

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

***Audited Financial Statements
For the Fiscal Year Ended December 31, 2009***

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

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

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

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2009**

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



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INDEPENDENT AUDITOR'S REPORT

March 30, 2010

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, 2009, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Mary MacDonald Business Center Special Revenue Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2010, 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.



The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

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, 2009. Please read it in conjunction with the City's basic financial statements following this section. Comparative information from 2008 has been included as required.

FINANCIAL HIGHLIGHTS

- The net assets of the City were \$ 11,037,492 in 2008 and \$ 11,529,073 in 2009. Of these amounts, \$ 3,515,032 in 2008 and \$ 3,323,426 in 2009 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 \$ 905,560 in 2008; which the majority of this increase was due to the Municipal Liquor Store remodel and addition resulting in a capital asset increase. Other capital increases included the purchase of a new police vehicle, lighting at the tennis courts, lighting in the arena, contributed assets in the Water and Sewer Department from the John Fredrickson Addition and the Minnesota Department of Transportation State Garage Project and some equipment. In 2009, the total net assets increased by \$ 491,581. The majority of this increase was due to the Mary MacDonald Rehabilitation project resulting in a capital asset increase. Other capital increases included the purchase of two new golf course mowers, a copier for the administrative office, new flooring in the police department, a broom attachment for the bobcat, gas monitor for the fire department and a settlement agreement from the Mary MacDonald Center.
- The City's governmental funds reported a combined ending fund balance in the amount of \$ 2,402,234 for 2008 and \$ 2,207,654 for 2009.
- At the end of fiscal year 2008, unreserved fund balance for the General Fund was \$ 1,049,049, or 67.3%, of total General Fund expenditures of \$ 1,559,435. At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 1,226,579, or 72.7%, of total General Fund expenditures of \$ 1,687,649.

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
Lake County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

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, 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
Lake County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

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 2008	Business-Type Activities 2008	Total 2008	Governmental Activities 2009	Business-Type Activities 2009	Total 2009
Current and Other Assets	\$ 2,822,723	\$ 1,309,461	\$ 4,132,184	\$ 2,658,166	\$ 1,310,284	\$ 3,968,450
Capital Assets	4,536,507	5,212,613	9,749,120	5,264,018	4,993,942	10,257,960
Total Assets	\$ 7,359,230	\$ 6,522,074	\$ 13,881,304	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410
Current and Other Liabilities	\$ 260,832	\$ 316,911	\$ 577,743	\$ 330,689	\$ 289,760	\$ 620,449
Long-Term Liabilities	256,467	2,009,602	2,266,069	262,311	1,814,577	2,076,888
Total Liabilities	517,299	2,326,513	2,843,812	593,000	2,104,337	2,697,337
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,320,118	3,022,740	7,342,858	4,985,368	2,993,311	7,978,679
Restricted	236,535	-	236,535	226,968	-	226,968
Unrestricted	2,285,278	1,172,821	3,458,099	2,116,848	1,206,578	3,323,426
Total Net Assets	6,841,931	4,195,561	11,037,492	7,329,184	4,199,889	11,529,073
Total Liabilities and Net Assets	\$ 7,359,230	\$ 6,522,074	\$ 13,881,304	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410

GOVERNMENTAL ACTIVITIES

Total net assets of the City's governmental activities increased in 2008 by \$ 734,886, or 12.0%, and increased in 2009 by \$ 487,253, or 7.1%. This change was primarily due to the construction in progress activities for the Mary MacDonald Rehabilitation Project and the Airport Arrival/Departure Building Construction.

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 \$ 2,285,278 in 2008 and \$ 2,116,848 in 2009. This is a decrease of \$ 168,430, or 7.4%.

Current and other assets totaled \$ 2,822,723 in 2008 and \$ 2,658,166 in 2009. Cash in the General Fund increased by \$ 465 in 2008 and increased by \$ 205,844 in 2009. The City experienced an increase in total revenues and an increase in expenditures in the General Fund in 2009. The total increase in expenditures was \$ 128,214 from the previous year and revenues increased \$ 289,062 from the previous year.

Cash in the Public Works Reserve Fund increased by \$ 39,482 in 2008 and increased by \$ 72,305 in 2009. In 2009, tax levy revenues were received for sidewalk betterment and capital planning.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

BUSINESS-TYPE ACTIVITIES

The net assets of the City's business-type activities increased by \$170,674 in 2008 and increased by \$ 4,328 in 2009. The increase in 2008 was due to the increase in capital contributions from the John Fredrickson Addition project. 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
	2008	2008	2008	2009	2009	2009
REVENUES:						
Program Revenues:						
Charges for Services	\$ 402,946	\$ 1,913,852	\$ 2,316,798	\$ 400,554	\$ 1,959,358	\$ 2,359,912
Operating Grants and Contributions	275,385	-	275,385	280,278	-	280,278
Capital Grants and Contributions	902,691	130,989	1,033,680	642,193	24,797	666,990
General Revenues:						
Property Taxes	1,019,387	-	1,019,387	623,221	-	623,221
Property Sales	750	-	750	940	-	940
State Aids	722,453	-	722,453	1,264,787	-	1,264,787
Other	16,651	21,970	38,621	32,143	-	32,143
Interest	65,278	43,817	109,095	41,692	23,929	65,621
Total Revenues	\$ 3,405,541	\$ 2,110,628	\$ 5,516,169	\$ 3,285,808	\$ 2,008,084	\$ 5,293,892
EXPENSES:						
General Services	\$ 449,539	\$ -	\$ 449,539	\$ 446,665	\$ -	\$ 446,665
Public Safety	582,422	-	582,422	611,045	-	611,045
Public Works	543,166	-	543,166	609,375	-	609,375
Culture and Recreation	878,044	-	878,044	907,131	-	907,131
Economic Development	5,791	-	5,791	79,440	-	79,440
Airport	159,768	-	159,768	140,705	-	140,705
Interest on Long-Term Debt	6,238	-	6,238	11,844	-	11,844
Water Utility	-	648,069	648,069	-	632,393	632,393
Sewer Utility	-	500,406	500,406	-	486,712	486,712
Municipal Liquor	-	837,166	837,166	-	877,001	877,001
Total Expenses	2,624,968	1,985,641	4,610,609	2,806,205	1,996,106	4,802,311
Change in Net Assets before Transfers	780,573	124,987	905,560	479,603	11,978	491,581
Transfers	(45,687)	45,687	-	7,650	(7,650)	-
Change in Net Assets	734,886	170,674	905,560	487,253	4,328	491,581
NET ASSETS:						
Beginning of Year	6,107,045	4,024,887	10,131,932	6,841,931	4,195,561	11,037,492
End of Year	\$ 6,841,931	\$ 4,195,561	\$ 11,037,492	\$ 7,329,184	\$ 4,199,889	\$ 11,529,073

