

**CITY OF ADA
ADA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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CITY OF ADA
CITY OFFICIALS
AT DECEMBER 31, 2021

Mayor	John Hintz
Vice Mayor	Josh Mathsen
Council Member	Scott Erickson
Council Member	Casey Krieger
Council Member	Kim Lewis
Council Member	Michael Nelson
Council Member	Crystal Stene
Council Member	Shawn Roux
City Administrator, Clerk & Treasurer	Ashley Larson
Liquor Dispensary Manager	Gerrie Aasland
Electric & Water / Sewer Supervisor	Brian Rasmusson

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements – regulatory basis of each major fund and the aggregate remaining fund information of the City of Ada, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information for the City of Ada, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended on the basis of accounting described in Note 1.

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" section of our audit, the accompanying financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Ada, as of December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Ada, and to meet out other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

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 by the City of Ada on the basis of the financial reporting provisions of the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet 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 and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the regulatory basis of accounting. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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. Such information

is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the City Officials and Other Information as noted in the table of contents but does not include the basic financial statements and our auditor's report thereon.

Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, 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 solely 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 effectiveness of the City's 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**

June 30, 2022

CITY OF ADA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General	Long Term Asset Fund 2	2008 Lease Purchase	Long-Term Designation	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 720,954	\$ 908,224	\$ 41,132	\$ 120,187	\$ 566,705	\$ 2,357,202
Accounts Receivable	9,398					9,398
Notes Receivable					202,700	202,700
Taxes Receivable - Delinquent	37,000					37,000
Special Assessments - Delinquent	2,700			101,600		104,300
Special Assessments - Noncurrent	16,000					16,000
Prepaid Items	4,268					4,268
Due From Other Funds				128,503		128,503
TOTAL ASSETS	\$ 790,320	\$ 908,224	\$ 41,132	\$ 350,290	\$ 769,405	\$ 2,859,371
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 17,402	\$ 58	\$	\$	\$	\$ 17,460
Due to Other Funds					128,503	128,503
Total Liabilities	17,402	58			128,503	145,963
Deferred Inflows of Resources						
Unavailable Revenues						
Notes Receivable					202,700	202,700
Delinquent Taxes	37,000					37,000
Special Assessments	18,700			101,600		120,300
Total Deferred Inflows of Resources	55,700			101,600	202,700	360,000
Fund Balances						
Nonspendable Prepaid	4,268					4,268
Restricted for Development					61,872	61,872
Restricted for Community Center					101,174	101,174
Restricted for Debt Service			41,132			41,132
Committed for Capital Outlay(from Hospital)		908,166				908,166
Committed for Development					379,505	379,505
Committed for Library					8,734	8,734
Committed for Public Works					15,420	15,420
Committed for Capital Outlay				248,690		248,690
Unassigned	712,950				(128,503)	584,447
Total Fund Balances	717,218	908,166	41,132	248,690	438,202	2,353,408
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 790,320	\$ 908,224	\$ 41,132	\$ 350,290	\$ 769,405	\$ 2,859,371

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, 2021

	General	Long Term Asset Fund 2	2008 Lease Purchase	Long-Term Designation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 372,072	\$	\$	\$ 54,440	\$ 103,660	\$ 530,172
Special Assessments	6,948			8,146		15,094
Licenses and Permits	7,588					7,588
Intergovernmental	846,321				10,001	856,322
Charges for Services	375,306					375,306
Fines and Forfeits	7,392					7,392
Investment Earnings	4,941	1,534		1,080	325	7,880
Miscellaneous	88,727				52,199	140,926
Total Revenues	1,709,295	1,534		63,666	166,185	1,940,680
EXPENDITURES						
Current						
General Government	272,265	14,521				286,786
Public Safety	565,366					565,366
Public Works	582,688					582,688
Culture and Recreation	336,465				38,327	374,792
Economic Development	31,860					31,860
Community Development					195,096	195,096
Miscellaneous	22,985					22,985
Debt Service						
Principal			48,000			48,000
Interest and Other Charges			3,364			3,364
Capital Outlay						
Public Safety	82,894					82,894
Public Works	22,954			27,565	18,343	68,862
Culture and Recreation	24,835				44,000	68,835
Total Expenditures	1,942,312	14,521	51,364	27,565	295,766	2,331,528
Revenues Over (Under) Expenditures	(233,017)	(12,987)	(51,364)	36,101	(129,581)	(390,848)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	29,501					29,501
Transfers In	426,000		39,000		12,000	477,000
Transfers Out	(12,000)					(12,000)
Total Other Financing Sources (Uses)	443,501		39,000		12,000	494,501
Net Change in Fund Balances	210,484	(12,987)	(12,364)	36,101	(117,581)	103,653
Fund Balances - Beginning	506,734	921,153	53,496	212,589	555,783	2,249,755
Fund Balances - Ending	\$ 717,218	\$ 908,166	\$ 41,132	\$ 248,690	\$ 438,202	\$ 2,353,408

