

**CITY OF SILVER BAY
Lake County, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

CITY OF SILVER BAY

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CITY OF SILVER BAY

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2013**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Joanne Johnson	Mayor	December 31, 2014
David Gustafson	Council Member	December 31, 2014
Steven Marolt	Council Member	December 31, 2014
Carlene Perfetto	Council Member	December 31, 2016
Dustin Goutermont	Council Member	December 31, 2016
<u>Administration</u>		
Lana Fralich	City Administrator	
Cheryl Marolt	Deputy Clerk	



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Silver Bay
Silver Bay, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota, as of and for the year ended December 31, 2013, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and Mary MacDonald Business Center Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 65

As discussed in Note 14 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Silver Bay's basic financial statements. The supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2014 on our consideration of the City of Silver Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 of Silver Bay's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 4, 2014

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (Pages 5 to 11 Unaudited)

This section of the City of Silver Bay's (the "City") annual financial report presents a discussion and analysis of the City's financial performance during the year ended December 31, 2013. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2012 has been included as required.

FINANCIAL HIGHLIGHTS

- The net position of the City was \$ 13,528,118 in 2012 and \$ 14,232,609 in 2013. Of these amounts, \$ 4,305,828 in 2012 and \$ 4,794,013 in 2013 may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- In 2012, the total net position increased by \$ 1,051,347. The majority of this increase was due to the development and construction of the Eco-Industrial Business Park and the Biofuel/Food Greenhouse Project. Other capital increases include the purchases of the following: 2012 Kubota Tractor in Parks and Recreation, a 2012 Kubota Lawn Tractor in Street Department, Police Department. Radar, and Liquor Store's ATM machine. In addition, a boiler was replaced at the Recreation Hall, zone valves were upgraded at the water plant, water repairs were made at the Library, an improvement was made to the City Wastewater Treatment Facility's primary clarifier and trickling filter and for a water pressure stabilization project for the City's Water System. Capital decreases happened with the sale of assets in the Park and Recreation Department, Mary MacDonald Business Center and Liquor Department. In 2013, the total net position increased by \$ 704,491. A large portion of this increase was due to the renovation of the municipal building for the housing of the fiber optic network and stairway security. In addition, the 2013 hail storm resulted in roofing repairs to the Golf Course Clubhouse, the Rec Center, Senior Workshop, and the Tourist Information Center. The golf course bridge replacement damaged during the 2012 flood was added to work in progress. Other capital purchase increases included the 2011 CAT Excavator in the Street Department, Lidar Police Radar, Trenchbox, Golf Course Equipment (truturf roller, Jacobsen Greens King IV plus, and Cushman Tractor), Tennis Court Renovation Project, vehicle purchase in the water/sewer department, Library Renovation project, upgrades to the Biofuel/Food Greenhouse Project (Propane Boilers and Electrical Expansion), the Floto pump for the fire department, and the completion of the Primary Clarifier project at the wastewater facility. Capital decreases happened with the sale of assets in the Street, Fire, Golf Course, Park and Recreation, Water and Sewer Departments.
- The City's governmental funds reported a combined ending fund balance in the amount of \$ 2,817,306 for 2012 and \$ 3,063,009 for 2013.
- At the end of the previous year, unrestricted fund balance for the General Fund was \$ 1,472,468 (\$ 112,000 assigned and \$ 1,360,468 unassigned), or 97.4%, of total General Fund expenditures of \$ 1,511,920. At the end of the current fiscal year, the total fund balance for the General Fund was \$ 1,594,217 (\$ 4,085 restricted, \$ 119,000 assigned and \$ 1,471,132 unassigned), or 85.6%, of total General Fund expenditures of \$ 1,862,060.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

USING THE FINANCIAL SECTION OF THIS STATEMENT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's funds.

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Our analysis of the City begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These Statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two Statements report the City's net position and changes in them. The City's net position, which is the difference between assets and liabilities, is one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City.

FUND FINANCIAL STATEMENTS

Our analysis of the City's major funds begins with the fund financial statements and provides detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants and other money (like grants received). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations after the fund financial statements.

Proprietary Funds: When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the City's Enterprise Funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

STATEMENT OF NET POSITION

The City's combined net position increased from a year ago. Our analysis below and on the next page focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
	2012	2012	2012	2013	2013	2013
Current and Other Assets	\$ 3,228,978	\$ 1,825,891	\$ 5,054,869	\$ 3,440,246	\$ 2,039,183	\$ 5,479,429
Capital Assets	6,226,673	4,727,147	10,953,820	6,357,177	4,551,760	10,908,937
Total Assets	<u>\$ 9,455,651</u>	<u>\$ 6,553,038</u>	<u>\$ 16,008,689</u>	<u>\$ 9,797,423</u>	<u>\$ 6,590,943</u>	<u>\$ 16,388,366</u>
Current and Other Liabilities	\$ 372,657	\$ 326,931	\$ 699,588	\$ 307,764	\$ 334,589	\$ 642,353
Long-Term Liabilities	416,835	1,364,148	1,780,983	327,155	1,118,971	1,446,126
Total Liabilities	<u>789,492</u>	<u>1,691,079</u>	<u>2,480,571</u>	<u>634,919</u>	<u>1,453,560</u>	<u>2,088,479</u>
Deferred Inflow of Resources	\$ -	\$ -	\$ -	\$ 67,278	\$ -	\$ 67,278
Net Position:						
Net Investment in Capital Assets	5,817,931	3,151,213	8,969,144	6,037,254	3,216,201	9,253,455
Restricted	253,146	-	253,146	185,141	-	185,141
Unrestricted	2,595,082	1,710,746	4,305,828	2,872,831	1,921,182	4,794,013
Total Net Position	<u>8,666,159</u>	<u>4,861,959</u>	<u>13,528,118</u>	<u>9,095,226</u>	<u>5,137,383</u>	<u>14,232,609</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 9,455,651</u>	<u>\$ 6,553,038</u>	<u>\$ 16,008,689</u>	<u>\$ 9,797,423</u>	<u>\$ 6,590,943</u>	<u>\$ 16,388,366</u>

GOVERNMENTAL ACTIVITIES

Total net position of the City's governmental activities increased in 2012 by \$ 649,598 or 8.1%, and increased in 2013 by \$ 429,067 or 4.9%. This change was primarily due to the construction for the new fiber optic project at the Municipal Building and the purchase and removal of various capital assets.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, totaled \$ 2,595,082 in 2012 and \$ 2,872,831 in 2013. This is an increase of \$ 277,749 or 10.7%. This is mainly due to lower expenses than anticipated, less restricted grant funds, deferred revenues and a large property insurance dividend.

Current and other assets totaled \$ 3,228,978 in 2012 and \$ 3,440,246 in 2013. Cash in the General Fund increased by \$ 120,431 in 2012 and increased by \$ 131,670 in 2013. The City experienced an increase in total revenues and in total expenditures in the General Fund in 2013. The total increase in revenues was \$ 150,161 from the previous year and expenditures increased \$ 350,140 from the previous year. The increase in expenditures was due to capital outlay for the Tennis Court Renovation Project, property repairs from the hail storm and the purchase of an Excavator and Golf Course Equipment in 2013.

Cash in the Public Works Reserve Fund increased by \$ 349,382 in 2012 and increased by \$ 14,504 in 2013. In 2010, grant money was received for the Business Park and expended in 2011 and 2012. In 2013, additional funds were added from levy dollars for vehicle replacement plan and sidewalks; however, a majority of those funds were not expended. General Fund Transfers were also made in 2013 for Bell Circle Apartments and Biofuel Food Greenhouse.

CITY OF SILVER BAY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

BUSINESS-TYPE ACTIVITIES

The net position of the City's business-type activities increased by \$ 401,749 in 2012 and increased by \$ 275,424 in 2013. The increases in 2012 and 2013 were due to the increase in charges for services and capital improvements for the year. The following table indicates the changes in net position for the City's governmental and business-type activities.

	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
	2012	2012	2012	2013	2013	2013
REVENUES:						
Program Revenues:						
Charges for Services	\$ 452,983	\$ 2,418,220	\$ 2,871,203	\$ 533,939	\$ 2,389,487	\$ 2,923,426
Operating Grants and Contributions	371,690	-	371,690	416,246	-	416,246
Capital Grants and Contributions	618,534	-	618,534	219,175	-	219,175
General Revenues:						
Property Taxes	928,690	-	928,690	969,001	-	969,001
Property Sales	3,292	-	3,292	1,080	-	1,080
State Aids	1,025,135	-	1,025,135	1,091,254	-	1,091,254
Other	51,460	3,172	54,632	32,077	2,391	34,468
Interest	12,016	8,718	20,734	10,682	7,179	17,861
Total Revenues	\$ 3,463,800	\$ 2,430,110	\$ 5,893,910	\$ 3,273,454	\$ 2,399,057	\$ 5,672,511
EXPENSES:						
General Services	\$ 488,276	\$ -	\$ 488,276	\$ 563,045	\$ -	\$ 563,045
Public Safety	570,068	-	570,068	564,005	-	564,005
Public Works	539,718	-	539,718	598,652	-	598,652
Culture and Recreation	1,007,102	-	1,007,102	875,126	-	875,126
Economic Development	39,660	-	39,660	102,203	-	102,203
Airport	149,035	-	149,035	136,028	-	136,028
Interest on Long-Term Debt	20,343	-	20,343	15,486	-	15,486
Water Utility	-	622,110	622,110	-	656,056	656,056
Sewer Utility	-	489,539	489,539	-	540,468	540,468
Municipal Liquor	-	916,712	916,712	-	916,951	916,951
Total Expenses	2,814,202	2,028,361	4,842,563	2,854,545	2,113,475	4,968,020
Change in Net Position before Transfers	649,598	401,749	1,051,347	418,909	285,582	704,491
Transfers	-	-	-	10,158	(10,158)	-
Change in Net Position	649,598	401,749	1,051,347	429,067	275,424	704,491
NET POSITION:						
Beginning of Year	8,016,561	4,460,210	12,476,771	8,666,159	4,861,959	13,528,118
End of Year	\$ 8,666,159	\$ 4,861,959	\$ 13,528,118	\$ 9,095,226	\$ 5,137,383	\$ 14,232,609

