

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

Financial Statements

December 31, 2016



**City of Silver Bay
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**City of Silver Bay
Elected Officials and Administration
December 31, 2016**

<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	

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, 2016, 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.



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 in the first paragraph 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and the Mary MacDonald Business Center Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



Other Matters (Continued)

Other Information (Continued)

The combining and individual nonmajor fund financial statements and other supplementary information is the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and other supplementary information are 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 27, 2017 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 27, 2017

City of Silver Bay Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS (Pages 5 to 12 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, 2016. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2015 has been included as required.

FINANCIAL HIGHLIGHTS

- The net position of the City was \$15,474,367 in 2015 and \$16,328,694 in 2016. Of these amounts, \$4,896,263 in 2015 and \$5,458,891 in 2016 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 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. In 2016, the total net position increased by \$854,327. A large portion of this increase was due to the Mary MacDonald Partial Roof Replacement Project (\$414,757) and the Sewer Department's Solids Contact Clarifiers/Tertiary Project (\$325,841), which included the replacement of the mechanical components of the #1 clarifier and the refurbishing of the #2 clarifier. In addition, a new Zamboni was purchased (\$140,148), two new lavatory vaults (\$56,150) were installed on black beach, installation of citywide phone and internet (fiber) system (\$12,128), and new epoxy flooring at the Reunion Hall (\$23,390). Other capital purchases include fiber DATA system at City Hall, new police vehicle and squad cameras, and a new water/sewer department truck. A Capital decrease happened with the trade-in of an asset in the Police Department.
- The City's governmental funds reported a combined ending fund balance in the amount of \$3,859,157 for 2015 and \$4,148,604 for 2016, an increase of \$289,447.
- 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. At the end of 2016, the total fund balance for the General Fund was \$2,057,443 (\$1,535 restricted, \$112,000 committed and \$1,943,908 unassigned), or 116.9%%, of the total General Fund expenditures of \$1,760,055.

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.

City of Silver Bay Management's Discussion and Analysis

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

STATEMENT OF NET POSITION

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

	Governmental Activities 2015	Business-Type Activities 2015	Total 2015	Governmental Activities 2016	Business-Type Activities 2016	Total 2016
Assets						
Current and other assets	\$ 4,190,568	\$ 2,566,904	\$ 6,757,472	\$ 4,440,271	\$ 3,162,768	\$ 7,603,039
Capital assets	6,342,247	5,079,794	11,422,041	6,641,143	5,176,192	11,817,335
Total assets	<u>\$ 10,532,815</u>	<u>\$ 7,646,698</u>	<u>\$ 18,179,513</u>	<u>\$ 11,081,414</u>	<u>\$ 8,338,960</u>	<u>\$ 19,420,374</u>
Deferred Outflow of Resources	<u>\$ 178,547</u>	<u>\$ 46,871</u>	<u>\$ 225,418</u>	<u>\$ 1,490,135</u>	<u>\$ 225,103</u>	<u>\$ 1,715,238</u>
Liabilities						
Current and other liabilities	\$ 209,250	\$ 278,820	\$ 488,070	\$ 252,649	\$ 231,275	\$ 483,924
Long-term liabilities	1,203,564	987,409	2,190,973	2,905,250	1,016,228	3,921,478
Total liabilities	<u>1,412,814</u>	<u>1,266,229</u>	<u>2,679,043</u>	<u>3,157,899</u>	<u>1,247,503</u>	<u>4,405,402</u>
Deferred Inflow of Resources	<u>208,290</u>	<u>43,231</u>	<u>251,521</u>	<u>340,563</u>	<u>60,953</u>	<u>401,516</u>
Net Position						
Net investment in capital assets	6,212,759	4,246,403	10,459,162	6,216,173	4,555,046	10,771,219
Restricted	118,942	-	118,942	98,584	-	98,584
Unrestricted	<u>2,758,557</u>	<u>2,137,706</u>	<u>4,896,263</u>	<u>2,758,330</u>	<u>2,700,561</u>	<u>5,458,891</u>
Total net position	<u>9,090,258</u>	<u>6,384,109</u>	<u>15,474,367</u>	<u>9,073,087</u>	<u>7,255,607</u>	<u>16,328,694</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>	<u>\$ 12,571,549</u>	<u>\$ 8,564,063</u>	<u>\$ 21,135,612</u>

GOVERNMENTAL ACTIVITIES

Total net position of the City's governmental activities increased in 2015 by \$646,492 or 7.7%, and decreased slightly in 2016 by \$17,171 or 0%, which is considered stable operations.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, totaled \$2,758,557 in 2015 and \$2,758,330 in 2016. This is a decrease of \$227 or 0%, which is considered stable operations.

Current and other assets totaled \$4,190,568 in 2015 and \$4,440,271 in 2016. Cash in the General Fund increased by \$99,771 in 2015 and increased by \$101,461 in 2016. The City experienced a decrease in both total revenues and total expenditures in the General Fund in 2016. The total decrease in revenues was \$478,422 from the previous year and expenditures decreased \$456,645 from the previous year. These decreases are related to receiving a FEMA grant and the subsequent purchase of a fire truck in the 2015.

Cash in the Public Works Reserve Fund increased by \$89,575 in 2015 and increased by \$148,804 in 2016. In both 2015 and 2016, 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 2015 and 2016 for Bell Circle Apartments, AmericInn, and Biofuel Food Greenhouse.

City of Silver Bay Management's Discussion and Analysis

BUSINESS-TYPE ACTIVITIES

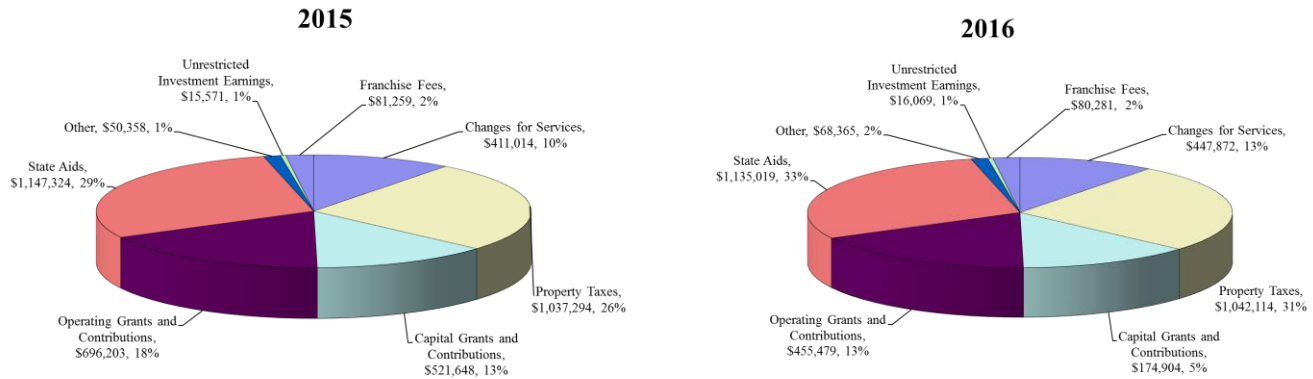
The net position of the City's business-type activities increased by \$640,327 in 2015 and increased by \$871,498 in 2016. The increases in 2015 and 2016 were due to the increase in charges for services and capital grants and improvements for the year. The following table indicates the changes in net position for the City's governmental and business-type activities.