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2021

	Water and Sewer	Light	Liquor	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 290,614	\$ 622,980	\$ 2,441	\$ 916,035
Accounts Receivable - Net	81,029	299,188		380,217
Special Assessments Receivable	136,400			136,400
Inventories	9,330	36,174	56,863	102,367
Total Current Assets	517,373	958,342	59,304	1,535,019
Capital Assets				
Land	4,000		1,267	5,267
Construction in Process				
Buildings	573,622		222,435	796,057
Equipment and Fixtures		82,961	127,451	210,412
Distribution Systems	9,715,067	1,618,341		11,333,408
Less: Accumulated Depreciation	(4,158,799)	(1,473,187)	(203,260)	(5,835,246)
Net Capital Assets	6,133,890	228,115	147,893	6,509,898
Total Assets	6,651,263	1,186,457	207,197	8,044,917
DEFERRED OUTFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	56,566	25,141	47,139	128,846
Total Deferred Outflows of Resources	56,566	25,141	47,139	128,846
LIABILITIES				
Current Liabilities				
Accounts Payable	4,088	7,371	5,689	17,148
Accrued Interest	14,820			14,820
Salaries Payable	3,636	1,127	1,804	6,567
Customer Deposits		52,783		52,783
Current Portion - Long-Term Debt	481,509			481,509
Total Current Liabilities	504,053	61,281	7,493	572,827
Long-Term Liabilities				
Bonds Payable, Net of Premium	3,693,558			3,693,558
Net Pension Liability	73,025	32,455	60,854	166,334
Compensated Absences	29,961	15,716	15,675	61,352
Less: Current Portion - Long-Term Debt	(481,509)			(481,509)
Total Long-Term Liabilities	3,315,035	48,171	76,529	3,439,735
Total Liabilities	3,819,088	109,452	84,022	4,012,562
DEFERRED INFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	67,482	29,992	56,235	153,709
Total Deferred Inflows of Resources	67,482	29,992	56,235	153,709
NET POSITION				
Net Investment in Capital Assets	2,440,332	228,115	147,893	2,816,340
Unrestricted	380,927	844,039	(33,814)	1,191,152
Total Net Position	\$ 2,821,259	\$ 1,072,154	\$ 114,079	\$ 4,007,492

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, 2021

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
OPERATING REVENUES				
Sales	\$	\$	\$ 595,786	\$ 595,786
Cost of Goods Sold			<u>439,593</u>	<u>439,593</u>
Gross Profit			156,193	156,193
Charges for Sales and Services	745,942	1,890,764		2,636,706
Other Receipts	<u>50,237</u>	<u>34,528</u>	<u>4,988</u>	<u>89,753</u>
Total Operating Revenues	<u>796,179</u>	<u>1,925,292</u>	<u>161,181</u>	<u>2,882,652</u>
OPERATING EXPENSES				
Other Operating Expenses	292,978	1,235,877	159,448	1,688,303
Depreciation	<u>253,723</u>	<u>15,424</u>	<u>15,672</u>	<u>284,819</u>
Total Operating Expenses	<u>546,701</u>	<u>1,251,301</u>	<u>175,120</u>	<u>1,973,122</u>
Operating Income (Loss)	<u>249,478</u>	<u>673,991</u>	<u>(13,939)</u>	<u>909,530</u>
NONOPERATING INCOME (EXPENSE)				
Intergovernmental Revenue			7,500	7,500
Interest Expense	<u>(53,823)</u>			<u>(53,823)</u>
Total Nonoperating Income (Expense)	<u>(53,823)</u>		<u>7,500</u>	<u>(46,323)</u>
Net Income (Loss) Before Transfers	195,655	673,991	(6,439)	863,207
Transfers Out		<u>(465,000)</u>		<u>(465,000)</u>
Change in Net Position	195,655	208,991	(6,439)	398,207
Net Position, Beginning of Year	<u>2,625,604</u>	<u>863,163</u>	<u>120,518</u>	<u>3,609,285</u>
Net Position, End of Year	<u>\$ 2,821,259</u>	<u>\$ 1,072,154</u>	<u>\$ 114,079</u>	<u>\$ 4,007,492</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Water and Sewer	Light	Liquor	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 801,658	\$ 1,971,742	\$ 600,774	\$ 3,374,174
Payments to Suppliers	(115,744)	(1,163,017)	(485,323)	(1,764,084)
Payments to Employees	(182,066)	(78,232)	(123,396)	(383,694)
Net Cash Provided (Used) By Operating Activities	<u>503,848</u>	<u>730,493</u>	<u>(7,945)</u>	<u>1,226,396</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental Revenue			7,500	7,500
Transfers to Other Funds		(465,000)		(465,000)
Net Cash Provided (Used) By Noncapital Financing Activities		<u>(465,000)</u>	<u>7,500</u>	<u>(457,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessment Revenue Received	22,600			22,600
Payment on Construction Accounts Payable	(173,709)			(173,709)
Purchase of Capital Assets	(95,901)			(95,901)
Bonds Issued	246,441			246,441
Principal Paid on Bonds	(398,733)			(398,733)
Interest Paid	(56,393)			(56,393)
Net Cash Used By Capital And Related Financing Activities	<u>(455,695)</u>			<u>(455,695)</u>
Increase (Decrease) in Cash and Cash Equivalents	48,153	265,493	(445)	313,201
Cash and Cash Equivalents - Beginning of Year	<u>242,461</u>	<u>357,487</u>	<u>2,886</u>	<u>602,834</u>
Cash and Cash Equivalents - End of Year	<u>\$ 290,614</u>	<u>\$ 622,980</u>	<u>\$ 2,441</u>	<u>\$ 916,035</u>

