

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

CITY OF SILVER BAY

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CITY OF SILVER BAY

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2011**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Scott Johnson	Mayor	December 31, 2012
David Gustafson	Council Member	December 31, 2014
Steven Marolt	Council Member	December 31, 2014
Joanne Johnson	Council Member	December 31, 2012
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, 2011, 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, 2011, 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.

The City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, 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 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.

Ken, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

February 27, 2012

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CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

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, 2011. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2010 has been included as required.

FINANCIAL HIGHLIGHTS

- The net assets of the City were \$ 11,756,907 in 2010 and \$ 12,476,771 in 2011. Of these amounts, \$ 3,885,269 in 2010 and \$ 3,885,879 in 2011 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 \$ 202,834 in 2010; which 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 12 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. In 2011, the total net assets increased by \$ 719,864. The majority of this increase was due to the development and construction of the Eco-Industrial Business Park and the Biofuel/Food Greenhouse Project. Other capital increases include the purchases of the following: 2012 Mack Snowplow and 2012 Ford F250 truck in the Street Department, 2011 Ford F150 truck, digital community event sign, and digital scoreboard in the Park/Recreation Department, 2011 Ford Taurus in general government, 2011 Ford Crown Victoria police car and solar radar sign within the Police Department and a hot water heater at the Mary MacDonald Business Center. In addition, boilers were replaced at the City Hall, Mary MacDonald Business Center and the Wastewater Treatment Facility. Capital decreases happened with the removal of the underground fuel tanks at the airport and the sale of assets in the Street Department, Water Department, General Government and Police Department.
- The City's governmental funds reported a combined ending fund balance in the amount of \$ 2,717,716 for 2010 and \$ 2,600,529 for 2011.
- At the end of the previous fiscal year, unreserved fund balance for the General Fund was \$ 1,300,746 (\$ 112,000 designated and \$1,188,746 undesignated), or 79.4%, of total General Fund expenditures of \$ 1,638,875. At the end of the current fiscal year, the total fund balance for the General Fund was \$ 1,351,684 (\$ 112,000 assigned and \$ 1,239,684 unassigned), or 78.4%, of total General Fund expenditures of \$ 1,724,365.

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, 2011

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, 2011**

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 2010	Business-Type Activities 2010	Total 2010	Governmental Activities 2011	Business-Type Activities 2011	Total 2011
Current and Other Assets	\$ 3,165,344	\$ 1,342,873	\$ 4,508,217	\$ 3,089,803	\$ 1,622,995	\$ 4,712,798
Capital Assets	5,040,325	4,806,572	9,846,897	5,856,866	4,751,478	10,608,344
Total Assets	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114	\$ 8,946,669	\$ 6,374,473	\$ 15,321,142
Current and Other Liabilities	\$ 356,503	\$ 275,034	\$ 631,537	\$ 434,379	\$ 312,580	\$ 746,959
Long-Term Liabilities	356,994	1,609,676	1,966,670	495,729	1,601,683	2,097,412
Total Liabilities	713,497	1,884,710	2,598,207	930,108	1,914,263	2,844,371
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	4,658,160	3,001,251	7,659,411	5,364,109	2,942,874	8,306,983
Restricted	212,227	-	212,227	283,909	-	283,909
Unrestricted	2,621,785	1,263,484	3,885,269	2,368,543	1,517,336	3,885,879
Total Net Assets	7,492,172	4,264,735	11,756,907	8,016,561	4,460,210	12,476,771
Total Liabilities and Net Assets	\$ 8,205,669	\$ 6,149,445	\$ 14,355,114	\$ 8,946,669	\$ 6,374,473	\$ 15,321,142

GOVERNMENTAL ACTIVITIES

Total net assets of the City's governmental activities increased in 2010 by \$ 162,988, or 2.2%, which includes a \$ 25,000 prior period adjustment and increased in 2011 by \$ 524,389 or 7.0%. This change was primarily due to the construction in progress for the new Biofuel/Food Greenhouse Project and the purchase and removal of various capital assets.

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 \$ 2,621,785 in 2010 and \$ 2,368,543 in 2011. This is a decrease of \$ 253,242, or 9.7%. This is mainly due to spending down on grant money received in 2010 for the business park and the one-time adjustment for the post retirement benefit change in 2011.

Current and other assets totaled \$ 3,165,344 in 2010 and \$ 3,089,803 in 2011. Cash in the General Fund increased by \$ 76,057 in 2010 and increased by \$ 45,469 in 2011. The City experienced a decrease in total revenues and an increase in expenditures in the General Fund in 2011. The total decrease in revenues was \$ 8,639 from the previous year and expenditures increased \$ 85,490 from the previous year. The increase in expenditures was due to a one-time adjustment for the changes in post retirement benefits and capital outlay for the purchase of the Mack snowplow truck and other capital assets.

Cash in the Public Works Reserve Fund increased by \$ 345,558 in 2010 and decreased by \$ 547,395 in 2011. In 2010, grant money was received for the business park and expended in 2011. At fiscal year-end, \$ 414,383 was due from reimbursable grants for the construction of the Biofuel/Food Greenhouse Project.

CITY OF SILVER BAY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

BUSINESS-TYPE ACTIVITIES

The net assets of the City's business-type activities increased by \$ 64,846 in 2010 and increased by \$ 195,475 in 2011. The increase in 2011 was due to the increase in charges for services for the year. The following table indicates the changes in net assets for the City's governmental and business-type activities.

	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
	2010	2010	2010	2011	2011	2011
REVENUES:						
Program Revenues:						
Charges for Services	\$ 422,023	\$ 2,010,178	\$ 2,432,201	\$ 425,835	\$ 2,256,750	\$ 2,682,585
Operating Grants and Contributions	303,513	7,448	310,961	321,111	-	321,111
Capital Grants and Contributions	794,758	3,000	797,758	560,563	-	560,563
General Revenues:						
Property Taxes	695,033	-	695,033	744,649	-	744,649
Property Sales	19,639	-	19,639	19,928	-	19,928
State Aids	1,083,278	-	1,083,278	1,080,561	-	1,080,561
Other	35,153	-	35,153	46,372	1,223	47,595
Interest	25,099	12,742	37,841	16,834	8,359	25,193
Total Revenues	\$ 3,378,496	\$ 2,033,368	\$ 5,411,864	\$ 3,215,853	\$ 2,266,332	\$ 5,482,185
EXPENSES:						
General Services	\$ 465,068	\$ -	\$ 465,068	\$ 494,810	\$ -	\$ 494,810
Public Safety	610,405	-	610,405	637,741	-	637,741
Public Works	477,512	-	477,512	194,950	-	194,950
Culture and Recreation	957,004	-	957,004	1,033,233	-	1,033,233
Economic Development	515,098	-	515,098	157,567	-	157,567
Airport	198,096	-	198,096	155,595	-	155,595
Interest on Long-Term Debt	17,325	-	17,325	17,568	-	17,568
Water Utility	-	615,043	615,043	-	649,194	649,194
Sewer Utility	-	470,725	470,725	-	496,567	496,567
Municipal Liquor	-	882,754	882,754	-	925,096	925,096
Total Expenses	3,240,508	1,968,522	5,209,030	2,691,464	2,070,857	4,762,321
Change in Net Assets before Transfers	137,988	64,846	202,834	524,389	195,475	719,864
Transfers	-	-	-	-	-	-
Change in Net Assets	137,988	64,846	202,834	524,389	195,475	719,864
NET ASSETS:						
Beginning of Year	7,329,184	4,199,889	11,529,073	7,492,172	4,264,735	11,756,907
Prior Period Adjustment	25,000	-	25,000	-	-	-
Beginning as Restated	7,354,184	4,199,889	11,554,073	7,492,172	4,264,735	11,756,907
End of Year	\$ 7,492,172	\$ 4,264,735	\$ 11,756,907	\$ 8,016,561	\$ 4,460,210	\$ 12,476,771