	Governmental Activities 2015	Business-Type Activities 2015	Total 2015	Governmental Activities 2016	Business-Type Activities 2016	Total 2016
Revenues						
Program revenues						
Charges for services	\$ 411,014	\$ 2,494,872	\$ 2,905,886	\$ 447,872	\$ 2,729,482	\$ 3,177,354
Operating grants and contributions	696,203	-	696,203	455,479	-	455,479
Capital grants and contributions	521,648	153,577	675,225	174,904	250,000	424,904
General revenues						
Property taxes	1,037,294	-	1,037,294	1,042,114	-	1,042,114
Franchise fees	81,259	-	81,259	80,281	-	80,281
State aids	1,147,324	-	1,147,324	1,135,019	2,075	1,137,094
Other	50,358	-	50,358	68,365	386	68,751
Unrestricted investment earnings	15,571	13,885	29,456	16,069	10,327	26,396
Total revenues	<u>\$ 3,960,671</u>	<u>\$ 2,662,334</u>	<u>\$ 6,623,005</u>	<u>\$ 3,420,103</u>	<u>\$ 2,992,270</u>	<u>\$ 6,412,373</u>
Expenses						
General services	\$ 600,432	\$ -	\$ 600,432	\$ 612,643	\$ -	\$ 612,643
Public safety	608,316	-	608,316	820,437	-	820,437
Public works	598,959	-	598,959	729,505	-	729,505
Culture and recreation	1,060,527	-	1,060,527	1,096,169	-	1,096,169
Economic development	304,151	-	304,151	29,977	-	29,977
Airport	134,555	-	134,555	140,905	-	140,905
Interest on long-term debt	7,239	-	7,239	7,638	-	7,638
Water utility	-	604,117	604,117	-	647,459	647,459
Sewer utility	-	507,947	507,947	-	556,862	556,862
Municipal liquor	-	909,943	909,943	-	916,451	916,451
Total expenses	<u>3,314,179</u>	<u>2,022,007</u>	<u>5,336,186</u>	<u>3,437,274</u>	<u>2,120,772</u>	<u>5,558,046</u>
Change in net position before transfers	<u>646,492</u>	<u>640,327</u>	<u>1,286,819</u>	<u>(17,171)</u>	<u>871,498</u>	<u>854,327</u>
Transfers	-	-	-	-	-	-
Change in net position	<u>646,492</u>	<u>640,327</u>	<u>1,286,819</u>	<u>(17,171)</u>	<u>871,498</u>	<u>854,327</u>
Net Position						
Beginning of year, restated	<u>8,443,766</u>	<u>5,743,782</u>	<u>14,187,548</u>	<u>9,090,258</u>	<u>6,384,109</u>	<u>15,474,367</u>
End of year	<u>\$ 9,090,258</u>	<u>\$ 6,384,109</u>	<u>\$ 15,474,367</u>	<u>\$ 9,073,087</u>	<u>\$ 7,255,607</u>	<u>\$ 16,328,694</u>

City of Silver Bay Management's Discussion and Analysis

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 \$3,960,671 for 2015 and \$3,420,103 for 2016. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$411,014 in 2015 and \$447,872 in 2016 and were collected through the Marina Fund and various recreation programs. Some fees come from public safety.

Capital grants and contributions totaled \$521,648 in 2015 and \$174,904 in 2016. In 2015 the City received a FEMA grant for the purchase of a fire truck. In 2016, the majority was to fund the Arena Zamboni. Small grants were received for the police equipment and Prairie Fire Theatre.

The City's property tax and state aid revenues totaled \$2,184,618 and were 55% of the City's total revenue in 2015. In 2016, they totaled \$2,177,133 and were 64% 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 2015 and 2016, interest (now known as Unrestricted Investment Earnings) slightly increased which was a result from better economic conditions.

Franchise fees generated \$81,259 in funding for 2015. In 2016, these fees resulted in \$80,281 in funding.

City of Silver Bay Management's Discussion and Analysis

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$3,314,179 for 2015 and \$3,437,274 for 2016 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$2,662,334 for 2015 and \$2,992,270 for 2016. The Municipal Liquor Fund generated operating revenues of \$931,255 in 2015 and \$921,174 in 2016. Operating revenues in water and sewer increased. All business-types saw a slight decrease in interest income.

Expenses

Business-type expenses totaled \$2,022,007 for 2015 and \$2,120,772 for 2016. The municipal liquor operating expenses for 2015 increased by \$8,663 or 2%, while the operating revenues decreased by \$645. In 2016, operating expenses increased \$8,668, or 1% while operating revenues decreased \$10,081 or 1%. As a result, an operating income of \$27,663 happened in 2015 and an operating income of \$8,914 happened in 2016. Expenses in the Water Utility Fund decreased in 2015 to \$609,659 and in 2016, they increased to \$637,383. Sewer expenses for 2015 were \$507,947, while 2016 expenses increased to \$554,634.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2015 General Fund balance was \$1,967,423. The City's General Fund balance increased by \$90,020 in 2016 to \$2,057,443.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2015 was \$281,738. The Mary MacDonald Fund balance decreased by \$16,753, for an ending fund balance of \$264,985. The decrease was due to funds used for the roof replacement project.

Debt Service Fund

The \$1,170 increase in this Fund's balance to \$35,903 was due to timing of payment of special assessment.

Public Works Reserve

The Public Works Reserve Fund balance for 2015 was \$614,425. In 2016, the fund balance increased to \$702,919. 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, AmericInn, and business park improvements.

City of Silver Bay Management's Discussion and Analysis

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 2015, the City had \$11,422,041 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 2016, the City had \$11,817,335 invested in a broad range of capital assets. The City's fiscal year 2017 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

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.

At 2016 year-end, the City had \$1,335,140 in notes, leases and compensated absences outstanding. The majority, \$563,000, 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). A new \$350,000 Revenue Note was added for the Mary Mac Roof project. The City also has \$2,964,021 in net pension liability with the implementation of GASB 68 during 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal year 2017 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 2017 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. For 2017, the rates remained the same as 2016 rates.

**City of Silver Bay
Management's Discussion and Analysis**

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.

BASIC FINANCIAL STATEMENTS

**City of Silver Bay
Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 3,814,740	\$ 2,627,378	\$ 6,442,118
Property tax receivable	64,343	-	64,343
Accounts receivable	42,455	119,880	162,335
Interest receivable	5,000	3,480	8,480
Due from other governments	356,939	263,085	620,024
Loan receivable	38,884	-	38,884
Special assessments receivable	38,635	-	38,635
Inventory	3,935	142,088	146,023
Prepaid items	-	6,857	6,857
Net pension asset - Fire Relief Association	75,340	-	75,340
Capital assets not being depreciated			
Land	958,293	37,463	995,756
Capital assets being depreciated			
Buildings and building improvements	5,626,445	7,725,837	13,352,282
Improvements other than buildings	3,293,450	970,257	4,263,707
Vehicles, machinery, and equipment	2,951,794	1,429,474	4,381,268
Less accumulated depreciation	(6,188,839)	(4,986,839)	(11,175,678)
Total assets	<u>11,081,414</u>	<u>8,338,960</u>	<u>19,420,374</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	<u>1,490,135</u>	<u>225,103</u>	<u>1,715,238</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,571,549</u></u>	<u><u>\$ 8,564,063</u></u>	<u><u>\$ 21,135,612</u></u>
Liabilities			
Accounts payable	\$ 44,463	\$ 3,036	\$ 47,499
Due to other governments	383	11,075	11,458
Salaries and benefits payable	20,588	9,487	30,075
Interest payable	4,196	3,982	8,178
Unearned revenue	9,031	-	9,031
Bond principal payable			
Payable within one year	75,188	58,146	133,334
Payable after one year	349,782	-	349,782
Notes payable			
Payable within one year	-	110,000	110,000
Payable after one year	-	453,000	453,000
Compensated absences payable			
Payable within one year	98,800	35,549	134,349
Payable after one year	125,941	28,734	154,675
Net pension liability	<u>2,429,527</u>	<u>534,494</u>	<u>2,964,021</u>
Total liabilities	<u>3,157,899</u>	<u>1,247,503</u>	<u>4,405,402</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	301,679	60,953	362,632
Unavailable revenue - loan receivable	<u>38,884</u>	<u>-</u>	<u>38,884</u>
Total deferred inflows of resources	<u>340,563</u>	<u>60,953</u>	<u>401,516</u>
Net Position			
Net investment in capital assets	6,216,173	4,555,046	10,771,219
Restricted	98,584	-	98,584
Unrestricted	<u>2,758,330</u>	<u>2,700,561</u>	<u>5,458,891</u>
Total net position	<u>9,073,087</u>	<u>7,255,607</u>	<u>16,328,694</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 12,571,549</u></u>	<u><u>\$ 8,564,063</u></u>	<u><u>\$ 21,135,612</u></u>

**City of Silver Bay
Statement of Activities
Year Ended December 31, 2016**

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	\$ 612,643	\$ -	\$ 7,053	\$ -	\$ (605,590)	\$ -	\$ (605,590)
Public safety	820,437	65,375	70,248	-	(684,814)	-	(684,814)
Public works	729,505	1,251	14,142	2,882	(711,230)	-	(711,230)
Culture and recreation	1,096,169	369,189	270,553	172,022	(284,405)	-	(284,405)
Economic development	29,977	1,847	57,055	-	28,925	-	28,925
Airport	140,905	10,210	36,428	-	(94,267)	-	(94,267)
Interest on long-term debt	7,638	-	-	-	(7,638)	-	(7,638)
Total governmental activities	3,437,274	447,872	455,479	174,904	(2,359,019)	-	(2,359,019)
Business-type activities							
Water	647,459	975,864	-	-	-	328,405	328,405
Sewer	556,862	832,444	-	250,000	-	525,582	525,582
Municipal liquor	916,451	921,174	-	-	-	4,723	4,723
Total business-type activities	2,120,772	2,729,482	-	250,000	-	858,710	858,710
Total governmental and business-type activities	\$ 5,558,046	\$ 3,177,354	\$ 455,479	\$ 424,904	(2,359,019)	858,710	(1,500,309)
General revenues							
Property and taconite taxes					1,042,114	-	1,042,114
Franchise fees					80,281	-	80,281
State aids					1,135,019	2,075	1,137,094
Unrestricted investment earnings					16,069	10,327	26,396
Other general revenue					67,671	386	68,057
Gain on sale of asset					694	-	694
Total general revenues					2,341,848	12,788	2,354,636
Change in net position					(17,171)	871,498	854,327
Net position - beginning					9,090,258	6,384,109	15,474,367
Net position - ending					\$ 9,073,087	\$ 7,255,607	\$ 16,328,694

See notes to financial statements.

