

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

CITY OF SILVER BAY

TABLE OF CONTENTS

ELECTED OFFICIALS AND ADMINISTRATION.....	1	
INDEPENDENT AUDITOR’S REPORT	2	
MANAGEMENT’S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements:		
Statement of Net Position	14	
Statement of Activities.....	15	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	16	
Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Funds	19	
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	22	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	23	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Housing Special Revenue Fund	24	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Mary MacDonald Business Center Special Revenue Fund.....	25	
Statement of Net Position – Proprietary Funds.....	26	
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	27	
Statement of Cash Flows – Proprietary Funds.....	28	
Notes to the Financial Statements.....	29	
SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – Nonmajor Governmental Funds.....	54	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds.....	56	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	58	
Analysis of Changes in Fund Balance – Public Works Reserve Fund.....	60	
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		63
REPORT ON LEGAL COMPLIANCE	65	
SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL	66	

CITY OF SILVER BAY

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2014**

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



Expert advice. When you need it.SM

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, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Housing and Mary MacDonald Business Center Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 the Governmental Accounting Standards Board (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 9, 2015 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 9, 2015

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

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, 2014. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2013 has been included as required.

FINANCIAL HIGHLIGHTS

- The net position of the City was \$ 14,232,609 in 2013 and \$ 15,424,342 in 2014. Of these amounts, \$ 4,794,013 in 2013 and \$ 5,599,662 in 2014 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 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. In 2014, the total net position increased by \$ 1,191,733. The majority of this increase was due to the capitalization of the golf course bridge completion, funding received for the water emergency back-up project, the Mary MacDonald Playground Project, improvements made to the skylight at the municipal building from hail damage, and the conveyance of land at the City Shop. Other capital increases included the purchase of a new police vehicle, a Towmaster heavy equipment trailer and snowplow blade for the street department, a new sound system at the Arena, new exterior entry doors at the Mary MacDonald Business Center, a new Seeker inspection camera and a new 2014 Husqvarna Lawnmower at the water/sewer department. Capital decreases happened with the trading in of the old 2008 Ford Explorer in the police department. The City also implemented a new franchise fee in 2014 to fund capital improvements to street, curbs, sidewalks and public parking areas. This generated approximately \$ 71,000 in revenue, none of which was spent during 2014,
- The City's governmental funds reported a combined ending fund balance in the amount of \$ 3,063,009 for 2013 and \$ 3,476,126 for 2014.
- At the end of the previous year, fund balance for the General Fund was \$ 1,594,217 (\$ 4,085 restricted, \$ 119,000 committed and \$ 1,471,132 unassigned), or 85.6%, of total General Fund expenditures of \$ 1,862,060. At the end of the current fiscal year, the total fund balance for the General Fund was \$ 1,780,311 (\$ 4,085 restricted, \$ 122,000 committed and \$ 1,654,226 unassigned), or 104.47%, of total General Fund expenditures of \$ 1,704,119.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014

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 <u>2014</u>	Business-Type Activities <u>2014</u>	Total <u>2014</u>	Governmental Activities <u>2013</u>	Business-Type Activities <u>2013</u>	Total <u>2013</u>
Current and Other Assets	\$ 3,889,336	\$ 2,880,334	\$ 6,769,670	\$ 3,440,246	\$ 2,039,183	\$ 5,479,429
Capital Assets	6,110,301	4,397,880	10,508,181	6,357,177	4,551,760	10,908,937
Total Assets	<u>\$ 9,999,637</u>	<u>\$ 7,278,214</u>	<u>\$ 17,277,851</u>	<u>\$ 9,797,423</u>	<u>\$ 6,590,943</u>	<u>\$ 16,388,366</u>
Current and Other Liabilities	\$ 385,528	\$ 348,550	\$ 734,078	\$ 307,764	\$ 334,589	\$ 642,353
Long-Term Liabilities	227,549	857,577	1,085,126	327,155	1,118,971	1,446,126
Total Liabilities	<u>613,077</u>	<u>1,206,127</u>	<u>1,819,204</u>	<u>634,919</u>	<u>1,453,560</u>	<u>2,088,479</u>
Deferred Inflow of Resources	\$ 34,305	\$ -	\$ 34,305	\$ 67,278	\$ -	\$ 67,278
Net Position:						
Net Investment in Capital Assets	5,904,933	3,309,064	9,213,997	6,037,254	3,216,201	9,253,455
Restricted	144,376	466,307	610,683	185,141	-	185,141
Unrestricted	3,302,946	2,296,716	5,599,662	2,872,831	1,921,182	4,794,013
Total Net Position	<u>9,352,255</u>	<u>6,072,087</u>	<u>15,424,342</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>\$ 9,999,637</u>	<u>\$ 7,278,214</u>	<u>\$ 17,277,851</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 2013 by \$ 429,067 or 4.9%, and increased in 2014 by \$ 257,029 or 2.8%. This change was primarily due to the construction for the golf course bridge project, the purchase and removal of various capital assets and the new franchise fee.

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 \$ 2,872,831 in 2013 and \$ 3,302,946 in 2014. This is an increase of \$ 430,115 or 15.0%. This is mainly due to lower expenses than anticipated, less restricted grant funds, unavailable revenues and property insurance dividends.

Current and other assets totaled \$ 3,440,246 in 2013 and \$ 3,889,336 in 2014. Cash in the General Fund increased by \$ 131,670 in 2013 and increased by \$ 78,918 in 2014. The City experienced an increase in total revenues and a decrease in total expenditures in the General Fund in 2014. The total increase in revenues was \$ 37,416 from the previous year and expenditures decreased \$ 157,941 from the previous year. The decrease in expenditures was due to less capital outlay in 2014 compared to the Tennis Court Renovation Project, property repairs from the hail storm, and the purchase of an Excavator and Golf Course Equipment that were included in 2013.

Cash in the Public Works Reserve Fund increased by \$ 14,504 in 2013 and increased by \$ 68,477 in 2014. In both 2013 and 2014, 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 and 2014 for Bell Circle Apartments and Biofuel Food Greenhouse.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

BUSINESS-TYPE ACTIVITIES

The net position of the City's business-type activities increased by \$ 275,424 in 2013 and increased by \$ 934,704 in 2014. The increases in 2013 and 2014 were due to the increase in charges for services and capital grants and improvements for the year. The following table indicates the changes in net position for the City's governmental and business-type activities.