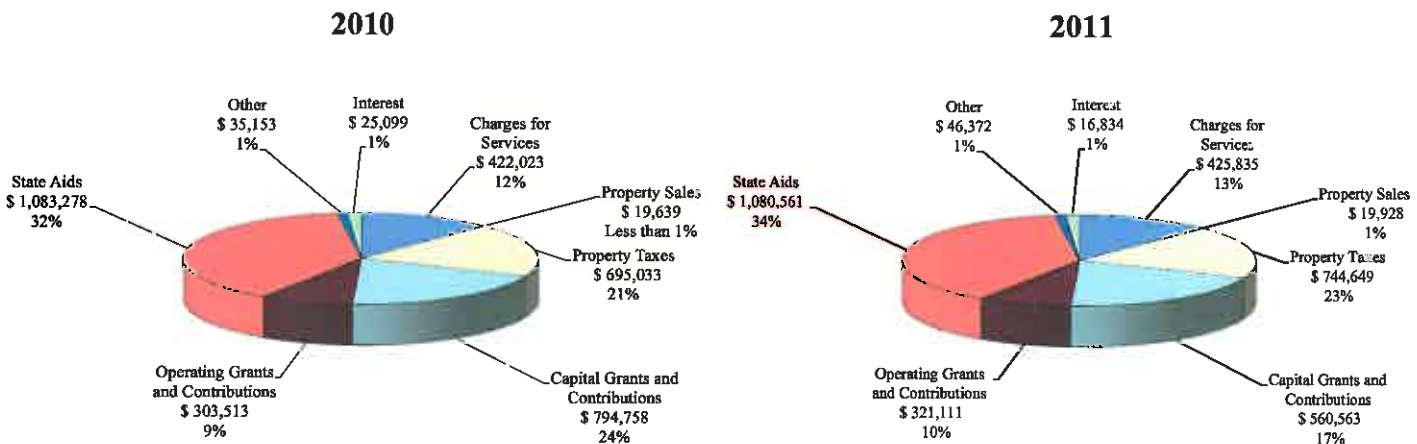
CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

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 \$ 3,378,496 for 2010 and \$ 3,215,853 for 2011. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$ 422,023 in 2010 and \$ 425,835 in 2011 and were collected through the Marina Fund and various recreation programs. Some fees come from public safety.

Capital grants and contributions totaled \$ 794,758 in 2010 and \$ 560,563 in 2011 and were used to fund the Eco-Industrial Park ongoing project and the construction of the Biofuel/Food Greenhouse Project. Minor grants were received for police equipment, the Mary MacDonald boiler project and parks and recreation equipment.

The City's property tax and state aid revenues totaled \$ 1,778,311 and were 53% of the City's total revenue in 2010, and totaled \$ 1,825,210 and were 57% of the City's total revenue in 2011. 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 2010 due to interest rates falling throughout the year for City's investments. In 2011, interest decreased again due to interest rates falling in the previous year and the interest rates remained at the all time low throughout the 2011 year.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$ 3,240,508 for 2010 and \$ 2,691,464 for 2011 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$ 2,033,368 for 2010 and \$ 2,266,332 for 2011. The Municipal Liquor Fund generated operating revenues of \$ 909,821 in 2010 and \$ 902,688 in 2011. Both water and sewer revenues significantly increased due to the changes in the rates that primarily affected metered accounts, which were in addition to the regularly scheduled rate increases. All business-types were affected from the loss in interest income.

Expenses

Business-type expenses totaled \$ 1,968,522 for 2010 and \$ 2,070,857 for 2011. The municipal liquor operating expenses increased at a rate of 0.7% for 2010 while the operating revenues decreased by 1.8%. In 2011, the operating expenses increased at a rate of 4.8% while the operating revenues decreased by less than 1%. As a result, operating profits were \$ 43,625 in 2010 and an operating loss of \$ 7,309 in 2011. Expenses in the Water Utility Fund decreased in 2010 to \$ 615,043 and in 2011, increased to \$ 649,194. Sewer expenses for 2010 were \$ 470,725, while 2011 expenses increased to \$ 496,567.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2010 General Fund balance was \$ 1,300,746. The City's General Fund balance increased by \$ 50,938 in 2011 to \$ 1,351,684.

Mary MacDonald Fund

The Mary MacDonald Fund balance for 2010 was \$ 87,561. The Mary MacDonald Fund balance increased by \$ 41,727, for an ending fund balance of \$ 129,288.

Debt Service Fund

The \$ 4,266 increase in this Fund's balance to \$ 38,880 was due to special assessment income.

Public Works Reserve

The Public Works Reserve Fund balance for 2010 was \$ 543,272. In 2011, the fund balance decreased to \$ 352,832. The decrease was a result of a grant for the Business Park being received in 2010 and a portion of the grant expended in 2011.

CITY OF SILVER BAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

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 2010, the City had \$ 9,846,897 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 2011, the City had \$ 10,608,344 invested in a broad range of capital assets. The City's fiscal year 2012 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

At 2010 year-end, the City had \$ 2,323,966 in notes, leases and compensated absences 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).

At 2011 year-end, the City had \$ 2,526,720 in notes, leases and compensated absences outstanding. The majority, \$ 1,287,603, 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 2012 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 2012 budget was to prepare a balanced budget based upon historical trends, known future expectations, and estimated increases/decreases due to trends in the economy. The budget was prepared and analyzed by individual object codes.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF SILVER BAY

STATEMENT OF NET ASSETS
December 31, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 2,249,357	\$ 1,442,495	\$ 3,691,852
Cash with Fiscal Agent	25,000	-	25,000
Property Tax Receivable	66,892	-	66,892
Accounts Receivable	4,076	50,012	54,088
Interest Receivable	4,471	2,293	6,764
Due from Other Governments	477,150	2,574	479,724
Loan Receivable	100,619	-	100,619
Special Assessments Receivable	162,238	-	162,238
Inventory	-	120,211	120,211
Prepaid Items	-	5,410	5,410
Capital Assets not being Depreciated:			
Land	905,793	37,463	943,256
Construction in Progress	729,061	5,609	734,670
Capital Assets being Depreciated:			
Buildings and Building Improvements	3,568,074	7,653,939	11,222,013
Improvements Other than Buildings	3,014,923	400,325	3,415,248
Vehicles, Machinery and Equipment	2,053,244	622,259	2,675,503
Less Accumulated Depreciation	<u>(4,414,229)</u>	<u>(3,968,117)</u>	<u>(8,382,346)</u>
 Total Assets	 <u>\$ 8,946,669</u>	 <u>\$ 6,374,473</u>	 <u>\$ 15,321,142</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts Payable	\$ 55,536	\$ 6,050	\$ 61,586
Contracts Payable	23,865	-	23,865
Due to Other Governments	46	11,976	12,022
Salaries and Benefits Payable	43,229	18,037	61,266
Interest Payable	7,794	13,650	21,444
Unearned Revenue	137,468	-	137,468
Bond Principal Payable:			
Payable Within One Year	65,617	47,832	113,449
Payable After One Year	365,650	269,369	635,019
Notes Payable:			
Payable Within One Year	-	184,838	184,838
Payable After One Year	-	1,306,565	1,306,565
Capital Lease Payable:			
Payable Within One Year	18,398	-	18,398
Payable After One Year	43,092	-	43,092
Compensated Absences Payable:			
Payable Within One Year	82,426	30,197	112,623
Payable After One Year	86,987	25,749	112,736
Total Liabilities	<u>930,108</u>	<u>1,914,263</u>	<u>2,844,371</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt Restricted	5,364,109	2,942,874	8,306,983
Unrestricted	283,909	-	283,909
Unrestricted	2,368,543	1,517,336	3,885,879
Total Net Assets	<u>8,016,561</u>	<u>4,460,210</u>	<u>12,476,771</u>
 Total Liabilities and Net Assets	 <u>\$ 8,946,669</u>	 <u>\$ 6,374,473</u>	 <u>\$ 15,321,142</u>