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

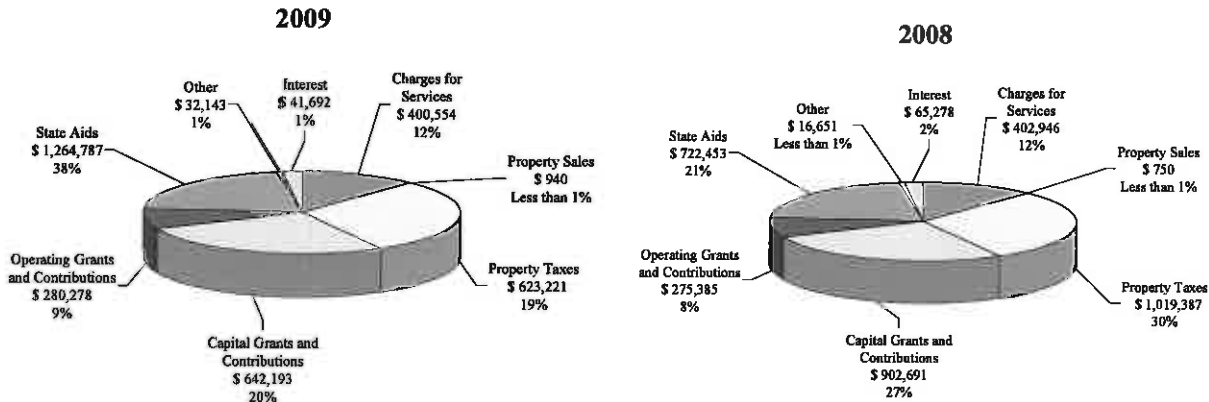
**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

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 \$ 3,405,541 for 2008 and \$ 3,285,808 for 2009. The major components of these revenues are explained as follows:

Charges for services revenue totaled \$ 402,946 in 2008 and \$ 400,554 in 2009 and were collected through the Marina Fund and various recreation programs.

Capital grants and contributions totaled \$ 902,691 in 2008 and \$ 642,193 in 2009 and were used to fund the Airport Arrival/Departure Building, Mary MacDonald Renovation Project and the Eco-Industrial Park.

The City's property tax and state aid revenues totaled \$ 1,741,840 and were 51% of the City's total revenue in 2008 and totaled \$ 1,888,008 and were 57% of the City's total revenue in 2009. 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 slightly in 2008 due to decreases in interest rates for City's investments. In 2009, interest significantly decreased due to interest rates falling throughout the year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

GOVERNMENTAL ACTIVITIES

Expenses

The City's expenses for governmental activities totaled \$ 2,624,968 for 2008 and \$ 2,806,205 for 2009 and were consistent with budgeted expectations.

BUSINESS-TYPE ACTIVITIES

Revenues

The City's business-type revenues totaled \$ 2,110,628 for 2008 and \$ 2,008,084 for 2009. The Municipal Liquor Fund generated operating revenues of \$ 891,965 in 2008 and \$ 926,364 in 2009. Water revenues increased while sewer revenues decreased. Water and sewer revenues were affected from the shutdown of the mining company and the loss in interest income; however, water revenues increased due to grant funds received and an increase in rates.

Expenses

Business-type expenses totaled \$ 1,985,641 for 2008 and \$ 1,996,106 for 2009. The municipal liquor operating expenses increased at a rate of 5.0% for 2008 while the operating revenues increased by 0.4%. In 2009, the operating expenses increased at a rate of 4.8% while the operating revenues increased by 3.9%. As a result, operating profits were \$ 69,898 in 2008 and \$ 68,159 in 2009. Expenses in the Water Utility Fund increased in 2008 to \$ 648,069 and in 2009 decreased to \$ 632,393. Sewer expenses for 2008 were \$ 500,406, while 2009 expenses decreased to \$ 486,712.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The City's 2008 General Fund balance increased by \$ 24,909. The City's General Fund balance increased by \$ 177,530 in 2009.

Mary MacDonald Fund

The decrease in the Mary MacDonald Fund balance in the amount of \$ 560,262 was due to funds received in 2008 through the taconite production tax and Lake County for the renovation project of the building being expended in 2009.

Debt Service Fund

The \$ 15,686 increase in this Fund's balance was due to special assessment income.

CITY OF SILVER BAY
Lake County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

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 2008, the City had \$ 9,749,120 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 2009, the City had \$ 10,257,960 invested in a broad range of capital assets. The City's fiscal year 2010 capital budget calls for continued spending for capital projects, including infrastructure, building renovations and future investments in technology and equipment.

LONG-TERM DEBT

At 2008 year-end, the City had \$ 2,463,195 in notes and leases outstanding. In 2008, the City received a G.O. Bond for the John Fredrickson Addition which extended Marks Drive and a G.O. Revenue Bond for the Municipal Liquor Store improvements. At 2009 year-end, the City had \$ 2,279,281 in notes and leases outstanding. The majority, \$ 1,593,536, is related to utility loans from the State of Minnesota PFA Fund for capital improvements in the Water and Sewer Funds (refer to Note 6 for further information).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal-year 2010 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 2010 budget was to prepare a balanced budget based upon historical trends, known future expectations, and estimated increases/decreases due to trends in the economy. The budget was prepared and analyzed by individual object codes.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF SILVER BAY
Lake County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 2,211,494	\$ 1,113,790	\$ 3,325,284
Property Tax Receivable	32,314	-	32,314
Accounts Receivable	3,935	62,700	66,635
Interest Receivable	6,203	3,591	9,794
Due from Other Governments	116,705	1,629	118,334
Loan Receivable	78,935	-	78,935
Special Assessments Receivable	208,580	-	208,580
Inventories	-	123,638	123,638
Prepaid Expenses	-	4,936	4,936
Capital Assets not being Depreciated:			
Land	964,493	37,463	1,001,956
Construction in Progress	1,024,959	-	1,024,959
Capital Assets being Depreciated:			
Buildings and Building Improvements	2,428,174	7,510,552	9,938,726
Improvements Other than Buildings	2,988,507	400,325	3,388,832
Vehicles, Machinery and Equipment	1,849,508	610,453	2,459,961
Less Accumulated Depreciation	(3,991,623)	(3,564,851)	(7,556,474)
Total Assets	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts Payable	\$ 49,389	\$ 29,933	\$ 79,322
Contracts Payable	10,659	-	10,659
Due to Other Governments	409	12,511	12,920
Salaries and Benefits Payable	41,925	15,751	57,676
Interest Payable	5,918	15,965	21,883
Unearned Revenue	107,236	-	107,236
Bond Principal Payable:			
Payable Within One Year	17,966	44,011	61,977
Payable After One Year	194,332	363,084	557,416
Notes Payable:			
Payable Within One Year	-	151,298	151,298
Payable After One Year	-	1,442,238	1,442,238
Capital Lease Payable:			
Payable Within One Year	25,980	-	25,980
Payable After One Year	40,372	-	40,372
Compensated Absences Payable:			
Payable Within One Year	71,207	20,291	91,498
Payable After One Year	27,607	9,255	36,862
Total Liabilities	593,000	2,104,337	2,697,337
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,985,368	2,993,311	7,978,679
Restricted for:			
Debt Service	226,968	-	226,968
Unrestricted	2,116,848	1,206,578	3,323,426
Total Net Assets	7,329,184	4,199,889	11,529,073
Total Liabilities and Net Assets	\$ 7,922,184	\$ 6,304,226	\$ 14,226,410

