



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of the City Council
City of Thief River Falls
Thief River Falls, 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 Thief River Falls, 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 City of Thief River Falls, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit.

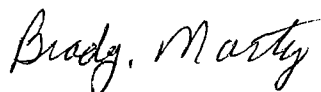
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 Thief River Falls, 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 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2010, on our consideration of the City of Thief River Falls, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and schedule of funding progress for other postemployment benefits as listed in the table of contents as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Thief River Falls, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of passenger facility charges and related expenditures are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the basic financial statements of the City of Thief River Falls, Minnesota. The combining and individual nonmajor fund financial statements, schedules, and schedule of passenger facility charges and related expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



BRADY, MARTZ & ASSOCIATES, P.C.

June 15, 2010

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

The management of the City of Thief River Falls offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Thief River Falls for the fiscal year ended December 31, 2009. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities by \$54.1 million. Of this amount, \$7.7 million may be used to meet the government'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 \$394,745.
- The City's governmental funds reported combined ending fund balances of \$5,587,583. Of the total fund balance amount, \$2,036,487 is legally or contractually reserved, \$2,727,516 is designated for specific purposes, and an additional \$823,580 is available for spending at the City's discretion and is noted as an unreserved, undesignated fund balance in the City's general fund.
- At the end of the current fiscal year, the undesignated fund balance for the general fund was 13.7% of total general fund expenditures of \$6,007,210.

Using the Financial Section of This Annual Financial Report

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 also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The notes to the basic financial statements provide information that is essential to full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Statement of Net Assets and Statement of Activities

Our analysis of the City of Thief River Falls 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 the Statement of Activities both 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's 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. You can think of the City's net assets – the difference between assets and liabilities – as a way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets are one indicator of whether the City's *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the *overall health* of the City of Thief River Falls.

Fund Financial Statements

Our analysis of the City of Thief River Falls' major fund begins with the funds' 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 that it is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. donations received). The City of Thief River Falls' three kinds of funds – *governmental, proprietary, and fiduciary* – use different accounting approaches.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Governmental Funds – Most of the City of Thief River Falls' basic services are reported in governmental funds. Governmental funds 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 governmental operations and the basic services it provides. Governmental fund information helps the reader of the statements 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 difference) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in reconciliation after the fund statements.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, CDAB revolving loan fund, and the Greenwood Street bridge project, which are considered major funds. Data from the other 19 individual governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – When the City of Thief River Falls 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 or enterprise funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements, but we provide more detail and additional information, such as cash flows, for proprietary funds.

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its liquor dispensary, water, electric, wastewater, sanitation, storm sewer, and the regional airport. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its services provided to other departments or funds, on a cost reimbursement basis. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Thief River Falls' own programs. The accounting used for the Police Relief Association Retirement System Pension Trust Fund is much like that used for proprietary funds. The accounting used for the agency fund is custodial in nature and does not present results of operations or have a measurement focus. The agency fund is accounted for using the accrual basis of accounting.

Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Government-wide Financial Analysis

Over time, net assets serve as a useful indicator of the City's financial position. The City of Thief River Falls' assets exceeded liabilities by \$54,136,749. The largest portion of the City's net assets (approximately 82 percent) reflects its investment in capital assets (i.e. land, buildings, infrastructure, and equipment); net of related debt to acquire those assets. It should be noted that this amount is not available for future spending. Although the City of Thief River Falls' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Approximately 14 percent of the City's net assets are unrestricted. The unrestricted net asset amount of \$7,732,959 as of December 31, 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.

Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 7,440,775	\$ 9,027,078	\$ 6,340,273	\$ 5,179,364	\$ 13,781,048	\$ 14,206,442
Capital Assets	25,683,125	24,384,582	25,635,508	25,868,563	51,318,633	50,253,145
Total Assets	33,123,900	33,411,660	31,975,781	31,047,927	65,099,681	64,459,587
Long-term Liabilities	3,692,133	4,010,992	5,200,525	4,678,352	8,892,658	8,689,344
Other Liabilities	571,160	693,508	1,499,114	1,334,731	2,070,274	2,028,239
Total Liabilities	4,263,293	4,704,500	6,699,639	6,013,083	10,962,932	10,717,583
Net Assets						
Invested in Capital Assets, Net of Related Debt	22,985,884	22,201,668	21,166,640	21,818,392	44,152,524	44,020,060
Restricted	2,251,266	3,177,016			2,251,266	3,177,016
Unrestricted	3,623,457	3,328,476	4,109,502	3,216,452	7,732,959	6,544,928
Total Net Assets	\$ 28,860,607	\$ 28,707,160	\$ 25,276,142	\$ 25,034,844	\$ 54,136,749	\$ 53,742,004

Governmental Activities

The net assets of the our governmental activities increased by \$153,447. 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 \$3,623,457 as of December 31, 2009.

