

**City of Silver Bay
Lake County, Minnesota**

Financial Statements

December 31, 2015



**City of Silver Bay
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**City of Silver Bay
Elected Officials and Administration**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Scott Johnson	Mayor	December 31, 2016
Shane Hoff	Council Member	December 31, 2018
Carlene Perfetto	Council Member	December 31, 2016
Dustin Goutermont	Council Member	December 31, 2016
Richard DeRosier	Council Member	December 31, 2018
<u>Administration</u>		
Lana Fralich	City Administrator	
Cheryl Marolt	Deputy Clerk	



BerganKDV, Ltd.

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, 2015, and the related notes to 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.

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Auditor's Responsibility (Continued)

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, 2015, 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.

Implementation of GASB 68 and GASB 71

As discussed in Note 15 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the schedule of city's proportionate share of net pension liability – GERS retirement fund on page 62, schedule of city's proportionate share of net pension liability – PEPFF retirement fund on page 62, schedule of city contributions – GERS retirement fund on page 63, schedule of city contributions – PEPFF retirement fund on page 63, schedule of employer contributions and non-employer contributing entities – fire relief association on page 64, and schedule of changes in net pension liability and related ratios – fire relief association on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Matters (Continued)

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 3, 2016 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 3, 2016

City of Silver Bay Management's Discussion and Analysis

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, 2015. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2014 has been included as required.

FINANCIAL HIGHLIGHTS

- The net position of the City was \$14,187,548 in 2014, after a change in accounting principle as described in Note 15 and \$15,474,367 in 2015. Of these amounts, \$5,599,662 in 2014 and \$4,896,263 in 2015 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 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. In 2015, the total net position increased by \$1,286,819. A large portion (\$917,734) of this increase was due to the Water Emergency Backup Project to include new generators, construction of a booster station, replacement of the high pressure water main under Hwy 61, and a new Honeywell SCADA system. In addition, the Black Beach Park improvement project included fencing, picnic tables, garbage cans, fire rings, and parking lot improvements. The Golf Course also had the addition of a Gazebo, Outlook Deck, flooring, and painting. Other capital purchases include replacement of overhead doors at the fire hall, a new Fire Engine, a John Deere Grader, Towmaster Trailer, a night vision monocular, a tire changer and balancer, a new "V" Billboard in the business park, gas fired unit heaters, and a Weil Pump Replacement in the Rec Center. Capital decreases happened with the sale of assets in the Street, Fire, and Water and Sewer Departments.
- The City's governmental funds reported a combined ending fund balance in the amount of \$3,476,126 for 2014 and \$3,859,157 for 2015, an increase of \$383,031.
- At the end of 2014, 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. At the end of 2015, the total fund balance for the General Fund was \$1,967,423 (\$1,535 restricted, \$112,000 committed and \$1,853,888 unassigned), or 88.75%, of total General Fund expenditures of \$2,216,700.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

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, deferred outflows of resources and liabilities and deferred inflows of resources 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 deferred outflows and liabilities and deferred inflows of resources, 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, 2015

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.

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 4,190,568	\$ 2,566,904	\$ 6,757,472	\$ 3,889,336	\$ 2,880,334	\$ 6,769,670
Capital Assets	6,342,247	5,079,794	11,422,041	6,110,301	4,397,880	10,508,181
Total Assets	10,532,815	7,646,698	18,179,513	9,999,637	7,278,214	17,277,851
Deferred Outflow of Resources	\$ 178,547	\$ 46,871	\$ 225,418	\$ -	\$ -	\$ -
Current and Other Liabilities	\$ 209,250	\$ 278,820	\$ 488,070	\$ 385,528	\$ 348,550	\$ 734,078
Long-Term Liabilities	1,203,564	987,409	2,190,973	227,549	857,577	1,085,126
Total Liabilities	1,412,814	1,266,229	2,679,043	613,077	1,206,127	1,819,204
Deferred Inflow of Resources	\$ 208,290	\$ 43,231	\$ 251,521	\$ 34,305	\$ -	\$ 34,305
Net Position:						
Net Investment in Capital Assets	6,212,759	4,246,403	10,459,162	5,904,933	3,309,064	9,213,997
Restricted	118,942	-	118,942	144,376	466,307	610,683
Unrestricted	2,758,557	2,137,706	4,896,263	3,302,946	2,296,716	5,599,662
Total Net Position	9,090,258	6,384,109	15,474,367	9,352,255	6,072,087	15,424,342
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 10,711,362	\$ 7,693,569	\$ 18,404,931	\$ 9,999,637	\$ 7,278,214	\$ 17,277,851

GOVERNMENTAL ACTIVITIES

Total net position of the City's governmental activities increased in 2014 by \$257,029 or 2.8%, and increased in 2015 by \$646,492 or 7.7%. This change was primarily due to the purchase of a new fire engine, new grader, fire hall overhead doors, golf course improvements, and the purchase and removal of other various capital assets.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, totaled \$3,302,946 in 2014 and \$2,758,557 in 2015. This is a decrease of \$544,389 or 16.5%. This is mainly due to the pension liability implementation of GASB 68.

Current and other assets totaled \$3,889,336 in 2014 and \$4,190,568 in 2015. Cash in the General Fund increased by \$78,918 in 2014 and increased by \$99,771 in 2015. The City experienced an increase in both total revenues and total expenditures in the General Fund in 2015. The total increase in revenues was \$512,380 from the previous year and expenditures increased \$512,581 from the previous year. These increases are related to receiving a FEMA grant and the subsequent purchase of a fire truck.

Cash in the Public Works Reserve Fund increased by \$68,477 in 2014 and increased by \$89,575 in 2014. In both 2014 and 2015, 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 2014 and 2015 for Bell Circle Apartments and Biofuel Food Greenhouse.

CITY OF SILVER BAY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

BUSINESS-TYPE ACTIVITIES

The net position of the City's business-type activities increased by \$934,704 in 2014 and increased by \$640,327 in 2015. The increases in 2014 and 2015 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	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
	2015	2015	2015	2014	2014	2014
REVENUES:						
Program Revenues:						
Charges for Services	\$ 411,014	\$ 2,494,872	\$ 2,905,886	\$ 422,825	\$ 2,426,696	\$ 2,849,521
Operating Grants and Contributions	696,203	-	696,203	552,510	-	552,510
Capital Grants and Contributions	521,648	153,577	675,225	148,356	514,901	663,257
General Revenues:						
Property Taxes	1,037,294	-	1,037,294	1,010,367	-	1,010,367
Franchise Fees	81,259	-	81,259	81,423	-	81,423
State Aids	1,147,324	-	1,147,324	1,151,518	-	1,151,518
Other	50,358	-	50,358	29,062	-	29,062
Unrestricted Investment Earnings	15,571	13,885	29,456	12,185	9,692	21,877
Total Revenues	\$ 3,960,671	\$ 2,662,334	\$ 6,623,005	\$ 3,408,246	\$ 2,951,289	\$ 6,359,535
EXPENSES:						
General Services	\$ 600,432	\$ -	\$ 600,432	\$ 569,138	\$ -	\$ 569,138
Public Safety	608,316	-	608,316	564,405	-	564,405
Public Works	598,959	-	598,959	615,538	-	615,538
Culture and Recreation	1,060,527	-	1,060,527	977,723	-	977,723
Economic Development	304,151	-	304,151	271,997	-	271,997
Airport	134,555	-	134,555	141,386	-	141,386
Interest on Long-Term Debt	7,239	-	7,239	11,030	-	11,030
Water Utility	-	604,117	604,117	-	619,742	619,742
Sewer Utility	-	507,947	507,947	-	517,905	517,905
Municipal Liquor	-	909,943	909,943	-	878,938	878,938
Total Expenses	3,314,179	2,022,007	5,336,186	3,151,217	2,016,585	5,167,802
Change in Net Position before Transfers	646,492	640,327	1,286,819	257,029	934,704	1,191,733
Transfers	-	-	-	-	-	-
Change in Net Position	646,492	640,327	1,286,819	257,029	934,704	1,191,733
NET POSITION:						
Beginning of Year, Restated	8,443,766	5,743,782	14,187,548	9,095,226	5,137,383	14,232,609
End of Year	\$ 9,090,258	\$ 6,384,109	\$ 15,474,367	\$ 9,352,255	\$ 6,072,087	\$ 15,424,342