	Governmental Activities <u>2014</u>	Business-Type Activities <u>2014</u>	Total <u>2014</u>	Governmental Activities <u>2013</u>	Business-Type Activities <u>2013</u>	Total <u>2013</u>
REVENUES:						
Program Revenues:						
Charges for Services	\$ 422,825	\$ 2,426,696	\$ 2,849,521	\$ 533,939	\$ 2,389,487	\$ 2,923,426
Operating Grants and Contributions	552,510	-	552,510	416,246	-	416,246
Capital Grants and Contributions	148,356	514,901	663,257	219,175	-	219,175
General Revenues:						
Property Taxes	1,010,367	-	1,010,367	969,001	-	969,001
Franchise Fees	81,423	-	81,423	-	-	-
State Aids	1,151,518	-	1,151,518	1,091,254	-	1,091,254
Other	29,062	-	29,062	33,157	2,391	35,548
Unrestricted Investment Earnings	12,185	9,692	21,877	10,682	7,179	17,861
Total Revenues	<u>\$ 3,408,246</u>	<u>\$ 2,951,289</u>	<u>\$ 6,359,535</u>	<u>\$ 3,273,454</u>	<u>\$ 2,399,057</u>	<u>\$ 5,672,511</u>
EXPENSES:						
General Services	\$ 569,138	\$ -	\$ 569,138	\$ 563,045	\$ -	\$ 563,045
Public Safety	564,405	-	564,405	564,005	-	564,005
Public Works	615,538	-	615,538	598,652	-	598,652
Culture and Recreation	977,723	-	977,723	875,126	-	875,126
Economic Development	271,997	-	271,997	102,203	-	102,203
Airport	141,386	-	141,386	136,028	-	136,028
Interest on Long-Term Debt	11,030	-	11,030	15,486	-	15,486
Water Utility	-	619,742	619,742	-	656,056	656,056
Sewer Utility	-	517,905	517,905	-	540,468	540,468
Municipal Liquor	-	878,938	878,938	-	916,951	916,951
Total Expenses	<u>3,151,217</u>	<u>2,016,585</u>	<u>5,167,802</u>	<u>2,854,545</u>	<u>2,113,475</u>	<u>4,968,020</u>
Change in Net Position before Transfers	<u>257,029</u>	<u>934,704</u>	<u>1,191,733</u>	<u>418,909</u>	<u>285,582</u>	<u>704,491</u>
Transfers	-	-	-	10,158	(10,158)	-
Change in Net Position	<u>257,029</u>	<u>934,704</u>	<u>1,191,733</u>	<u>429,067</u>	<u>275,424</u>	<u>704,491</u>
NET POSITION:						
Beginning of Year	<u>9,095,226</u>	<u>5,137,383</u>	<u>14,232,609</u>	<u>8,666,159</u>	<u>4,861,959</u>	<u>13,528,118</u>
End of Year	<u>\$ 9,352,255</u>	<u>\$ 6,072,087</u>	<u>\$ 15,424,342</u>	<u>\$ 9,095,226</u>	<u>\$ 5,137,383</u>	<u>\$ 14,232,609</u>

CITY OF SILVER BAY

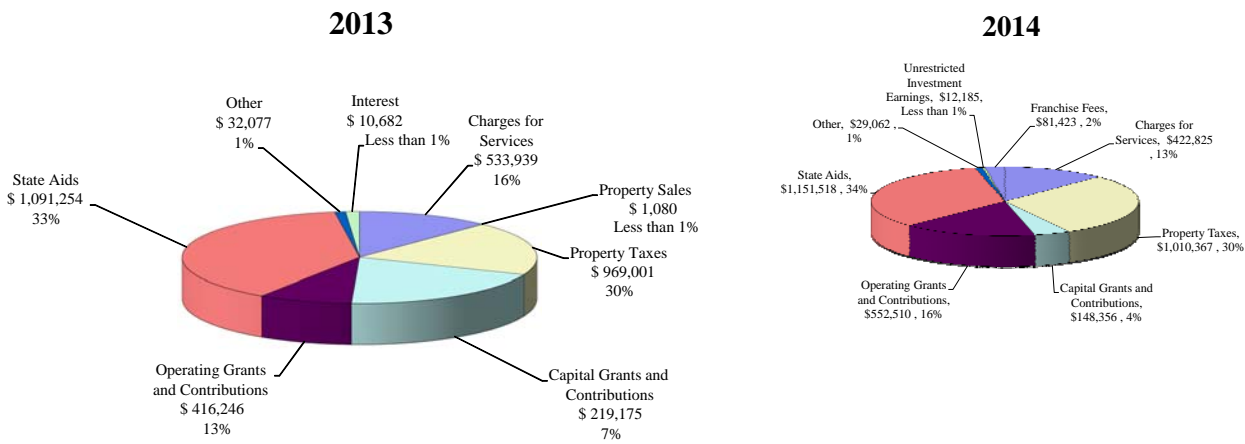
**MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2014**

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 \$ 3,273,454 for 2013 and \$ 3,408,246 for 2014. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$ 533,939 in 2013 and \$ 422,825 in 2014 and were collected through the Marina Fund and various recreation programs. Some fees come from public safety.

Capital grants and contributions totaled \$ 219,175 in 2013 and \$ 148,356 in 2014. In 2013, the majority of the capital contribution was for the 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. In 2014, the majority was to fund the Golf Course Bridge damaged during the flood, Skylight at City Hall that was damaged in hail storm, and the new sound system at the arena. Small grants were received for the police equipment and Prairie Fire Theatre.

The City’s property tax and state aid revenues totaled \$ 2,060,255 and were 63% of the City’s total revenue in 2013. In 2014, they totaled \$ 2,161,885 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 in 2013 due to interest rates falling throughout the year for City’s investments. In 2014, interest (now known as Unrestricted Investment Earnings) slightly increased which was the first time an increase has been seen in 5 years with an earning similar to the interest earned in 2012.

Franchise fees were new in 2014 and generated \$ 81,423 in funding.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$ 2,854,545 for 2013 and \$ 3,151,217 for 2014 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$ 2,399,057 for 2013 and \$ 2,951,289 for 2014. The Municipal Liquor Fund generated operating revenues of \$ 905,576 in 2013 and \$ 904,189 in 2014. Operating revenues in water and sewer increased. All business-types saw an increase in interest income.

Expenses

Business-type expenses totaled \$ 2,113,475 for 2013 and \$ 2,016,585 for 2014. The municipal liquor operating expenses for 2013 remained relatively flat, while the operating revenues decreased by a rate of 4.2%. In 2014, the operating expenses decreased by \$ 18,642 or 5.4%, while the operating revenues decreased by \$ 1,387. As a result, an operating loss of \$ 373 happened in 2013 but an operating income of \$ 33,686 happened in 2014. Expenses in the Water Utility Fund decreased in 2013 to \$ 656,531 and in 2014, they decreased again to \$ 619,742. Sewer expenses for 2013 were \$ 542,518, while 2014 expenses decreased to \$ 517,905.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2013 General Fund balance was \$ 1,594,217. The City's General Fund balance increased by \$ 186,094 in 2014 to \$ 1,780,311.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2013 was \$ 212,150. The Mary MacDonald Fund balance increased by \$ 29,189, for an ending fund balance of \$ 241,339.

Debt Service Fund

The \$ 4,041 decrease in this Fund's balance to \$ 39,825 was due to timing of payment of special assessment.

Public Works Reserve

The Public Works Reserve Fund balance for 2013 was \$ 419,354. In 2014, the fund balance increased to \$ 539,716. 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, 2014

Housing

Fund balance increased to \$ 93 in 2014 due to interest received on the DEED grant.

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 2013, the City had \$ 10,908,937 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 2014, the City had \$ 10,508,181 invested in a broad range of capital assets. The City's fiscal year 2015 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

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).

At 2014 year-end, the City had \$ 1,528,879 in notes, leases and compensated absences outstanding. The majority, \$ 799,003, 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 2015 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 2015 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.

