



**ANNUAL FINANCIAL REPORT
DECEMBER 31, 2011**

**CITY OF THIEF RIVER FALLS
P.O. BOX 528 MINNESOTA, 56701**

INTRODUCTORY SECTION

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**CITY OF THIEF RIVER FALLS
THIEF RIVER FALLS, MINNESOTA**

*Annual
Financial Report
Year Ended December 31, 2011*

Prepared By
Office of City Administrator

Lisa Johnson
Finance Director

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**CITY OF THIEF RIVER FALLS, MINNESOTA
OFFICIALS DIRECTORY
AT DECEMBER 31, 2011**

2011

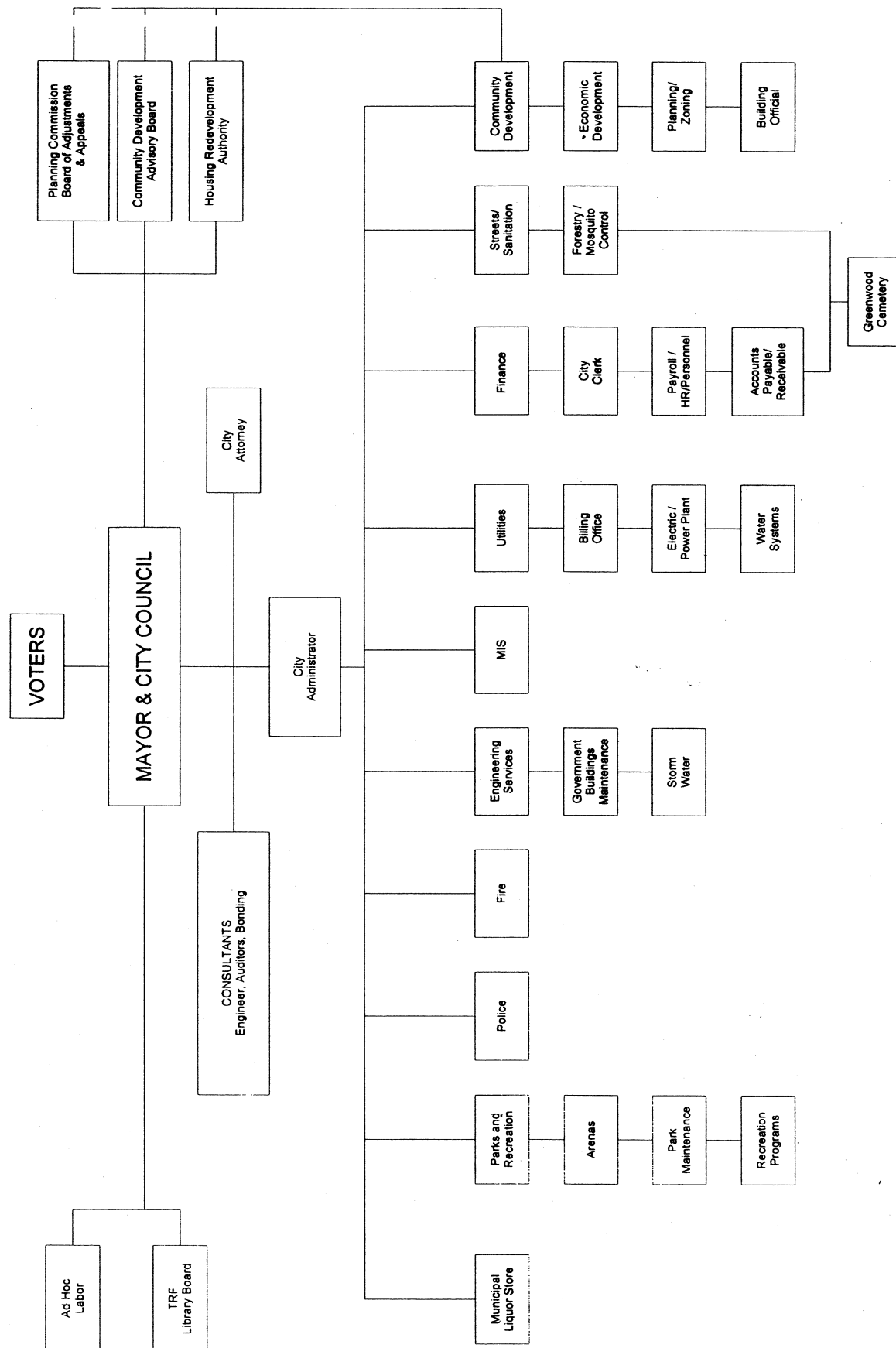
Term Expires

Mayor	Steve Nordhagen	2012
Council Member:		
First Ward	Glen Kajewski	2014
Second Ward	Floyd Erickson	2012
Third Ward	Dean Swanson	2014
Fourth Ward	Conrad Holten	2012
Fifth Ward	Joseph Haj	2014
At Large	Elvera Cullen	2014
At Large (Vice Mayor)	Ken Schmalz	2012
City Administrator	Jodie Torkelson	
Finance Director	Lisa Johnson	
City Attorneys	Ihle & Sparby, P.A.	
Certified Public Accountants	Brady, Martz & Associates, P.C.	

2012

Mayor	Steve Nordhagen	2012
Council Member:		
First Ward (Vice Mayor)	Glen Kajewski	2014
Second Ward	Floyd Erickson	2012
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Fourth Ward	Conrad Holten	2012
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CITY OF THIEF RIVER FALLS - ORGANIZATIONAL CHART



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, 2011, 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.

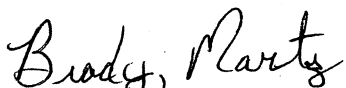
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Thief River Falls, Minnesota, as of December 31, 2011, 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 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and Governmental Accounting Standards Board Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of and for the year ended December 31, 2011. In addition, as discussed in Note 2 to the financial statements, the City elected to report the revolving capital outlay fund, swimming pool fund, and Carnegie library restoration fund as capital project funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, 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 expenditures of federal awards and schedule of passenger facility charges and related expenditures are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local governments, and Non-Profit Organization* and as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, 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.

June 27, 2012

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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 \$46 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 position decreased by \$7,951,919. The City's contribution to the Airport Authority was \$10,240,284.
- The City's governmental funds reported combined ending fund balances of \$6,695,991. Of the total fund balance amount, \$372,362 is restricted, \$2,217,117 is committed, \$2,149,763 is assigned, and \$1,956,749 is unassigned.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was 28.6% of total general fund expenditures of \$6,842,715.

Using the Financial Section of This Annual Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position and Statement of Activities

Our analysis of the City of Thief River Falls begins with the Statement of Net Position 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 Position 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 position* and changes to net position. You can think of the City's net position – 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 position 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 - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 Position 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, CDAB revolving loan fund, and 2011 improvement project fund, which are considered major funds. Data from the other 18 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 Position 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 - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Government-wide Financial Analysis

Over time, net position serves as a useful indicator of the City's financial position. The City of Thief River Falls' assets exceeded liabilities by \$46,353,877. The largest portion of the City's net position (approximately 76 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 16 percent of the City's net position is unrestricted. The unrestricted net position amount of \$7,766,824 as of December 31, 2011, may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 8,764,732	\$ 7,731,567	\$ 9,751,518	\$ 8,946,858	\$ 18,516,250	\$ 16,678,425
Capital Assets	24,796,727	25,186,152	17,523,969	26,441,692	42,320,696	51,627,844
Total Assets	<u>33,561,459</u>	<u>32,917,719</u>	<u>27,275,487</u>	<u>35,388,550</u>	<u>60,836,946</u>	<u>68,306,269</u>
Long-term Liabilities	3,711,523	3,289,974	8,277,901	8,469,701	11,989,424	11,759,675
Other Liabilities	764,828	567,984	1,728,817	1,672,814	2,493,645	2,240,798
Total Liabilities	<u>4,476,351</u>	<u>3,857,958</u>	<u>10,006,718</u>	<u>10,142,515</u>	<u>14,483,069</u>	<u>14,000,473</u>
Net Position						
Net Investment in Capital Assets	22,452,913	23,182,797	12,740,230	21,614,090	35,193,143	44,796,887
Restricted	582,405	237,862	2,811,505	2,864,141	3,393,910	3,102,003
Unrestricted	6,049,790	5,639,102	1,717,034	767,804	7,766,824	6,406,906
Total Net Position	<u>\$ 29,085,108</u>	<u>\$ 29,059,761</u>	<u>\$ 17,268,769</u>	<u>\$ 25,246,035</u>	<u>\$ 46,353,877</u>	<u>\$ 54,305,796</u>

Governmental Activities

The net position of the governmental activities increased by \$25,347. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – totaled \$6,049,790 as of December 31, 2011.

Business-Type Activities

The net position of our business-type activities decreased by \$7,977,266. Unrestricted net position for the City's business-type activities totaled \$1,717,034 as of December 31, 2011.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Fees, Charges, Fines and Other	\$ 2,346,203	\$ 1,991,222	\$ 19,066,787	\$ 17,311,095	\$ 21,412,990	\$ 19,302,317
Operating Grants and Contributions	682,911	750,955	19,797	181,061	702,708	932,016
Capital Grants and Contributions	1,534,845	68,983	2,467,050	907,743	4,001,895	976,726
General Revenues						
Taxes	1,686,985	1,711,863			1,686,985	1,711,863
Unrestricted State Aid	2,649,976	2,646,152			2,649,976	2,646,152
Unrestricted Investment Earnings	151,147	112,185	88,855	59,887	240,002	172,072
Gain on Disposal of Capital Assets	40,000	33,201			40,000	33,201
Other General Revenue	38,575	26,985			38,575	26,985
Total Revenues	9,130,642	7,341,546	21,642,489	18,459,786	30,773,131	25,801,332
Expenses						
General Government	1,298,280	1,428,138			1,298,280	1,428,138
Public Safety	2,610,266	2,371,514			2,610,266	2,371,514
Streets and Sanitation	3,011,296	2,062,252			3,011,296	2,062,252
Culture and Recreation	2,086,941	2,057,967			2,086,941	2,057,967
Economic Development	740,503	390,385			740,503	390,385
Interest on Long-term Debt	68,469	82,772			68,469	82,772
Liquor Dispensary			3,816,258	3,769,294	3,816,258	3,769,294
Electric Utility			11,974,715	9,969,930	11,974,715	9,969,930
Airport			10,279,332	732,007	10,279,332	732,007
Storm Water Utility			160,472	137,326	160,472	137,326
Water Systems Utility			2,678,518	2,630,700	2,678,518	2,630,700
Total Expenses	9,815,755	8,393,028	28,909,295	17,239,257	38,725,050	25,632,285
Change in Net Position Before Transfers	(685,113)	(1,051,482)	(7,266,806)	1,220,529	(7,951,919)	169,047
Transfers	710,460	1,149,695	(710,460)	(1,149,695)		
Change in Net Position	25,347	98,213	(7,977,266)	70,834	(7,951,919)	169,047
Net Position - January 1	29,059,761	28,961,548	25,246,035	25,175,201	54,305,796	54,136,749
Net Position - December 31	\$ 29,085,108	\$ 29,059,761	\$ 17,268,769	\$ 25,246,035	\$ 46,353,877	\$ 54,305,796

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

The City's governmental activities revenue increased by \$1,789,096. The major factors contributing to this overall increase are the increase in program revenues and capital grants and contributions for the completion of the 2011 Street & Utility Improvement Project and donations received for the renovation of the Carnegie Library.

The City's governmental activities expenses increased by \$1,422,727. The major factors contributing to this increase are:

- The street and sanitation expenditures increased because of the completion of the 2011 Street & Utilities Improvement Project.
- 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 \$3,182,703. The City had water and wastewater utility rate increases in January of 2011 and an electric rate increase in April 2011. 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 \$11,670,038. The major factors contributing to this increase are the cost of purchased power in the electric utility fund and the city contribution to the Thief River Falls Airport Authority.

Financial Analysis of the City's Funds

	Major Funds		Increase (Decrease)	Percentage Increase (Decrease)
	Fund Balance / Net Position 12/31/2011	12/31/2010		
Governmental Funds				
General	\$ 2,027,960	\$ 1,767,209	\$ 260,751	15%
CDAB Revolving Loan	2,031,422	2,025,082	6,340	0%
2011 Improvement Project		(3,861)	3,861	-100%
Proprietary Funds				
Liquor Dispensary	1,526,094	1,477,610	48,484	3%
Electric Utility	6,633,010	6,855,585	(222,575)	-3%
Airport		7,819,505	(7,819,505)	-100%
Water Systems Utility	6,536,058	6,558,779	(22,721)	0%

The City's general fund balance increased this year due to close scrutiny and diligence of department supervisors to adhere to budgets and a planned contribution to fund balance due to the continued uncertainty of local government aid and anticipation of possible future cuts. The airport fund realized a decrease in net position due to the creation of and the city contribution to the Thief River Falls Airport Authority.