CITY OF SILVER BAY

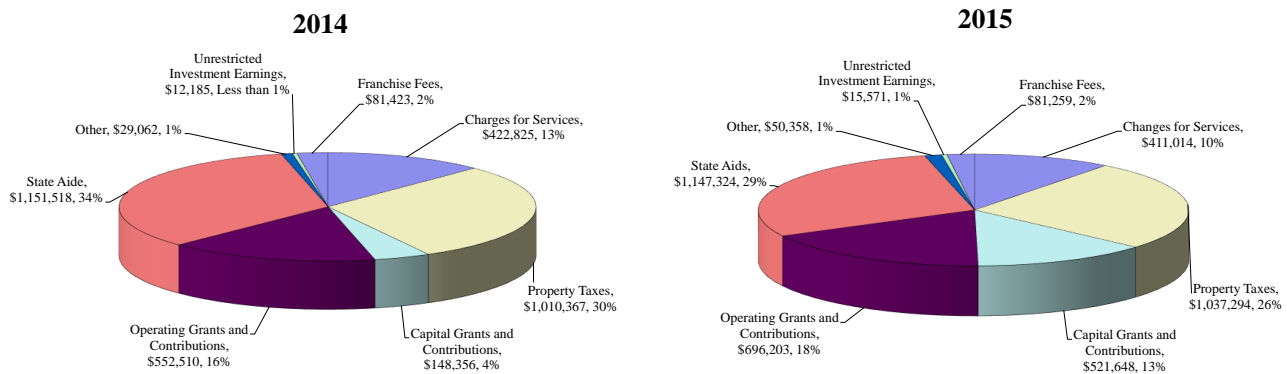
MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

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 \$3,408,246 for 2014 and \$3,960,671 for 2015. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$422,825 in 2014 and \$411,014 in 2015 and were collected through the Marina Fund and various recreation programs. Some fees come from public safety.

Capital grants and contributions totaled \$148,356 in 2014 and \$521,648 in 2015. 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. In 2015 the City received a FEMA grant for the purchase of a fire truck.

The City's property tax and state aid revenues totaled \$2,161,885 and were 63% of the City's total revenue in 2014. In 2015, they totaled 2,184,618 and were 55% 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.

In 2014 and 2015, interest (now known as Unrestricted Investment Earnings) slightly increased which was a result from better economic conditions.

Franchise fees were new in 2014 and generated \$81,423 in funding. In 2015, these fees resulted in \$81,259 in funding.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$3,151,217 for 2014 and \$3,314,179 for 2015 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$2,951,289 for 2014 and \$2,662,334 for 2015. The Municipal Liquor Fund generated operating revenues of \$904,189 in 2014 and \$931,255 in 2015. Operating revenues in water and sewer increased. All business-types saw an increase in interest income.

Expenses

Business-type expenses totaled \$2,016,585 for 2014 and \$2,022,007 for 2015. The municipal liquor operating expenses for 2014 decreased by \$18,642 or 5.4%, while the operating revenues decreased by \$1,387. In 2015, operating expenses increased \$33,089, or 3.8% while operating revenues increased \$29,098 or 3.2%. As a result, an operating income of \$33,686 happened in 2014 and an operating income of \$27,663 happened in 2015. Expenses in the Water Utility Fund decreased in 2014 to \$619,742 and in 2015, they decreased again to \$609,659. Sewer expenses for 2014 were \$517,905, while 2015 expenses increased to \$603,167.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2014 General Fund balance was \$1,780,311. The City's General Fund balance increased by \$187,112 in 2015 to \$1,967,423.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2014 was \$241,339. The Mary MacDonald Fund balance increased by \$40,399, for an ending fund balance of \$281,738.

Debt Service Fund

The \$5,092 decrease in this Fund's balance to \$34,733 was due to timing of payment of special assessment.

Public Works Reserve

The Public Works Reserve Fund balance for 2014 was \$539,716. In 2015, the fund balance increased to \$614,425. The increase was a result of funding for the Business Park, vehicle replacement planning, sidewalks and from General Fund transfers of property tax to reimburse Bell Apartment Condemnation and business park improvements.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Housing

Fund balance increased to \$162 in 2015 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 2014, the City had \$10,508,181 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 2015, the City had \$11,422,041 invested in a broad range of capital assets. The City's fiscal year 2016 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

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).

At 2015 year-end, the City had \$1,220,163 in notes, leases and compensated absences outstanding. The majority, \$719,336, 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). The City also has \$1,357,641 in net pension liability with the implementation of GASB 68 during 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal year 2016 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 2016 budget was to prepare a balanced budget based upon historical trends, known future expectations, and estimated increases/decreases due to trends in the economy. The budget was prepared and analyzed by individual object codes.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

**City of Silver Bay
Statement of Net Position
December 31, 2015**

	Governmental activities	Business-type activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 3,482,631	\$ 2,189,076	\$ 5,671,707
Property tax receivable	69,198	-	69,198
Accounts receivable	27,065	64,767	91,832
Interest receivable	5,242	4,570	9,812
Due from other governments	404,679	157,530	562,209
Loan receivable	25,261	-	25,261
Special assessments receivable	57,948	-	57,948
Inventory	9,045	143,926	152,971
Prepaid items	-	7,035	7,035
Net pension asset - fire relief association	109,499	-	109,499
Capital assets not being depreciated:			
Land	958,293	37,463	995,756
Construction in progress	-	17,414	17,414
Capital assets being depreciated:			
Buildings and building improvements	5,181,322	7,725,837	12,907,159
Improvements other than buildings	3,237,300	970,257	4,207,557
Vehicles, machinery, and equipment	2,747,880	1,072,196	3,820,076
Less accumulated depreciation	<u>(5,782,548)</u>	<u>(4,743,373)</u>	<u>(10,525,921)</u>
Total assets	<u>10,532,815</u>	<u>7,646,698</u>	<u>18,179,513</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to city pensions	<u>178,547</u>	<u>46,871</u>	<u>225,418</u>
Total assets and deferred outflows of resources	<u>\$ 10,711,362</u>	<u>\$ 7,693,569</u>	<u>\$ 18,404,931</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities			
Accounts payable	\$ 24,746	\$ 5,481	\$ 30,227
Due to other governments	135	11,130	11,265
Salaries and benefits payable	16,210	7,546	23,756
Interest payable	1,977	5,600	7,577
Unearned revenue	28,414	-	28,414
Bond principal payable:			
Payable within 1 year	54,518	55,909	110,427
Payable after 1 year	74,970	58,146	133,116
Notes payable:			
Payable within 1 year	-	156,336	156,336
Payable after 1 year	-	563,000	563,000
Compensated absences payable:			
Payable within 1 year	83,250	36,818	120,068
Payable after 1 year	110,001	27,215	137,216
Net pension liability	<u>1,018,593</u>	<u>339,048</u>	<u>1,357,641</u>
Total liabilities	<u>1,412,814</u>	<u>1,266,229</u>	<u>2,679,043</u>
Deferred inflows of resources			
Deferred inflows of resources related to city pensions	169,089	43,231	212,320
Deferred inflows of resources related to fire relief association pensions	13,940	-	13,940
Unavailable revenue - loan receivable	<u>25,261</u>	<u>-</u>	<u>25,261</u>
Total deferred inflows of resources	<u>208,290</u>	<u>43,231</u>	<u>251,521</u>
Net position			
Net investment in capital assets	6,212,759	4,246,403	10,459,162
Restricted	118,942	-	118,942
Unrestricted	<u>2,758,557</u>	<u>2,137,706</u>	<u>4,896,263</u>
Total net position	<u>9,090,258</u>	<u>6,384,109</u>	<u>15,474,367</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,711,362</u>	<u>\$ 7,693,569</u>	<u>\$ 18,404,931</u>

See notes to financial statements.

