF's pension expense.

At December 31, 2015, the City reported its proportionate share of the PEPFF'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	\$	\$ 36,852
Difference between projected and actual investment earnings	39,594	
Changes in proportion	18,001	
Contributions paid to PERA subsequent to the measurement date	14,617	
Total	<u>\$ 72,212</u>	<u>\$ 36,852</u>

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

\$14,617 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, 2016. 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
2016	\$ 6,129
2017	6,129
2018	6,129
2019	6,129
2020	(3,770)

Actuarial Assumptions – The total pension liability in the June 30, 2015, actual valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. 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 arithmetic real rates of return for each major asset class are summarized in the following table:

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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Discount Rate – The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

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		
		1% Decrease (6.9%)	Current (7.9%)	1% Increase (8.9%)
GERF	\$	790,430	\$	502,704
			\$	265,087
PEPFF	\$	442,906	\$	227,247
				49,074

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; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 10 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.

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

Purpose	Interest Rates	Amount
Governmental Funds - Refunding	3.05%	\$ 700,000

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

Year Ending December 31	Governmental Funds	
	Principal	Interest
2016	\$ 80,000	\$ 20,130
2017	80,000	17,690
2018	85,000	15,174
2019	85,000	12,582
2020	40,000	10,676
2021-2025	230,000	33,094
2026-2027	100,000	3,051
	<u>\$ 700,000</u>	<u>\$ 112,397</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 \$5,174,245. During the year, general obligation revenue bonds totaling \$858,000 were issued to finance construction projects and general obligation revenue refunding bonds totaling \$1,100,000 were issued to pay off existing bond issues. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Proprietary Funds	.8 - 3.5%	\$ 2,526,000
Proprietary Funds - Refunding	3.0 - 4.35%	<u>2,255,000</u>
		<u>\$ 4,781,000</u>

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

Year Ending December 31	Proprietary Funds	
	Principal	Interest
2016	\$ 313,000	\$ 112,201
2017	459,000	107,153
2018	472,000	98,249
2019	478,000	88,764
2020	495,000	78,582
2021-2025	2,019,000	235,835
2026-2030	315,000	61,775
2031-2035	230,000	20,477
	<u>\$ 4,781,000</u>	<u>\$ 803,036</u>

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

C. Crossover Refunding

During 2015, the City issued \$1,100,000 in general obligation refunding bonds with interest rates ranging between 2.0 to 2.1%. The City issued the bonds to refund the following outstanding general obligation:

<u>General Obligation Revenue</u>	<u>Refunding Date</u>	<u>Interest Rate</u>	<u>Amount</u>
General Obligation Water & Sewer Revenue Refunding Bond 2009A	12/1/2016	* 3.0 - 4.35%	\$ 1,045,000

* The City used a portion of the net proceeds to purchase U.S. Treasury Securities. These securities were deposited in an escrow account to provide for future debt service on the refunded portion of the general obligation bonds.

The City will realize a net present value savings of \$55,066.

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance as Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Fund					
General Obligation Bonds	\$ 775,000	\$	\$ 75,000	\$ 700,000	\$ 80,000
Net Pension Liability - GERP	334,697		20,508	314,189	
Net Pension Liability - PEPFF	194,407	32,840		227,247	
Total Governmental Fund	<u>\$ 1,304,104</u>	<u>\$ 32,840</u>	<u>\$ 95,508</u>	<u>\$ 1,241,436</u>	<u>\$ 80,000</u>
Proprietary Fund					
General Obligation Revenue Bonds	\$ 3,120,000	\$ 1,958,000	\$ 297,000	\$ 4,781,000	\$ 313,000
Bond Premium		31,735		31,735	2,570
Net Pension Liability - GERP	200,818		12,303	188,515	
Compensated Absences		17,545		17,545	
Total Proprietary Fund	<u>\$ 3,320,818</u>	<u>\$ 2,007,280</u>	<u>\$ 309,303</u>	<u>\$ 5,018,795</u>	<u>\$ 315,570</u>

The City's interest expense for the year ended December 31, 2015, was \$127,642.

