

**FINANCIAL SECTION**

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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, 2010, 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.

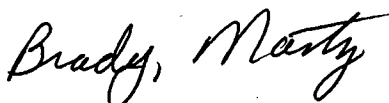
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Thief River Falls, Minnesota, as of December 31, 2010, 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.

As discussed in Note 2 to the financial statements, the City elected to report the sanitation fund as part of the general fund, the sanitation fund was previously reported as an enterprise fund. In addition, the City elected to combine the water and wastewater utility funds into one fund, the water systems utility fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Thief River Falls, Minnesota's financial statements as a whole. The introductory section, combining and individual fund 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of passenger facility charges and related expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.



BRADY, MARTZ & ASSOCIATES, P.C.

May 31, 2011

**CITY OF THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010**

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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, 2010. 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 million. Of this amount, \$4.4 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 \$169,047.
- The City's governmental funds reported combined ending fund balances of \$5,960,805. Of the total fund balance amount, \$1,738,774 is legally or contractually reserved, \$3,208,263 is designated for specific purposes, and an additional \$1,013,768 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 14.6% of total general fund expenditures of \$6,944,287.

**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, 2010**

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*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 21 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 and CDAB revolving loan fund, 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, electric, storm sewer, water systems, and 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.

#### **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, 2010**

**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 \$54,305,796. The largest portion of the City's net assets (approximately 83 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 8 percent of the City's net assets are unrestricted. The unrestricted net asset amount of \$4,386,609 as of December 31, 2010, may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.

**Statement of Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 7,731,567	\$ 7,440,775	\$ 8,946,858	\$ 6,340,273	\$ 16,678,425	\$ 13,781,048
Capital Assets	25,186,152	25,683,125	26,441,692	25,635,508	51,627,844	51,318,633
<b>Total Assets</b>	<b>32,917,719</b>	<b>33,123,900</b>	<b>35,388,550</b>	<b>31,975,781</b>	<b>68,306,269</b>	<b>65,099,681</b>
Long-term Liabilities	3,289,974	3,692,133	8,469,701	5,200,525	11,759,675	8,892,658
Other Liabilities	567,984	571,160	1,672,814	1,499,114	2,240,798	2,070,274
<b>Total Liabilities</b>	<b>3,857,958</b>	<b>4,263,293</b>	<b>10,142,515</b>	<b>6,699,639</b>	<b>14,000,473</b>	<b>10,962,932</b>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	23,182,797	22,985,884	21,614,090	21,166,640	44,796,887	44,152,524
Restricted	2,258,159	2,251,266	2,864,141		5,122,300	2,251,266
Unrestricted	3,618,805	3,623,457	767,804	4,109,502	4,386,609	7,732,959
<b>Total Net Assets</b>	<b>\$ 29,059,761</b>	<b>\$ 28,860,607</b>	<b>\$ 25,246,035</b>	<b>\$ 25,276,142</b>	<b>\$ 54,305,796</b>	<b>\$ 54,136,749</b>

**Governmental Activities**

The net assets of the governmental activities increased by \$199,154. 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 \$3,618,805 as of December 31, 2010.

**Business-Type Activities**

The net assets of our business-type activities decreased by \$30,107. Unrestricted net assets for the City's business-type activities totaled \$767,804 as of December 31, 2010.

**CITY OF THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010**

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues						
Fees, Charges, Fines and Other	\$ 1,991,222	\$ 1,374,455	\$ 17,311,095	\$ 17,380,691	\$ 19,302,317	\$ 18,755,146
Operating Grants and Contributions	750,955	405,936	181,061	140,882	932,016	546,818
Capital Grants and Contributions	68,983	689,249	907,743		976,726	689,249
General Revenues						
Taxes	1,711,863	1,687,452			1,711,863	1,687,452
Unrestricted State Aid	2,646,152	2,951,529			2,646,152	2,951,529
Unrestricted Investment Earnings	112,185	135,425	59,887	50,497	172,072	185,922
Gain on Disposal of Capital Assets	33,201	35,850			33,201	35,850
Other General Revenue	26,985	131,019			26,985	131,019
Total Revenues	<u>7,341,546</u>	<u>7,410,915</u>	<u>18,459,786</u>	<u>17,572,070</u>	<u>25,801,332</u>	<u>24,982,985</u>
Expenses						
General Government	1,428,138	1,369,826			1,428,138	1,369,826
Public Safety	2,371,514	2,321,143			2,371,514	2,321,143
Streets and Sanitation	2,062,252	1,281,558			2,062,252	1,281,558
Culture and Recreation	2,057,967	2,174,876			2,057,967	2,174,876
Economic Development	390,385	269,582			390,385	269,582
Interest on Long-term Debt	82,772	109,554			82,772	109,554
Liquor Dispensary			3,769,294	3,685,485	3,769,294	3,685,485
Electric Utility			9,969,930	9,041,284	9,969,930	9,041,284
Airport			732,007	770,937	732,007	770,937
Sanitation Utility				732,457		732,457
Storm Water Utility			137,326	124,687	137,326	124,687
Water Systems Utility			2,630,700	2,706,851	2,630,700	2,706,851
Loss on Disposal of Capital Asset						
Total Expenses	<u>8,393,028</u>	<u>7,526,539</u>	<u>17,239,257</u>	<u>17,061,701</u>	<u>25,632,285</u>	<u>24,588,240</u>
Change in Net Assets Before Transfers	(1,051,482)	(115,624)	1,220,529	510,369	169,047	394,745
Transfers	1,149,695	269,071	(1,149,695)	(269,071)		
Change in Net Assets	<u>98,213</u>	<u>153,447</u>	<u>70,834</u>	<u>241,298</u>	<u>169,047</u>	<u>394,745</u>
Net Assets - January 1, As Previously Stated	28,860,607	28,707,160	25,276,142	25,034,844	54,136,749	53,742,004
Adjustment	100,941		(100,941)			
Net Assets - January 1, Restated	<u>28,961,548</u>	<u>28,707,160</u>	<u>25,175,201</u>	<u>25,034,844</u>	<u>54,136,749</u>	<u>53,742,004</u>
Net Assets - December 31	<u>\$ 29,059,761</u>	<u>\$ 28,860,607</u>	<u>\$ 25,246,035</u>	<u>\$ 25,276,142</u>	<u>\$ 54,305,796</u>	<u>\$ 54,136,749</u>