(THIS PAGE LEFT BLANK INTENTIONALLY)

BASIC FINANCIAL STATEMENTS

CITY OF SILVER BAY

**STATEMENT OF NET POSITION
December 31, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 3,374,290	\$ 2,643,551	\$ 6,017,841
Property Tax Receivable	75,592	-	75,592
Accounts Receivable	25,348	76,465	101,813
Interest Receivable	2,649	2,013	4,662
Due from Other Governments	299,891	6,290	306,181
Loan Receivable	34,305	-	34,305
Special Assessments Receivable	77,261	-	77,261
Inventory	-	144,912	144,912
Prepaid Items	-	7,103	7,103
Capital Assets not being Depreciated:			
Land	958,293	37,463	995,756
Construction in Progress	-	48,594	48,594
Capital Assets being Depreciated:			
Buildings and Building Improvements	5,151,217	7,653,939	12,805,156
Improvements Other than Buildings	3,194,188	400,325	3,594,513
Vehicles, Machinery and Equipment	2,163,661	806,926	2,970,587
Less Accumulated Depreciation	<u>(5,357,058)</u>	<u>(4,549,367)</u>	<u>(9,906,425)</u>
 Total Assets	 <u>\$ 9,999,637</u>	 <u>\$ 7,278,214</u>	 <u>\$ 17,277,851</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Accounts Payable	\$ 133,652	\$ 19,874	\$ 153,526
Due to Other Governments	92	10,668	10,760
Salaries and Benefits Payable	60,949	22,744	83,693
Interest Payable	3,309	7,678	10,987
Unearned Revenue	31,359	-	31,359
Bond Principal Payable:			
Payable Within One Year	75,880	53,759	129,639
Payable After One Year	129,488	114,054	243,542
Notes Payable:			
Payable Within One Year	-	201,666	201,666
Payable After One Year	-	719,337	719,337
Compensated Absences Payable:			
Payable Within One Year	80,287	32,161	112,448
Payable After One Year	98,061	24,186	122,247
Total Liabilities	<u>613,077</u>	<u>1,206,127</u>	<u>1,819,204</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Loan Receivable	<u>34,305</u>	<u>-</u>	<u>34,305</u>
 Net Position			
Net Investment in Capital Assets	5,904,933	3,309,064	9,213,997
Restricted	144,376	466,307	610,683
Unrestricted	3,302,946	2,296,716	5,599,662
Total Net Position	<u>9,352,255</u>	<u>6,072,087</u>	<u>15,424,342</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 9,999,637</u>	 <u>\$ 7,278,214</u>	 <u>\$ 17,277,851</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, 2014**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 569,138	\$ -	\$ 22,091	\$ -	\$ (547,047)	\$ -	\$ (547,047)
Public Safety	564,405	55,959	61,781	1,370	(445,295)	-	(445,295)
Public Works	615,538	3,754	13,700	56,804	(541,280)	-	(541,280)
Culture and Recreation	977,723	349,359	241,281	12,957	(374,126)	-	(374,126)
Economic Development	271,997	1,848	194,524	77,225	1,600	-	1,600
Airport	141,386	11,905	19,133	-	(110,348)	-	(110,348)
Interest on Long-Term Debt	11,030	-	-	-	(11,030)	-	(11,030)
Total Governmental Activities	3,151,217	422,825	552,510	148,356	(2,027,526)	-	(2,027,526)
Business-Type Activities							
Water	619,742	847,568	-	514,901	-	742,727	742,727
Sewer	517,905	674,939	-	-	-	157,034	157,034
Municipal Liquor	878,938	904,189	-	-	-	25,251	25,251
Total Business-Type Activities	2,016,585	2,426,696	-	514,901	-	925,012	925,012
Total Governmental and Business-Type Activities	\$ 5,167,802	\$ 2,849,521	\$ 552,510	\$ 663,257	(2,027,526)	925,012	(1,102,514)
General Revenues							
Property and Taconite Taxes					1,010,367	-	1,010,367
Franchise Fees					81,423	-	81,423
State Aids					1,151,518	-	1,151,518
Unrestricted Investment Earnings					12,185	9,692	21,877
Other General Revenue					29,062	-	29,062
Total General Revenues					2,284,555	9,692	2,294,247
Change in Net Position					257,029	934,704	1,191,733
Net Position - Beginning					9,095,226	5,137,383	14,232,609
Net Position - Ending					\$ 9,352,255	\$ 6,072,087	\$ 15,424,342

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

CITY OF SILVER BAY

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue		
	General (101)	Housing (279)	Mary MacDonald Business Center (265)
ASSETS			
Cash and Investments	\$ 1,611,094	\$ 84,160	\$ 261,584
Taxes Receivable - Delinquent	63,233	-	-
Special Assessment Receivable - Deferred	-	-	-
Accounts Receivable	9,430	-	2,830
Interest Receivable	1,317	18	234
Due from Other Funds	37,549	-	-
Due from Other Governments	198,096	-	15
Loan Receivable	29,293	-	-
	<u>\$ 1,950,012</u>	<u>\$ 84,178</u>	<u>\$ 264,663</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 23,694	\$ 84,085	\$ 16,644
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	44,479	-	-
Unearned Revenue	9,002	-	6,680
Total Liabilities	<u>77,175</u>	<u>84,085</u>	<u>23,324</u>
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	63,233	-	-
Unavailable Revenue - Special Assessments	-	-	-
Unavailable Revenue - Loans Receivable	29,293	-	-
Total Deferred Inflows of Resources	<u>92,526</u>	<u>-</u>	<u>-</u>
Fund Balances			
Restricted	4,085	93	-
Committed	122,000	-	-
Assigned	-	-	241,339
Unassigned	1,654,226	-	-
Total Fund Balances	<u>1,780,311</u>	<u>93</u>	<u>241,339</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,950,012</u>	<u>\$ 84,178</u>	<u>\$ 264,663</u>

<u>Debt Service</u>	<u>Capital Projects</u>		
<u>Debt Service (352)</u>	<u>Public Works Reserve (401)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 39,785	\$ 437,588	\$ 940,079	\$ 3,374,290
-	12,359	-	75,592
77,261	-	-	77,261
-	-	13,088	25,348
36	386	658	2,649
-	-	-	37,549
4	101,773	3	299,891
-	-	5,012	34,305
<u>\$ 117,086</u>	<u>\$ 552,106</u>	<u>\$ 958,840</u>	<u>\$ 3,926,885</u>
\$ -	\$ 31	\$ 9,198	\$ 133,652
-	-	37,549	37,549
-	-	92	92
-	-	16,470	60,949
-	-	15,677	31,359
-	31	78,986	263,601
-	12,359	-	75,592
77,261	-	-	77,261
-	-	5,012	34,305
<u>77,261</u>	<u>12,359</u>	<u>5,012</u>	<u>187,158</u>
39,825	-	26,421	70,424
-	-	-	122,000
-	539,716	886,532	1,667,587
-	-	(38,111)	1,616,115
<u>39,825</u>	<u>539,716</u>	<u>874,842</u>	<u>3,476,126</u>
<u>\$ 117,086</u>	<u>\$ 552,106</u>	<u>\$ 958,840</u>	<u>\$ 3,926,885</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)

CITY OF SILVER BAY

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2014**

Total Fund Balances - Governmental Funds \$ 3,476,126

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	11,467,359
Less Accumulated Depreciation	(5,357,058)

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	(205,368)
Compensated Absences Payable	(178,348)

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	75,592
----------------	--------

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds.

Deferred Special Assessments	77,261
------------------------------	--------

Governmental funds do not report a liability for accrued interest on long-term
debt until due and payable.