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

CITY OF SILVER BAY

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 494,810	\$ -	\$ 1,760	\$ -	\$ (493,050)	\$ -	\$ (493,050)
Public Safety	637,741	69,227	58,082	3,895	(506,537)	-	(506,537)
Public Works	194,950	1,338	13,700	9,224	(170,688)	-	(170,688)
Culture and Recreation	1,033,233	332,591	215,812	45,021	(439,809)	-	(439,809)
Economic Development	157,567	5,452	10,000	502,423	360,308	-	360,308
Airport	155,595	17,227	21,757	-	(116,611)	-	(116,611)
Interest on Long-Term Debt	17,568	-	-	-	(17,568)	-	(17,568)
Total Governmental Activities	2,691,464	425,835	321,111	560,563	(1,383,955)	-	(1,383,955)
Business-Type Activities							
Water	649,194	799,552	-	-	-	150,358	150,358
Sewer	496,567	554,510	-	-	-	57,943	57,943
Municipal Liquor	925,096	902,688	-	-	-	(22,408)	(22,408)
Total Business-Type Activities	2,070,857	2,256,750	-	-	-	185,893	185,893
Total Governmental and Business-Type Activities	\$ 4,762,321	\$ 2,682,585	\$ 321,111	\$ 560,563	(1,383,955)	185,893	(1,198,062)
General Revenues							
Property and Taconite Taxes					744,649	-	744,649
State Aids					1,080,561	-	1,080,561
Unrestricted Investment Earnings					16,834	8,359	25,193
Other General Revenue					46,372	1,223	47,595
Gain on Sale of Asset					19,928	-	19,928
Total General Revenues					1,908,344	9,582	1,917,926
Change in Net Assets					524,389	195,475	719,864
Net Assets - Beginning					7,492,172	4,264,735	11,756,907
Net Assets - Ending					\$ 8,016,561	\$ 4,460,210	\$ 12,476,771

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

CITY OF SILVER BAY

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011**

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center (265)	Debt Service (352)
	<u>General (101)</u>		
ASSETS			
Cash and Investments	\$ 1,280,075	\$ 148,143	\$ 38,829
Cash with Fiscal Agent	-	-	-
Taxes Receivable - Delinquent	56,356	-	89
Special Assessment Receivable - Deferred	-	-	162,238
Accounts Receivable	477	2,854	-
Interest Receivable	2,118	226	45
Due from Other Funds	40,226	-	-
Due from Other Governments	61,679	-	5
Loan Receivable	58,023	-	-
	<u>58,023</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 1,498,954</u>	<u>\$ 151,223</u>	<u>\$ 201,206</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 975	\$ 10,170	\$ -
Contracts Payable	-	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	31,916	-	-
Deferred Revenue	114,379	11,765	162,326
Total Liabilities	<u>147,270</u>	<u>21,935</u>	<u>162,326</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	-	817	38,880
Committed	112,000	-	-
Assigned	-	128,471	-
Unassigned	1,239,684	-	-
Total Fund Balances	<u>1,351,684</u>	<u>129,288</u>	<u>38,880</u>
Total Liabilities and Fund Balances	<u>\$ 1,498,954</u>	<u>\$ 151,223</u>	<u>\$ 201,206</u>

Capital Projects

<u>Public Works Reserve (401)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,225	\$ 777,085	\$ 2,249,357
-	25,000	25,000
10,447	-	66,892
-	-	162,238
107	638	4,076
908	1,174	4,471
-	-	40,226
414,383	1,083	477,150
-	42,596	100,619
<u>\$ 431,070</u>	<u>\$ 847,576</u>	<u>\$ 3,130,029</u>
\$ 43,926	\$ 465	\$ 55,536
23,865	-	23,865
-	40,226	40,226
-	46	46
-	11,313	43,229
10,447	67,681	366,598
<u>78,238</u>	<u>119,731</u>	<u>529,500</u>
-	25,000	25,000
57,903	31,776	129,376
-	-	112,000
294,929	726,564	1,149,964
-	(55,495)	1,184,189
<u>352,832</u>	<u>727,845</u>	<u>2,600,529</u>
<u>\$ 431,070</u>	<u>\$ 847,576</u>	<u>\$ 3,130,029</u>

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CITY OF SILVER BAY

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2011**

Total Fund Balances - Governmental Funds \$ 2,600,529

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	10,271,095
Less Accumulated Depreciation	(4,414,229)

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	(431,267)
Capital Lease Payable	(61,490)
Compensated Absences Payable	(169,413)

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	66,892
----------------	--------

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

Deferred Special Assessments	162,238
------------------------------	---------

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

(7,794)

Total Net Assets - Governmental Activities \$ 8,016,561

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011**

		<u>Special Revenue</u>	<u>Debt Service</u>
		Mary MacDonald Business Center	Debt Service
	<u>General (101)</u>	<u>(265)</u>	<u>(352)</u>
REVENUES			
General Property Taxes	\$ 489,640	\$ -	\$ 21
Special Assessments	-	-	32,399
Licenses and Permits	10,109	-	-
Intergovernmental	1,117,779	95,891	-
Charges for Services	52,399	147,565	-
Fines and Forfeitures	8,057	-	-
Miscellaneous:			
Investment Income	7,405	971	184
Contributions and Donations	2,326	-	-
Loan Repayments	17,021	-	-
Other	31,159	5,877	-
Total Revenues	<u>1,735,895</u>	<u>250,304</u>	<u>32,604</u>
EXPENDITURES			
Current			
General Government	439,134	-	-
Public Safety	587,363	-	-
Public Works	358,725	-	-
Culture and Recreation	19,216	105,022	-
Economic Development	-	-	-
Airport	-	-	-
Debt Service			
Principal	17,301	-	39,107
Interest and Other Charges	4,122	-	13,553
Capital Outlay			
General Government	41,089	-	-
Public Safety	39,833	-	-
Public Works	217,582	-	-
Culture and Recreation	-	103,555	-
Airport	-	-	-
Total Expenditures	<u>1,724,365</u>	<u>208,577</u>	<u>52,660</u>
Excess of Revenues Over (Under) Expenditures	11,530	41,727	(20,056)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	17,936	-	-
Bond Proceeds	167,000	-	-
Transfers In	87,297	-	24,322
Transfers Out	(232,825)	-	-
Total Other Financing Sources (Uses)	<u>39,408</u>	<u>-</u>	<u>24,322</u>
Net Change in Fund Balances	50,938	41,727	4,266
FUND BALANCES			
Beginning of Year	<u>1,300,746</u>	<u>87,561</u>	<u>34,614</u>
End of Year	<u>\$ 1,351,684</u>	<u>\$ 129,288</u>	<u>\$ 38,880</u>