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 cut of Local Government Aid and Market Value Homestead Credit in the amount of \$390,341.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to \$42,320,697 (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	
	2011	2010	2011	2010	2011	2010
Land	\$ 613,565	\$ 613,565	\$ 425,232	\$ 1,144,076	\$ 1,038,797	\$ 1,757,641
Construction In Progress	503,258	430,203	49,125	1,588,507	552,383	2,018,710
Buildings & Improvements	12,897,567	13,056,485	4,028,077	4,197,567	16,925,644	17,254,052
Improvements Other Than Buildings	9,792,552	10,155,002	12,268,934	18,029,260	22,061,486	28,184,262
Machinery & Equipment	989,785	930,897	752,602	1,482,282	1,742,387	2,413,179
Total	<u>\$ 24,796,727</u>	<u>\$ 25,186,152</u>	<u>\$ 17,523,970</u>	<u>\$ 26,441,692</u>	<u>\$ 42,320,697</u>	<u>\$ 51,627,844</u>

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

- The City's 2011 Improvement Project included water main and manhole replacements totaling \$403,000.
- Construction was completed on a new multi-purpose hangar and a terminal renovation project at the airport.
- A contribution from the city of all capital assets of the airport to the Thief River Falls Airport Authority.

Additional information on the City's capital assets can be found in the Note 9 of this report.

Long-Term Debt

At year-end, the City of Thief River Falls had \$10.1 million in bonds and other long-term debt outstanding.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 1,075,000	\$ 510,000	\$	\$	\$ 1,075,000	\$ 510,000
Revenue Bonds	1,180,000	1,325,000	7,751,958	7,799,537	8,931,958	9,124,537
Purchase Agreement						
Capital Lease	46,500	93,044			46,500	93,044
Note Payable	58,333	83,333			58,333	83,333
Total	<u>\$ 2,359,833</u>	<u>\$ 2,011,377</u>	<u>\$ 7,751,958</u>	<u>\$ 7,799,537</u>	<u>\$ 10,111,791</u>	<u>\$ 9,810,914</u>

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 2011, overall debt of the City is well below the two percent debt limit.

The City issued \$900,000 G.O. Bonds in 2011 to street and water main replacements within the City.

Additional information on the City's long-term debt can be found in the Note 10 of this report.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Economic Factors and Next Year's Budget

The City of Thief River Falls' elected officials considered many factors when setting the fiscal year 2012 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 2012 budget on December 20, 2011. For the seventh consecutive year the City did not increase the property tax levy. The 2012 property tax levy will be 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.

**CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2011**

Exhibit A-1

	<i>Primary Government</i>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Investments	\$ 5,250,869	\$ 3,599,035	\$ 8,849,904
Investments in Escrow		2,811,505	2,811,505
Cash with Fiscal Agent		47,548	47,548
Receivables			
Accounts (Net Allowance)	273,729	1,342,132	1,615,861
Interest	6,242	4,122	10,364
Taxes	40,203		40,203
Special Assessments	684,718	62,120	746,838
Notes (Net Allowance)	1,912,563		1,912,563
Loans		146,454	146,454
Internal Balances	(304,802)	304,802	
Due from Other Governments	892,453	332,893	1,225,346
Inventory (Net Allowance)	5,697	1,100,907	1,106,604
Prepaid Expenses	3,060		3,060
Capital Assets			
Land	613,565	425,232	1,038,797
Construction in Progress	503,258	49,125	552,383
Buildings and Improvements	17,847,677	7,460,930	25,308,607
Improvements Other than Buildings	14,845,967	31,834,171	46,680,138
Machinery and Equipment	3,960,247	4,656,297	8,616,544
Less: Accumulated Depreciation	(12,973,987)	(26,901,786)	(39,875,773)
Total Capital Assets, Net of Depreciation	<u>24,796,727</u>	<u>17,523,969</u>	<u>42,320,696</u>
TOTAL ASSETS	<u>33,561,459</u>	<u>27,275,487</u>	<u>60,836,946</u>
LIABILITIES			
Accounts Payable	577,051	1,206,511	1,783,562
Accrued Payroll Liabilities	154,078	98,209	252,287
Accrued Interest Payable	18,500	122,500	141,000
Due to Other Governments	15,199	116,663	131,862
Customer Deposits		184,934	184,934
Noncurrent Liabilities			
Due Within One Year	512,810	3,175,915	3,688,725
Due in More than One Year	2,438,213	4,855,686	7,293,899
Net Other Postemployment Benefit Liability	760,500	246,300	1,006,800
TOTAL LIABILITIES	<u>4,476,351</u>	<u>10,006,718</u>	<u>14,483,069</u>
NET POSITION			
Net Investment in Capital Assets	22,452,913	12,740,230	35,193,143
Restricted for Debt Service	553,184		553,184
Restricted for TIF District	29,221		29,221
Restricted for Bond Refunding		2,811,505	2,811,505
Unrestricted	6,049,790	1,717,034	7,766,824
TOTAL NET POSITION	<u>\$ 29,085,108</u>	<u>\$ 17,268,769</u>	<u>\$ 46,353,877</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

Exhibit A-2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General Government	\$ 1,298,280	\$ 160,709	\$ 14,071	\$ 481,169	\$ (642,331)	\$ (642,331)
Public Safety	2,610,266	225,001	171,613	10,600	(2,203,052)	(2,203,052)
Streets and Sanitation	3,011,296	934,382	148,837	1,024,076	(904,001)	(904,001)
Culture and Recreation	2,086,941	772,106		19,000	(1,295,835)	(1,295,835)
Economic Development	740,503	254,005	348,390		(138,108)	(138,108)
Interest on Long-term Debt	68,469				(68,469)	(68,469)
Total Governmental Activities	<u>9,815,755</u>	<u>2,346,203</u>	<u>682,911</u>	<u>1,534,845</u>	<u>(5,251,796)</u>	<u>(5,251,796)</u>
Business-type Activities:						
Liquor Dispensary	3,816,258	4,216,697				400,439
Electric Utility	11,974,715	12,262,023				287,308
Airport	10,279,332	8,788	19,797	2,467,050		(7,783,697)
Storm Water Utility	160,472	156,336				(4,136)
Water Systems Utility	2,678,518	2,422,943				(255,575)
Total Business-type Activities	<u>28,909,295</u>	<u>19,066,787</u>	<u>19,797</u>	<u>2,467,050</u>		<u>(7,355,661)</u>
Total Government	<u>\$ 38,725,050</u>	<u>\$ 21,412,990</u>	<u>\$ 702,708</u>	<u>\$ 4,001,895</u>	<u>(5,251,796)</u>	<u>(12,607,457)</u>
General Revenues:						
Taxes - Property					1,564,852	1,564,852
Taxes - Franchise Fees					122,133	122,133
Unrestricted State Aid					2,649,976	2,649,976
Unrestricted Investment Earnings					151,147	240,002
Other General Revenue					38,575	38,575
Gain on Sale of Capital Asset					40,000	40,000
Transfers					710,460	(710,460)
Total General Revenues and Transfers					<u>5,277,143</u>	<u>4,655,538</u>
Change in Net Position					25,347	(7,951,919)
Net Position - January 1					29,059,761	54,305,796
Net Position - December 31					<u>\$ 29,085,108</u>	<u>\$ 46,353,877</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF THIEF RIVER FALLS, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

Exhibit A-3

	<u>General Fund</u>	<u>CDAB Revolving Loan</u>	<u>2011 Improvement Project</u>	<u>Other Governmental Funds Exhibit B-1</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 2,168,849	\$ 448,558	\$	\$ 1,916,976	\$ 4,534,383
Receivables					
Accounts (Net Allowance)	258,364			1,475	259,839
Interest	263	1,466		2,992	4,721
Taxes - Current	37,483			2,720	40,203
Taxes - Delinquent	51,500			3,600	55,100
Special Assessments					
Delinquent				8,659	8,659
Deferred	302,841			373,218	676,059
Notes (Net Allowance)		1,460,194		452,369	1,912,563
Due from Other Funds				332,893	332,893
Due from Other Governments	20,249	127,074	648,969	96,161	892,453
Prepaid Expenses	3,060				3,060
TOTAL ASSETS	\$ 2,842,609	\$ 2,037,292	\$ 648,969	\$ 3,191,063	\$ 8,719,933
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 291,259	\$ 5,870	\$ 145,521	\$ 100,897	\$ 543,547
Accrued Payroll Liabilities	153,850			228	154,078
Due to Other Funds			503,448	67,852	571,300
Due to Other Governments	15,199				15,199
Deferred Revenue	354,341			385,477	739,818
Total Liabilities	814,649	5,870	648,969	554,454	2,023,942
FUND BALANCES					
Nonspendable: Prepaid	3,060				3,060
Restricted for:					
TIF District				29,219	29,219
Debt Service				343,143	343,143
Committed for:					
Park	36,830				36,830
Economic Development		2,031,422			2,031,422
Perpetual Care				148,865	148,865
Assigned for:					
Park	29,982				29,982
Cemetery				64,972	64,972
Capital Project				2,054,809	2,054,809
Unassigned	1,958,088			(4,399)	1,953,689
Total Fund Balances	2,027,960	2,031,422		2,636,609	6,695,991
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,842,609	\$ 2,037,292	\$ 648,969	\$ 3,191,063	\$ 8,719,933

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET POSITION
DECEMBER 31, 2011

Exhibit A-4

Total fund balances - governmental funds	\$ 6,695,991
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	37,708,292
Less: accumulated depreciation	(12,911,565)
Long-term liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
General Obligation Bonds	(2,255,000)
Less: Issuance Discount (to be amortized as interest expense)	16,020
Other Long-Term Obligations	(104,833)
Net Other Postemployment Benefit Liability	(760,500)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(18,500)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(607,210)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	684,717
Internal service fund is used by management to account for its services provided to other departments or funds, on a cost reimbursement basis. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.	<u>637,696</u>
Net Position - governmental activities	\$ <u><u>29,085,108</u></u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit A-5

	<u>General Fund</u>	<u>CDAB Revolving Loan</u>	<u>2011 Improvement Project</u>	<u>Other Governmental Funds Exhibit B-2</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 1,417,381	\$	\$	\$ 269,605	\$ 1,686,986
Special Assessments	57,240			175,075	232,315
Licenses and Permits	113,706				113,706
Intergovernmental - Federal	15,247	340,557	348,507		704,311
Intergovernmental - State	2,762,664		300,462	311,373	3,374,499
Charges for Services	1,904,665			50,700	1,955,365
Fines and Forfeitures	47,412				47,412
Miscellaneous					
Contributions	14,051	7,833		500,189	522,073
Investment Earnings	51,334	43,420		52,411	147,165
Other Receipts	21,381	177,578		10,000	208,959
Total Revenues	<u>6,405,081</u>	<u>569,388</u>	<u>648,969</u>	<u>1,369,353</u>	<u>8,992,791</u>
EXPENDITURES					
Current					
General Government	1,074,333			249,410	1,323,743
Public Safety	2,347,102				2,347,102
Streets and Sanitation	1,533,169				1,533,169
Culture and Recreation	1,649,117			5,171	1,654,288
Economic Development	177,760	563,048			740,808
Debt Service					
Principal	46,544			295,000	341,544
Interest	8,250			62,222	70,472
Bond and Other Fees				856	856
Capital Outlay					
General Government				192,976	192,976
Streets and Sanitation			1,229,061	440,185	1,669,246
Culture and Recreation	6,440			45,706	52,146
Total Expenditures	<u>6,842,715</u>	<u>563,048</u>	<u>1,229,061</u>	<u>1,291,526</u>	<u>9,926,350</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(437,634)</u>	<u>6,340</u>	<u>(580,092)</u>	<u>77,827</u>	<u>(933,559)</u>
OTHER FINANCING SOURCES (USES)					
Bond Issued			690,000		690,000
Bond Discount			(9,000)		(9,000)
Transfers In	971,668			406,140	1,377,808
Transfers Out	(273,283)		(97,047)	(19,733)	(390,063)
Total Other Financing Sources (Uses)	<u>698,385</u>		<u>583,953</u>	<u>386,407</u>	<u>1,668,745</u>
NET CHANGE IN FUND BALANCES	260,751	6,340	3,861	464,234	735,186
FUND BALANCE, JANUARY 1	<u>1,767,209</u>	<u>2,025,082</u>	<u>(3,861)</u>	<u>2,172,375</u>	<u>5,960,805</u>
FUND BALANCE, DECEMBER 31	<u>\$ 2,027,960</u>	<u>\$ 2,031,422</u>	<u>\$</u>	<u>\$ 2,636,609</u>	<u>\$ 6,695,991</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

