

**CITY OF ADA  
ADA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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**CITY OF ADA**  
**CITY OFFICIALS**  
**AT DECEMBER 31, 2022**

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, 2022, 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, 2022, 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, 2022, 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 our 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 audit opinions.

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

As described in Note 1 of the financial statements, the financial statements are prepared 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 schedule, 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 29, 2023, 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 29, 2023

**CITY OF ADA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2022**

	General	2015 Revolving Loan	Long Term Asset Fund 2	2008 Lease Purchase	Long-Term Designation	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 778,527	\$ 3,828	\$ 909,124	\$ 46,295	\$ 342,958	\$ 633,736	\$ 2,714,468
Accounts Receivable	10,625						10,625
Notes Receivable		223,000					223,000
Taxes Receivable - Delinquent	24,000						24,000
Special Assessments - Delinquent	1,500						1,500
Special Assessments - Noncurrent	11,900				92,200		104,100
Prepaid Items	21,000						21,000
Due From Other Funds					101,351		101,351
<b>TOTAL ASSETS</b>	<b>\$ 847,552</b>	<b>\$ 226,828</b>	<b>\$ 909,124</b>	<b>\$ 46,295</b>	<b>\$ 536,509</b>	<b>\$ 633,736</b>	<b>\$ 3,200,044</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts Payable	\$ 4,070					\$ 1,124	\$ 5,194
Payroll Liabilities	14,277						14,277
Due to Other Funds						101,351	101,351
<b>Total Liabilities</b>	<b>18,347</b>					<b>102,475</b>	<b>120,822</b>
<b>Deferred Inflows of Resources</b>							
Unavailable Revenues							
Notes Receivable		223,000					223,000
Delinquent Taxes	24,000						24,000
Special Assessments	13,400				92,200		105,600
<b>Total Deferred Inflows of Resources</b>	<b>37,400</b>	<b>223,000</b>			<b>92,200</b>		<b>352,600</b>
<b>Fund Balances</b>							
Nonspendable Prepaid	21,000						21,000
Restricted for Development						63,004	63,004
Restricted for Community Center						101,345	101,345
Restricted for Debt Service				46,295			46,295
Committed for Capital Outlay(from Hospital)			909,124				909,124
Committed for Development		3,828				441,483	445,311
Committed for Library						7,823	7,823
Committed for Public Works						18,957	18,957
Committed for Capital Outlay					444,309		444,309
Unassigned	770,805					(101,351)	669,454
<b>Total Fund Balances</b>	<b>791,805</b>	<b>3,828</b>	<b>909,124</b>	<b>46,295</b>	<b>444,309</b>	<b>531,261</b>	<b>2,726,622</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 847,552</b>	<b>\$ 226,828</b>	<b>\$ 909,124</b>	<b>\$ 46,295</b>	<b>\$ 536,509</b>	<b>\$ 633,736</b>	<b>\$ 3,200,044</b>

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, 2022**

	General	2015 Revolving Loan	Long Term Asset Fund 2	2008 Lease Purchase	Long-Term Designation	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property Taxes	\$ 381,646				\$ 57,133	\$ 102,439	\$ 541,218
Special Assessments	10,782				7,916		18,698
Licenses and Permits	18,600						18,600
Intergovernmental	821,259			18,200			839,459
Charges for Services	349,612						349,612
Fines and Forfeits	8,606						8,606
Investment Earnings	3,034		683		1,086	171	4,974
Miscellaneous	130,053	65,314	41,670			12,254	249,291
<b>Total Revenues</b>	<b>1,723,592</b>	<b>65,314</b>	<b>42,353</b>	<b>18,200</b>	<b>66,135</b>	<b>114,864</b>	<b>2,030,458</b>
<b>EXPENDITURES</b>							
<b>Current</b>							
General Government	271,088		41,395				312,483
Public Safety	623,402						623,402
Public Works	626,898						626,898
Culture and Recreation	382,287					15,003	397,290
Economic Development	32,387						32,387
Community Development		85,000				21,380	106,380
Miscellaneous	30,486						30,486
<b>Debt Service</b>							
Principal				48,000			48,000
Interest and Other Charges				4,037			4,037
<b>Capital Outlay</b>							
Public Safety	20,025						20,025
Public Works	15,508				20,516	16,231	52,255
Culture and Recreation	29,101						29,101
<b>Total Expenditures</b>	<b>2,031,182</b>	<b>85,000</b>	<b>41,395</b>	<b>52,037</b>	<b>20,516</b>	<b>52,614</b>	<b>2,282,744</b>
Revenues Over (Under) Expenditures	(307,590)	(19,686)	958	(33,837)	45,619	62,250	(252,286)
<b>OTHER FINANCING SOURCES (USES)</b>							
Sale of Capital Assets	10,500						10,500
Transfers In	426,000	54,872		39,000	150,000	21,323	691,195
Transfers Out	(54,323)					(21,872)	(76,195)
<b>Total Other Financing Sources (Uses)</b>	<b>382,177</b>	<b>54,872</b>		<b>39,000</b>	<b>150,000</b>	<b>(549)</b>	<b>625,500</b>
Net Change in Fund Balances	74,587	35,186	958	5,163	195,619	61,701	373,214
Fund Balances - Beginning	717,218	(31,358)	908,166	41,132	248,690	469,560	2,353,408
Fund Balances - Ending	<u>\$ 791,805</u>	<u>\$ 3,828</u>	<u>\$ 909,124</u>	<u>\$ 46,295</u>	<u>\$ 444,309</u>	<u>\$ 531,261</u>	<u>\$ 2,726,622</u>