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

CITY OF SILVER BAY
Lake County, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 446,665	\$ -	\$ 1,136	\$ 2,350	\$ (443,179)	\$ -	\$ (443,179)
Public Safety	611,045	74,354	55,863	20,984	(459,844)	-	(459,844)
Public Works	609,375	509	13,700	181,428	(413,738)	-	(413,738)
Culture and Recreation	907,131	304,068	187,802	123,558	(291,703)	-	(291,703)
Economic Development	79,440	9,086	20	74,171	3,837	-	3,837
Airport	140,705	12,537	21,757	239,702	133,291	-	133,291
Interest on Long-Term Debt	11,844	-	-	-	(11,844)	-	(11,844)
Total Governmental Activities	2,806,205	400,554	280,278	642,193	(1,483,180)	-	(1,483,180)
Business-Type Activities:							
Water	632,393	598,579	-	24,528	-	(9,286)	(9,286)
Sewer	486,712	434,415	-	269	-	(52,028)	(52,028)
Municipal Liquor	877,001	926,364	-	-	-	49,363	49,363
Total Business-Type Activities	1,996,106	1,959,358	-	24,797	-	(11,951)	(11,951)
Total Governmental and Business-Type Activities	\$ 4,802,311	\$ 2,359,912	\$ 280,278	\$ 666,990	(1,483,180)	(11,951)	(1,495,131)
General Revenues:							
Property and Taconite Taxes					623,221	-	623,221
State Aids					1,264,787	-	1,264,787
Unrestricted Investment Earnings					41,692	23,929	65,621
Other General Revenue					32,143	-	32,143
Gain on Sale of Asset					940	-	940
Transfers					7,650	(7,650)	-
Total General Revenues and Transfers					1,970,433	16,279	1,986,712
Change in Net Assets					487,253	4,328	491,581
Net Assets - Beginning					6,841,931	4,195,561	11,037,492
Net Assets - Ending					\$ 7,329,184	\$ 4,199,889	\$ 11,529,073

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

CITY OF SILVER BAY
Lake County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2009

		<u>Special Revenue</u>	<u>Debt Service</u>		
	General (101)	Mary MacDonald Business Center (265)	Debt Service (352)	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Investments	\$ 1,158,549	\$ 49,541	\$ 24,133	\$ 979,271	\$ 2,211,494
Taxes Receivable - Delinquent	29,216	-	136	2,962	32,314
Special Assessment Receivable - Deferred	-	-	208,580	-	208,580
Accounts Receivable	412	2,830	-	693	3,935
Interest Receivable	2,993	1,129	32	2,049	6,203
Due from Other Funds	45,557	-	-	-	45,557
Due from Other Governments	53,908	-	5	62,792	116,705
Loan Receivable	41,665	-	-	37,270	78,935
	<u>\$ 1,332,300</u>	<u>\$ 53,500</u>	<u>\$ 232,886</u>	<u>\$ 1,085,037</u>	<u>\$ 2,703,723</u>
Total Assets					
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 1,681	\$ 8,451	-	\$ 39,257	\$ 49,389
Contracts Payable	-	-	-	10,659	10,659
Due to Other Funds	-	-	-	45,557	45,557
Due to Other Governments	364	-	-	45	409
Salaries and Benefits Payable	32,795	-	-	9,130	41,925
Deferred Revenue	70,881	4,135	208,716	64,398	348,130
Total Liabilities	<u>105,721</u>	<u>12,586</u>	<u>208,716</u>	<u>169,046</u>	<u>496,069</u>
Fund Balances:					
Reserved:					
Special Revenue	-	1,932	-	2,118	4,050
Unreserved:					
General Fund - Designated	112,000	-	-	-	112,000
General Fund - Undesignated	1,114,579	-	-	-	1,114,579
Special Revenue Funds - Designated	-	-	-	627,853	627,853
Special Revenue Funds - Undesignated	-	38,982	-	68,473	107,455
Debt Service Funds - Designated	-	-	24,170	-	24,170
Capital Projects Funds - Designated	-	-	-	217,547	217,547
Total Fund Balances	<u>1,226,579</u>	<u>40,914</u>	<u>24,170</u>	<u>915,991</u>	<u>2,207,654</u>
	<u>\$ 1,332,300</u>	<u>\$ 53,500</u>	<u>\$ 232,886</u>	<u>\$ 1,085,037</u>	<u>\$ 2,703,723</u>
Total Liabilities and Fund Balances					

CITY OF SILVER BAY
Lake County, Minnesota

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2009

Total Fund Balances - Governmental Funds	\$ 2,207,654
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	9,255,641
Less Accumulated Depreciation	(3,991,623)
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	(212,298)
Capital Lease Payable	(66,352)
Compensated Absences Payable	(98,814)
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	32,314
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred Special Assessments	208,580
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.	
	<u>(5,918)</u>
Total Net Assets - Governmental Activities	<u>\$ 7,329,184</u>

CITY OF SILVER BAY
Lake County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2009

	General (101)	Special Revenue Mary MacDonald Business Center (265)	Debt Service Debt Service (352)	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
General Property Taxes	\$ 450,321	\$ -	\$ 70	\$ 175,975	\$ 626,366
Special Assessments	-	-	29,698	-	29,698
Licenses and Permits	30,548	-	-	-	30,548
Intergovernmental	1,493,936	120,000	-	509,744	2,123,680
Charges for Services	37,413	130,005	-	163,585	331,003
Fines and Forfeitures	6,902	-	-	-	6,902
Miscellaneous:					
Investment Income	20,816	7,455	87	13,334	41,692
Contributions and Donations	6,136	-	-	23,584	29,720
Loan Repayments	4,000	-	-	9,086	13,086
Other	16,720	2,070	-	57,353	76,143
Total Revenues	<u>2,066,792</u>	<u>259,530</u>	<u>29,855</u>	<u>952,661</u>	<u>3,308,838</u>
EXPENDITURES:					
Current:					
General Government	396,565	-	-	-	396,565
Public Safety	564,161	-	-	-	564,161
Public Works	520,644	-	-	938	521,582
Culture and Recreation	29,293	99,253	-	639,696	768,242
Economic Development	-	-	-	79,440	79,440
Airport	-	-	-	40,583	40,583
Debt Service:					
Principal	51,926	-	8,702	-	60,628
Interest and Other Charges	4,083	-	5,467	-	9,550
Capital Outlay:					
General Government	15,603	-	-	-	15,603
Public Safety	22,649	-	-	-	22,649
Public Works	4,580	-	-	2,212	6,792
Culture and Recreation	78,145	720,539	-	30,222	828,906
Airport	-	-	-	262,982	262,982
Total Expenditures	<u>1,687,649</u>	<u>819,792</u>	<u>14,169</u>	<u>1,056,073</u>	<u>3,577,683</u>
Excess of Revenues Over (Under) Expenditures	379,143	(560,262)	15,686	(103,412)	(268,845)
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Asset	940	-	-	-	940
Proceeds from Capital Lease	65,675	-	-	-	65,675
Transfers In	4,579	-	-	355,457	360,036
Transfers Out	(272,807)	-	-	(79,579)	(352,386)
Total Other Financing Sources (Uses)	<u>(201,613)</u>	<u>-</u>	<u>-</u>	<u>275,878</u>	<u>74,265</u>
Net Change in Fund Balances	177,530	(560,262)	15,686	172,466	(194,580)
FUND BALANCES:					
Beginning of Year	<u>1,049,049</u>	<u>601,176</u>	<u>8,484</u>	<u>743,525</u>	<u>2,402,234</u>
End of Year	<u>\$ 1,226,579</u>	<u>\$ 40,914</u>	<u>\$ 24,170</u>	<u>\$ 915,991</u>	<u>\$ 2,207,654</u>

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

CITY OF SILVER BAY
Lake County, Minnesota

**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, 2009**

Net Change in Fund Balances - Governmental Funds \$ (194,580)

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	1,078,616
Depreciation Expense	(353,455)
Donated Assets	2,350

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (12,017)

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. 60,347

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. (65,675)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (2,013)

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. (3,145)