Exhibit A-6

Total net change in fund balances - governmental funds	\$ 735,186
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 as depreciation expense.	
Capital outlays	699,855
Depreciation expense	(1,100,452)
The net effect of transactions involving capital assets is an increase in net position.	11,449
Proceeds from long-term debt provide current financial resources to governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(681,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	341,544
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 the 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. Also, governmental funds report the effect of issuance costs and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(800)
Decrease in delinquent taxes receivable has no effect in the statement of activities because the revenue had been deferred in the governmental funds.	
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	64,858
In the statement of activities, compensated absences and other postemployment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	(81,093)
Internal service fund is used by management to account for its services provided to other departments or funds, on a cost reimbursement basis. The net revenue of certain activities of the internal service fund is reported with governmental activities.	35,800
Change in net position - governmental activities	\$ <u>25,347</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Property Taxes	\$ 1,267,245	\$ 1,267,245	\$ 1,295,248	\$ 28,003
Franchise Tax - Cable	54,000	54,000	55,460	1,460
Franchise Tax - Gas	69,500	69,500	66,673	(2,827)
	<u>1,390,745</u>	<u>1,390,745</u>	<u>1,417,381</u>	<u>26,636</u>
Special Assessments	<u>27,900</u>	<u>27,900</u>	<u>57,240</u>	<u>29,340</u>
Licenses and Permits				
Business Licenses and Permits	32,888	32,888	33,537	649
Non-Business Licenses and Permits	77,140	77,140	80,169	3,029
	<u>110,028</u>	<u>110,028</u>	<u>113,706</u>	<u>3,678</u>
Intergovernmental				
Federal	18,000	18,000	15,247	(2,753)
State				
Local Governmental Aid	2,660,266	2,418,906	2,420,106	1,200
MV Credit and Other Credits	154,700	5,719	5,438	(281)
Police Aid	112,400	112,400	108,143	(4,257)
Firefighting Aid	45,000	55,600	58,822	3,222
PERA Rate Increase Aid	21,300	21,300	21,318	18
State Urban Street Maintenance	135,000	135,000	148,837	13,837
	<u>3,146,666</u>	<u>2,766,925</u>	<u>2,777,911</u>	<u>10,986</u>
Charges for Services				
General Government	91,926	91,926	97,314	5,388
Police Department	34,000	34,000	37,194	3,194
Fire Department	62,350	62,350	63,669	1,319
Streets and Sanitation	858,300	882,382	934,382	52,000
Parks and Recreation				
Arenas	671,764	671,764	644,290	(27,474)
Other	112,780	121,280	127,816	6,536
	<u>1,831,120</u>	<u>1,863,702</u>	<u>1,904,665</u>	<u>40,963</u>
Fines and Forfeitures	<u>45,000</u>	<u>45,000</u>	<u>47,412</u>	<u>2,412</u>
Miscellaneous				
Investment Earnings	38,200	38,200	51,334	13,134
Contributions		13,000	14,051	1,051
Other	10,000	14,311	21,381	7,070
	<u>48,200</u>	<u>65,511</u>	<u>86,766</u>	<u>21,255</u>
Total Revenues	<u>6,599,659</u>	<u>6,269,811</u>	<u>6,405,081</u>	<u>135,270</u>

cont.

The notes to the basic financial statements are an integral part of this statement.

**CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General Government				
Current				
Mayor and Council	86,845	86,845	82,516	(4,329)
City Administrator	432,225	432,225	425,231	(6,994)
Assessor	33,500	33,500	33,516	16
Independent Auditors	10,500	10,500	14,883	4,383
Legal Services	77,701	77,701	75,246	(2,455)
Insurance	200,500	200,500	214,435	13,935
MIS/GIS	14,000	14,000	14,000	
Building Maintenance	97,965	97,965	134,634	36,669
Other General Government	11,230	76,230	79,872	3,642
	<u>964,466</u>	<u>1,029,466</u>	<u>1,074,333</u>	<u>44,867</u>
Public Safety				
Current				
Police Protection	1,641,472	1,641,472	1,559,263	(82,209)
Fire Protection	670,980	682,580	679,503	(3,077)
Building Official	106,245	106,245	108,336	2,091
	<u>2,418,697</u>	<u>2,430,297</u>	<u>2,347,102</u>	<u>(83,195)</u>
Streets and Sanitation				
Current				
Streets and Sanitation	1,287,050	1,287,050	1,245,221	(41,829)
Street Lighting	123,200	123,200	144,854	21,654
Engineering	144,595	144,595	143,094	(1,501)
	<u>1,554,845</u>	<u>1,554,845</u>	<u>1,533,169</u>	<u>(21,676)</u>
Culture and Recreation				
Current				
Parks and Recreation	440,678	440,678	494,258	53,580
Arenas	961,911	961,911	964,944	3,033
Library	174,524	174,524	168,742	(5,782)
Senior Citizen Program	21,173	21,173	21,173	
Capital Outlay				
Arenas	37,000	6,440	6,440	
	<u>1,635,286</u>	<u>1,604,726</u>	<u>1,655,557</u>	<u>50,831</u>

cont.

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Economic Development	185,140	185,140	177,760	(7,380)
	<u>185,140</u>	<u>185,140</u>	<u>177,760</u>	<u>(7,380)</u>
Debt Service				
Principal	46,544	46,544	46,544	
Interest			8,250	8,250
	<u>46,544</u>	<u>46,544</u>	<u>54,794</u>	<u>8,250</u>
Total Expenditures	<u>6,804,978</u>	<u>6,851,018</u>	<u>6,842,715</u>	<u>(8,303)</u>
REVENUES OVER (UNDER) EXPENDITURES	(205,319)	(581,207)	(437,634)	143,573
OTHER FINANCING SOURCES (USES)				
Transfers In	951,935	971,668	971,668	
Transfers Out	<u>(662,541)</u>	<u>(273,282)</u>	<u>(273,283)</u>	<u>(1)</u>
Total Other Financing Sources (Uses)	<u>289,394</u>	<u>698,386</u>	<u>698,385</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCES	84,075	117,179	260,751	143,572
FUND BALANCE, JANUARY 1	<u>1,767,209</u>	<u>1,767,209</u>	<u>1,767,209</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,851,284</u>	<u>\$ 1,884,388</u>	<u>\$ 2,027,960</u>	<u>\$ 143,572</u>

The notes to the basic financial statements are an integral part of this statement.

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CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2011

Exhibit A-8

	Business-type Activities - Enterprise Funds						Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Airport	Water Systems Utility	Nonmajor		
					Storm Water Utility	Total	
ASSETS							
CURRENT ASSETS							
Cash and Investments	\$ 911,253	\$ 1,763,283	\$	\$ 485,291	\$ 439,208	\$ 3,599,035	\$ 716,486
Investments in Escrow				2,811,505		2,811,505	
Cash with Fiscal Agent				47,548		47,548	
Accounts Receivable (Net of Allowance)	1,484	1,115,326		212,055	13,267	1,342,132	13,890
Special Assessments - Current				12,424		12,424	
Interest Receivable	760	2,298		508	556	4,122	1,521
Loan Receivable		146,454				146,454	
Due from Other Funds		45,416				45,416	
Due from Other Governments			332,893			332,893	571,302
Inventory (Net Allowance)	415,723	551,211		133,973		1,100,907	5,697
Total Current Assets	1,329,220	3,623,988	332,893	3,703,304	453,031	9,442,436	1,308,896
NONCURRENT ASSETS							
Special Assessments - Noncurrent				49,696		49,696	
Advances to Other Funds		208,057				208,057	
CAPITAL ASSETS							
Land	178,942	53,052		193,238		425,232	
Construction In Progress				49,125		49,125	
Buildings and Improvements	722,295	799,030		5,939,605		7,460,930	
Improvements Other than Buildings		11,806,001		17,883,220	2,144,950	31,834,171	
Machinery and Equipment	95,077	1,440,749		2,981,897	138,574	4,656,297	62,422
Less: Accumulated Depreciation	(460,309)	(9,746,878)		(15,894,677)	(799,922)	(26,901,786)	(62,422)
Total Capital Assets (Net of Accumulated Depreciation)	536,005	4,351,954		11,152,408	1,483,602	17,523,969	
Total Noncurrent Assets	536,005	4,560,011		11,202,104	1,483,602	17,781,722	
Total Assets	1,865,225	8,183,999	332,893	14,905,408	1,936,633	27,224,158	1,308,896
							cont.

cont.

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2011

Exhibit A-8

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Airport	Water	Nonmajor	
				Systems Utility	Storm Water Utility	
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	200,843	958,668		46,505	496	1,206,512
Accrued Payroll Liabilities	6,497	20,110		71,376	226	98,209
Accrued Interest Payable				122,500		122,500
Compensated Absences Payable	13,000	51,000		18,000		82,000
Due to Other Funds			332,893	45,416		378,309
Due to Other Governments	39,732	76,788		143		116,663
Customer Deposits		184,934				184,934
Bonds Payable - Current				3,093,915		3,093,915
Total Current Liabilities	260,072	1,291,500	332,893	3,397,855	722	5,283,042
						33,504
NONCURRENT LIABILITIES						
Advances from Other Funds				208,057		208,057
Compensated Absences Payable	45,859	128,489		91,514		265,862
Revenue Bonds Payable (Net of Discount)				4,589,824		4,589,824
Net Other Postemployment Benefit Liability	33,200	131,000		82,100		246,300
Total Noncurrent Liabilities	79,059	259,489		4,971,495		5,310,043
Total Liabilities	339,131	1,550,989	332,893	8,369,350	722	10,593,085
						33,504
NET POSITION						
Net Investment in Capital Assets	536,005	4,351,954		6,368,669	1,483,602	12,740,230
Restricted for Bond Refunding				2,811,505		2,811,505
Unrestricted	990,089	2,281,056		(2,644,116)	452,309	1,079,338
						1,275,392
Total Net Assets	\$ 1,526,094	\$ 6,633,010	\$	\$ 6,536,058	\$ 1,935,911	\$ 16,631,073
						\$ 1,275,392
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						
						637,696
Net assets of business-type activities						
						\$ 17,268,769

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit A-9

	Business-type Activities - Enterprise Funds						Governmental Activities
	Liquor Dispensary	Electric Utility	Airport	Water	Nonmajor		
				Systems Utility	Storm Water Utility	Total	
OPERATING REVENUES							
Sales	\$ 4,214,442	\$	\$	\$	\$	\$ 4,214,442	\$
Cost of Sales	3,229,473					3,229,473	
Gross Profit	984,969					984,969	
Charges for Services		11,825,576		2,374,108	156,336	14,356,020	562,596
Miscellaneous	2,256	436,447		48,835		487,538	
Total Operating Revenues	987,225	12,262,023		2,422,943	156,336	15,828,527	562,596
OPERATING EXPENSES							
Salaries and Wages	273,617	1,026,514		713,595	30,587	2,044,313	5,842
Employee Benefits and Payroll Taxes	111,146	246,291		131,220	7,721	496,378	870
Administrative Fees		265,227				265,227	
Electrical Operations and Maintenance		9,818,153		417,127	2,710	9,818,153	75,491
Supplies	14,715	49,315		253,585		483,867	
Utilities	26,128					279,713	
Other Services and Charges		129,498				129,498	
Repairs and Maintenance				235,509	20,809	258,207	37,879
Advertising	1,889					60,032	
Insurance	60,032	67,752		51,044		134,790	390,829
License, Tax, and Other	59,855			71,165	31,164	162,184	
Depreciation	26,289	385,670		550,763	67,481	1,030,203	277
Total Operating Expenses	589,665	11,988,420		2,424,008	160,472	15,162,565	511,188
Operating Income (Loss)	397,560	273,603		(1,065)	(4,136)	665,962	51,408

cont.