See Notes to the Financial Statements

CITY OF ADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Water and Sewer</u>	<u>Light</u>	<u>Liquor</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 249,478	\$ 673,991	\$ (13,939)	\$ 909,530
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	253,723	15,424	15,672	284,819
Effects on Operating Cash Flows due to Changes in:				
Accounts Receivable	5,479	17,884		23,363
Inventories	111	(5,050)	(5,810)	(10,749)
Deferred Outflows	(44,532)	(19,792)	(37,110)	(101,434)
Accounts Payable	(5,742)	(450)	(419)	(6,611)
Salaries Payable	(9,791)	(5,891)	(7,832)	(23,514)
Customer Deposits		28,566		28,566
Net Pension Liability	(24,102)	(10,712)	(20,085)	(54,899)
Compensated Absences	16,168	8,498	9,032	33,698
Deferred Inflows	<u>63,056</u>	<u>28,025</u>	<u>52,546</u>	<u>143,627</u>
Total Adjustments	<u>254,370</u>	<u>56,502</u>	<u>5,994</u>	<u>316,866</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 503,848</u>	<u>\$ 730,493</u>	<u>\$ (7,945)</u>	<u>\$ 1,226,396</u>

See Notes to the Financial Statements

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Fund Financial Statements

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

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

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

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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.

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:

Long Term Asset Fund 2 - Accounts for the capital outlay activity from the hospital.

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.

Debt Service Fund – Accounts for the financial resources accumulated that are restricted principal and interest debt payments. The City's major debt service fund is as follows:

2008 Lease Purchase – Accounts for the debt relating to the Emergency Service Building.

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 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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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

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

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

Accounts Receivable – Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable in the electric fund at December 31, 2021, 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.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expenditure at the time of consumption.

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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 acquisition value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

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

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

Long-term Obligations – In the proprietary fund types, long-term obligations are reported as liabilities in the applicable proprietary fund. Bond premiums and discounts are deferred and amortized over the life of the 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, 2021, 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, 2021, 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

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

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

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. 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

E. Use of Estimates

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

NOTE 2 BUDGETARY DATA

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

An annual budget is adopted for the general fund. The City does not adopt a budget for the major special revenue long term asset fund 2 fund. All budgets are adopted on a basis consistent with the regulatory basis of accounting.

Administration may transfer budgeted amounts between line items. All unexpended appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Any changes in the total budget of each fund must be approved by a majority vote of the city council. No material supplemental appropriations were made during 2021.

NOTE 3 DEFICIT FUND BALANCE

Deficit fund balance of individual funds at December 31, 2021, are as follows:

Events Center	\$93,740
2015 Revolving Loan	31,358
Tax Abatement District	3,405

The deficit is expected to be eliminated through future revenue.

NOTE 4 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, 2021, 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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

- 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, 2021, the City was not exposed to custodial credit risk.

NOTE 5 NOTES RECEIVABLE

The City has various notes receivable from organizations at December 31, 2021, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2021-2024	1%	\$ 8,700
2015 Revolving Loan	2022 - 2027	1%	194,000
Total			<u>\$ 202,700</u>

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 6 CAPITAL ASSETS – PROPRIETARY FUNDS

Capital asset activity for the year ended December 31, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 5,267	\$	\$	\$ 5,267
Construction in Process	<u>1,812,623</u>	<u> </u>	<u>(1,812,623)</u>	<u> </u>
Total capital assets, not being depreciated	<u>1,817,890</u>	<u> </u>	<u>(1,812,623)</u>	<u>5,267</u>
Capital assets, being depreciated:				
Buildings	796,057			796,057
Equipment and fixtures	210,412			210,412
Distribution systems	9,424,884	95,901	1,812,623	11,333,408
Total capital assets, being depreciated	<u>10,431,353</u>	<u>95,901</u>	<u>1,812,623</u>	<u>12,339,877</u>
Less accumulated depreciation for:				
Buildings	404,792	20,762		425,554
Equipment and fixtures	154,078	10,531		164,609
Distribution systems	4,991,557	253,526		5,245,083
Total accumulated depreciation	<u>5,550,427</u>	<u>284,819</u>	<u> </u>	<u>5,835,246</u>
Total capital assets, being depreciated, net	<u>4,880,926</u>	<u>(188,918)</u>	<u>1,812,623</u>	<u>6,504,631</u>
Proprietary funds capital assets, net	<u>\$ 6,698,816</u>	<u>\$ (188,918)</u>	<u>\$</u>	<u>\$ 6,509,898</u>

Depreciation expense was charged to functions as follows:

Proprietary funds:	
Water and Sewer	\$ 253,723
Light	15,424
Liquor	<u>15,672</u>
Total depreciation expense - proprietary funds	<u>\$ 284,819</u>

NOTE 7 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. The regulatory basis of accounting allows the City to report deferred inflows and outflows of resources for the proprietary funds but not at the governmental fund level. The net pension liability is an all-inclusive calculation for governmental and proprietary funds; however, because the City reports on the regulatory basis of accounting, it is only required to include net pension liability for the proprietary funds.

Plan Description – The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief associations 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. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

months as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of June 30 before the effective date of the increase will receive a reduced prorated increase.