Change in Net Assets - Governmental Activities \$ 487,253

CITY OF SILVER BAY
Lake County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
General Property Taxes	\$ 499,992	\$ 448,737	\$ 450,321	\$ 1,584
Licenses and Permits	10,820	30,215	30,548	333
Intergovernmental	1,281,355	1,508,523	1,493,936	(14,587)
Charges for Services	36,350	37,360	37,413	53
Fines and Forfeitures	2,425	6,885	6,902	17
Miscellaneous:				
Investment Income	25,000	17,800	20,816	3,016
Contributions and Donations	500	6,136	6,136	-
Loan Repayments	-	4,000	4,000	-
Other	8,500	16,614	16,720	106
Total Revenues	1,864,942	2,076,270	2,066,792	(9,478)
EXPENDITURES:				
Current:				
General Government	411,116	401,361	396,565	(4,796)
Public Safety	576,341	572,885	564,161	(8,724)
Public Works	487,971	526,655	520,644	(6,011)
Culture and Recreation	19,875	29,185	29,293	108
Debt Service:				
Principal	39,902	38,402	51,926	13,524
Interest and Other Charges	2,686	4,086	4,083	(3)
Capital Outlay:				
General Government	16,600	15,625	15,603	(22)
Public Safety	27,000	26,450	22,649	(3,801)
Public Works	-	4,580	4,580	-
Culture and Recreation	15,000	26,100	78,145	52,045
Total Expenditures	1,596,491	1,645,329	1,687,649	42,320
Excess of Revenues Over (Under) Expenditures	268,451	430,941	379,143	(51,798)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	-	940	940	-
Proceeds from Capital Lease	-	-	65,675	65,675
Transfers In	-	4,579	4,579	-
Transfers Out	(268,451)	(272,807)	(272,807)	-
Total Other Financing Sources (Uses)	(268,451)	(267,288)	(201,613)	65,675
Net Change in Fund Balances	\$ -	\$ 163,653	177,530	\$ 13,877
FUND BALANCES:				
Beginning of Year			1,049,049	
End of Year			\$ 1,226,579	

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

CITY OF SILVER BAY
Lake County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MARY MACDONALD BUSINESS CENTER
For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ 120,000	\$ 120,000	\$ -
Charges for Services	124,820	129,900	130,005	105
Miscellaneous:				
Investment Income	-	6,300	7,455	1,155
Other	-	2,040	2,070	30
Total Revenues	124,820	258,240	259,530	1,290
EXPENDITURES:				
Current:				
Park and Recreation	119,820	106,450	99,253	(7,197)
Capital Outlay:				
Park and Recreation	5,000	727,300	720,539	(6,761)
Total Expenditures	124,820	833,750	819,792	(13,958)
Net Change in Fund Balances	\$ -	\$ (575,510)	(560,262)	\$ 15,248
FUND BALANCES:				
Beginning of Year			601,176	
End of Year			\$ 40,914	

CITY OF SILVER BAY
Lake County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2009

	<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)	\$ 176,737	\$ 573,066	\$ 363,987	\$ 1,113,790
Accounts Receivable	31,399	31,301	-	62,700
Interest Receivable	563	1,767	1,261	3,591
Due from Other Governments	791	838	-	1,629
Inventories	44,737	10,332	68,569	123,638
Prepaid Expenses	-	-	4,936	4,936
Total Current Assets	<u>254,227</u>	<u>617,304</u>	<u>438,753</u>	<u>1,310,284</u>
Noncurrent Assets:				
Capital Assets:				
Land	18,568	5,000	13,895	37,463
Buildings and Building Improvements	2,703,549	3,526,675	1,280,328	7,510,552
Improvements Other than Buildings	122,702	246,326	31,297	400,325
Vehicles, Machinery and Equipment	219,552	349,342	41,559	610,453
Total Capital Assets	<u>3,064,371</u>	<u>4,127,343</u>	<u>1,367,079</u>	<u>8,558,793</u>
Less Accumulated Depreciation	(1,335,309)	(1,856,105)	(373,437)	(3,564,851)
Net Capital Assets	<u>1,729,062</u>	<u>2,271,238</u>	<u>993,642</u>	<u>4,993,942</u>
Total Assets	<u>\$ 1,983,289</u>	<u>\$ 2,888,542</u>	<u>\$ 1,432,395</u>	<u>\$ 6,304,226</u>
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Accounts Payable	\$ 12,894	\$ 13,545	\$ 3,494	\$ 29,933
Due to Other Governments	5,346	-	7,165	12,511
Salaries and Benefits Payable	4,775	4,775	6,201	15,751
Interest Payable	7,178	5,896	2,891	15,965
Long-Term Liabilities Due Within One Year	71,942	85,240	58,418	215,600
Total Current Liabilities	<u>102,135</u>	<u>109,456</u>	<u>78,169</u>	<u>289,760</u>
Noncurrent Liabilities:				
Compensated Absences	4,284	4,284	20,978	29,546
Notes Payable	1,015,000	578,536	-	1,593,536
Bonds Payable	-	-	407,095	407,095
Less Amount Due Within One Year	(71,942)	(85,240)	(58,418)	(215,600)
Total Noncurrent Liabilities	<u>947,342</u>	<u>497,580</u>	<u>369,655</u>	<u>1,814,577</u>
Total Liabilities	<u>1,049,477</u>	<u>607,036</u>	<u>447,824</u>	<u>2,104,337</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	714,062	1,692,702	586,547	2,993,311
Unrestricted	219,750	588,804	398,024	1,206,578
Total Net Assets	<u>933,812</u>	<u>2,281,506</u>	<u>984,571</u>	<u>4,199,889</u>
Total Liabilities and Net Assets	<u>\$ 1,983,289</u>	<u>\$ 2,888,542</u>	<u>\$ 1,432,395</u>	<u>\$ 6,304,226</u>

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

CITY OF SILVER BAY
Lake County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	<u>Water (602)</u>	<u>Sewer (604)</u>	<u>Municipal Liquor Dispensary (609)</u>	<u>Total</u>
SALES AND COST OF SALES:				
Sales	\$ -	\$ -	\$ 915,267	\$ 915,267
Cost of Sales	-	-	531,422	531,422
Gross Profit	<u>-</u>	<u>-</u>	<u>383,845</u>	<u>383,845</u>
OPERATING REVENUES:				
Charges for Services	595,233	431,497	-	1,026,730
Other Services	3,346	2,918	2,351	8,615
Game Machines	-	-	8,746	8,746
Total Operating Revenues	<u>598,579</u>	<u>434,415</u>	<u>11,097</u>	<u>1,044,091</u>
OPERATING EXPENSES:				
Salaries and Benefits	211,821	217,344	221,619	650,784
Materials and Supplies	49,083	43,917	15,675	108,675
Professional Services	27,839	3,756	3,000	34,595
Contracted Services	21,097	35,933	-	57,030
Insurance	14,288	11,130	20,333	45,751
Utilities	67,556	34,812	15,214	117,582
Refuse Charges	145,790	775	1,168	147,733
Telephone	2,277	2,282	1,235	5,794
Depreciation	67,841	115,410	35,420	218,671
Promotion and Advertising	677	35	2,121	2,833
Licenses and Dues	1,737	2,113	1,866	5,716
Conferences and Schools	1,182	1,698	690	3,570
Miscellaneous Expenses	447	312	8,442	9,201
Total Operating Expenses	<u>611,635</u>	<u>469,517</u>	<u>326,783</u>	<u>1,407,935</u>
Operating Income (Loss)	(13,056)	(35,102)	68,159	20,001
NONOPERATING REVENUES (EXPENSES):				
Investment Income	3,732	12,041	8,156	23,929
Intergovernmental	24,528	269	-	24,797
Interest Expense	<u>(20,758)</u>	<u>(17,195)</u>	<u>(18,796)</u>	<u>(56,749)</u>
Total Nonoperating Revenues (Expenses)	<u>7,502</u>	<u>(4,885)</u>	<u>(10,640)</u>	<u>(8,023)</u>
Income (Loss) before Transfers	(5,554)	(39,987)	57,519	11,978
Transfers Out	<u>-</u>	<u>-</u>	<u>(7,650)</u>	<u>(7,650)</u>
Change in Net Assets	(5,554)	(39,987)	49,869	4,328
NET ASSETS:				
Beginning of Year	<u>939,366</u>	<u>2,321,493</u>	<u>934,702</u>	<u>4,195,561</u>
End of Year	<u>\$ 933,812</u>	<u>\$ 2,281,506</u>	<u>\$ 984,571</u>	<u>\$ 4,199,889</u>