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit A-9

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Airport	Water Systems Utility	Nonmajor Storm Water Utility	Total
NONOPERATING REVENUE (EXPENSE)						
Investment Earnings	13,759	39,022		18,590	7,383	78,754
Intergovernmental - Federal Revenue			230,909			230,909
Intergovernmental - State Revenue			1,803,569			1,803,569
Intergovernmental - Local			452,369			452,369
Other Revenue			8,788			8,788
Contribution to Other Government			(10,240,284)			(10,240,284)
Interest Expense			(16,048)	(263,632)		(279,680)
Other Expense			(23,000)			(23,000)
Total Nonoperating Revenue (Expense)	<u>13,759</u>	<u>39,022</u>	<u>(7,783,697)</u>	<u>(245,042)</u>	<u>7,383</u>	<u>(7,968,575)</u>
						<u>20,199</u>
Net Income (Loss) before Transfers and Contribution	411,319	312,625	(7,783,697)	(246,107)	3,247	(7,302,613)
Capital Contributions						
Transfers Out	<u>(362,835)</u>	<u>(535,200)</u>	<u>(35,808)</u>	<u>277,286</u>		<u>277,286</u>
				<u>(53,900)</u>		<u>(987,743)</u>
Change in Net Position	48,484	(222,575)	(7,819,505)	(22,721)	3,247	(8,013,070)
NET POSITION, JANUARY 1,	1,477,610	6,855,585	7,819,505	6,558,779	1,932,664	1,203,785
NET POSITION, DECEMBER 31	<u>\$ 1,526,094</u>	<u>\$ 6,633,010</u>	<u>\$</u>	<u>\$ 6,536,058</u>	<u>\$ 1,935,911</u>	<u>\$ 1,275,392</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						35,804
Change in net position of business-type activities						<u>\$ (7,977,266)</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit A-10

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Airport	Water	Nonmajor	
				Systems Utility	Storm Water Utility	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers and Users	\$ 4,222,009	\$ 12,263,363	\$ 3,073	\$ 2,393,100	\$ 156,239	\$ 19,037,784
Receipts from Interfund Services Provided						
Payments to Suppliers	(3,373,989)	(10,113,288)	(21,376)	(1,037,656)	(54,864)	(14,601,173)
Payments to Employees	(370,080)	(1,374,705)	(79,336)	(849,447)	(38,231)	(2,711,799)
Net Cash Provided (Used) by Operating Activities	477,940	775,370	(97,639)	505,997	63,144	1,724,812
						566,466
						(472,068)
						(6,712)
						87,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Customer Loans Made		(20,294)				(20,294)
Customer Loans Repayments		127,676				127,676
Special Assessments Received				12,424		12,424
Interest Paid			(16,048)			(16,048)
Change in Interfund Loans		42,505	(830,888)	(42,508)		(830,891)
Transfers to Other Funds	(362,835)	(535,200)	(35,808)	(53,900)		(987,743)
Other Revenue (Expense)			(14,212)			(14,212)
Net Cash Provided (Used) by Noncapital Financing Activities	(362,835)	(385,313)	(896,956)	(83,984)		(1,729,088)
						28,699
						28,699
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Capital Debt				210,000		210,000
Intergovernmental Revenue Received			3,022,709			3,022,709
Purchase of Capital Assets		(99,553)	(2,028,142)	(125,322)		(2,253,017)
Cash with Fiscal Agent - January 1 Principal				(47,548)		(47,548)
Payment of Long-Term Debt				(197,104)		(197,104)
Interest on Long-Term Debt				(246,822)		(246,822)
Net Cash Used by Capital and Related Financing Activities		(99,553)	994,567	(406,796)		488,218

cont.

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit A-10

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Airport	Water Systems Utility	Nonmajor Storm Water Utility	
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment Earnings	14,223	38,850		18,897	7,453	79,423
Purchase of Investment				(7,838)		(7,838)
Net Cash Provided by Investing Activities	<u>14,223</u>	<u>38,850</u>		<u>11,059</u>	<u>7,453</u>	<u>71,585</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	129,328	329,354	(28)	26,276	70,597	555,527
CASH AND CASH EQUIVALENTS, JANUARY 1	781,925	1,433,929	28	459,015	368,611	3,043,508
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 911,253</u>	<u>\$ 1,763,283</u>	<u>\$</u>	<u>\$ 485,291</u>	<u>\$ 439,208</u>	<u>\$ 3,599,035</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 397,560	\$ 273,603	\$	(1,065)	\$ (4,136)	\$ 665,962
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	26,289	385,670		550,763	67,481	1,030,203
Change in:						
Receivables	4,213	(37,859)	3,073	(29,885)	(97)	(60,555)
Inventory	(7,553)	30,300		(10,494)		12,253
Accounts Payable	41,650	186,357	(21,376)	1,268	(181)	207,718
Accrued Payroll Liabilities	280	(1,329)	(79,336)	57,131	77	(23,177)
Compensated Absences	(997)	(54,171)		(34,263)		(89,431)
Due to Other Governments	1,098	5,676		42		6,816
Customer Deposits		33,523				33,523
Net Other Postemployment Benefit Obligation	15,400	(46,400)		(27,500)		(58,500)
Total Adjustments	<u>80,380</u>	<u>501,767</u>	<u>(97,639)</u>	<u>507,062</u>	<u>67,280</u>	<u>1,058,850</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 477,940</u>	<u>\$ 775,370</u>	<u>\$ (97,639)</u>	<u>\$ 505,997</u>	<u>\$ 63,144</u>	<u>\$ 1,724,812</u>
NONCASH CAPITAL ACTIVITIES						
Contribution to Other Government	\$	\$	\$ 10,240,284	\$	\$	\$ 10,240,284
Contributed Capital Asset				277,286		277,286
Payment of Long-Term Debt from Escrow				60,475		60,475

The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND - POLICE RELIEF ASSOCIATION RETIREMENT SYSTEM PENSION TRUST FUND
DECEMBER 31, 2011

Exhibit A-11

ASSETS

Cash and Investments	\$ 101,321
Interest Receivable	144
Prepaid Benefits	<u>2,187</u>
Total Assets	<u>103,652</u>

NET POSITION

Held in Trust for Pension Benefits	<u>\$ 103,652</u>
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The notes to the basic financial statements are an integral part of this statement.

CITY OF THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND - POLICE RELIEF ASSOCIATION RETIREMENT SYSTEM PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2011

Exhibit A-12

ADDITIONS

Contributions: Employer	\$ 8,615
Investment Earnings	<u>1,913</u>
Total Additions	<u>10,528</u>

DEDUCTIONS

Benefits	<u>25,356</u>
Total Deductions	<u>25,356</u>
Change in Net Position	(14,828)
NET POSITION, JANUARY 1	<u>118,480</u>
NET POSITION, DECEMBER 31	<u>\$ 103,652</u>

The notes to the basic financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Thief River Falls was incorporated June 1, 1874, and is a fourth class statutory city under Minnesota Statutes with a Council-Mayor form of government.

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification). The City's significant accounting policies are described below.

A. Financial Reporting Entity

The City of Thief River Falls was organized November 4, 1896, pursuant to 1895 Minnesota Laws, Chapter 8. The City became an optional Plan A statutory city pursuant to 1973 Minnesota Laws, Article II, Section 4, effective January 1, 1975. The City operates under a Mayor-Council form of government and provides the following services authorized by Statute: public safety (police and fire), highways and streets, sanitation, electric, water and wastewater utilities, culture and recreation, regional airport, municipal liquor dispensary, planning and zoning, and general administrative services. The City is located in Northwestern Minnesota with a population of approximately 8,587.

For financial reporting purposes, the City of Thief River Falls primary government includes all funds, elected officials, departments, boards, commissions, and authorities that make up the City's legal entity.

Component units are legally separated entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants which 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 not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary 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 government 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, sales taxes, franchise tax, 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 government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *CDAB revolving loan fund* accounts for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *2011 improvement project fund* accounts for financial resources to be used for construction of 2001 improvement project.

The government reports the following major proprietary funds:

The *liquor dispensary fund* is used to account for revenues and expenses to operate the municipal liquor store.

The *electric utility fund* is used to account for revenues and expenses to operate the electrical services to the City's residents.

The *airport fund* is used to account for revenues and expenses to operate the Thief River Falls Regional Airport.

The *water systems utility fund* is used to account for revenues and expenses to operate the water and wastewater services to the City's residents.

Additionally, the government reports the following fund types:

The *internal service fund* account for inter-departmental distribution for services provided to other departments or funds, on a cost reimbursement basis.

The *fiduciary fund* is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because resources of those funds are not available to support the City's own programs.

The *pension trust fund* accounts for the activities of the Police Relief Association, which accumulates resources for pension benefit payments to qualified public safety employees.

Private-sector standards of the 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. 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 government 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.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund.

E. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand and demand deposits. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

F. Fiscal Agent

The City Council has authorized the Northwest Minnesota Multi-County Housing and Redevelopment Authority to administer the SCDP projects. The Northwest Minnesota Multi-County Housing and Redevelopment Authority's fiscal year ends June 30th. Included in the Due from Other Governments is the cash held by Northwest Minnesota Multi-County Housing and Redevelopment Authority of \$121,219.

G. Investments

The cash balances of substantially all funds are pooled and deposited by the Finance Director for the purpose of operating activities. Excess cash deposits are invested by individual funds for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Investment earnings on cash and pooled investments are allocated to funds with deposits. Pooled investment earnings for 2011 were \$136,360.

H. Accounts Receivable

Utility receivables are carried at invoice amount. The City uses a direct write-off method for uncollectible accounts receivable. These amounts do not have a material effect on the financial condition of the City.

A utility receivable is considered to be past due if any portion of the receivable balance is outstanding after the 10th of the month and the customer will be charged a 10% late fee.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011**

I. Revenue Recognition – Electric and Water

Revenues from electric and water sales are reflected in the accounts only at the time the meters are read. Accordingly, the revenues related to the electric and water service delivered, but not metered, are not accrued. The City reads meters throughout the month. The City maintains 30 meter books. Meters are read between the 21st of the previous month and 19th of the current month. Invoices are mailed on the 1st of the month and are due on the 10th.

J. Property Taxes

Property taxes are set by the city council in December each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 28 and June 30; and Real Property - May 15 and October 15. The county remits the collections to the City and other taxing districts three times a year, in January, June, and November.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. The receivable is fully offset by an allowance for delinquent taxes as it is not available to finance current expenditures.

Taxes payable on homestead property (as defined by Minnesota Statutes) are partially reduced by a market value credit. This credit is paid to the City by the state in lieu of taxes levied against homestead property. The state remits this credit in two equal installments in October and December each year.

K. Special Assessments Receivable

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

Deferred - assessment installments that will be billed to property owners in future years.

Special assessments receivables not expected to be collected within one year are \$626,000.

L. Interfund Receivables/Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances from/to other funds" (the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

M. Inventories

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in proprietary funds when used. All inventories are valued at cost using the first-in, first-out (FIFO) method.

N. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, improvements other than buildings (which includes infrastructure), and machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year, except land and construction in progress which are capitalized regardless of cost. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Infrastructure, buildings and improvements, improvements other than buildings, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40-75
Buildings and improvements	25-50
Improvements other than buildings	10-20
Machinery and equipment	5-10

O. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated sick leave and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

P. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Q. Sales Tax

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

R. 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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011**

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

S. Fund Balance

For the year ended December 31, 2011, the City implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

Nonspendable - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Administrator and Finance Officer, jointly.

Unassigned - consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The City will strive to maintain a minimum unassigned general fund balance of 35% of the annual budget.

T. Net Position

For the year ended December 31, 2011, the City implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, Elements of Financial Statements.

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2. RESTATEMENT

As of January 1, 2011, the City has elected to report the revolving capital outlay fund, swimming pool fund, and Carnegie library restoration fund as capital project funds. These funds were previously reported as special revenue funds.

NOTE 3. AIRPORT FUND

The City has entered into a joint resolution authorizing and directing the creation of an Airport Authority. In the agreement, the existing capital assets (non-real property) shall transfer to the Airport Authority, and in the agreement the City has leased to the Airport Authority the real property, including fixtures. The lease shall be for ninety-nine years and shall be for the sum of \$1.

Effective January 1, 2011, the Airport Authority was responsible for the operations of the airport. The City completed three airport construction projects during 2011, and, once the projects were completed, the capital assets were transferred to the Airport Authority.

NOTE 4. DEFICIT FUND BALANCE

The 2013 utility improvement fund had a deficit fund balance of \$4,399 as of December 31, 2011. The deficit is expected to be eliminated through future revenue or bond proceeds.

NOTE 5. LEGAL COMPLIANCE-BUDGETS

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

By September 15 of each year, the city council drafts a preliminary budget. Public hearings are held if required. The final budget is approved by December 20 and a certified levy is sent to Pennington County.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservation of fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Legal debt obligation indentures determine the appropriate level of debt service tax levies for the debt service funds. Supplementary budgets are adopted for the proprietary funds to determine and calculate user charges. These debt service and budget amounts represent general obligation bond indenture provisions and net income for operations and capital maintenance and are not reflected in the financial statements. The City does not adopt a budget for the special revenue funds, except for the cemetery fund.

The legal level of budgetary control is at the department level for the general fund and the fund level for other funds. Monitoring of budgets is maintained at the expenditure category level (i.e., salary and wages, payroll taxes and fringe benefits, supplies purchased, services purchased, other charges, and capital outlay) within each program. All amounts over budget have been approved by the city council through the disbursement process.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011**

NOTE 6. DEPOSITS AND INVESTMENTS

The pooled cash and investments account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 4,534,383
Proprietary Funds	7,127,026
Fiduciary Funds	101,321
	<u>\$ 11,762,730</u>
Deposits	
Cash, Checking, Certificates of Deposits, and Change Funds	\$ 3,488,487
Investments	8,274,243
	<u>\$ 11,762,730</u>

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

Investment Type	Maturity	Fair Value
Federal National Mortgage Association	10/29/25	\$ 1,500,765
Federal National Mortgage Association	10/26/26	1,000,520
External Investment Pool - 4M Fund		2,961,453
State and Local Government Series	01/01/12 *	2,811,505
		<u>\$ 8,274,243</u>

*January 1, 2012 is the bond's call date.