The net pension liability is generally liquidated by the general and proprietary funds. The compensated absences are generally liquidated by the proprietary funds.

See the Schedule of Indebtedness for detail and payment provisions.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 11 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 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, 2015, the aggregate principal amount payable of the Series 2012A and 2012B was \$2,727,917.

NOTE 12 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2015, is as follows:

Due to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light	Water and Sewer	\$ 405,864
Liquor	Water and Sewer	58,303
Total		<u>\$ 464,167</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	\$ 223,772
General	Liquor	10,000
Long-Term Designated	Light	95,100
Nonmajor Governmental	General	33,604
Bridges Revenue	General	3,000
Total		<u>\$ 365,476</u>

The purpose of the transfers is to finance various programs.

NOTE 13 COMMITTED CONTRACTS

As of December 31, 2015, the City had construction commitments of \$1,175,000 for the Flood Mitigation Project.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 14 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.

NOTE 15 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 16 NEW PRONOUNCEMENTS

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUES			
Property Tax	\$ 312,682	\$ 303,098	\$ (9,584)
Special Assessments	1,500	6,173	4,673
Licenses and Permits	8,500	13,328	4,828
Intergovernmental			
Local Government Aid	615,616	615,616	
PERA Aid	3,353	3,353	
Fire Aid	23,073	41,521	18,448
Police Aid	14,115	23,927	9,812
Other State Aid		26,824	26,824
Total Intergovernmental	<u>656,157</u>	<u>711,241</u>	<u>55,084</u>
Charges for Services			
Public Works	12,000	14,961	2,961
Parks and Recreation	97,700	129,262	31,562
Public Safety	36,807	54,915	18,108
Public Works - Sanitation	166,806	149,753	(17,053)
Other	11,800	13,022	1,222
Total Charges for Services	<u>325,113</u>	<u>361,913</u>	<u>36,800</u>
Fines and Forfeits	6,000	5,729	(271)
Investment Earnings	20,000	2,029	(17,971)
Miscellaneous	14,860	94,991	80,131
Total Revenues	<u>1,344,812</u>	<u>1,498,502</u>	<u>153,690</u>
OTHER FINANCING SOURCES			
Transfers In	243,772	233,772	(10,000)
Total Other Financing Sources	<u>243,772</u>	<u>233,772</u>	<u>(10,000)</u>
Total Revenue and Other Financing Sources	<u>1,588,584</u>	<u>1,732,274</u>	<u>143,690</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council	42,928	45,707	2,779
Clerk / Treasurer	199,349	188,718	(10,631)
Assessor	7,700	7,462	(238)
Auditing	14,500	13,800	(700)
Legal	45,000	29,666	(15,334)
City Hall, General Government Buildings	17,500	18,647	1,147
Total General Government	<u>326,977</u>	<u>304,000</u>	<u>(22,977)</u>

cont.