**CITY OF THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010**

**Governmental Activities**

The City's governmental activities revenue decreased by \$69,369. The major factors contributing to this overall decrease are the increases in fees, charges, fines and other from the inclusion of the sanitation fund as part of the general fund and a decrease in capital grants and contributions from the completion of the Greenwood Street bridge project.

The City's governmental activities expenses increased by \$866,489. The major factors contributing to this increase are:

- The street and sanitation expenditures increased because of the merger of the streets and sanitation departments and the inclusion of the sanitation fund as part of the general fund.
- The economic development expenditures increased due to grant activity of the 2009 Small Cities Development Grant.

**Business-Type Activities**

*Revenues* – The City's business-type revenues increased by approximately \$887,716. The City had a water utility rate increase in January of 2010 and passed through Minnkota's electric rate surcharge in November of 2009. The sanitation utility fund is now reported as part of the general fund. The capital grants and contributions increased due to the multi-purpose hangar construction and terminal project at the airport.

*Expenses* – The City's business-type expenses increased by \$177,556. The major factors contributing to this increase are the cost of purchased power in the electric utility fund and the decrease of expenditures due to the sanitation utility fund now being reported as part of the general fund.

**Financial Analysis of the City's Funds**

	<b>Major Funds</b>			Percentage Increase (Decrease)
	Fund Balance / Net Assets		Increase (Decrease)	
	12/31/2010	12/31/2009		
<b>Governmental Funds</b>				
General	\$ 1,767,209	\$ 1,691,362	\$ 75,847	4%
CDAB Revolving Loan	2,025,082	1,986,742	38,340	2%
<b>Proprietary Funds</b>				
Liquor Dispensary	1,477,610	1,444,745	32,865	2%
Electric Utility	6,855,585	6,735,302	120,283	2%
Airport	7,819,505	7,054,767	764,738	11%
Water Systems Utility	6,558,779	6,939,221	(380,442)	-5%

The City's general fund balance increased this year due to close scrutiny and diligence of department supervisors to adhere to budgets because of the continued uncertainty of local government aid and anticipation of possible future cuts. The airport fund realized an increase in net assets due to the multi-purpose hangar and terminal renovation projects. 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.

**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 pay off of two purchase agreements in 2010.

**CITY OF THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$51,627,844 (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	
	2010	2009	2010	2009	2010	2009
Land	\$ 613,565	\$ 613,565	\$ 1,144,076	\$ 1,144,076	\$ 1,757,641	\$ 1,757,641
Construction In Progress	430,203	49,660	1,588,507	49,126	2,018,710	98,786
Buildings & Improvements	13,056,485	13,469,891	4,197,567	4,354,531	17,254,052	17,824,422
Improvements Other Than Buildings	10,155,002	10,630,939	18,029,260	18,256,495	28,184,262	28,887,434
Machinery & Equipment	930,897	1,050,547	1,482,282	1,699,804	2,413,179	2,750,351
<b>Total</b>	<b>\$ 25,186,152</b>	<b>\$ 25,814,602</b>	<b>\$ 26,441,692</b>	<b>\$ 25,504,032</b>	<b>\$ 51,627,844</b>	<b>\$ 51,318,634</b>

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

- The City's 2010 Improvement Project included water main and storm sewer replacement totaling \$564,000.
- Construction began on a new multi-purpose hangar and a terminal renovation project at the airport.
- Construction also began on a new streets/sanitation storage building in September 2010.

Additional information on the City's capital assets can be found in the Note 8 of this report.

**Long-Term Debt**

At year-end, the City of Thief River Falls had \$9.8 million in bonds and other long-term debt outstanding.

**Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 510,000	\$ 630,000	\$	\$	\$ 510,000	\$ 630,000
Revenue Bonds	1,325,000	1,465,000	7,799,537	4,520,815	9,124,537	5,985,815
Purchase Agreement		404,884				404,884
Capital Lease	93,044	98,044			93,044	98,044
Note Payable	83,333	108,333			83,333	108,333
<b>Total</b>	<b>\$ 2,011,377</b>	<b>\$ 2,706,261</b>	<b>\$ 7,799,537</b>	<b>\$ 4,520,815</b>	<b>\$ 9,810,914</b>	<b>\$ 7,227,076</b>

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 2010, overall debt of the City is well below the two percent debt limit.

The City issued \$3,510,000 G.O. Water Revenue Bonds in 2010 to finance water main replacements within the City. The bonds will also crossover refund \$2,780,000 of the 2003 G.O. Water Treatment Refunding Bonds which will be called on January 1, 2012.

Additional information on the City's long-term debt can be found in the Note 9 of this report.

**CITY OF THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010**

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**Economic Factors and Next Year's Budget**

The City of Thief River Falls' elected officials considered many factors when setting the fiscal year 2011 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 2011 budget on December 21, 2010. For the sixth consecutive year the City did not increase the property tax levy. The property tax levy decrease for 2011 will be 4.15%.

**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](mailto:admin@citytrf.net).