The 4-M Fund is regulated under the guidelines of Minnesota State Statutes Section 118A and investments are managed in accordance with SEC regulation 2A7. The fair value of the position in the 4-M Plus Fund is the same as the value of the pool shares.

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

- h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

As of December 31, 2011, the City's investment in the Federal National Mortgage Association was rated AA+ by Standard & Poor's or AAA by Moody's Investors Service.

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in the State and Local Government Series and the Federal National Mortgage Association. These investments are 33% and 30% respectively, of the City's total investments.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2011, the City was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the 4-M Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 7. NOTES RECEIVABLE

The City has various notes receivable from individuals and organizations at December 31, 2011, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
CDAB Revolving Loan Fund - Economic Development Loans	2012 - 2022	0.0 - 6.00%	\$1,460,194
Revolving Capital Outlay Fund - Development Loan	2012 - 2022	3.5%	452,369
			<u>\$1,912,563</u>

The provision for uncollectible was \$139,543.

NOTE 8. LOAN RECEIVABLE

The City has various loan receivables from individuals and organizations at December 31, 2011, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Electric Utility Fund - Dual Heat Loans	2012 - 2014	0.0 - 7.00%	\$146,454

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

NOTE 9. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 613,565	\$	\$	\$ 613,565
Construction In Progress	430,203	330,608	257,553	503,258
Total Capital Assets, not being depreciated	<u>1,043,768</u>	<u>330,608</u>	<u>257,553</u>	<u>1,116,823</u>
Capital Assets, being depreciated:				
Buildings and Improvements	17,592,569	255,108		17,847,677
Improvements Other Than Buildings	14,739,708	112,034	5,775	14,845,967
Machinery and Equipment	3,911,010	299,658	250,421	3,960,247
Total Capital Assets, being depreciated	<u>36,243,287</u>	<u>666,800</u>	<u>256,196</u>	<u>36,653,891</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	4,536,084	414,026		4,950,110
Improvements Other Than Buildings	4,584,706	469,551	842	5,053,415
Machinery and Equipment	2,980,113	217,152	226,803	2,970,462
Total Accumulated Depreciation	<u>12,100,903</u>	<u>1,100,729</u>	<u>227,645</u>	<u>12,973,987</u>
Total Capital Assets, being depreciated, net	<u>24,142,384</u>	<u>(433,929)</u>	<u>28,551</u>	<u>23,679,904</u>
Governmental Activities Capital Assets, net	<u>\$ 25,186,152</u>	<u>\$ (103,321)</u>	<u>\$ 286,104</u>	<u>\$ 24,796,727</u>
<u>Business-type Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 1,144,076	\$	\$ 718,844	\$ 425,232
Construction in Progress	1,588,507		1,539,382	49,125
Total Capital Assets, not being depreciated	<u>2,732,583</u>		<u>2,258,226</u>	<u>474,357</u>
Capital Assets, being depreciated:				
Buildings and Improvements	8,484,030	2,846,875	3,869,975	7,460,930
Improvements Other Than Buildings	40,811,272	978,225	9,955,326	31,834,171
Machinery and Equipment	6,227,387	63,810	1,634,899	4,656,298
Total Capital Assets, being depreciated	<u>55,522,689</u>	<u>3,888,910</u>	<u>15,460,200</u>	<u>43,951,399</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	4,286,463	153,106	1,006,716	3,432,853
Improvements Other Than Buildings	22,782,012	716,523	3,933,298	19,565,237
Machinery and Equipment	4,745,105	160,574	1,001,983	3,903,696
Total Accumulated Depreciation	<u>31,813,580</u>	<u>1,030,203</u>	<u>5,941,997</u>	<u>26,901,786</u>
Total Capital Assets, being depreciated, net	<u>23,709,109</u>	<u>2,858,707</u>	<u>9,518,203</u>	<u>17,049,613</u>
Business-type Activities Capital Assets, net	<u>\$ 26,441,692</u>	<u>\$ 2,858,707</u>	<u>\$ 11,776,429</u>	<u>\$ 17,523,970</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

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

Governmental Activities:	
General Governmental	\$ 38,889
Public Safety	84,549
Streets and Sanitation, including Depreciation of General Infrastructure Assets	502,513
Culture and Recreation	474,778
Total Depreciation Expense – Governmental Activities	<u>\$1,100,729</u>
Business-type Activities:	
Liquor Dispensary	\$ 26,289
Electric Utility	385,670
Water Systems Utility	550,763
Storm Water Utility	67,481
Total Depreciation Expense – Business-type Activities	<u>\$1,030,203</u>

NOTE 10. LONG-TERM DEBT

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$2,755,000. During the year general obligation bonds totaling \$690,000 were issued to finance a construction project.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for General Government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities - Refunding	4.05 to 4.38%	\$385,000
Governmental Activities	0.65 to 3.20%	690,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 130,000	\$ 25,078
2013	175,000	21,652
2014	175,000	15,816
2015	55,000	12,710
2016	55,000	12,105
2017-2021	290,000	45,708
2022-2024	195,000	9,149
	<u>\$ 1,075,000</u>	<u>\$ 142,218</u>

Revenue Bonds. The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$11,070,525. During the year general obligation revenue bonds totaling \$210,000 were issued to finance utility improvements. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	2.85 to 3.87%	\$1,180,000
Business-type Activities	1.65 to 4.20%	1,871,958
Business-type Activities – Refunding	2.00 to 3.65%	5,880,000

Revenue bonds payable for governmental activities and business-type activities are presented in the financial statements net of bond discount of \$16,020 and \$68,218, respectively.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 150,000	\$ 39,283	\$ 3,093,915	\$ 189,462
2013	155,000	34,782	370,290	120,149
2014	160,000	29,518	376,702	112,372
2015	170,000	23,537	383,155	104,295
2016	175,000	17,285	394,648	96,026
2017-2021	370,000	14,421	2,008,244	331,274
2022-2026			940,000	83,469
2027-2030			185,004	14,900
	<u>\$ 1,180,000</u>	<u>\$ 158,826</u>	<u>\$ 7,751,958</u>	<u>\$ 1,051,947</u>

Other Long-term Obligations. The City entered into a note with the City of Red Lake Falls for \$225,000. The City also acquired police equipment under a capital lease. The leased equipment had a cost of \$87,418 and accumulated depreciation on this leased asset as of December 31, 2011 totaled \$51,719.

Notes payable and capital lease currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	0.0 %	\$ 104,833

Annual debt service requirements to maturity for other long-term obligations are as follows:

Year Ending December 31	Governmental Activities Principal
2012	\$ 71,500
2013	25,000
2014	8,333
	<u>\$ 104,833</u>

Crossover Refunding. During 2010 the City issued \$2,900,000 in general obligation refunding bonds with interest rates ranging between 2.0 to 3.2%. The City issued the bonds to refund the following outstanding general obligation:

<u>General Obligation</u>	<u>Refunding Date</u>	<u>Interest Rate</u>	<u>Amount</u>
General Obligation Water Treatment Refunding Bonds, Series 2003	1/1/2012 *	3.5 - 4.7%	\$ 2,780,000

* The City used a portion of the net proceeds to purchase U.S. Treasury Securities. These securities were deposited in an escrow account to provide for future debt service on the refunded portion of the general obligation bonds.

The City will realize a savings of \$201,600, with a present value of \$170,000.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Bonds Payable					
G.O. Special Assessment					
Bonds	\$ 510,000	\$ 690,000	\$ 125,000	\$ 1,075,000	\$ 130,000
G.O. State-Aid Street Bonds	1,325,000		145,000	1,180,000	150,000
Less: Deferred Amounts on					
Discounts	(8,020)	(9,000)	(1,000)	(16,020)	(1,690)
Total Bonds Payable	<u>1,826,980</u>	<u>681,000</u>	<u>269,000</u>	<u>2,238,980</u>	<u>278,310</u>
Other Long-term Obligations					
Capital Lease	93,044		46,544	46,500	46,500
Notes Payable	83,333		25,000	58,333	25,000
Total Other Long-term					
Obligations	<u>176,377</u>		<u>71,544</u>	<u>104,833</u>	<u>71,500</u>
Compensated Absences	612,417	330,400	335,607	607,210	163,000
Governmental Activity					
Long-term Liabilities	<u>\$ 2,615,774</u>	<u>\$ 1,011,400</u>	<u>\$ 676,151</u>	<u>\$ 2,951,023</u>	<u>\$ 512,810</u>
<u>Business-type Activities</u>					
Bonds Payable					
Revenue Bonds	\$ 7,799,537	\$ 210,000	\$ 257,579	\$ 7,751,958	\$ 3,093,915
Less: Deferred Amounts on					
Discounts	(71,929)		(3,710)	(68,219)	
Total Bonds Payable	<u>7,727,608</u>	<u>210,000</u>	<u>253,869</u>	<u>7,683,739</u>	<u>3,093,915</u>
Compensated Absences	437,293	185,107	274,538	347,862	82,000
Business-type Activity					
Long-term Liabilities	<u>\$ 8,164,901</u>	<u>\$ 395,107</u>	<u>\$ 528,407</u>	<u>\$ 8,031,601</u>	<u>\$ 3,175,915</u>

In the governmental activities, compensated absences are generally liquidated by the general fund.

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 11. JOINT VENTURES

Multi-Events Center

A Joint Powers Board was formed in the fall of 1995 for the purpose of coordinating the funding, design, and development of a Multi-Events Center. The current members of the Joint Powers Board are the City of Thief River Falls, Pennington County, School District No. 564, and Northland Community & Technical College.

The Multi-Events Center is a complex of facilities located on an 80 acre site east and north of Northland Community & Technical College which, when fully developed, will serve Northwestern Minnesota as a regional center for athletic events. The master plan for the complex, which contemplates the facilities being developed in a four phase process over a number of years, could eventually consist of an aquatic center, events center and field house.

Phase I consisting of site improvements, a football stadium and track, a locker room – restroom – ticket sales building, track and field events areas, a baseball – softball complex, parking, and other related amenities has been completed.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011**

Phases II – IV will be designated and constructed only when private sources of funding become available. The City of Thief River Falls serves as the fiscal agent for the Joint Powers Board and the Multi-Events Center Fund is a part of these financial statements.

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statutes, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Complete financial information can be obtained from Northwest Regional Library, 210 Labree Avenue North, Thief River Falls, MN 56701.

NOTE 12. JOINTLY-GOVERNED ORGANIZATIONS

The Thief River Falls Airport Authority was formed pursuant to Minnesota Statutes §360.0425 to §360.0427, effective June 15, 2010. The Airport Authority was created for the purposes of acquiring, establishing, constructing, maintaining, improving, and operating the Airport. The Airport Authority shall consist of five Commissioners as follows: two commissioners to be appointed by City Council, both of whom shall be members of the City Council; two Commissioners to be appointed by the County Board, both of whom shall be members of the County Board; and one lay commissioner who is a resident of either the City or the County shall be mutually appointed by the City Council and the County Board. The commissioners shall each be appointed for three-year terms, and shall serve until their successors are appointed and qualified. Terms shall be staggered so that the terms of approximately one-third of the Commissioners expire each calendar year. Complete financial statements of the Airport Authority can be obtained from its administrative office in Thief River Falls, Minnesota.

NOTE 13. EMPLOYEE FLEXIBLE BENEFIT PLAN

The City has an IRS Section 125 Flexible Benefit Plan to enable City employees to use pre-tax dollars for certain health related expenses. The City's plan is administered by a private business firm which issues the expense reimbursement checks and is responsible for compliance with all IRS regulations.

NOTE 14. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through the City's collective bargaining agreements with employee groups. At December 31, 2011, 36 retired employees and spouses were eligible to participate. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Funding Policy. Retirees and their spouses contribute to the healthcare plan at the same rate as City employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The City provides postemployment healthcare benefits to qualifying retirees in the amount of \$100 per month with a maximum of 60 months of contributions. The City was able to grandfather this postemployment benefit out of all the City's collective bargaining agreements for future hires.

