

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

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended December 31, 2010

CITY OF SILVER BAY

TABLE OF CONTENTS

ELECTED OFFICIALS AND ADMINISTRATION.....	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Mary MacDonald Business Center.....	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds.....	27
Notes to the Financial Statements.....	29
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	54
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	56
Analysis of Changes in Fund Balance – Public Works Reserve Fund.....	58
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	
	61

CITY OF SILVER BAY

TABLE OF CONTENTS

REPORT ON LEGAL COMPLIANCE	63
SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL COMPLIANCE AND INTERNAL CONTROL	64

CITY OF SILVER BAY
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2010

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Scott Johnson	Mayor	December 31, 2010
David Gustafson	Council Member	December 31, 2010
Steven Marolt	Council Member	December 31, 2010
Joanne Johnson	Council Member	December 31, 2010
Carlene Perfetto	Council Member	December 31, 2012
<u>Administration</u>		
Lana Fralich	City Administrator	
Cheryl Marolt	Deputy Clerk	



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INDEPENDENT AUDITOR'S REPORT

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

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, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Silver Bay, Minnesota, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund and the Mary MacDonald Business Center Special Revenue Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2011, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 22, 2011

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CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010

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

This section of the City of Silver Bay's (the "City") annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2010. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2009 has been included as required.

FINANCIAL HIGHLIGHTS

- The net assets of the City were \$ 11,529,073 in 2009 and \$ 11,756,907 in 2010. Of these amounts, \$ 3,323,426 in 2009 and \$ 3,885,269 in 2010 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.
- The City's total net assets increased by \$ 491,581 in 2009; which the majority of this increase was due to the Mary MacDonald Rehabilitation project resulting in a capital asset increase. Other capital increases included the purchase of two new golf course mowers, a copier for the administrative office, new flooring in the police department, a broom attachment for the bobcat, gas monitor for the fire department and a settlement agreement from the Mary MacDonald Center. In 2010, the total net assets increased by \$ 202,834. The majority of this increase was due to the purchase of the new 2010 CAT Articulating Wheel Loader in the Street Department resulting in a capital asset increase. Other capital increases included the purchase of 12e new golf carts, the washer and dryer for the fire department gear, the Piraya and Supervac saw kits for the fire department, the forfeiture of the 2005 Polaris Sportsman 800 ATV to the Police Department, the Telvue cable TV server in the Library, paving of the picnic areas and trails at Bayside Park, purchase of two land parcels behind the Mariner Motel and the purchase of the security system at the liquor store. A capital decrease happened with the donation of the Bell Circle Apartments land according to the Development Agreement with Spectrum Health Companies.
- The City's governmental funds reported a combined ending fund balance in the amount of \$ 2,207,654 for 2009 and \$ 2,717,716 for 2010.
- At the end of fiscal year 2009, unreserved fund balance for the General Fund was \$ 1,226,579, or 72.7%, of total General Fund expenditures of \$ 1,687,649. At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 1,300,746, or 79.4%, of total General Fund expenditures of \$ 1,638,875.

USING THE FINANCIAL SECTION OF THIS STATEMENT

This annual report consists of a series of financial statements. The Statement of Net Assets 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
December 31, 2010

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

These two Statements report the City's net assets and changes in them. The City's net assets, which is the difference between assets and liabilities, is one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets 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 Assets 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 Assets and Statement of Activities. In fact, the City's Enterprise Funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010

STATEMENT OF NET ASSETS

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

	Governmental Activities 2009	Business-Type Activities 2009	Total 2009	Governmental Activities 2010	Business-Type Activities 2010	Total 2010
Current and Other Assets	\$ 2,658,166	\$ 1,310,284	\$ 3,968,450	\$ 3,165,344	\$ 1,342,873	\$ 4,508,217
Capital Assets	5,264,018	4,993,942	10,257,960	5,040,325	4,806,572	9,846,897
Total Assets	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114
Current and Other Liabilities	\$ 330,689	\$ 289,760	\$ 620,449	\$ 356,503	\$ 275,034	\$ 631,537
Long-Term Liabilities	262,311	1,814,577	2,076,888	356,994	1,609,676	1,966,670
Total Liabilities	593,000	2,104,337	2,697,337	713,497	1,884,710	2,598,207
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,985,368	2,993,311	7,978,679	4,658,160	3,001,251	7,659,411
Restricted	226,968		226,968	212,227		212,227
Unrestricted	2,116,848	1,206,578	3,323,426	2,621,785	1,263,484	3,885,269
Total Net Assets	7,329,184	4,199,889	11,529,073	7,492,172	4,264,735	11,756,907
Total Liabilities and Net Assets	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114

GOVERNMENTAL ACTIVITIES

Total net assets of the City's governmental activities increased in 2009 by \$ 487,253, or 7.1%, and increased in 2010 by \$ 162,988, or 2.2%, which includes a \$ 25,000 prior period adjustment. This change was primarily due to the purchase of the new 2010 CAT Articulating Wheel Loader and the purchase of several smaller assets. The donation of the Bell Circle Apartments land reduced the increase by \$ 78,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, totaled \$ 2,116,848 in 2009 and \$ 2,621,785 in 2010. This is an increase of \$ 504,937, or 23.9%. This is mainly due to the unspent grant money within the business park.

Current and other assets totaled \$ 2,658,166 in 2009 and \$ 3,165,344 in 2010. Cash in the General Fund increased by \$ 205,844 in 2009 and increased by \$ 76,057 in 2010. The City experienced a decrease in total revenues and a decrease in expenditures in the General Fund in 2010. The total decrease in revenues was \$ 322,258 from the previous year and expenditures decreased \$ 48,774 from the previous year.

Cash in the Public Works Reserve Fund increased by \$ 72,305 in 2009 and increased by \$ 345,558 in 2010. In 2010, tax levy revenues were received for sidewalk betterment and capital planning. Grant money was also received for the business park and will be expended in 2011.

CITY OF SILVER BAY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010

BUSINESS-TYPE ACTIVITIES

The net assets of the City's business-type activities increased by \$ 4,328 in 2009 and increased by \$ 64,846 in 2010. The increase in 2010 was due to the increase in cash and investments for the year. The following table indicates the changes in net assets for the City's governmental and business-type activities:

	Governmental Activities 2009	Business-Type Activities 2009	Total 2009	Governmental Activities 2010	Business-Type Activities 2010	Total 2010
REVENUES:						
Program Revenues:						
Charges for Services	\$ 400,554	\$ 1,959,358	\$ 2,359,912	\$ 422,023	\$ 2,010,178	\$ 2,432,201
Operating Grants and Contributions	280,278	-	280,278	303,513	7,448	310,961
Capital Grants and Contributions	642,193	24,797	666,990	794,758	3,000	797,758
General Revenues:						
Property Taxes	623,221	-	623,221	695,033	-	695,033
Property Sales	940	-	940	19,639	-	19,639
State Aids	1,264,787	-	1,264,787	1,083,278	-	1,083,278
Other	32,143	-	32,143	35,153	-	35,153
Interest	41,692	23,929	65,621	25,099	12,742	37,841
Total Revenues	\$ 3,285,808	\$ 2,008,084	\$ 5,293,892	\$ 3,378,496	\$ 2,033,368	\$ 5,411,864
EXPENSES:						
General Services	\$ 446,665	\$ -	\$ 446,665	\$ 465,068	\$ -	\$ 465,068
Public Safety	611,045	-	611,045	610,405	-	610,405
Public Works	609,375	-	609,375	477,512	-	477,512
Culture and Recreation	907,131	-	907,131	957,004	-	957,004
Economic Development	79,440	-	79,440	515,098	-	515,098
Airport	140,705	-	140,705	198,096	-	198,096
Interest on Long-Term Debt	11,844	-	11,844	17,325	-	17,325
Water Utility	-	632,393	632,393	-	615,043	615,043
Sewer Utility	-	486,712	486,712	-	470,725	470,725
Municipal Liquor	-	877,001	877,001	-	882,754	882,754
Total Expenses	2,806,205	1,996,106	4,802,311	3,240,508	1,968,522	5,209,030
Change in Net Assets before Transfers						
Transfers	479,603	11,978	491,581	137,988	64,846	202,834
Transfers	7,650	(7,650)	-	-	-	-
Change in Net Assets	487,253	4,328	491,581	137,988	64,846	202,834
NET ASSETS:						
Beginning of Year	6,841,931	4,195,561	11,037,492	7,329,184	4,199,889	11,529,073
Prior Period Adjustment	-	-	-	25,000	-	25,000
Beginning as Restated	6,841,931	4,195,561	11,037,492	7,354,184	4,199,889	11,554,073
End of Year	\$ 7,329,184	\$ 4,199,889	\$ 11,529,073	\$ 7,492,172	\$ 4,264,735	\$ 11,756,907