CITY OF SILVER BAY

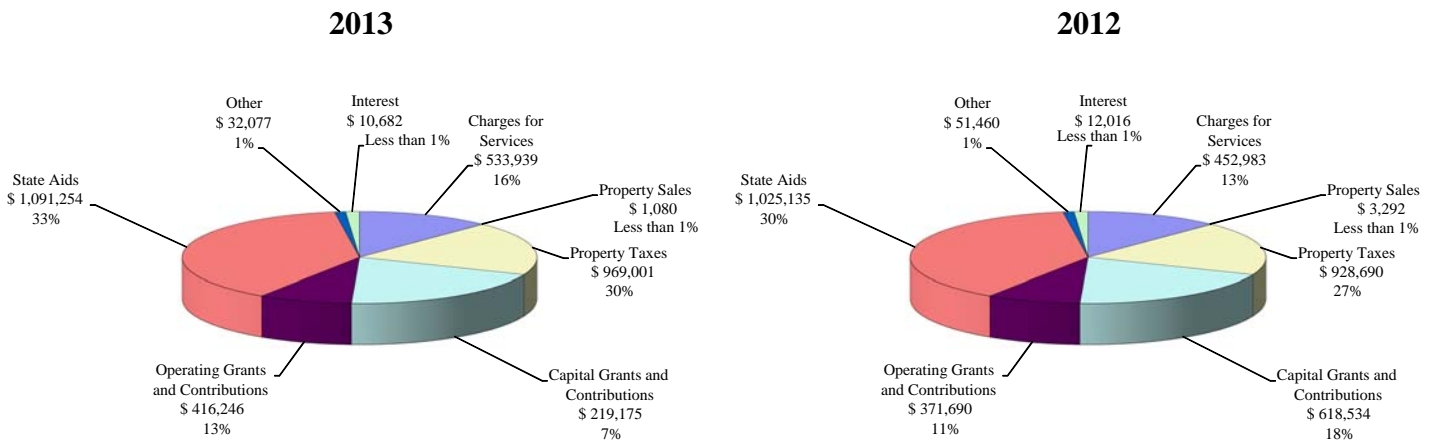
MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

GOVERNMENTAL ACTIVITIES

Revenues

The following chart visually illustrates the City's revenue by source for its governmental activities:

REVENUE BY SOURCE – GOVERNMENTAL ACTIVITIES



Revenues for the City's governmental activities totaled \$ 3,463,800 for 2012 and \$ 3,273,454 for 2013. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$ 452,983 in 2012 and \$ 533,939 in 2013 and were collected through the Marina Fund and various recreation programs. Some fees come from public safety.

Capital grants and contributions totaled \$ 618,534 in 2012 and \$ 219,175 in 2013. In 2012, grants were used to fund the Eco-Industrial Park ongoing project and the construction of the Biofuel/Food Greenhouse Project, while the majority in 2013 was the capital contribution for fiber optic network and security project at City Hall. Small grants were received for the tennis court project, library renovation, police equipment, arena enhancements, and Prairie Fire Theatre.

The City's property tax and state aid revenues totaled \$ 1,953,825 and were 57% of the City's total revenue in 2012. In 2013 they totaled \$ 2,060,255 and were 63% of the City's total revenue. Included in these revenues are taconite state aids, Local Government Aid (LGA) and general property taxes. Taconite aids are generated by mining activities and allocated by the State of Minnesota based on various formulas.

Overall, interest revenue decreased significantly in 2012 due to interest rates falling throughout the year for City's investments. In 2013, interest decreased again due to interest rates falling in the previous year and the interest rates remained at the all time low throughout the 2013 year.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$ 2,814,202 for 2012 and \$ 2,854,545 for 2013 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$ 2,430,110 for 2012 and \$ 2,399,057 for 2013. The Municipal Liquor Fund generated operating revenues of \$ 944,914 in 2012 and \$ 905,576 in 2013. Operating revenues in water decreased slightly while sewer revenues increased. All business-types were affected from the loss in interest income.

Expenses

Business-type expenses totaled \$ 2,028,361 for 2012 and \$ 2,113,475 for 2013. The municipal liquor operating expenses decreased at a rate of 0.9% for 2012 while the operating revenues increased by a rate of 4.6%. In 2013, the operating expenses remained flat increasing by \$ 8,884, while the operating revenues decreased by a rate of 4.2%. As a result, an operating profit of \$ 41,349 happened in 2012 but an operating loss of \$ 373 happened in 2013. Expenses in the Water Utility Fund decreased in 2012 to \$ 622,110 and in 2013, they increased to \$ 656,531. Sewer expenses for 2012 were \$ 489,539, while 2013 expenses increased to \$ 542,518.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2012 General Fund balance was \$ 1,472,468. The City's General Fund balance increased by \$ 121,749 in 2013 to \$ 1,594,217.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2012 was \$ 158,389. The Mary MacDonald Fund balance increased by \$ 53,761, for an ending fund balance of \$ 212,150.

Debt Service Fund

The \$ 1,914 increase in this Fund's balance to \$ 43,866 was due to special assessment income.

Public Works Reserve

The Public Works Reserve Fund balance for 2012 was \$ 400,185. In 2013, the fund balance increased to \$ 419,354. The increase was a result of funding for the Business Park, vehicle replacement planning, sidewalks and from General Fund transfer of property tax to reimburse Bell Apartment Condemnation.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council reviewed and revised the City's General Fund budget to reflect current trends in operations.

CAPITAL ASSETS

At the end of 2012, the City had \$ 10,953,820 invested in a broad range of capital assets (refer to Note 4 for a schedule showing the City's capital asset activity). At the end of 2013, the City had \$ 10,908,937 invested in a broad range of capital assets. The City's fiscal year 2014 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

At 2012 year-end, the City had \$ 2,223,270 in notes, leases and compensated absences outstanding. The majority, \$ 1,128,565, is related to utility loans from the State of Minnesota PFA Fund for capital improvements in the Water and Sewer Funds (refer to Note 6 for further information).

At 2013 year-end, the City had \$ 1,910,466 in notes, leases and compensated absences outstanding. The majority, \$ 966,055, is related to utility loans from the State of Minnesota PFA Fund for capital improvements in the Water and Sewer Funds (refer to Note 6 for further information).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal year 2014 budget, rates and fees that will be charged for the general and business-type activities for the City. The major factor in the development of the 2014 budget was to prepare a balanced budget based upon historical trends, known future expectations, and estimated increases/decreases due to trends in the economy. The budget was prepared and analyzed by individual object codes.

The City's Public Utilities Commission adopted resolution P.U.C. 2007-#1 on May 21, 2007. The resolution allows the water and sewer rates charged by the City to have set increases with the first rate increase effective January 1, 2008 and respective rate and fee changes to be made effective each January 1 through and including January 1, 2016, for both residential and metered accounts. These rate increases were necessary to finance debt service for the debt issued in prior years by the Water and Sewer Funds. Effective June 1, 2011, water and sewer rates were adjusted (Resolution 2011-#13) and significantly affected metered accounts.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Silver Bay at 7 Davis Drive, Silver Bay, Minnesota 55614, (218) 226-4408.

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BASIC FINANCIAL STATEMENTS

CITY OF SILVER BAY

**STATEMENT OF NET POSITION
December 31, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 3,016,231	\$ 1,809,331	\$ 4,825,562
Property Tax Receivable	77,058	-	77,058
Accounts Receivable	7,393	74,093	81,486
Interest Receivable	2,693	1,776	4,469
Due from Other Governments	153,706	3,095	156,801
Loan Receivable	67,278	-	67,278
Special Assessments Receivable	115,887	-	115,887
Inventory	-	143,295	143,295
Prepaid Items	-	7,593	7,593
Capital Assets not being Depreciated:			
Land	905,793	37,463	943,256
Construction in Progress	179,236	-	179,236
Capital Assets being Depreciated:			
Buildings and Building Improvements	5,131,117	7,653,939	12,785,056
Improvements Other than Buildings	3,028,723	400,325	3,429,048
Vehicles, Machinery and Equipment	2,149,791	794,626	2,944,417
Less Accumulated Depreciation	<u>(5,037,483)</u>	<u>(4,334,593)</u>	<u>(9,372,076)</u>
 Total Assets	 <u>\$ 9,797,423</u>	 <u>\$ 6,590,943</u>	 <u>\$ 16,388,366</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Accounts Payable	\$ 28,269	\$ 12,785	\$ 41,054
Due to Other Governments	361	11,418	11,779
Salaries and Benefits Payable	56,483	22,019	78,502
Interest Payable	5,094	9,683	14,777
Unearned Revenue	31,901	-	31,901
Bond Principal Payable:			
Payable Within One Year	71,716	51,691	123,407
Payable After One Year	224,681	167,813	392,494
Notes Payable:			
Payable Within One Year	-	195,052	195,052
Payable After One Year	-	921,003	921,003
Capital Lease Payable:			
Payable Within One Year	23,526	-	23,526
Compensated Absences Payable:			
Payable Within One Year	90,414	31,941	122,355
Payable After One Year	102,474	30,155	132,629
Total Liabilities	<u>634,919</u>	<u>1,453,560</u>	<u>2,088,479</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Loan Receivable	<u>67,278</u>	<u>-</u>	<u>67,278</u>
 Net Position			
Net Investment in Capital Assets	6,037,254	3,216,201	9,253,455
Restricted	185,141	-	185,141
Unrestricted	2,872,831	1,921,182	4,794,013
Total Net Position	<u>9,095,226</u>	<u>5,137,383</u>	<u>14,232,609</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 9,797,423</u>	 <u>\$ 6,590,943</u>	 <u>\$ 16,388,366</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SILVER BAY