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

Capital Projects

Public Works Reserve (401)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 134,876	\$ 97,000	\$ 721,537
-	-	32,399
-	-	10,109
454,425	223,692	1,891,787
-	185,294	385,258
-	-	8,057
4,061	4,213	16,834
-	44,885	47,211
-	5,452	22,473
587	22,700	60,323
<u>593,949</u>	<u>583,236</u>	<u>3,195,988</u>
-	-	439,134
-	-	587,363
-	-	358,725
-	745,569	869,807
157,268	299	157,567
-	40,306	40,306
-	-	56,408
-	-	17,675
-	-	41,089
-	-	39,833
496,533	-	714,115
-	66,881	170,436
-	7,645	7,645
<u>653,801</u>	<u>860,700</u>	<u>3,500,103</u>
(59,852)	(277,464)	(304,115)
-	1,992	19,928
-	-	167,000
1,412	251,794	364,825
<u>(132,000)</u>	<u>-</u>	<u>(364,825)</u>
<u>(130,588)</u>	<u>253,786</u>	<u>186,928</u>
(190,440)	(23,678)	(117,187)
<u>543,272</u>	<u>751,523</u>	<u>2,717,716</u>
<u>\$ 352,832</u>	<u>\$ 727,845</u>	<u>\$ 2,600,529</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, 2011**

Net Change in Fund Balances - Governmental Funds \$ (117,187)

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	1,173,809
Depreciation Expense	(356,678)
Loss on Disposal	(590)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (64,417)

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. 56,408

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. (167,000)

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. 107

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

Special Assessments Deferred	(23,175)
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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. 23,112

Change in Net Assets - Governmental Activities \$ 524,389

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2011**

	<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	\$ 485,470	\$ 488,820	\$ 489,640	\$ 820
Licenses and Permits	13,170	10,120	10,109	(11)
Intergovernmental	1,228,082	1,191,493	1,117,779	(73,714)
Charges for Services	36,825	49,865	52,399	2,534
Fines and Forfeitures	4,350	7,700	8,057	357
Miscellaneous:				
Investment Income	12,000	5,500	7,405	1,905
Contributions and Donations	700	2,315	2,326	11
Loan Repayments	17,021	17,021	17,021	-
Other	15,000	30,910	31,159	249
Total Revenues	<u>1,812,618</u>	<u>1,803,744</u>	<u>1,735,895</u>	<u>(67,849)</u>
EXPENDITURES				
Current				
General Government	474,565	443,025	439,134	(3,891)
Public Safety	587,540	590,300	587,363	(2,937)
Public Works	480,240	424,890	358,725	(66,165)
Culture and Recreation	18,875	18,825	19,216	391
Debt Service				
Principal	18,180	18,180	17,301	(879)
Interest and Other Charges	3,250	3,250	4,122	872
Capital Outlay				
General Government	1,000	41,100	41,089	(11)
Public Safety	10,150	39,900	39,833	(67)
Public Works	-	216,200	217,582	1,382
Total Expenditures	<u>1,593,800</u>	<u>1,795,670</u>	<u>1,724,365</u>	<u>(71,305)</u>
Excess of Revenues Over Expenditures	218,818	8,074	11,530	3,456
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	17,900	17,936	36
Bond Proceeds	-	167,000	167,000	-
Transfers In	-	85,750	87,297	1,547
Transfers Out	(268,418)	(232,825)	(232,825)	-
Total Other Financing Sources (Uses)	<u>(268,418)</u>	<u>37,825</u>	<u>39,408</u>	<u>1,583</u>
Net Change in Fund Balances	<u>\$ (49,600)</u>	<u>\$ 45,899</u>	50,938	<u>\$ 5,039</u>
FUND BALANCES				
Beginning of Year			<u>1,300,746</u>	
End of Year			<u>\$ 1,351,684</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 96,575	\$ 95,900	\$ 95,891	\$ (9)
Charges for Services	124,500	147,500	147,565	65
Miscellaneous:				
Investment Income	1,500	700	971	271
Other	-	5,800	5,877	77
Total Revenues	<u>222,575</u>	<u>249,900</u>	<u>250,304</u>	<u>404</u>
EXPENDITURES				
Current				
Park and Recreation	119,120	105,350	105,022	(328)
Capital Outlay				
Park and Recreation	<u>98,075</u>	<u>104,400</u>	<u>103,555</u>	<u>(845)</u>
Total Expenditures	<u>217,195</u>	<u>209,750</u>	<u>208,577</u>	<u>(1,173)</u>
Net Change in Fund Balances	<u>\$ 5,380</u>	<u>\$ 40,150</u>	41,727	<u>\$ 1,577</u>
FUND BALANCES				
Beginning of Year			<u>87,561</u>	
End of Year			<u>\$ 129,288</u>	

CITY OF SILVER BAY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2011

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments (Including Cash Equivalents)	\$ 344,780	\$ 727,565	\$ 370,150	\$ 1,442,495
Accounts Receivable	27,593	22,269	150	50,012
Interest Receivable	442	1,147	704	2,293
Due from Other Governments	1,318	1,256	-	2,574
Inventory	42,457	10,047	67,707	120,211
Prepaid Items	-	-	5,410	5,410
Total Current Assets	<u>416,590</u>	<u>762,284</u>	<u>444,121</u>	<u>1,622,995</u>
Noncurrent Assets				
Capital Assets:				
Land	18,568	5,000	13,895	37,463
Buildings and Building Improvements	2,703,549	3,670,062	1,280,328	7,653,939
Improvements Other than Buildings	122,702	246,326	31,297	400,325
Vehicles, Machinery and Equipment	230,305	349,342	42,612	622,259
Construction in Progress	-	5,609	-	5,609
Total Capital Assets	<u>3,075,124</u>	<u>4,276,339</u>	<u>1,368,132</u>	<u>8,719,595</u>
Less Accumulated Depreciation	<u>(1,444,436)</u>	<u>(2,082,515)</u>	<u>(441,166)</u>	<u>(3,968,117)</u>
Net Capital Assets	<u>1,630,688</u>	<u>2,193,824</u>	<u>926,966</u>	<u>4,751,478</u>
Total Assets	<u>\$ 2,047,278</u>	<u>\$ 2,956,108</u>	<u>\$ 1,371,087</u>	<u>\$ 6,374,473</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ 644	\$ 2,406	\$ 3,000	\$ 6,050
Due to Other Governments	5,468	-	6,508	11,976
Salaries and Benefits Payable	5,347	5,347	7,343	18,037
Interest Payable	6,122	5,281	2,247	13,650
Long-Term Liabilities Due Within One Year	76,634	117,472	68,761	262,867
Total Current Liabilities	<u>94,215</u>	<u>130,506</u>	<u>87,859</u>	<u>312,580</u>
Noncurrent Liabilities				
Compensated Absences	8,585	8,585	38,776	55,946
Notes Payable	876,000	615,403	-	1,491,403
Bonds Payable	-	-	317,201	317,201
Less Amount Due Within One Year	<u>(76,634)</u>	<u>(117,472)</u>	<u>(68,761)</u>	<u>(262,867)</u>
Total Noncurrent Liabilities	<u>807,951</u>	<u>506,516</u>	<u>287,216</u>	<u>1,601,683</u>
Total Liabilities	<u>902,166</u>	<u>637,022</u>	<u>375,075</u>	<u>1,914,263</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	754,688	1,578,421	609,765	2,942,874
Unrestricted	390,424	740,665	386,247	1,517,336
Total Net Assets	<u>1,145,112</u>	<u>2,319,086</u>	<u>996,012</u>	<u>4,460,210</u>
Total Liabilities and Net Assets	<u>\$ 2,047,278</u>	<u>\$ 2,956,108</u>	<u>\$ 1,371,087</u>	<u>\$ 6,374,473</u>