	<u>(3,309)</u>
--	----------------

Total Net Position - Governmental Activities	<u><u>\$ 9,352,255</u></u>
--	----------------------------

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

		Special Revenue	
	General (101)	Housing (279)	Mary MacDonald Business Center (265)
REVENUES			
General Property Taxes	\$ 750,973	\$ -	\$ -
Franchise Fees	9,901	-	-
Special Assessments	-	-	-
Licenses and Permits	6,920	-	-
Intergovernmental	1,200,661	194,524	-
Charges for Services	46,528	-	165,492
Fines and Forfeitures	6,265	-	-
Miscellaneous:			
Investment Income	5,976	93	1,123
Contributions and Donations	25,291	-	-
Loan Repayments	10,063	-	-
Other	12,667	-	1,311
Total Revenues	2,075,245	194,617	167,926
EXPENDITURES			
Current			
General Government	489,705	-	-
Public Safety	562,821	-	-
Public Works	514,993	-	-
Culture and Recreation	41,454	-	130,113
Economic Development	-	194,524	-
Airport	-	-	-
Debt Service			
Principal	2,967	-	-
Interest and Other Charges	273	-	-
Capital Outlay			
General Government	16,681	-	-
Public Safety	39,190	-	-
Public Works	29,075	-	-
Culture and Recreation	6,960	-	8,624
Economic Development	-	-	-
Total Expenditures	1,704,119	194,524	138,737
Excess of Revenues Over (Under) Expenditures	371,126	93	29,189
OTHER FINANCING SOURCES (USES)			
Insurance Recoveries	57,733	-	-
Transfers In	49,361	-	-
Transfers Out	(292,126)	-	-
Total Other Financing Sources (Uses)	(185,032)	-	-
Net Change in Fund Balances	186,094	93	29,189
FUND BALANCES			
Beginning of Year	1,594,217	-	212,150
End of Year	\$ 1,780,311	\$ 93	\$ 241,339

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

<u>Debt Service</u>		<u>Capital Projects</u>	
<u>Debt Service (352)</u>	<u>Public Works Reserve (401)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4	\$ 163,856	\$ 97,000	\$ 1,011,833
-	-	71,522	81,423
43,430	-	-	43,430
-	-	-	6,920
-	101,733	226,966	1,723,884
-	-	188,717	400,737
-	-	-	6,265
176	1,819	2,998	12,185
-	-	40,573	65,864
-	-	1,848	11,911
-	1,567	16,341	31,886
<u>43,610</u>	<u>268,975</u>	<u>645,965</u>	<u>3,396,338</u>
-	-	-	489,705
-	-	-	562,821
-	6,150	-	521,143
-	-	752,367	923,934
-	71,578	-	266,102
-	-	39,071	39,071
91,029	-	-	93,996
12,542	-	-	12,815
-	-	-	16,681
-	-	-	39,190
-	-	-	29,075
-	-	24,942	40,526
-	5,895	-	5,895
<u>103,571</u>	<u>83,623</u>	<u>816,380</u>	<u>3,040,954</u>
(59,961)	185,352	(170,415)	355,384
-	-	-	57,733
55,920	40,291	251,835	397,407
-	(105,281)	-	(397,407)
<u>55,920</u>	<u>(64,990)</u>	<u>251,835</u>	<u>57,733</u>
(4,041)	120,362	81,420	413,117
<u>43,866</u>	<u>419,354</u>	<u>793,422</u>	<u>3,063,009</u>
<u>\$ 39,825</u>	<u>\$ 539,716</u>	<u>\$ 874,842</u>	<u>\$ 3,476,126</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, 2014

Net Change in Fund Balances - Governmental Funds \$ 413,117

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	123,460
Depreciation Expense	(390,447)
Loss on Disposal	(31,889)
Donated Assets	52,000

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 14,540

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. 93,996

A capital lease was terminated prior to the end of the lease agreement, resulting in the City not recognizing the related debt expenditure for principal payments that were forgiven. 20,559

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. 1,785

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.
Special Assessments Deferred (38,626)

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. (1,466)

Change in Net Position - Governmental Activities \$ 257,029

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

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
General Property Taxes	\$ 759,181	\$ 778,137	\$ 750,973	\$ (27,164)
Franchise Fees	10,000	9,900	9,901	1
Licenses and Permits	13,295	6,905	6,920	15
Intergovernmental	1,145,504	1,200,625	1,200,661	36
Charges for Services	36,800	53,780	46,528	(7,252)
Fines and Forfeitures	6,700	6,265	6,265	-
Miscellaneous:				
Investment Income	5,000	5,000	5,976	976
Contributions and Donations	1,500	25,290	25,291	1
Loan Repayments	17,000	10,060	10,063	3
Other	8,050	12,390	12,667	277
Total Revenues	<u>2,003,030</u>	<u>2,108,352</u>	<u>2,075,245</u>	<u>(33,107)</u>
EXPENDITURES				
Current				
General Government	516,895	490,580	489,705	(875)
Public Safety	543,350	564,887	562,821	(2,066)
Public Works	551,400	539,550	514,993	(24,557)
Culture and Recreation	18,200	17,625	41,454	23,829
Debt Service				
Principal	19,500	2,700	2,967	267
Interest and Other Charges	1,900	555	273	(282)
Capital Outlay				
General Government	10,800	16,680	16,681	1
Public Safety	510,800	38,915	39,190	275
Public Works	15,200	29,125	29,075	(50)
Culture and Recreation	-	30,795	6,960	(23,835)
Total Expenditures	<u>2,188,045</u>	<u>1,731,412</u>	<u>1,704,119</u>	<u>(27,293)</u>
Excess of Revenues Over (Under) Expenditures	(185,015)	376,940	371,126	(5,814)
OTHER FINANCING SOURCES (USES)				
Insurance Recoveries	500	57,730	57,733	3
Transfers In	387,000	49,360	49,361	1
Transfers Out	<u>(332,485)</u>	<u>(292,125)</u>	<u>(292,126)</u>	<u>(1)</u>
Total Other Financing Sources (Uses)	<u>55,015</u>	<u>(185,035)</u>	<u>(185,032)</u>	<u>3</u>
Net Change in Fund Balances	<u>\$ (130,000)</u>	<u>\$ 191,905</u>	186,094	<u>\$ (5,811)</u>
FUND BALANCES				
Beginning of Year			<u>1,594,217</u>	
End of Year			<u>\$ 1,780,311</u>	

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - HOUSING SPECIAL REVENUE FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ 194,520	\$ 194,524	\$ 4
Miscellaneous Revenues:				
Investment Income	-	30	93	63
Total Revenues	-	194,550	194,617	67
EXPENDITURES				
Current				
Economic Development	-	194,520	194,524	4
Net Change in Fund Balances	\$ -	\$ 30	93	\$ 63
FUND BALANCES				
Beginning of Year			-	
End of Year			\$ 93	

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MARY MACDONALD BUSINESS CENTER
SPECIAL REVENUE FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Charges for Services	\$ 164,000	\$ 165,490	\$ 165,492	\$ 2
Miscellaneous:				
Investment Income	1,000	900	1,123	223
Other	2,000	1,310	1,311	1
Total Revenues	<u>167,000</u>	<u>167,700</u>	<u>167,926</u>	<u>226</u>
EXPENDITURES				
Current				
Culture and Recreation	129,000	130,180	130,113	(67)
Capital Outlay				
Culture and Recreation	<u>15,000</u>	<u>8,625</u>	<u>8,624</u>	<u>(1)</u>
Total Expenditures	<u>144,000</u>	<u>138,805</u>	<u>138,737</u>	<u>(68)</u>
Net Change in Fund Balances	<u>\$ 23,000</u>	<u>\$ 28,895</u>	29,189	<u>\$ 294</u>
FUND BALANCES				
Beginning of Year			<u>212,150</u>	
End of Year			<u>\$ 241,339</u>	