CITY OF SILVER BAY
Statement of Activities
Year Ended December 31, 2015

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	\$ 600,432	\$ -	\$ 2,155	\$ -	\$ (598,277)	\$ -	\$ (598,277)
Public safety	608,316	67,968	80,414	452,054	(7,880)	-	(7,880)
Public works	598,959	1,206	33,700	3,843	(560,210)	-	(560,210)
Culture and recreation	1,060,527	328,566	242,740	65,751	(423,470)	-	(423,470)
Economic development	304,151	1,847	313,927	-	11,623	-	11,623
Airport	134,555	11,427	23,267	-	(99,861)	-	(99,861)
Interest on long-term debt	7,239	-	-	-	(7,239)	-	(7,239)
Total governmental activities	<u>3,314,179</u>	<u>411,014</u>	<u>696,203</u>	<u>521,648</u>	<u>(1,685,314)</u>	<u>-</u>	<u>(1,685,314)</u>
Business-Type Activities							
Water	604,117	862,359	-	153,577	-	411,819	411,819
Sewer	507,947	701,258	-	-	-	193,311	193,311
Municipal liquor	909,943	931,255	-	-	-	21,312	21,312
Total business-type activities	<u>2,022,007</u>	<u>2,494,872</u>	<u>-</u>	<u>153,577</u>	<u>-</u>	<u>626,442</u>	<u>626,442</u>
Total governmental and Business-type activities	<u>\$ 5,336,186</u>	<u>\$ 2,905,886</u>	<u>\$ 696,203</u>	<u>\$ 675,225</u>	<u>(1,685,314)</u>	<u>626,442</u>	<u>(1,058,872)</u>
General Revenues							
Property and tonnage taxes					1,037,294	-	1,037,294
Franchise fees					81,259	-	81,259
State aids					1,147,324	-	1,147,324
Unrestricted investment earnings					15,571	13,885	29,456
Other general revenue					43,409	-	43,409
Gain on sale of asset					6,949	-	6,949
Total general revenues					<u>2,331,806</u>	<u>13,885</u>	<u>2,345,691</u>
Change in net position					<u>646,492</u>	<u>640,327</u>	<u>1,286,819</u>
Net position - beginning, as previously stated					<u>9,352,255</u>	<u>6,072,087</u>	<u>15,424,342</u>
Change in accounting principle (Note 15)					<u>(908,489)</u>	<u>(328,305)</u>	<u>(1,236,794)</u>
Net position - beginning, as restated					<u>8,443,766</u>	<u>5,743,782</u>	<u>14,187,548</u>
Net position - ending					<u>\$ 9,090,258</u>	<u>\$ 6,384,109</u>	<u>\$ 15,474,367</u>

5 See notes to financial statements.

City of Silver Bay
Balance Sheet - Governmental Funds
December 31, 2015

	Special Revenue		
	General (101)	Housing (279)	Mary MacDonald Business Center (265)
Assets			
Cash and investments	\$ 1,710,865	\$ -	\$ 300,687
Taxes receivable - delinquent	57,841	-	-
Special assessment receivable - deferred	-	-	-
Accounts receivable	8,561	-	2,830
Interest receivable	2,630	15	493
Due from other funds	125,167	-	-
Due from other governments	144,603	91,470	15
Loan receivable	21,970	-	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,071,637</u>	<u>\$ 91,485</u>	<u>\$ 304,025</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 12,539	\$ -	\$ 11,807
Due to other funds	-	91,323	-
Due to other governments	6	-	-
Salaries and benefits payable	11,858	-	-
Unearned revenue	-	-	10,480
Total liabilities	<u>24,403</u>	<u>91,323</u>	<u>22,287</u>
Deferred inflows of resources			
Unavailable revenue - property taxes	57,841	-	-
Unavailable revenue - special assessments	-	-	-
Unavailable revenue - loans receivable	21,970	-	-
Total deferred inflows of resources	<u>79,811</u>	<u>-</u>	<u>-</u>
Fund balances			
Restricted	1,535	162	-
Committed	112,000	-	-
Assigned	-	-	281,738
Unassigned	1,853,888	-	-
Total fund balances	<u>1,967,423</u>	<u>162</u>	<u>281,738</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,071,637</u>	<u>\$ 91,485</u>	<u>\$ 304,025</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>
\$ 25,433	\$ 527,163	\$ 918,483	\$ 3,482,631
-	11,357	-	69,198
57,948	-	-	57,948
-	1,557	14,117	27,065
38	722	1,344	5,242
-	-	-	125,167
9,262	85,014	74,315	404,679
-	-	3,291	25,261
-	-	9,045	9,045
<u>\$ 92,681</u>	<u>\$ 625,813</u>	<u>\$ 1,020,595</u>	<u>\$ 4,206,236</u>
\$ -	\$ 31	\$ 369	\$ 24,746
-	-	33,844	125,167
-	-	129	135
-	-	4,352	16,210
-	-	17,934	28,414
<u>-</u>	<u>31</u>	<u>56,628</u>	<u>194,672</u>
-	11,357	-	69,198
57,948	-	-	57,948
-	-	3,291	25,261
<u>57,948</u>	<u>11,357</u>	<u>3,291</u>	<u>152,407</u>
34,733	-	26,541	62,971
-	-	-	112,000
-	614,425	967,959	1,864,122
-	-	(33,824)	1,820,064
<u>34,733</u>	<u>614,425</u>	<u>960,676</u>	<u>3,859,157</u>
<u>\$ 92,681</u>	<u>\$ 625,813</u>	<u>\$ 1,020,595</u>	<u>\$ 4,206,236</u>

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**City of Silver Bay
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2015**

Total fund balances - governmental funds \$ 3,859,157

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	12,124,795
Less accumulated depreciation	(5,782,548)

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	(129,488)
Compensated absences payable	(193,251)
Net pension liability	(1,018,593)

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	69,198
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred special assessments	57,948
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Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred inflows of resources related to pensions	(183,029)
Deferred outflows of resources related to pensions	178,547

Fire relief association net pension asset created through contributions to a defined benefit pension plan which is not recognized in the governmental funds.

109,499

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

(1,977)

Total net position - governmental activities	<u><u>\$ 9,090,258</u></u>
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City of Silver Bay
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2015

	Special Revenue		
	General (101)	Housing (279)	Mary MacDonald Business Center (265)
Revenues			
General property taxes	\$ 780,909	\$ -	\$ -
Franchise fees	10,033	-	-
Special assessments	-	-	-
Licenses and permits	9,029	-	-
Intergovernmental	1,690,460	214,492	-
Charges for services	54,597	-	165,420
Fines and forfeitures	5,748	-	-
Miscellaneous:			
Investment income	7,853	69	1,495
Contributions and donations	7,605	-	-
Loan repayments	7,323	-	-
Other	14,068	-	8,335
Total revenues	<u>2,587,625</u>	<u>214,561</u>	<u>175,250</u>
Expenditures			
Current			
General government	513,041	-	-
Public safety	557,153	-	-
Public works	502,256	-	-
Culture and recreation	19,359	-	134,831
Economic development	-	219,650	-
Airport	-	-	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
General government	3,256	-	-
Public safety	510,115	-	-
Public works	101,232	-	-
Culture and recreation	10,288	-	20
Economic development	-	-	-
Total expenditures	<u>2,216,700</u>	<u>219,650</u>	<u>134,851</u>
Excess of revenues over (under) expenditures	370,925	(5,089)	40,399
Other financing sources (uses)			
Proceeds from sale of capital asset	6,949	-	-
Transfers in	111,956	5,158	-
Transfers out	(302,718)	-	-
Total other financing sources (uses)	<u>(183,813)</u>	<u>5,158</u>	<u>-</u>
Net change in fund balances	187,112	69	40,399
Fund Balances			
Beginning of year	<u>1,780,311</u>	<u>93</u>	<u>241,339</u>
End of year	<u>\$ 1,967,423</u>	<u>\$ 162</u>	<u>\$ 281,738</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>
\$ -	\$ 165,779	\$ 97,000	\$ 1,043,688
-	-	71,226	81,259
23,156	-	-	23,156
-	-	-	9,029
-	93,270	303,106	2,301,328
-	18,220	170,328	408,565
-	-	-	5,748
90	2,112	3,952	15,571
-	-	21,292	28,897
-	-	1,847	9,170
-	3,652	20,791	46,846
<u>23,246</u>	<u>283,033</u>	<u>689,542</u>	<u>3,973,257</u>
-	-	-	513,041
-	-	-	557,153
-	6,089	-	508,345
-	-	736,672	890,862
-	73,685	10,816	304,151
-	-	32,240	32,240
75,880	-	-	75,880
8,571	-	-	8,571
-	-	-	3,256
-	-	-	510,115
-	3,167	-	104,399
-	-	59,332	69,640
-	19,522	-	19,522
<u>84,451</u>	<u>102,463</u>	<u>839,060</u>	<u>3,597,175</u>
(61,205)	180,570	(149,518)	376,082
-	-	-	6,949
56,113	62,208	240,510	475,945
-	(168,069)	(5,158)	(475,945)
<u>56,113</u>	<u>(105,861)</u>	<u>235,352</u>	<u>6,949</u>
(5,092)	74,709	85,834	383,031
<u>39,825</u>	<u>539,716</u>	<u>874,842</u>	<u>3,476,126</u>
<u>\$ 34,733</u>	<u>\$ 614,425</u>	<u>\$ 960,676</u>	<u>\$ 3,859,157</u>

City of Silver Bay
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
Year Ended December 31, 2015

Net change in fund balances - governmental funds \$ 383,031

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	651,264
Depreciation expense	(425,490)
Donated assets	6,172

Compensated absences are recognized as paid in the governmental funds but
Recognized as the expense is incurred in the statement of activities. (14,903)

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. 75,880

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. 1,332

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds.
Special assessments deferred (19,313)