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

CITY OF SILVER BAY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2011**

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 893,898	\$ 893,898
Cost of Sales	-	-	541,300	541,300
Gross Profit	<u>-</u>	<u>-</u>	<u>352,598</u>	<u>352,598</u>
OPERATING REVENUES				
Charges for Services	795,414	550,023	-	1,345,437
Other Services	4,138	4,487	1,325	9,950
Game Machines	-	-	7,465	7,465
Total Operating Revenues	<u>799,552</u>	<u>554,510</u>	<u>8,790</u>	<u>1,362,852</u>
OPERATING EXPENSES				
Salaries and Benefits	237,891	247,710	270,289	755,890
Materials and Supplies	47,234	33,935	11,683	92,852
Professional Services	4,465	2,563	3,000	10,028
Contracted Services	23,617	29,702	-	53,319
Insurance	14,520	10,998	15,348	40,866
Utilities	85,531	40,275	15,933	141,739
Refuse Charges	157,758	715	1,263	159,736
Telephone	1,908	1,882	1,287	5,077
Depreciation	56,300	112,672	35,118	204,090
Promotion and Advertising	346	341	3,523	4,210
Licenses and Dues	1,684	1,755	2,042	5,481
Conferences and Schools	828	94	94	1,016
Miscellaneous Expenses	433	300	9,117	9,850
Total Operating Expenses	<u>632,515</u>	<u>482,942</u>	<u>368,697</u>	<u>1,484,154</u>
Operating Income (Loss)	167,037	71,568	(7,309)	231,296
NONOPERATING REVENUES (EXPENSES)				
Investment Income	1,657	4,194	2,508	8,359
Gain on Sale of Asset	1,200	-	-	1,200
Miscellaneous Revenue	622	601	-	1,223
Interest Expense	<u>(17,879)</u>	<u>(13,625)</u>	<u>(15,099)</u>	<u>(46,603)</u>
Total Nonoperating Revenues (Expenses)	<u>(14,400)</u>	<u>(8,830)</u>	<u>(12,591)</u>	<u>(35,821)</u>
Change in Net Assets	152,637	62,738	(19,900)	195,475
NET ASSETS				
Beginning of Year	<u>992,475</u>	<u>2,256,348</u>	<u>1,015,912</u>	<u>4,264,735</u>
End of Year	<u>\$ 1,145,112</u>	<u>\$ 2,319,086</u>	<u>\$ 996,012</u>	<u>\$ 4,460,210</u>

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

CITY OF SILVER BAY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	<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	\$ 792,407	\$ 551,028	\$ 903,173	\$ 2,246,608
Payments to Suppliers	(336,547)	(120,876)	(604,600)	(1,062,023)
Payments to Employees	(234,144)	(243,963)	(252,610)	(730,717)
Net Cash Flows - Operating Activities	<u>221,716</u>	<u>186,189</u>	<u>45,963</u>	<u>453,868</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Revenue	622	601	-	1,223
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Note Proceeds	-	203,800	-	203,800
Principal Paid on Debt	(70,000)	(84,635)	(45,882)	(200,517)
Interest Paid on Debt	(18,411)	(13,402)	(15,431)	(47,244)
Proceeds from Disposal of Capital Assets	1,200	-	-	1,200
Acquisition of Capital Assets	-	(148,996)	-	(148,996)
Net Cash Flows - Capital and Related Financing Activities	<u>(87,211)</u>	<u>(43,233)</u>	<u>(61,313)</u>	<u>(191,757)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>1,892</u>	<u>5,072</u>	<u>3,185</u>	<u>10,149</u>
Net Change in Cash and Cash Equivalents	137,019	148,629	(12,165)	273,483
CASH AND CASH EQUIVALENTS				
Beginning of Year	<u>207,761</u>	<u>578,936</u>	<u>382,315</u>	<u>1,169,012</u>
End of Year	<u>\$ 344,780</u>	<u>\$ 727,565</u>	<u>\$ 370,150</u>	<u>\$ 1,442,495</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 167,037	\$ 71,568	\$ (7,309)	\$ 231,296
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	56,300	112,672	35,118	204,090
Accounts Receivable	(6,889)	(3,255)	485	(9,659)
Due from Other Governments	(256)	(227)	-	(483)
Prepaid Items	-	-	(1,221)	(1,221)
Inventory	1,076	275	1,583	2,934
Accounts Payable	644	1,409	160	2,213
Due to Other Governmental Units	57	-	(532)	(475)
Salaries Payable	35	35	641	711
Compensated Absences Payable	3,712	3,712	17,038	24,462
Total Adjustments	<u>54,679</u>	<u>114,621</u>	<u>53,272</u>	<u>222,572</u>
Net Cash Flows - Operating Activities	<u>\$ 221,716</u>	<u>\$ 186,189</u>	<u>\$ 45,963</u>	<u>\$ 453,868</u>

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

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CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

1. Blended Component Unit

The Silver Bay Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Silver Bay EDA is reported as if it were part of the primary government because members of its governing body are appointed by the governing body of the primary government and it provides services exclusively for the City.

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, 2011

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, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

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

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

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

Public Works Reserve 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, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to first use committed resources, then assigned and the unassigned 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, 2011 were comprised of deposits, including certificates of deposit at a commercial bank and a federal credit union, brokered certificates of deposit and shares in the Minnesota Municipal Money Market (4M Fund). The City has formal policies in place specifically to address the following risks related to deposits and investments.

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

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, 2011**

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, 2011

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

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

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

6. Employment Health Benefits

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. Employees who started at the City after January 1, 2011 are not eligible for this benefit.

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.

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

7. Long-Term Obligations (Continued)

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

A. Classification

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

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Fund Equity (Continued)

B. Minimum Fund Balance

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

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 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.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

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.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the following Funds:

	<u>Expenditures</u>	<u>Appropriations</u>
Major Fund:		
Public Works Reserve	\$ 653,801	\$ 560,350
Nonmajor Fund:		
Arena	182,936	180,275

C. Deficit Fund Balances

The following Funds had deficit fund balances at December 31, 2011:

Special Revenue:		
Airport		\$ 40,133
Marina		15,362

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, 2011, the City's bank balance was not exposed to custodial credit risk because it was insured through FDIC and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

CITY OF SILVER BAY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

As of December 31, 2011, the City had the following deposits:

Cash and Cash Equivalents	\$ 1,623,454
Certificates of Deposit	<u>1,300,000</u>
Total Deposits	<u><u>\$ 2,923,454</u></u>

B. Investments

As of December 31, 2011, 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	\$ 182,998	23.37%	MM
Harris NA, Illinois	04/23/12	100,000	12.77%	CD
Bank of China, New York	06/22/12	100,000	12.77%	CD
Orrstown Bank, Pennsylvania	04/13/12	100,000	12.78%	CD
State Bank of India, Illinois	08/13/12	100,000	12.77%	CD
Collin Bank, Texas	05/21/12	100,000	12.77%	CD
State Bank of India, Illinois	11/23/12	<u>100,000</u>	<u>12.77%</u>	CD
Total		<u><u>\$ 782,998</u></u>	<u><u>100.00%</u></u>	

Credit Risk: As of December 31, 2011, 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, 2011.