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
EXPENDITURES - Continued			
Current			
Public Safety			
Police Protection	351,334	355,243	3,909
Fire Protection	67,976	125,922	57,946
Civil Defense and Flood Control	960	437	(523)
Total Public Safety	<u>420,270</u>	<u>481,602</u>	<u>61,332</u>
Public Works			
Highway and Street Construction	221,748	225,472	3,724
Street Lighting	17,950	17,474	(476)
Sanitation	166,806	170,353	3,547
Total Public Works	<u>406,504</u>	<u>413,299</u>	<u>6,795</u>
Culture and Recreation			
Recreation	9,125	8,790	(335)
Community Center	246,060	258,802	12,742
Parks	55,800	50,779	(5,021)
Other	6,190	7,926	1,736
Total Culture and Recreation	<u>317,175</u>	<u>326,297</u>	<u>9,122</u>
Economic Development	13,350	17,561	4,211
Miscellaneous	22,386	26,774	4,388
Capital Outlay			
Public Safety	15,000	18,153	3,153
Public Works	28,500	8,415	(20,085)
Culture and Recreation		4,417	4,417
Total Capital Outlay	<u>43,500</u>	<u>30,985</u>	<u>(12,515)</u>
Total Expenditures	<u>1,550,162</u>	<u>1,600,518</u>	<u>50,356</u>
OTHER FINANCING USES			
Transfers Out	37,724	36,604	(1,120)
Total Other Financing Uses	<u>37,724</u>	<u>36,604</u>	<u>(1,120)</u>
Total Expenditures and Other Financing Uses	<u>1,587,886</u>	<u>1,637,122</u>	<u>49,236</u>
Net Change in Fund Balance	698	95,152	94,454
Fund Balance - Beginning	<u>68,820</u>	<u>68,820</u>	<u></u>
Fund Balance - Ending	<u>\$ 69,518</u>	<u>\$ 163,972</u>	<u>\$ 94,454</u>

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – COMMUNITY CENTER MAINTENANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUE			
Investment Earnings	\$ 10,000	\$ 4,927	\$ (5,073)
Total Revenue	10,000	4,927	(5,073)
EXPENDITURES			
Current			
Community Center		34,956	34,956
Capital Outlay			
Community Center		142,000	142,000
Total Expenditures		176,956	176,956
Net Change in Fund Balance	10,000	(172,029)	(182,029)
Fund Balance - Beginning	486,376	486,376	
Fund Balance - Ending	\$ 496,376	\$ 314,347	\$ (182,029)

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 %
PEPFF	2015	\$ 29,233	\$ 29,233	\$	\$ 180,448	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	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	\$ 570,680	88.09 %	78.19 %
PEPFF	2015	0.02 %	\$ 227,247	\$ 175,228	129.69 %	86.61 %

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
AS OF DECEMBER 31, 2015

	<u>Special Revenue Exhibit B-1</u>	<u>Debt Service Exhibit B-3</u>	<u>Exhibit A-1 Total</u>
ASSETS			
Cash and Investments	\$ 259,317	\$ 163,100	\$ 422,417
Notes Receivable	61,400		61,400
Special Assessments - Noncurrent		116,400	116,400
TOTAL ASSETS	<u>\$ 320,717</u>	<u>\$ 279,500</u>	<u>\$ 600,217</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 32,570		\$ 32,570
Total Liabilities	<u>32,570</u>		<u>32,570</u>
Deferred Inflows of Resources			
Unavailable Revenues - Notes Receivable	61,400		61,400
Unavailable Revenues - Special Assessments		116,400	116,400
Total Deferred Inflows of Resources	<u>61,400</u>	<u>116,400</u>	<u>177,800</u>
Fund Balances			
Restricted for Development	26,989		26,989
Restricted for Debt Service		163,100	163,100
Committed for Development	154,999		154,999
Committed for Library	6,827		6,827
Committed for Public Works	37,932		37,932
Total Fund Balances	<u>226,747</u>	<u>163,100</u>	<u>389,847</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 320,717</u>	<u>\$ 279,500</u>	<u>\$ 600,217</u>