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

CITY OF SILVER BAY
Lake County, Minnesota

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	Water (602)	Sewer (604)	Municipal Liquor Dispensary (609)	Total
CASH FLOWS - OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 599,933	\$ 440,334	\$ 926,539	\$ 1,966,806
Payments to Suppliers	(328,079)	(133,039)	(611,607)	(1,072,725)
Payments to Employees	(212,257)	(217,780)	(221,974)	(652,011)
Net Cash Flows - Operating Activities	<u>59,597</u>	<u>89,515</u>	<u>92,958</u>	<u>242,070</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental Revenue	24,528	269	-	24,797
Transfer to Other Funds	-	-	(7,650)	(7,650)
Net Cash Flows - Noncapital Financing Activities	<u>24,528</u>	<u>269</u>	<u>(7,650)</u>	<u>17,147</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal Paid on Debt	(67,000)	(80,025)	(42,217)	(189,242)
Interest Paid on Debt	(21,266)	(18,011)	(19,096)	(58,373)
Acquisition of Capital Assets	-	-	(56,638)	(56,638)
Net Cash Flows - Capital and Related Financing Activities	<u>(88,266)</u>	<u>(98,036)</u>	<u>(117,951)</u>	<u>(304,253)</u>
CASH FLOWS - INVESTING ACTIVITIES:				
Interest and Dividends Received	3,874	12,311	8,928	25,113
Net Change in Cash and Cash Equivalents	(267)	4,059	(23,715)	(19,923)
CASH AND CASH EQUIVALENTS:				
Beginning of Year	177,004	569,007	387,702	1,133,713
End of Year	<u>\$ 176,737</u>	<u>\$ 573,066</u>	<u>\$ 363,987</u>	<u>\$ 1,113,790</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (13,056)	\$ (35,102)	\$ 68,159	\$ 20,001
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	67,841	115,410	35,420	218,671
Accounts Receivable	(12,637)	(10,738)	175	(23,200)
Due from Other Governments	4,478	7,169	-	11,647
Prepaid Items	-	-	1,401	1,401
Inventories	1,116	(317)	(12,577)	(11,778)
Accounts Payable	12,053	13,529	494	26,076
Due to Other Governmental Units	238	-	241	479
Salaries Payable	527	527	1,009	2,063
Compensated Absences Payable	(963)	(963)	(1,364)	(3,290)
Total Adjustments	<u>72,653</u>	<u>124,617</u>	<u>24,799</u>	<u>222,069</u>
Net Cash Flows - Operating Activities	<u>\$ 59,597</u>	<u>\$ 89,515</u>	<u>\$ 92,958</u>	<u>\$ 242,070</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

1. Blended Component Unit

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

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

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.

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.

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Description of Funds:

Major Governmental Funds:

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds: (Continued)

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 Governmental Accounting Standards Board (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.

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.

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2009 were comprised of deposits, including certificates of deposit at a commercial bank, brokered certificates of deposit and shares in the Minnesota Municipal Money Market (4M Fund). The City has formal policies in place specifically to address the following risks related to deposits and investments.

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

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Cash and Investments (Continued)

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables (Continued)

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

3. Inventory and Prepaid Items

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

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
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. Compensated Absences

City employees earn vacation time based on years of City service with a maximum of two weeks of vacation time to be carried over from one year to the next. Upon termination, employees will receive compensation for unused vacation time.

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

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

6. Post Employment Health Benefits

Employees who retire may continue with the City's group health insurance. The City will pay half of the insurance cost for three years upon retirement. The City paid \$ 17,360 of insurance benefits for three retirees during the year.

7. Long-Term Obligations

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

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

8. Fund Equity

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

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

9. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets for the governmental funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

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.

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

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the following Funds:

	<u>Expenditures</u>	<u>Appropriations</u>
Major Funds:		
General Fund	\$ 1,687,649	\$ 1,645,329
Debt Service	14,169	13,770
Special Revenue Fund:		
Airport	303,565	292,985

C. Deficit Fund Balances

The following Funds had deficit fund balances at December 31, 2009:

Special Revenue:	
Airport	\$ 41,128
Marina	9,957

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, 2009, the City's bank balance was not exposed to custodial credit risk because it was insured through FDIC and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

As of December 31, 2009, the City had the following deposits:

Cash and Cash Equivalents	\$ 299,277
Certificates of Deposit	<u>2,000,000</u>
 Total Deposits	 <u><u>\$ 2,299,277</u></u>

B. Investments

As of December 31, 2009, the City had the following investments:

Investment	Maturity	Fair Value	Percentage of Total	Type
4M Money Market	Various	\$ 424,358	41.78%	MM
First Financial Bank, South Dakota	03/19/10	97,847	9.63%	CD
Alma Bank, New York	08/10/10	100,000	9.85%	CD
State Bank of India, Illinois	10/12/10	98,219	9.68%	CD
Centennial Bank, California	11/17/10	98,619	9.71%	CD
Centennial Bank, California	11/17/10	98,619	9.71%	CD
Discover Bank, Delaware	06/15/11	<u>97,945</u>	<u>9.64%</u>	CD
 Total		 <u><u>\$ 1,015,607</u></u>	 <u><u>100.00%</u></u>	

Credit Risk: As of December 31, 2009, 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, 2009.

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The following is a summary of total deposits and investments.

Deposits (Note 3.A.)	\$ 2,299,277
Petty Cash	10,400
Investments	<u>1,015,607</u>
 Total Deposits and Investments	 <u><u>\$ 3,325,284</u></u>

Deposits and investments are presented in the December 31, 2009 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	<u><u>\$ 3,325,284</u></u>

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 964,493	\$ -	\$ -	\$ 964,493
Construction in Progress	34,830	990,129	-	1,024,959
Total Capital Assets not being Depreciated	<u>999,323</u>	<u>990,129</u>	<u>-</u>	<u>1,989,452</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	2,421,157	7,017	-	2,428,174
Improvements Other than Buildings	2,988,507	-	-	2,988,507
Vehicles, Machinery and Equipment	1,765,688	83,820	-	1,849,508
Total Capital Assets being Depreciated	<u>7,175,352</u>	<u>90,837</u>	<u>-</u>	<u>7,266,189</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	1,351,138	77,907	-	1,429,045
Improvements Other than Buildings	1,030,137	142,705	-	1,172,842
Vehicles, Machinery and Equipment	1,256,893	132,843	-	1,389,736
Total Accumulated Depreciation	<u>3,638,168</u>	<u>353,455</u>	<u>-</u>	<u>3,991,623</u>
Total Capital Assets being Depreciated, Net	<u>3,537,184</u>	<u>(262,618)</u>	<u>-</u>	<u>3,274,566</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,536,507</u>	<u>\$ 727,511</u>	<u>\$ -</u>	<u>\$ 5,264,018</u>