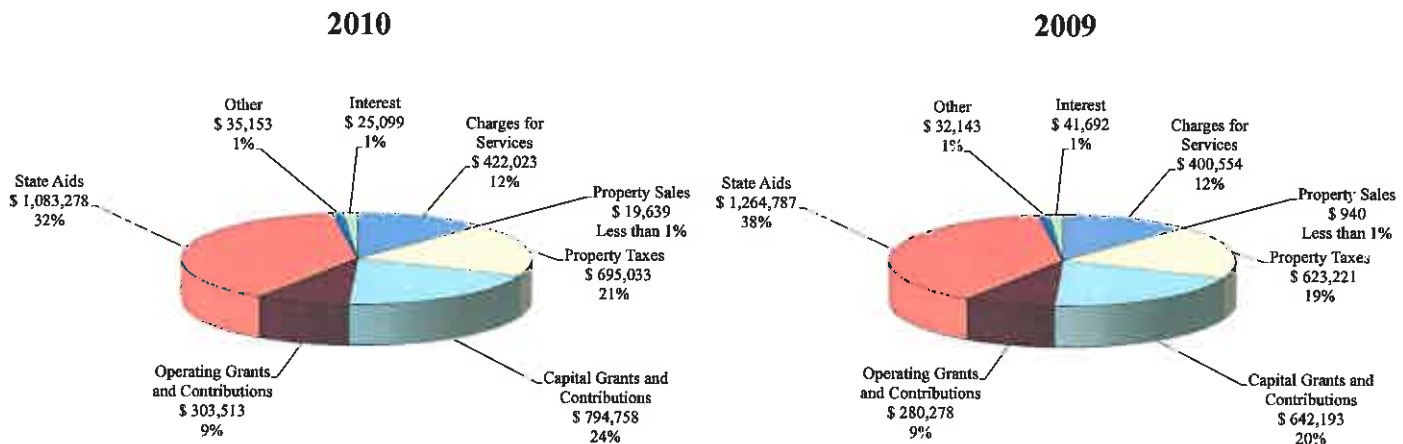
CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

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 \$ 3,285,808 for 2009 and \$ 3,378,496 for 2010. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$ 400,554 in 2009 and \$ 422,023 in 2010 and were collected through the Marina Fund and various recreation programs. Some fees come from Public Safety.

Capital grants and contributions totaled \$ 642,193 in 2009 and \$ 794,758 in 2010 and were used to fund the airport pavement crack seal project and the Eco-Industrial Park ongoing project. Minor grants were received for police, streets, fire and recreation equipment. The City received a \$ 350,000 IRR Grant for the Assisted Living Center to offset infrastructure improvements as per Development Agreement with Spectrum Health Companies.

The City's property tax and state aid revenues totaled \$ 1,888,008 and were 57% of the City's total revenue in 2009 and totaled \$ 1,778,311 and were 53% of the City's total revenue in 2010. Included in these revenues are taconite state aids, Local Government Aid (LGA) and general property taxes. Taconite aids are generated by mining activities and allocated by the State of Minnesota based on various formulas.

Overall, interest revenue decreased significantly in 2009 due to interest rates falling throughout the year for City's investments. In 2010, interest significantly decreased again due to interest rates falling in the previous year and the interest rates remained at the all time low throughout the 2010 year.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$ 2,806,205 for 2009 and \$ 3,240,508 for 2010 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$ 2,008,084 for 2009 and \$ 2,033,368 for 2010. The Municipal Liquor Fund generated operating revenues of \$ 926,364 in 2009 and \$ 909,821 in 2010. Water revenues increased and sewer revenues increased slightly. Water and sewer revenues increased due to the scheduled increase in the rates. All business-types were affected from the loss in interest income.

Expenses

Business-type expenses totaled \$ 1,996,106 for 2009 and \$ 1,968,522 for 2010. The municipal liquor operating expenses increased at a rate of 4.8% for 2009 while the operating revenues increased by 3.9%. In 2010, the operating expenses increased at a rate of 0.7% while the operating revenues decreased by 1.8%. As a result, operating profits were \$ 68,159 in 2009 and \$ 43,625 in 2010. Expenses in the Water Utility Fund decreased in 2009 to \$ 632,393 and in 2010 decreased to \$ 615,043. Sewer expenses for 2009 were \$ 486,712, while 2010 expenses decreased to \$ 470,725.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2009 General Fund balance increased by \$ 177,530. The City's General Fund balance increased by \$ 74,167 in 2010.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2009 was \$ 40,914. The Mary MacDonald Fund balance increased by \$ 46,647 for an ending fund balance of \$ 87,561.

Debt Service Fund

The \$ 10,444 increase in this Fund's balance was due to special assessment income.

Public Works Reserve

The \$ 325,725 increase in this Fund's balance is the result of a grant for the Business Park being received in 2010, while most of the expenditures will be in 2011.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

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 2009, the City had \$ 10,257,960 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 2010, the City had \$ 9,846,897 invested in a broad range of capital assets. The City's fiscal year 2011 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

At 2009 year-end, the City had \$ 2,407,641 in notes and leases outstanding. The majority, \$ 1,593,536, is related to utility loans from the State of Minnesota PFA Fund for capital improvements in the Water and Sewer Funds (refer to Note 6 for further information).

At 2010 year-end, the City had \$ 2,323,966 in notes and leases outstanding. The majority, \$ 1,442,238, is related to utility loans from the State of Minnesota PFA Fund for capital improvements in the Water and Sewer Funds (refer to Note 6 for further information).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal year 2011 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 2011 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.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF SILVER BAY
STATEMENT OF NET ASSETS
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 2,719,355	\$ 1,169,012	\$ 3,888,367
Cash with Fiscal Agent	25,000	-	25,000
Property Tax Receivable	43,780	-	43,780
Accounts Receivable	4,492	40,353	44,845
Interest Receivable	7,935	4,083	12,018
Due from Other Governments	57,706	2,091	59,797
Loan Receivable	121,663	-	121,663
Special Assessments Receivable	185,413	-	185,413
Inventory	-	123,145	123,145
Prepaid Expenses	-	4,189	4,189
Capital Assets not being Depreciated:			
Land	905,793	37,463	943,256
Capital Assets being Depreciated:			
Buildings and Building Improvements	3,454,990	7,510,552	10,965,542
Improvements Other than Buildings	2,989,607	400,325	3,389,932
Vehicles, Machinery and Equipment	1,895,630	620,756	2,516,386
Less Accumulated Depreciation	(4,205,695)	(3,762,524)	(7,968,219)
Total Assets	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts Payable	\$ 25,273	\$ 3,837	\$ 29,110
Due to Other Governments	78	12,451	12,529
Salaries and Benefits Payable	43,213	17,326	60,539
Interest Payable	7,901	14,291	22,192
Unearned Revenue	149,871	-	149,871
Bond Principal Payable:			
Payable Within One Year	39,107	45,882	84,989
Payable After One Year	264,267	317,201	581,468
Notes Payable:			
Payable Within One Year	-	154,635	154,635
Payable After One Year	-	1,287,603	1,287,603
Capital Lease Payable:			
Payable Within One Year	17,301	-	17,301
Payable After One Year	61,490	-	61,490
Compensated Absences Payable:			
Payable Within One Year	73,759	26,612	100,371
Payable After One Year	31,237	4,872	36,109
Total Liabilities	713,497	1,884,710	2,598,207
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,658,160	3,001,251	7,659,411
Restricted for:			
Debt Service	212,227	-	212,227
Unrestricted	2,621,785	1,263,484	3,885,269
Total Net Assets	7,492,172	4,264,735	11,756,907
Total Liabilities and Net Assets	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114