CITY OF SILVER BAY

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2014

	<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)	\$ 1,289,222	\$ 995,393	\$ 358,936	\$ 2,643,551
Accounts Receivable	37,845	38,316	304	76,465
Interest Receivable	827	853	333	2,013
Due from Other Governments	2,349	2,317	1,624	6,290
Inventory	72,614	8,757	63,541	144,912
Prepaid Items	-	-	7,103	7,103
Total Current Assets	<u>1,402,857</u>	<u>1,045,636</u>	<u>431,841</u>	<u>2,880,334</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	284,918	486,172	35,836	806,926
Construction in Progress	48,594	-	-	48,594
Total Capital Assets	<u>3,178,331</u>	<u>4,407,560</u>	<u>1,361,356</u>	<u>8,947,247</u>
Less Accumulated Depreciation	<u>(1,599,077)</u>	<u>(2,417,704)</u>	<u>(532,586)</u>	<u>(4,549,367)</u>
Net Capital Assets	<u>1,579,254</u>	<u>1,989,856</u>	<u>828,770</u>	<u>4,397,880</u>
Total Assets	<u>\$ 2,982,111</u>	<u>\$ 3,035,492</u>	<u>\$ 1,260,611</u>	<u>\$ 7,278,214</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 10,575	\$ 3,659	\$ 5,640	\$ 19,874
Due to Other Governments	5,186	-	5,482	10,668
Salaries and Benefits Payable	7,418	7,418	7,908	22,744
Interest Payable	4,445	2,111	1,122	7,678
Long-Term Liabilities Due Within One Year	84,669	132,335	70,582	287,586
Total Current Liabilities	<u>112,293</u>	<u>145,523</u>	<u>90,734</u>	<u>348,550</u>
Noncurrent Liabilities				
Compensated Absences	13,436	13,436	29,475	56,347
Notes Payable	656,000	265,003	-	921,003
Bonds Payable	-	-	167,813	167,813
Less Amount Due Within One Year	<u>(84,669)</u>	<u>(132,335)</u>	<u>(70,582)</u>	<u>(287,586)</u>
Total Noncurrent Liabilities	<u>584,767</u>	<u>146,104</u>	<u>126,706</u>	<u>857,577</u>
Total Liabilities	<u>697,060</u>	<u>291,627</u>	<u>217,440</u>	<u>1,206,127</u>
Net Position				
Net Investment in Capital Assets	923,254	1,724,853	660,957	3,309,064
Restricted	466,307	-	-	466,307
Unrestricted	895,490	1,019,012	382,214	2,296,716
Total Net Position	<u>2,285,051</u>	<u>2,743,865</u>	<u>1,043,171</u>	<u>6,072,087</u>
Total Liabilities and Net Position	<u>\$ 2,982,111</u>	<u>\$ 3,035,492</u>	<u>\$ 1,260,611</u>	<u>\$ 7,278,214</u>

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

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 889,061	\$ 889,061
Cost of Sales	-	-	547,567	547,567
Gross Profit	<u>-</u>	<u>-</u>	<u>341,494</u>	<u>341,494</u>
OPERATING REVENUES				
Charges for Services	845,701	672,446	-	1,518,147
Other Services	1,867	2,493	1,066	5,426
Game Machines	-	-	14,062	14,062
Total Operating Revenues	<u>847,568</u>	<u>674,939</u>	<u>15,128</u>	<u>1,537,635</u>
OPERATING EXPENSES				
Salaries and Benefits	236,737	229,326	186,107	652,170
Materials and Supplies	53,921	44,329	20,681	118,931
Professional Services	2,311	8,494	3,000	13,805
Contracted Services	13,922	48,149	19,622	81,693
Insurance	10,183	14,104	20,747	45,034
Utilities	65,678	35,956	16,967	118,601
Refuse Charges	159,392	526	1,246	161,164
Telephone	2,321	1,964	1,699	5,984
Depreciation	58,908	122,479	33,387	214,774
Promotion and Advertising	313	24	3,559	3,896
Licenses and Dues	1,087	2,958	2,318	6,363
Conferences and Schools	1,412	818	67	2,297
Miscellaneous Expenses	248	164	13,536	13,948
Total Operating Expenses	<u>606,433</u>	<u>509,291</u>	<u>322,936</u>	<u>1,438,660</u>
Operating Income	241,135	165,648	33,686	440,469
NONOPERATING REVENUES (EXPENSES)				
Investment Income	4,131	4,057	1,504	9,692
Interest Expense	<u>(13,309)</u>	<u>(8,614)</u>	<u>(8,435)</u>	<u>(30,358)</u>
Total Nonoperating Revenues (Expenses)	<u>(9,178)</u>	<u>(4,557)</u>	<u>(6,931)</u>	<u>(20,666)</u>
Income before Capital Contributions	231,957	161,091	26,755	419,803
Capital Contributions	<u>514,901</u>	<u>-</u>	<u>-</u>	<u>514,901</u>
Change in Net Position	746,858	161,091	26,755	934,704
NET POSITION				
Beginning of Year	<u>1,538,193</u>	<u>2,582,774</u>	<u>1,016,416</u>	<u>5,137,383</u>
End of Year	<u>\$ 2,285,051</u>	<u>\$ 2,743,865</u>	<u>\$ 1,043,171</u>	<u>\$ 6,072,087</u>

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

CITY OF SILVER BAY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 844,917	\$ 673,473	\$ 902,739	\$ 2,421,129
Payments to Suppliers	(310,286)	(156,690)	(647,095)	(1,114,071)
Payments to Employees	(234,471)	(227,060)	(195,663)	(657,194)
Net Cash Flows - Operating Activities	300,160	289,723	59,981	649,864
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	(75,000)	(120,052)	(51,691)	(246,743)
Interest Paid on Debt	(13,881)	(9,702)	(8,780)	(32,363)
Taconite Municipal Aid	514,901	-	-	514,901
Acquisition of Capital Assets	(54,744)	(6,150)	-	(60,894)
Net Cash Flows - Capital and Related Financing Activities	371,276	(135,904)	(60,471)	174,901
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	3,876	4,012	1,567	9,455
Net Change in Cash and Cash Equivalents	675,312	157,831	1,077	834,220
CASH AND CASH EQUIVALENTS				
Beginning of Year	613,910	837,562	357,859	1,809,331
End of Year	\$ 1,289,222	\$ 995,393	\$ 358,936	\$ 2,643,551
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income	\$ 241,135	\$ 165,648	\$ 33,686	\$ 440,469
Adjustments to Reconcile Operating Income to Net Cash Flows - Operating Activities:				
Depreciation Expense	58,908	122,479	33,387	214,774
Accounts Receivable	(1,823)	(723)	174	(2,372)
Due from Other Governments	(828)	(743)	(1,624)	(3,195)
Prepaid Items	-	-	490	490
Inventory	(3,664)	596	1,451	(1,617)
Accounts Payable	4,436	200	2,453	7,089
Due to Other Governmental Units	(270)	-	(480)	(750)
Salaries Payable	844	844	(963)	725
Compensated Absences Payable	1,422	1,422	(8,593)	(5,749)
Total Adjustments	59,025	124,075	26,295	209,395
Net Cash Flows - Operating Activities	\$ 300,160	\$ 289,723	\$ 59,981	\$ 649,864

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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, 2014

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, 2014

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.

Housing Special Revenue Fund – This Fund accounts for the pass-through activity related to the Community Development Block Grant.

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 utility functions 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, 2014

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. Further, the City applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned and unassigned.

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, 2014, 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, 2014

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, 2014**

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 and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City presents deferred inflows of resources as unavailable revenue. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and loans receivable. The government-wide financial statements report unavailable revenues from one source: loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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 ten 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, 2014

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 and deferred inflows 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, 2014

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, 2014**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the following Funds:

	<u>Expenditures</u>	<u>Appropriations</u>
Housing Special Revenue Fund	\$ 194,524	\$ 194,520
Nonmajor Fund:		
Marina Special Revenue Fund	181,051	180,965

C. Deficit Fund Balances

The following Fund had a deficit fund balance at December 31, 2014:

Special Revenue:	
Airport	\$ 38,111

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, 2014, the City’s bank balance was exposed to custodial credit risk because it was insured through FDIC and not 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, 2014, the City had the following deposits:

Cash and Cash Equivalents	\$ 3,623,196
Certificates of Deposit	<u>1,600,000</u>
Total Deposits	<u><u>\$ 5,223,196</u></u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2014, 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	\$ 183,245	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, Utah	02/23/15	100,000	12.77%	CD
Ally Bank, Utah	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>\$ 783,245</u>	<u>100.00%</u>	

Credit Risk: As of December 31, 2014, 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, 2014.