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 37,463	\$ -	\$ -	\$ 37,463
Capital Assets being Depreciated:				
Buildings and Building Improvements	7,510,552	-	-	7,510,552
Improvements Other than Buildings	400,325	-	-	400,325
Vehicles, Machinery and Equipment	610,453	-	-	610,453
Total Capital Assets being Depreciated	8,521,330	-	-	8,521,330
Less Accumulated Depreciation for:				
Buildings and Building Improvements	2,798,284	185,095	-	2,983,379
Improvements Other than Buildings	84,984	8,796	-	93,780
Vehicles, Machinery and Equipment	462,912	24,780	-	487,692
Total Accumulated Depreciation	3,346,180	218,671	-	3,564,851
Total Capital Assets being Depreciated, Net	5,175,150	(218,671)	-	4,956,479
Business-Type Activities Capital Assets, Net	\$ 5,212,613	\$ (218,671)	\$ -	\$ 4,993,942

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

Governmental Activities:		
General Government		\$ 41,384
Public Safety		30,662
Public Works		85,756
Culture and Recreation		95,531
Airport		100,122
Total Depreciation Expense - Governmental Activities		\$ 353,455
Business-Type Activities:		
Water		\$ 67,841
Sewer		115,410
Municipal Liquor Dispensary		35,420
Total Depreciation Expense - Business-Type Activities		\$ 218,671

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2009 is as follows:

	Amounts Due to Other Funds
	Nonmajor Governmental Funds
Amounts Due from Other Funds:	
General Fund	\$ 45,557

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

B. Transfers

The composition of interfund transfers as of December 31, 2009 was as follows:

	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
Transfers Out:			
General Fund	\$ -	\$ 272,807	\$ 272,807
Nonmajor Governmental Funds	4,579	75,000	79,579
Municipal Liquor	-	7,650	7,650
Total	\$ 4,579	\$ 355,457	\$ 360,036

The purpose of the above transfers was to assist with operating costs, cover deficit fund balances and provide matching requirements for various grant funded projects.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

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. Improvement Bond, Series 2008A	05/14/08	4.92%	\$ 221,000	01/15/19	\$ 212,298	\$ 17,966
Capital Lease Obligations					66,352	25,980
Compensated Absences					98,814	71,207
Total Governmental Activities					<u>377,464</u>	<u>115,153</u>
Business-Type Activities:						
G.O. Revenue Notes/Bonds:						
G.O. Sewer Revenue Note of 1994	09/23/94	2.82%	1,490,796	02/20/16	578,536	82,298
G.O. Water Revenue Note of 1998	11/19/98	2.56%	642,000	08/20/18	342,000	34,000
G.O. Water Revenue Note of 2007	06/04/07	1.65%	726,450	08/20/26	673,000	35,000
Municipal Liquor Store Revenue Bond of 2008	05/01/08	Variable*	500,000	10/31/17	407,095	44,011
Total G.O. Revenue Notes/ Bonds					<u>2,000,631</u>	<u>195,309</u>
Compensated Absences					29,546	20,291
Total Business-Type Activities					<u>2,030,177</u>	<u>215,600</u>
Total all Long-Term Liabilities					<u>\$ 2,407,641</u>	<u>\$ 330,753</u>

* The Municipal Liquor Store Revenue Bond shall bear interest at the annual rate of 4.25% for the first five years of its term. On October 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 were issued to finance acquisition and construction of capital facilities and equipment.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments

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

<u>Year Ending December 31,</u>	Governmental Activities		
	Improvement Bonds		
	Principal	Interest	Total
2010	\$ 17,966	\$ 10,372	\$ 28,338
2011	18,874	9,464	28,338
2012	19,804	8,534	28,338
2013	20,827	7,511	28,338
2014	21,879	6,459	28,338
2015-2019	112,948	14,573	127,521
Total	\$ 212,298	\$ 56,913	\$ 269,211

<u>Year Ending December 31,</u>	Business-Type Activities		
	Revenue Notes		
	Principal	Interest	Total
2010	\$ 195,309	\$ 52,900	\$ 248,209
2011	200,517	47,244	247,761
2012	206,871	41,417	248,288
2013	212,375	35,397	247,772
2014	219,036	29,195	248,231
2015-2019	666,523	63,334	729,857
2020-2024	211,000	17,919	228,919
2025-2026	89,000	2,211	91,211
Total	\$ 2,000,631	\$ 289,617	\$ 2,290,248

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 6 -- LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009 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	\$ 220,719	\$ -	\$ 8,421	\$ 212,298	\$ 17,966
Capital Lease Obligations	52,603	65,675	51,926	66,352	25,980
Compensated Absences	<u>86,797</u>	<u>95,968</u>	<u>83,951</u>	<u>98,814</u>	<u>71,207</u>
Total Governmental Activities	360,119	161,643	144,298	377,464	115,153
Business-Type Activities:					
Notes/Bonds Payable:					
G.O. Revenue Notes	1,740,561	-	147,025	1,593,536	151,298
Revenue Bonds	449,312	-	42,217	407,095	44,011
Compensated Absences	<u>32,836</u>	<u>37,225</u>	<u>40,515</u>	<u>29,546</u>	<u>20,291</u>
Total Business-Type Activities	<u>2,222,709</u>	<u>37,225</u>	<u>229,757</u>	<u>2,030,177</u>	<u>215,600</u>
Total Long-Term Liabilities	<u>\$ 2,582,828</u>	<u>\$ 198,868</u>	<u>\$ 374,055</u>	<u>\$ 2,407,641</u>	<u>\$ 330,753</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>	
2010	\$ 29,748
2011	14,943
2012	14,942
2013	<u>14,942</u>
Net Minimum Lease Payments	74,575
Less Amount Representing Interest	<u>(8,223)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 66,352</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 7 – RESERVED FUND BALANCE

A. Reserved/Designated Fund Equity

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

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

	<u>General</u>	<u>Special Revenue Mary MacDonald Business Center</u>	<u>Debt Service Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Reserved:					
Renovation	\$ -	\$ 1,932	\$ -	\$ -	\$ 1,932
Perpetual Care	-	-	-	2,118	2,118
Unreserved:					
Designated for:					
Cemetery	-	-	-	17,875	17,875
Library	-	-	-	27,310	27,310
Economic Development	-	-	-	365,134	365,134
Storefront Renovation	-	-	-	116,485	116,485
Community Business Partnership	-	-	-	101,049	101,049
Debt Service	-	-	24,170	-	24,170
Fire Equipment	112,000	-	-	-	112,000
Capital Projects	-	-	-	217,547	217,547
Undesignated	1,114,579	38,982	-	68,473	1,222,034
Total	\$ 1,226,579	\$ 40,914	\$ 24,170	\$ 915,991	\$ 2,207,654

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, but 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 2009 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 8 – RISK MANAGEMENT

At December 31, 2009, 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, pursuant to *Minnesota Statutes* 471.59, whereby the City agreed to operate Rukavina Arena, which is owned by Lake County.

Lake County has agreed to pay the City the sum of \$ 45,000 annually in two equal installments of \$ 22,500 on June 1 and November 1. In addition, the City shall have the right to excess revenues and shall be responsible for excess expenditures, except Lake County shall provide fire and extended coverage insurance for buildings and grounds.

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

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 Public Employees' Retirement Fund (PERF) 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.