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Exhibit A-2 Total
REVENUES			
Property Taxes	\$ 68,725	\$	\$ 68,725
Special Assessments		49,840	49,840
Intergovernmental	9,900	18,095	27,995
Investment Earnings	2		2
Miscellaneous	13,100		13,100
Total Revenues	<u>91,727</u>	<u>67,935</u>	<u>159,662</u>
EXPENDITURES			
Current			
General Government			
Culture and Recreation	16,090		16,090
Community Development	58,315		58,315
Debt Service			
Principal		75,000	75,000
Interest and Other Charges		22,494	22,494
Capital Outlay			
Public Works	16,200		16,200
Culture and Recreation	6,828		6,828
Total Expenditures	<u>97,433</u>	<u>97,494</u>	<u>194,927</u>
Revenues Under Expenditures	<u>(5,706)</u>	<u>(29,559)</u>	<u>(35,265)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	50,001	33,604	83,605
Transfers Out	(50,001)		(50,001)
Total Other Financing Sources (Uses)		<u>33,604</u>	<u>33,604</u>
Net Change in Fund Balances	(5,706)	4,045	(1,661)
Fund Balances - Beginning	<u>232,453</u>	<u>159,055</u>	<u>391,508</u>
Fund Balances - Ending	<u>\$ 226,747</u>	<u>\$ 163,100</u>	<u>\$ 389,847</u>

CITY OF ADA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2015

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	\$ 7,224	\$ 37,932	\$ 33,206	\$ 34,587	\$ 6,621	\$ 44,901
Notes Receivable				32,200	14,200	15,000
TOTAL ASSETS	<u>\$ 7,224</u>	<u>\$ 37,932</u>	<u>\$ 33,206</u>	<u>\$ 66,787</u>	<u>\$ 20,821</u>	<u>\$ 59,901</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 397		\$ 6,217			
Total Liabilities	<u>397</u>		<u>6,217</u>			
Deferred Inflows of Resources						
Unavailable Revenues						
Notes Receivable				32,200	14,200	15,000
Total Deferred Inflows of Resources				<u>32,200</u>	<u>14,200</u>	<u>15,000</u>
Fund Balances						
Restricted for Development			26,989			
Restricted for Community Center						
Committed for Hospital						
Committed for Development				34,587	6,621	44,901
Committed for Library	6,827					
Committed for Public Works		37,932				
Total Fund Balances	<u>6,827</u>	<u>37,932</u>	<u>26,989</u>	<u>34,587</u>	<u>6,621</u>	<u>44,901</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 7,224</u>	<u>\$ 37,932</u>	<u>\$ 33,206</u>	<u>\$ 66,787</u>	<u>\$ 20,821</u>	<u>\$ 59,901</u>

CITY OF ADA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS - CONTINUED
AS OF DECEMBER 31, 2015

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	\$ 63,202	\$ 31,644	\$ 259,317	\$ 409,234	\$ 867,407	\$ 1,535,958
Notes Receivable			61,400			61,400
TOTAL ASSETS	\$ 63,202	\$ 31,644	\$ 320,717	\$ 409,234	\$ 867,407	\$ 1,597,358
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$	\$ 25,956	\$ 32,570	\$ 94,887	\$	\$ 127,457
Total Liabilities		25,956	32,570	94,887		127,457
Deferred Inflows of Resources						
Unavailable Revenues						
Notes Receivable			61,400			61,400
Total Deferred Inflows of Resources			61,400			61,400
Fund Balances						
Restricted for Development			26,989			26,989
Restricted for Community Center				314,347		314,347
Committed for Hospital					867,407	867,407
Committed for Development	63,202	5,688	154,999			154,999
Committed for Library			6,827			6,827
Committed for Public Works			37,932			37,932
Total Fund Balances	63,202	5,688	226,747	314,347	867,407	1,408,501
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 63,202	\$ 31,644	\$ 320,717	\$ 409,234	\$ 867,407	\$ 1,597,358