City of Silver Bay
Balance Sheet - Governmental Funds
December 31, 2016

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center	Debt Service
	<u>General (101)</u>	<u>(265)</u>	<u>(352)</u>
Assets			
Cash and investments	\$ 1,812,326	\$ 292,298	\$ 35,872
Taxes receivable - delinquent	52,633	-	-
Special assessment receivable - deferred	-	-	38,635
Accounts receivable	17,739	4,994	-
Interest receivable	2,490	519	31
Due from other funds	56,219	-	-
Due from other governments	198,347	-	-
Loan receivable	37,365	-	-
Inventory	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,177,119</u>	<u>\$ 297,811</u>	<u>\$ 74,538</u>
Liabilities			
Accounts payable	\$ 15,020	\$ 28,346	\$ -
Due to other funds	-	-	-
Due to other governments	174	-	-
Salaries and benefits payable	14,484	-	-
Unearned revenue	-	4,480	-
Total liabilities	<u>29,678</u>	<u>32,826</u>	<u>-</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	52,633	-	-
Unavailable revenue - special assessments	-	-	38,635
Unavailable revenue - loans receivable	37,365	-	-
Total deferred inflows of resources	<u>89,998</u>	<u>-</u>	<u>38,635</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	1,535	-	35,903
Committed	112,000	-	-
Assigned	-	264,985	-
Unassigned	1,943,908	-	-
Total fund balances	<u>2,057,443</u>	<u>264,985</u>	<u>35,903</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,177,119</u>	<u>\$ 297,811</u>	<u>\$ 74,538</u>

Capital Projects

Public Works Reserve (401)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 675,967	\$ 998,277	\$ 3,814,740
10,488	1,222	64,343
-	-	38,635
95	19,627	42,455
849	1,111	5,000
-	-	56,219
26,039	132,553	356,939
-	1,519	38,884
-	3,935	3,935
<u>\$ 713,438</u>	<u>\$ 1,158,244</u>	<u>\$ 4,421,150</u>
\$ 31	\$ 1,066	\$ 44,463
-	56,219	56,219
-	209	383
-	6,104	20,588
-	4,551	9,031
<u>31</u>	<u>68,149</u>	<u>130,684</u>
10,488	1,222	64,343
-	-	38,635
-	1,519	38,884
<u>10,488</u>	<u>2,741</u>	<u>141,862</u>
-	3,935	3,935
-	26,707	64,145
-	-	112,000
702,919	1,079,554	2,047,458
-	(22,842)	1,921,066
<u>702,919</u>	<u>1,087,354</u>	<u>4,148,604</u>
<u>\$ 713,438</u>	<u>\$ 1,158,244</u>	<u>\$ 4,421,150</u>

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**City of Silver Bay
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2016**

Total fund balances - governmental funds	\$ 4,148,604
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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	12,829,982
Less accumulated depreciation	(6,188,839)

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	(424,970)
Compensated absences payable	(224,741)
Net pension liability	(2,429,527)

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	64,343
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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	38,635
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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	(301,679)
Deferred outflows of resources related to pensions	1,490,135

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

	75,340
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Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.

	(4,196)
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Total net position - governmental activities	<u><u>\$ 9,073,087</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, 2016

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center	Debt Service
	General (101)	(265)	(352)
Revenues			
General property taxes	\$ 746,235	\$ -	\$ 5
Franchise fees	9,540	-	-
Special assessments	-	-	22,195
Licenses and permits	8,553	-	-
Intergovernmental	1,225,463	-	-
Charges for services	52,943	171,780	-
Fines and forfeitures	5,130	6,225	-
Miscellaneous			
Investment income	7,972	1,881	91
Contributions and donations	7,528	-	-
Loan repayments	7,323	-	-
Other	38,516	4,886	-
Total revenues	<u>2,109,203</u>	<u>184,772</u>	<u>22,291</u>
Expenditures			
Current			
General government	490,658	-	-
Public safety	573,012	-	-
Public works	510,311	-	-
Culture and recreation	19,033	133,411	-
Economic development	-	-	-
Airport	-	-	-
Debt service			
Principal	-	-	54,518
Interest and other charges	-	-	5,419
Capital outlay			
General government	39,628	-	-
Public safety	54,684	-	-
Public works	28,712	-	-
Culture and recreation	44,017	410,897	-
Total expenditures	<u>1,760,055</u>	<u>544,308</u>	<u>59,937</u>
Excess of revenues over (under) expenditures	349,148	(359,536)	(37,646)
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	619	-	-
Proceeds from long-term debt	-	350,000	-
Insurance recoveries	-	-	-
Transfers in	71,262	-	38,816
Transfers out	(331,009)	(7,217)	-
Total other financing sources (uses)	<u>(259,128)</u>	<u>342,783</u>	<u>38,816</u>
Net change in fund balances	90,020	(16,753)	1,170
Fund Balances			
Beginning of year	<u>1,967,423</u>	<u>281,738</u>	<u>34,733</u>
End of year	<u>\$ 2,057,443</u>	<u>\$ 264,985</u>	<u>\$ 35,903</u>

See notes to financial statements.

Capital Projects

Public Works Reserve (401)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 165,453	\$ 135,276	\$ 1,046,969
-	70,741	80,281
-	-	22,195
-	-	8,553
58,066	437,403	1,720,932
1,230	197,196	423,149
1,000	-	12,355
2,871	3,254	16,069
-	25,366	32,894
-	1,847	9,170
2,657	24,951	71,010
<u>231,277</u>	<u>896,034</u>	<u>3,443,577</u>
-	-	490,658
-	-	573,012
49,963	11,770	572,044
-	740,769	893,213
-	29,977	29,977
-	38,590	38,590
-	-	54,518
-	-	5,419
-	-	39,628
-	-	54,684
45,518	-	74,230
-	255,717	710,631
<u>95,481</u>	<u>1,076,823</u>	<u>3,536,604</u>
135,796	(180,789)	(93,027)
-	75	694
-	-	350,000
-	31,780	31,780
38,884	292,125	441,087
(86,186)	(16,675)	(441,087)
<u>(47,302)</u>	<u>307,305</u>	<u>382,474</u>
88,494	126,516	289,447
<u>614,425</u>	<u>960,838</u>	<u>3,859,157</u>
<u>\$ 702,919</u>	<u>\$ 1,087,354</u>	<u>\$ 4,148,604</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, 2016

Net change in fund balances - governmental funds	\$ 289,447
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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	732,246
Depreciation expense	(433,350)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(31,490)
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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.	54,518
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Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net position in the Statement of Activities.	(350,000)
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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.	(2,219)
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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.	
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	(252,155)

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.	(4,855)
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Change in net position - governmental activities	\$ (17,171)
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City of Silver Bay
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
General property taxes	\$ 763,015	\$ 772,625	\$ 746,235	\$ (26,390)
Franchise fees	10,000	9,540	9,540	-
Licenses and permits	15,575	8,550	8,553	3
Intergovernmental	1,192,315	1,218,245	1,225,463	7,218
Charges for services	47,300	52,945	52,943	(2)
Fines and forfeitures	4,500	5,125	5,130	5
Miscellaneous				
Investment income	5,000	7,750	7,972	222
Contributions and donations	2,000	12,525	7,528	(4,997)
Loan repayments	7,300	7,320	7,323	3
Other	9,500	38,475	38,516	41
Total revenues	<u>2,056,505</u>	<u>2,133,100</u>	<u>2,109,203</u>	<u>(23,897)</u>
Expenditures				
Current				
General government	521,345	490,520	490,658	138
Public safety	609,080	570,060	573,012	2,952
Public works	536,150	508,410	510,311	1,901
Culture and recreation	19,500	19,035	19,033	(2)
Capital outlay				
General government	10,800	41,405	39,628	(1,777)
Public safety	264,600	54,690	54,684	(6)
Public works	31,000	28,715	28,712	(3)
Culture and recreation	2,000	44,030	44,017	(13)
Total expenditures	<u>1,994,475</u>	<u>1,756,865</u>	<u>1,760,055</u>	<u>3,190</u>
Excess of revenues over (under) expenditures	62,030	376,235	349,148	(27,087)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	3,600	620	619	(1)
Insurance recoveries	500	-	-	-
Transfers in	159,500	71,260	71,262	2
Transfers out	(337,630)	(331,010)	(331,009)	1
Total other financing sources (uses)	<u>(174,030)</u>	<u>(259,130)</u>	<u>(259,128)</u>	<u>2</u>
Net change in fund balances	<u>\$ (112,000)</u>	<u>\$ 117,105</u>	90,020	<u>\$ (27,085)</u>
Fund Balances				
Beginning of year			<u>1,967,423</u>	
End of year			<u>\$ 2,057,443</u>	