Governmental funds recognize pension contributions as expenditures at the
time of payment whereas the statement of activities factors in items related to
pensions on a full accrual perspective.
Pension expense (5,087)

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. (6,394)

Change in net position - governmental activities \$ 646,492

City of Silver Bay
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
General property taxes	\$ 787,830	\$ 805,490	\$ 780,909	\$ (24,581)
Franchise fees	11,000	11,980	10,033	(1,947)
Licenses and permits	15,575	8,700	9,029	329
Intergovernmental	1,663,400	1,700,465	1,690,460	(10,005)
Charges for services	46,800	54,365	54,597	232
Fines and forfeitures	4,700	4,970	5,748	778
Miscellaneous:				
Investment income	5,000	7,500	7,853	353
Contributions and donations	26,500	7,605	7,605	-
Loan repayments	7,300	7,320	7,323	3
Other	10,500	10,780	14,068	3,288
Total revenues	<u>2,578,605</u>	<u>2,619,175</u>	<u>2,587,625</u>	<u>(31,550)</u>
Expenditures				
Current				
General government	545,655	513,315	513,041	(274)
Public safety	610,330	557,290	557,153	(137)
Public works	535,350	490,615	502,256	11,641
Culture and recreation	19,500	19,360	19,359	(1)
Capital outlay				
General government	22,800	3,260	3,256	(4)
Public safety	696,700	510,130	510,115	(15)
Public works	113,500	113,340	101,232	(12,108)
Culture and recreation	40,000	10,290	10,288	(2)
Total expenditures	<u>2,583,835</u>	<u>2,217,600</u>	<u>2,216,700</u>	<u>(900)</u>
Excess of revenues over (under) expenditures	(5,230)	401,575	370,925	(30,650)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	6,945	6,949	4
Insurance recoveries	500	-	-	-
Transfers in	206,200	114,500	111,956	(2,544)
Transfers out	<u>(336,470)</u>	<u>(302,715)</u>	<u>(302,718)</u>	<u>(3)</u>
Total other financing sources (uses)	<u>(129,770)</u>	<u>(181,270)</u>	<u>(183,813)</u>	<u>(2,543)</u>
Net change in fund balances	<u>\$ (135,000)</u>	<u>\$ 220,305</u>	187,112	<u>\$ (33,193)</u>
Fund Balances				
Beginning of year			<u>1,780,311</u>	
End of year			<u>\$ 1,967,423</u>	

City of Silver Bay
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Housing Special Revenue Fund
Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 217,500	\$ 214,490	\$ 214,492	\$ 2
Miscellaneous revenues:				
Investment income	-	60	69	9
Total revenues	<u>217,500</u>	<u>214,550</u>	<u>214,561</u>	<u>11</u>
Expenditures				
Current				
Economic development	<u>222,500</u>	<u>219,650</u>	<u>219,650</u>	<u>-</u>
Excess of revenues over (under) expenditures	(5,000)	(5,100)	(5,089)	11
Other financing sources (uses)				
Transfers in	<u>5,000</u>	<u>5,100</u>	<u>5,158</u>	<u>58</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	69	<u>\$ 69</u>
Fund Balances				
Beginning of year			<u>93</u>	
End of year			<u>\$ 162</u>	

City of Silver Bay
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Mary MacDonald Business Center
Special Revenue Fund
Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 150,000	\$ -	\$ -	\$ -
Charges for services	165,000	165,420	165,420	-
Miscellaneous:				
Investment income	1,000	1,400	1,495	95
Other	2,000	8,335	8,335	-
Total revenues	<u>318,000</u>	<u>175,155</u>	<u>175,250</u>	<u>95</u>
Expenditures				
Current				
Culture and recreation	120,350	134,965	134,831	(134)
Capital outlay				
Culture and recreation	<u>335,000</u>	<u>20</u>	<u>20</u>	<u>-</u>
Total expenditures	<u>455,350</u>	<u>134,985</u>	<u>134,851</u>	<u>(134)</u>
Net change in fund balances	<u>\$ (137,350)</u>	<u>\$ 40,170</u>	40,399	<u>\$ 229</u>
Fund Balances				
Beginning of year			<u>241,339</u>	
End of year			<u>\$ 281,738</u>	

City of Silver Bay
Statement of Net Position - Proprietary Funds
December 31, 2015

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Assets				
Current assets				
Cash and investments (including cash equivalents)	\$ 701,009	\$ 1,139,106	\$ 348,961	\$ 2,189,076
Accounts receivable	32,305	31,116	1,346	64,767
Interest receivable	2,052	1,879	639	4,570
Due from other governments	154,771	1,220	1,539	157,530
Inventory	67,788	6,553	69,585	143,926
Prepaid items	-	-	7,035	7,035
Total current assets	<u>957,925</u>	<u>1,179,874</u>	<u>429,105</u>	<u>2,566,904</u>
Noncurrent assets				
Capital assets:				
Land	18,568	5,000	13,895	37,463
Buildings and building improvements	2,739,498	3,706,011	1,280,328	7,725,837
Improvements other than buildings	692,634	246,326	31,297	970,257
Vehicles, machinery, and equipment	550,188	486,172	35,836	1,072,196
Construction in progress	-	17,414	-	17,414
Total capital assets	<u>4,000,888</u>	<u>4,460,923</u>	<u>1,361,356</u>	<u>9,823,167</u>
Less accumulated depreciation	(1,644,631)	(2,536,179)	(562,563)	(4,743,373)
Net capital assets	<u>2,356,257</u>	<u>1,924,744</u>	<u>798,793</u>	<u>5,079,794</u>
Total assets	<u>3,314,182</u>	<u>3,104,618</u>	<u>1,227,898</u>	<u>7,646,698</u>
Deferred outflows of resources				
Deferred outflows of resources related to pension activity	15,811	15,811	15,249	46,871
Total assets and deferred outflows of resources	<u>\$ 3,329,993</u>	<u>\$ 3,120,429</u>	<u>\$ 1,243,147</u>	<u>\$ 7,693,569</u>
Liabilities, Deferred Inflows of Resources, and Net Position				
Current liabilities				
Accounts payable	\$ 2,545	\$ -	\$ 2,936	\$ 5,481
Due to other governments	5,217	-	5,913	11,130
Salaries and benefits payable	2,531	2,531	2,484	7,546
Interest payable	3,857	983	760	5,600
Long-term liabilities due within 1 year	86,903	87,239	74,921	249,063
Total current liabilities	<u>101,053</u>	<u>90,753</u>	<u>87,014</u>	<u>278,820</u>
Noncurrent liabilities				
Compensated absences	15,484	15,484	33,065	64,033
Notes payable	579,000	140,336	-	719,336
Bonds payable	-	-	114,055	114,055
Net pension liability	114,371	114,371	110,306	339,048
Less amount due within 1 year	(86,903)	(87,239)	(74,921)	(249,063)
Total noncurrent liabilities	<u>621,952</u>	<u>182,952</u>	<u>182,505</u>	<u>987,409</u>
Total liabilities	<u>723,005</u>	<u>273,705</u>	<u>269,519</u>	<u>1,266,229</u>
Deferred inflows of resources				
Deferred inflows of resources related to pension activity	14,583	14,583	14,065	43,231
Net position				
Net investment in capital assets	1,777,257	1,784,408	684,738	4,246,403
Unrestricted	815,148	1,047,733	274,825	2,137,706
Total net position	<u>2,592,405</u>	<u>2,832,141</u>	<u>959,563</u>	<u>6,384,109</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,329,993</u>	<u>\$ 3,120,429</u>	<u>\$ 1,243,147</u>	<u>\$ 7,693,569</u>

See notes to financial statements.