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Exhibit B-2

	Nonmajor Funds					
	Library	Public Works	Recreation Development	EDA Revolving Loan	A.R.P. Revolving Loan	2015 Revolving Loan
REVENUES						
Property Taxes	\$ 11,123	\$ 6,222	\$	\$	\$	\$
Intergovernmental						
Federal						9,900
Miscellaneous						
Investment Earnings					2	
Loan Repayments				8,224	4,611	
Other	265					
Total Revenues	11,388	6,222		8,224	4,613	9,900
EXPENDITURES						
Current						
General Government						
Culture and Recreation	9,934		6,156			
Community Development				4,496	5,300	15,000
Capital Outlay						
Public Works		16,200				
Culture and Recreation			6,828			
Total Expenditures	9,934	16,200	12,984	4,496	5,300	15,000
Revenues Over (Under) Expenditures	1,454	(9,978)	(12,984)	3,728	(687)	(5,100)
OTHER FINANCING SOURCES (USES)						
Transfers In						50,001
Transfers Out				(50,001)		
Total Other Financing Sources (Uses)				(50,001)		50,001
Net Change in Fund Balances	1,454	(9,978)	(12,984)	(46,273)	(687)	44,901
Fund Balances - Beginning	5,373	47,910	39,973	80,860	7,308	
Fund Balances - Ending	\$ 6,827	\$ 37,932	\$ 26,989	\$ 34,587	\$ 6,621	\$ 44,901

cont.

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
SPECIAL REVENUE FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

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	\$ 22,540	\$ 28,840	\$ 68,725	\$	\$	\$ 68,725
Intergovernmental						
Federal			9,900			9,900
Miscellaneous						
Investment Earnings			2	4,927	5,764	10,693
Loan Repayments			12,835			12,835
Other			265		179,319	179,584
Total Revenues	<u>22,540</u>	<u>28,840</u>	<u>91,727</u>	<u>4,927</u>	<u>185,083</u>	<u>281,737</u>
EXPENDITURES						
Current						
General Government					160,565	160,565
Culture and Recreation			16,090	34,956		51,046
Community Development	7,563	25,956	58,315			58,315
Capital Outlay						
Public Works			16,200			16,200
Culture and Recreation			6,828	142,000		148,828
Total Expenditures	<u>7,563</u>	<u>25,956</u>	<u>97,433</u>	<u>176,956</u>	<u>160,565</u>	<u>434,954</u>
Revenues Over (Under) Expenditures	<u>14,977</u>	<u>2,884</u>	<u>(5,706)</u>	<u>(172,029)</u>	<u>24,518</u>	<u>(153,217)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In			50,001		3,000	53,001
Transfers Out			(50,001)			(50,001)
Total Other Financing Sources (Uses)					<u>3,000</u>	<u>3,000</u>
Net Change in Fund Balances	14,977	2,884	(5,706)	(172,029)	27,518	(150,217)
Fund Balances - Beginning	<u>48,225</u>	<u>2,804</u>	<u>232,453</u>	<u>486,376</u>	<u>839,889</u>	<u>1,558,718</u>
Fund Balances - Ending	<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>

CITY OF ADA
COMBINING BALANCE SHEET – DEBT SERVICE FUNDS
AS OF DECEMBER 31, 2015

Exhibit B-3

	Nonmajor Funds		
	2008 Lease Purchase	2003 G.O. Improvement	Total Debt Service
ASSETS			
Cash and Investments	\$ 89,735	\$ 73,365	\$ 163,100
Special Assessments - Noncurrent		116,400	116,400
TOTAL ASSETS	\$ 89,735	\$ 189,765	\$ 279,500
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred Inflows of Resources			
Unavailable Revenues - Special Assessments	\$	\$ 116,400	\$ 116,400
Total Deferred Inflows of Resources		116,400	116,400
Fund Balances			
Restricted for Debt Service	89,735	73,365	163,100
Total Fund Balances	89,735	73,365	163,100
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 89,735	\$ 189,765	\$ 279,500