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 2,923,454
Petty Cash	10,400
Investments	<u>782,998</u>
Total Deposits and Investments	<u><u>\$ 3,716,852</u></u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Deposits and investments are presented in the December 31, 2011 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 3,691,852
Cash with Fiscal Agent	<u>25,000</u>
 Total	 <u><u>\$ 3,716,852</u></u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 905,793	\$ -	\$ -	\$ 905,793
Construction in Progress	<u>-</u>	<u>729,061</u>	<u>-</u>	<u>729,061</u>
Total Capital Assets not being Depreciated	<u>905,793</u>	<u>729,061</u>	<u>-</u>	<u>1,634,854</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	3,454,990	113,084	-	3,568,074
Improvements Other than Buildings	2,989,607	37,116	11,800	3,014,923
Vehicles, Machinery and Equipment	<u>1,895,630</u>	<u>294,548</u>	<u>136,934</u>	<u>2,053,244</u>
Total Capital Assets being Depreciated	<u>8,340,227</u>	<u>444,748</u>	<u>148,734</u>	<u>8,636,241</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	1,524,845	105,149	-	1,629,994
Improvements Other than Buildings	1,301,554	141,460	11,210	1,431,804
Vehicles, Machinery and Equipment	<u>1,379,296</u>	<u>110,069</u>	<u>136,934</u>	<u>1,352,431</u>
Total Accumulated Depreciation	<u>4,205,695</u>	<u>356,678</u>	<u>148,144</u>	<u>4,414,229</u>
 Total Capital Assets being Depreciated, Net	 <u>4,134,532</u>	 <u>88,070</u>	 <u>590</u>	 <u>4,222,012</u>
 Governmental Activities Capital Assets, Net	 <u><u>\$ 5,040,325</u></u>	 <u><u>\$ 817,131</u></u>	 <u><u>\$ 590</u></u>	 <u><u>\$ 5,856,866</u></u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Construction in Progress	-	5,609	-	5,609
Total Capital Assets not being Depreciated	<u>37,463</u>	<u>5,609</u>	<u>-</u>	<u>43,072</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	7,510,552	143,387	-	7,653,939
Improvements Other than Buildings	400,325	-	-	400,325
Vehicles, Machinery and Equipment	620,756	16,200	14,697	622,259
Total Capital Assets being Depreciated	<u>8,531,633</u>	<u>159,587</u>	<u>14,697</u>	<u>8,676,523</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	3,156,674	173,169	-	3,329,843
Improvements Other than Buildings	102,576	8,425	-	111,001
Vehicles, Machinery and Equipment	503,274	38,696	14,697	527,273
Total Accumulated Depreciation	<u>3,762,524</u>	<u>220,290</u>	<u>14,697</u>	<u>3,968,117</u>
Total Capital Assets being Depreciated, Net	<u>4,769,109</u>	<u>(60,703)</u>	<u>-</u>	<u>4,708,406</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,806,572</u>	<u>\$ (55,094)</u>	<u>\$ -</u>	<u>\$ 4,751,478</u>

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

Governmental Activities:	
General Government	\$ 45,982
Public Safety	29,362
Public Works	49,883
Culture and Recreation	124,397
Airport	<u>107,054</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 356,678</u>
Business-Type Activities:	
Water	\$ 56,300
Sewer	112,672
Municipal Liquor Dispensary	<u>35,118</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 204,090</u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2011 was as follows:

	<u>Amounts Due to Other Funds</u> <u>Nonmajor Governmental Funds</u>
Amounts Due from Other Funds:	
General Fund	<u>\$ 40,226</u>

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

B. Transfers

The composition of interfund transfers as of December 31, 2011 was as follows:

	<u>Transfers In</u>				
	<u>General Fund</u>	<u>Debt Service</u>	<u>Public Works Reserve</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Transfers Out:					
General Fund	\$ -	\$ -	\$ 1,412	\$ 231,413	\$ 232,825
Public Works Reserve	<u>87,297</u>	<u>24,322</u>	<u>-</u>	<u>20,381</u>	<u>132,000</u>
Total	<u>\$ 87,297</u>	<u>\$ 24,322</u>	<u>\$ 1,412</u>	<u>\$ 251,794</u>	<u>\$ 364,825</u>

The purpose of the above transfers was to assist with operating costs, capital purchases and debt service payments.

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

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	\$ 175,458	\$ 19,804
G.O. Equipment Certificate 2010	04/30/10	3.75%	109,042	04/30/15	88,809	20,992
G.O. Equipment Certificate 2011	11/01/11	3.75%	167,000	12/01/17	<u>167,000</u>	<u>24,821</u>
Total G.O. Bonds					<u>431,267</u>	<u>65,617</u>
Capital Lease Obligations					61,490	18,398
Compensated Absences					<u>169,413</u>	<u>82,426</u>
Total Governmental Activities					662,170	166,441
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	411,603	87,038
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	273,000	36,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	603,000	36,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	317,201	47,832
G.O. Sewer Revenue Note Series 2011A	10/17/11	2.60%	203,800	10/17/18	<u>203,800</u>	<u>25,800</u>
Total G.O. Revenue Notes/ Bonds					1,808,604	232,670
Compensated Absences					<u>55,946</u>	<u>30,197</u>
Total Business-Type Activities					<u>1,864,550</u>	<u>262,867</u>
Total all Long-Term Liabilities					<u>\$ 2,526,720</u>	<u>\$ 429,308</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, 2011

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Improvement Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	24,134	4,204	28,338
2017-2019	65,830	5,015	70,845
Total	<u>\$ 175,458</u>	<u>\$ 37,077</u>	<u>\$ 212,535</u>

<u>Year Ending December 31,</u>	<u>Equipment Certificates</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2012	\$ 45,813	\$ 10,108
2013	48,046	7,875	55,921
2014	49,847	6,073	55,920
2015	51,716	4,204	55,920
2016	29,334	2,264	31,598
2017	31,053	1,164	32,217
Total	<u>\$ 255,809</u>	<u>\$ 31,688</u>	<u>\$ 287,497</u>

<u>Year Ending December 31,</u>	<u>Business-Type Activities</u>		
	<u>Revenue Notes/Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	232,670	46,550	\$ 279,220
2013	240,375	39,843	280,218
2014	247,036	32,913	279,949
2015	255,860	25,765	281,625
2016	212,833	18,368	231,201
2017-2021	401,830	35,640	437,470
2022-2026	218,000	10,907	228,907
Total	<u>\$ 1,808,604</u>	<u>\$ 209,986</u>	<u>\$ 2,018,590</u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011 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	\$ 194,332	\$ -	\$ 18,874	\$ 175,458	\$ 19,804
G.O. Equipment Certificates	109,042	167,000	20,233	255,809	45,813
Capital Lease Obligations	78,791	-	17,301	61,490	18,398
Compensated Absences	<u>104,996</u>	<u>142,005</u>	<u>77,588</u>	<u>169,413</u>	<u>82,426</u>
Total Governmental Activities	487,161	309,005	133,996	662,170	166,441
Business-Type Activities:					
Notes/Bonds Payable:					
G.O. Revenue Notes	1,442,238	203,800	154,635	1,491,403	184,838
Revenue Bonds	363,083	-	45,882	317,201	47,832
Compensated Absences	<u>31,484</u>	<u>66,643</u>	<u>42,181</u>	<u>55,946</u>	<u>30,197</u>
Total Business-Type Activities	<u>1,836,805</u>	<u>270,443</u>	<u>242,698</u>	<u>1,864,550</u>	<u>262,867</u>
Total Long-Term Liabilities	<u>\$ 2,323,966</u>	<u>\$ 579,448</u>	<u>\$ 376,694</u>	<u>\$ 2,526,720</u>	<u>\$ 429,308</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>	
2012	\$ 21,422
2013	21,422
2014	<u>24,480</u>
Net Minimum Lease Payments	67,324
Less Amount Representing Interest	<u>(5,834)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 61,490</u>

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 7 – FUND BALANCES/NET ASSETS