City of Silver Bay
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2015

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Sales and cost of sales				
Sales	\$ -	\$ -	\$ 917,159	\$ 917,159
Cost of sales	-	-	569,909	569,909
Gross profit	-	-	347,250	347,250
Operating revenues				
Charges for services	859,201	697,311	-	1,556,512
Other services	3,158	3,947	1,902	9,007
Game machines	-	-	12,194	12,194
Total operating revenues	862,359	701,258	14,096	1,577,713
Operating expenses				
Salaries and benefits	247,823	240,320	199,140	687,283
Materials and supplies	47,844	45,460	25,355	118,659
Professional services	-	18,162	3,000	21,162
Contracted services	9,970	35,362	19,558	64,890
Insurance	9,959	13,541	18,484	41,984
Utilities	55,187	25,546	16,519	97,252
Refuse charges	158,134	523	1,261	159,918
Telephone	2,154	1,768	1,850	5,772
Depreciation	61,754	118,475	29,977	210,206
Promotion and advertising	1,065	657	1,310	3,032
Licenses and dues	1,139	1,665	3,138	5,942
Conferences and schools	2,354	891	94	3,339
Miscellaneous expenses	565	358	13,997	14,920
Total operating expenses	597,948	502,728	333,683	1,434,359
Operating income	264,411	198,530	27,663	490,604
Nonoperating revenues (expenses)				
Investment income	6,282	5,712	1,891	13,885
Gain on sale of asset	5,542	-	-	5,542
Interest expense	(11,711)	(5,219)	(6,351)	(23,281)
Total nonoperating revenues (expenses)	113	493	(4,460)	(3,854)
Income before capital contributions	264,524	199,023	23,203	486,750
Capital grants	153,577	-	-	153,577
Change in net position	418,101	199,023	23,203	640,327
Net position				
Beginning of year, as previously stated	2,285,051	2,743,865	1,043,171	6,072,087
Change in accounting principle (Note 15)	(110,747)	(110,747)	(106,811)	(328,305)
Beginning of year, as restated	2,174,304	2,633,118	936,360	5,743,782
End of year	<u>\$ 2,592,405</u>	<u>\$ 2,832,141</u>	<u>\$ 959,563</u>	<u>\$ 6,384,109</u>

See notes to financial statements.

City of Silver Bay
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2015

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Cash Flows - Operating Activities				
Receipts from customers and users	\$ 869,054	\$ 709,555	\$ 930,298	\$ 2,508,907
Payments to suppliers	(291,544)	(145,388)	(682,724)	(1,119,656)
Payments to employees	(248,266)	(240,763)	(198,663)	(687,692)
Net cash flows - operating activities	<u>329,244</u>	<u>323,404</u>	<u>48,911</u>	<u>701,559</u>
Cash Flows - Capital And Related Financing Activities				
Principal paid on debt	(77,000)	(124,667)	(53,758)	(255,425)
Interest paid on debt	(12,299)	(6,347)	(6,713)	(25,359)
Proceeds from sale of capital assets	5,542	-	-	5,542
Acquisition of capital assets	(838,757)	(53,363)	-	(892,120)
Net cash flows - capital and related financing activities	<u>(922,514)</u>	<u>(184,377)</u>	<u>(60,471)</u>	<u>(1,167,362)</u>
Cash Flows - Investing Activities				
Interest and dividends received	5,057	4,686	1,585	11,328
Net change in cash and cash equivalents	(588,213)	143,713	(9,975)	(454,475)
Cash And Cash Equivalents				
Beginning of year	1,289,222	995,393	358,936	2,643,551
End of year	<u>\$ 701,009</u>	<u>\$ 1,139,106</u>	<u>\$ 348,961</u>	<u>\$ 2,189,076</u>
Reconciliation Of Operating Income To Net Cash Flows - Operating Activities				
Operating income	\$ 264,411	\$ 198,530	\$ 27,663	\$ 490,604
Adjustments to reconcile Operating income to net Cash flows - operating activities:				
Depreciation expense	61,754	118,475	29,977	210,206
Net pension liability expense	2,396	2,396	2,311	7,103
Accounts receivable	5,540	7,200	(1,042)	11,698
Due from other governments	1,155	1,097	85	2,337
Prepaid items	-	-	68	68
Inventory	4,826	2,204	(6,044)	986
Accounts payable	(8,030)	(3,659)	(2,704)	(14,393)
Due to other governmental units	31	-	431	462
Salaries payable	(4,887)	(4,887)	(5,424)	(15,198)
Compensated absences payable	2,048	2,048	3,590	7,686
Total adjustments	<u>64,833</u>	<u>124,874</u>	<u>21,248</u>	<u>210,955</u>
Net cash flows - operating activities	<u>\$ 329,244</u>	<u>\$ 323,404</u>	<u>\$ 48,911</u>	<u>\$ 701,559</u>

City of Silver Bay
Notes to Financial Statements

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 4 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 Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 4 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 Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 3 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, 2015, 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 Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2 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 3 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.

**City of Silver Bay
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables (Continued)

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.

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

**City of Silver Bay
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the statement of net position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions results from the net effect of the change in proportionate share and employer contributions paid to PERA subsequent to the measurement date.

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 has 4 items that qualify for reporting in this category. The City presents deferred inflows of resources on the governmental fund balance sheet 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 1 source: loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also presents deferred inflows of resources on the statement of net position for deferred inflows of resources related to pensions. Deferred inflows of resources related to pensions results from the net difference between projected and actual earnings on plan investments.

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.

**City of Silver Bay
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences (Continued)

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

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

7. Employment Health Benefits

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

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**City of Silver Bay
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. 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.

**City of Silver Bay
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Balance (Continued)

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.

11. Net Position

Net position represents the difference between assets and deferred outflows 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.

12. 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 Financial Statements**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Deficit Fund Balances

The following Fund had a deficit fund balance at December 31, 2015:

Special revenue:	
Airport	\$ 33,824

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, 2015, the City's bank balance was not exposed to custodial credit risk because it was insured through FDIC and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

As of December 31, 2015, the City had the following deposits:

Cash and cash equivalents	\$ 3,266,975
Certificates of deposit	<u>1,600,000</u>
 Total deposits	 <u><u>\$ 4,866,975</u></u>

B. Investments

As of December 31, 2015, 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	\$ 183,332	23.11%	MM
GE Capital Bank, Utah	07/12/18	100,000	12.61%	CD
Ally Bank, Utah	08/28/17	110,000	13.87%	CD
Goldman Sachs, New York	05/14/18	100,000	12.61%	CD
American Express, Utah	05/29/18	100,000	12.60%	CD
American Express, Utah	06/24/20	100,000	12.60%	CD
Goldman Sachs, New York	11/04/19	<u>100,000</u>	<u>12.60%</u>	CD
 Total		 <u><u>\$ 793,332</u></u>	 <u><u>100.00%</u></u>	

**City of Silver Bay
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk: As of December 31, 2015, 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, 2015.

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 4,866,975
Petty cash	11,400
Investments	<u>793,332</u>
 Total deposits and investments	 <u><u>\$ 5,671,707</u></u>

Deposits and investments are presented in the December 31, 2015, basic financial statements as follows:

Statement of net position:

Cash and investments (including cash equivalents)	<u><u>\$ 5,671,707</u></u>
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City of Silver Bay
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 958,293	\$ -	\$ -	\$ 958,293
Capital assets being depreciated:				
Buildings and building improvements	5,151,217	30,105	-	5,181,322
Improvements other than buildings	3,194,188	43,112	-	3,237,300
Vehicles, machinery, and equipment	2,163,661	584,219	-	2,747,880
Total capital assets being depreciated	<u>10,509,066</u>	<u>657,436</u>	<u>-</u>	<u>11,166,502</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,996,712	150,660	-	2,147,372
Improvements other than buildings	1,836,595	148,942	-	1,985,537
Vehicles, machinery, and equipment	1,523,751	125,888	-	1,649,639
Total accumulated depreciation	<u>5,357,058</u>	<u>425,490</u>	<u>-</u>	<u>5,782,548</u>
Total capital assets being depreciated, net	<u>5,152,008</u>	<u>231,946</u>	<u>-</u>	<u>5,383,954</u>
Governmental activities capital assets, net	<u>\$ 6,110,301</u>	<u>\$ 231,946</u>	<u>\$ -</u>	<u>\$ 6,342,247</u>

City of Silver Bay
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Construction in progress	48,594	814,657	845,837	17,414
Total capital assets not being depreciated	86,057	814,657	845,837	54,877
Capital assets being depreciated:				
Buildings and building improvements	7,653,939	71,898	-	7,725,837
Improvements other than buildings	400,325	569,932	-	970,257
Vehicles, machinery, and equipment	806,926	281,470	16,200	1,072,196
Total capital assets being depreciated	8,861,190	923,300	16,200	9,768,290
Less accumulated depreciation for:				
Buildings and building improvements	3,861,460	175,211	-	4,036,671
Improvements other than buildings	133,472	7,198	-	140,670
Vehicles, machinery, and equipment	554,435	27,797	16,200	566,032
Total accumulated depreciation	4,549,367	210,206	16,200	4,743,373
Total capital assets being depreciated, net	4,311,823	713,094	-	5,024,917
Business-type activities capital assets, net	\$ 4,397,880	\$ 1,527,751	\$ 845,837	\$ 5,079,794

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

Governmental activities:	
General government	\$ 76,095
Public safety	42,867
Public works	79,586
Culture and recreation	124,627
Airport	102,315
Total depreciation expense - governmental activities	\$ 425,490
Business-type activities:	
Water	\$ 61,754
Sewer	118,475
Municipal liquor dispensary	29,977
Total depreciation expense - business-type activities	\$ 210,206