See Notes to the Financial Statements

**CITY OF ADA**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**DECEMBER 31, 2022**

	Water and Sewer	Light	Liquor	Total
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 158,843	\$ 738,961	\$ 19,652	\$ 917,456
Accounts Receivable - Net	90,099	352,858	1,361	444,318
Special Assessments Receivable	85,000			85,000
Inventories	9,330	36,174	59,109	104,613
Total Current Assets	<u>343,272</u>	<u>1,127,993</u>	<u>80,122</u>	<u>1,551,387</u>
Capital Assets				
Land	4,000		1,267	5,267
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	<u>(4,432,403)</u>	<u>(1,488,137)</u>	<u>(216,535)</u>	<u>(6,137,075)</u>
Net Capital Assets	<u>5,860,286</u>	<u>213,165</u>	<u>134,618</u>	<u>6,208,069</u>
Total Assets	<u>6,203,558</u>	<u>1,341,158</u>	<u>214,740</u>	<u>7,759,456</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Cost Sharing Defined Benefit Pension Plan	<u>41,043</u>	<u>18,242</u>	<u>34,204</u>	<u>93,489</u>
Total Deferred Outflows of Resources	<u>41,043</u>	<u>18,242</u>	<u>34,204</u>	<u>93,489</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	4,088	7,636	6,093	17,817
Accrued Interest	14,820			14,820
Salaries Payable	2,536	3,527	2,204	8,267
Customer Deposits		29,538		29,538
Current Portion - Long-Term Debt	<u>482,000</u>			<u>482,000</u>
Total Current Liabilities	<u>503,444</u>	<u>40,701</u>	<u>8,297</u>	<u>552,442</u>
Long-Term Liabilities				
Bonds Payable, Net of Premium	3,212,048			3,212,048
Net Pension Liability	131,156	58,291	109,297	298,744
Compensated Absences	36,078	18,774	15,268	70,120
Less: Current Portion - Long-Term Debt	<u>(482,000)</u>			<u>(482,000)</u>
Total Long-Term Liabilities	<u>2,897,282</u>	<u>77,065</u>	<u>124,565</u>	<u>3,098,912</u>
Total Liabilities	<u>3,400,726</u>	<u>117,766</u>	<u>132,862</u>	<u>3,651,354</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Cost Sharing Defined Benefit Pension Plan	<u>4,213</u>	<u>1,873</u>	<u>3,511</u>	<u>9,597</u>
Total Deferred Inflows of Resources	<u>4,213</u>	<u>1,873</u>	<u>3,511</u>	<u>9,597</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	2,648,238	213,165	134,618	2,996,021
Unrestricted	<u>191,424</u>	<u>1,026,596</u>	<u>(22,047)</u>	<u>1,195,973</u>
Total Net Position	<u>\$ 2,839,662</u>	<u>\$ 1,239,761</u>	<u>\$ 112,571</u>	<u>\$ 4,191,994</u>

See Notes to the Financial Statements

**CITY OF ADA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water and Sewer	Light	Liquor	Total
<b>OPERATING REVENUES</b>				
Sales	\$	\$	\$ 622,634	\$ 622,634
Cost of Goods Sold			453,503	453,503
Gross Profit			169,131	169,131
Charges for Sales and Services	737,121	2,091,610		2,828,731
Other Receipts	9,156	17,457	1,309	27,922
Total Operating Revenues	<u>746,277</u>	<u>2,109,067</u>	<u>170,440</u>	<u>3,025,784</u>
<b>OPERATING EXPENSES</b>				
Other Operating Expenses	399,524	1,311,510	158,673	1,869,707
Depreciation	273,604	14,950	13,275	301,829
Total Operating Expenses	<u>673,128</u>	<u>1,326,460</u>	<u>171,948</u>	<u>2,171,536</u>
Operating Income (Loss)	<u>73,149</u>	<u>782,607</u>	<u>(1,508)</u>	<u>854,248</u>
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest Expense	<u>(54,746)</u>			<u>(54,746)</u>
Total Nonoperating Income (Expense)	<u>(54,746)</u>			<u>(54,746)</u>
Net Income (Loss) Before Transfers	18,403	782,607	(1,508)	799,502
Transfers Out		<u>(615,000)</u>		<u>(615,000)</u>
Change in Net Position	18,403	167,607	(1,508)	184,502
Net Position, Beginning of Year	<u>2,821,259</u>	<u>1,072,154</u>	<u>114,079</u>	<u>4,007,492</u>
Net Position, End of Year	<u>\$ 2,839,662</u>	<u>\$ 1,239,761</u>	<u>\$ 112,571</u>	<u>\$ 4,191,994</u>