A. Fund Equity

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

	General	Mary MacDonald Business Center	Public Works Reserve	Debt Service	Nonmajor Governmental Fund	Total
Nonspendable:						
Minnesota Community Capital Fund	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000
Restricted:						
Legislative Funding-Rehabilitation	-	817	-	-	-	817
Legislative Funding-Biofuel/Food Greenhouse Project	-	-	57,903	-	-	57,903
Library-Technology Grant	-	-	-	-	11,197	11,197
Library-Memorial Donation	-	-	-	-	18,281	18,281
Cemetery-Perpetual Care	-	-	-	-	2,298	2,298
Debt Service	-	-	-	38,880	-	38,880
Committed:						
Fire Truck	112,000	-	-	-	-	112,000
Assigned:						
Mary MacDonald Business Center	-	128,471	-	-	-	128,471
Library	-	-	-	-	16,954	16,954
Cemetery	-	-	-	-	18,203	18,203
Arena	-	-	-	-	14,545	14,545
Park and Recreation	-	-	-	-	89,200	89,200
Community Building	-	-	-	-	1,347	1,347
Biofuel/Food Greenhouse Project	-	-	-	-	145,057	145,057
Economic Development	-	-	-	-	229,222	229,222
Community Business Partnership	-	-	-	-	103,144	103,144
Storefront Renovation	-	-	-	-	108,892	108,892
Taconite Reserve/Sidewalk Replacement/Special Projects	-	-	294,929	-	-	294,929
Unassigned	<u>1,239,684</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,495)</u>	<u>1,184,189</u>
Total	<u>\$ 1,351,684</u>	<u>\$ 129,288</u>	<u>\$ 352,832</u>	<u>\$ 38,880</u>	<u>\$ 727,845</u>	<u>\$ 2,600,529</u>

B. Net Assets

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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 2011 is estimated to be immaterial based on workers' compensation rates and salaries for the year. At December 31, 2011, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – JOINT POWERS AGREEMENT

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

The County has agreed to pay the City the sum of \$ 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 the County shall provide fire and extended coverage insurance for buildings and grounds.

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

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

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

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.

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

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

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

CITY OF SILVER BAY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. In 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$ 75,741, \$ 70,570 and \$ 66,732, respectively. The City's contributions to PEPFF for the years ending December 31, 2011, 2010 and 2009 were \$ 47,163, \$ 45,667 and \$ 44,365, 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 \$ 1,100 per year of service. The Association's Board of Trustees has the authority to establish and amend benefit provisions. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor.

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

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

**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 23, 2010

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>
12/31/11	\$ -	\$ -	100%	\$ 12,608	100%
12/31/10	-	-	100%	11,750	100%
12/31/09	-	-	100%	10,888	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>
12/31/11	\$ 424,620	\$ 391,754	\$ 32,866	108%	N/A	N/A
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

CITY OF SILVER BAY

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

**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 \$ 12,608 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2011.

NOTE 12 – COMMITMENTS

The City has entered into contracts with the following contractors for construction of a Biofuel/Greenhouse Facility:

Contractor	Contract	Remaining Commitment
Ray Riihiluoma, Inc.	\$ 684,399	\$ 445,747
University of Minnesota - Duluth	160,000	80,000
Lakeside Masonry	104,646	14,246
Cedar Tree Enterprises	87,000	6,100
LHB	103,676	22,969

NOTE 13 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 27, 2012, the date which the financial statements were available to be issued.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This action resulted in a reclassification of fund balances on the governmental fund statements to correspond with the new fund naming structure required by this statement.

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SUPPLEMENTARY INFORMATION

CITY OF SILVER BAY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2011

	Special Revenue			
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)
ASSETS				
Cash and Investments	\$ 51,914	\$ 20,462	\$ 20,359	\$ 94,530
Cash with Fiscal Agent	-	-	-	-
Accounts Receivable	-	-	573	65
Interest Receivable	(20)	39	(31)	114
Due from Other Governments	-	-	-	-
Loan Receivable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 51,894</u>	<u>\$ 20,501</u>	<u>\$ 20,901</u>	<u>\$ 94,709</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 465	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	5	-	35	-
Salaries and Benefits Payable	4,992	-	6,321	-
Deferred Revenue	-	-	-	5,509
Total Liabilities	<u>5,462</u>	<u>-</u>	<u>6,356</u>	<u>5,509</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	29,478	2,298	-	-
Assigned	16,954	18,203	14,545	89,200
Unassigned	-	-	-	-
Total Fund Balances	<u>46,432</u>	<u>20,501</u>	<u>14,545</u>	<u>89,200</u>
Total Liabilities and Fund Balances	<u>\$ 51,894</u>	<u>\$ 20,501</u>	<u>\$ 20,901</u>	<u>\$ 94,709</u>

Special Revenue

Community Building (261)	Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Nonmajor Governmental Funds
\$ 1,348	\$ 373,526	\$ 102,948	\$ 108,686	\$ 3,312	\$ -	\$ 777,085
-	25,000	-	-	-	-	25,000
-	-	-	-	-	-	638
(1)	753	196	206	8	(90)	1,174
-	-	-	-	900	183	1,083
-	32,722	-	9,874	-	-	42,596
<u>\$ 1,347</u>	<u>\$ 432,001</u>	<u>\$ 103,144</u>	<u>\$ 118,766</u>	<u>\$ 4,220</u>	<u>\$ 93</u>	<u>\$ 847,576</u>
\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ 465
-	-	-	-	-	40,226	40,226
-	-	-	-	6	-	46
-	-	-	-	-	-	11,313
-	32,722	-	9,874	19,576	-	67,681
<u>-</u>	<u>32,722</u>	<u>-</u>	<u>9,874</u>	<u>19,582</u>	<u>40,226</u>	<u>119,731</u>
-	25,000	-	-	-	-	25,000
-	-	-	-	-	-	31,776
1,347	374,279	103,144	108,892	-	-	726,564
-	-	-	-	(15,362)	(40,133)	(55,495)
<u>1,347</u>	<u>399,279</u>	<u>103,144</u>	<u>108,892</u>	<u>(15,362)</u>	<u>(40,133)</u>	<u>727,845</u>
<u>\$ 1,347</u>	<u>\$ 432,001</u>	<u>\$ 103,144</u>	<u>\$ 118,766</u>	<u>\$ 4,220</u>	<u>\$ 93</u>	<u>\$ 847,576</u>

CITY OF SILVER BAY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011**

	Special Revenue			
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)
REVENUES				
General Property Taxes	\$ 97,000	\$ -	\$ -	\$ -
Intergovernmental	37,300	-	84,913	43,822
Charges for Services	3,727	1,130	17,573	21,958
Miscellaneous:				
Investment Income	(176)	143	(183)	411
Contributions and Donations	16,385	-	-	28,000
Loan Repayments	-	-	-	-
Other	4,132	-	8,084	3,339
Total Revenues	<u>158,368</u>	<u>1,273</u>	<u>110,387</u>	<u>97,530</u>
EXPENDITURES				
Current				
Culture and Recreation	222,782	2,053	182,360	162,258
Economic Development	-	-	-	-
Airport	-	-	-	-
Capital Outlay				
Culture and Recreation	1,947	-	576	63,835
Airport	-	-	-	-
Total Expenditures	<u>224,729</u>	<u>2,053</u>	<u>182,936</u>	<u>226,093</u>
Excess of Revenues Over (Under) Expenditures	(66,361)	(780)	(72,549)	(128,563)
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Asset	-	-	-	1,992
Transfers In	64,876	1,050	57,925	117,275
Total Other Financing Sources	<u>64,876</u>	<u>1,050</u>	<u>57,925</u>	<u>119,267</u>
Net Change in Fund Balances	(1,485)	270	(14,624)	(9,296)
FUND BALANCES				
Beginning of Year	<u>47,917</u>	<u>20,231</u>	<u>29,169</u>	<u>98,496</u>
End of Year	<u>\$ 46,432</u>	<u>\$ 20,501</u>	<u>\$ 14,545</u>	<u>\$ 89,200</u>