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2021 were \$51,258. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Police and Fire members were required to contribute 11.8 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.7 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$40,512. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2021, the City reported a liability of \$405,693 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$12,402.

The net pension liability was measured as of June 30, 2021, 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 proportionate share 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0095% at the end of the measurement period and 0.0090% for the beginning of the period.

City's proportionate share of the net pension liability	\$	405,693
State of Minnesota's proportionate share of the net pension liability associated with the City		12,402
Total	\$	418,095

For the year ended December 31, 2021, the City recognized pension expense of \$21,153 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,001 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,230	\$ 12,341
Difference between projected and actual investment earnings		352,656
Changes in actuarial assumptions	247,707	8,351
Changes in proportion	38,734	1,555
Contributions paid to PERA subsequent to the measurement date	25,589	
Total	<u>\$ 314,260</u>	<u>\$ 374,903</u>

\$25,589 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, 2022. 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
2022	\$ (2,978)
2023	8,858
2024	3,718
2025	(95,830)

At December 31, 2021 the City reported a liability of \$145,116 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021 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 proportionate share 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, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0188% at the end of the measurement period and 0.0194% for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million in direct state aid was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized pension expense of \$5,559 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized pension expense of \$1,191 as grant

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$6,452 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,324	\$
Difference between projected and actual investment earnings		276,632
Changes in actuarial assumptions	213,283	81,089
Changes in proportion	22,008	36,898
Contributions paid to PERA subsequent to the measurement date	20,256	
Total	\$ 283,871	\$ 394,619

\$20,256 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, 2022. 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
2022	\$ (98,958)
2023	(18,083)
2024	(21,512)
2025	(37,480)
2026	45,029

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Stocks	16.50%	5.30%

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The total pension expense for all plans recognized by the City for the year ended December 31, 2021 was \$26,712.

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Discount Rate – The discount rate used to measure the total pension liability in 2021 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 one percentage point lower or one percentage point higher than the current discount rate:

		City Proportionate Share of NPL		
		1% Decrease	Current	1% Increase
General Employees Fund	\$	827,406	\$	405,693
Police and Fire Fund		460,719		145,116
				59,651
				(113,600)

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

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 8 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. The original amount of general obligation bonds issued in prior years was \$638,000.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Funds - Refunding	3.05%	\$ 293,000
Proprietary Funds	2.5%	187,000
		<u>\$ 480,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 48,000	\$ 4,036	\$ 29,000	\$ 5,038
2023	47,000	3,323	30,000	4,313
2024	47,000	2,618	31,000	3,575
2025	51,000	1,883	31,000	2,813
2026	50,000	1,125	33,000	2,038
2027-2028	50,000	375	33,000	1,650
	<u>\$ 293,000</u>	<u>\$ 13,360</u>	<u>\$ 187,000</u>	<u>\$ 19,425</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 \$6,526,780. The City issued revenue bonds of \$246,441 in fiscal year ending December 31, 2021 in the proprietary funds to finance various projects. Net operating revenues in the water and sewer fund (excluding depreciation and interest) was \$503,201 and the debt service on the bonds was \$455,127.

Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Proprietary Funds	1.0 - 3.5%	\$ 3,020,243
Proprietary Funds - Refunding	2.0 - 2.1%	470,000
		<u>\$ 3,490,243</u>

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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

Year Ending December 31	Proprietary Funds	
	Principal	Interest
2022	\$ 449,939	\$ 54,172
2023	452,000	47,602
2024	286,000	40,883
2025	291,000	35,908
2026	172,000	30,773
2027-2031	781,000	113,859
2032-2036	706,000	50,724
2037-2040	352,304	10,940
	<u>\$ 3,490,243</u>	<u>\$ 384,861</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	\$ 341,000	\$	\$ 48,000	\$ 293,000	\$ 48,000
Total Governmental Fund	<u>\$ 341,000</u>	<u>\$</u>	<u>\$ 48,000</u>	<u>\$ 293,000</u>	<u>\$ 48,000</u>
Proprietary Fund					
General Obligation Bonds	\$ 216,000	\$	\$ 29,000	\$ 187,000	\$ 29,000
General Obligation Revenue Bonds	3,613,535	246,441	369,733	3,490,243	449,939
Bond Premium	18,885		2,570	16,315	2,570
Compensated Absences	27,654	33,698		61,352	
Total Proprietary Fund	<u>\$ 3,876,074</u>	<u>\$ 280,139</u>	<u>\$ 401,303</u>	<u>\$ 3,754,910</u>	<u>\$ 481,509</u>

The City's interest expense for the year ended December 31, 2021, was \$59,756.

The compensated absences are generally liquidated by the proprietary funds.

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 9 CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued a Multifamily Housing Development Revenue Note Series 2012A to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. The Note is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Note is not reported as a liability in the accompanying financial statements. The original issue amount totaled \$2,850,000.

As of December 31, 2021, the principal amount payable of the Series 2012A was \$2,303,549.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2021, is as follows:

Due to other funds:

Receivable Fund	Payable Fund	Amount
Long-Term Designation	Nonmajor Special Revenue Funds	\$ 128,503
Total		\$ 128,503

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

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Light	\$ 426,000
2008 Lease Purchase	Light	39,000
Nonmajor Governmental	General	12,000
Total		\$ 477,000

The purpose of the transfers is to finance various programs and to cover the City's portion of debt service.