See Notes to the Financial Statements

**CITY OF ADA**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water and Sewer	Light	Liquor	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 737,207	\$ 2,032,152	\$ 622,582	\$ 3,391,941
Payments to Suppliers	(201,484)	(1,226,108)	(485,649)	(1,913,241)
Payments to Employees	(182,636)	(75,063)	(119,722)	(377,421)
Net Cash Provided (Used) By Operating Activities	<u>353,087</u>	<u>730,981</u>	<u>17,211</u>	<u>1,101,279</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to Other Funds		(615,000)		(615,000)
Net Cash Provided (Used) By Noncapital Financing Activities		<u>(615,000)</u>		<u>(615,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Special Assessment Revenue Received	51,400			51,400
Principal Paid on Bonds	(478,939)			(478,939)
Interest Paid	(57,319)			(57,319)
Net Cash Used By Capital And Related Financing Activities	<u>(484,858)</u>			<u>(484,858)</u>
Increase (Decrease) in Cash and Cash Equivalents	(131,771)	115,981	17,211	1,421
Cash and Cash Equivalents - Beginning of Year	<u>290,614</u>	<u>622,980</u>	<u>2,441</u>	<u>916,035</u>
Cash and Cash Equivalents - End of Year	<u>\$ 158,843</u>	<u>\$ 738,961</u>	<u>\$ 19,652</u>	<u>\$ 917,456</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 73,149	\$ 782,607	\$ (1,508)	\$ 854,248
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	273,604	14,950	13,275	301,829
Effects on Operating Cash Flows due to Changes in:				
Accounts Receivable	(9,070)	(53,670)	(1,361)	(64,101)
Inventories			(2,246)	(2,246)
Deferred Outflows	15,523	6,899	12,935	35,357
Accounts Payable	1	265	404	670
Salaries Payable	(1,100)	2,400	400	1,700
Customer Deposits		(23,245)		(23,245)
Net Pension Liability	58,131	25,836	48,443	132,410
Compensated Absences	6,117	3,058	(407)	8,768
Deferred Inflows	(63,268)	(28,119)	(52,724)	(144,111)
Total Adjustments	<u>279,938</u>	<u>(51,626)</u>	<u>18,719</u>	<u>247,031</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 353,087</u>	<u>\$ 730,981</u>	<u>\$ 17,211</u>	<u>\$ 1,101,279</u>

See Notes to the Financial Statements

**CITY OF ADA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**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). Lease revenue is recognized as payments are received and lease expenditures are recognized when cash is paid.

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, 2022

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:

2015 Revolving Loan Fund - Accounts for the activity related to the City outstanding loans receivable.

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 Cash Equivalents – 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.

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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, 2022, 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.

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

Capital Assets – Proprietary Funds – Capital assets are recorded in the proprietary funds only. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their 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, 2022, 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, 2022, 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.



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

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

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.

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

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

**E. Use of Estimates**

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

**NOTE 2 BUDGETARY DATA**

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

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 and 2015 revolving loan 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 2022.

Expenditures exceeded budget by \$65,686 in the general fund for the year ended December 31, 2022.

**NOTE 3 DEFICIT FUND BALANCE**

Deficit fund balance of individual funds at December 31, 2022, is as follows:

Events Center	\$101,351
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The deficit is expected to be eliminated through future revenue or transfer from another fund.

**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, 2022, 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

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investments should extend beyond five (5) years and in no circumstance should any extend beyond ten (10) years.

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

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

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

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City's city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2022, the City was not exposed to custodial credit risk.