The City may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For 2011, the City made no contributions and instead elected to continue funding on a pay-as-you-go basis, which amounted to \$109,358 (\$15,439 City paid premiums and \$93,919 implicit subsidy). These costs are recognized as an expense when claims or premiums are paid.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

Annual OPEB Cost and Net OPEB Obligation. For 2011, the components of the City's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation to the Plan were as follows:

	2011
Annual Required Contribution	\$ 154,575
Interest on Net OPEB Obligation	39,160
Adjustment to Annual Required Contribution	(56,577)
Annual OPEB cost	137,158
Contributions or Payments Made	(109,358)
Increase in Net OPEB Obligation	27,800
Net OPEB Obligation, Beginning of Year	979,000
Net OPEB Obligation, End of Year	\$ 1,006,800

Percentage of Annual OPEB Cost Contributed 80%

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 137,158	\$ 109,358	80 %	\$ 1,006,800
12/31/2010	494,100	201,000	41	979,000
12/31/2009	499,700	182,900	37	685,900

Funded Status and Funding Progress. The funded status of the Plan as of January 1, 2011, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,473,348
Actuarial Value of Assets	
Unfunded AAL (UAAL)	\$ 1,473,348

Funded Ratio 0%

Covered Payroll \$ 4,687,712

UAAL as % of Covered Payroll 31%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the City and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the City and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include a 4% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets, and a base payroll growth rate of 4%. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study,

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011**

the assumed rate ranges from 10% to 5% for healthcare related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

NOTE 15. DEFINED BENEFIT PENSION PLANS

Substantially all employees of the City are required by state law to belong to the pension plan administered by the Public Employees Retirement Association (PERA), which is administered on a statewide basis.

A. Public Employees Retirement Association

Plan Description

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

GERF members belong to either the Coordinated Plan or the 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, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

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

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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for GERF 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 members hired prior to July 1, 1989. Normal retirement age for unreduced Social Security benefits capped at 66 for Coordinated 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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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 plan equal to the amount

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.4% of their annual covered salary in 2011. The City of Thief River Falls is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, 7.25% for Coordinated Plan GERP members, and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009, were \$264,425, \$263,945, and \$302,319, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2011, 2010, and 2009, were \$182,307, \$173,411, and \$170,526, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

B. City of Thief River Falls Police Relief Association

Plan Description

On March 28, 1978, Minnesota H.F. No. 2330 was signed into law and stated that effective January 1, 1979; all active police officers employed by the City of Thief River Falls shall cease to be members of the Police Relief Association. These employees were transferred to the Minnesota Public Police and Fire Fund established pursuant to Minnesota Statutes, Section 353.63 to 353.68. The law also established a pension trust fund to be maintained by the City of Thief River Falls for the exclusive benefit of the retired and disabled members of the Thief River Falls Police Relief Association who were receiving benefits on January 1, 1979. This is a closed pension benefit fund that currently provides benefits to four surviving spouses.

The City of Thief River Falls Annual Financial Report includes detailed financial statements for the Police Relief Association.

Funding Policy

The City will provide by special tax levy and other revenues an amount sufficient to pay the aggregate cost of service pensions, disability benefits, and survivor benefits for the remaining members of the fund. The City is required by state statute to have an actuarial valuation and experience study of the City's Police Relief Association at least once every five years to determine the City's minimum obligation. The last actuarial valuation was completed as of December 31, 2007, by Van Iwaarden Associates. The City's tax levies to the Police Relief Association for the years ending December 31, 2011, 2010, and 2009, were \$5,389, \$5,389, and \$5,389, respectively.

NOTE 16. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Inter-Department Distribution*	Nonmajor Governmental Fund	\$ 67,854
Inter-Department Distribution*	2011 Improvement Project	503,448
Nonmajor Governmental Fund	Airport	332,893
Electric Utility	Water Systems Utility	45,416
Total Due From/To Other Funds		<u>\$ 949,611</u>

* Internal Service Fund

The amount payable to the electric utility fund is the current portion of the interfund loan to the water systems utility fund. The remaining balance is to cover a cash deficit on December 31, 2011 in the funds.

Advance to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Electric Utility	Water Systems Utility	\$ 208,057

The amount payable to the electric utility fund is a working capital loan. The current portion for the loan is reported as a due from/to other funds.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2011

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor Dispensary	\$ 362,835
General	Electric Utility	535,200
General	Water Systems Utility	53,900
General	Nonmajor Governmental Fund	19,733
Nonmajor Governmental Fund	General	273,282
Nonmajor Governmental Fund	2011 Improvement Project	97,047
Nonmajor Governmental Fund	Airport	35,811
Total Transfers		<u>\$ 1,377,808</u>

Transfers are used to: 1) move unrestricted revenues to finance various programs that the government must account for in other funds, and 2) close out a capital project fund and a debt service fund.

NOTE 17. CLAIMS AND JUDGMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2011, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

The City is involved in legal action. Although the outcome cannot be determined, the City believes any potential liability would not have a material impact on the financial condition of the City.

NOTE 18. COMMITTED CONTRACTS

At December 31, 2011, the City had a construction commitment of \$772,000 for the Carnegie Library Restoration.

NOTE 19. CONDUIT DEBT (NO COMMITMENT DEBT)

From time to time the City of Thief River Falls has issued private activity bonds to provide financial assistance for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City is not obligated in any manner for the payment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2011, there was one issue outstanding with a remaining principal balance of \$2,235,000.

NOTE 20. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

NOTE 21. NEW PRONOUNCEMENTS

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2011	\$	\$ 1,473,348	\$ 1,473,348	0.0 %	\$ 4,687,712	31 %
1/1/2008		4,945,515	4,945,515	0.0	4,426,074	112

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**COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

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**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Exhibit B-1

	Special Revenue Funds Exhibit B-3	Debt Service Funds Exhibit B-5	Capital Project Funds Exhibit B-7	Total Nonmajor Governmental Funds Exhibit A-3
ASSETS				
Cash and Investments	\$ 323,719	\$ 340,336	\$ 1,252,921	\$ 1,916,976
Accounts Receivable	1,275		200	1,475
Interest Receivable	365	87	2,540	2,992
Taxes Receivable - Current		2,720		2,720
Taxes Receivable - Delinquent		3,600		3,600
Special Assessments Receivable				
Delinquent		8,659		8,659
Deferred		219,879	153,339	373,218
Notes Receivable			452,369	452,369
Due from Other Funds			332,893	332,893
Due from Other Governments			96,161	96,161
TOTAL ASSETS	\$ 325,359	\$ 575,281	\$ 2,290,423	\$ 3,191,063
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 82,075	\$	\$ 18,822	\$ 100,897
Accrued Payroll Liabilities	228			228
Due to Other Funds			67,852	67,852
Deferred Revenue		232,138	153,339	385,477
Total Liabilities	82,303	232,138	240,013	554,454
Fund Balance				
Restricted for TIF District	29,219			29,219
Restricted for Debt Service		343,143		343,143
Committed for Perpetual Care	148,865			148,865
Assigned for Cemetery	64,972			64,972
Assigned for Capital Project			2,054,809	2,054,809
Unassigned			(4,399)	(4,399)
Total Fund Balance	243,056	343,143	2,050,410	2,636,609
TOTAL LIABILITIES AND FUND BALANCE	\$ 325,359	\$ 575,281	\$ 2,290,423	\$ 3,191,063

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit B-2

	Special Revenue Funds Exhibit B-4	Debt Service Funds Exhibit B-6	Capital Project Funds Exhibit B-8	Total Nonmajor Governmental Funds Exhibit A-5
REVENUES				
Property Taxes	\$ 179,579	\$ 90,026	\$	\$ 269,605
Special Assessments		134,897	40,178	175,075
Intergovernmental				
State - Market Value Credit	14,808			14,808
State Aid		188,306	108,259	296,565
Charges for Services	50,700			50,700
Miscellaneous				
Contributions	19,020		481,169	500,189
Investment Earnings	5,312	10,110	36,989	52,411
Other Receipts			10,000	10,000
Total Revenues	<u>269,419</u>	<u>423,339</u>	<u>676,595</u>	<u>1,369,353</u>
EXPENDITURES				
Current				
General Government	237,114		12,296	249,410
Culture and Recreation	231		4,940	5,171
Debt Service				
Principal	25,000	270,000		295,000
Interest		62,222		62,222
Bond and Other Fees		856		856
Capital Outlay				
General Government			192,976	192,976
Streets and Sanitation			440,185	440,185
Culture and Recreation	9,405		36,301	45,706
Total Expenditures	<u>271,750</u>	<u>333,078</u>	<u>686,698</u>	<u>1,291,526</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,331)</u>	<u>90,261</u>	<u>(10,103)</u>	<u>77,827</u>
OTHER FINANCING SOURCES (USES)				
Transfers In		97,047	309,093	406,140
Transfers Out	(19,733)			(19,733)
Total Other Financing Sources (Uses)	<u>(19,733)</u>	<u>97,047</u>	<u>309,093</u>	<u>386,407</u>
NET CHANGE IN FUND BALANCES	(22,064)	187,308	298,990	464,234
FUND BALANCE, JANUARY 1	<u>265,120</u>	<u>155,835</u>	<u>1,751,420</u>	<u>2,172,375</u>
FUND BALANCE, DECEMBER 31	<u>\$ 243,056</u>	<u>\$ 343,143</u>	<u>\$ 2,050,410</u>	<u>\$ 2,636,609</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2011

Exhibit B-3

	TIF District 1-1	TIF District 1-3	TIF District 1-4	TIF District 1-5	TIF District 1-6	TIF District 1-7	TIF District 1-8	Greenwood Cemetery	Total Nonmajor Special Revenue Funds
ASSETS									
Cash and Investments	\$ 5,493	\$	\$ 19,816	\$ 16,899	\$ 11,228	\$ 29,160	\$ 28,482	\$ 212,641	\$ 323,719
Accounts Receivable								1,275	1,275
Interest Receivable	3	4	13	9	5	19	4	308	365
TOTAL ASSETS	<u>\$ 5,496</u>	<u>4</u>	<u>\$ 19,829</u>	<u>\$ 16,908</u>	<u>\$ 11,233</u>	<u>\$ 29,179</u>	<u>\$ 28,486</u>	<u>\$ 214,224</u>	<u>\$ 325,359</u>
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts Payable	\$ 5,494	\$	\$ 19,814	\$ 16,899	\$ 11,228	\$	\$ 28,481	\$ 159	\$ 82,075
Accrued Payroll Liabilities								228	228
Total Liabilities	<u>5,494</u>		<u>19,814</u>	<u>16,899</u>	<u>11,228</u>		<u>28,481</u>	<u>387</u>	<u>82,303</u>
Fund Balance									
Restricted for TIF District	2	4	15	9	5	29,179	5		29,219
Committed for Perpetual Care								148,865	148,865
Assigned for Cemetery								64,972	64,972
Total Fund Balance	<u>2</u>	<u>4</u>	<u>15</u>	<u>9</u>	<u>5</u>	<u>29,179</u>	<u>5</u>	<u>213,837</u>	<u>243,056</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,496</u>	<u>4</u>	<u>\$ 19,829</u>	<u>\$ 16,908</u>	<u>\$ 11,233</u>	<u>\$ 29,179</u>	<u>\$ 28,486</u>	<u>\$ 214,224</u>	<u>\$ 325,359</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED DECEMBER 31, 2011

Exhibit B-4

	Engelstad Arena Project	TIF District 1-1	TIF District 1-3	TIF District 1-4	TIF District 1-5	TIF District 1-6	TIF District 1-7	TIF District 1-8	Greenwood Cemetery	Total Nonmajor Special Revenue Funds
REVENUES										
Property Taxes	\$	\$ 11,402	\$ 9,528	\$ 48,774	\$ 36,941	\$ 22,459	\$ 19,134	\$ 31,341	\$	\$ 179,579
Intergovernmental										
State - Market Value Credit										
Charges for Services		1,388		4,766	3,905	2,902	1,847		50,700	14,808
Miscellaneous										50,700
Contributions	19,000								20	19,020
Investment Earnings	457	37	51	174	125	72	250	53	4,093	5,312
Total Revenues	19,457	12,827	9,579	53,714	40,971	25,433	21,231	31,394	54,813	269,419
EXPENDITURES										
Current										
General Government		12,829	9,581	53,722	40,978	25,456		31,646	62,902	237,114
Culture and Recreation	231									231
Debt Service										
Principal	25,000									25,000
Capital Outlay										
Culture and Recreation	9,405									9,405
Total Expenditures	34,636	12,829	9,581	53,722	40,978	25,456		31,646	62,902	271,750
REVENUES OVER (UNDER)										
EXPENDITURES	(15,179)	(2)	(2)	(8)	(7)	(23)	21,231	(252)	(8,089)	(2,331)
OTHER FINANCING USES										
Transfers Out	(19,733)									(19,733)
Total Other Financing Uses	(19,733)									(19,733)
NET CHANGE IN FUND BALANCES	(34,912)	(2)	(2)	(8)	(7)	(23)	21,231	(252)	(8,089)	(22,064)
FUND BALANCE, JANUARY 1	34,912	4	6	23	16	28	7,948	257	221,926	265,120
FUND BALANCE, DECEMBER 31	\$	\$ 2	\$ 4	\$ 15	\$ 9	\$ 5	\$ 29,179	\$ 5	\$ 213,837	\$ 243,056