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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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Charges for services	\$ 171,500	\$ 171,780	\$ 171,780	\$ -
Fines and forfeitures	-	-	6,225	6,225
Miscellaneous				
Investment income	1,000	1,700	1,881	181
Other	1,000	11,110	4,886	(6,224)
Total revenues	<u>173,500</u>	<u>184,590</u>	<u>184,772</u>	<u>182</u>
Expenditures				
Culture and recreation	138,550	135,280	133,411	(1,869)
Capital outlay				
Culture and recreation	<u>130,000</u>	<u>410,900</u>	<u>410,897</u>	<u>(3)</u>
Total expenditures	<u>268,550</u>	<u>546,180</u>	<u>544,308</u>	<u>(1,872)</u>
Excess of revenues over (under) expenditures	(95,050)	(361,590)	(359,536)	2,054
Other Financing Sources				
Proceeds from long-term debt	-	350,000	350,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>(7,217)</u>	<u>(7,217)</u>
Total other financing sources (uses)	<u>-</u>	<u>350,000</u>	<u>342,783</u>	<u>(7,217)</u>
Net change in fund balances	<u>\$ (95,050)</u>	<u>\$ (11,590)</u>	(16,753)	<u>\$ (5,163)</u>
Fund Balances				
Beginning of year			<u>281,738</u>	
End of year			<u>\$ 264,985</u>	

City of Silver Bay
Statement of Net Position - Proprietary Funds
December 31, 2016

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Assets				
Current assets				
Cash and investments (including cash equivalents)	\$ 1,164,891	\$ 1,117,679	\$ 344,808	\$ 2,627,378
Accounts receivable	58,020	61,507	353	119,880
Interest receivable	1,380	1,583	517	3,480
Due from other governments	5,678	252,222	5,185	263,085
Inventory	66,268	5,864	69,956	142,088
Prepaid items	-	-	6,857	6,857
Total current assets	<u>1,296,237</u>	<u>1,438,855</u>	<u>427,676</u>	<u>3,162,768</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	581,625	812,013	35,836	1,429,474
Total capital assets	4,032,325	4,769,350	1,361,356	10,163,031
Less accumulated depreciation	(1,738,981)	(2,659,365)	(588,493)	(4,986,839)
Net capital assets	<u>2,293,344</u>	<u>2,109,985</u>	<u>772,863</u>	<u>5,176,192</u>
Total assets	<u>3,589,581</u>	<u>3,548,840</u>	<u>1,200,539</u>	<u>8,338,960</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension activity	<u>74,001</u>	<u>74,001</u>	<u>77,101</u>	<u>225,103</u>
Total assets and deferred outflows of resources	<u>\$ 3,663,582</u>	<u>\$ 3,622,841</u>	<u>\$ 1,277,640</u>	<u>\$ 8,564,063</u>
Liabilities				
Current liabilities				
Accounts payable	\$ -	\$ 36	\$ 3,000	\$ 3,036
Due to other governments	5,355	-	5,720	11,075
Salaries and benefits payable	2,932	2,932	3,623	9,487
Interest payable	3,261	332	389	3,982
Long-term liabilities due within one year	87,753	37,753	78,189	203,695
Total current liabilities	<u>99,301</u>	<u>41,053</u>	<u>90,921</u>	<u>231,275</u>
Noncurrent liabilities				
Compensated absences	14,020	14,020	36,243	64,283
Notes payable	501,000	62,000	-	563,000
Bonds payable	-	-	58,146	58,146
Net pension liability	175,711	175,712	183,071	534,494
Less amount due within one year	(87,753)	(37,753)	(78,189)	(203,695)
Total noncurrent liabilities	<u>602,978</u>	<u>213,979</u>	<u>199,271</u>	<u>1,016,228</u>
Total liabilities	<u>702,279</u>	<u>255,032</u>	<u>290,192</u>	<u>1,247,503</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pension activity	<u>20,038</u>	<u>20,038</u>	<u>20,877</u>	<u>60,953</u>
Net Position				
Net investment in capital assets	1,792,344	2,047,985	714,717	4,555,046
Unrestricted	1,148,921	1,299,786	251,854	2,700,561
Total net position	<u>2,941,265</u>	<u>3,347,771</u>	<u>966,571</u>	<u>7,255,607</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,663,582</u>	<u>\$ 3,622,841</u>	<u>\$ 1,277,640</u>	<u>\$ 8,564,063</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, 2016

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Sales and cost of sales				
Sales	\$ -	\$ -	\$ 908,246	\$ 908,246
Cost of sales	-	-	559,075	559,075
Gross profit	-	-	349,171	349,171
Operating revenues				
Charges for services	970,992	826,484	-	1,797,476
Other services	4,872	5,960	1,857	12,689
Game machines	-	-	11,071	11,071
Total operating revenues	975,864	832,444	12,928	1,821,236
Operating expenses				
Salaries and benefits	251,317	242,637	226,839	720,793
Materials and supplies	45,465	60,926	22,877	129,268
Professional services	2,552	4,361	3,000	9,913
Contracted services	1,841	77,257	19,682	98,780
Insurance	9,842	13,356	18,072	41,270
Utilities	63,170	26,793	16,367	106,330
Refuse charges	163,700	550	1,180	165,430
Telephone	1,968	1,668	2,076	5,712
Depreciation	94,350	123,186	25,930	243,466
Promotion and advertising	360	-	1,300	1,660
Licenses and dues	1,181	1,687	3,974	6,842
Conferences and schools	805	1,656	232	2,693
Miscellaneous expenses	832	557	11,656	13,045
Total operating expenses	637,383	554,634	353,185	1,545,202
Operating income	338,481	277,810	8,914	625,205
Nonoperating revenues (expenses)				
Investment income	3,862	4,891	1,574	10,327
Intergovernmental	682	682	711	2,075
Miscellaneous revenue	193	193	-	386
Interest expense	(10,076)	(2,228)	(4,191)	(16,495)
Total nonoperating revenues (expenses)	(5,339)	3,538	(1,906)	(3,707)
Income before capital contributions and transfers	333,142	281,348	7,008	621,498
Capital grants	-	250,000	-	250,000
Transfers in	15,718	-	-	15,718
Transfers out	-	(15,718)	-	(15,718)
Change in net position	348,860	515,630	7,008	871,498
Net position				
Beginning of year	2,592,405	2,832,141	959,563	6,384,109
End of year	<u>\$ 2,941,265</u>	<u>\$ 3,347,771</u>	<u>\$ 966,571</u>	<u>\$ 7,255,607</u>

See notes to financial statements.

City of Silver Bay
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
Cash Flows - Operating Activities				
Receipts from customers and users	\$ 945,665	\$ 801,051	\$ 918,521	\$ 2,665,237
Payments to suppliers	(292,603)	(188,086)	(659,813)	(1,140,502)
Payments to employees	(243,093)	(234,412)	(204,086)	(681,591)
Net cash flows - operating activities	<u>409,969</u>	<u>378,553</u>	<u>54,622</u>	<u>843,144</u>
Cash Flows - Noncapital Financing Activities				
Miscellaneous Revenue	<u>193</u>	<u>193</u>	<u>-</u>	<u>386</u>
Cash Flows - Capital and Related Financing Activities				
Capital grants	153,577	-	-	153,577
Principal paid on debt	(78,000)	(78,336)	(55,909)	(212,245)
Interest paid on debt	(10,672)	(2,879)	(4,562)	(18,113)
Acquisition of capital assets	(15,719)	(324,145)	-	(339,864)
Net cash flows - capital and related financing activities	<u>49,186</u>	<u>(405,360)</u>	<u>(60,471)</u>	<u>(416,645)</u>
Cash Flows - Investing Activities				
Interest and dividends received	<u>4,534</u>	<u>5,187</u>	<u>1,696</u>	<u>11,417</u>
Net change in cash and cash equivalents	463,882	(21,427)	(4,153)	438,302
Cash and Cash Equivalents				
Beginning of year	<u>701,009</u>	<u>1,139,106</u>	<u>348,961</u>	<u>2,189,076</u>
End of year	<u>\$ 1,164,891</u>	<u>\$ 1,117,679</u>	<u>\$ 344,808</u>	<u>\$ 2,627,378</u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities				
Operating income	\$ 338,481	\$ 277,810	\$ 8,914	\$ 625,205
Adjustments to reconcile operating income to net cash flows - operating activities:				
Depreciation expense	94,350	123,186	25,930	243,466
Net pension liability expense	9,287	9,288	18,436	37,011
Accounts receivable	(25,715)	(30,391)	993	(55,113)
Due from other governments	(4,484)	(1,002)	(3,646)	(9,132)
Prepaid items	-	-	178	178
Inventory	1,520	689	(371)	1,838
Accounts payable	(2,545)	36	64	(2,445)
Due to other governmental units	138	-	(193)	(55)
Salaries payable	401	401	1,139	1,941
Compensated absences payable	(1,464)	(1,464)	3,178	250
Total adjustments	<u>71,488</u>	<u>100,743</u>	<u>45,708</u>	<u>217,939</u>
Net cash flows - operating activities	<u>\$ 409,969</u>	<u>\$ 378,553</u>	<u>\$ 54,622</u>	<u>\$ 843,144</u>
Noncash Capital Activities				
Transfer of capital asset	<u>\$ 15,718</u>	<u>\$ (15,718)</u>	<u>\$ -</u>	<u>\$ -</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 four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