City of Silver Bay
Notes to Financial Statements

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

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

	Amounts Due to Other Funds		Total
	Housing	Nonmajor Governmental Funds	
Amounts due from other funds:			
General fund	\$ 91,323	\$ 33,844	\$ 125,167

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

B. Transfers

The composition of interfund transfers as of December 31, 2015, was as follows:

	Transfers In					Total
	General Fund	Debt Service	Housing	Public Works Reserve	Nonmajor Governmental Funds	
Transfers out:						
General fund	\$ -	\$ -	\$ -	\$ 62,208	\$ 240,510	\$ 302,718
Public works reserve	111,956	56,113	-	-	-	168,069
Nonmajor governmental funds	-	-	5,158	-	-	5,158
Total	\$ 111,956	\$ 56,113	\$ 5,158	\$ 62,208	\$ 240,510	\$ 475,945

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

**City of Silver Bay
Notes to Financial Statements**

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 1 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	\$ 69,676	\$ 25,162
G.O. Equipment Certificate 2011	11/01/11	3.75%	167,000	12/01/17	<u>59,812</u>	<u>29,356</u>
Total G.O. Bonds					<u>129,488</u>	<u>54,518</u>
Compensated absences					<u>193,251</u>	<u>83,250</u>
Total governmental activities					322,739	137,768
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	48,336	48,336
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	123,000	40,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	456,000	38,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	114,055	55,909
G.O. Sewer Revenue Note Series 2011A	10/17/11	2.60%	203,800	10/17/18	<u>92,000</u>	<u>30,000</u>
Total G.O. Revenue Notes/ Bonds					833,391	212,245
Compensated absences					<u>64,033</u>	<u>36,818</u>
Total business-type activities					<u>897,424</u>	<u>249,063</u>
Total all long-term liabilities					<u>\$ 1,220,163</u>	<u>\$ 386,831</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 Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments

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

Year Ended December 31,	Governmental Activities		
	Improvement Bonds		
	Principal	Interest	Total
2016	\$ 25,162	\$ 3,176	\$ 28,338
2017	26,440	1,898	28,338
2018	18,074	562	18,636
Total	<u>\$ 69,676</u>	<u>\$ 5,636</u>	<u>\$ 75,312</u>
Year Ended December 31,	Equipment Certificates		
	Principal	Interest	Total
	Principal	Interest	Total
2016	\$ 29,356	\$ 2,243	\$ 31,599
2017	30,456	1,142	31,598
Total	<u>\$ 59,812</u>	<u>\$ 3,385</u>	<u>\$ 63,197</u>
Year Ended December 31,	Business-Type Activities		
	Revenue Notes/Bonds		
	Principal	Interest	Total
2016	\$ 212,245	\$ 18,113	\$ 230,358
2017	168,146	12,765	180,911
2018	113,000	7,953	120,953
2019	40,000	5,610	45,610
2020	41,000	4,950	45,950
2021-2025	214,000	14,438	228,438
2026	45,000	742	45,742
Total	<u>\$ 833,391</u>	<u>\$ 64,571</u>	<u>\$ 897,962</u>

**City of Silver Bay
Notes to Financial Statements**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within 1 Year</u>
Governmental activities:					
Bonds payable:					
G.O. Improvement Bonds	\$ 93,635	\$ -	\$ 23,959	\$ 69,676	\$ 25,162
G.O. Equipment Certificates	111,733	-	51,921	59,812	29,356
Compensated absences	<u>178,348</u>	<u>101,840</u>	<u>86,937</u>	<u>193,251</u>	<u>83,250</u>
Total governmental Activities	383,716	101,840	162,817	322,739	137,768
Business-type activities:					
Notes/bonds payable:					
G.O. Revenue Notes	921,003	-	201,667	719,336	156,336
Revenue bonds	167,813	-	53,758	114,055	55,909
Compensated absences	<u>56,347</u>	<u>45,475</u>	<u>37,789</u>	<u>64,033</u>	<u>36,818</u>
Total business-type activities	<u>1,145,163</u>	<u>45,475</u>	<u>293,214</u>	<u>897,424</u>	<u>249,063</u>
Total long-term liabilities	<u>\$ 1,528,879</u>	<u>\$ 147,315</u>	<u>\$ 456,031</u>	<u>\$ 1,220,163</u>	<u>\$ 386,831</u>

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

NOTE 7 – LOANS RECEIVABLE

Loans receivable at December 31, 2015, 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%. \$ 3,291

Silver Bay Country Club Lease Agreement:

\$36,617 repayment agreement, due in annual installments
of \$1,221 through October 2017. 21,970

Total loans receivable \$ 25,261

**City of Silver Bay
Notes to Financial Statements**

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	1,535	-	-	-	-	-	1,535
Housing	-	162	-	-	-	-	162
Cemetery-perpetual care	-	-	-	-	-	2,838	2,838
Debt service	-	-	-	-	34,733	-	34,733
Committed:							
Fire truck	112,000	-	-	-	-	-	112,000
Assigned:							
Mary MacDonald business center	-	-	281,738	-	-	-	281,738
Library	-	-	-	-	-	18,041	18,041
Cemetery	-	-	-	-	-	18,056	18,056
Arena	-	-	-	-	-	14,399	14,399
Park and recreation	-	-	-	-	-	92,160	92,160
Community building	-	-	-	-	-	1,655	1,655
Economic development	-	-	-	-	-	425,341	425,341
Community business partnership	-	-	-	-	-	105,151	105,151
Storefront renovation	-	-	-	-	-	118,479	118,479
Marina	-	-	-	-	-	31,195	31,195
Capital projects	-	-	-	-	-	143,482	143,482
Taconite reserve/sidewalk	-	-	-	-	-	-	-
Replacement/special projects	-	-	-	614,425	-	-	614,425
Unassigned	1,853,888	-	-	-	-	(33,824)	1,820,064
Total	<u>\$ 1,967,423</u>	<u>\$ 162</u>	<u>\$ 281,738</u>	<u>\$ 614,425</u>	<u>\$ 34,733</u>	<u>\$ 960,676</u>	<u>\$ 3,859,157</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.

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.

City of Silver Bay
Notes to Financial Statements

NOTE 9 – RISK MANAGEMENT (CONTINUED)

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 2015 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, 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 2 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 1 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 Financial Statements**

NOTE 12 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

GERF Benefits

Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after 5 years up to 100% after 10 years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

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

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$87,625. The City's contributions were equal to the required contributions as set by state statute.

PEPFF Contributions

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$50,113. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$1,005,408 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0194%.

For the year ended December 31, 2015, the City recognized pension expense of \$108,182 for its proportionate share of GERF's pension expense.

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

GERF Pension Costs (Continued)

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 50,690
Difference between projected and actual investment earnings	95,177	-
Changes in proportion	-	77,508
Contributions paid to PERA subsequent to the measurement date	<u>43,813</u>	<u>-</u>
Total	<u>\$ 138,990</u>	<u>\$ 128,198</u>

\$43,813 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ (18,939)
2017	(18,939)
2018	(18,939)
2019	23,796

PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$352,233 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.031%.

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

PEPFF Pension Costs (Continued)

For the year ended December 31, 2015, the City recognized pension expense of \$55,298 for its proportionate share of the PEPFF's pension expense. The City also recognized \$2,790 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 57,121
Difference between projected and actual investment earnings	61,371	-
Changes in proportion	-	27,001
Contributions paid to PERA subsequent to the measurement date	25,057	-
Total	\$ 86,428	\$ 84,122

\$25,057 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December, 31,	Pension Expense Amount
2016	\$ (5,687)
2017	(5,687)
2018	(5,687)
2019	(5,690)
2020	-

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

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

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

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stock	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	6.9%	7.9%	8.9%
City's proportionate share of the GERP net pension liability	\$ 1,580,860	\$ 1,005,408	\$ 530,174
City's proportionate share of the PEPFF net pension liability	\$ 686,505	\$ 352,233	\$ 76,065

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. 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 1-800-652-9026.

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association

A. Plan Description

The Silver Bay Firefighters Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Silver Bay Fire Department per *Minnesota State Statutes*.