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 5,223,196
Petty Cash	11,400
Investments	<u>783,245</u>
Total Deposits and Investments	<u>\$ 6,017,841</u>

Deposits and investments are presented in the December 31, 2014 basic financial statements as follows:

Statement of Net Position:

Cash and Investments (Including Cash Equivalents)	<u>\$ 6,017,841</u>
---	---------------------

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 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	\$ 52,500	\$ -	\$ 958,293
Construction in Progress	<u>179,236</u>	<u>15,917</u>	<u>195,153</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>1,085,029</u>	<u>68,417</u>	<u>195,153</u>	<u>958,293</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	5,131,117	20,100	-	5,151,217
Improvements Other than Buildings	3,028,723	165,465	-	3,194,188
Vehicles, Machinery and Equipment	<u>2,149,791</u>	<u>86,943</u>	<u>73,073</u>	<u>2,163,661</u>
Total Capital Assets being Depreciated	<u>10,309,631</u>	<u>272,508</u>	<u>73,073</u>	<u>10,509,066</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	1,860,397	136,315	-	1,996,712
Improvements Other than Buildings	1,694,113	142,482	-	1,836,595
Vehicles, Machinery and Equipment	<u>1,482,973</u>	<u>111,650</u>	<u>70,872</u>	<u>1,523,751</u>
Total Accumulated Depreciation	<u>5,037,483</u>	<u>390,447</u>	<u>70,872</u>	<u>5,357,058</u>
Total Capital Assets being Depreciated, Net	<u>5,272,148</u>	<u>(117,939)</u>	<u>2,201</u>	<u>5,152,008</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,357,177</u>	<u>\$ (49,522)</u>	<u>\$ 197,354</u>	<u>\$ 6,110,301</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Construction in Progress	-	48,594	-	48,594
Total Capital Assets not being Depreciated	<u>37,463</u>	<u>48,594</u>	<u>-</u>	<u>86,057</u>
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	794,626	12,300	-	806,926
Total Capital Assets being Depreciated	<u>8,848,890</u>	<u>12,300</u>	<u>-</u>	<u>8,861,190</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	3,684,310	177,150	-	3,861,460
Improvements Other than Buildings	126,131	7,341	-	133,472
Vehicles, Machinery and Equipment	524,152	30,283	-	554,435
Total Accumulated Depreciation	<u>4,334,593</u>	<u>214,774</u>	<u>-</u>	<u>4,549,367</u>
Total Capital Assets being Depreciated, Net	<u>4,514,297</u>	<u>(202,474)</u>	<u>-</u>	<u>4,311,823</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,551,760</u>	<u>\$ (153,880)</u>	<u>\$ -</u>	<u>\$ 4,397,880</u>

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

Governmental Activities:	
General Government	\$ 75,865
Public Safety	19,227
Public Works	69,326
Culture and Recreation	123,714
Airport	<u>102,315</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 390,447</u>
Business-Type Activities:	
Water	\$ 58,908
Sewer	122,479
Municipal Liquor Dispensary	<u>33,387</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 214,774</u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2014 was as follows:

	Amounts Due to Other Funds
	Nonmajor Governmental Funds
Amounts Due from Other Funds:	
General Fund	\$ 37,549

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

B. Transfers

The composition of interfund transfers as of December 31, 2014 was as follows:

	Transfers In				Total
	General Fund	Debt Service	Public Works Reserve	Nonmajor Governmental Funds	
Transfers Out:					
General Fund	\$ -	\$ -	\$ 40,291	\$ 251,835	\$ 292,126
Public Works Reserve	49,361	55,920	-	-	105,281
Total	\$ 49,361	\$ 55,920	\$ 40,291	\$ 251,835	\$ 397,407

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

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

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	07/15/18	\$ 93,635	\$ 23,959
G.O. Equipment Certificate 2010	04/30/10	3.75%	109,042	04/30/15	23,627	23,627
G.O. Equipment Certificate 2011	11/01/11	3.75%	167,000	12/01/17	<u>88,106</u>	<u>28,294</u>
Total G.O. Bonds					<u>205,368</u>	<u>75,880</u>
Compensated Absences					<u>178,348</u>	<u>80,287</u>
Total Governmental Activities					383,716	156,167
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	143,003	94,666
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	162,000	39,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	494,000	38,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	167,813	53,759
G.O. Sewer Revenue Note Series 2011A	10/17/11	2.60%	203,800	10/17/18	<u>122,000</u>	<u>30,000</u>
Total G.O. Revenue Notes/ Bonds					1,088,816	255,425
Compensated Absences					<u>56,347</u>	<u>32,161</u>
Total Business-Type Activities					<u>1,145,163</u>	<u>287,586</u>
Total all Long-Term Liabilities					<u>\$ 1,528,879</u>	<u>\$ 443,753</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, 2014

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
2015	\$ 23,959	\$ 4,379	\$ 28,338
2016	25,162	3,176	28,338
2017	26,440	1,898	28,338
2018	18,074	562	18,636
Total	\$ 93,635	\$ 10,015	\$ 103,650
<u>Year Ending December 31,</u>	Equipment Certificates		
	Principal	Interest	Total
	2015	\$ 51,921	\$ 4,202
2016	29,356	2,243	31,599
2017	30,456	1,142	31,598
Total	\$ 111,733	\$ 7,587	\$ 119,320
<u>Year Ending December 31,</u>	Business-Type Activities		
	Revenue Notes/Bonds		
	Principal	Interest	Total
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
2109	40,000	5,610	45,610
2020-2024	211,000	17,919	228,919
2025-2026	89,000	2,211	91,211
Total	\$ 1,088,816	\$ 89,929	\$ 1,178,745

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014 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	\$ 134,827	\$ -	\$ 41,192	\$ 93,635	\$ 23,959
G.O. Equipment Certificates	161,570	-	49,837	111,733	51,921
Capital Lease Obligations	23,526	-	23,526	-	-
Compensated Absences	<u>192,888</u>	<u>104,814</u>	<u>119,354</u>	<u>178,348</u>	<u>80,287</u>
Total Governmental Activities	512,811	104,814	233,909	383,716	156,167
Business-Type Activities:					
Notes/Bonds Payable:					
G.O. Revenue Notes	1,116,055	-	195,052	921,003	201,666
Revenue Bonds	219,504	-	51,691	167,813	53,759
Compensated Absences	<u>62,096</u>	<u>43,890</u>	<u>49,639</u>	<u>56,347</u>	<u>32,161</u>
Total Business-Type Activities	<u>1,397,655</u>	<u>43,890</u>	<u>296,382</u>	<u>1,145,163</u>	<u>287,586</u>
Total Long-Term Liabilities	<u>\$ 1,910,466</u>	<u>\$ 148,704</u>	<u>\$ 530,291</u>	<u>\$ 1,528,879</u>	<u>\$ 443,753</u>

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

NOTE 7 – LOANS RECEIVABLE

Loans receivable at December 31, 2014 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%. \$ 5,012

Silver Bay Country Club Lease Agreement:

\$ 36,617 repayment agreement, due in annual installments
of \$ 1,221 through October 2017. 29,293