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Exhibit B-4

	<u>Nonmajor Funds</u>		<u>Total Debt Service</u>
	<u>2008 Lease Purchase</u>	<u>2003 G.O. Improvement</u>	
REVENUES			
Intergovernmental - Local	\$ 18,095		\$ 18,095
Special Assessments		49,840	49,840
Total Revenues	<u>18,095</u>	<u>49,840</u>	<u>67,935</u>
EXPENDITURES			
Debt Service			
Principal	35,000	40,000	75,000
Interest and Other Charges	16,698	5,796	22,494
Total Expenditures	<u>51,698</u>	<u>45,796</u>	<u>97,494</u>
Revenues Over (Under) Expenditures	<u>(33,603)</u>	<u>4,044</u>	<u>(29,559)</u>
OTHER FINANCING SOURCES			
Transfers In	33,604		33,604
Total Other Financing Sources	<u>33,604</u>		<u>33,604</u>
Net Change in Fund Balances	1	4,044	4,045
Fund Balances - Beginning	<u>89,734</u>	<u>69,321</u>	<u>159,055</u>
Fund Balances - Ending	<u>\$ 89,735</u>	<u>\$ 73,365</u>	<u>\$ 163,100</u>

CITY OF ADA
COMBINING BALANCE SHEET – CAPITAL PROJECT FUNDS
AS OF DECEMBER 31, 2015

Exhibit B-5

	Major Funds		Total
	Long-Term Designation	Lift Station	Capital Projects
ASSETS			
Cash and Investments	\$ 959,275	\$ 23,101	\$ 982,376
Special Assessments			
Delinquent	1,600		1,600
Due From Other Governments		242,861	242,861
TOTAL ASSETS	\$ 960,875	\$ 265,962	\$ 1,226,837
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Contracts Payable	\$	\$ 310,887	\$ 310,887
Total Liabilities		310,887	310,887
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenues - Special Assessments	1,600		1,600
Total Deferred Inflows of Resources	1,600		1,600
FUND BALANCES			
Committed for Capital Outlay	959,275		959,275
Unassigned		(44,925)	(44,925)
Total Fund Balances	959,275	(44,925)	914,350
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 960,875	\$ 265,962	\$ 1,226,837

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Exhibit B-6

	Major Funds		Total Capital Projects
	Long-Term Designation	Lift Station	
REVENUES			
Property Taxes	\$ 45,104	\$	\$ 45,104
Intergovernmental			
State - Grants		904,176	904,176
Miscellaneous			
Investment Earnings	1,819		1,819
Other		59,331	59,331
Total Revenues	46,923	963,507	1,010,430
EXPENDITURES			
Capital Outlay			
Public Works	129,474	963,954	1,093,428
Total Expenditures	129,474	963,954	1,093,428
Revenues Under Expenditures	(82,551)	(447)	(82,998)
OTHER FINANCING SOURCES			
Transfers In	95,100		95,100
Total Other Financing Sources	95,100		95,100
Net Change in Fund Balances	12,549	(447)	12,102
Fund Balances - Beginning	946,726	(44,478)	902,248
Fund Balances - Ending	\$ 959,275	\$ (44,925)	\$ 914,350

CITY OF ADA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance Beginning of Year	Revenues	Expenditures	Transfers In	Transfers Out	Prior Period Adjustment	Balance End of Year
Governmental Funds							
General							
Unassigned	\$ 68,820	\$ 1,498,502	\$ 1,600,518	\$ 233,772	\$ 36,604		\$ 163,972
Special Revenue							
Library	5,373	11,388	9,934				6,827
Public Works	47,910	6,222	16,200				37,932
Recreation Development	39,973		12,984				26,989
EDA Revolving Loan	80,860	8,224	4,496		50,001		34,587
A.R.P. Revolving Loan	7,308	4,613	5,300				6,621
2015 Revolving Loan		9,900	15,000	50,001			44,901
Community Center Maintenance	486,376	4,927	176,956				314,347
T.I.F. 2-2 Housing	48,225	22,540	7,563				63,202
T.I.F. 2-3 Housing	2,804	28,840	25,956				5,688
Bridges Revenue	839,889	185,083	160,565	3,000			867,407
Debt Service							
2003 G.O. Improvement	69,321	49,840	45,796				73,365
2008 Lease Purchase	89,734	18,095	51,698	33,604			89,735
Capital Projects							
Long-Term Designation	946,726	46,923	129,474	95,100			959,275
Lift Station	(44,478)	963,507	963,954				(44,925)
Proprietary Funds							
Water and Sewer	1,366,541	635,429	635,564			(69,400)	1,297,006
Light	928,692	1,632,111	1,329,109		318,872	(35,985)	876,837
Liquor	350,204	498,802	498,594		10,000	(87,392)	253,020