Business-Type Activities

The net assets of our business-type activities increased by \$241,298. Unrestricted net assets for the City's business-type activities totaled \$4,109,502 as of December 31, 2009.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues						
Fees, Charges, Fines and Other	\$ 1,374,455	\$ 1,573,647	\$ 17,380,691	\$ 16,137,027	\$ 18,755,146	\$ 17,710,674
Operating Grants and Contributions	405,936	487,835	140,882	125,082	546,818	612,917
Capital Grants and Contributions	689,249	2,879,028			689,249	2,879,028
General Revenues						
Taxes	1,687,452	1,716,242			1,687,452	1,716,242
Unrestricted State Aid	2,951,529	2,460,664			2,951,529	2,460,664
Unrestricted Investment Earnings	135,425	268,552	50,497	121,026	185,922	389,578
Gain on Disposal of Capital Assets	35,850				35,850	
Other General Revenue	131,019	17,928			131,019	17,928
Total Revenues	<u>7,410,915</u>	<u>9,403,896</u>	<u>17,572,070</u>	<u>16,383,135</u>	<u>24,982,985</u>	<u>25,787,031</u>
Expenses						
General Government	1,369,826	1,425,166			1,369,826	1,425,166
Public Safety	2,321,143	2,228,669			2,321,143	2,228,669
Highways and Streets	1,281,558	1,547,142			1,281,558	1,547,142
Culture and Recreation	2,174,876	2,254,305			2,174,876	2,254,305
Economic Development	269,582	387,872			269,582	387,872
Interest on Long-term Debt	109,554	83,272			109,554	83,272
Liquor Dispensary			3,685,485	3,592,991	3,685,485	3,592,991
Water Utility			1,963,180	2,012,129	1,963,180	2,012,129
Electric Utility			9,041,284	8,612,790	9,041,284	8,612,790
Wastewater Utility			743,671	691,349	743,671	691,349
Airport			770,937	803,438	770,937	803,438
Sanitation Utility			732,457	739,551	732,457	739,551
Storm Water Utility			124,687	132,386	124,687	132,386
Total Expenses	<u>7,526,539</u>	<u>7,926,426</u>	<u>17,061,701</u>	<u>16,584,634</u>	<u>24,588,240</u>	<u>24,511,060</u>
Change in Net Assets Before Transfers	(115,624)	1,477,470	510,369	(201,499)	394,745	1,275,971
Transfers	<u>269,071</u>	<u>(250,619)</u>	<u>(269,071)</u>	<u>250,619</u>		
Change in Net Assets	153,447	1,226,851	241,298	49,120	394,745	1,275,971
Net Assets - January 1	<u>28,707,160</u>	<u>27,480,309</u>	<u>25,034,844</u>	<u>24,985,724</u>	<u>53,742,004</u>	<u>52,466,033</u>
Net Assets - December 31	<u>\$ 28,860,607</u>	<u>\$ 28,707,160</u>	<u>\$ 25,276,142</u>	<u>\$ 25,034,844</u>	<u>\$ 54,136,749</u>	<u>\$ 53,742,004</u>

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Governmental Activities

The City's governmental activities revenue decreased by \$1,992,000. The major factor contributing to this decrease is the street construction grants and contributions received for the Greenwood Street Bridge Project.

The City's governmental activities expenses decreased by \$400,000. The major factors contributing to this decrease are:

- The Highways and Street expenditures decreased because no maintenance expenditures were involved in the 2009 Improvement Project.
- The Economic Development expenditures decreased due to less grant activity because of the completion of the 2005 Small Cities Development Program Grant and minimal expenditures of the 2009 Small Cities Development Grant.

Business-Type Activities

Revenues – The City's business-type revenues increased by approximately \$1,188,000. The City had a water utility rate increase in January of 2009 and electric rate increase in April 2009. The Liquor Dispensary had increased sales in the amount of \$100,000.

Expenses – The City's business-type expenses increased by \$477,000. The major factors contributing to this increase is the cost of purchased power in the Electric Utility Fund.