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**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 5 NOTES RECEIVABLE**

The City has various notes receivable from organizations at December 31, 2022, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
2015 Revolving Loan	2023 - 2027	1%	\$ 223,000

**NOTE 6 CAPITAL ASSETS – PROPRIETARY FUNDS**

Capital asset activity for the year ended December 31, 2022, 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				
Total capital assets, not being depreciated	5,267			5,267
Capital assets, being depreciated:				
Buildings	796,057			796,057
Equipment and fixtures	210,412			210,412
Distribution systems	11,333,408			11,333,408
Total capital assets, being depreciated	12,339,877			12,339,877
Less accumulated depreciation for:				
Buildings	425,554	20,762		446,316
Equipment and fixtures	164,609	8,134		172,743
Distribution systems	5,245,083	272,933		5,518,016
Total accumulated depreciation	5,835,246	301,829		6,137,075
Total capital assets, being depreciated, net	6,504,631	(301,829)		6,202,802
Proprietary funds capital assets, net	\$ 6,509,898	\$ (301,829)	\$	\$ 6,208,069

Depreciation expense was charged to functions as follows:

Proprietary funds:	
Water and Sewer	\$ 273,604
Light	14,950
Liquor	13,275
Total depreciation expense - proprietary funds	\$ 301,829

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**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.

*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

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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 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 2022 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, 2022 were \$51,464. 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 2022 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, 2022, were \$40,450. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2022, the City reported a liability of \$728,643 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 \$21,430.

The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0092% at the end of the measurement period and 0.0095% for the beginning of the period.



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City's proportionate share of the net pension liability	\$	728,643
State of Minnesota's proportionate share of the net pension liability associated with the City		<u>21,430</u>
Total	\$	<u><u>750,073</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$105,697 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$3,202 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, 2022, 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:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	6,087	\$	8,000
Difference between projected and actual investment earnings		2,919		
Changes in actuarial assumptions		170,121		2,899
Changes in proportion		23,168		12,510
Contributions paid to PERA subsequent to the measurement date		<u>25,732</u>		
Total	\$	<u><u>228,027</u></u>	\$	<u><u>23,409</u></u>

\$25,732 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>		<u>Pension Expense Amount</u>
2023	\$	74,272
2024		69,132
2025		(30,416)
2026		65,898

At December 31, 2022 the City reported a liability of \$783,289 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022 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, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0180% at the end of the measurement period and 0.0188% 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, 2022. 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, 2021. Thereafter, by October 1 of each year, the state will pay \$9 million to

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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.

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, 2022, the City recognized pension expense of \$150,732 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized pension expense of \$1,620 as grant 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 \$1,620 for the year ended December 31, 2022 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, 2022, 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	\$ 49,005	\$
Difference between projected and actual investment earnings	2,590	
Changes in actuarial assumptions	468,346	5,289
Changes in proportion	13,550	37,339
Contributions paid to PERA subsequent to the measurement date	20,225	
Total	\$ 553,716	\$ 42,628

\$20,225 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, 2023. 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
2023	\$ 96,813
2024	93,384
2025	77,416
2026	159,925
2027	63,325

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



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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 Equity	16.50%	5.30%

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$256,429.

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2022, 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 27 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 2022:

**General Employees Fund**

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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Changes in Plan Provisions:

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

**Police and Fire Fund**

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.5% to 5.4%.

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 2022 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 position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060 and June 30, 2061 respectively. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

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	\$ 1,150,930	\$ 728,643	\$ 382,303
Police and Fire Fund	1,185,407	783,289	458,200

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](http://www.mnpera.org).

**CITY OF ADA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2022**

**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%	\$ 245,000
Proprietary Funds	2.5%	158,000
		<u>\$ 403,000</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>
2023	\$ 47,000	\$ 3,323	\$ 30,000	\$ 3,575
2024	47,000	2,618	31,000	2,813
2025	51,000	1,883	31,000	2,038
2026	50,000	1,125	33,000	1,238
2027	50,000	375	33,000	413
	<u>\$ 245,000</u>	<u>\$ 9,324</u>	<u>\$ 158,000</u>	<u>\$ 10,077</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. Net operating revenues in the water and sewer fund (excluding depreciation and interest) was \$346,753 and the debt service on the bonds was \$504,111.

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%	\$ 2,685,303
Proprietary Funds - Refunding	2.0 - 2.1%	355,000
		<u>\$ 3,040,303</u>

**CITY OF ADA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2022**

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

Year Ending December 31	Proprietary Funds	
	Principal	Interest
2023	\$ 452,000	\$ 47,602
2024	286,000	40,883
2025	291,000	35,908
2026	172,000	30,773
2027	179,000	28,023
2028-2032	750,000	101,094
2033-2037	666,000	39,826
2038-2040	244,303	6,580
	<u>\$ 3,040,303</u>	<u>\$ 330,689</u>

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	\$ 293,000	\$	\$ 48,000	\$ 245,000	\$ 47,000
Total Governmental Fund	<u>\$ 293,000</u>	<u>\$</u>	<u>\$ 48,000</u>	<u>\$ 245,000</u>	<u>\$ 47,000</u>
Proprietary Fund					
General Obligation Bonds	\$ 187,000	\$	\$ 29,000	\$ 158,000	\$ 30,000
General Obligation Revenue Bonds	3,490,243		449,940	3,040,303	452,000
Bond Premium	16,315		2,570	13,745	2,570
Compensated Absences	61,352	8,768		70,120	
Total Proprietary Fund	<u>\$ 3,754,910</u>	<u>\$ 8,768</u>	<u>\$ 481,510</u>	<u>\$ 3,282,168</u>	<u>\$ 484,570</u>

The City's interest expense for the year ended December 31, 2022, was \$58,782.