Special Revenue

Community Building (261)	Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,000
-	-	-	-	35,900	21,757	223,692
10,350	-	-	-	113,329	17,227	185,294
(6)	2,840	717	722	39	(294)	4,213
-	-	-	-	500	-	44,885
-	3,605	-	1,847	-	-	5,452
691	-	-	-	4,531	1,923	22,700
<u>11,035</u>	<u>6,445</u>	<u>717</u>	<u>2,569</u>	<u>154,299</u>	<u>40,613</u>	<u>583,236</u>
14,021	-	-	-	162,095	-	745,569
-	299	-	-	-	-	299
-	-	-	-	-	40,306	40,306
-	-	-	-	523	-	66,881
-	-	-	-	-	7,645	7,645
<u>14,021</u>	<u>299</u>	<u>-</u>	<u>-</u>	<u>162,618</u>	<u>47,951</u>	<u>860,700</u>
(2,986)	6,146	717	2,569	(8,319)	(7,338)	(277,464)
-	-	-	-	-	-	1,992
3,175	-	-	-	-	7,493	251,794
<u>3,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,493</u>	<u>253,786</u>
189	6,146	717	2,569	(8,319)	155	(23,678)
1,158	393,133	102,427	106,323	(7,043)	(40,288)	751,523
<u>\$ 1,347</u>	<u>\$ 399,279</u>	<u>\$ 103,144</u>	<u>\$ 108,892</u>	<u>\$ (15,362)</u>	<u>\$ (40,133)</u>	<u>\$ 727,845</u>

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2011**

	<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	\$ 485,470	\$ 488,820	\$ 489,640	\$ 820
Licenses and Permits	13,170	10,120	10,109	(11)
Intergovernmental Revenue:				
Local Government Aid	474,424	450,000	450,020	20
Market Value Credit	109,170	109,170	51,232	(57,938)
PERA Aid	4,383	4,383	4,383	-
Taconite Homestead Credit	127,205	127,205	111,295	(15,910)
Taconite Production Tax	450,000	430,100	430,121	21
Federal Grants and Aids	-	2,400	2,431	31
Other State Grants and Aids	47,000	52,645	52,703	58
Other County Grants	13,700	13,700	13,700	-
Other Grants and Aids	2,200	1,890	1,894	4
Total Intergovernmental Revenue	<u>1,228,082</u>	<u>1,191,493</u>	<u>1,117,779</u>	<u>(73,714)</u>
Charges for Services:				
Public Safety	36,025	48,730	51,061	2,331
Public Works	300	460	663	203
Park and Recreation	500	675	675	-
Total Charges for Services	<u>36,825</u>	<u>49,865</u>	<u>52,399</u>	<u>2,534</u>
Fines and Forfeitures	4,350	7,700	8,057	357
Miscellaneous Revenues:				
Investment Income	12,000	5,500	7,405	1,905
Contributions and Donations	700	2,315	2,326	11
Loan Repayments	17,021	17,021	17,021	-
Other	15,000	30,910	31,159	249
Total Miscellaneous Revenues	<u>44,721</u>	<u>55,746</u>	<u>57,911</u>	<u>2,165</u>
Total Revenues	<u>1,812,618</u>	<u>1,803,744</u>	<u>1,735,895</u>	<u>(67,849)</u>
EXPENDITURES				
General Government				
Mayor and Council:				
Current	29,875	27,650	27,456	(194)
Administrative and Finance:				
Current	289,740	279,990	276,817	(3,173)
Capital Outlay	1,000	-	-	-
Other General Government:				
Current	154,950	135,385	134,861	(524)
Capital Outlay	47,945	41,100	41,089	(11)
Total General Government	<u>475,565</u>	<u>484,125</u>	<u>480,223</u>	<u>(3,902)</u>
Public Safety				
Police:				
Current	502,665	524,800	522,235	(2,565)
Capital Outlay	31,000	31,000	30,954	(46)

CITY OF SILVER BAY

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
EXPENDITURES				
Public Safety (Continued)				
Fire:				
Current	\$ 72,125	\$ 56,720	\$ 56,459	\$ (261)
Capital Outlay	10,000	8,900	8,879	(21)
Other:				
Current	12,750	8,780	8,669	(111)
Capital Outlay	150	-	-	-
Total Public Safety	<u>597,690</u>	<u>630,200</u>	<u>627,196</u>	<u>(3,004)</u>
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers:				
Current	455,990	398,140	332,040	(66,100)
Capital Outlay	-	216,200	217,582	1,382
Street Lighting:				
Current	<u>24,250</u>	<u>26,750</u>	<u>26,685</u>	<u>(65)</u>
Total Public Works	<u>480,240</u>	<u>641,090</u>	<u>576,307</u>	<u>(64,783)</u>
Culture and Recreation				
Current	18,875	18,825	19,216	391
Debt Service				
Principal	18,180	18,180	17,301	(879)
Interest and Other Charges	<u>3,250</u>	<u>3,250</u>	<u>4,122</u>	<u>872</u>
Total Debt Service	<u>21,430</u>	<u>21,430</u>	<u>21,423</u>	<u>(7)</u>
Total Expenditures	<u>1,593,800</u>	<u>1,795,670</u>	<u>1,724,365</u>	<u>(71,305)</u>
Excess of Revenues Over Expenditures	218,818	8,074	11,530	3,456
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	17,900	17,936	36
Bond Proceeds	-	167,000	167,000	-
Transfers In	-	85,750	87,297	1,547
Transfers Out	<u>(268,418)</u>	<u>(232,825)</u>	<u>(232,825)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(268,418)</u>	<u>37,825</u>	<u>39,408</u>	<u>1,583</u>
Net Change in Fund Balances	<u>\$ (49,600)</u>	<u>\$ 45,899</u>	50,938	<u>\$ 5,039</u>
FUND BALANCES				
Beginning of Year			<u>1,300,746</u>	
End of Year			<u>\$ 1,351,684</u>	

CITY OF SILVER BAY

**ANALYSIS OF CHANGES IN FUND BALANCE -
PUBLIC WORKS RESERVE FUND
For the Year Ended December 31, 2011**

	<u>Business Park (903)</u>	<u>Taconite Revenue Losses (904)</u>	<u>Bell Circle Apartments (905)</u>
Balance - January 1, 2011	\$ (254,167)	\$ 368,812	\$ (148,460)
General Property Taxes	-	-	-
Intergovernmental Revenue	416,532	-	-
Investment Income	-	-	-
Miscellaneous Revenue	587	-	-
Transfers from Other Funds	<u>-</u>	<u>-</u>	<u>1,412</u>
Total Available	162,952	368,812	(147,048)
Expenditures	(653,525)	-	-
Transfers to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Balance - December 31, 2011	<u><u>\$ (490,573)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (147,048)</u></u>

Project Notes:

* Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$ 467,965, indicating approximately \$ 99,153 can be added to the reserve at December 31, 2011.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 244,251	\$ 332,836	\$ 543,272
106,015	28,861	134,876
29,831	8,062	454,425
4,061	-	4,061
-	-	587
-	-	1,412
384,158	369,759	1,138,633
(276)	-	(653,801)
(132,000)	-	(132,000)
<u>\$ 251,882</u>	<u>\$ 369,759</u>	<u>\$ 352,832</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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2012. 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

The management of the City is responsible for establishing and maintaining effective 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 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 February 27, 2012.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on 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
February 27, 2012



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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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2012.

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
February 27, 2012

CITY OF SILVER BAY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2011

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, 2011, 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 INTERNAL CONTROL
December 31, 2011

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.