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 563,045	\$ -	\$ 1,942	\$ 114,400	\$ (446,703)	\$ -	\$ (446,703)
Public Safety	564,005	101,243	65,487	7,000	(390,275)	-	(390,275)
Public Works	598,652	1,863	30,947	14,918	(550,924)	-	(550,924)
Culture and Recreation	875,126	385,830	296,113	18,448	(174,735)	-	(174,735)
Economic Development	102,203	32,638	-	64,409	(5,156)	-	(5,156)
Airport	136,028	12,365	21,757	-	(101,906)	-	(101,906)
Interest on Long-Term Debt	15,486	-	-	-	(15,486)	-	(15,486)
Total Governmental Activities	<u>2,854,545</u>	<u>533,939</u>	<u>416,246</u>	<u>219,175</u>	<u>(1,685,185)</u>	<u>-</u>	<u>(1,685,185)</u>
Business-Type Activities							
Water	656,056	833,046	-	-	-	176,990	176,990
Sewer	540,468	650,865	-	-	-	110,397	110,397
Municipal Liquor	916,951	905,576	-	-	-	(11,375)	(11,375)
Total Business-Type Activities	<u>2,113,475</u>	<u>2,389,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,012</u>	<u>276,012</u>
Total Governmental and Business-Type Activities	<u>\$ 4,968,020</u>	<u>\$ 2,923,426</u>	<u>\$ 416,246</u>	<u>\$ 219,175</u>	(1,685,185)	276,012	(1,409,173)
General Revenues							
Property and Taconite Taxes					969,001	-	969,001
State Aids					1,091,254	-	1,091,254
Unrestricted Investment Earnings					10,682	7,179	17,861
Other General Revenue					32,077	2,391	34,468
Gain on Sale of Asset					1,080	-	1,080
Transfers					10,158	(10,158)	-
Total General Revenues and Transfers					<u>2,114,252</u>	<u>(588)</u>	<u>2,113,664</u>
Change in Net Position					429,067	275,424	704,491
Net Position - Beginning					<u>8,666,159</u>	<u>4,861,959</u>	<u>13,528,118</u>
Net Position - Ending					<u>\$ 9,095,226</u>	<u>\$ 5,137,383</u>	<u>\$ 14,232,609</u>

CITY OF SILVER BAY

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2013

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center (265)	Debt Service (352)
	<u>General (101)</u>		
ASSETS			
Cash and Investments	\$ 1,532,176	\$ 230,310	\$ 43,820
Taxes Receivable - Delinquent	64,337	-	36
Special Assessment Receivable - Deferred	-	-	115,887
Accounts Receivable	4,014	2,830	-
Interest Receivable	1,392	215	32
Due from Other Funds	38,096	-	-
Due from Other Governments	71,284	15	14
Loan Receivable	60,597	-	-
	<u>60,597</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>\$ 1,771,896</u>	 <u>\$ 233,370</u>	 <u>\$ 159,789</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 10,607	\$ 15,740	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	331	-	-
Salaries and Benefits Payable	41,807	-	-
Unearned Revenue	-	5,480	-
	<u>52,745</u>	<u>21,220</u>	<u>-</u>
Total Liabilities	<u>52,745</u>	<u>21,220</u>	<u>-</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	64,337	-	36
Unavailable Revenue - Special Assessments	-	-	115,887
Unavailable Revenue - Loans Receivable	60,597	-	-
	<u>124,934</u>	<u>-</u>	<u>115,923</u>
Total Deferred Inflows of Resources	<u>124,934</u>	<u>-</u>	<u>115,923</u>
 Fund Balances			
Restricted	4,085	-	43,866
Committed	119,000	-	-
Assigned	-	212,150	-
Unassigned	1,471,132	-	-
	<u>1,594,217</u>	<u>212,150</u>	<u>43,866</u>
Total Fund Balances	<u>1,594,217</u>	<u>212,150</u>	<u>43,866</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 1,771,896</u>	 <u>\$ 233,370</u>	 <u>\$ 159,789</u>

The Notes to the Financial Statements are an integral part of this statement.

Capital Projects

Public Works Reserve (401)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 369,111	\$ 840,814	\$ 3,016,231
12,685	-	77,058
-	-	115,887
-	549	7,393
379	675	2,693
-	-	38,096
49,895	32,498	153,706
-	6,681	67,278
<u>\$ 432,070</u>	<u>\$ 881,217</u>	<u>\$ 3,478,342</u>
\$ 31	\$ 1,891	\$ 28,269
-	38,096	38,096
-	30	361
-	14,676	56,483
-	26,421	31,901
<u>31</u>	<u>81,114</u>	<u>155,110</u>
12,685	-	77,058
-	-	115,887
-	6,681	67,278
<u>12,685</u>	<u>6,681</u>	<u>260,223</u>
-	26,361	74,312
-	-	119,000
419,354	805,198	1,436,702
-	(38,137)	1,432,995
<u>419,354</u>	<u>793,422</u>	<u>3,063,009</u>
<u>\$ 432,070</u>	<u>\$ 881,217</u>	<u>\$ 3,478,342</u>

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CITY OF SILVER BAY

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2013**

Total Fund Balances - Governmental Funds \$ 3,063,009

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not current financial resources
and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	11,394,660
Less Accumulated Depreciation	(5,037,483)

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(296,397)
Capital Lease Payable	(23,526)
Compensated Absences Payable	(192,888)

Delinquent receivables will be collected in subsequent years, but are not
available soon enough to pay for the current period's expenditures and,
therefore, are deferred in the funds.

Property Taxes	77,058
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Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

Deferred Special Assessments	115,887
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Governmental funds do not report a liability for accrued interest on long-term
debt until due and payable.

(5,094)

Total Net Position - Governmental Activities

\$ 9,095,226

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center	Debt Service
	<u>General (101)</u>	<u>(265)</u>	<u>(352)</u>
REVENUES			
General Property Taxes	\$ 708,293	\$ -	\$ 34
Special Assessments	-	-	30,093
Licenses and Permits	44,728	-	-
Intergovernmental	1,166,623	-	-
Charges for Services	50,771	165,470	-
Fines and Forfeitures	7,607	-	-
Miscellaneous:			
Investment Income	5,577	889	125
Contributions and Donations	13,252	-	-
Loan Repayments	17,021	-	-
Other	23,957	1,592	-
Total Revenues	<u>2,037,829</u>	<u>167,951</u>	<u>30,252</u>
EXPENDITURES			
Current			
General Government	485,463	-	-
Public Safety	533,772	-	-
Public Works	506,284	-	-
Culture and Recreation	17,799	113,092	-
Economic Development	-	-	-
Airport	-	-	-
Debt Service			
Principal	19,567	-	69,252
Interest and Other Charges	1,856	-	15,006
Capital Outlay			
General Government	7,163	-	-
Public Safety	8,888	-	-
Public Works	103,393	-	-
Culture and Recreation	177,875	1,098	-
Economic Development	-	-	-
Total Expenditures	<u>1,862,060</u>	<u>114,190</u>	<u>84,258</u>
Excess of Revenues Over (Under) Expenditures	175,769	53,761	(54,006)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	840	-	-
Insurance Recoveries	133,770	-	-
Transfers In	90,314	-	55,920
Transfers Out	(278,944)	-	-
Total Other Financing Sources (Uses)	<u>(54,020)</u>	<u>-</u>	<u>55,920</u>
Net Change in Fund Balances	121,749	53,761	1,914
FUND BALANCES			
Beginning of Year	<u>1,472,468</u>	<u>158,389</u>	<u>41,952</u>
End of Year	<u>\$ 1,594,217</u>	<u>\$ 212,150</u>	<u>\$ 43,866</u>

The Notes to the Financial Statements are an integral part of this statement.

Capital Projects

<u>Public Works Reserve (401)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 162,000	\$ 97,000	\$ 967,327
-	-	30,093
-	-	44,728
67,930	320,863	1,555,416
-	215,995	432,236
-	-	7,607
1,517	2,574	10,682
-	23,415	36,667
-	32,638	49,659
1,633	17,878	45,060
<u>233,080</u>	<u>710,363</u>	<u>3,179,475</u>
-	-	485,463
-	-	533,772
7,014	-	513,298
-	758,062	888,953
88,910	21,268	110,178
-	33,713	33,713
-	-	88,819
-	-	16,862
-	-	7,163
-	-	8,888
-	-	103,393
-	103,911	282,884
26,625	-	26,625
<u>122,549</u>	<u>916,954</u>	<u>3,100,011</u>
110,531	(206,591)	79,464
-	240	1,080
-	21,231	155,001
44,714	238,370	429,318
(136,076)	(4,140)	(419,160)
<u>(91,362)</u>	<u>255,701</u>	<u>166,239</u>
19,169	49,110	245,703
<u>400,185</u>	<u>744,312</u>	<u>2,817,306</u>
<u>\$ 419,354</u>	<u>\$ 793,422</u>	<u>\$ 3,063,009</u>

CITY OF SILVER BAY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

Net Change in Fund Balances - Governmental Funds \$ 245,703

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over the estimated useful lives and reported as depreciation expense.