Total Loans Receivable \$ 34,305

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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	Housing	Mary MacDonald Business Center	Public Works Reserve	Debt Service	Nonmajor Governmental Funds	Total
Restricted:							
Technology Grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,819	\$ 10,819
Memorial Donation	-	-	-	-	-	12,884	12,884
Memorial Fund	4,085	-	-	-	-	-	4,085
Housing	-	93	-	-	-	-	93
Cemetery-Perpetual Care	-	-	-	-	-	2,718	2,718
Debt Service	-	-	-	-	39,825	-	39,825
Committed:							
Fire Truck	122,000	-	-	-	-	-	122,000
Assigned:							
Mary MacDonald Business Center	-	-	241,339	-	-	-	241,339
Library	-	-	-	-	-	17,743	17,743
Cemetery	-	-	-	-	-	18,141	18,141
Arena	-	-	-	-	-	14,043	14,043
Park and Recreation	-	-	-	-	-	91,824	91,824
Community Building	-	-	-	-	-	1,594	1,594
Economic Development	-	-	-	-	-	428,217	428,217
Community Business Partnership	-	-	-	-	-	104,593	104,593
Storefront Renovation	-	-	-	-	-	116,006	116,006
Marina	-	-	-	-	-	22,718	22,718
Capital Projects	-	-	-	-	-	71,653	71,653
Taconite Reserve/Sidewalk Replacement/Special Projects	-	-	-	539,716	-	-	539,716
Unassigned	<u>1,654,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,111)</u>	<u>1,616,115</u>
Total	<u>\$ 1,780,311</u>	<u>\$ 93</u>	<u>\$ 241,339</u>	<u>\$ 539,716</u>	<u>\$ 39,825</u>	<u>\$ 874,842</u>	<u>\$ 3,476,126</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. \$ 466,307 is restricted in the Water Fund through legislation for a water line project.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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 2014 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2014, 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 \$ 58,000 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, 2014

NOTE 12 – PENSION PLANS

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 ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

NOTE 12 – PENSION PLANS

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 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, 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 15.3% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$ 81,788, \$ 82,663 and \$ 79,340, respectively. The City's contributions to PEPFF for the years ending December 31, 2014, 2013 and 2012 were \$ 44,944, \$ 43,062 and \$ 42,845, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the PEPFF (10.8% for members and 16.2% for employers).

Defined Benefit Pension Plan – Volunteer 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 \$ 1,900 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, 2014**

NOTE 12 – PENSION PLANS

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City’s obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on-behalf payment of \$ 14,322 made by the State of Minnesota for the Relief Association. The City’s annual contribution for the current year and related information follows:

Date Certified to City Council: August 28, 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>
12/31/14	\$ -	\$ -	100%	\$ 14,322	100%
12/31/13	-	-	100%	14,264	100%
12/31/12	-	-	100%	12,865	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>
12/31/14	\$ 541,157	\$ 551,034	\$ (9,877)	98%	N/A	N/A
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

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 12 – PENSION PLANS

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association (Continued)

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 \$ 20,787 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2014.

NOTE 13 – COMMITMENTS

At December 31, 2014, the City had the following outstanding commitments:

<u>Vendor/Purpose</u>	<u>Contract</u>	<u>Remaining Commitment</u>
Benson Electric Company - Generators	\$ 249,700	\$ 249,700
Honeywell - C900 Process Controllers	54,243	54,243
Custom Fab and Body, Inc. - Fire Truck	486,153	486,153

NOTE 14 – SUBSEQUENT EVENTS

On March 2, 2015, the City approved a contract with Northland Constructors for \$ 143,843 for a high pressure water line.

On March 9, 2015, the City approved a contract with Rice Lake Construction Group in the amount of \$ 335,600 for a water booster station.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

SUPPLEMENTARY INFORMATION

CITY OF SILVER BAY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
ASSETS					
Cash and Investments	\$ 50,732	\$ 20,860	\$ 26,683	\$ 91,545	\$ 2,145
Accounts Receivable	-	-	581	898	-
Interest Receivable	(4)	20	(16)	45	(1)
Due from Other Governments	-	-	-	3	-
Loan Receivable	-	-	-	-	-
Total Assets	<u>\$ 50,728</u>	<u>\$ 20,880</u>	<u>\$ 27,248</u>	<u>\$ 92,491</u>	<u>\$ 2,144</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 2,330	\$ 21	\$ 3,647	\$ 667	\$ -
Due to Other Funds	-	-	-	-	-
Due to Other Governments	11	-	29	-	-
Salaries and Benefits Payable	6,941	-	9,529	-	-
Unearned Revenue	-	-	-	-	550
Total Liabilities	<u>9,282</u>	<u>21</u>	<u>13,205</u>	<u>667</u>	<u>550</u>
Deferred Inflow of Resources					
Unavailable Revenue - Loans Receivable	-	-	-	-	-
Fund Balances					
Restricted	23,703	2,718	-	-	-
Assigned	17,743	18,141	14,043	91,824	1,594
Unassigned	-	-	-	-	-
Total Fund Balances	<u>41,446</u>	<u>20,859</u>	<u>14,043</u>	<u>91,824</u>	<u>1,594</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 50,728</u>	<u>\$ 20,880</u>	<u>\$ 27,248</u>	<u>\$ 92,491</u>	<u>\$ 2,144</u>

Special Revenue					Capital Projects		Total
Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Special Revenue Funds	Street, Curbs, Parking Lots (406)	Nonmajor Governmental Funds
\$ 427,806	\$ 104,493	\$ 115,896	\$ 39,732	\$ -	\$ 879,892	\$ 60,187	\$ 940,079
-	-	-	167	-	1,646	11,442	13,088
411	100	110	10	(41)	634	24	658
-	-	-	-	-	3	-	3
-	-	5,012	-	-	5,012	-	5,012
<u>\$ 428,217</u>	<u>\$ 104,593</u>	<u>\$ 121,018</u>	<u>\$ 39,909</u>	<u>\$ (41)</u>	<u>\$ 887,187</u>	<u>\$ 71,653</u>	<u>\$ 958,840</u>
\$ -	\$ -	\$ -	\$ 2,012	\$ 521	\$ 9,198	\$ -	\$ 9,198
-	-	-	-	37,549	37,549	-	37,549
-	-	-	52	-	92	-	92
-	-	-	-	-	16,470	-	16,470
-	-	-	15,127	-	15,677	-	15,677
-	-	-	17,191	38,070	78,986	-	78,986
-	-	5,012	-	-	5,012	-	5,012
-	-	-	-	-	26,421	-	26,421
428,217	104,593	116,006	22,718	-	814,879	71,653	886,532
-	-	-	-	(38,111)	(38,111)	-	(38,111)
<u>428,217</u>	<u>104,593</u>	<u>116,006</u>	<u>22,718</u>	<u>(38,111)</u>	<u>803,189</u>	<u>71,653</u>	<u>874,842</u>
<u>\$ 428,217</u>	<u>\$ 104,593</u>	<u>\$ 121,018</u>	<u>\$ 39,909</u>	<u>\$ (41)</u>	<u>\$ 887,187</u>	<u>\$ 71,653</u>	<u>\$ 958,840</u>

CITY OF SILVER BAY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
REVENUES					
General Property Taxes	\$ 97,000	\$ -	\$ -	\$ -	\$ -
Franchise Fees	-	-	-	-	-
Intergovernmental	37,300	-	83,000	31,450	-
Charges for Services	3,541	420	17,894	23,792	8,950
Miscellaneous:					
Investment Income	(50)	90	(75)	169	(7)
Contributions and Donations	15,071	-	20,358	2,894	-
Loan Repayments	-	-	-	-	-
Other	1,957	-	7,195	1,931	458
Total Revenues	<u>154,819</u>	<u>510</u>	<u>128,372</u>	<u>60,236</u>	<u>9,401</u>
EXPENDITURES					
Current					
Culture and Recreation	207,567	2,484	186,347	160,650	14,268
Airport	-	-	-	-	-
Capital Outlay					
Culture and Recreation	3,350	-	20,472	1,120	-
Total Expenditures	<u>210,917</u>	<u>2,484</u>	<u>206,819</u>	<u>161,770</u>	<u>14,268</u>
Excess of Revenues Over (Under) Expenditures	(56,098)	(1,974)	(78,447)	(101,534)	(4,867)
OTHER FINANCING SOURCES					
Transfers In	56,640	2,000	79,445	101,840	4,915
Net Change in Fund Balances	542	26	998	306	48
FUND BALANCES					
Beginning of Year	<u>40,904</u>	<u>20,833</u>	<u>13,045</u>	<u>91,518</u>	<u>1,546</u>
End of Year	<u>\$ 41,446</u>	<u>\$ 20,859</u>	<u>\$ 14,043</u>	<u>\$ 91,824</u>	<u>\$ 1,594</u>