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, 2022, the principal amount payable of the Series 2012A was \$2,303,549.

**CITY OF ADA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2022**

**NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2022, is as follows:  
 Due to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Long-Term Designation	Nonmajor Special Revenue Funds	\$ 101,351
Total		<u>\$ 101,351</u>

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

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Light	\$ 426,000
Long-Term Designation	Light	150,000
2008 Lease Purchase	Light	39,000
2015 Revolving Loan	General	54,323
2015 Revolving Loan	Nonmajor Governmental	549
Nonmajor Governmental	Nonmajor Governmental	21,323
Total		<u>\$ 691,195</u>

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 CONSTRUCTION COMMITMENT**

The City has a construction commitment in the amount of \$1,200,000 for water/sewer infrastructure improvements.

**NOTE 13 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.

**CITY OF ADA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2022

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

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

**NOTE 14 NEW PRONOUNCEMENTS**

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 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. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

**CITY OF ADA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2022

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning



**CITY OF ADA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2022**

balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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



**CITY OF ADA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
<b>REVENUES</b>			
Property Tax	\$ 400,415	\$ 381,646	\$ (18,769)
Special Assessments	13,000	10,782	(2,218)
Licenses and Permits	7,200	18,600	11,400
<b>Intergovernmental</b>			
Federal	82,696	85,404	2,708
State			
Local Government Aid	684,000	684,050	50
PERA Aid	3,000		(3,000)
Fire Aid	30,000	21,756	(8,244)
Police Aid	25,000	30,049	5,049
Other State Aid	18,000		(18,000)
Total Intergovernmental	<u>842,696</u>	<u>821,259</u>	<u>(21,437)</u>
<b>Charges for Services</b>			
Public Works	13,000		(13,000)
Parks and Recreation	93,000	111,845	18,845
Public Safety	33,675	36,108	2,433
Public Works - Sanitation	185,000	185,267	267
Other	16,000	16,392	392
Total Charges for Services	<u>340,675</u>	<u>349,612</u>	<u>8,937</u>
Fines and Forfeits	6,500	8,606	2,106
Investment Earnings	12,000	3,034	(8,966)
Miscellaneous	18,000	130,053	112,053
<b>Total Revenues</b>	<u>1,640,486</u>	<u>1,723,592</u>	<u>83,106</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers In	426,000	426,000	
Sale of Capital Assets	39,000	10,500	(28,500)
<b>Total Other Financing Sources</b>	<u>465,000</u>	<u>436,500</u>	<u>(28,500)</u>
<b>Total Revenue and Other Financing Sources</b>	<u>2,105,486</u>	<u>2,160,092</u>	<u>54,606</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
<b>General Government</b>			
Mayor and Council	38,328	38,016	(312)
Clerk / Treasurer	157,500	164,605	7,105
Election	6,010	4,922	(1,088)
Assessor	7,000	6,531	(469)
Auditing	16,000	17,500	1,500
Legal	25,000	25,951	951
City Hall, General Government Buildings	12,270	13,563	1,293
Total General Government	<u>262,108</u>	<u>271,088</u>	<u>8,980</u>

cont.