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

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

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

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

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

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

1. Blended Component Unit

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

2. Related Organization

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

**City of Silver Bay
Notes to 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.

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

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

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

Proprietary Funds:

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

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

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

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

**City of Silver Bay
Notes to 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

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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

Minnesota Statutes authorizes 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.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn.

**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

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

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

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

The County Auditor 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 acquisition 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.

**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)

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	5-20
Furniture and equipment	5-10
Light vehicles	5
Machinery and equipment	5-10
Fire trucks	20
Infrastructure	20-70

5. Deferred 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 for various estimate differences that will be amortized and recognized over future years.

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 four 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 one 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 for various estimate differences that will be amortized and recognized over future years.

**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

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

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

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

7. Employment Health Benefits

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

8. Long-Term Obligations

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

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

**City of Silver Bay
Notes to 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.

E. 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.

F. 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

A. Deficit Fund Balances

The following Fund had a deficit fund balance at December 31, 2016:

Special revenue	
Airport	\$ 22,842

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.

As of December 31, 2016, the City had the following deposits:

Cash and cash equivalents	\$ 4,036,991
Certificates of deposit	<u>1,600,000</u>
 Total deposits	 <u><u>\$ 5,636,991</u></u>

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. As of December 31, 2016, 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.

City of Silver Bay
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of December 31, 2016, the City had the following investments:

Investment	Maturity	Fair Value	Percentage of Total	Type
4M Money Market	Various	\$ 183,727	23.14%	MM
GE Capital Bank, Utah	07/12/18	100,000	12.60%	CD
Ally Bank, Utah	08/28/17	110,000	13.86%	CD
Goldman Sachs, New York	05/14/18	100,000	12.60%	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	100,000	12.60%	CD
Total		<u>\$ 793,727</u>	<u>100.00%</u>	

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

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits its investments to those specified in these Statutes. As of December 31, 2016, 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: 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. 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, 2016.

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.

City of Silver Bay
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The City has the following recurring fair value measurements as of December 31, 2016:

- Investments of \$793,727 are valued using a quoted market prices (Level 1 inputs)

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 5,636,991
Petty cash	11,400
Investments	<u>793,727</u>
 Total deposits and investments	 <u><u>\$ 6,442,118</u></u>

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of net position:

Cash and investments (including cash equivalents)	<u><u>\$ 6,442,118</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, 2016, 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	5,181,322	445,123	-	5,626,445
Improvements other than buildings	3,237,300	56,150	-	3,293,450
Vehicles, machinery, and equipment	2,747,880	230,973	27,059	2,951,794
Total capital assets being depreciated	<u>11,166,502</u>	<u>732,246</u>	<u>27,059</u>	<u>11,871,689</u>
Less accumulated depreciation for				
Buildings and building improvements	2,147,372	142,473	-	2,289,845
Improvements other than buildings	1,985,537	149,417	-	2,134,954
Vehicles, machinery, and equipment	1,649,639	141,460	27,059	1,764,040
Total accumulated depreciation	<u>5,782,548</u>	<u>433,350</u>	<u>27,059</u>	<u>6,188,839</u>
Total capital assets being depreciated, net	<u>5,383,954</u>	<u>298,896</u>	<u>-</u>	<u>5,682,850</u>
Governmental activities capital assets, net	<u>\$ 6,342,247</u>	<u>\$ 298,896</u>	<u>\$ -</u>	<u>\$ 6,641,143</u>

City of Silver Bay
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Construction in progress	<u>17,414</u>	<u>308,427</u>	<u>325,841</u>	<u>-</u>
Total capital assets not being depreciated	<u>54,877</u>	<u>308,427</u>	<u>325,841</u>	<u>37,463</u>
Capital assets being depreciated				
Buildings and building improvements	7,725,837	-	-	7,725,837
Improvements other than buildings	970,257	-	-	970,257
Vehicles, machinery, and equipment	<u>1,072,196</u>	<u>357,278</u>	<u>-</u>	<u>1,429,474</u>
Total capital assets being depreciated	<u>9,768,290</u>	<u>357,278</u>	<u>-</u>	<u>10,125,568</u>
Less accumulated depreciation for				
Buildings and building improvements	4,036,671	178,222	-	4,214,893
Improvements other than buildings	140,670	18,467	-	159,137
Vehicles, machinery, and equipment	<u>566,032</u>	<u>46,777</u>	<u>-</u>	<u>612,809</u>
Total accumulated depreciation	<u>4,743,373</u>	<u>243,466</u>	<u>-</u>	<u>4,986,839</u>
Total capital assets being depreciated, net	<u>5,024,917</u>	<u>113,812</u>	<u>-</u>	<u>5,138,729</u>
Business-type activities capital assets, net	<u><u>\$ 5,079,794</u></u>	<u><u>\$ 422,239</u></u>	<u><u>\$ 325,841</u></u>	<u><u>\$ 5,176,192</u></u>

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

Governmental activities	
General government	\$ 74,695
Public safety	47,921
Public works	83,269
Culture and recreation	125,150
Airport	<u>102,315</u>
Total depreciation expense - governmental activities	<u><u>\$ 433,350</u></u>
Business-type activities	
Water	\$ 94,350
Sewer	123,186
Municipal liquor dispensary	<u>25,930</u>
Total depreciation expense - business-type activities	<u><u>\$ 243,466</u></u>

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

NOTE 5 – INTERFUND ASSETS/LIABILITIES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2016, was as follows:

	Amounts Due to Other Funds
	Nonmajor Governmental Funds
Amounts due from other funds	
General Fund	\$ 56,219

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

B. Transfers

The composition of interfund transfers as of December 31, 2016, was as follows:

	Transfers In					
	General Fund	Debt Service	Public Works Reserve	Water Fund	Nonmajor Governmental Funds	Total
Transfers out						
General Fund	\$ -	\$ -	\$ 38,884	\$ -	\$ 292,125	\$ 331,009
Public works reserve	54,587	31,599	-	-	-	86,186
Mary MacDonald Business Center	-	7,217	-	-	-	7,217
Sewer Fund	-	-	-	15,718	-	15,718
Nonmajor governmental funds	16,675	-	-	-	-	16,675
Total	<u>\$ 71,262</u>	<u>\$ 38,816</u>	<u>\$ 38,884</u>	<u>\$ 15,718</u>	<u>\$ 292,125</u>	<u>\$ 456,805</u>

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. The transfer between the Water Fund and the Sewer Fund was a transfer of a capital asset.

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 One Year</u>
Long-term liabilities						
Governmental activities						
G.O. Bonds						
G.O. Improvement Bond, Series 2008A	05/14/08	4.92%	\$ 221,000	07/15/18	\$ 44,514	\$ 26,440
G.O. Equipment Certificate 2011	11/01/11	3.75%	167,000	12/01/17	30,456	30,456
Total G.O. Bonds					<u>74,970</u>	<u>56,896</u>
Taxable Revenue Note, Series 2016A	10/04/16	2.75%	\$ 350,000	10/15/31	350,000	18,292
Compensated absences					<u>224,741</u>	<u>98,800</u>
Total governmental activities					649,711	173,988
Business-type activities						
G.O. Revenue Notes/Bonds						
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	83,000	41,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	418,000	39,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	58,146	58,146
G.O. Sewer Revenue Note Series 2011A	10/17/11	2.60%	203,800	10/17/18	<u>62,000</u>	<u>30,000</u>
Total G.O. Revenue Notes/ Bonds					621,146	168,146
Compensated absences					<u>64,283</u>	<u>35,549</u>
Total business-type activities					<u>685,429</u>	<u>203,695</u>
Total all long-term liabilities					<u>\$ 1,335,140</u>	<u>\$ 377,683</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 4.00% or greater than 8.00% per annum. The new interest rate effective October 31, 2013, is 4.00%.