NOTE 11 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 12 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.

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

NOTE 13 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in

CITY OF ADA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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, 2021

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUES			
Property Tax	\$ 376,957	\$ 372,072	\$ (4,885)
Special Assessments	6,500	6,948	448
Licenses and Permits	9,900	7,588	(2,312)
Intergovernmental			
Federal		77,904	77,904
State			
Local Government Aid	676,600	676,697	97
PERA Aid	3,000	36,964	33,964
Fire Aid	30,000	27,178	(2,822)
Police Aid	25,000	27,578	2,578
Other State Aid			
Total Intergovernmental	<u>734,600</u>	<u>846,321</u>	<u>111,721</u>
Charges for Services			
Public Works	13,000		(13,000)
Parks and Recreation	112,500	102,400	(10,100)
Public Safety	38,675	73,732	35,057
Public Works - Sanitation	185,000	183,419	(1,581)
Other	16,000	15,755	(245)
Total Charges for Services	<u>365,175</u>	<u>375,306</u>	<u>10,131</u>
Fines and Forfeits	7,500	7,392	(108)
Investment Earnings	7,000	4,941	(2,059)
Miscellaneous	35,000	88,727	53,727
Total Revenues	<u>1,542,632</u>	<u>1,709,295</u>	<u>166,663</u>
OTHER FINANCING SOURCES			
Transfers In	426,000	426,000	
Sale of Capital Assets	17,000	29,501	12,501
Total Other Financing Sources	<u>443,000</u>	<u>455,501</u>	<u>12,501</u>
Total Revenue and Other Financing Sources	<u>1,985,632</u>	<u>2,164,796</u>	<u>179,164</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council	39,728	35,995	(3,733)
Clerk / Treasurer	144,669	177,893	33,224
Election	8,233		(8,233)
Assessor	7,000	6,559	(441)
Auditing	16,000	22,000	6,000
Legal	30,000	17,457	(12,543)
City Hall, General Government Buildings	12,270	12,361	91
Total General Government	<u>257,900</u>	<u>272,265</u>	<u>14,365</u>

cont.

CITY OF ADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
EXPENDITURES - Continued			
Current			
Public Safety			
Police Protection	\$ 441,750	\$ 456,049	\$ 14,299
Fire Protection	108,853	104,594	(4,259)
Civil Defense and Flood Control	8,660	4,723	(3,937)
Total Public Safety	<u>559,263</u>	<u>565,366</u>	<u>6,103</u>
Public Works			
Highway and Street Construction	316,443	364,874	48,431
Street Lighting	16,050	7,878	(8,172)
Sanitation	193,582	209,936	16,354
Total Public Works	<u>526,075</u>	<u>582,688</u>	<u>56,613</u>
Culture and Recreation			
Recreation	6,975	27,723	20,748
Community Center	242,230	231,056	(11,174)
Parks	72,305	75,523	3,218
Other	6,340	2,163	(4,177)
Total Culture and Recreation	<u>327,850</u>	<u>336,465</u>	<u>8,615</u>
Economic Development	58,759	31,860	(26,899)
Miscellaneous	18,136	22,985	4,849
Capital Outlay			
Public Safety	62,000	82,894	20,894
Public Works	38,000	22,954	(15,046)
Culture and Recreation	17,000	24,835	7,835
Total Capital Outlay	<u>117,000</u>	<u>130,683</u>	<u>13,683</u>
Total Expenditures	<u>1,864,983</u>	<u>1,942,312</u>	<u>77,329</u>
OTHER FINANCING USES			
Transfers Out	12,000	12,000	
Total Other Financing Uses	<u>12,000</u>	<u>12,000</u>	
Total Expenditures and Other Financing Uses	<u>1,876,983</u>	<u>1,954,312</u>	<u>77,329</u>
Net Change in Fund Balance	108,649	210,484	101,835
Fund Balance - Beginning	<u>506,734</u>	<u>506,734</u>	
Fund Balance - Ending	<u>\$ 615,383</u>	<u>\$ 717,218</u>	<u>\$ 101,835</u>

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 Payroll	Contributions as a Percentage of Covered Payroll
General Employees Plan	2015	\$ 41,235	\$ 41,235	\$	\$ 549,793	7.50 %
	2016	39,785	39,785		530,613	7.50
	2017	43,019	43,019		573,705	7.50
	2018	44,241	44,241		589,880	7.50
	2019	45,279	45,279		603,715	7.50
	2020	50,484	50,484		673,121	7.50
	2021	51,258	51,258		683,443	7.50
Police and Fire Plan	2015	\$ 29,233	\$ 29,233	\$	\$ 180,448	16.20 %
	2016	30,174	30,174		186,256	16.20
	2017	33,321	33,321		205,685	16.20
	2018	36,554	36,554		225,642	16.20
	2019	38,477	38,477		227,005	16.95
	2020	39,896	39,896		225,401	17.70
	2021	40,512	40,512		228,825	17.70