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

CITY OF SILVER BAY

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 465,068	\$ -	\$ 1,086	\$ -	\$ (463,982)	\$ -	\$ (463,982)
Public Safety	610,405	70,978	51,751	29,655	(458,021)	-	(458,021)
Public Works	477,512	1,204	13,700	15,393	(447,215)	-	(447,215)
Culture and Recreation	957,004	334,418	215,219	4,325	(403,042)	-	(403,042)
Economic Development	515,098	3,358	-	684,054	172,314	-	172,314
Airport	198,096	12,065	21,757	61,331	(102,943)	-	(102,943)
Interest on Long-Term Debt	17,325	-	-	-	(17,325)	-	(17,325)
Total Governmental Activities	3,240,508	422,023	303,513	794,758	(1,720,214)	-	(1,720,214)
Business-Type Activities							
Water	615,043	661,114	7,448	3,000	-	56,519	56,519
Sewer	470,725	439,243	-	-	-	(31,482)	(31,482)
Municipal Liquor	882,754	909,821	-	-	-	27,067	27,067
Total Business-Type Activities	1,968,522	2,010,178	7,448	3,000	-	52,104	52,104
Total Governmental and Business-Type Activities	\$ 5,209,030	\$ 2,432,201	\$ 310,961	\$ 797,758	(1,720,214)	52,104	(1,668,110)
General Revenues							
Property and Taconite Taxes					695,033	-	695,033
State Aids					1,083,278	-	1,083,278
Unrestricted Investment Earnings					25,099	12,742	37,841
Other General Revenue					35,153	-	35,153
Gain on Sale of Asset					19,639	-	19,639
Total General Revenues					1,858,202	12,742	1,870,944
Change in Net Assets					137,988	64,846	202,834
Net Assets - Beginning					7,329,184	4,199,889	11,529,073
Prior Period Adjustment (Note 14)					25,000	-	25,000
Net Assets - Beginning, as Restated					7,354,184	4,199,889	11,554,073
Net Assets - Ending					\$ 7,492,172	\$ 4,264,735	\$ 11,756,907

CITY OF SILVER BAY

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2010

		<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	\$ 1,234,606	\$ 99,370	\$ 34,537
Cash with Fiscal Agent	-	-	-
Taxes Receivable - Delinquent	38,156	-	101
Special Assessment Receivable - Deferred	-	-	185,413
Accounts Receivable	372	2,904	-
Interest Receivable	4,086	262	55
Due from Other Funds	54,056	-	-
Due from Other Governments	41,830	-	22
Loan Receivable	75,044	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,448,150</u>	<u>\$ 102,536</u>	<u>\$ 220,128</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 618	\$ 10,140	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	25	-	-
Salaries and Benefits Payable	33,561	-	-
Deferred Revenue	113,200	4,835	185,514
Total Liabilities	<u>147,404</u>	<u>14,975</u>	<u>185,514</u>
Fund Balances			
Reserved:			
Special Revenue	-	873	-
Unreserved:			
General Fund - Designated	112,000	-	-
General Fund - Undesignated	1,188,746	-	-
Special Revenue Funds - Designated	-	-	-
Special Revenue Funds - Undesignated	-	86,688	-
Debt Service Funds - Designated	-	-	34,614
Capital Projects Funds - Designated	-	-	-
Total Fund Balances	<u>1,300,746</u>	<u>87,561</u>	<u>34,614</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 1,448,150</u>	<u>\$ 102,536</u>	<u>\$ 220,128</u>

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

Capital Projects

<u>Public Works Reserve (401)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 552,620	\$ 798,222	\$ 2,719,355
-	25,000	25,000
5,523	-	43,780
-	-	185,413
-	1,216	4,492
1,335	2,197	7,935
-	-	54,056
2,317	13,537	57,706
-	46,619	121,663
<u>\$ 561,795</u>	<u>\$ 886,791</u>	<u>\$ 3,219,400</u>
\$ 13,000	\$ 1,515	\$ 25,273
-	54,056	54,056
-	53	78
-	9,652	43,213
5,523	69,992	379,064
<u>18,523</u>	<u>135,268</u>	<u>501,684</u>
-	2,178	3,051
-	-	112,000
-	-	1,188,746
-	667,853	667,853
-	81,492	168,180
-	-	34,614
543,272	-	543,272
<u>543,272</u>	<u>751,523</u>	<u>2,717,716</u>
<u>\$ 561,795</u>	<u>\$ 886,791</u>	<u>\$ 3,219,400</u>

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CITY OF SILVER BAY

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2010**

Total Fund Balances - Governmental Funds \$ 2,717,716

Amounts reported for governmental activities in the Statement of Net Assets
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	9,246,020
Less Accumulated Depreciation	(4,205,695)

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	(303,374)
Capital Lease Payable	(78,791)
Compensated Absences Payable	(104,996)

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	43,780
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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	185,413
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Governmental funds do not report a liability for accrued interest on long-term
debt until due and payable.

(7,901)

Total Net Assets - Governmental Activities	<u>\$ 7,492,172</u>
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CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010**

		Special Revenue	Debt Service	Capital Projects
		Mary MacDonald Business Center	Debt Service	Public Works
	General (101)	(265)	(352)	Reserve (401)
REVENUES				
General Property Taxes	\$ 481,225	\$ -	\$ 57	\$ 105,285
Special Assessments	-	-	38,560	-
Licenses and Permits	22,921	-	-	-
Intergovernmental	1,142,362	4,325	-	698,976
Charges for Services	41,235	134,629	-	-
Fines and Forfeitures	8,026	-	-	-
Miscellaneous:				
Investment Income	13,279	(105)	165	4,674
Contributions and Donations	1,461	-	-	750
Loan Repayments	17,021	-	-	-
Other	17,004	2,817	-	-
Total Revenues	1,744,534	141,666	38,782	809,685
EXPENDITURES				
Current				
General Government	415,398	-	-	-
Public Safety	571,227	-	-	-
Public Works	394,885	-	-	60
Culture and Recreation	18,549	89,249	-	-
Economic Development	-	-	-	133,130
Airport	-	-	-	-
Debt Service				
Principal	31,258	-	17,966	-
Interest and Other Charges	4,970	-	10,372	-
Capital Outlay				
General Government	10,302	-	-	-
Public Safety	31,098	-	-	-
Public Works	117,491	-	-	770
Culture and Recreation	43,697	5,770	-	-
Economic Development	-	-	-	350,000
Airport	-	-	-	-
Total Expenditures	1,638,875	95,019	28,338	483,960
Excess of Revenues Over (Under) Expenditures	105,659	46,647	10,444	325,725
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	18,889	-	-	-
Bond Proceeds	109,042	-	-	-
Proceeds from Capital Lease	43,697	-	-	-
Transfers In	-	-	-	-
Transfers Out	(203,120)	-	-	-
Total Other Financing Sources (Uses)	(31,492)	-	-	-
Net Change in Fund Balances	74,167	46,647	10,444	325,725
FUND BALANCES				
Beginning of Year	1,226,579	40,914	24,170	217,547
Prior Period Adjustment	-	-	-	-
Beginning of Year, as Restated	1,226,579	40,914	24,170	217,547
End of Year	\$ 1,300,746	\$ 87,561	\$ 34,614	\$ 543,272

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 97,000	\$ 683,567
	38,560
	22,921
255,375	2,101,038
171,296	347,160
	8,026
7,086	25,099
46,377	48,588
3,358	20,379
51,424	71,245
<u>631,916</u>	<u>3,366,583</u>
	415,398
-	571,227
	394,945
663,648	771,446
12,668	145,798
50,238	50,238
	49,224
-	15,342
	10,302
	31,098
-	118,261
15,850	65,317
19,300	369,300
46,003	46,003
<u>807,707</u>	<u>3,053,899</u>
(175,791)	312,684
750	19,639
-	109,042
-	43,697
203,120	203,120
-	(203,120)
<u>203,870</u>	<u>172,378</u>
28,079	485,062
698,444	2,207,654
25,000	25,000
<u>723,444</u>	<u>2,232,654</u>
<u>\$ 751,523</u>	<u>\$ 2,717,716</u>

CITY OF SILVER BAY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS For the Year Ended December 31, 2010

Net Change in Fund Balances - Governmental Funds \$ 485,062

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 is allocated over the estimated useful lives and reported as depreciation expense.