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:

Governmental Activities						
	Improvement Bonds			Equipment Certificates		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 26,440	\$ 1,898	\$ 28,338	\$ 30,456	\$ 1,142	\$ 31,598
2018	18,074	562	18,636	-	-	-
Total	<u>\$ 44,514</u>	<u>\$ 2,460</u>	<u>\$ 46,974</u>	<u>\$ 30,456</u>	<u>\$ 1,142</u>	<u>\$ 31,598</u>
	Taxable Revenue Note					
	Principal	Interest	Total			
2017	\$ 18,292	\$ 10,574	\$ 28,866			
2018	19,745	9,122	28,867			
2019	20,288	8,579	28,867			
2020	20,846	8,021	28,867			
2021	21,419	7,448	28,867			
2022-2026	116,260	28,073	144,333			
2027-2031	133,150	11,183	144,333			
Total	<u>\$ 350,000</u>	<u>\$ 83,000</u>	<u>\$ 433,000</u>			
	Business-Type Activities					
	Revenue Notes/Bonds					
	Principal	Interest	Total			
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	41,000	4,273	45,273			
2022-2026	218,000	10,907	228,907			
Total	<u>\$ 621,146</u>	<u>\$ 46,458</u>	<u>\$ 667,604</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, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Improvement Bonds	\$ 69,676	\$ -	\$ 25,162	\$ 44,514	\$ 26,440
G.O. Equipment Certificates	59,812	-	29,356	30,456	30,456
Taxable revenue note	-	350,000	-	350,000	18,292
Compensated absences	193,251	119,980	88,490	224,741	98,800
Total governmental activities	<u>322,739</u>	<u>469,980</u>	<u>143,008</u>	<u>649,711</u>	<u>173,988</u>
Business-type activities					
Notes/bonds payable					
G.O. Revenue Notes	719,336	-	156,336	563,000	110,000
Revenue bonds	114,055	-	55,909	58,146	58,146
Compensated absences	64,033	47,707	47,457	64,283	35,549
Total business-type activities	<u>897,424</u>	<u>47,707</u>	<u>259,702</u>	<u>685,429</u>	<u>203,695</u>
Total long-term liabilities	<u>\$ 1,220,163</u>	<u>\$ 517,687</u>	<u>\$ 402,710</u>	<u>\$ 1,335,140</u>	<u>\$ 377,683</u>

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

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

NOTE 7 – LOANS RECEIVABLE

Loans receivable at December 31, 2016, 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%. \$ 1,519

Silver Bay Blue Line Club

\$28,878 repayment agreement, due in annual installments
of \$6,160 in 2016, \$5,000 from 2017-2020, with a
final payment of \$2,718 in September 2021. 22,718

Silver Bay Country Club Lease Agreement

\$36,617 repayment agreement, due in annual installments
of \$1,221 through October 2017. 14,647

Total loans receivable \$ 38,884

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	Mary MacDonald Business Center	Public Works Reserve	Debt Service	Nonmajor Governmental Funds	Total
Nonspendable						
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 3,935	\$ 3,935
Restricted						
Technology grant	-	-	-	-	10,539	10,539
Memorial donation	-	-	-	-	12,884	12,884
Memorial fund	1,535	-	-	-	-	1,535
Housing	-	-	-	-	146	146
Cemetery-perpetual care	-	-	-	-	3,138	3,138
Debt service	-	-	-	35,903	-	35,903
Committed						
Fire truck	112,000	-	-	-	-	112,000
Assigned						
Mary MacDonald Business Center	-	264,985	-	-	-	264,985
Library	-	-	-	-	18,614	18,614
Cemetery	-	-	-	-	17,778	17,778
Arena	-	-	-	-	15,357	15,357
Park and recreation	-	-	-	-	91,092	91,092
Community building	-	-	-	-	1,683	1,683
Economic development	-	-	-	-	427,203	427,203
Community business partnership	-	-	-	-	105,613	105,613
Storefront renovation	-	-	-	-	120,853	120,853
Marina	-	-	-	-	50,912	50,912
Capital projects	-	-	-	-	230,449	230,449
Taconite reserve/sidewalk	-	-	-	-	-	-
Replacement/special projects	-	-	702,919	-	-	702,919
Unassigned	1,943,908	-	-	-	(22,842)	1,921,066
Total	<u>\$ 2,057,443</u>	<u>\$ 264,985</u>	<u>\$ 702,919</u>	<u>\$ 35,903</u>	<u>\$ 1,087,354</u>	<u>\$ 4,148,604</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 2016 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – JOINT POWERS AGREEMENT

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

The County has agreed to pay the City the sum of \$58,000 annually in two equal installments of \$29,000 on June 1 and November 1. In addition, the City shall have the right to excess revenues and shall be responsible for excess expenditures, except the County shall provide fire and extended coverage insurance for buildings and grounds.

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

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

NOTE 11 – 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 Plan (General Employees Plan (accounted for in the General Employees Fund))

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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 Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief 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.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For 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.

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan 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.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$89,627. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.2% of pay for PEPFF members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$53,296. The City's contributions were equal to the required contributions as set by state statute.

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,599,542 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$20,831. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0197%, which was an increase of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$209,525 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$6,211 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the sources listed below.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 129,939
Changes in actuarial assumptions	313,192	-
Difference between projected and actual investment earnings	303,600	-
Changes in proportion	12,043	52,470
Contributions paid to PERA subsequent to the measurement date	44,813	-
	<u>\$ 673,648</u>	<u>\$ 182,409</u>
Total	<u>\$ 673,648</u>	<u>\$ 182,409</u>

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

\$44,813 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, 2017. Other amounts reported as deferred outflows and deferred 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>
2017	\$ 115,085
2018	115,086
2019	158,478
2020	<u>57,777</u>
Total	<u><u>\$ 446,426</u></u>

Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,364,479 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0340 %, which was an increase of 0.0030% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$235,074 for its proportionate share of the Police and Fire Fund pension expense. The City also recognized \$3,060 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the sources on the following page.

City of Silver Bay
Notes to Financial Statements

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 156,532
Changes in actuarial assumptions	750,936	-
Difference between projected and actual investment earnings	208,233	-
Changes in proportion	30,240	23,691
Contributions paid to PERA subsequent to the measurement date	26,648	-
	<hr/>	<hr/>
Total	<u>\$ 1,016,057</u>	<u>\$ 180,223</u>

\$26,648 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, 2017. 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
2017	\$ 172,765
2018	172,765
2019	172,766
2020	155,935
2021	134,955
	<hr/>
Total	<u>\$ 809,186</u>

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

<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>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	\$ 2,271,824	\$ 1,599,542	\$ 1,045,765
	1% Decrease in Discount Rate (4.6%)	Discount Rate (5.6%)	1% Increase in Discount Rate (6.6%)
City's proportionate share of the Police and Fire Fund net pension liability	\$ 1,910,090	\$ 1,364,479	\$ 918,674

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.

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 11 – 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 Firefighters 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, 2015, 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	<u>22</u>
Total	<u><u>23</u></u>

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 ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure and on behalf payment of \$20,741 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, 2015, 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, 2015, 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 11 – 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 11 – 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, 2015	<u>\$ 445,338</u>	<u>\$ 554,837</u>	<u>\$ (109,499)</u>
Changes for the year			
Service cost	16,777	-	16,777
Interest	26,080	-	26,080
Differences between expected and actual experience	-	-	-
Municipal contributions	-	-	-
State contributions	-	20,741	(20,741)
Projected investment return	-	33,553	(33,553)
Gain or loss	-	(44,984)	44,984
Benefit payments, including refunds of employee contributions	(56,100)	(56,100)	-
Administrative expense	-	(612)	612
Other charges	-	-	-
Net charges	<u>(13,243)</u>	<u>(47,402)</u>	<u>34,159</u>
Balances at December 31, 2015	<u><u>\$ 432,095</u></u>	<u><u>\$ 507,435</u></u>	<u><u>\$ (75,340)</u></u>

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%)
City's net pension liability (asset)	<u><u>\$ (61,235)</u></u>	<u><u>\$ (75,340)</u></u>	<u><u>\$ (88,303)</u></u>

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

NOTE 11– 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, 2016, the City recognized pension expense of \$0. At December 31, 2016, 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	25,533	-
Total	<u>\$ 25,533</u>	<u>\$ -</u>

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

<u>Year Ended December 31,</u>	<u>Total</u>
2017	\$ 5,511
2018	5,511
2019	5,515
2020	8,996
Total	<u>\$ 25,533</u>

J. Payable to the Pension Plan

At December 31, 2016, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

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

NOTE 12 – SUBSEQUENT EVENTS

On January 3, 2017, the Council approved a contract with Sheet Metal Solutions, LLC., for kitchen repairs in the golf course club house not to exceed \$23,950.