PERF 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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 PERF 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
Lake County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

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 PERF 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF and 14.1% for PEPFF members. The City's contributions to PERF for the years ending December 31, 2009, 2008 and 2007 were \$ 66,732, \$ 61,778 and \$ 58,544, respectively. The City's contributions to PEPFF for the years ending December 31, 2009, 2008 and 2007 were \$ 44,365, \$ 39,135 and \$ 34,524, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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

A. Plan Description

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

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

CITY OF SILVER BAY
Lake County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

**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: July 30, 2008

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>
12/31/07	\$ -	\$ -	100%	\$ 12,651	100%
12/31/08	-	-	100%	12,281	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>
12/31/07	\$ 421,323	\$ 295,820	\$ 125,503	143%	N/A	N/A
12/31/08	385,269	317,160	68,109	121%	N/A	N/A
12/31/09	430,940	338,620	92,320	127%	N/A	N/A

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

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

**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 \$ 10,888 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2009.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

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

SUPPLEMENTARY INFORMATION

CITY OF SILVER BAY
Lake County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
ASSETS:					
Cash and Investments	\$ 31,666	\$ 19,706	\$ 29,385	\$ 95,038	\$ 768
Taxes Receivable - Delinquent	-	-	-	-	-
Accounts Receivable	23	225	330	25	-
Interest Receivable	(14)	62	(39)	145	(123)
Due from Other Governments	-	-	-	-	-
Loan Receivable	-	-	-	-	-
Total Assets	<u>\$ 31,675</u>	<u>\$ 19,993</u>	<u>\$ 29,676</u>	<u>\$ 95,208</u>	<u>\$ 645</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 743	\$ -	\$ 423	\$ -	\$ -
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Other Governments	4	-	36	-	-
Salaries and Benefits Payable	3,618	-	5,512	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>4,365</u>	<u>-</u>	<u>5,971</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved for:					
Special Revenue	-	2,118	-	-	-
Unreserved, Reported in:					
Special Revenue Funds - Designated	27,310	17,875	-	-	-
Special Revenue Funds - Undesignated	-	-	23,705	95,208	645
Capital Projects Funds - Designated	-	-	-	-	-
Total Fund Balances	<u>27,310</u>	<u>19,993</u>	<u>23,705</u>	<u>95,208</u>	<u>645</u>
Total Liabilities and Fund Balances	<u>\$ 31,675</u>	<u>\$ 19,993</u>	<u>\$ 29,676</u>	<u>\$ 95,208</u>	<u>\$ 645</u>

Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total	Public Works Reserve (401)	
\$ 363,990	\$ 100,938	\$ 115,983	\$ 14,735	\$ -	\$ 772,209	\$ 207,062	\$ 979,271
-	-	-	-	-	-	2,962	2,962
-	-	-	-	90	693	-	693
1,144	111	502	(20)	(181)	1,587	462	2,049
-	-	-	-	33,634	33,634	29,158	62,792
37,270	-	-	-	-	37,270	-	37,270
<u>\$ 402,404</u>	<u>\$ 101,049</u>	<u>\$ 116,485</u>	<u>\$ 14,715</u>	<u>\$ 33,543</u>	<u>\$ 845,393</u>	<u>\$ 239,644</u>	<u>\$ 1,085,037</u>
\$ -	\$ -	\$ -	\$ 501	18,455	\$ 20,122	\$ 19,135	\$ 39,257
-	-	-	-	10,659	10,659	-	10,659
-	-	-	-	45,557	45,557	-	45,557
-	-	-	5	-	45	-	45
-	-	-	-	-	9,130	-	9,130
37,270	-	-	24,166	-	61,436	2,962	64,398
37,270	-	-	24,672	74,671	146,949	22,097	169,046
-	-	-	-	-	2,118	-	2,118
365,134	101,049	116,485	-	-	627,853	-	627,853
-	-	-	(9,957)	(41,128)	68,473	-	68,473
-	-	-	-	-	-	217,547	217,547
365,134	101,049	116,485	(9,957)	(41,128)	698,444	217,547	915,991
<u>\$ 402,404</u>	<u>\$ 101,049</u>	<u>\$ 116,485</u>	<u>\$ 14,715</u>	<u>\$ 33,543</u>	<u>\$ 845,393</u>	<u>\$ 239,644</u>	<u>\$ 1,085,037</u>

CITY OF SILVER BAY
Lake County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009**

	Special Revenue				
	Library (211)	Cemetery (215)	Arena (241)	Park and Recreation (251)	Community Building (261)
REVENUES:					
General Property Taxes	\$ 97,000	\$ -	\$ -	\$ -	\$ -
Intergovernmental	25,320	-	71,003	42,985	-
Charges for Services	4,071	840	19,790	19,866	12,211
Miscellaneous:					
Investment Income	(276)	411	(335)	664	(871)
Contributions and Donations	18,214	-	-	500	-
Loan Repayments	-	-	-	-	-
Other	5,420	-	8,048	1,088	475
Total Revenues	<u>149,749</u>	<u>1,251</u>	<u>98,506</u>	<u>65,103</u>	<u>11,815</u>
EXPENDITURES:					
Current:					
Public Works	-	-	-	-	-
Culture and Recreation	178,511	1,970	152,342	155,158	15,881
Economic Development	-	-	-	-	-
Airport	-	-	-	-	-
Capital Outlay:					
Public Works	-	-	-	-	-
Culture and Recreation	6,660	-	10,472	13,090	-
Airport	-	-	-	-	-
Total Expenditures	<u>185,171</u>	<u>1,970</u>	<u>162,814</u>	<u>168,248</u>	<u>15,881</u>
Excess of Revenues Over (Under) Expenditures	(35,422)	(719)	(64,308)	(103,145)	(4,066)
OTHER FINANCING SOURCES (USES):					
Transfers In	33,464	1,294	67,030	108,503	45,213
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>33,464</u>	<u>1,294</u>	<u>67,030</u>	<u>108,503</u>	<u>45,213</u>
Net Change in Fund Balances	(1,958)	575	2,722	5,358	41,147
FUND BALANCES:					
Beginning of Year	<u>29,268</u>	<u>19,418</u>	<u>20,983</u>	<u>89,850</u>	<u>(40,502)</u>
End of Year	<u>\$ 27,310</u>	<u>\$ 19,993</u>	<u>\$ 23,705</u>	<u>\$ 95,208</u>	<u>\$ 645</u>

Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
Economic Development (271)	Community Business Partnership (275)	Storefront Renovation (407)	Marina (601)	Airport (231)	Total	Public Works Reserve (401)	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,000	\$ 78,975	\$ 175,975
-	25,000	-	3,003	261,459	428,770	80,974	509,744
-	-	-	94,270	12,537	163,585	-	163,585
7,825	1,049	3,251	(261)	(1,504)	9,953	3,381	13,334
20	-	-	600	-	19,334	4,250	23,584
3,328	-	5,758	-	-	9,086	-	9,086
-	-	-	40,803	1,519	57,353	-	57,353
<u>11,173</u>	<u>26,049</u>	<u>9,009</u>	<u>138,415</u>	<u>274,011</u>	<u>785,081</u>	<u>167,580</u>	<u>952,661</u>
-	-	-	-	-	-	938	938
-	-	-	135,834	-	639,696	-	639,696
25,061	-	-	-	-	25,061	54,379	79,440
-	-	-	-	40,583	40,583	-	40,583
-	-	-	-	-	-	2,212	2,212
-	-	-	-	-	30,222	-	30,222
-	-	-	-	262,982	262,982	-	262,982
<u>25,061</u>	<u>-</u>	<u>-</u>	<u>135,834</u>	<u>303,565</u>	<u>998,544</u>	<u>57,529</u>	<u>1,056,073</u>
(13,888)	26,049	9,009	2,581	(29,554)	(213,463)	110,051	(103,412)
-	75,000	-	-	19,853	350,357	5,100	355,457
-	-	(75,000)	-	-	(75,000)	(4,579)	(79,579)
-	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>	<u>19,853</u>	<u>275,357</u>	<u>521</u>	<u>275,878</u>
(13,888)	101,049	(65,991)	2,581	(9,701)	61,894	110,572	172,466
379,022	-	182,476	(12,538)	(31,427)	636,550	106,975	743,525
<u>\$ 365,134</u>	<u>\$ 101,049</u>	<u>\$ 116,485</u>	<u>\$ (9,957)</u>	<u>\$ (41,128)</u>	<u>\$ 698,444</u>	<u>\$ 217,547</u>	<u>\$ 915,991</u>