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICES FUNDS
 DECEMBER 31, 2011

Exhibit B-5

	2001 Refunding Bonds	2008 State Aid Street Bonds	2011 Improvement Bonds	Total Nonmajor Debt Service Funds
ASSETS				
Cash and Investments	\$ 141,811	\$ 1,809	\$ 196,716	\$ 340,336
Interest Receivable	84	3		87
Taxes Receivable - Current	2,720			2,720
Taxes Receivable - Delinquent	3,600			3,600
Special Assessments Receivable				
Delinquent	8,659			8,659
Deferred	53,058		166,821	219,879
TOTAL ASSETS	\$ 209,932	\$ 1,812	\$ 363,537	\$ 575,281
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Deferred Revenue	\$ 65,317	\$	\$ 166,821	\$ 232,138
Total Liabilities	65,317		166,821	232,138
FUND BALANCE				
Restricted for Debt Service	144,615	1,812	196,716	343,143
Total Fund Balance	144,615	1,812	196,716	343,143
TOTAL LIABILITIES AND FUND BALANCE	\$ 209,932	\$ 1,812	\$ 363,537	\$ 575,281

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2011

Exhibit B-6

	2001 Refunding Bonds	2008 State Aid Street Bonds	2011 Improvement Bonds	Total Nonmajor Debt Service Funds
REVENUES				
Property Taxes	\$ 90,026	\$	\$	\$ 90,026
Special Assessments	35,561		99,336	134,897
Intergovernmental - State Aid		188,306		188,306
Investment Earnings	9,738	39	333	10,110
Total Revenues	<u>135,325</u>	<u>188,345</u>	<u>99,669</u>	<u>423,339</u>
EXPENDITURES				
Principal	125,000	145,000		270,000
Interest	18,916	43,306		62,222
Bond and Other Fees	431	425		856
Total Expenditures	<u>144,347</u>	<u>188,731</u>		<u>333,078</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(9,022)</u>	<u>(386)</u>	<u>99,669</u>	<u>90,261</u>
OTHER FINANCING SOURCES				
Transfers In			97,047	97,047
Total Other Financing Sources			<u>97,047</u>	<u>97,047</u>
NET CHANGE IN FUND BALANCES	<u>(9,022)</u>	<u>(386)</u>	<u>196,716</u>	<u>187,308</u>
FUND BALANCE, JANUARY 1	<u>153,637</u>	<u>2,198</u>		<u>155,835</u>
FUND BALANCE, DECEMBER 31	<u>\$ 144,615</u>	<u>\$ 1,812</u>	<u>\$ 196,716</u>	<u>\$ 343,143</u>

	Revolving Capital Outlay	Swimming Pool	Carnegie Library Restoration	Multi- Events Center	2013 Utility Improvement	Greenwood Street Underpass Project	Total Nonmajor Capital Project Funds
ASSETS							
Cash and Investments	\$ 505,766	\$ 233,770	\$ 499,346	\$ 14,039	\$	\$	\$ 1,252,921
Accounts Receivable			200				200
Interest Receivable	1,732	318	453	37			2,540
Special Assessments - Deferred	153,339						153,339
Notes Receivable	452,369						452,369
Due from Other Funds	332,893						332,893
Due from Other Governments						96,161	96,161
TOTAL ASSETS	\$ 1,446,099	\$ 234,088	\$ 499,999	\$ 14,076	\$	\$ 96,161	\$ 2,290,423

LIABILITIES AND FUND BALANCE

LIABILITIES							
Accounts Payable	\$	\$	\$	\$	\$	\$ 18,822	\$ 18,822
Due to Other Funds					4,399	63,453	67,852
Deferred Revenue	153,339						153,339
Total Liabilities	153,339				4,399	82,275	240,013
FUND BALANCE							
Assigned for Capital Project	1,292,760	234,088	499,999	14,076		13,886	2,054,809
Unassigned					(4,399)		(4,399)
Total Fund Balance	1,292,760	234,088	499,999	14,076	(4,399)	13,886	2,050,410
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,446,099	\$ 234,088	\$ 499,999	\$ 14,076	\$	\$ 96,161	\$ 2,290,423

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2011

Exhibit B-8

	Revolving Capital Outlay	Swimming Pool	Carnegie Library Restoration	Multi- Events Center	2013 Utility Improvement	Greenwood Street Underpass Project	Total Nonmajor Capital Project Funds
REVENUES							
Special Assessments	\$ 40,178	\$	\$	\$	\$	\$	\$ 40,178
Intergovernmental - State Aid						108,259	108,259
Miscellaneous							
Contributions			481,169				481,169
Investment Earnings	26,268	4,216	6,011	494			36,989
Other Receipts			10,000				10,000
Total Revenues	<u>66,446</u>	<u>4,216</u>	<u>497,180</u>	<u>494</u>		<u>108,259</u>	<u>676,595</u>
EXPENDITURES							
Current							
General Government			12,296	4,940			12,296
Culture and Recreation							4,940
Capital Outlay							
General Government			192,976				192,976
Streets and Sanitation	313,309				4,399	122,477	440,185
Culture and Recreation	18,949			17,352			36,301
Total Expenditures	<u>332,258</u>		<u>205,272</u>	<u>22,292</u>	<u>4,399</u>	<u>122,477</u>	<u>686,698</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(265,812)</u>	<u>4,216</u>	<u>291,908</u>	<u>(21,798)</u>	<u>(4,399)</u>	<u>(14,218)</u>	<u>(10,103)</u>
OTHER FINANCING SOURCES							
Transfers In	309,093						309,093
Total Other Financing Sources	<u>309,093</u>						<u>309,093</u>
NET CHANGE IN FUND BALANCES	<u>43,281</u>	<u>4,216</u>	<u>291,908</u>	<u>(21,798)</u>	<u>(4,399)</u>	<u>(14,218)</u>	<u>298,990</u>
FUND BALANCE, JANUARY 1	<u>1,249,479</u>	<u>229,872</u>	<u>208,091</u>	<u>35,874</u>		<u>28,104</u>	<u>1,751,420</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,292,760</u>	<u>\$ 234,088</u>	<u>\$ 499,999</u>	<u>\$ 14,076</u>	<u>\$ (4,399)</u>	<u>\$ 13,886</u>	<u>\$ 2,050,410</u>

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SUPPLEMENTARY SCHEDULES

These supplementary schedules are included to provide management additional information for financial analysis.

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CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FUND BALANCE OR NET POSITION
YEAR ENDED DECEMBER 31, 2011

Exhibit B-9

	Beginning Balance	Revenue	Expenditure	Transfer In	Transfer Out	Capital Contribution	Bond Issued (Net of Discount)	Ending Balance
Governmental Funds								
General Fund	\$ 1,767,209	\$ 6,405,081	\$ 6,842,715	\$ 971,668	\$ 273,283	\$	\$	\$ 2,027,960
Special Revenue Funds								
CDAB Revolving Loan	2,025,082	569,388	563,048					2,031,422
Engelstad Arena Project	34,912	19,457	34,636		19,733			
TIF District 1-1	4	12,827	12,829					2
TIF District 1-3	6	9,579	9,581					4
TIF District 1-4	23	53,714	53,722					15
TIF District 1-5	16	40,971	40,978					9
TIF District 1-6	28	25,433	25,456					5
TIF District 1-7	7,948	21,231						29,179
TIF District 1-8	257	31,394	31,646					5
Greenwood Cemetery	221,926	54,813	62,902					213,837
Total Special Revenue Funds	<u>2,290,202</u>	<u>838,807</u>	<u>834,798</u>		<u>19,733</u>			<u>2,274,478</u>
Debt Service Funds								
2001 Refunding Bonds	153,637	135,325	144,347					144,615
2008 State Aid Street Bonds	2,198	188,345	188,731					1,812
2011 Improvement Bonds		99,669		97,047				196,716
Total Debt Service Funds	<u>155,835</u>	<u>423,339</u>	<u>333,078</u>	<u>97,047</u>				<u>343,143</u>
Capital Projects Funds								
Revolving Capital Outlay	1,249,479	66,446	332,258	309,093				1,292,760
Swimming Pool	229,872	4,216						234,088
Carnegie Library Restoration	208,091	497,180	205,272					499,999
Multi-Events Center	35,874	494	22,292					14,076
2011 Improvement Project	(3,861)	648,969	1,229,061		97,047		681,000	
2013 Utility Improvement			4,399					(4,399)
Greenwood Street Underpass Project	28,104	108,259	122,477					13,886
Total Capital Projects Funds	<u>1,747,559</u>	<u>1,325,564</u>	<u>1,915,759</u>	<u>309,093</u>	<u>97,047</u>		<u>681,000</u>	<u>2,050,410</u>
Total Governmental Funds	<u>5,960,805</u>	<u>8,992,791</u>	<u>9,926,350</u>	<u>1,377,808</u>	<u>390,063</u>		<u>681,000</u>	<u>6,695,991</u>
Proprietary Funds								
Enterprise Funds								
Liquor Dispensary	1,477,610	4,230,457	3,819,138		362,835			1,526,094
Electric Utility	6,855,585	12,301,045	11,988,420		535,200			6,633,010
Water Systems Utility	6,558,779	2,441,533	2,687,640		53,900	277,286		6,536,058
Airport	7,819,505	2,495,635	10,279,332		35,808			
Storm Water Utility	1,932,664	163,719	160,472					1,935,911
Total Enterprise Funds	<u>24,644,143</u>	<u>21,632,389</u>	<u>28,935,002</u>		<u>987,743</u>	<u>277,286</u>		<u>16,631,073</u>
Internal Service Fund								
Inter-Department Distribution	1,203,785	582,795	511,188					1,275,392
Total Proprietary Funds	<u>25,847,928</u>	<u>22,215,184</u>	<u>29,446,190</u>		<u>987,743</u>	<u>277,286</u>		<u>17,906,465</u>
Total Governmental and Proprietary Funds	<u>\$ 31,808,733</u>	<u>\$ 31,207,975</u>	<u>\$ 39,372,540</u>	<u>\$ 1,377,808</u>	<u>\$ 1,377,806</u>	<u>\$ 277,286</u>	<u>\$ 681,000</u>	<u>\$ 24,602,456</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED DECEMBER 31, 2011

Exhibit B-10

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 01-01-2011	Issued 2011	Retired 2011	Balance 12-31-2011	Principal Due in 2012	Interest Due in 2012
G.O. Special Assessment Bonds										
G.O. Refunding Bonds of 2001	4.05 to 4.38%	2001	2012/14	2,755,000	\$ 510,000	\$	\$ 125,000	\$ 385,000	\$ 130,000	\$ 13,720
G.O. Refunding Bonds of 2011	0.65 - 3.2%		2013/24			690,000		690,000		11,358
Total General Obligation Bonds					510,000	690,000	125,000	1,075,000	130,000	25,078
G.O. Revenue Bonds										
G.O. Wastewater Treatment Bonds of 1998	2.79%	1998	2012/19	925,525	479,537		47,579	431,958	48,915	11,713
G.O. Water Revenue Bonds of 2009	1.65 to 4.2%	2009	2012/30	640,000	640,000		20,000	620,000	25,000	21,517
G.O. Water Treatment Refunding Bond of 2003	3.65%	2003	2012/12	4,365,000	3,170,000		190,000	2,980,000	2,980,000	65,030
G.O. State-Aid Street Bonds of 2008A	2.6 to 3.89%	2008	2012/18	1,630,000	1,325,000		145,000	1,180,000	150,000	39,283
G.O. Water Revenue Bonds, Series 2010A	2 to 3.2%	2010	2012/23	3,510,000	3,510,000			3,510,000	40,000	87,265
G.O. Water Revenue Bonds 2011	0.65 - 3.2%					210,000		210,000		3,937
Total G.O. Revenue Bonds					9,124,537	210,000	402,579	8,931,958	3,243,915	228,745
Other Long-term Obligations										
Capital Lease	0.0%	2007	2012/12	113,044	93,044		46,544	46,500	46,500	
Notes Payable - City of Red Lake Falls	0.0%	2004	2012/14	225,000	83,333		25,000	58,333	25,000	
Total Note Payable					176,377		71,544	104,833	71,500	
Total					\$ 9,810,914	\$ 900,000	\$ 599,123	\$ 10,111,791	\$ 3,445,415	\$ 253,823

STATISTICAL SECTION

This part of the City of Thief River Falls' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about government's overall financial health.