NOTE 13 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. This new statement requires additional note disclosures and additional required supplementary information. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. We are recommending that a review of your actuarial study be completed with your actuarial firm to ensure compliance with the new standard.

GASB has issued GASB statement 75 relating to 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. This statement is effective for financial statements for fiscal years beginning after June 15, 2017.

GASB has issued GASB statement 80 relating to blending requirements for certain component units. The new statement amends the blending requirements for financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for financial statements for fiscal years beginning after June 15, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

City of Silver Bay
Schedule of City's Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years*

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0194%	\$ 1,005,408	\$ -	\$ -	\$ 1,168,333	86.05%	78.19%
2016	0.0197%	1,599,542	20,831	6,211	1,195,027	133.85%	68.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of City's Proportionate Share
of Net Pension Liability - Public Employees Police and Fire Retirement Fund
Last Ten Years*

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0310%	\$ 352,233	\$ 309,340	113.87%	86.61%
2016	0.0340%	1,364,479	328,988	414.75%	63.88%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Silver Bay
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years***

<u>Fiscal Year Ending December 31,</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	\$ 87,625	\$ 87,625	\$ -	\$ 1,168,333	7.50%
2016	89,627	89,627	-	1,195,027	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of City Contributions -
Public Employees Police and Fire Retirement Fund
Last Ten Years***

<u>Fiscal Year Ending December 31,</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	\$ 50,113	\$ 50,113	\$ -	\$ 309,340	16.20%
2016	53,296	53,296	-	328,988	16.20%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

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

	City's Fiscal Year Ending December 31,		
	2014	2015	2016
Employer			
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -
Contribution in relation to the SDC	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-employer			
2% aid	\$ 22,387	\$ 20,741	\$ 23,179
Covered employee payroll	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A

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 require a ten-year presentation, but does not require retroactive reporting. Additional years will be reported as they become available.

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

	Relief Association Plan Year	
	2014	2015
Total Pension Liability (TPL)		
Service cost	\$ 15,405	\$ 16,777
Interest	28,107	26,080
Difference 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	<u>43,512</u>	<u>42,857</u>
Beginning of year (1)	<u>\$ -</u>	<u>\$ -</u>
Plan Fiduciary Net Pension (FNP)		
Contributions - employer	\$ (22,387)	\$ (20,741)
Contributions - employee	-	-
Net investment income	(32,155)	(33,553)
Benefit payments, including refunds of member contributions	-	-
Administrative expense	495	612
Other	<u>(17,426)</u>	<u>44,984</u>
Net change in plan fiduciary net position	<u>(71,473)</u>	<u>(8,698)</u>
Beginning of year	<u>(81,538)</u>	<u>(109,499)</u>
End of year	<u>\$ (109,499)</u>	<u>\$ (75,340)</u>
Net Pension Liability (NPL)	<u>\$ (109,499)</u>	<u>\$ (75,340)</u>

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 require a ten-year presentation, but does not require retroactive reporting. Information prior to 2014 is not available. Additional years will be reported as they become available.

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City of Silver Bay
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

POLICE AND FIRE FUND

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

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SUPPLEMENTARY INFORMATION

**City of Silver Bay
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2016**

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
Assets					
Cash and investments	\$ 44,947	\$ 20,885	\$ 13,593	\$ -	\$ 1,687
Taxes receivable - delinquent	-	-	-	-	-
Accounts receivable	50	-	5,546	65	-
Interest receivable	(3)	31	(56)	(51)	(4)
Due from other governments	-	-	-	111,798	-
Loan receivable	-	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 44,994</u>	<u>\$ 20,916</u>	<u>\$ 19,083</u>	<u>\$ 111,812</u>	<u>\$ 1,683</u>
Liabilities					
Accounts payable	\$ 258	\$ -	\$ 280	\$ -	\$ -
Due to other funds	-	-	-	20,720	-
Due to other governments	9	-	32	-	-
Salaries and benefits payable	2,690	-	3,414	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	<u>2,957</u>	<u>-</u>	<u>3,726</u>	<u>20,720</u>	<u>-</u>
Deferred Inflow of Resources					
Unavailable revenue - property taxes	-	-	-	-	-
Unavailable revenue - loans receivable	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Nonspendable	-	-	-	-	-
Restricted	23,423	3,138	-	-	-
Assigned	18,614	17,778	15,357	91,092	1,683
Unassigned	-	-	-	-	-
Total fund balances	<u>42,037</u>	<u>20,916</u>	<u>15,357</u>	<u>91,092</u>	<u>1,683</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 44,994</u>	<u>\$ 20,916</u>	<u>\$ 19,083</u>	<u>\$ 111,812</u>	<u>\$ 1,683</u>

Economic Development (271)	Community Business Partnership (275)	Special Revenue				Capital Projects		Total Nonmajor Governmental Funds
		Housing (279)	Storefront Renovation (407)	Marina (601)	Airport (231)	Capital Asset Improvements (412)	Street, Curbs, Parking Lots (406)	
\$ 424,657	\$ 105,461	\$ 665	\$ 120,681	\$ 53,129	\$ -	\$ 36	\$ 212,536	\$ 998,277
-	-	-	-	-	-	543	679	1,222
-	-	-	-	2,436	85	-	11,445	19,627
614	152	(19)	172	66	(46)	4	251	1,111
1,932	-	-	-	-	12,646	2,745	3,432	132,553
-	-	-	1,519	-	-	-	-	1,519
-	-	-	-	3,935	-	-	-	3,935
<u>\$ 427,203</u>	<u>\$ 105,613</u>	<u>\$ 646</u>	<u>\$ 122,372</u>	<u>\$ 59,566</u>	<u>\$ 12,685</u>	<u>\$ 3,328</u>	<u>\$ 228,343</u>	<u>\$ 1,158,244</u>
\$ -	\$ -	\$ 500	\$ -	\$ -	\$ 28	\$ -	\$ -	1,066
-	-	-	-	-	35,499	-	-	56,219
-	-	-	-	168	-	-	-	209
-	-	-	-	-	-	-	-	6,104
-	-	-	-	4,551	-	-	-	4,551
-	-	500	-	4,719	35,527	-	-	68,149
-	-	-	-	-	-	543	679	1,222
-	-	-	1,519	-	-	-	-	1,519
-	-	-	1,519	-	-	543	679	2,741
-	-	-	-	3,935	-	-	-	3,935
-	-	146	-	-	-	-	-	26,707
427,203	105,613	-	120,853	50,912	-	2,785	227,664	1,079,554
-	-	-	-	-	(22,842)	-	-	(22,842)
<u>427,203</u>	<u>105,613</u>	<u>146</u>	<u>120,853</u>	<u>54,847</u>	<u>(22,842)</u>	<u>2,785</u>	<u>227,664</u>	<u>1,087,354</u>
<u>\$ 427,203</u>	<u>\$ 105,613</u>	<u>\$ 646</u>	<u>\$ 122,372</u>	<u>\$ 59,566</u>	<u>\$ 12,685</u>	<u>\$ 3,328</u>	<u>\$ 228,343</u>	<u>\$ 1,158,244</u>

City of Silver Bay
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2016

	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	-	190,293	94,333	-
Charges for services	2,701	1,880	23,062	23,015	8,800
Miscellaneous					
Investment income	(49)	92	(245)	(306)	(28)
Contributions and donations	11,759	-	11,160	2,097	-
Loan repayments	-	-	-	-	-
Other	3,293	-	7,272	3,575	1,107
Total revenues	<u>152,004</u>	<u>1,972</u>	<u>231,542</u>	<u>122,714</u>	<u>9,879</u>
Expenditures					
Current					
Public Works	-	-	-	-	-
Culture and recreation	206,335	2,120	191,903	164,210	17,046
Economic development	-	-	-	-	-
Airport	-	-	-	-	-
Capital outlay					
Culture and recreation	2,431	-	147,536	59,167	40,670
Total expenditures	<u>208,766</u>	<u>2,120</u>	<u>339,439</u>	<u>223,377</u>	<u>57,716</u>
Excess of revenues over (under) expenditures	(56,762)	(148)	(107,897)	(100,663)	(47,837)
Other Financing Sources (Uses)					
Proceeds from sale of capital asset	-	-	-	75	-
Insurance recoveries	-	-	-	-	31,780
Transfers in	57,055	170	108,855	99,520	16,085
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>57,055</u>	<u>170</u>	<u>108,855</u>	<u>99,595</u>	<u>47,865</u>
Net change in fund balances	293	22	958	(1,068)	28
Fund Balances					
Beginning of year	<u>41,744</u>	<u>20,894</u>	<u>14,399</u>	<u>92,160</u>	<u>1,655</u>
End of year	<u>\$ 42,037</u>	<u>\$ 20,916</u>	<u>\$ 15,357</u>	<u>\$ 91,092</u>	<u>\$ 1,683</u>