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

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

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Plan	2015	0.0097 %	\$ 502,704	\$	\$ 502,704	\$ 570,680	88.09 %	78.19 %
	2016	0.0087	706,397	9,212	715,609	540,203	130.77	68.90
	2017	0.0085	542,635	6,835	549,470	552,159	98.28	75.90
	2018	0.0086	477,093	15,687	492,780	581,793	82.00	79.53
	2019	0.0085	469,946	14,666	484,612	596,798	78.74	80.23
	2020	0.0090	539,591	16,679	556,270	638,418	84.52	79.06
	2021	0.0095	405,693	12,402	418,095	678,282	59.81	87.00
Police and Fire Plan	2015	0.0200 %	\$ 227,247	\$	\$ 227,247	\$ 175,228	129.69 %	86.61 %
	2016	0.0190	762,503		762,503	183,352	415.87	63.90
	2017	0.0190	256,523		256,523	195,971	130.90	85.40
	2018	0.0201	214,245		214,245	215,664	99.34	88.84
	2019	0.0219	233,148		233,148	226,324	103.02	89.26
	2020	0.0194	255,713	6,037	261,750	226,203	113.05	87.19
	2021	0.0188	145,116	6,542	151,658	227,113	63.90	93.66

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 – SPECIAL REVENUE FUNDS
DECEMBER 31, 2021

	Nonmajor Funds						
	Library	Public Works	Recreation Development	Tax Abatement District	EDA Revolving Loan	A.R.P. Revolving Loan	2015 Revolving Loan
ASSETS							
Cash and Cash Equivalents	\$ 8,734	\$ 15,420	\$ 61,872	\$	\$ 19,753	\$ 44,728	\$
Notes Receivable					8,700		194,000
TOTAL ASSETS	\$ 8,734	\$ 15,420	\$ 61,872	\$	\$ 28,453	\$ 44,728	\$ 194,000
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts Payable	\$	\$	\$	\$	\$	\$	\$
Due to Other Funds				3,405			31,358
Total Liabilities				3,405			31,358
Deferred Inflows of Resources							
Unavailable Revenues							
Notes Receivable					8,700		194,000
Total Deferred Inflows of Resources					8,700		194,000
Fund Balances							
Restricted for Development			61,872				
Restricted for Community Center							
Committed for Capital Outlay (from Hospital)							
Committed for Development					19,753	44,728	
Committed for Library	8,734						
Committed for Public Works		15,420					
Unassigned				(3,405)			(31,358)
Total Fund Balances	8,734	15,420	61,872	(3,405)	19,753	44,728	(31,358)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,734	\$ 15,420	\$ 61,872	\$	\$ 28,453	\$ 44,728	\$ 194,000

CITY OF ADA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS - CONTINUED
DECEMBER 31, 2021

	Nonmajor Funds					Community Center Maintenance	Total Nonmajor Special Revenue	Major Fund Long Term Asset Fund 2	Total Special Revenue
	T.I.F. 2-2 Housing	T.I.F. 2-3 Housing	T.I.F. 2-4 Housing	Retail DAC	Event Center				
ASSETS									
Cash and Cash Equivalents	\$ 246,479	\$ 8,410	\$ 39,833	\$ 20,302	\$	\$ 101,174	\$ 566,705	\$ 908,224	\$ 1,474,929
Notes Receivable							202,700		202,700
TOTAL ASSETS	\$ 246,479	\$ 8,410	\$ 39,833	\$ 20,302	\$	\$ 101,174	\$ 769,405	\$ 908,224	\$ 1,677,629
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities									
Accounts Payable	\$	\$	\$	\$	\$	\$	\$	\$ 58	\$ 58
Due to Other Funds					93,740		128,503		128,503
Total Liabilities					93,740		128,503	58	128,561
Deferred Inflows of Resources									
Unavailable Revenues									
Notes Receivable							202,700		202,700
Total Deferred Inflows of Resources							202,700		202,700
Fund Balances									
Restricted for Development							61,872		61,872
Restricted for Community Center						101,174	101,174		101,174
Committed for Capital Outlay (from Hospital)								908,166	908,166
Committed for Development	246,479	8,410	39,833	20,302			379,505		379,505
Committed for Library							8,734		8,734
Committed for Public Works							15,420		15,420
Unassigned					(93,740)		(128,503)		(128,503)
Total Fund Balances	246,479	8,410	39,833	20,302	(93,740)	101,174	438,202	908,166	1,346,368
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 246,479	\$ 8,410	\$ 39,833	\$ 20,302	\$	\$ 101,174	\$ 769,405	\$ 908,224	\$ 1,677,629

CITY OF ADA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Nonmajor Funds						
	Library	Public Works	Recreation Development	Tax Abatement District	EDA Revolving Loan	A.R.P. Revolving Loan	2015 Revolving Loan
REVENUES							
Property Taxes	\$ 13,431	\$ 7,505					
Intergovernmental							10,001
Investment Earnings	199						
Miscellaneous							
Loan Repayments					3,568		39,381
Other							
Total Revenues	<u>13,630</u>	<u>7,505</u>			<u>3,568</u>		<u>49,382</u>
EXPENDITURES							
Current							
General Government							
Culture and Recreation	12,434						
Community Development				3,405	2,500		121,000
Capital Outlay							
Public Works		18,343					
Culture and Recreation							
Total Expenditures	<u>12,434</u>	<u>18,343</u>		<u>3,405</u>	<u>2,500</u>		<u>121,000</u>
Revenues Over (Under)							
Expenditures	<u>1,196</u>	<u>(10,838)</u>		<u>(3,405)</u>	<u>1,068</u>		<u>(71,618)</u>
OTHER FINANCING SOURCES							
Transfers In		12,000					
Total Other Financing Sources		<u>12,000</u>					
Net Change in Fund Balances	1,196	1,162		(3,405)	1,068		(71,618)
Fund Balances - Beginning	<u>7,538</u>	<u>14,258</u>	<u>61,872</u>		<u>18,685</u>	<u>44,728</u>	<u>40,260</u>
Fund Balances - Ending	<u>\$ 8,734</u>	<u>\$ 15,420</u>	<u>\$ 61,872</u>	<u>\$ (3,405)</u>	<u>\$ 19,753</u>	<u>\$ 44,728</u>	<u>\$ (31,358)</u>

cont.