Capital Outlays	217,791
Depreciation Expense	(366,376)
Loss on Disposal	(79,083)
Donated Assets	3,975

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (6,182)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net assets in the Statement of Activities. 49,224

Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net assets in the Statement of Activities. (152,739)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (1,983)

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

Special Assessments Deferred	(23,167)
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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. 11,466

Change in Net Assets - Governmental Activities \$ 137,988

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
General Property Taxes	\$ 478,794	\$ 487,794	\$ 481,225	\$ (6,569)
Licenses and Permits	10,370	22,750	22,921	171
Intergovernmental	1,206,421	1,149,201	1,142,362	(6,839)
Charges for Services	39,350	38,190	41,235	3,045
Fines and Forfeitures	8,500	7,405	8,026	621
Miscellaneous:				
Investment Income	12,000	12,000	13,279	1,279
Contributions and Donations	700	1,460	1,461	1
Loan Repayments	10,540	17,020	17,021	1
Other	14,000	16,835	17,004	169
Total Revenues	<u>1,780,675</u>	<u>1,752,655</u>	<u>1,744,534</u>	<u>(8,121)</u>
EXPENDITURES				
Current				
General Government	440,143	421,863	415,398	(6,465)
Public Safety	596,749	579,649	571,227	(8,422)
Public Works	463,440	409,110	394,885	(14,225)
Culture and Recreation	18,875	18,800	18,549	(251)
Debt Service				
Principal	25,983	31,575	31,258	(317)
Interest and Other Charges	3,770	4,685	4,970	285
Capital Outlay				
General Government	2,000	10,350	10,302	(48)
Public Safety	10,150	31,350	31,098	(252)
Public Works	-	117,500	117,491	(9)
Culture and Recreation	-	-	43,697	43,697
Total Expenditures	<u>1,561,110</u>	<u>1,624,882</u>	<u>1,638,875</u>	<u>13,993</u>
Excess of Revenues Over (Under) Expenditures	219,565	127,773	105,659	(22,114)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	16,380	18,889	2,509
Bond Proceeds	-	109,042	109,042	-
Proceeds from Capital Lease	-	-	43,697	43,697
Transfers Out	(217,273)	(203,120)	(203,120)	-
Total Other Financing Sources (Uses)	<u>(217,273)</u>	<u>(77,698)</u>	<u>(31,492)</u>	<u>46,206</u>
Net Change in Fund Balances	<u>\$ 2,292</u>	<u>\$ 50,075</u>	74,167	<u>\$ 24,092</u>
FUND BALANCES				
Beginning of Year			<u>1,226,579</u>	
End of Year			<u>\$ 1,300,746</u>	

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

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MARY MACDONALD BUSINESS CENTER
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Over (Under)</u>
REVENUES				
Intergovernmental	\$ -	\$ 4,325	\$ 4,325	\$ -
Charges for Services	127,700	134,600	134,629	29
Miscellaneous:				
Investment Income	-	(500)	(105)	395
Other	-	2,736	2,817	81
Total Revenues	<u>127,700</u>	<u>141,161</u>	<u>141,666</u>	<u>505</u>
EXPENDITURES				
Current				
Park and Recreation	117,520	94,820	89,249	(5,571)
Capital Outlay				
Park and Recreation	<u>1,500</u>	<u>5,775</u>	<u>5,770</u>	<u>(5)</u>
Total Expenditures	<u>119,020</u>	<u>100,595</u>	<u>95,019</u>	<u>(5,576)</u>
Net Change in Fund Balances	<u>\$ 8,680</u>	<u>\$ 40,566</u>	46,647	<u>\$ 6,081</u>
FUND BALANCES				
Beginning of Year			<u>40,914</u>	
End of Year			<u>\$ 87,561</u>	

CITY OF SILVER BAY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2010

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
ASSETS				
Current Assets				
Cash and Investments (Including Cash Equivalents)	\$ 207,761	\$ 578,936	\$ 382,315	\$ 1,169,012
Accounts Receivable	20,704	19,014	635	40,353
Interest Receivable	677	2,025	1,381	4,083
Due from Other Governments	1,062	1,029	-	2,091
Inventory	43,533	10,322	69,290	123,145
Prepaid Expenses	-	-	4,189	4,189
Total Current Assets	<u>273,737</u>	<u>611,326</u>	<u>457,810</u>	<u>1,342,873</u>
Noncurrent Assets				
Capital Assets:				
Land	18,568	5,000	13,895	37,463
Buildings and Building Improvements	2,703,549	3,526,675	1,280,328	7,510,552
Improvements Other than Buildings	122,702	246,326	31,297	400,325
Vehicles, Machinery and Equipment	228,802	349,342	42,612	620,756
Total Capital Assets	<u>3,073,621</u>	<u>4,127,343</u>	<u>1,368,132</u>	<u>8,569,096</u>
Less Accumulated Depreciation	<u>(1,386,633)</u>	<u>(1,969,843)</u>	<u>(406,048)</u>	<u>(3,762,524)</u>
Net Capital Assets	<u>1,686,988</u>	<u>2,157,500</u>	<u>962,084</u>	<u>4,806,572</u>
Total Assets	<u>\$ 1,960,725</u>	<u>\$ 2,768,826</u>	<u>\$ 1,419,894</u>	<u>\$ 6,149,445</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ -	\$ 997	\$ 2,840	\$ 3,837
Due to Other Governments	5,411	-	7,040	12,451
Salaries and Benefits Payable	5,312	5,312	6,702	17,326
Interest Payable	6,654	5,058	2,579	14,291
Long-Term Liabilities Due Within One Year	<u>74,125</u>	<u>88,760</u>	<u>64,244</u>	<u>227,129</u>
Total Current Liabilities	<u>91,502</u>	<u>100,127</u>	<u>83,405</u>	<u>275,034</u>
Noncurrent Liabilities				
Compensated Absences	4,873	4,873	21,738	31,484
Notes Payable	946,000	496,238	-	1,442,238
Bonds Payable	-	-	363,083	363,083
Less Amount Due Within One Year	<u>(74,125)</u>	<u>(88,760)</u>	<u>(64,244)</u>	<u>(227,129)</u>
Total Noncurrent Liabilities	<u>876,748</u>	<u>412,351</u>	<u>320,577</u>	<u>1,609,676</u>
Total Liabilities	<u>968,250</u>	<u>512,478</u>	<u>403,982</u>	<u>1,884,710</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	740,988	1,661,262	599,001	3,001,251
Unrestricted	<u>251,487</u>	<u>595,086</u>	<u>416,911</u>	<u>1,263,484</u>
Total Net Assets	<u>992,475</u>	<u>2,256,348</u>	<u>1,015,912</u>	<u>4,264,735</u>
Total Liabilities and Net Assets	<u>\$ 1,960,725</u>	<u>\$ 2,768,826</u>	<u>\$ 1,419,894</u>	<u>\$ 6,149,445</u>