Special Revenue						Capital Projects		Total Nonmajor Governmental Funds
Economic Development (271)	Community Business Partnership (275)	Housing (279)	Storefront Renovation (407)	Marina (601)	Airport (231)	Capital Asset Improvements (412)	Street, Curbs, Parking Lots (406)	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,011	\$ 21,265	\$ 135,276
-	-	-	-	-	-	-	70,741	70,741
9,625	-	10,000	-	53,950	36,428	2,433	3,041	437,403
-	-	-	-	127,528	10,210	-	-	197,196
1,861	462	(103)	527	247	(125)	16	905	3,254
-	-	-	-	350	-	-	-	25,366
-	-	-	1,847	-	-	-	-	1,847
-	-	-	-	6,645	3,059	-	-	24,951
<u>11,486</u>	<u>462</u>	<u>9,897</u>	<u>2,374</u>	<u>188,720</u>	<u>49,572</u>	<u>19,460</u>	<u>95,952</u>	<u>896,034</u>
-	-	-	-	-	-	-	11,770	11,770
-	-	-	-	159,155	-	-	-	740,769
9,624	-	20,353	-	-	-	-	-	29,977
-	-	-	-	-	38,590	-	-	38,590
-	-	-	-	5,913	-	-	-	255,717
<u>9,624</u>	<u>-</u>	<u>20,353</u>	<u>-</u>	<u>165,068</u>	<u>38,590</u>	<u>-</u>	<u>11,770</u>	<u>1,076,823</u>
1,862	462	(10,456)	2,374	23,652	10,982	19,460	84,182	(180,789)
-	-	-	-	-	-	-	-	75
-	-	-	-	-	-	-	-	31,780
-	-	10,440	-	-	-	-	-	292,125
-	-	-	-	-	-	(16,675)	-	(16,675)
<u>-</u>	<u>-</u>	<u>10,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,675)</u>	<u>-</u>	<u>307,305</u>
1,862	462	(16)	2,374	23,652	10,982	2,785	84,182	126,516
<u>425,341</u>	<u>105,151</u>	<u>162</u>	<u>118,479</u>	<u>31,195</u>	<u>(33,824)</u>	<u>-</u>	<u>143,482</u>	<u>960,838</u>
<u>\$ 427,203</u>	<u>\$ 105,613</u>	<u>\$ 146</u>	<u>\$ 120,853</u>	<u>\$ 54,847</u>	<u>\$ (22,842)</u>	<u>\$ 2,785</u>	<u>\$ 227,664</u>	<u>\$ 1,087,354</u>

City of Silver Bay
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (Under)
	Original	Final		
Revenues				
General property taxes	\$ 763,015	\$ 772,625	\$ 746,235	\$ (26,390)
Franchise fees	10,000	9,540	9,540	-
Licenses and permits	15,575	8,550	8,553	3
Intergovernmental revenue				
Local government aid	506,200	506,200	506,200	-
PERA aid	4,380	4,380	8,519	4,139
Taconite homestead credit	115,935	115,170	115,170	-
Taconite production tax	491,300	485,300	485,309	9
Federal grants and aids	2,400	25	26	1
Other state grants and aids	56,900	92,220	95,288	3,068
Other county grants	13,700	13,700	13,700	-
Other grants and aids	1,500	1,250	1,251	1
Total intergovernmental revenue	1,192,315	1,218,245	1,225,463	7,218
Charges for services				
Public safety	46,500	51,695	51,692	(3)
Public works	300	525	526	1
Park and recreation	500	725	725	-
Total charges for services	47,300	52,945	52,943	(2)
Fines and forfeitures	4,500	5,125	5,130	5
Miscellaneous revenues				
Investment income	5,000	7,750	7,972	222
Contributions and donations	2,000	12,525	7,528	(4,997)
Loan repayments	7,300	7,320	7,323	3
Other	9,500	38,475	38,516	41
Total miscellaneous revenues	23,800	66,070	61,339	(4,731)
Total revenues	2,056,505	2,133,100	2,109,203	(23,897)
Expenditures				
General government				
Mayor and council				
Current	29,850	28,700	28,667	(33)
Administrative and finance				
Current	304,570	295,715	299,808	4,093
Capital outlay	3,000	3,840	3,838	(2)
Other general government				
Current	186,925	166,105	162,183	(3,922)
Capital outlay	7,800	37,565	35,790	(1,775)
Total general government	532,145	531,925	530,286	(1,639)
Public safety				
Police				
Current	523,730	492,610	492,547	(63)
Capital outlay	48,600	45,090	45,087	(3)

City of Silver Bay
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (Under)
	Original	Final		
Expenditures				
Public safety (continued)				
Fire				
Current	\$ 76,700	\$ 71,605	\$ 74,626	\$ 3,021
Capital outlay	215,500	9,600	9,597	(3)
Other				
Current	8,650	5,845	5,839	(6)
Capital outlay	500	-	-	-
Total public safety	873,680	624,750	627,696	2,946
Public works				
Streets and highways				
Street maintenance and storm sewers				
Current	505,950	476,460	478,597	2,137
Capital outlay	31,000	28,715	28,712	(3)
Street lighting				
Current	30,200	31,950	31,714	(236)
Total public works	567,150	537,125	539,023	1,898
Culture and recreation				
Current	19,500	19,035	19,033	(2)
Capital outlay	2,000	44,030	44,017	(13)
Total culture and recreation	21,500	63,065	63,050	(15)
Total expenditures	1,994,475	1,756,865	1,760,055	3,190
Excess of revenues over (under) expenditures	62,030	376,235	349,148	(27,087)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	3,600	620	619	(1)
Insurance recoveries	500	-	-	-
Transfers in	159,500	71,260	71,262	2
Transfers out	(337,630)	(331,010)	(331,009)	1
Total other financing sources (uses)	(174,030)	(259,130)	(259,128)	2
Net change in fund balances	<u>\$ (112,000)</u>	<u>\$ 117,105</u>	90,020	<u>\$ (27,085)</u>
Fund Balances				
Beginning of year			1,967,423	
End of year			<u>\$ 2,057,443</u>	

City of Silver Bay
Analysis of Changes in Fund Balance -
Public Works Reserve Fund
Year Ended December 31, 2016

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
Balance - January 1, 2016	\$ (623,334)	\$ 368,812	\$ (9,333)
General property taxes	-	-	-
Intergovernmental revenue	35,200	-	-
Charges for Services	1,230	-	-
Fines and forfeitures	1,000	-	-
Investment income	-	-	-
Miscellaneous revenue	2,657	-	-
Transfers from other funds	29,545	-	9,339
Total available	(553,702)	368,812	6
Expenditures	(49,623)	-	-
Transfers to other funds	-	-	-
Balance - December 31, 2016	<u>\$ (603,325)</u>	<u>\$ 368,812</u>	<u>\$ 6</u>

Project Notes:

- * Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$481,231, indicating approximately \$112,419 can be added to the reserve at December 31, 2016.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 351,517	\$ 526,763	\$ 614,425
130,210	35,243	165,453
18,001	4,865	58,066
-	-	1,230
-	-	1,000
2,871	-	2,871
-	-	2,657
-	-	38,884
502,599	566,871	884,586
-	(45,858)	(95,481)
(86,186)	-	(86,186)
<u>\$ 416,413</u>	<u>\$ 521,013</u>	<u>\$ 702,919</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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2017.

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.



Internal Control over Financial Reporting

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 and legal compliance 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 and legal compliance. 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 27, 2017

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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Silver Bay, Minnesota, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the schedule of findings and responses on internal control and legal compliance. 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 27, 2017

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

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, 2016, 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 and Legal Compliance**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)

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.

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Responsible Contractor

According to MN State Statute § 16C.285 subdivision 4, if the amount of the contract is estimated to exceed \$50,000 the successful contractor has to submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in § 16C.285 subdivision 3.

During our audit we noted one of the City's contracts did not have responsible contractor verbiage.

City's Response:

The City will ensure that the responsible contractor verification will be included in future bid packets.