**CITY OF ADA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Original & Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
<b>EXPENDITURES - Continued</b>			
Current			
Public Safety			
Police Protection	\$ 453,500	\$ 492,083	\$ 38,583
Fire Protection	109,475	126,551	17,076
Civil Defense and Flood Control	8,660	4,768	(3,892)
Total Public Safety	<u>571,635</u>	<u>623,402</u>	<u>51,767</u>
Public Works			
Highway and Street Construction	372,000	387,797	15,797
Street Lighting	11,050	7,035	(4,015)
Sanitation	209,650	232,066	22,416
Total Public Works	<u>592,700</u>	<u>626,898</u>	<u>34,198</u>
Culture and Recreation			
Recreation	23,975	24,252	277
Community Center	250,325	259,768	9,443
Parks	104,840	96,777	(8,063)
Other	4,418	1,490	(2,928)
Total Culture and Recreation	<u>383,558</u>	<u>382,287</u>	<u>(1,271)</u>
Economic Development	57,859	32,387	(25,472)
Miscellaneous	17,636	30,486	12,850
Capital Outlay			
Public Safety	22,000	20,025	(1,975)
Public Works	37,000	15,508	(21,492)
Culture and Recreation	21,000	29,101	8,101
Total Capital Outlay	<u>80,000</u>	<u>64,634</u>	<u>(15,366)</u>
Total Expenditures	<u>1,965,496</u>	<u>2,031,182</u>	<u>65,686</u>
<b>OTHER FINANCING USES</b>			
Transfers Out	12,000	54,323	42,323
Total Other Financing Uses	<u>12,000</u>	<u>54,323</u>	<u>42,323</u>
Total Expenditures and Other Financing Uses	<u>1,977,496</u>	<u>2,085,505</u>	<u>108,009</u>
Net Change in Fund Balance	127,990	74,587	(53,403)
Fund Balance - Beginning	<u>717,218</u>	<u>717,218</u>	
Fund Balance - Ending	<u>\$ 845,208</u>	<u>\$ 791,805</u>	<u>\$ (53,403)</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
	2022	51,464	51,464		686,188	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
	2022	40,451	40,451		228,536	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
	2022	0.0092	728,643	21,430	750,073	684,816	106.40	76.67
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
	2022	0.0180	783,289	34,243	817,532	228,681	342.53	70.53

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, 2022**

	Nonmajor Funds					
	Library	Public Works	Recreation Development	Tax Abatement District	A.R.P. Revolving Loan	T.I.F. 2-2 Housing
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 7,823	\$ 18,957	\$ 61,872	\$ 2,256	\$ 44,728	\$ 280,826
Notes Receivable						
<b>TOTAL ASSETS</b>	<u>\$ 7,823</u>	<u>\$ 18,957</u>	<u>\$ 61,872</u>	<u>\$ 2,256</u>	<u>\$ 44,728</u>	<u>\$ 280,826</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts Payable	\$	\$	\$	\$ 1,124	\$	\$
Due to Other Funds						
<b>Total Liabilities</b>				<u>1,124</u>		
<b>Deferred Inflows of Resources</b>						
Unavailable Revenues						
Notes Receivable						
<b>Total Deferred Inflows of Resources</b>						
<b>Fund Balances</b>						
Restricted for Development			61,872	1,132		
Restricted for Community Center						
Committed for Capital Outlay (from Hospital)						
Committed for Development					44,728	280,826
Committed for Library	7,823					
Committed for Public Works		18,957				
Unassigned						
<b>Total Fund Balances</b>	<u>7,823</u>	<u>18,957</u>	<u>61,872</u>	<u>1,132</u>	<u>44,728</u>	<u>280,826</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 7,823</u>	<u>\$ 18,957</u>	<u>\$ 61,872</u>	<u>\$ 2,256</u>	<u>\$ 44,728</u>	<u>\$ 280,826</u>

**CITY OF ADA**  
**COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS - CONTINUED**  
**DECEMBER 31, 2022**

						Total	Major Funds		Total Special Revenue
	T.I.F. 2-3 Housing	T.I.F. 2-4 Housing	Retail DAC	Event Center	Community Center Maintenance	Nonmajor Special Revenue	2015 Revolving Loan	Long Term Asset Fund 2	
<b>ASSETS</b>									
Cash and Cash Equivalents	\$ 37,660	\$ 54,305	\$ 23,964		\$ 101,345	\$ 633,736	\$ 3,828	\$ 909,124	\$ 1,546,688
Notes Receivable							223,000		223,000
<b>TOTAL ASSETS</b>	<b>\$ 37,660</b>	<b>\$ 54,305</b>	<b>\$ 23,964</b>		<b>\$ 101,345</b>	<b>\$ 633,736</b>	<b>\$ 226,828</b>	<b>\$ 909,124</b>	<b>\$ 1,769,688</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>									
<b>Liabilities</b>									
Accounts Payable	\$	\$	\$	\$	\$	\$ 1,124	\$	\$	\$ 1,124
Due to Other Funds				101,351		101,351			101,351
<b>Total Liabilities</b>				<b>101,351</b>		<b>102,475</b>			<b>102,475</b>
<b>Deferred Inflows of Resources</b>									
Unavailable Revenues									
Notes Receivable							223,000		223,000
<b>Total Deferred Inflows of Resources</b>							<b>223,000</b>		<b>223,000</b>
<b>Fund Balances</b>									
Restricted for Development						63,004			63,004
Restricted for Community Center					101,345	101,345			101,345
Committed for Capital Outlay (from Hospital)								909,124	909,124
Committed for Development	37,660	54,305	23,964			441,483	3,828		445,311
Committed for Library						7,823			7,823
Committed for Public Works						18,957			18,957
Unassigned				(101,351)		(101,351)			(101,351)
<b>Total Fund Balances</b>	<b>37,660</b>	<b>54,305</b>	<b>23,964</b>	<b>(101,351)</b>	<b>101,345</b>	<b>531,261</b>	<b>3,828</b>	<b>909,124</b>	<b>1,444,213</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 37,660</b>	<b>\$ 54,305</b>	<b>\$ 23,964</b>		<b>\$ 101,345</b>	<b>\$ 633,736</b>	<b>\$ 226,828</b>	<b>\$ 909,124</b>	<b>\$ 1,769,688</b>