Capital Outlays	427,302
Depreciation Expense	(392,266)
Loss on Disposal	(18,932)
Donated Assets	114,400

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (15,834)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities. 88,819

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,376

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.
Special Assessments Deferred (23,175)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 1,674

Change in Net Position - Governmental Activities \$ 429,067

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
General Property Taxes	\$ 730,580	\$ 731,560	\$ 708,293	\$ (23,267)
Licenses and Permits	13,115	44,725	44,728	3
Intergovernmental	1,063,100	1,165,760	1,166,623	863
Charges for Services	36,825	50,815	50,771	(44)
Fines and Forfeitures	7,800	7,600	7,607	7
Miscellaneous:				
Investment Income	5,000	4,200	5,577	1,377
Contributions and Donations	1,000	13,255	13,252	(3)
Loan Repayments	17,020	17,020	17,021	1
Other	14,500	38,833	23,957	(14,876)
Total Revenues	<u>1,888,940</u>	<u>2,073,768</u>	<u>2,037,829</u>	<u>(35,939)</u>
EXPENDITURES				
Current				
General Government	480,425	485,125	485,463	338
Public Safety	530,145	534,875	533,772	(1,103)
Public Works	521,900	507,490	506,284	(1,206)
Culture and Recreation	23,400	17,800	17,799	(1)
Debt Service				
Principal	19,570	19,570	19,567	(3)
Interest and Other Charges	1,860	1,860	1,856	(4)
Capital Outlay				
General Government	3,000	7,175	7,163	(12)
Public Safety	9,600	8,915	8,888	(27)
Public Works	-	103,400	103,393	(7)
Culture and Recreation	-	181,020	177,875	(3,145)
Total Expenditures	<u>1,589,900</u>	<u>1,867,230</u>	<u>1,862,060</u>	<u>(5,170)</u>
Excess of Revenues Over (Under) Expenditures	299,040	206,538	175,769	(30,769)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	840	840	-
Insurance Recoveries	-	133,915	133,770	(145)
Transfers In	-	90,320	90,314	(6)
Transfers Out	(299,040)	(278,945)	(278,944)	1
Total Other Financing Sources (Uses)	<u>(299,040)</u>	<u>(53,870)</u>	<u>(54,020)</u>	<u>(150)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 152,668</u>	121,749	<u>\$ (30,919)</u>
FUND BALANCES				
Beginning of Year			<u>1,472,468</u>	
End of Year			<u>\$ 1,594,217</u>	

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MARY MACDONALD BUSINESS CENTER
For the Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for Services	\$ 145,000	\$ 165,500	\$ 165,470	\$ (30)
Miscellaneous:				
Investment Income	500	500	889	389
Other	-	1,585	1,592	7
Total Revenues	<u>145,500</u>	<u>167,585</u>	<u>167,951</u>	<u>366</u>
EXPENDITURES				
Current				
Culture and Recreation	131,220	113,105	113,092	(13)
Capital Outlay				
Culture and Recreation	<u>11,000</u>	<u>1,100</u>	<u>1,098</u>	<u>(2)</u>
Total Expenditures	<u>142,220</u>	<u>114,205</u>	<u>114,190</u>	<u>(15)</u>
Net Change in Fund Balances	<u>\$ 3,280</u>	<u>\$ 53,380</u>	53,761	<u>\$ 381</u>
FUND BALANCES				
Beginning of Year			<u>158,389</u>	
End of Year			<u>\$ 212,150</u>	

CITY OF SILVER BAY

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2013

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments (Including Cash Equivalents)	\$ 613,910	\$ 837,562	\$ 357,859	\$ 1,809,331
Accounts Receivable	36,022	37,593	478	74,093
Interest Receivable	572	808	396	1,776
Due from Other Governments	1,521	1,574	-	3,095
Inventory	68,950	9,353	64,992	143,295
Prepaid Items	-	-	7,593	7,593
Total Current Assets	<u>720,975</u>	<u>886,890</u>	<u>431,318</u>	<u>2,039,183</u>
Noncurrent Assets				
Capital Assets:				
Land	18,568	5,000	13,895	37,463
Buildings and Building Improvements	2,703,549	3,670,062	1,280,328	7,653,939
Improvements Other than Buildings	122,702	246,326	31,297	400,325
Vehicles, Machinery and Equipment	278,768	480,022	35,836	794,626
Total Capital Assets	<u>3,123,587</u>	<u>4,401,410</u>	<u>1,361,356</u>	<u>8,886,353</u>
Less Accumulated Depreciation	<u>(1,540,169)</u>	<u>(2,295,225)</u>	<u>(499,199)</u>	<u>(4,334,593)</u>
Net Capital Assets	<u>1,583,418</u>	<u>2,106,185</u>	<u>862,157</u>	<u>4,551,760</u>
Total Assets	<u>\$ 2,304,393</u>	<u>\$ 2,993,075</u>	<u>\$ 1,293,475</u>	<u>\$ 6,590,943</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 6,139	\$ 3,459	\$ 3,187	\$ 12,785
Due to Other Governments	5,456	-	5,962	11,418
Salaries and Benefits Payable	6,574	6,574	8,871	22,019
Interest Payable	5,017	3,199	1,467	9,683
Long-Term Liabilities Due Within One Year	81,180	126,232	71,272	278,684
Total Current Liabilities	<u>104,366</u>	<u>139,464</u>	<u>90,759</u>	<u>334,589</u>
Noncurrent Liabilities				
Compensated Absences	12,014	12,014	38,068	62,096
Notes Payable	731,000	385,055	-	1,116,055
Bonds Payable	-	-	219,504	219,504
Less Amount Due Within One Year	<u>(81,180)</u>	<u>(126,232)</u>	<u>(71,272)</u>	<u>(278,684)</u>
Total Noncurrent Liabilities	<u>661,834</u>	<u>270,837</u>	<u>186,300</u>	<u>1,118,971</u>
Total Liabilities	<u>766,200</u>	<u>410,301</u>	<u>277,059</u>	<u>1,453,560</u>
Net Position				
Net Investment in Capital Assets	852,418	1,721,130	642,653	3,216,201
Unrestricted	<u>685,775</u>	<u>861,644</u>	<u>373,763</u>	<u>1,921,182</u>
Total Net Position	<u>1,538,193</u>	<u>2,582,774</u>	<u>1,016,416</u>	<u>5,137,383</u>
Total Liabilities and Net Position	<u>\$ 2,304,393</u>	<u>\$ 2,993,075</u>	<u>\$ 1,293,475</u>	<u>\$ 6,590,943</u>

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2013**

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 898,700	\$ 898,700
Cost of Sales	-	-	564,371	564,371
Gross Profit	<u>-</u>	<u>-</u>	<u>334,329</u>	<u>334,329</u>
OPERATING REVENUES				
Charges for Services	829,449	645,489	-	1,474,938
Other Services	3,597	5,376	1,493	10,466
Game Machines	-	-	5,383	5,383
Total Operating Revenues	<u>833,046</u>	<u>650,865</u>	<u>6,876</u>	<u>1,490,787</u>
OPERATING EXPENSES				
Salaries and Benefits	237,787	229,547	236,324	703,658
Materials and Supplies	73,416	61,140	16,596	151,152
Professional Services	3,868	3,092	3,000	9,960
Contracted Services	31,651	60,795	-	92,446
Insurance	10,215	15,208	17,945	43,368
Utilities	63,549	34,444	15,774	113,767
Refuse Charges	158,210	603	1,121	159,934
Telephone	2,213	1,889	1,362	5,464
Depreciation	57,180	120,824	33,427	211,431
Promotion and Advertising	367	24	1,588	1,979
Licenses and Dues	1,369	1,696	2,426	5,491
Conferences and Schools	1,222	818	704	2,744
Miscellaneous Expenses	618	528	11,311	12,457
Total Operating Expenses	<u>641,665</u>	<u>530,608</u>	<u>341,578</u>	<u>1,513,851</u>
Operating Income (Loss)	191,381	120,257	(373)	311,265
NONOPERATING REVENUES (EXPENSES)				
Investment Income	2,389	3,218	1,572	7,179
Gain on Sale of Asset	475	2,050	-	2,525
Miscellaneous Revenue	18	2,373	-	2,391
Interest Expense	(14,866)	(11,910)	(11,002)	(37,778)
Total Nonoperating Revenues (Expenses)	<u>(11,984)</u>	<u>(4,269)</u>	<u>(9,430)</u>	<u>(25,683)</u>
Income (Loss) before Transfers	179,397	115,988	(9,803)	285,582
Transfers Out	<u>(5,079)</u>	<u>(5,079)</u>	<u>-</u>	<u>(10,158)</u>
Change in Net Position	174,318	110,909	(9,803)	275,424
NET POSITION				
Beginning of Year	<u>1,363,875</u>	<u>2,471,865</u>	<u>1,026,219</u>	<u>4,861,959</u>
End of Year	<u>\$ 1,538,193</u>	<u>\$ 2,582,774</u>	<u>\$ 1,016,416</u>	<u>\$ 5,137,383</u>