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2010**

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 901,146	\$ 901,146
Cost of Sales	-	-	537,070	537,070
Gross Profit	-	-	364,076	364,076
OPERATING REVENUES				
Charges for Services	657,092	434,044	-	1,091,136
Other Services	4,022	5,199	1,771	10,992
Game Machines	-	-	6,904	6,904
Total Operating Revenues	<u>661,114</u>	<u>439,243</u>	<u>8,675</u>	<u>1,109,032</u>
OPERATING EXPENSES				
Salaries and Benefits	217,004	222,136	227,103	666,243
Materials and Supplies	43,037	35,248	12,870	91,155
Professional Services	16,215	3,615	3,000	22,830
Contracted Services	24,460	26,689	-	51,149
Insurance	14,944	11,514	16,764	43,222
Utilities	73,607	35,784	14,571	123,962
Refuse Charges	158,548	516	1,172	160,236
Telephone	2,540	2,434	1,459	6,433
Depreciation	56,324	113,738	35,918	205,980
Promotion and Advertising	771	50	4,847	5,668
Licenses and Dues	1,733	2,660	1,927	6,320
Conferences and Schools	482	1,267	217	1,966
Miscellaneous Expenses	292	174	9,278	9,744
Total Operating Expenses	<u>609,957</u>	<u>455,825</u>	<u>329,126</u>	<u>1,394,908</u>
Operating Income (Loss)	51,157	(16,582)	43,625	78,200
NONOPERATING REVENUES (EXPENSES)				
Investment Income	2,144	6,324	4,274	12,742
Intergovernmental	10,448	-	-	10,448
Gain on Sale of Asset	14,250	-	431	14,681
Interest Expense	(19,336)	(14,900)	(16,989)	(51,225)
Total Nonoperating Revenues (Expenses)	<u>7,506</u>	<u>(8,576)</u>	<u>(12,284)</u>	<u>(13,354)</u>
Change in Net Assets	58,663	(25,158)	31,341	64,846
NET ASSETS				
Beginning of Year	<u>933,812</u>	<u>2,281,506</u>	<u>984,571</u>	<u>4,199,889</u>
End of Year	<u>\$ 992,475</u>	<u>\$ 2,256,348</u>	<u>\$ 1,015,912</u>	<u>\$ 4,264,735</u>

CITY OF SILVER BAY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 662,025	\$ 441,851	\$ 909,186	\$ 2,013,062
Payments to Suppliers	(338,741)	(123,001)	(603,928)	(1,065,670)
Payments to Employees	(215,878)	(221,010)	(225,842)	(662,730)
Net Cash Flows - Operating Activities	<u>107,406</u>	<u>97,840</u>	<u>79,416</u>	<u>284,662</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental Revenue	<u>10,448</u>	<u>-</u>	<u>-</u>	<u>10,448</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	(69,000)	(82,298)	(44,012)	(195,310)
Interest Paid on Debt	(19,860)	(15,738)	(17,301)	(52,899)
Proceeds from Disposal of Capital Assets	14,250	-	431	14,681
Acquisition of Capital Assets	(14,250)	-	(4,360)	(18,610)
Net Cash Flows - Capital and Related Financing Activities	<u>(88,860)</u>	<u>(98,036)</u>	<u>(65,242)</u>	<u>(252,138)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>2,030</u>	<u>6,066</u>	<u>4,154</u>	<u>12,250</u>
Net Change in Cash and Cash Equivalents	31,024	5,870	18,328	55,222
CASH AND CASH EQUIVALENTS:				
Beginning of Year	<u>176,737</u>	<u>573,066</u>	<u>363,987</u>	<u>1,113,790</u>
End of Year	<u>\$ 207,761</u>	<u>\$ 578,936</u>	<u>\$ 382,315</u>	<u>\$ 1,169,012</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 51,157	\$ (16,582)	\$ 43,625	\$ 78,200
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	56,324	113,738	35,918	205,980
Accounts Receivable	10,695	12,287	(635)	22,347
Due from Other Governments	(271)	(191)	-	(462)
Prepaid Items	-	-	747	747
Inventory	1,204	10	(721)	493
Accounts Payable	(12,894)	(12,548)	(654)	(26,096)
Due to Other Governmental Units	65	-	(125)	(60)
Salaries Payable	537	537	501	1,575
Compensated Absences Payable	589	589	760	1,938
Total Adjustments	<u>56,249</u>	<u>114,422</u>	<u>35,791</u>	<u>206,462</u>
Net Cash Flows - Operating Activities	<u>\$ 107,406</u>	<u>\$ 97,840</u>	<u>\$ 79,416</u>	<u>\$ 284,662</u>

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CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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 some members of its governing body are appointed by the governing body of the primary government.

2. Related Organization

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

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

Mary MacDonald Business Center Special Revenue Fund – This Fund accounts for financial resources to be used for the rehabilitation and operation of the Mary MacDonald building.

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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments

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

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

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

Cash and investments at December 31, 2010 were comprised of deposits, including certificates of deposit at a commercial bank, brokered certificates of deposit and shares in the Minnesota Municipal Money Market (4M Fund). The City has formal policies in place specifically to address the following risks related to deposits and investments.

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

1. Cash and Investments (Continued)

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

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

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

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

2. Receivables and Payables

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

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

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

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

3. Inventory and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

4. Capital Assets

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

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

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

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

5. 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. Upon termination, employees will receive compensation for unused vacation time.

Employees can accumulate sick leave to a maximum of 960 hours and any hours in excess of 960 hours are banked as emergency leave. The City compensates employees who retire with severance pay, which includes 50% of the first 960 hours of unused sick leave and 10% of any banked emergency leave. Retirees receive this severance payment in a lump sum upon retirement.

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

6. Post Employment Health Benefits

Employees who retire may continue with the City's group health insurance. The City will pay half of the insurance cost for three years upon retirement. The City paid \$ 14,904 of insurance benefits for two retirees during the year. Beginning January 1, 2011, the City will no longer contribute to a retiree's insurance cost for new retirees.

7. 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 Assets.

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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

9. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt 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 assets are 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.

10. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the fiscal 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 U.S. generally accepted accounting principles.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2010, expenditures exceeded appropriations in the following Funds:

	<u>Expenditures</u>	<u>Appropriations</u>
Major Funds:		
General Fund	\$ 1,638,875	\$ 1,624,882
Debt Service	28,338	28,210

C. Deficit Fund Balances

The following Funds had deficit fund balances at December 31, 2010:

Special Revenue:	
Airport	\$ 40,288
Marina	7,043

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of December 31, 2010, the City's bank balance was not exposed to custodial credit risk because it was insured through FDIC and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

As of December 31, 2010, the City had the following deposits:

Cash and Cash Equivalents	\$ 880,963
Certificates of Deposit	<u>2,000,000</u>
Total Deposits	<u><u>\$ 2,880,963</u></u>

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2010, the City had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Type</u>
4M Money Market	Various	\$ 424,956	41.58%	MM
First Financial Bank, South Dakota	03/21/11	99,103	9.70%	CD
State Bank of India, Illinois	08/21/11	100,000	9.79%	CD
Orrstown Bank, Pennsylvania	04/13/12	100,000	9.79%	CD
State Bank of India, Illinois	11/21/11	100,000	9.78%	CD
Collin Bank, Texas	05/21/12	100,000	9.78%	CD
Discover Bank, Delaware	06/15/11	97,945	9.58%	CD
Total		<u>\$ 1,022,004</u>	<u>100.00%</u>	

Credit Risk: As of December 31, 2010, the City was not exposed to credit risk as the City's investments were comprised of brokered certificates of deposit and investments in the 4M Money Market Fund which do not receive independent credit ratings.

Concentration of Credit Risk – Investments: As indicated by the table above, the City has more than 5% of total investments in any one issuer; therefore, the investments were exposed to concentration of credit risk at December 31, 2010.