The Association issues a publicly available audit report that includes financial statements and required supplementary information. 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 Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

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

B. Benefits Provided

Volunteer firefighters of the City are members of the Silver Bay Firefighter's Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 15 years of service for monthly service pension, or 10 years of service for lump sum service pension. Partial benefits are payable to members who have reached 50 and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

C. Members Covered by Benefit Terms

At December 31, 2014, the following employees were covered by the benefit terms:

Inactive members or beneficiaries currently receiving benefits	-
Inactive members entitled to but not yet receiving benefits	1
Active members	22
Total	23

D. Contributions

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10 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 \$22,387 made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 %
Salary increase	2.5 %, average, including inflation
Investment rate of return	6.25 %, net of pensions plan investment expense: including inflation

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

E. Net Pension Liability (Continued)

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
State board of investments	95%	6.25%
Municipal bond yield	0%	3.50%
Cash	5%	0.00%
Total	100%	

F. Discount rate

The discount rate used to measure the total pension liability was 6.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

G. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2014	\$ 442,156	\$ 523,694	\$ (81,538)
Changes for the year:			
Service cost	15,405	-	15,405
Interest	28,107	-	28,107
Differences between expected and actual experience	-	-	-
Municipal contributions	-	-	-
State contributions	-	22,387	(22,387)
Projected investment return	-	32,155	(32,155)
Gain or loss	-	17,426	(17,426)
Benefit payments, including refunds of employee contributions	(40,330)	(40,330)	-
Administrative expense	-	(495)	495
Other charges	-	-	-
Net charges	3,182	31,143	(27,961)
Balances at December 31, 2014	\$ 445,338	\$ 554,837	\$ (109,499)

H. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Relief's net pension liability	\$ (94,264)	\$ (109,499)	\$ (123,599)

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

H. Sensitivity of the net pension liability to changes in the discount rate (Continued)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2014 the City recognized pension expense of \$0. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	13,940
Total	\$ -	\$ 13,940

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ (3,486)
2017	(3,486)
2018	(3,486)
2019	(3,482)
2020	-
Total	\$ (13,940)

**City of Silver Bay
Notes to Financial Statements**

NOTE 12 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

J. Payable to the Pension Plan

At December 31, 2015, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

NOTE 13 – COMMITMENTS

At December 31, 2015, the City had the following outstanding commitments:

Vendor/Purpose	Contract	Remaining Commitment
General Heating and Mechanical - boiler tube replacement	\$ 11,500	\$ 11,500
Various - tertiary clarifier project	326,760	311,234

NOTE 14 – SUBSEQUENT EVENTS

On January 4, 2016, the Council approved a contract with Huffcutt Concrete, Inc., for lavatory vaults in the Black Beach Park area for \$56,150.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the statement of activities of \$1,236,794 to add the beginning net pension liability, and an adjustment to the beginning net position on the statement of revenues, expenses, and changes in fund net position – proprietary funds of \$328,305 to add the beginning net pension liability.

NOTE 16 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

City of Silver Bay
Schedule of City's Proportionate Share
of Net Pension Liability - GERS Retirement Fund
Last 10 Years*

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0194%	\$ 1,005,408	\$ 714,363	140.7%	78.2%

Schedule of City's Proportionate Share
of Net Pension Liability - PEPFF Retirement Fund
Last 10 Years*

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0310%	\$ 352,233	\$ 296,248	118.9%	86.6%

* These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**City of Silver Bay
Schedule Of City Contributions -
GERF Retirement Fund
Last 10 Years***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 84,152	\$ 84,152	\$ -	\$ 714,363	11.78%

**Schedule of City Contributions -
PEPFF Retirement Fund
Last 10 Years***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 45,326	\$ 45,326	\$ -	\$ 296,248	15.3%

* These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**City of Silver Bay
Schedule of Employer Contributions
and Non-Employer Contributing
Entities - Fire Relief Association**

	2014
Employer	
Statutorily determined contribution (SDC)	\$ -
Contribution deficiency SDC	-
Contribution deficiency (excess)	\$ -
Non-employer	
2% aid	\$ 22,387

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a 10 year presentation, but does not required retroactive reporting. Information prior to 2014 is not available.

City of Silver Bay
Schedule of Changes in Net Pension Liability
and Related Ratios - Fire Relief Association

	2014
Total Pension Liability (TPL)	
Service cost	\$ 15,405
Interest	28,107
Differenced between expected and actual experience	-
Changes of assumptions	-
Changes of benefit terms	-
Benefit payments, including refunds or member contributions	-
Net change in total pension liability	43,512
Beginning of year (1)	\$ -
 Plan Fiduciary Net Pension (FNP)	
Contributions - employer	\$ (22,387)
Contributions - employee	-
Net investment income	(32,155)
Benefit payments, including refunds of member contributions	-
Administrative expense	495
Other	(17,426)
Net change in plan fiduciary net position	(71,473)
Beginning of year	(81,538)
End of year	\$ (109,499)
 Net Pension Liability (NPL)	 \$ (109,499)

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a 10 year presentation, but does not required retroactive reporting. Information prior to 2014 is not available.

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SUPPLEMENTARY INFORMATION

**City of Silver Bay
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2015**

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
Assets					
Cash and investments	\$ 44,016	\$ 20,857	\$ 16,362	\$ 35,982	\$ 1,654
Accounts receivable	-	-	581	65	-
Interest receivable	(4)	37	(51)	48	1
Due from other governments	-	-	-	56,065	-
Loan receivable	-	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 44,012</u>	<u>\$ 20,894</u>	<u>\$ 16,892</u>	<u>\$ 92,160</u>	<u>\$ 1,655</u>
Liabilities, Deferred Inflows Of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 369	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	9	-	31	-	-
Salaries and benefits payable	1,890	-	2,462	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	<u>2,268</u>	<u>-</u>	<u>2,493</u>	<u>-</u>	<u>-</u>
Deferred Inflow of Resources					
Unavailable revenue - loans receivable	-	-	-	-	-
Fund Balances					
Restricted	23,703	2,838	-	-	-
Assigned	18,041	18,056	14,399	92,160	1,655
Unassigned	-	-	-	-	-
Total fund balances	<u>41,744</u>	<u>20,894</u>	<u>14,399</u>	<u>92,160</u>	<u>1,655</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 44,012</u>	<u>\$ 20,894</u>	<u>\$ 16,892</u>	<u>\$ 92,160</u>	<u>\$ 1,655</u>

Economic Development (271)	Special Revenue					Capital Projects	Total Nonmajor Governmental Funds
	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Special Revenue Funds	Street, Curbs, Parking Lots (406)	
\$ 424,570	\$ 104,963	\$ 118,268	\$ 19,991	\$ -	\$ 786,663	\$ 131,820	\$ 918,483
-	-	-	1,901	85	2,632	11,485	14,117
771	188	211	31	(65)	1,167	177	1,344
-	-	-	18,250	-	74,315	-	74,315
-	-	3,291	-	-	3,291	-	3,291
-	-	-	9,045	-	9,045	-	9,045
<u>\$ 425,341</u>	<u>\$ 105,151</u>	<u>\$ 121,770</u>	<u>\$ 49,218</u>	<u>\$ 20</u>	<u>\$ 877,113</u>	<u>\$ 143,482</u>	<u>\$ 1,020,595</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369	\$ -	\$ 369
-	-	-	-	33,844	33,844	-	33,844
-	-	-	89	-	129	-	129
-	-	-	-	-	4,352	-	4,352
-	-	-	17,934	-	17,934	-	17,934
-	-	-	18,023	33,844	56,628	-	56,628
-	-	3,291	-	-	3,291	-	3,291
-	-	-	-	-	26,541	-	26,541
425,341	105,151	118,479	31,195	-	824,477	143,482	967,959
-	-	-	-	(33,824)	(33,824)	-	(33,824)
<u>425,341</u>	<u>105,151</u>	<u>118,479</u>	<u>31,195</u>	<u>(33,824)</u>	<u>817,194</u>	<u>143,482</u>	<u>960,676</u>
<u>\$ 425,341</u>	<u>\$ 105,151</u>	<u>\$ 121,770</u>	<u>\$ 49,218</u>	<u>\$ 20</u>	<u>\$ 877,113</u>	<u>\$ 143,482</u>	<u>\$ 1,020,595</u>