CITY OF ADA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS -
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	Nonmajor Funds					Community Center Maintenance	Total Nonmajor Special Revenue	Major Fund Long Term Asset Fund 2	Total Special Revenue
	T.I.F. 2-2 Housing	T.I.F. 2-3 Housing	T.I.F. 2-4 Housing	Retail DAC	Event Center				
REVENUES									
Property Taxes	\$ 60,256	\$ 14,625	\$ 7,843	\$	\$	\$	\$ 103,660	\$	\$ 103,660
Intergovernmental							10,001		10,001
Investment Earnings						126	325	1,534	1,859
Miscellaneous									
Loan Repayments							42,949		42,949
Other					9,250		9,250		9,250
Total Revenues	<u>60,256</u>	<u>14,625</u>	<u>7,843</u>		<u>9,250</u>	<u>126</u>	<u>166,185</u>	<u>1,534</u>	<u>167,719</u>
EXPENDITURES									
Current									
General Government								14,521	14,521
Culture and Recreation						25,893	38,327		38,327
Community Development	4,897	52,840	165		10,289		195,096		195,096
Capital Outlay									
Public Works							18,343		18,343
Culture and Recreation						44,000	44,000		44,000
Total Expenditures	<u>4,897</u>	<u>52,840</u>	<u>165</u>		<u>10,289</u>	<u>69,893</u>	<u>295,766</u>	<u>14,521</u>	<u>310,287</u>
Revenues Over (Under) Expenditures	<u>55,359</u>	<u>(38,215)</u>	<u>7,678</u>		<u>(1,039)</u>	<u>(69,767)</u>	<u>(129,581)</u>	<u>(12,987)</u>	<u>(142,568)</u>
OTHER FINANCING SOURCES									
Transfers In							12,000		12,000
Total Other Financing Sources							<u>12,000</u>		<u>12,000</u>
Net Change in Fund Balances	55,359	(38,215)	7,678		(1,039)	(69,767)	(117,581)	(12,987)	(130,568)
Fund Balances - Beginning	<u>191,120</u>	<u>46,625</u>	<u>32,155</u>	<u>20,302</u>	<u>(92,701)</u>	<u>170,941</u>	<u>555,783</u>	<u>921,153</u>	<u>1,476,936</u>
Fund Balances - Ending	<u>\$ 246,479</u>	<u>\$ 8,410</u>	<u>\$ 39,833</u>	<u>\$ 20,302</u>	<u>\$ (93,740)</u>	<u>\$ 101,174</u>	<u>\$ 438,202</u>	<u>\$ 908,166</u>	<u>\$ 1,346,368</u>

CITY OF ADA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance Beginning of Year	Revenues	Expenditures	Reclassify	Sale of Capital Asset	Transfers In	Transfers Out	Balance End of Year
Governmental Funds								
General								
Nonspendable - Prepaid	\$ 24,283			\$ (20,015)				\$ 4,268
Unassigned	482,451	1,709,295	1,942,312	20,015	29,501	426,000	12,000	712,950
Special Revenue								
Library	7,538	13,630	12,434					8,734
Events Center	(92,701)	9,250	10,289					(93,740)
Public Works	14,258	7,505	18,343			12,000		15,420
Recreation Development	61,872							61,872
Tax Abatement District			3,405					(3,405)
EDA Revolving Loan	18,685	3,568	2,500					19,753
A.R.P. Revolving Loan	44,728							44,728
2015 Revolving Loan	40,260	49,382	121,000					(31,358)
Community Center Maintenance	170,941	126	69,893					101,174
T.I.F. 2-2 Housing	191,120	60,256	4,897					246,479
T.I.F. 2-3 Housing	46,625	14,625	52,840					8,410
T.I.F. 2-4 Housing	32,155	7,843	165					39,833
Retail DAC	20,302							20,302
Long Term Asset Fund 2	921,153	1,534	14,521					908,166
Debt Service								
2008 Lease Purchase	53,496		51,364			39,000		41,132
Capital Projects								
Long-Term Designation	212,589	63,666	27,565					248,690
Proprietary Funds								
Water and Sewer	2,625,604	796,179	600,524					2,821,259
Light	863,163	1,925,292	1,251,301				465,000	1,072,154
Liquor	120,518	608,274	614,713					114,079