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 2,880,963
Petty Cash	10,400
Investments	<u>1,022,004</u>
Total Deposits and Investments	<u>\$ 3,913,367</u>

Deposits and investments are presented in the December 31, 2010 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 3,888,367
Cash with Fiscal Agent	<u>25,000</u>
Total	<u>\$ 3,913,367</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 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	\$ 964,493	\$ 19,300	\$ 78,000	\$ 905,793
Construction in Progress	<u>1,024,959</u>	<u>1,857</u>	<u>1,026,816</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>1,989,452</u>	<u>21,157</u>	<u>1,104,816</u>	<u>905,793</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	2,428,174	1,026,816		3,454,990
Improvements Other than Buildings	2,988,507	12,400	11,300	2,989,607
Vehicles, Machinery and Equipment	<u>1,849,508</u>	<u>188,209</u>	<u>142,087</u>	<u>1,895,630</u>
Total Capital Assets being Depreciated	<u>7,266,189</u>	<u>1,227,425</u>	<u>153,387</u>	<u>8,340,227</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	1,429,045	95,800		1,524,845
Improvements Other than Buildings	1,172,842	138,929	10,217	1,301,554
Vehicles, Machinery and Equipment	<u>1,389,736</u>	<u>131,647</u>	<u>142,087</u>	<u>1,379,296</u>
Total Accumulated Depreciation	<u>3,991,623</u>	<u>366,376</u>	<u>152,304</u>	<u>4,205,695</u>
Total Capital Assets being Depreciated, Net	<u>3,274,566</u>	<u>861,049</u>	<u>1,083</u>	<u>4,134,532</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,264,018</u>	<u>\$ 882,206</u>	<u>\$1,105,899</u>	<u>\$ 5,040,325</u>

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Capital Assets being Depreciated:				
Buildings and Building Improvements	7,510,552	-	-	7,510,552
Improvements Other than Buildings	400,325	-	-	400,325
Vehicles, Machinery and Equipment	610,453	18,610	8,307	620,756
Total Capital Assets being Depreciated	<u>8,521,330</u>	<u>18,610</u>	<u>8,307</u>	<u>8,531,633</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	2,983,379	173,295	-	3,156,674
Improvements Other than Buildings	93,780	8,796	-	102,576
Vehicles, Machinery and Equipment	487,692	23,889	8,307	503,274
Total Accumulated Depreciation	<u>3,564,851</u>	<u>205,980</u>	<u>8,307</u>	<u>3,762,524</u>
Total Capital Assets being Depreciated, Net	<u>4,956,479</u>	<u>(187,370)</u>	<u>-</u>	<u>4,769,109</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,993,942</u>	<u>\$ (187,370)</u>	<u>\$ -</u>	<u>\$ 4,806,572</u>

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

Governmental Activities:	
General Government	\$ 43,094
Public Safety	24,726
Public Works	82,703
Culture and Recreation	113,998
Airport	<u>101,855</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 366,376</u>
Business-Type Activities:	
Water	\$ 56,324
Sewer	113,738
Municipal Liquor Dispensary	<u>35,918</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 205,980</u>

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010 is as follows:

	<u>Amounts Due to Other Funds</u> Nonmajor <u>Governmental Funds</u>
Amounts Due from Other Funds:	
General Fund	<u>\$ 54,056</u>

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

B. Transfers

The composition of interfund transfers as of December 31, 2010 was as follows:

	<u>Transfers In</u> Nonmajor Governmental <u>Funds</u>
Transfers Out:	
General Fund	<u>\$ 203,120</u>

The purpose of the above transfers was to assist with operating costs.

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds:						
G.O. Improvement Bond, Series 2008A	05/14/08	4.92%	\$ 221,000	01/15/19	\$ 194,332	\$ 18,874
G.O. Equipment Certificate 2010	04/30/10	3.75%	109,042	04/30/15	109,042	20,233
Total G.O. Bonds					<u>303,374</u>	<u>39,107</u>
Capital Lease Obligations					78,791	17,301
Compensated Absences					104,996	73,759
Total Governmental Activities					<u>487,161</u>	<u>130,167</u>
Business-Type Activities:						
G.O. Revenue Notes/Bonds:						
G.O. Sewer Revenue Note of 1994	09/23/94	2.82%	1,490,796	02/20/16	496,238	84,635
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	308,000	35,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	638,000	35,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	363,083	45,882
Total G.O. Revenue Notes/ Bonds					<u>1,805,321</u>	<u>200,517</u>
Compensated Absences					31,484	26,612
Total Business-Type Activities					<u>1,836,805</u>	<u>227,129</u>
Total all Long-Term Liabilities					<u>\$ 2,323,966</u>	<u>\$ 357,296</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 13, 2013, the annual rate of interest on the Bond shall be adjusted to a rate per annum equal to the sum of 1.41% and the five year Treasury Rate in effect on that date; however, in no event shall the adjusted rate be less than 4% or greater than 8% per annum.

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments

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

Year Ending December 31,	Governmental Activities		
	Improvement Bonds		
	Principal	Interest	Total
2011	\$ 18,874	\$ 9,464	\$ 28,338
2012	19,804	8,534	28,338
2013	20,827	7,511	28,338
2014	21,879	6,459	28,338
2015	22,984	5,354	28,338
2016-2019	89,964	9,219	99,183
Total	<u>\$ 194,332</u>	<u>\$ 46,541</u>	<u>\$ 240,873</u>

Year Ending December 31,	Equipment Certificate		
	Principal	Interest	Total
2011	\$ 20,233	\$ 4,089	\$ 24,322
2012	20,992	3,330	24,322
2013	21,779	2,543	24,322
2014	22,595	1,727	24,322
2015	23,443	879	24,322
Total	<u>\$ 109,042</u>	<u>\$ 12,568</u>	<u>\$ 121,610</u>

Year Ending December 31,	Business-Type Activities		
	Revenue Notes		
	Principal	Interest	Total
2011	\$ 200,517	\$ 47,244	\$ 247,761
2012	206,870	41,417	248,287
2013	212,375	35,397	247,772
2014	219,036	29,195	248,231
2015	225,860	22,788	248,648
2016-2020	481,663	45,497	527,160
2021-2025	214,000	14,437	228,437
2026	45,000	742	45,742
Total	<u>\$ 1,805,321</u>	<u>\$ 236,717</u>	<u>\$ 2,042,038</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010 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	\$ 212,298	\$ -	\$ 17,966	\$ 194,332	\$ 18,874
G.O. Equipment Certificate	-	109,042	-	109,042	20,233
Capital Lease Obligations	66,352	43,697	31,258	78,791	17,301
Compensated Absences	98,814	88,699	82,517	104,996	73,759
Total Governmental Activities	377,464	241,438	131,741	487,161	130,167
Business-Type Activities:					
Notes/Bonds Payable:					
G.O. Revenue Notes	1,593,536	-	151,298	1,442,238	154,635
Revenue Bonds	407,095	-	44,012	363,083	45,882
Compensated Absences	29,546	43,485	41,547	31,484	26,612
Total Business-Type Activities	2,030,177	43,485	236,857	1,836,805	227,129
Total Long-Term Liabilities	<u>\$ 2,407,641</u>	<u>\$ 284,923</u>	<u>\$ 368,598</u>	<u>\$ 2,323,966</u>	<u>\$ 357,296</u>

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

D. Capital Lease Obligations

The City is obligated under three leases accounted for as capital leases. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets.

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

<u>Year Ending December 31,</u>	
2011	\$ 21,423
2012	21,422
2013	21,422
2014	24,480
Net Minimum Lease Payments	88,747
Less Amount Representing Interest	(9,956)
Present Value of Net Minimum Lease Payments	<u>\$ 78,791</u>

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 7 – RESERVED FUND BALANCE

A. Reserved/Designated Fund Equity

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

Reserved/designated fund balance is comprised of the following components:

	General	Special Revenue Mary MacDonald Business Center	Debt Service Debt Service	Capital Projects Public Works Reserve	Nonmajor Governmental Funds	Total
Reserved:						
Renovation	\$ -	\$ 873	\$ -	\$ -	\$ -	\$ 873
Perpetual Care	-	-	-	-	2,178	2,178
Unreserved:						
Designated for:						
Cemetery	-	-	-	-	18,053	18,053
Library	-	-	-	-	47,917	47,917
Economic Development	-	-	-	-	393,133	393,133
Storefront Renovation	-	-	-	-	106,323	106,323
Community Business Partnership	-	-	-	-	102,427	102,427
Debt Service	-	-	34,614	-	-	34,614
Fire Equipment	112,000	-	-	-	-	112,000
Capital Projects	-	-	-	543,272	-	543,272
Undesignated	1,188,746	86,688	-	-	81,492	1,356,926
Total	<u>\$ 1,300,746</u>	<u>\$ 87,561</u>	<u>\$ 34,614</u>	<u>\$ 543,272</u>	<u>\$ 751,523</u>	<u>\$ 2,717,716</u>

NOTE 8 – 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 fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2010 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2010, 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.