Financial Analysis of the City's Funds

	Major Funds			Percentage Increase (Decrease)
	Fund Balance / Net Assets		Increase (Decrease)	
	12/31/2009	12/31/2008		
Governmental Funds				
General	\$ 1,691,362	\$ 1,342,290	\$ 349,072	26%
CDAB Revolving Loan	1,986,742	2,031,225	(44,483)	-2%
Greenwood Street Bridge Project		1,036,590	(1,036,590)	-100%
Proprietary Funds				
Liquor Dispensary	1,444,745	1,382,755	61,990	4%
Water Utility	3,478,283	3,703,625	(225,342)	-6%
Electric Utility	6,735,302	6,258,889	476,413	8%
Wastewater Utility	3,460,938	3,414,510	46,428	1%
Airport	7,054,767	7,353,528	(298,761)	-4%

The City's General Fund balance increased this year due to budget planning to recover the 2008 unallotment of Local Government Aid and anticipation of future cuts for 2010. The Greenwood Street Bridge fund decreased due to the completion of the project in August 2009 and closing the construction fund. The Water Utility fund realized a decrease in net assets due to the issuance of G.O. Water Revenue Bonds to finance water main replacements. The Electric Utility fund realized an increase in net assets due to the increase in electric sales.

General Fund Budgetary Highlights

Over the course of the year, the City of Thief River Falls revised the City's budget once. The City annually reviews revenues and expenditures in comparison to budget, taking into account activity that was unknown when budgets were set in December of the previous year. The City's General Fund budget was adjusted to reflect the unallotment of \$166,246 in Local Government Aid at the end of 2008 and the 2009 decrease of \$141,368.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2009, amounts to \$51,318,633 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and park facilities.

**Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 585,534	\$ 585,534	\$ 1,172,107	\$ 1,053,165	\$ 1,757,641	\$ 1,638,699
Construction In Process	49,660	2,106,629	49,126	111,780	98,786	2,218,409
Buildings & Improvements	13,443,877	13,856,360	4,380,545	4,545,161	17,824,422	18,401,521
Improvements Other Than Buildings	10,630,939	6,855,262	18,256,495	18,110,651	28,887,434	24,965,913
Machinery & Equipment	973,115	980,797	1,777,235	2,047,806	2,750,350	3,028,603
Total	\$ 25,683,125	\$ 24,384,582	\$ 25,635,508	\$ 25,868,563	\$ 51,318,633	\$ 50,253,145

Major changes in capital assets during the current fiscal year included the following:

- The City's 2009 Improvement Project included water main and storm sewer replacement and new street construction totaling \$1,124,000.
- The construction of the Greenwood Street Bridge was completed and the project totaled \$3,790,000.
- The City purchased land north on Highway 59 South for the realignment of County Road 61 and a possible location of a future liquor store.

Additional information on the City's capital assets can be found in the Note 6 of this report.

Long-Term Debt

At year-end, the City of Thief River Falls had \$7.1 million in bonds and other long-term debt outstanding.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 630,000	\$ 815,000	\$	\$	\$ 630,000	\$ 815,000
Revenue Bonds	1,465,000	1,630,000	4,520,815	4,105,827	5,985,815	5,735,827
Purchase Agreement	404,884	548,148			404,884	548,148
Capital Lease	98,044	103,044			98,044	103,044
Note Payable	108,333	133,333			108,333	133,333
Total	\$ 2,706,261	\$ 3,229,525	\$ 4,520,815	\$ 4,105,827	\$ 7,227,076	\$ 7,335,352

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. This statutory debt limitation is two percent of the City's market value and, at the end of 2009, overall debt of the City is well below the two percent debt limit.

The City issued \$640,000 G.O. Water Revenue Bonds in 2009 for 2008 and 2009 water main replacements.

Additional information on the City's long-term debt can be found in the Note 7 of this report.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2009**

Economic Factors and Next Year's Budget

The City of Thief River Falls' elected officials considered many factors when setting the fiscal year 2010 budget, rates, and fees that will be charged for the business-type activities. The major factor considered when adopting the general fund budget was the uncertainty of the City's local government aid, and the City continues to look for ways to streamline operations without having an adverse impact on services provided. The City formally adopted the 2010 budget on December 15, 2009. For the fifth consecutive year the City did not increase the property tax levy. The property tax levy for 2010 was set at 0%.

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 of Thief River Falls' 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 Thief River Falls City Administrator's Office at 405 Third Street East, P.O. Box 528, Thief River Falls, Minnesota, 56701, (218) 681-2943, or admin@citytrf.net.