CITY OF SILVER BAY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 850,980	\$ 665,942	\$ 906,882	\$ 2,423,804
Payments to Suppliers	(342,594)	(178,561)	(635,519)	(1,156,674)
Payments to Employees	<u>(235,858)</u>	<u>(227,618)</u>	<u>(236,596)</u>	<u>(700,072)</u>
Net Cash Flows - Operating Activities	<u>272,528</u>	<u>259,763</u>	<u>34,767</u>	<u>567,058</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Revenue	18	2,373	-	2,391
Transfer to Other Funds	<u>(5,079)</u>	<u>(5,079)</u>	<u>-</u>	<u>(10,158)</u>
Net Cash Flows - Noncapital Financing Activities	<u>(5,061)</u>	<u>(2,706)</u>	<u>-</u>	<u>(7,767)</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	(73,000)	(117,510)	(49,865)	(240,375)
Interest Paid on Debt	(15,423)	(12,972)	(11,448)	(39,843)
Proceeds from Sale of Capital Assets	475	2,050	-	2,525
Acquisition of Capital Assets	<u>(12,632)</u>	<u>(29,379)</u>	<u>-</u>	<u>(42,011)</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(100,580)</u>	<u>(157,811)</u>	<u>(61,313)</u>	<u>(319,704)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>2,110</u>	<u>2,960</u>	<u>1,452</u>	<u>6,522</u>
Net Change in Cash and Cash Equivalents	168,997	102,206	(25,094)	246,109
CASH AND CASH EQUIVALENTS				
Beginning of Year	<u>444,913</u>	<u>735,356</u>	<u>382,953</u>	<u>1,563,222</u>
End of Year	<u>\$ 613,910</u>	<u>\$ 837,562</u>	<u>\$ 357,859</u>	<u>\$ 1,809,331</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 191,381	\$ 120,257	\$ (373)	\$ 311,265
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	57,180	120,824	33,427	211,431
Accounts Receivable	17,459	14,690	1,306	33,455
Due from Other Governments	475	387	-	862
Prepaid Items	-	-	(1,963)	(1,963)
Inventory	(2,069)	520	2,669	1,120
Accounts Payable	6,139	1,156	164	7,459
Due to Other Governmental Units	34	-	(191)	(157)
Salaries Payable	984	984	1,062	3,030
Compensated Absences Payable	945	945	(1,334)	556
Total Adjustments	<u>81,147</u>	<u>139,506</u>	<u>35,140</u>	<u>255,793</u>
Net Cash Flows - Operating Activities	<u>\$ 272,528</u>	<u>\$ 259,763</u>	<u>\$ 34,767</u>	<u>\$ 567,058</u>

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CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Silver Bay is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Units – Reported as if they were part of the City.

Related Organization – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Blended Component Unit

The Silver Bay Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Silver Bay EDA is reported as if it were part of the primary government because members of its governing body are appointed by the governing body of the primary government and it provides services exclusively for the City. Separate financial statements are not prepared for the Silver Bay EDA.

2. Related Organization

The Silver Bay Fire Relief Association (the "Association") is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. Its Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City and the Association pays benefits directly to its members. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues; instead, they are properly reported as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Mary MacDonald Business Center Special Revenue Fund – This Fund accounts for financial resources to be used for the rehabilitation and operation of the Mary MacDonald building. The main revenue source for this fund is grants and charges for services.

Debt Service Fund – This Fund accounts for the resources accumulated and payments made for principal and interest on governmental activities long-term debt.

Public Works Reserve Capital Projects Fund – This Fund accounts for the resources accumulated and payments made for five individual departments. One of the departments is the General Revenue Reserve Fund established pursuant to the provision of the Laws of Minnesota 1971, Chapter 440, also known as the Taconite Reserve Account. The other four departments within the Public Works Reserve Fund are as follows: Business Park, Bell Circle Apartments, Special Projects and Sidewalk Improvements.

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City’s water utility.

Sewer Fund – This Fund accounts for the operations of the City’s sewer utility.

Municipal Liquor Dispensary Fund – This Fund accounts for the operations of the City’s Municipal Liquor Store.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Municipal Liquor Dispensary, Water and Sewer Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to first use committed resources, then assigned and then unassigned resources as they are needed.

D. Assets, Liabilities and Net Position or Fund Balance

1. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Cash and investments at December 31, 2013, were comprised of deposits, including certificates of deposit at a commercial bank and a federal credit union, brokered certificates of deposit and shares in the Minnesota Municipal Money Market (4M Fund). The City has formal policies in place specifically to address the following risks related to deposits and investments.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. *Minnesota Statutes* require all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The City's investment policy requires the City to obtain collateral or bond for all uninsured amounts on deposit.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

1. Cash and Investments (Continued)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits its investments to those specified in these Statutes.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The City's investment policy states funds should be diversified according to type and maturity and the portfolio should contain both short-term and long-term investments.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states investment securities will be collateralized.

2. Receivables and Payables

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Lake County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The City submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

3. Inventory and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

Inventory is valued at cost using the first in, first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 2,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	5-20
Furniture and Equipment	5-10
Light Vehicles	5
Machinery and Equipment	5-10
Fire Trucks	20
Infrastructure	20-70

5. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

6. Compensated Absences

City employees earn vacation time based on years of City service with a maximum of two weeks of vacation time to be carried over from one year to the next. City employees also earn sick leave based on years of City service with a maximum of 960 hours of sick leave to be carried over from one year to the next with any additional hours banked for long-term illness.

For department heads that separate in good standing, compensated absences payable is calculated as 50%, 60% or 75% of unused sick leave (maximum 960 hours) for 10+ years, 15+ years or 25+ years of service, respectively, plus 15% of banked sick leave (excess of 960 hours) and all unused vacation at the employees current rate of pay. For department heads who retire, compensated absences payable is calculated as 50%, 75% or 100% of unused sick leave (maximum 960 hours) for 10+ years, 15+ years or 25+ years of service, respectively, plus 15% of banked sick leave (excess over 960 hours) and all unused vacation at the employee's current rate of pay. For department heads with fewer than 10 years of service, compensated absences payable is calculated as 50% of unused sick leave (maximum 960 hours), plus 10% of banked sick leave (excess over 960 hours) regardless of whether the employee is retiring or leaving in good standing.

Vacation and sick leave payable are recorded as expenditures or expenses when used in the governmental funds and as earned in the proprietary funds.

7. Employment Health Benefits

Employees will receive a \$ 200 contribution to a Health Savings Account (HSA) every month once they have been employed by the City for 15 years. The maximum amount contributed to the employee's HSA will be \$ 24,000, meaning they can receive contributions for 10 years after reaching the minimum 15 years of employment. Employees who had already been working for the City for at least 15 years as of January 1, 2011 received a lump sum contribution to their HSA, equal to the number of months they have worked for the City in excess of the 15 year minimum, multiplied by \$ 200 per month. Employees who started at the City after January 1, 2011, are not eligible for this benefit.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

In the fund financial statements, 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.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

9. Fund Balance

A. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balances** – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the City Council and that remain binding unless removed by the City Council by subsequent formal action.
- **Assigned Fund Balance** – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted or committed. The City Council has delegated authority to assign and remove fund balance assignments to the City Administrator and/or Deputy Clerk.
- **Unassigned Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

B. Minimum Fund Balance

The City's target General Fund balance is to maintain 30%-50% of the next year's budgeted General Fund expenditures; however, this need could fluctuate with each year's budget objectives.

10. Net Position

Net Position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net Position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets for the governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, expenditures exceeded appropriations in the following Fund:

	<u>Expenditures</u>	<u>Appropriations</u>
Nonmajor Fund:		
Housing	\$ 21,234	\$ 21,230

C. Deficit Fund Balances

The following Fund had a deficit fund balance at December 31, 2013:

Special Revenue:	
Airport	\$ 38,137

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk – Deposits: As of December 31, 2013, the City’s bank balance was not exposed to custodial credit risk because it was insured through FDIC and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the City’s name.

As of December 31, 2013, the City had the following deposits:

Cash and Cash Equivalents	\$ 2,431,001
Certificates of Deposit	<u>1,600,000</u>
Total Deposits	<u><u>\$ 4,031,001</u></u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2013, the City had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Type</u>
4M Money Market	Various	\$ 183,161	23.38%	MM
GE Capital Bank, Utah	07/12/18	100,000	12.77%	CD
GE Capital Bank, Utah	05/01/15	100,000	12.77%	CD
Ally Bank, Vermont	02/23/15	100,000	12.77%	CD
Ally Bank, Vermont	10/30/15	100,000	12.77%	CD
First Bank of Puerto Rico, PR	05/29/15	100,000	12.77%	CD
Beal Bank, Nevada	06/24/15	100,000	12.77%	CD
 Total		<u>\$ 783,161</u>	<u>100.00%</u>	

Credit Risk: As of December 31, 2013, the City was not exposed to credit risk as the City’s investments were comprised of brokered certificates of deposit and investments in the 4M Money Market Fund which do not receive independent credit ratings.

Concentration of Credit Risk – Investments: As indicated by the table above, the City has more than 5% of total investments in any one issuer; therefore, the investments were exposed to concentration of credit risk at December 31, 2013.