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 9 – JOINT POWERS AGREEMENT

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

Lake County has agreed to pay the City the sum of \$ 45,000 annually in two equal installments of \$ 22,500 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 Lake 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 Lake 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 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

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

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

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

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. In 2010, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.0% for Coordinated Plan members and 14.1% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$ 70,570, \$ 66,732 and \$ 61,778, respectively. The City's contributions to PEPFF for the years ending December 31, 2010, 2009 and 2008 were \$ 45,667, \$ 44,365 and \$ 39,135, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 11 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN –
FIREFIGHTERS' RELIEF ASSOCIATION**

A. Plan Description

The City contributes to the Silver Bay Firefighters' Relief Association (the "Association"), a single-employer, defined benefit pension plan. The plan provides retirement, disability and death benefits to volunteer firefighters of the City. Pension benefits are determined by multiplying the accrued liability, as set forth in *Minnesota Statutes* 69.772, Subd. 2, by the ratio of the lump sum service pension amount provided in the bylaws of the Association to a service pension of \$ 1,000 per year of service. The Association's Board of Trustees has the authority to establish and amend benefit provisions. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor.

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 11 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN – FIREFIGHTERS’ RELIEF ASSOCIATION

B. Funding Policy and Annual Pension Cost

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

Date Certified to City Council: June 26, 2009

Statutory Assumptions:

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

C. Three Year Trend Information

<u>Year Ended</u>	<u>Statutory Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
12/31/10	\$ -	\$ -	100%	\$ 11,750	100%
12/31/09	-	-	100%	10,888	100%
12/31/08	-	-	100%	12,281	100%

D. Required Supplementary Information: Schedule of Funding Progress

<u>Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Statutory Accrued Liability (b)</u>	<u>Excess of Assets Over Liabilities (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess as a Percentage of Covered Payroll ((a-b)/c)</u>
12/31/10	\$ 481,106	\$ 360,780	\$ 120,326	133%	N/A	N/A
12/31/09	430,940	338,620	92,320	127%	N/A	N/A
12/31/08	385,269	317,160	68,109	121%	N/A	N/A

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

NOTE 11 – DEFINED CONTRIBUTION LUMP SUM SERVICE PENSION PLAN – FIREFIGHTERS’ RELIEF ASSOCIATION

E. Contributions Required and Contributions Made

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

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

Contributions totaling \$ 0 were made by the City and \$ 11,750 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2010.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

In 2009, the City implemented the requirement of a new accounting pronouncement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. The City used the alternative measurement method to determine the City’s annual required contribution (ARC) liability. The City pays one half of insurance for retirees for three years and also has implicit rate subsidy other post employment benefits (OPEB). The ARC liability calculated was determined to be immaterial. Therefore, no liability for OPEB has been recorded in the financial statements.

NOTE 13 – SUBSEQUENT EVENT

On January 1, 2011, the City adopted a change to their personnel policy where their post employment benefits were changed. Previously, the City paid 50% of a retiree’s health insurance premiums for three years following their retirement for employees who had been employed by the City for a minimum 10 years. Under the new plan, employees will no longer receive payment for their premiums after retirement. Rather, 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.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Economic Development Fund and governmental activities in the amount of \$ 25,000 to record cash with fiscal agent that the City contributed to the Minnesota Community Capital Fund in 2009.

SUPPLEMENTARY INFORMATION

CITY OF SILVER BAY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2010

	Special Revenue			
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)
ASSETS				
Cash and Investments	\$ 53,034	\$ 20,160	\$ 33,856	\$ 98,939
Cash with Fiscal Agent	-	-	-	-
Accounts Receivable	23	-	728	25
Interest Receivable	14	71	(32)	209
Due from Other Governments	-	-	-	-
Loan Receivable	-	-	-	-
Total Assets	<u>\$ 53,071</u>	<u>\$ 20,231</u>	<u>\$ 34,552</u>	<u>\$ 99,173</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 838	\$ -	\$ -	\$ 677
Due to Other Funds	-	-	-	-
Due to Other Governments	4	-	43	-
Salaries and Benefits Payable	4,312	-	5,340	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>5,154</u>	<u>-</u>	<u>5,383</u>	<u>677</u>
Fund Balances				
Reserved for:				
Special Revenue	-	2,178	-	-
Unreserved, Reported in:				
Special Revenue Funds - Designated	47,917	18,053	-	-
Special Revenue Funds - Undesignated	-	-	29,169	98,496
Total Fund Balances	<u>47,917</u>	<u>20,231</u>	<u>29,169</u>	<u>98,496</u>
Total Liabilities and Fund Balances	<u>\$ 53,071</u>	<u>\$ 20,231</u>	<u>\$ 34,552</u>	<u>\$ 99,173</u>

Special Revenue

Community Building (261)	Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total	Total Nonmajor Governmental Funds
\$ 1,160	\$ 366,785	\$ 102,056	\$ 105,906	\$ 16,326	\$ -	\$ 798,222	\$ 798,222
-	25,000	-	-	-	-	25,000	25,000
-	-	-	-	-	440	1,216	1,216
(2)	1,348	371	417	10	(209)	2,197	2,197
-	-	-	-	-	13,537	13,537	13,537
-	35,219	-	11,400	-	-	46,619	46,619
<u>\$ 1,158</u>	<u>\$ 428,352</u>	<u>\$ 102,427</u>	<u>\$ 117,723</u>	<u>\$ 16,336</u>	<u>\$ 13,768</u>	<u>\$ 886,791</u>	<u>\$ 886,791</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,515	\$ 1,515
-	-	-	-	-	54,056	54,056	54,056
-	-	-	-	6	-	53	53
-	-	-	-	-	-	9,652	9,652
-	35,219	-	11,400	23,373	-	69,992	69,992
-	35,219	-	11,400	23,379	54,056	135,268	135,268
-	-	-	-	-	-	2,178	2,178
-	393,133	102,427	106,323	-	-	667,853	667,853
1,158	-	-	-	(7,043)	(40,288)	81,492	81,492
<u>1,158</u>	<u>393,133</u>	<u>102,427</u>	<u>106,323</u>	<u>(7,043)</u>	<u>(40,288)</u>	<u>751,523</u>	<u>751,523</u>
<u>\$ 1,158</u>	<u>\$ 428,352</u>	<u>\$ 102,427</u>	<u>\$ 117,723</u>	<u>\$ 16,336</u>	<u>\$ 13,768</u>	<u>\$ 886,791</u>	<u>\$ 886,791</u>

CITY OF SILVER BAY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010**

	<u>Special Revenue</u>			
	<u>Library (211)</u>	<u>Cemetery (215)</u>	<u>Arena (241)</u>	<u>Park and Recreation (251)</u>
REVENUES				
General Property Taxes	\$ 97,000	\$ -	\$ -	\$ -
Intergovernmental	37,300	-	83,000	47,987
Charges for Services	3,936	420	18,398	22,017
Miscellaneous:				
Investment Income	22	221	(148)	659
Contributions and Donations	34,377	-	-	-
Loan Repayments	-	-	-	-
Other	2,096	-	6,547	1,227
Total Revenues	<u>174,731</u>	<u>641</u>	<u>107,797</u>	<u>71,890</u>
EXPENDITURES				
Current				
Culture and Recreation	189,127	4,268	161,285	154,815
Economic Development	-	-	-	-
Airport	-	-	-	-
Capital Outlay				
Culture and Recreation	1,027	-	2,247	12,576
Economic Development	-	-	-	-
Airport	-	-	-	-
Total Expenditures	<u>190,154</u>	<u>4,268</u>	<u>163,532</u>	<u>167,391</u>
Excess of Revenues Over (Under) Expenditures	(15,423)	(3,627)	(55,735)	(95,501)
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Asset	-	-	-	750
Transfers In	36,030	3,865	61,199	98,039
Total Other Financing Sources	<u>36,030</u>	<u>3,865</u>	<u>61,199</u>	<u>98,789</u>
Net Change in Fund Balances	20,607	238	5,464	3,288
FUND BALANCES				
Beginning of Year	27,310	19,993	23,705	95,208
Prior Period Adjustment	-	-	-	-
Beginning of Year, as Restated	<u>27,310</u>	<u>19,993</u>	<u>23,705</u>	<u>95,208</u>
End of Year	<u>\$ 47,917</u>	<u>\$ 20,231</u>	<u>\$ 29,169</u>	<u>\$ 98,496</u>