CITY OF SILVER BAY
Lake County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
General Property Taxes	\$ 499,992	\$ 448,737	\$ 450,321	\$ 1,584
Licenses and Permits	10,820	30,215	30,548	333
Intergovernmental Revenue:				
Local Government Aid	562,400	518,554	518,554	-
Market Value Credit	65,090	111,224	96,422	(14,802)
PERA Aid	4,383	4,383	4,383	-
Taconite Homestead Credit	98,982	114,462	114,463	1
Taconite Production Tax	480,000	503,545	503,545	-
Federal Grants and Aids	-	107,611	108,278	667
Other State Grants and Aids	54,000	132,562	132,109	(453)
Other County Grants	13,700	14,200	14,200	-
Other Grants and Aids	2,800	1,982	1,982	-
Total Intergovernmental Revenue	<u>1,281,355</u>	<u>1,508,523</u>	<u>1,493,936</u>	<u>(14,587)</u>
Charges for Services:				
Public Safety	35,550	36,855	36,904	49
Public Works	300	55	59	4
Park and Recreation	500	450	450	-
Total Charges for Services	<u>36,350</u>	<u>37,360</u>	<u>37,413</u>	<u>53</u>
Fines and Forfeitures	2,425	6,885	6,902	17
Miscellaneous Revenues:				
Investment Income	25,000	17,800	20,816	3,016
Contributions and Donations	500	6,136	6,136	-
Loan Repayments	-	4,000	4,000	-
Other	8,500	16,614	16,720	106
Total Miscellaneous Revenues	<u>34,000</u>	<u>44,550</u>	<u>47,672</u>	<u>3,122</u>
Total Revenues	<u>1,864,942</u>	<u>2,076,270</u>	<u>2,066,792</u>	<u>(9,478)</u>
EXPENDITURES:				
General Government:				
Mayor and Council:				
Current	29,509	27,994	27,082	(912)
Administrative and Finance:				
Current	242,997	236,832	235,665	(1,167)
Capital Outlay	10,800	8,600	8,585	(15)
Other General Government:				
Current	138,610	136,535	133,818	(2,717)
Capital Outlay	5,800	7,025	7,018	(7)
Total General Government	<u>427,716</u>	<u>416,986</u>	<u>412,168</u>	<u>(4,818)</u>
Public Safety:				
Police:				
Current	486,622	495,058	490,751	(4,307)
Capital Outlay	11,750	400	383	(17)

CITY OF SILVER BAY
Lake County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
EXPENDITURES:				
Public Safety: (Continued)				
Fire:				
Current	\$ 79,719	\$ 68,827	\$ 64,809	\$ (4,018)
Capital Outlay	15,000	26,050	22,266	(3,784)
Other:				
Current	10,000	9,000	8,601	(399)
Capital Outlay	250	-	-	-
Total Public Safety	603,341	599,335	586,810	(12,525)
Public Works:				
Streets and Highways:				
Street Maintenance and Storm Sewers:				
Current	465,771	503,155	497,334	(5,821)
Capital Outlay	-	4,580	4,580	-
Street Lighting:				
Current	22,200	23,500	23,310	(190)
Total Public Works	487,971	531,235	525,224	(6,011)
Culture and Recreation:				
Current	19,875	29,185	29,293	108
Capital Outlay	15,000	26,100	78,145	52,045
Total Culture and Recreation	34,875	55,285	107,438	52,153
Debt Service:				
Principal	39,902	38,402	51,926	13,524
Interest and Other Charges	2,686	4,086	4,083	(3)
Total Debt Service	42,588	42,488	56,009	13,521
Total Expenditures	1,596,491	1,645,329	1,687,649	42,320
Excess of Revenues Over				
(Under) Expenditures				
	268,451	430,941	379,143	(51,798)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	-	940	940	-
Proceeds from Capital Lease	-	-	65,675	65,675
Transfers In	-	4,579	4,579	-
Transfers Out	(268,451)	(272,807)	(272,807)	-
Total Other Financing Sources (Uses)	(268,451)	(267,288)	(201,613)	65,675
Net Change in Fund Balances				
	\$ -	\$ 163,653	177,530	\$ 13,877
FUND BALANCES:				
Beginning of Year			1,049,049	
End of Year			\$ 1,226,579	

CITY OF SILVER BAY
Lake County, Minnesota

**ANALYSIS OF CHANGES IN FUND BALANCE -
PUBLIC WORKS RESERVE FUND
For the Year Ended December 31, 2009**

	Business Park (903)	Taconite Revenue Losses (904)	Bell Circle Apartments (905)
	<u> </u>	<u> </u>	<u> </u>
BALANCE - January 1, 2009	\$ (438,134)	\$ 368,812	\$ (147,462)
General Property Taxes	-	-	-
Intergovernmental Revenue	49,171	-	-
Investment Income	-	-	-
Contributions and Donations	4,250	-	-
Transfers from Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Total Available	(384,713)	368,812	(147,462)
Expenditures	(54,378)	-	(938)
Transfers to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE - December 31, 2009	<u><u>\$ (439,091)</u></u>	<u><u>\$ 368,812</u></u>	<u><u>\$ (148,400)</u></u>

Project Notes:

* Taconite reserve has been consistent for the past several years. The five year moving average for taconite taxes is \$ 485,841, indicating approximately \$ 117,029 can be added to the reserve at December 31, 2009.

Special Projects (906)	Sidewalk Improvements (907)	Total
\$ 68,510	\$ 255,249	\$ 106,975
50,254	28,721	78,975
9,516	22,287	80,974
3,381	-	3,381
-	-	4,250
5,100	-	5,100
136,761	306,257	279,655
(2,213)	-	(57,529)
(4,579)	-	(4,579)
<u>\$ 129,969</u>	<u>\$ 306,257</u>	<u>\$ 217,547</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***

March 30, 2010

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 on the previous page. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Findings 06-01 and 06-02 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the City in a separate letter dated March 30, 2010.

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

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota



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REPORT ON LEGAL COMPLIANCE

March 30, 2010

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2010.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, 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 Local Government* covers seven main 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, except as described in the Schedule of Findings and Responses on Legal Compliance and Internal Control.

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

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

**SCHEDULE OF FINDINGS AND RESPONSES
ON LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2009**

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies:

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

During the year ended December 31, 2009, 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
Lake County, Minnesota**

**SCHEDULE OF FINDINGS AND RESPONSES
ON LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2009**

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.

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

**SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2009**

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Out of State Travel Policy

Minnesota Statutes 471.661 states all cities must have an approved policy that controls travel outside the State of Minnesota which specifies when out of state travel is appropriate, the expense limits of out of state travel and procedures for approval of the travel. The City currently does not have a policy regarding travel outside of Minnesota.

During the 2008 audit, we noted the City did not have a policy regarding travel outside of Minnesota.

Corrective Action Taken:

During 2009, the City approved a travel policy to address travel outside of Minnesota.