**CITY OF ADA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Nonmajor Funds						
	Library	Public Works	Recreation Development	Tax Abatement District	EDA Revolving Loan	A.R.P. Revolving Loan	T.I.F. 2-2 Housing
<b>REVENUES</b>							
Property Taxes	\$ 14,092	\$ 7,768		\$	\$	\$	\$ 36,692
Investment Earnings							
Miscellaneous							
Loan Repayments					2,119		
Other							
<b>Total Revenues</b>	<u>14,092</u>	<u>7,768</u>			<u>2,119</u>		<u>36,692</u>
<b>EXPENDITURES</b>							
Current							
General Government							
Culture and Recreation	15,003						
Community Development				1,124			2,345
Capital Outlay							
Public Works		16,231					
<b>Total Expenditures</b>	<u>15,003</u>	<u>16,231</u>		<u>1,124</u>			<u>2,345</u>
Revenues Over (Under)							
Expenditures	(911)	(8,463)		(1,124)	2,119		34,347
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In		12,000		5,661			
Transfers Out					(21,872)		
<b>Total Other Financing Sources</b>		<u>12,000</u>		<u>5,661</u>	<u>(21,872)</u>		
<b>Net Change in Fund Balances</b>	(911)	3,537		4,537	(19,753)		34,347
<b>Fund Balances - Beginning</b>	<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>246,479</u>
<b>Fund Balances - Ending</b>	<u>\$ 7,823</u>	<u>\$ 18,957</u>	<u>\$ 61,872</u>	<u>\$ 1,132</u>	<u>\$</u>	<u>\$ 44,728</u>	<u>\$ 280,826</u>

**CITY OF ADA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS -**  
**CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

						Total	Major Funds		Total Special Revenue
	T.I.F. 2-3 Housing	T.I.F. 2-4 Housing	Retail DAC	Event Center	Community Center Maintenance	Nonmajor Special Revenue	2015 Revolving Loan	Long Term Asset Fund 2	
<b>REVENUES</b>									
Property Taxes	\$ 29,250	\$ 14,637	\$	\$	\$	102,439	\$	\$	\$ 102,439
Investment Earnings					171	171		683	854
Miscellaneous									
Loan Repayments						2,119	65,314		67,433
Other				10,135		10,135		41,670	51,805
<b>Total Revenues</b>	<b>29,250</b>	<b>14,637</b>		<b>10,135</b>	<b>171</b>	<b>114,864</b>	<b>65,314</b>	<b>42,353</b>	<b>222,531</b>
<b>EXPENDITURES</b>									
Current									
General Government								41,395	41,395
Culture and Recreation						15,003			15,003
Community Development		165		17,746		21,380	85,000		106,380
Capital Outlay									
Public Works						16,231			16,231
<b>Total Expenditures</b>		<b>165</b>		<b>17,746</b>		<b>52,614</b>	<b>85,000</b>	<b>41,395</b>	<b>179,009</b>
Revenues Over (Under)									
Expenditures	29,250	14,472		(7,611)	171	62,250	(19,686)	958	43,522
<b>OTHER FINANCING SOURCES</b>									
Transfers In			3,662			21,323	54,872		76,195
Transfers Out						(21,872)			(21,872)
<b>Total Other Financing Sources</b>			<b>3,662</b>			<b>(549)</b>	<b>54,872</b>		<b>54,323</b>
<b>Net Change in Fund Balances</b>	<b>29,250</b>	<b>14,472</b>	<b>3,662</b>	<b>(7,611)</b>	<b>171</b>	<b>61,701</b>	<b>35,186</b>	<b>958</b>	<b>97,845</b>
<b>Fund Balances - Beginning</b>	<b>8,410</b>	<b>39,833</b>	<b>20,302</b>	<b>(93,740)</b>	<b>101,174</b>	<b>469,560</b>	<b>(31,358)</b>	<b>908,166</b>	<b>1,346,368</b>
<b>Fund Balances - Ending</b>	<b>\$ 37,660</b>	<b>\$ 54,305</b>	<b>\$ 23,964</b>	<b>\$ (101,351)</b>	<b>\$ 101,345</b>	<b>\$ 531,261</b>	<b>\$ 3,828</b>	<b>\$ 909,124</b>	<b>\$ 1,444,213</b>