CITY OF ADA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Amount of Issue</u>	<u>Balance 01-01-2015</u>	<u>Issued 2015</u>	<u>Retired 2015</u>	<u>Balance 12-31-2015</u>	<u>Principal Due in 2016</u>	<u>Interest Due in 2016</u>
General Obligation Bonds										
G.O. Refunding Note 2011A	3.05%	12/15/11	02/01/19	\$ 290,000	\$ 210,000	\$	\$ 40,000	\$ 170,000	\$ 40,000	\$ 4,576
G.O. Refunding Note 2011A	3.05%	12/15/11	02/01/27	630,000	<u>565,000</u>		<u>35,000</u>	<u>530,000</u>	<u>40,000</u>	<u>15,554</u>
Total					<u>775,000</u>		<u>75,000</u>	<u>700,000</u>	<u>80,000</u>	<u>20,130</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Bonds	1.09%	07/22/04	08/20/23	2,380,000	1,191,000		127,000	1,064,000	128,000	11,596
G.O. Water Revenue Bonds	1.09%	12/08/05	08/20/23	264,245	144,000		15,000	129,000	15,000	1,406
G.O. Water and Sewer Refunding 2009A	3.0 - 4.35%	04/01/09	12/01/25	1,995,000	1,280,000		125,000	1,155,000	110,000	44,708
G.O. Utility Revenue Bond	.8 - 3.0%	08/08/12	02/01/28	535,000	505,000		30,000	475,000	35,000	9,840
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		22,120
G.O. Water Revenue Bonds	1.3 - 3.5%	01/16/15	02/01/35	750,000		750,000		750,000	25,000	20,778
G.O. Utility Revenue Bond	2.30%	11/17/15	02/01/23	108,000		108,000		108,000		1,753
Total					<u>3,120,000</u>	<u>1,958,000</u>	<u>297,000</u>	<u>4,781,000</u>	<u>313,000</u>	<u>112,201</u>
TOTALS					<u>\$ 3,895,000</u>	<u>\$ 1,958,000</u>	<u>\$ 372,000</u>	<u>\$ 5,481,000</u>	<u>\$ 393,000</u>	<u>\$ 132,331</u>



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, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2016. 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 cursive script that reads "Brady Martz".

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

March 23, 2016



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, 2015, 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 March 23, 2016. 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 and responses as items 2015-001 and 2015-002, 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 responses. 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**

March 23, 2016

CITY OF ADA
SCHEDULE OF FINDINGS AND RESPONSES
AS OF DECEMBER 31, 2015

2015-001 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, 2015, 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.

Corrective Action Plan Prepared by the City

Correcting Plan: Management recognizes the significant deficiency and believes it is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Explanation of Disagreement: There is essentially no disagreement with the finding.

Official Responsible: The city council is responsible for carrying out the corrective action plan.

Completion Date: The City will review on an annual basis.

Monitor Plan: The city council will monitor completion of the corrective action plan.

CITY OF ADA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
AS OF DECEMBER 31, 2015

2015-002 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.

Corrective Action Plan Prepared by the City

Correcting Plan: The City has the following procedures to mitigate the risk:

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

Explanation of

Disagreement: There is essentially no disagreement with the finding.

Official Responsible: The city council is responsible for carrying out the corrective action plan.

Completion Date: The City will review on an annual basis.

Monitor Plan: The city council will monitor completion of the corrective action plan.