Special Revenue						Capital Projects	
Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Special Revenue Funds	Street, Curbs, Parking Lots (406)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,000	\$ -	\$ 97,000
-	-	-	-	-	-	71,522	71,522
-	-	-	56,083	19,133	226,966	-	226,966
-	-	-	122,215	11,905	188,717	-	188,717
1,915	465	513	37	(190)	2,867	131	2,998
-	-	-	2,250	-	40,573	-	40,573
-	-	1,848	-	-	1,848	-	1,848
-	-	-	3,546	1,254	16,341	-	16,341
<u>1,915</u>	<u>465</u>	<u>2,361</u>	<u>184,131</u>	<u>32,102</u>	<u>574,312</u>	<u>71,653</u>	<u>645,965</u>
-	-	-	181,051	-	752,367	-	752,367
-	-	-	-	39,071	39,071	-	39,071
-	-	-	-	-	24,942	-	24,942
-	-	-	<u>181,051</u>	<u>39,071</u>	<u>816,380</u>	-	<u>816,380</u>
1,915	465	2,361	3,080	(6,969)	(242,068)	71,653	(170,415)
-	-	-	-	6,995	251,835	-	251,835
1,915	465	2,361	3,080	26	9,767	71,653	81,420
<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>-</u>	<u>793,422</u>
<u>\$ 428,217</u>	<u>\$ 104,593</u>	<u>\$ 116,006</u>	<u>\$ 22,718</u>	<u>\$ (38,111)</u>	<u>\$ 803,189</u>	<u>\$ 71,653</u>	<u>\$ 874,842</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
General Property Taxes	\$ 759,181	\$ 778,137	\$ 750,973	\$ (27,164)
Franchise Fees	10,000	9,900	9,901	1
Licenses and Permits	13,295	6,905	6,920	15
Intergovernmental Revenue:				
Local Government Aid	498,608	498,610	498,610	-
Market Value Credit	-	145	146	1
PERA Aid	4,380	4,380	4,383	3
Taconite Homestead Credit	126,816	125,760	125,760	-
Taconite Production Tax	435,000	502,490	502,494	4
Federal Grants and Aids	-	615	638	23
Other State Grants and Aids	64,000	53,315	53,321	6
Other County Grants	13,700	13,700	13,700	-
Other Grants and Aids	3,000	1,610	1,609	(1)
Total Intergovernmental Revenue	1,145,504	1,200,625	1,200,661	36
Charges for Services:				
Public Safety	36,000	50,270	42,774	(7,496)
Public Works	300	3,235	3,479	244
Park and Recreation	500	275	275	-
Total Charges for Services	36,800	53,780	46,528	(7,252)
Fines and Forfeitures	6,700	6,265	6,265	-
Miscellaneous Revenues:				
Investment Income	5,000	5,000	5,976	976
Contributions and Donations	1,500	25,290	25,291	1
Loan Repayments	17,000	10,060	10,063	3
Other	8,050	12,390	12,667	277
Total Miscellaneous Revenues	31,550	52,740	53,997	1,257
Total Revenues	2,003,030	2,108,352	2,075,245	(33,107)
EXPENDITURES				
General Government				
Mayor and Council:				
Current	28,200	26,925	26,907	(18)
Administrative and Finance:				
Current	288,320	290,565	289,739	(826)
Capital Outlay	1,000	5,180	5,181	1
Other General Government:				
Current	200,375	173,090	173,059	(31)
Capital Outlay	9,800	11,500	11,500	-
Total General Government	527,695	507,260	506,386	(874)
Public Safety				
Police:				
Current	465,850	483,735	481,706	(2,029)
Capital Outlay	28,800	34,110	34,386	276

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety (Continued)				
Fire:				
Current	\$ 68,050	\$ 74,532	\$ 74,505	\$ (27)
Capital Outlay	482,000	4,805	4,804	(1)
Other:				
Current	9,450	6,620	6,610	(10)
Total Public Safety	1,054,150	603,802	602,011	(1,791)
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers:				
Current	526,900	509,450	485,616	(23,834)
Capital Outlay	15,200	29,125	29,075	(50)
Street Lighting:				
Current	24,500	30,100	29,377	(723)
Total Public Works	566,600	568,675	544,068	(24,607)
Culture and Recreation				
Current	18,200	17,625	41,454	23,829
Capital Outlay	-	30,795	6,960	(23,835)
Total Culture and Recreation	18,200	48,420	48,414	(6)
Debt Service				
Principal	19,500	2,700	2,967	267
Interest and Other Charges	1,900	555	273	(282)
Total Debt Service	21,400	3,255	3,240	(15)
Total Expenditures	2,188,045	1,731,412	1,704,119	(27,293)
Excess of Revenues Over (Under) Expenditures	(185,015)	376,940	371,126	(5,814)
OTHER FINANCING SOURCES (USES)				
Insurance Recoveries	500	57,730	57,733	3
Transfers In	387,000	49,360	49,361	1
Transfers Out	(332,485)	(292,125)	(292,126)	(1)
Total Other Financing Sources (Uses)	55,015	(185,035)	(185,032)	3
Net Change in Fund Balances	\$ (130,000)	\$ 191,905	186,094	\$ (5,811)
FUND BALANCES				
Beginning of Year			1,594,217	
End of Year			\$ 1,780,311	

CITY OF SILVER BAY

**ANALYSIS OF CHANGES IN FUND BALANCE -
PUBLIC WORKS RESERVE FUND
For the Year Ended December 31, 2014**

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
	<u> </u>	<u> </u>	<u> </u>
Balance - January 1, 2014	\$ (645,084)	\$ 368,812	\$ (78,227)
General Property Taxes	-	-	-
Intergovernmental Revenue	77,225	-	-
Investment Income	-	-	-
Miscellaneous Revenue	1,567	-	-
Transfers from Other Funds	<u>6,480</u>	<u>-</u>	<u>33,811</u>
Total Available	(559,812)	368,812	(44,416)
Expenditures	(83,623)	-	-
Transfers to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Balance - December 31, 2014	<u><u>\$ (643,435)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (44,416)</u></u>

Project Notes:

* Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$ 456,239, indicating approximately \$ 87,427 can be added to the reserve at December 31, 2014.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 324,540	\$ 449,313	\$ 419,354
128,952	34,904	163,856
19,294	5,214	101,733
1,819	-	1,819
-	-	1,567
-	-	40,291
474,605	489,431	728,620
-	-	(83,623)
(105,281)	-	(105,281)
<u>\$ 369,324</u>	<u>\$ 489,431</u>	<u>\$ 539,716</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)



Expert advice. When you need it.SM

**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, 2014, 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 9, 2015.

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 9, 2015



Expert advice. When you need it.SM

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 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, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated March 9, 2015.

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, Minnesota, 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.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 9, 2015

CITY OF SILVER BAY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2014

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, 2014, 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, 2014

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.