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 4,031,001
Petty Cash	11,400
Investments	<u>783,161</u>
 Total Deposits and Investments	<u>\$ 4,825,562</u>

Deposits and investments are presented in the December 31, 2013 basic financial statements as follows:

Statement of Net Position:	
Cash and Investments (Including Cash Equivalents)	<u>\$ 4,825,562</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 905,793	\$ -	\$ -	\$ 905,793
Construction in Progress	19,006	179,140	18,910	179,236
Total Capital Assets not being Depreciated	<u>924,799</u>	<u>179,140</u>	<u>18,910</u>	<u>1,085,029</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	4,952,576	183,541	5,000	5,131,117
Improvements Other than Buildings	3,014,923	30,400	16,600	3,028,723
Vehicles, Machinery and Equipment	2,100,466	167,531	118,206	2,149,791
Total Capital Assets being Depreciated	<u>10,067,965</u>	<u>381,472</u>	<u>139,806</u>	<u>10,309,631</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	1,732,640	132,257	4,500	1,860,397
Improvements Other than Buildings	1,572,284	138,429	16,600	1,694,113
Vehicles, Machinery and Equipment	1,461,167	121,580	99,774	1,482,973
Total Accumulated Depreciation	<u>4,766,091</u>	<u>392,266</u>	<u>120,874</u>	<u>5,037,483</u>
Total Capital Assets being Depreciated, Net	<u>5,301,874</u>	<u>(10,794)</u>	<u>18,932</u>	<u>5,272,148</u>
Governmental Activities Capital Position, Net	<u>\$ 6,226,673</u>	<u>\$ 168,346</u>	<u>\$ 37,842</u>	<u>\$ 6,357,177</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Construction in Progress	133,418	10,780	144,198	-
Total Capital Assets not being Depreciated	170,881	10,780	144,198	37,463
Capital Assets being Depreciated:				
Buildings and Building Improvements	7,653,939	-	-	7,653,939
Improvements Other than Buildings	400,325	-	-	400,325
Vehicles, Machinery and Equipment	658,609	169,462	33,445	794,626
Total Capital Assets being Depreciated	8,712,873	169,462	33,445	8,848,890
Less Accumulated Depreciation for:				
Buildings and Building Improvements	3,507,134	177,176	-	3,684,310
Improvements Other than Buildings	118,790	7,341	-	126,131
Vehicles, Machinery and Equipment	530,683	26,914	33,445	524,152
Total Accumulated Depreciation	4,156,607	211,431	33,445	4,334,593
Total Capital Assets being Depreciated, Net	4,556,266	(41,969)	-	4,514,297
Business-Type Activities Capital Position, Net	\$ 4,727,147	\$ (31,189)	\$ 144,198	\$ 4,551,760

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General Government	\$ 73,785
Public Safety	21,719
Public Works	66,203
Culture and Recreation	128,244
Airport	102,315
Total Depreciation Expense - Governmental Activities	\$ 392,266
Business-Type Activities:	
Water	\$ 57,180
Sewer	120,824
Municipal Liquor Dispensary	33,427
Total Depreciation Expense - Business-Type Activities	\$ 211,431

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2013 was as follows:

	Amounts Due to Other Funds
	Nonmajor Governmental Funds
Amounts Due from Other Funds:	
General Fund	\$ 38,096

The interfund balances exist to cover cash deficits in the various funds.

B. Transfers

The composition of interfund transfers as of December 31, 2013 was as follows:

	Transfers In				Total
	General Fund	Debt Service	Public Works Reserve	Nonmajor Governmental Funds	
Transfers Out:					
General Fund	\$ -	\$ -	\$ 44,714	\$ 234,230	\$ 278,944
Public Works Reserve	80,156	55,920	-	-	136,076
Nonmajor Governmental Funds	-	-	-	4,140	4,140
Water Fund	5,079	-	-	-	5,079
Sewer Fund	5,079	-	-	-	5,079
Total	\$ 90,314	\$ 55,920	\$ 44,714	\$ 238,370	\$ 429,318

The purpose of the above transfers was to assist with operating costs, move Bell Circle Apartment tax revenue to the Public Works Reserve Fund, capital purchases and debt service payments.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds:						
G.O. Improvement Bond, Series 2008A	05/14/08	4.92%	\$ 221,000	01/15/19	\$ 134,827	\$ 21,879
G.O. Equipment Certificate 2010	04/30/10	3.75%	109,042	04/30/15	46,192	22,566
G.O. Equipment Certificate 2011	11/01/11	3.75%	167,000	12/01/17	<u>115,378</u>	<u>27,271</u>
Total G.O. Bonds					296,397	71,716
Capital Lease Obligations					23,526	23,526
Compensated Absences					<u>192,888</u>	<u>90,414</u>
Total Governmental Activities					512,811	185,656
Business-Type Activities:						
G.O. Revenue Notes/Bonds:						
G.O. Sewer Revenue Note of 1994	09/23/94	2.82%	1,490,796	02/20/16	235,055	92,052
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	200,000	38,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	531,000	37,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	219,504	51,691
G.O. Sewer Revenue Note Series 2011A	10/17/11	2.60%	203,800	10/17/18	<u>150,000</u>	<u>28,000</u>
Total G.O. Revenue Notes/ Bonds					1,335,559	246,743
Compensated Absences					<u>62,096</u>	<u>31,941</u>
Total Business-Type Activities					1,397,655	278,684
Total all Long-Term Liabilities					<u>\$ 1,910,466</u>	<u>\$ 464,340</u>

* The Municipal Liquor Store Revenue Bond shall bear interest at the annual rate of 4.25% for the first five years of its term. On October 31, 2013, the annual rate of interest on the Bond shall be adjusted to a rate per annum equal to the sum of 1.41% and the five year Treasury Rate in effect on that date; however, in no event shall the adjusted rate be less than 4% or greater than 8% per annum. The new interest rate effective October 31, 2013 is 4%.

Long-term bonded indebtedness listed above was issued to finance acquisition and construction of capital facilities and equipment.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

<u>Year Ending December 31,</u>	Governmental Activities		
	Improvement Bonds		
	Principal	Interest	Total
2014	\$ 21,879	\$ 6,459	\$ 28,338
2015	22,984	5,354	28,338
2016	24,134	4,204	28,338
2017	25,364	2,974	28,338
2018	26,645	1,693	28,338
2019	13,821	348	14,169
Total	\$ 134,827	\$ 21,032	\$ 155,859
<u>Year Ending December 31,</u>	Equipment Certificates		
	Principal	Interest	Total
	2014	\$ 49,837	\$ 6,083
2015	51,921	4,202	56,123
2016	29,356	2,243	31,599
2017	30,456	1,142	31,598
Total	\$ 161,570	\$ 13,670	\$ 175,240
<u>Year Ending December 31,</u>	Business-Type Activities		
	Revenue Notes/Bonds		
	Principal	Interest	Total
2014	\$ 246,743	\$ 32,364	\$ 279,107
2015	255,425	25,358	280,783
2016	212,246	18,113	230,359
2017	168,145	12,765	180,910
2018	113,000	7,953	120,953
2019-2023	207,000	21,334	228,334
2024-2026	133,000	4,405	137,405
Total	\$ 1,335,559	\$ 122,292	\$ 1,457,851

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
G.O. Improvement Bonds	\$ 155,654	\$ -	\$ 20,827	\$ 134,827	\$ 21,879
G.O. Equipment Certificates	209,996	-	48,426	161,570	49,837
Capital Lease Obligations	43,092	-	19,566	23,526	23,526
Compensated Absences	<u>177,054</u>	<u>110,702</u>	<u>94,868</u>	<u>192,888</u>	<u>90,414</u>
Total Governmental Activities	585,796	110,702	183,687	512,811	185,656
Business-Type Activities:					
Notes/Bonds Payable:					
G.O. Revenue Notes	1,306,565	-	190,510	1,116,055	195,052
Revenue Bonds	269,369	-	49,865	219,504	51,691
Compensated Absences	<u>61,540</u>	<u>47,258</u>	<u>46,702</u>	<u>62,096</u>	<u>31,941</u>
Total Business-Type Activities	<u>1,637,474</u>	<u>47,258</u>	<u>287,077</u>	<u>1,397,655</u>	<u>278,684</u>
Total Long-Term Liabilities	<u>\$ 2,223,270</u>	<u>\$ 157,960</u>	<u>\$ 470,764</u>	<u>\$ 1,910,466</u>	<u>\$ 464,340</u>

The General Fund typically liquidates the liability related to compensated absences.

D. Capital Lease Obligations

The City is obligated under one lease accounted for as a capital lease. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. At December 31, 2013, this asset was valued at \$ 43,697 with accumulated depreciation of \$ 32,760.