Special Revenue							Total Nonmajor Governmental Funds
Community Building (261)	Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,000	\$ 97,000
-	4,000	-	-	-	83,088	255,375	255,375
11,360	-	-	-	103,100	12,065	171,296	171,296
110	4,267	1,378	1,180	48	(651)	7,086	7,086
-	12,000	-	-	-	-	46,377	46,377
-	3,050	-	308	-	-	3,358	3,358
531	-	-	-	39,424	1,599	51,424	51,424
12,001	23,317	1,378	1,488	142,572	96,101	631,916	631,916
14,495	-	-	-	139,658	-	663,648	663,648
-	1,018	-	11,650	-	-	12,668	12,668
-	-	-	-	-	50,238	50,238	50,238
-	-	-	-	-	-	15,850	15,850
-	19,300	-	-	-	-	19,300	19,300
-	-	-	-	-	46,003	46,003	46,003
14,495	20,318	-	11,650	139,658	96,241	807,707	807,707
(2,494)	2,999	1,378	(10,162)	2,914	(140)	(175,791)	(175,791)
-	-	-	-	-	-	750	750
3,007	-	-	-	-	980	203,120	203,120
3,007	-	-	-	-	980	203,870	203,870
513	2,999	1,378	(10,162)	2,914	840	28,079	28,079
645	365,134	101,049	116,485	(9,957)	(41,128)	698,444	698,444
-	25,000	-	-	-	-	25,000	25,000
645	390,134	101,049	116,485	(9,957)	(41,128)	723,444	723,444
\$ 1,158	\$ 393,133	\$ 102,427	\$ 106,323	\$ (7,043)	\$ (40,288)	\$ 751,523	\$ 751,523

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General Property Taxes	\$ 478,794	\$ 487,794	\$ 481,225	\$ (6,569)
Licenses and Permits	10,370	22,750	22,921	171
Intergovernmental Revenue				
Local Government Aid	450,100	394,700	450,020	55,320
Market Value Credit	108,689	108,689	53,612	(55,077)
PERA Aid	4,383	4,383	4,383	-
Taconite Homestead Credit	124,749	124,749	117,537	(7,212)
Taconite Production Tax	450,000	430,400	430,437	37
Federal Grants and Aids	-	25,680	25,680	-
Other State Grants and Aids	52,000	44,750	44,842	92
Other County Grants	13,700	13,700	13,700	-
Other Grants and Aids	2,800	2,150	2,151	1
Total Intergovernmental Revenue	1,206,421	1,149,201	1,142,362	(6,839)
Charges for Services				
Public Safety	38,550	37,050	40,031	2,981
Public Works	300	790	854	64
Park and Recreation	500	350	350	-
Total Charges for Services	39,350	38,190	41,235	3,045
Fines and Forfeitures	8,500	7,405	8,026	621
Miscellaneous Revenues				
Investment Income	12,000	12,000	13,279	1,279
Contributions and Donations	700	1,460	1,461	1
Loan Repayments	10,540	17,020	17,021	1
Other	14,000	16,835	17,004	169
Total Miscellaneous Revenues	37,240	47,315	48,765	1,450
Total Revenues	1,780,675	1,752,655	1,744,534	(8,121)
EXPENDITURES				
General Government				
Mayor and Council:				
Current	27,760	28,350	28,239	(111)
Administrative and Finance:				
Current	265,578	259,998	257,102	(2,896)
Capital Outlay	2,000	-	-	-
Other General Government:				
Current	146,805	133,515	130,057	(3,458)
Capital Outlay	-	10,350	10,302	(48)
Total General Government	442,143	432,213	425,700	(6,513)
Public Safety				
Police:				
Current	511,229	507,279	500,537	(6,742)
Capital Outlay	-	100	85	(15)

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety (Continued)				
Fire:				
Current	\$ 75,620	\$ 60,870	\$ 59,813	\$ (1,057)
Capital Outlay	10,000	31,100	31,013	(87)
Other:				
Current	9,900	11,500	10,877	(623)
Capital Outlay	150	150	-	(150)
Total Public Safety	<u>606,899</u>	<u>610,999</u>	<u>602,325</u>	<u>(8,674)</u>
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers:				
Current	441,190	386,860	368,679	(18,181)
Capital Outlay	-	117,500	117,491	(9)
Street Lighting:				
Current	<u>22,250</u>	<u>22,250</u>	<u>26,206</u>	<u>3,956</u>
Total Public Works	<u>463,440</u>	<u>526,610</u>	<u>512,376</u>	<u>(14,234)</u>
Culture and Recreation				
Current	18,875	18,800	18,549	(251)
Capital Outlay	-	-	43,697	43,697
Total Culture and Recreation	<u>18,875</u>	<u>18,800</u>	<u>62,246</u>	<u>43,446</u>
Debt Service				
Principal	25,983	31,575	31,258	(317)
Interest and Other Charges	<u>3,770</u>	<u>4,685</u>	<u>4,970</u>	<u>285</u>
Total Debt Service	<u>29,753</u>	<u>36,260</u>	<u>36,228</u>	<u>(32)</u>
Total Expenditures	<u>1,561,110</u>	<u>1,624,882</u>	<u>1,638,875</u>	<u>13,993</u>
Excess of Revenues Over (Under) Expenditures	219,565	127,773	105,659	(22,114)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	16,380	18,889	2,509
Bond Proceeds	-	109,042	109,042	-
Proceeds from Capital Lease	-	-	43,697	43,697
Transfers Out	<u>(217,273)</u>	<u>(203,120)</u>	<u>(203,120)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(217,273)</u>	<u>(77,698)</u>	<u>(31,492)</u>	<u>46,206</u>
Net Change in Fund Balances	<u>\$ 2,292</u>	<u>\$ 50,075</u>	74,167	<u>\$ 24,092</u>
FUND BALANCES				
Beginning of Year			<u>1,226,579</u>	
End of Year			<u>\$ 1,300,746</u>	

CITY OF SILVER BAY
Lake County, Minnesota

ANALYSIS OF CHANGES IN FUND BALANCE -
PUBLIC WORKS RESERVE FUND
For the Year Ended December 31, 2010

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
Balance - January 1, 2010	\$ (439,091)	\$ 368,812	\$ (148,400)
General Property Taxes	-	-	-
Intergovernmental Revenue	317,304	-	350,000
Investment Income	-	-	-
Contributions and Donations	750	-	-
Transfers from Other Funds	-	-	-
Total Available	(121,037)	368,812	201,600
Expenditures	(133,130)	-	(350,060)
Transfers to Other Funds	-	-	-
Balance - December 31, 2010	<u><u>\$ (254,167)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (148,460)</u></u>

Project Notes:

- * Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$ 476,305, indicating approximately \$ 107,493 can be added to the reserve at December 31, 2010.

<u>Special Projects (906)</u>	<u>Sidewalk Improvements (907)</u>	<u>Total</u>
\$ 129,969	\$ 306,257	\$ 217,547
76,337	28,948	105,285
23,112	8,560	698,976
4,674	-	4,674
-	-	750
<u>10,929</u>	<u>-</u>	<u>10,929</u>
245,021	343,765	1,038,161
(770)	-	(483,960)
<u>-</u>	<u>(10,929)</u>	<u>(10,929)</u>
<u>\$ 244,251</u>	<u>\$ 332,836</u>	<u>\$ 543,272</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***

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

We have audited 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Findings 06-01 and 06-02 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or 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.



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to management of the City in a separate letter dated March 22, 2011.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal and state oversight awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

March 22, 2011



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REPORT ON LEGAL COMPLIANCE

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

We have audited 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers 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 study included all of the listed categories except Tax Increment Financing.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 22, 2011

CITY OF SILVER BAY
SCHEDULE OF FINDINGS AND RESPONSES
ON LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2010

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies:

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

During the year ended December 31, 2010, the City had a lack of segregation of accounting duties due to a limited number of office employees.

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.
- Payroll
 - The Deputy Clerk processes payroll, prints checks and signs with Certex signer.
- 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 LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2010

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies: (Continued)

Audit Finding 06-02 – Preparation of Financial Statements

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 being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a city of your size.

Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements 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.