**CITY OF ADA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Balance Beginning of Year	Revenues	Expenditures	Reclassify	Sale of Capital Asset	Transfers In	Transfers Out	Balance End of Year
Governmental Funds								
General								
Nonspendable - Prepaid	\$ 4,268			\$ 16,732				\$ 21,000
Unassigned	712,950	1,723,592	2,031,182	(16,732)	10,500	426,000	54,323	770,805
Special Revenue								
Library	8,734	14,092	15,003					7,823
Events Center	(93,740)	10,135	17,746					(101,351)
Public Works	15,420	7,768	16,231			12,000		18,957
Recreation Development	61,872							61,872
Tax Abatement District	(3,405)		1,124			5,661		1,132
EDA Revolving Loan	19,753	2,119					21,872	
A.R.P. Revolving Loan	44,728							44,728
2015 Revolving Loan	(31,358)	65,314	85,000			54,872		3,828
Community Center Maintenance	101,174	171						101,345
T.I.F. 2-2 Housing	246,479	36,692	2,345					280,826
T.I.F. 2-3 Housing	8,410	29,250						37,660
T.I.F. 2-4 Housing	39,833	14,637	165					54,305
Retail DAC	20,302					3,662		23,964
Long Term Asset Fund 2	908,166	42,353	41,395					909,124
Debt Service								
2008 Lease Purchase	41,132	18,200	52,037			39,000		46,295
Capital Projects								
Long-Term Designation	248,690	66,135	20,516			150,000		444,309
Proprietary Funds								
Water and Sewer	2,821,259	746,277	727,874					2,839,662
Light	1,072,154	2,109,067	1,326,460				615,000	1,239,761
Liquor	114,079	623,943	625,451					112,571

**CITY OF ADA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Amount of Issue</u>	<u>Balance 01-01-2022</u>	<u>Issued 2022</u>	<u>Retired 2022</u>	<u>Balance 12-31-2022</u>	<u>Principal Due in 2023</u>	<u>Interest Due in 2023</u>
General Obligation Bonds										
G.O. Refunding Note 2020A	1.50%	11/09/20	02/01/27	\$ 341,000	\$ 293,000	\$	\$ 48,000	\$ 245,000	\$ 47,000	\$ 3,323
G.O. Improvement Bond	2.50%	11/1/16	02/01/27	297,000	187,000	_____	29,000	158,000	30,000	3,575
Total					<u>480,000</u>	<u>_____</u>	<u>77,000</u>	<u>403,000</u>	<u>77,000</u>	<u>6,898</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Bonds	1.09%	07/22/04	08/20/23	2,380,000	275,000	_____	137,000	138,000	138,000	1,504
G.O. Water Revenue Bonds	1.09%	12/08/05	08/20/23	264,245	34,000	_____	17,000	17,000	17,000	186
G.O. Water and Sewer Refunding 2015B	2.0 - 2.1%	06/01/15	12/01/25	1,100,000	470,000	_____	115,000	355,000	115,000	7,220
G.O. Water Revenue Bonds	1.3 - 3.5%	01/16/15	02/01/35	750,000	565,000	_____	35,000	530,000	35,000	16,925
G.O. Utility Revenue Bond	2.30%	11/17/15	02/01/23	108,000	33,000	_____	16,000	17,000	17,000	194
G.O. Utility Revenue Bond	1.50%	11/09/20	02/01/28	310,000	273,000	_____	37,000	236,000	37,000	3,263
G.O. Water Revenue Bonds	1.00%	06/23/20	08/20/40	725,970	719,303	_____	39,000	680,303	39,000	7,640
G.O. Sewer Revenue Bonds	1.00%	06/23/20	08/20/40	888,565	1,120,940	_____	53,940	1,067,000	54,000	10,670
Total					<u>3,490,243</u>	<u>_____</u>	<u>449,940</u>	<u>3,040,303</u>	<u>452,000</u>	<u>47,602</u>
<b>TOTALS</b>					<u>\$ 3,970,243</u>	<u>\$ _____</u>	<u>\$ 526,940</u>	<u>\$ 3,443,303</u>	<u>\$ 529,000</u>	<u>\$ 54,500</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, 2022, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2023. 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 2022-004 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.

### 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 was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### 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 29, 2023

**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, 2022, 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 29, 2023. 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 2022-003 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 2022-001 and 2022-002 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 29, 2023

**CITY OF ADA**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2022**

**2022-001 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, 2022**

**2022-002 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, 2022**

**2022-003 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.

**2022-004 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, 2022**

**2022-001 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

**2022-002 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

**2022-003 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

**2022-004 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