Minimum future lease payments under the capital leases in the aggregate are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 24,480
Net Minimum Lease Payments	<u>24,480</u>
Less Amount Representing Interest	<u>(954)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 23,526</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 – LOANS RECEIVABLES

Loans receivable at December 31, 2013 are as follows:

North Shore Investment Group Promissory Note:

\$ 11,650 promissory note, due in monthly installments
of \$ 154 through November 2017, with interest at 3.0%. \$ 6,681

Silver Bay Country Club Lease Agreement:

\$ 43,697 repayment agreement, due in monthly installments
(from May to October each year) of \$ 1,080 through October 2014. 24,480

Silver Bay Country Club Lease Agreement:

\$ 36,617 repayment agreement, due in annual installments
of \$ 1,221 through October 2017. 36,117

Total Loans Receivable \$ 67,278

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 – FUND BALANCES/NET POSITION

A. Fund Balance

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General	Mary MacDonald Business Center	Public Works Reserve	Debt Service	Nonmajor Governmental Fund	Total
Restricted:						
Technology Grant	\$ -	\$ -	\$ -	\$ -	\$ 10,819	\$ 10,819
Memorial Donation	-	-	-	-	12,884	12,884
Memorial Fund	4,085	-	-	-	-	4,085
Cemetery-Perpetual Care	-	-	-	-	2,658	2,658
Debt Service	-	-	-	43,866	-	43,866
Committed:						
Fire Truck	119,000	-	-	-	-	119,000
Assigned:						
Mary MacDonald Business Center	-	212,150	-	-	-	212,150
Library	-	-	-	-	17,201	17,201
Cemetery	-	-	-	-	18,175	18,175
Arena	-	-	-	-	13,045	13,045
Park and Recreation	-	-	-	-	91,518	91,518
Community Building	-	-	-	-	1,546	1,546
Economic Development	-	-	-	-	426,302	426,302
Community Business Partnership	-	-	-	-	104,128	104,128
Storefront Renovation	-	-	-	-	113,645	113,645
Marina	-	-	-	-	19,638	19,638
Taconite Reserve/Sidewalk Replacement/Special Projects	-	-	419,354	-	-	419,354
Unassigned	1,471,132	-	-	-	(38,137)	1,432,995
Total	<u>\$ 1,594,217</u>	<u>\$ 212,150</u>	<u>\$ 419,354</u>	<u>\$ 43,866</u>	<u>\$ 793,422</u>	<u>\$ 3,063,009</u>

B. Net Position

Restricted net position is comprised of the total restricted fund balance in the governmental funds plus the effect of the conversion to the government-wide net position.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 9 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state, which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2013 is estimated to be immaterial based on workers' compensation rates and salaries for the year. At December 31, 2013, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – JOINT POWERS AGREEMENT

On January 1, 1992, the City entered into a joint powers agreement with Lake County (the "County"), pursuant to *Minnesota Statutes* 471.59, whereby the City agreed to operate Rukavina Arena, which is owned by the County.

The County has agreed to pay the City the sum of \$ 59,000 annually in two equal installments of \$ 29,000 on June 1 and November 1. In addition, the City shall have the right to excess revenues and shall be responsible for excess expenditures, except the County shall provide fire and extended coverage insurance for buildings and grounds.

The agreement automatically renews in one year increments unless otherwise mutually negotiated.

On November 15, 2010, the City entered into a joint powers agreement with the County and other local governments, pursuant to *Minnesota Statutes* 471.59 and 471.656, whereby the County will construct a network of fiber optic cable that will provide advanced data, video and voice communication services in the County, including the City. The County will own the fiber optic network that is constructed.

NOTE 11 – LONG TERM CONTRACTED USE AGREEMENT

As of January 1, 2012, the City entered into a long term contracted use agreement with the University of Minnesota Duluth's Center for Sustainability Community Development (UMDCSCD). The agreement terminates on December 31, 2022. UMDCSCD will operate, manage and maintain the Biofuel/Food Greenhouse for the development of fish, produce and algae for research and educational purposes. UMDCSCD will cover all costs and expenditures related to the management, maintenance and operations of the Greenhouse. The EDA will receive an amount equal to 10% of any grants received for the Greenhouse.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 12 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) and the Public Employees' Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all GERF and PEPFF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2013

NOTE 12 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$ 82,663, \$ 79,340 and \$ 75,741, respectively. The City's contributions to PEPFF for the years ending December 31, 2013, 2012 and 2011 were \$ 43,062, \$ 42,845 and \$ 47,163, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 13 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN – FIREFIGHTERS' RELIEF ASSOCIATION

A. Plan Description

The City contributes to the Silver Bay Firefighters' Relief Association (the "Association"), a single-employer, defined benefit pension plan. The plan provides retirement, disability and death benefits to volunteer firefighters of the City. Pension benefits are determined by multiplying the accrued liability, as set forth in *Minnesota Statutes* 69.772, Subd. 2, by the ratio of the lump sum service pension amount provided in the bylaws of the Association to a service pension of \$ 1,100 per year of service. The Association's Board of Trustees has the authority to establish and amend benefit provisions. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor.

The Association issues a publicly available audit report. The report may be obtained by writing to Silver Bay Firefighters' Relief Association at 63 Nelson Drive, Silver Bay, Minnesota 55614 or calling (218) 226-4408.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

**NOTE 13 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN –
FIREFIGHTERS’ RELIEF ASSOCIATION**

B. Funding Policy and Annual Pension Cost

Schedules I and II, prepared by the Association and certified to the City Council by August 1 of each year, determine the municipal contribution for the following calendar year. Plan members, the volunteer firefighters, do not contribute to the plan. The state contributes to the plan in the form of state fire aid. Schedules I and II follow enabling state statutes for fire relief associations. Municipalities are required by state statutes to contribute the amount certified on Schedules I and II. The City’s annual contribution for the current year and related information follows:

Date Certified to City Council: August 1, 2013

Statutory Assumptions:

Investment Rate of Return	5.0%
Administrative Expenses Increase	3.5%
State Aid Contribution	100.0%
Amortization of Surplus (Deficit)	10.0%

C. Three Year Trend Information

<u>Year Ended</u>	<u>Statutory Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
12/31/13	\$ -	\$ -	100%	\$ 14,264	100%
12/31/12	-	-	100%	12,865	100%
12/31/11	-	-	100%	12,608	100%

D. Required Supplementary Information: Schedule of Funding Progress

<u>Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Statutory Accrued Liability (b)</u>	<u>Excess of Assets Over Liabilities (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess as a Percentage of Covered Payroll ((a-b)/c)</u>
12/31/13	\$ 523,694	\$ 331,694	\$ 192,000	158%	N/A	N/A
12/31/12	511,620	390,498	121,122	131%	N/A	N/A
12/31/11	457,400	391,754	65,646	117%	N/A	N/A

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

**NOTE 13 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN –
FIREFIGHTERS’ RELIEF ASSOCIATION**

E. Contributions Required and Contributions Made

Financial requirements of the Association are determined in accordance with *Minnesota Statutes* as follows:

Normal Cost for Next Year (Increase in Pension Benefit Obligation)
Plus Estimated Expenses for Next Year and 10% of Any Deficits
Less Anticipated Income Next Year and 10% of Any Surplus

Contributions totaling \$ 0 were made by the City and \$ 18,480 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2013.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2013, the City implemented GASB Statement No. 65. This action resulted in the establishment of a category outside of liabilities titled deferred inflows of resources.

NOTE 15 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

SUPPLEMENTARY INFORMATION

CITY OF SILVER BAY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Special Revenue			
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)
ASSETS				
Cash and Investments	\$ 47,693	\$ 20,811	\$ 26,983	\$ 82,330
Accounts Receivable	-	-	367	182
Interest Receivable	(2)	22	(32)	59
Due from Other Governments	-	-	-	10,000
Loan Receivable	-	-	-	-
	<u>\$ 47,691</u>	<u>\$ 20,833</u>	<u>\$ 27,318</u>	<u>\$ 92,571</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 732	\$ -	\$ 622	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	6	-	24	-
Salaries and Benefits Payable	6,049	-	8,627	-
Unearned Revenue	-	-	5,000	1,053
Total Liabilities	<u>6,787</u>	<u>-</u>	<u>14,273</u>	<u>1,053</u>
Deferred Inflow of Resources				
Unavailable Revenue - Loans Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted	23,703	2,658	-	-
Assigned	17,201	18,175	13,045	91,518
Unassigned	-	-	-	-
Total Fund Balances	<u>40,904</u>	<u>20,833</u>	<u>13,045</u>	<u>91,518</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 47,691</u>	<u>\$ 20,833</u>	<u>\$ 27,318</u>	<u>\$ 92,571</u>

Special Revenue

Community Building (261)	Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Nonmajor Governmental Funds
\$ 1,546	\$ 425,866	\$ 104,019	\$ 113,527	\$ 18,039	\$ -	\$ 840,814
-	-	-	-	-	-	549
-	436	109	118	6	(41)	675
-	-	-	-	22,498	-	32,498
-	-	-	6,681	-	-	6,681
<u>\$ 1,546</u>	<u>\$ 426,302</u>	<u>\$ 104,128</u>	<u>\$ 120,326</u>	<u>\$ 40,543</u>	<u>\$ (41)</u>	<u>\$ 881,217</u>
\$ -	\$ -	\$ -	\$ -	\$ 537	-	\$ 1,891
-	-	-	-	-	38,096	38,096
-	-	-	-	-	-	30
-	-	-	-	-	-	14,676
-	-	-	-	20,368	-	26,421
-	-	-	-	20,905	38,096	81,114
-	-	-	6,681	-	-	6,681
-	-	-	-	-	-	26,361
1,546	426,302	104,128	113,645	19,638	-	805,198
-	-	-	-	-	(38,137)	(38,137)
<u>1,546</u>	<u>426,302</u>	<u>104,128</u>	<u>113,645</u>	<u>19,638</u>	<u>(38,137)</u>	<u>793,422</u>
<u>\$ 1,546</u>	<u>\$ 426,302</u>	<u>\$ 104,128</u>	<u>\$ 120,326</u>	<u>\$ 40,543</u>	<u>\$ (41)</u>	<u>\$ 881,217</u>