City of Silver Bay
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2015

	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	89,824	-
Charges for services	3,387	1,150	16,978	23,002	8,400
Miscellaneous:					
Investment income	(45)	111	(163)	55	3
Contributions and donations	11,983	-	5,000	1,979	-
Loan repayments	-	-	-	-	-
Other	3,016	-	7,296	2,510	730
Total revenues	<u>152,641</u>	<u>1,261</u>	<u>112,111</u>	<u>117,370</u>	<u>9,133</u>
Expenditures					
Current					
Culture and recreation	207,382	2,291	184,135	167,926	11,622
Economic development	-	-	-	-	-
Airport	-	-	-	-	-
Capital outlay					
Culture and recreation	3,896	-	-	54,688	-
Total expenditures	<u>211,278</u>	<u>2,291</u>	<u>184,135</u>	<u>222,614</u>	<u>11,622</u>
Excess of revenues over (under) expenditures	(58,637)	(1,030)	(72,024)	(105,244)	(2,489)
Other financing sources (uses)					
Transfers in	58,935	1,065	72,380	105,580	2,550
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>58,935</u>	<u>1,065</u>	<u>72,380</u>	<u>105,580</u>	<u>2,550</u>
Net change in fund balances	298	35	356	336	61
Fund Balances					
Beginning of year	<u>41,446</u>	<u>20,859</u>	<u>14,043</u>	<u>91,824</u>	<u>1,594</u>
End of year	<u>\$ 41,744</u>	<u>\$ 20,894</u>	<u>\$ 14,399</u>	<u>\$ 92,160</u>	<u>\$ 1,655</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
-	-	-	-	-	-	71,226	71,226
10,815	-	-	58,900	23,267	303,106	-	303,106
-	-	-	105,984	11,427	170,328	-	170,328
2,283	558	626	97	(176)	3,349	603	3,952
-	-	-	2,330	-	21,292	-	21,292
-	-	1,847	-	-	1,847	-	1,847
-	-	-	5,230	2,009	20,791	-	20,791
<u>13,098</u>	<u>558</u>	<u>2,473</u>	<u>172,541</u>	<u>36,527</u>	<u>617,713</u>	<u>71,829</u>	<u>689,542</u>
-	-	-	163,316	-	736,672	-	736,672
10,816	-	-	-	-	10,816	-	10,816
-	-	-	-	32,240	32,240	-	32,240
-	-	-	748	-	59,332	-	59,332
<u>10,816</u>	<u>-</u>	<u>-</u>	<u>164,064</u>	<u>32,240</u>	<u>839,060</u>	<u>-</u>	<u>839,060</u>
2,282	558	2,473	8,477	4,287	(221,347)	71,829	(149,518)
-	-	-	-	-	240,510	-	240,510
(5,158)	-	-	-	-	(5,158)	-	(5,158)
<u>(5,158)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,352</u>	<u>-</u>	<u>235,352</u>
(2,876)	558	2,473	8,477	4,287	14,005	71,829	85,834
<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>\$ 425,341</u>	<u>\$ 105,151</u>	<u>\$ 118,479</u>	<u>\$ 31,195</u>	<u>\$ (33,824)</u>	<u>\$ 817,194</u>	<u>\$ 143,482</u>	<u>\$ 960,676</u>

City of Silver Bay
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (Under)
	Original	Final		
Revenues				
General property taxes	\$ 787,830	\$ 805,490	\$ 780,909	\$ (24,581)
Franchise fees	11,000	11,980	10,033	(1,947)
Licenses and permits	15,575	8,700	9,029	329
Intergovernmental revenue:				
Local government aid	503,970	503,970	503,970	-
PERA aid	4,380	4,380	4,383	3
Taconite homestead credit	129,850	120,275	120,275	-
Taconite production tax	460,000	500,205	500,209	4
Federal grants and aids	446,500	450,485	450,487	2
Other state grants and aids	93,000	100,830	90,815	(10,015)
Other county grants	23,700	18,990	18,988	(2)
Other grants and aids	2,000	1,330	1,333	3
Total intergovernmental revenue	<u>1,663,400</u>	<u>1,700,465</u>	<u>1,690,460</u>	<u>(10,005)</u>
Charges for services:				
Public safety	46,000	53,385	53,391	6
Public works	300	630	856	226
Park and recreation	500	350	350	-
Total charges for services	<u>46,800</u>	<u>54,365</u>	<u>54,597</u>	<u>232</u>
Fines and forfeitures	4,700	4,970	5,748	778
Miscellaneous revenues:				
Investment income	5,000	7,500	7,853	353
Contributions and donations	26,500	7,605	7,605	-
Loan repayments	7,300	7,320	7,323	3
Other	10,500	10,780	14,068	3,288
Total miscellaneous revenues	<u>49,300</u>	<u>33,205</u>	<u>36,849</u>	<u>3,644</u>
Total revenues	<u>2,578,605</u>	<u>2,619,175</u>	<u>2,587,625</u>	<u>(31,550)</u>
Expenditures				
General government				
Mayor and council:				
Current	30,150	29,125	29,100	(25)
Administrative and finance:				
Current	297,070	290,710	290,260	(450)
Capital outlay	4,000	3,070	3,066	(4)
Other general government:				
Current	218,435	193,480	193,681	201
Capital outlay	18,800	190	190	-
Total general government	<u>568,455</u>	<u>516,575</u>	<u>516,297</u>	<u>(278)</u>
Public safety				
Police:				
Current	525,580	478,545	478,480	(65)
Capital outlay	1,000	5,775	5,771	(4)

City of Silver Bay
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (Under)
	Original	Final		
Expenditures				
Public safety (continued)				
Fire:				
Current	\$ 76,100	\$ 72,225	\$ 72,162	\$ (63)
Capital outlay	692,700	503,615	503,607	(8)
Other:				
Current	8,650	6,520	6,511	(9)
Capital outlay	3,000	740	737	(3)
Total public safety	<u>1,307,030</u>	<u>1,067,420</u>	<u>1,067,268</u>	<u>(152)</u>
Public works				
Streets and highways:				
Street maintenance and storm sewers:				
Current	505,650	460,660	472,303	11,643
Capital outlay	113,500	113,340	101,232	(12,108)
Street lighting:				
Current	<u>29,700</u>	<u>29,955</u>	<u>29,953</u>	<u>(2)</u>
Total public works	<u>648,850</u>	<u>603,955</u>	<u>603,488</u>	<u>(467)</u>
Culture and recreation				
Current	19,500	19,360	19,359	(1)
Capital outlay	<u>40,000</u>	<u>10,290</u>	<u>10,288</u>	<u>(2)</u>
Total culture and recreation	<u>59,500</u>	<u>29,650</u>	<u>29,647</u>	<u>(3)</u>
Total expenditures	<u>2,583,835</u>	<u>2,217,600</u>	<u>2,216,700</u>	<u>(900)</u>
Excess of revenues over (under) expenditures	(5,230)	401,575	370,925	(30,650)
Other financing sources (uses)				
Proceeds from sale of capital asset	-	6,945	6,949	4
Insurance recoveries	500	-	-	-
Transfers in	206,200	114,500	111,956	(2,544)
Transfers out	<u>(336,470)</u>	<u>(302,715)</u>	<u>(302,718)</u>	<u>(3)</u>
Total other financing sources (uses)	<u>(129,770)</u>	<u>(181,270)</u>	<u>(183,813)</u>	<u>(2,543)</u>
Net change in fund balances	<u>\$ (135,000)</u>	<u>\$ 220,305</u>	187,112	<u>\$ (33,193)</u>
Fund Balances				
Beginning of year			<u>1,780,311</u>	
End of year			<u>\$ 1,967,423</u>	

City of Silver Bay
Analysis of Changes in Fund Balance -
Public Works Reserve Fund
Year Ended December 31, 2015

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
	<u> </u>	<u> </u>	<u> </u>
Balance - January 1, 2015	\$ (643,435)	\$ 368,812	\$ (44,416)
General property taxes	-	-	-
Intergovernmental revenue	70,400	-	-
Charges for Services	18,220	-	-
Investment income	-	-	-
Miscellaneous revenue	3,652	-	-
Transfers from other funds	<u>27,125</u>	<u>-</u>	<u>35,083</u>
Total available	(524,038)	368,812	(9,333)
Expenditures	(99,296)	-	-
Transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Balance - December 31, 2015	<u><u>\$ (623,334)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (9,333)</u></u>

Project Notes:

* Taconite reserve has been consistent for the past several years. The 5 year moving average for taconite taxes is \$470,193, indicating approximately \$101,381 can be added to the reserve at December 31, 2015.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 369,324	\$ 489,431	\$ 539,716
130,467	35,312	165,779
18,004	4,866	93,270
-	-	18,220
2,112	-	2,112
-	-	3,652
-	-	62,208
519,907	529,609	884,957
(321)	(2,846)	(102,463)
(168,069)	-	(168,069)
<u>\$ 351,517</u>	<u>\$ 526,763</u>	<u>\$ 614,425</u>

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**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 3, 2016.

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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses on internal control as audit findings 2006-001 and 2006-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses 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.

BergankDV, Ltd.

St. Cloud, Minnesota
March 3, 2016



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, 2015, and the related notes to financial statements, and have issued our report thereon dated March 3, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains 7 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 Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 3, 2016

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**City of Silver Bay
Schedule of Findings and Responses
on Internal Control**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies:

Audit Finding 2006-001 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2015, 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**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies: (Continued)

Audit Finding 2006-002 – 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 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.