CITY OF ADA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 01-01-2021	Issued 2021	Retired 2021	Balance 12-31-2021	Principal Due in 2022	Interest Due in 2022
General Obligation Bonds										
G.O. Refunding Note 2020A	1.50%	11/09/20	02/01/27	\$ 341,000	\$ 341,000	\$	\$ 48,000	\$ 293,000	\$ 48,000	\$ 4,036
G.O. Improvement Bond	2.50%	11/1/16	02/01/27	297,000	216,000		29,000	187,000	29,000	5,038
Total					<u>557,000</u>	<u></u>	<u>77,000</u>	<u>480,000</u>	<u>77,000</u>	<u>9,074</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Bonds	1.09%	07/22/04	08/20/23	2,380,000	410,000		135,000	275,000	137,000	2,996
G.O. Water Revenue Bonds	1.09%	12/08/05	08/20/23	264,245	50,000		16,000	34,000	16,000	575
G.O. Water and Sewer Refunding 2015B	2.0 - 2.1%	06/01/15	12/01/25	1,100,000	580,000		110,000	470,000	115,000	9,520
G.O. Water Revenue Bonds	1.3 - 3.5%	01/16/15	02/01/35	750,000	600,000		35,000	565,000	35,000	17,783
G.O. Utility Revenue Bond	2.30%	11/17/15	02/01/23	108,000	49,000		16,000	33,000	17,000	370
G.O. Utility Revenue Bond	1.50%	11/09/20	02/01/28	310,000	310,000		37,000	273,000	37,000	3,818
G.O. Water Revenue Bonds	1.00%	06/23/20	08/20/40	725,970	725,970	4,013	10,680	719,303	39,000	8,030
G.O. Sewer Revenue Bonds	1.00%	06/23/20	08/20/40	888,565	888,565	242,428	10,053	1,120,940	53,939	11,080
Total					<u>3,613,535</u>	<u>246,441</u>	<u>369,733</u>	<u>3,490,243</u>	<u>449,939</u>	<u>54,172</u>
TOTALS					<u>\$ 4,170,535</u>	<u>\$ 246,441</u>	<u>\$ 446,733</u>	<u>\$ 3,970,243</u>	<u>\$ 526,939</u>	<u>\$ 63,246</u>

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, 2021, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2022. 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

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters except for item 2021-004 in the Schedule of Findings. 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, insofar as they relate to accounting matters.

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.



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

June 30, 2022

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, 2021, and the related notes to the financial statements, which collectively comprise the City of Ada's basic financial statements and have issued our report thereon dated June 30, 2022. 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.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings as item 2021-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2021-001 and 2021-002 to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings. The City's response were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

June 30, 2022

CITY OF ADA
SCHEDULE OF FINDINGS
DECEMBER 31, 2021

2021-001 FINDING – Significant Deficiency

Criteria

An appropriate system of internal controls requires the City to prepare financial statements in compliance with 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.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. However, the City currently does not prepare financial statements, including accompanying note disclosures and material journal entries, as required by the regulatory basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate resources for the preparation of the financial statements.

Effect

There is increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

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

CITY OF ADA
SCHEDULE OF FINDINGS - CONTINUED
DECEMBER 31, 2021

2021-002 FINDING – Significant Deficiency

Criteria

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

Condition

Lack of sufficient segregation of duties.

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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

CITY OF ADA
SCHEDULE OF FINDINGS - CONTINUED
DECEMBER 31, 2021

2021-003 FINDING – Material Weakness

Criteria

A good system of internal accounting control contemplates an adequate system designed to reconcile balance sheet accounts such as cash, accounts receivable, and payroll liabilities.

Condition

The City's cash, utility accounts receivable, and payroll liabilities are not being reconciled to the general ledger on a timely basis.

Cause

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

Effect

The City's general ledger amounts for cash and payroll liabilities did not agree to the general ledger. The City's utility receivables also did not agree to the utility billing software.

Recommendation

The City should reconcile their balance sheet accounts on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review the reconciliation procedures.

2021-004 FINDING – Legal Compliance

Criteria

MN statute §345.38-.43 requires all unclaimed or uncashed checks or other intangible property held for more than three years (or one year for unpaid compensation) to be reported to the State Commissioner of Commerce.

Condition

The City has uncashed checks in excess of three years that have not been reported to the State Commissioner of Commerce.

Cause

Oversight.

Effect

The City is not in compliance with Minnesota State Statutes regarding unclaimed property.

Recommendation

We recommend the City report all uncashed checks in excess of three years old to the State Commissioner of Commerce.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will implement immediately.

CITY OF ADA
CORRECTIVE ACTION PLAN
DECEMBER 31, 2021

2021-001 FINDING

Contact Person – Ashley Larson, City Administrator, Clerk & Treasurer

Corrective Action Plan – Will establish policy to document review of financial statements and notes.

Completion Date – Ongoing

2021-002 FINDING

Contact Person – Ashley Larson, City Administrator, Clerk & Treasurer

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

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

When it becomes economically feasible, the City will hire additional personnel in the accounting department to improve segregation of duties.

Completion Date – Ongoing

2021-003 FINDING

Contact Person – Ashley Larson, City Administrator, Clerk & Treasurer

Corrective Action Plan – The City will reconcile the cash, accounts receivable accounts from the utility software, and the payroll liabilities to the general ledger monthly.

Completion Date – Immediately

2021-004 FINDING

Contact Person – Ashley Larson, City Administrator, Clerk & Treasurer

Corrective Action Plan – The City will report all uncashed checks in excess of three years old to the State Commissioner of Commerce.

Completion Date – Immediately