CITY OF SILVER BAY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
REVENUES					
General Property Taxes	\$ 97,000	\$ -	\$ -	\$ -	\$ -
Intergovernmental	52,300	-	83,000	61,800	-
Charges for Services	3,720	2,160	17,424	23,170	10,200
Miscellaneous:					
Investment Income	(55)	88	(160)	171	2
Contributions and Donations	15,738	-	5,000	1,427	-
Loan Repayments	-	-	-	-	-
Other	2,108	-	7,598	2,015	452
Total Revenues	<u>170,811</u>	<u>2,248</u>	<u>112,862</u>	<u>88,583</u>	<u>10,654</u>
EXPENDITURES					
Current					
Culture and Recreation	203,511	2,309	188,712	165,371	12,062
Economic Development	-	-	-	-	-
Airport	-	-	-	-	-
Capital Outlay					
Culture and Recreation	24,763	-	-	55,349	150
Total Expenditures	<u>228,274</u>	<u>2,309</u>	<u>188,712</u>	<u>220,720</u>	<u>12,212</u>
Excess of Revenues Over (Under) Expenditures	(57,463)	(61)	(75,850)	(132,137)	(1,558)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Asset	-	-	-	240	-
Insurance Recoveries	-	-	-	21,231	-
Transfers In	57,480	110	76,655	102,545	1,580
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>57,480</u>	<u>110</u>	<u>76,655</u>	<u>124,016</u>	<u>1,580</u>
Net Change in Fund Balances	17	49	805	(8,121)	22
FUND BALANCES					
Beginning of Year	<u>40,887</u>	<u>20,784</u>	<u>12,240</u>	<u>99,639</u>	<u>1,524</u>
End of Year	<u>\$ 40,904</u>	<u>\$ 20,833</u>	<u>\$ 13,045</u>	<u>\$ 91,518</u>	<u>\$ 1,546</u>

Special Revenue

Economic Development (271)	Community Business Partnership (275)	Housing (279)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,000
-	-	21,234	-	80,772	21,757	320,863
-	-	-	-	146,956	12,365	215,995
1,751	433	-	471	30	(157)	2,574
-	-	-	-	1,250	-	23,415
30,791	-	-	1,847	-	-	32,638
-	-	-	-	4,475	1,230	17,878
<u>32,542</u>	<u>433</u>	<u>21,234</u>	<u>2,318</u>	<u>233,483</u>	<u>35,195</u>	<u>710,363</u>
-	-	-	-	186,097	-	758,062
34	-	21,234	-	-	-	21,268
-	-	-	-	-	33,713	33,713
-	-	-	-	23,649	-	103,911
<u>34</u>	<u>-</u>	<u>21,234</u>	<u>-</u>	<u>209,746</u>	<u>33,713</u>	<u>916,954</u>
32,508	433	-	2,318	23,737	1,482	(206,591)
-	-	-	-	-	-	240
-	-	-	-	-	-	21,231
-	-	-	-	-	-	238,370
<u>(4,140)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,140)</u>
<u>(4,140)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,701</u>
28,368	433	-	2,318	23,737	1,482	49,110
397,934	103,695	-	111,327	(4,099)	(39,619)	744,312
<u>\$ 426,302</u>	<u>\$ 104,128</u>	<u>\$ -</u>	<u>\$ 113,645</u>	<u>\$ 19,638</u>	<u>\$ (38,137)</u>	<u>\$ 793,422</u>

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
General Property Taxes	\$ 730,580	\$ 731,560	\$ 708,293	\$ (23,267)
Licenses and Permits	13,115	44,725	44,728	3
Intergovernmental Revenue:				
Local Government Aid	450,020	450,020	450,020	-
PERA Aid	4,380	4,380	4,383	3
Taconite Homestead Credit	112,000	121,550	121,549	(1)
Taconite Production Tax	435,000	494,930	494,930	-
Federal Grants and Aids	-	15,935	16,770	835
Other State Grants and Aids	45,000	63,545	63,562	17
Other County Grants	13,700	13,700	13,700	-
Other Grants and Aids	3,000	1,700	1,709	9
Total Intergovernmental Revenue	1,063,100	1,165,760	1,166,623	863
Charges for Services:				
Public Safety	36,025	48,905	48,908	3
Public Works	300	735	688	(47)
Park and Recreation	500	1,175	1,175	-
Total Charges for Services	36,825	50,815	50,771	(44)
Fines and Forfeitures	7,800	7,600	7,607	7
Miscellaneous Revenues:				
Investment Income	5,000	4,200	5,577	1,377
Contributions and Donations	1,000	13,255	13,252	(3)
Loan Repayments	17,020	17,020	17,021	1
Other	14,500	38,833	23,957	(14,876)
Total Miscellaneous Revenues	37,520	73,308	59,807	(13,501)
Total Revenues	1,888,940	2,073,768	2,037,829	(35,939)
EXPENDITURES				
General Government				
Mayor and Council:				
Current	28,600	28,555	28,519	(36)
Administrative and Finance:				
Current	287,920	280,480	281,022	542
Other General Government:				
Current	163,905	176,090	175,922	(168)
Capital Outlay	3,000	7,175	7,163	(12)
Total General Government	483,425	492,300	492,626	326
Public Safety				
Police:				
Current	454,020	458,805	457,529	(1,276)
Capital Outlay	3,500	2,915	2,912	(3)

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety (Continued)				
Fire:				
Current	\$ 65,725	\$ 68,570	\$ 68,541	\$ (29)
Capital Outlay	6,000	6,000	5,976	(24)
Other:				
Current	10,400	7,500	7,702	202
Capital Outlay	100	-	-	-
Total Public Safety	539,745	543,790	542,660	(1,130)
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers:				
Current	493,400	479,055	477,851	(1,204)
Capital Outlay	-	103,400	103,393	(7)
Street Lighting:				
Current	28,500	28,435	28,433	(2)
Total Public Works	521,900	610,890	609,677	(1,213)
Culture and Recreation				
Current	23,400	17,800	17,799	(1)
Capital Outlay	-	181,020	177,875	(3,145)
Total Culture and Recreation	23,400	198,820	195,674	(3,146)
Debt Service				
Principal	19,570	19,570	19,567	(3)
Interest and Other Charges	1,860	1,860	1,856	(4)
Total Debt Service	21,430	21,430	21,423	(7)
Total Expenditures	1,589,900	1,867,230	1,862,060	(5,170)
Excess of Revenues Over (Under) Expenditures	299,040	206,538	175,769	(30,769)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	840	840	-
Insurance Recoveries	-	133,915	133,770	(145)
Transfers In	-	90,320	90,314	(6)
Transfers Out	(299,040)	(278,945)	(278,944)	1
Total Other Financing Sources (Uses)	(299,040)	(53,870)	(54,020)	(150)
Net Change in Fund Balances	\$ -	\$ 152,668	121,749	\$ (30,919)
FUND BALANCES				
Beginning of Year			1,472,468	
End of Year			\$ 1,594,217	

CITY OF SILVER BAY

**ANALYSIS OF CHANGES IN FUND BALANCE -
PUBLIC WORKS RESERVE FUND
For the Year Ended December 31, 2013**

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
	<u> </u>	<u> </u>	<u> </u>
Balance - January 1, 2013	\$ (576,440)	\$ 368,812	\$ (112,211)
General Property Taxes	-	-	-
Intergovernmental Revenue	43,175	-	-
Investment Income	-	-	-
Miscellaneous Revenue	-	-	-
Transfers from Other Funds	<u>10,730</u>	<u>-</u>	<u>33,984</u>
Total Available	(522,535)	368,812	(78,227)
Expenditures	(122,549)	-	-
Transfers to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Balance - December 31, 2013	<u><u>\$ (645,084)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (78,227)</u></u>

Project Notes:

* Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$ 456,449, indicating approximately \$ 87,637 can be added to the reserve at December 31, 2013.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 310,485	\$ 409,539	\$ 400,185
127,493	34,507	162,000
19,488	5,267	67,930
1,517	-	1,517
1,633	-	1,633
-	-	44,714
460,616	449,313	677,979
-	-	(122,549)
(136,076)	-	(136,076)
<u>\$ 324,540</u>	<u>\$ 449,313</u>	<u>\$ 419,354</u>

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**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**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Silver Bay
Silver Bay, 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 the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota as of and for the year ended December 31, 2013, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Findings 06-01 and 06-02 that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Control. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this 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.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 4, 2014



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Silver Bay
Silver Bay, 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 controller of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota as of and for the year ended December 31, 2013, and the related Notes to the Financial Statements, and have issued our report thereon dated March 4, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City does not use tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Silver Bay failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 4, 2014

CITY OF SILVER BAY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2013

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies:

Audit Finding 06-01 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2013, the City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management and the City Council are aware of the lack of segregation of accounting duties and have taken certain steps to compensate for the condition, but due to the small staff needed to handle all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the City Council must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

The lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Deputy Clerk has full general ledger access, including the ability to write and post journal entries, and is also responsible for review of the financial activities of the City, including preparation of the bank reconciliation.
- Receipting Process
 - The Assistant Deputy Clerk creates and sends invoices, occasionally collects payments as they are received, prepares deposits and enters the receipts into the accounting system.
 - The Assistant Deputy Clerk enters the utility billing into the utility billing register, bills commercial and residential customers and mails the utility bills. The Assistant Deputy Clerk also occasionally receives payments, records the receipts and is also able to make adjustments to the utility billing register.
- Disbursement Process
 - The Assistant Deputy Clerk creates a batch list for City Council approval, enters information for payment on all bills, prints checks, mails checks and creates the paid claims list that is presented to the City Council.

City's Response:

The City is aware of this situation and as the auditors acknowledge, it would not be cost effective to hire additional personnel to correct this issue. The City will continue to monitor the internal controls and adjust them when possible using the current staff.

CITY OF SILVER BAY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2013

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies: (Continued)

Audit Finding 06-02 – Preparation of Financial Statements and Related Note Disclosures

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response:

This is something the City will work on in the future. Limited staff and budgets contribute to this situation.