Contents	Page
Financial Trends	58
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	61
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	65
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	74
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

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CITY OF THIEF RIVER FALLS, MINNESOTA
NET POSITION BY COMPONENT
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Table 1

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities									
Net Investment in Capital Assets	\$ 12,478,960	\$ 13,788,889	\$ 16,627,455	\$ 17,798,926	\$ 21,656,970	\$ 22,201,668	\$ 22,985,884	\$ 23,182,797	\$ 22,452,913
Restricted	3,637,239	2,788,556	1,610,654	3,204,526	2,754,361	3,177,016	2,251,266	237,862	582,405
Unrestricted	3,167,762	4,077,909	4,225,296	2,825,669	3,068,978	3,328,476	3,623,457	5,639,102	6,049,790
Total Governmental Activities Net Position	\$ 19,283,961	\$ 20,655,354	\$ 22,463,405	\$ 23,829,121	\$ 27,480,309	\$ 28,707,160	\$ 28,860,607	\$ 29,059,761	\$ 29,085,108
Business-type Activities									
Net Investment in Capital Assets	\$ 20,257,055	\$ 20,412,487	\$ 20,254,244	\$ 20,043,061	\$ 21,329,383	\$ 21,818,392	\$ 21,166,640	\$ 21,614,090	\$ 12,740,230
Restricted	157,593							2,864,141	2,811,505
Unrestricted	3,692,686	3,648,100	3,769,521	3,688,538	3,656,341	3,216,452	4,109,502	767,804	1,717,034
Total Business-type Activities Net Position	\$ 24,107,334	\$ 24,060,587	\$ 24,023,765	\$ 23,731,599	\$ 24,985,724	\$ 25,034,844	\$ 25,276,142	\$ 25,246,035	\$ 17,268,769
Primary Government									
Net Investment in Capital Assets	\$ 32,736,015	\$ 34,201,376	\$ 36,881,699	\$ 37,841,987	\$ 42,986,353	\$ 44,020,060	\$ 44,152,524	\$ 44,796,887	\$ 35,193,143
Restricted	3,794,832	2,788,556	1,610,654	3,204,526	2,754,361	3,177,016	2,251,266	3,102,003	3,393,910
Unrestricted	6,860,448	7,726,009	7,994,817	6,514,207	6,725,319	6,544,928	7,732,959	6,406,906	7,766,824
Total Primary Government Net Position	\$ 43,391,295	\$ 44,715,941	\$ 46,487,170	\$ 47,560,720	\$ 52,466,033	\$ 53,742,004	\$ 54,136,749	\$ 54,305,796	\$ 46,353,877

CITY OF THIEF RIVER FALLS, MINNESOTA
CHANGES IN NET POSITION
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Table 2

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010 ¹	2011
EXPENSES									
Governmental Activities:									
General Government	\$ 1,018,643	\$ 874,244	\$ 921,449	\$ 1,314,530	\$ 1,250,085	\$ 1,425,166	\$ 1,369,826	\$ 1,428,138	\$ 1,298,280
Public Safety	1,871,848	1,986,602	2,066,642	2,085,784	2,243,552	2,228,669	2,321,143	2,371,514	2,610,266
Streets and Sanitation	818,857	1,086,432	895,772	849,504	1,341,802	1,547,142	1,281,558	2,082,252	3,011,296
Culture and Recreation	1,506,292	1,453,149	2,080,076	2,033,291	2,054,538	2,254,305	2,174,876	2,057,967	2,086,941
Economic Development		152,001	138,720	463,243	424,617	387,872	289,582	390,385	740,503
Interest on Long-term Debt	261,926	237,308	241,331	124,067	101,041	83,272	109,554	82,772	68,469
Total Governmental Activities Expenses	<u>5,477,566</u>	<u>5,789,736</u>	<u>6,343,990</u>	<u>6,870,419</u>	<u>7,415,635</u>	<u>7,926,426</u>	<u>7,526,539</u>	<u>8,393,028</u>	<u>9,815,755</u>
Business-type Activities:									
Liquor Dispensary	2,734,716	2,817,039	2,980,680	3,185,450	3,309,389	3,592,991	3,685,485	3,769,294	3,816,258
Water Utility	1,825,582	1,614,742	1,641,173	1,780,474	1,841,839	2,012,129	1,963,180		
Electric Utility	6,578,142	7,340,612	7,487,595	7,642,035	8,198,620	8,612,790	9,041,284	9,969,930	11,974,715
Wastewater Utility	590,664	623,089	619,130	627,553	647,903	691,349	743,671		
Sanitation Utility	601,565	594,976	641,781	680,508	720,279	739,551	732,457		
Airport	500,117	534,632	579,921	840,252	837,853	803,438	770,937		
Storm Water Utility		122	79,256	112,140	125,826	132,386	124,687		
Water Systems Utility								732,007	10,279,332
Total Business-type Activities Expenses	<u>12,830,786</u>	<u>13,525,212</u>	<u>14,029,536</u>	<u>14,868,412</u>	<u>15,681,709</u>	<u>16,584,634</u>	<u>17,061,701</u>	<u>17,239,257</u>	<u>28,909,295</u>
Total Primary Government Expenses	<u>\$ 18,308,352</u>	<u>\$ 19,314,948</u>	<u>\$ 20,373,526</u>	<u>\$ 21,738,831</u>	<u>\$ 23,097,344</u>	<u>\$ 24,511,060</u>	<u>\$ 24,588,240</u>	<u>\$ 25,632,285</u>	<u>\$ 38,725,050</u>
PROGRAM REVENUES									
Governmental Activities:									
Charges for Services	\$ 220,172	\$ 277,402	\$ 291,391	\$ 292,610	\$ 182,488	\$ 171,836	\$ 190,646	\$ 125,944	\$ 160,709
General Government	168,440	211,266	222,504	205,678	273,900	228,100	220,295	231,094	225,001
Public Safety								849,580	934,382
Streets and Sanitation								702,717	772,106
Culture and Recreation	371,448	630,717	749,182	657,599	742,386	868,541	733,787	81,887	254,005
Other Activities	996,782	190,717	193,267	134,152	237,709	305,170	229,727	750,955	682,911
Operating Grants and Contributions	389,421	801,763	809,826	769,921	669,508	487,835	405,936		
Capital Grants and Contributions	13,875,329	757,185	1,360,691	1,028,375	1,797,636	2,879,028	689,249	68,983	1,534,845
Total Governmental Activities Program Revenue	<u>16,021,592</u>	<u>2,869,050</u>	<u>3,626,861</u>	<u>3,088,335</u>	<u>3,903,627</u>	<u>4,940,510</u>	<u>2,469,640</u>	<u>2,811,160</u>	<u>4,563,959</u>
Business-type Activities:									
Charges for Services									
Liquor Dispensary	3,014,780	3,076,658	3,256,268	3,485,834	3,633,872	3,958,940	4,054,881	4,132,681	4,216,697
Water Utility	1,382,257	1,455,624	1,448,558	1,552,233	1,549,500	1,598,034	1,677,589		
Electric Utility	7,001,261	7,335,465	7,799,018	8,144,272	8,236,616	8,951,395	10,029,879	10,580,571	12,262,023
Wastewater Utility	518,352	519,425	518,556	522,245	530,422	552,658	545,826		
Sanitation Utility	669,655	675,220	684,769	731,020	731,281	758,266	762,659		

cont.

CITY OF THIEF RIVER FALLS, MINNESOTA
CHANGES IN NET POSITION
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Table 2

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Airport	134,136	150,384	155,501	156,394	161,263	162,994	152,711	153,059	8,788
Storm Water Utility		61,458	148,929	151,737	154,618	154,740	157,146	157,835	156,336
Water Systems Utility								2,286,949	2,422,943
Operating Grants and Contributions	63,925	83,451	64,738	225,014	673,861	125,082	140,882	181,061	19,797
Capital Grants and Contributions	3,044,982	539,741	305,424					907,743	2,467,050
Total Business-type Activities	15,829,348	13,897,426	14,381,761	14,968,749	15,671,433	16,262,109	17,521,573	18,399,899	21,553,634
Program Revenue									
Total Primary Government Program Revenues	\$ 31,850,940	\$ 16,766,476	\$ 18,008,622	\$ 18,057,084	\$ 19,575,060	\$ 21,202,619	\$ 19,991,213	\$ 21,211,059	\$ 26,117,593
Net (Expense) / Revenue									
Governmental Activities	\$ 10,544,026	\$ (2,920,686)	\$ (2,717,129)	\$ (3,782,084)	\$ (3,512,008)	\$ (2,985,916)	\$ (5,056,899)	\$ (5,581,868)	\$ (5,251,796)
Business-type Activities	2,998,562	372,214	352,225	100,337	(10,276)	(322,525)	459,872	1,160,642	(7,355,661)
Total Primary Government	\$ 13,542,588	\$ (2,548,472)	\$ (2,364,904)	\$ (3,681,747)	\$ (3,522,284)	\$ (3,308,441)	\$ (4,597,027)	\$ (4,421,226)	\$ (12,607,457)
Net (Expense) / Revenue									
GENERAL REVENUES AND OTHER CHANGES									
IN NET POSITION									
Governmental Activities:									
Taxes									
Property Taxes	\$ 1,499,733	\$ 1,625,875	\$ 1,666,860	\$ 1,650,906	\$ 1,654,233	\$ 1,602,798	\$ 1,571,788	\$ 1,597,409	\$ 1,564,852
Franchise Fees	133,448	102,216	104,387	104,734	108,449	113,444	115,664	114,454	122,133
Unrestricted State Aid	1,982,439	2,028,218	2,202,420	2,369,450	2,535,825	2,460,664	2,951,529	2,646,152	2,649,976
Unrestricted Investment Earnings	45,761	58,688	94,832	249,680	287,467	268,552	135,425	112,185	151,147
Gain on Sale of Capital Assets	(18,542)			28,000			35,850	33,201	40,000
Other General Revenue	496,507	507,850	456,681	485,620	(1,095,331)	(250,619)	131,019	26,985	38,575
Transfers				700,000			269,071	1,149,695	710,460
Extraordinary Item									
Total Governmental Activities	\$ 4,139,346	\$ 4,322,847	\$ 4,525,180	\$ 5,625,481	\$ 3,527,175	\$ 4,212,767	\$ 5,210,346	\$ 5,680,081	\$ 5,277,143
Business-type Activities:									
Unrestricted Investment Earnings	81,316	88,889	67,634	168,970	176,588	121,026	50,497	59,887	88,855
Gain on Sale of Capital Assets	(6,802)				(7,518)				
Transfers	(496,507)	(507,850)	(456,681)	(485,620)	1,095,331	250,619	(269,071)	(1,149,695)	(710,460)
Total Business-type Activities	(421,993)	(418,961)	(389,047)	(316,650)	1,264,401	371,645	(218,574)	(1,089,808)	(621,605)
Total Primary Government	\$ 3,717,353	\$ 3,903,886	\$ 4,136,133	\$ 5,308,831	\$ 4,791,576	\$ 4,584,412	\$ 4,991,772	\$ 4,590,273	\$ 4,655,538
CHANGE IN NET POSITION									
Governmental Activities	\$ 14,683,372	\$ 1,402,161	\$ 1,808,051	\$ 1,843,397	\$ 15,167	\$ 1,226,851	\$ 153,447	\$ 98,213	\$ 25,347
Business-type Activities	2,576,569	(46,747)	(36,822)	(216,313)	1,254,125	49,120	241,298	70,834	(7,977,266)
Total Primary Government	\$ 17,259,941	\$ 1,355,414	\$ 1,771,229	\$ 1,627,084	\$ 1,269,292	\$ 1,275,971	\$ 394,745	\$ 169,047	\$ (7,951,919)

Effective January 1, 2010 the City combined the Water and Wastewater Funds into the Water Systems Fund; and combined the Sanitation Fund into the General Fund's Street Department.

CITY OF THIEF RIVER FALLS, MINNESOTA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Table 3

Fiscal Year	Property Tax	Franchise Tax		Total
		Cable	Gas	
2003	\$ 1,499,733	\$ 34,987	\$ 74,213	\$ 1,608,933
2004	1,625,875	36,069	66,147	1,728,091
2005	1,666,860	38,081	66,306	1,771,247
2006	1,650,906	40,003	64,731	1,755,640
2007	1,654,233	43,350	65,098	1,762,681
2008	1,602,798	46,155	67,289	1,716,242
2009	1,571,788	49,957	65,707	1,687,452
2010	1,597,409	53,298	61,156	1,711,863
2011	1,564,852	55,460	66,673	1,686,985

CITY OF THIEF RIVER FALLS, MINNESOTA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Table 4

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Nonspendable										\$ 3,060
Committed										36,830
Assigned										29,982
Unassigned										1,958,088
Total General Fund										<u>\$ 2,027,960</u>
All Other Governmental Funds										
Restricted										\$ 372,362
Committed										2,180,287
Assigned										2,119,781
Unassigned										<u>(4,399)</u>
Total All Other Governmental Funds										<u>\$ 4,668,031</u>
General Fund										
Reserved	\$ 847,003	\$ 112,136	\$ 112,107	\$ 159,856	\$ 168,451	\$ 153,689	\$ 166,642	\$ 165,847	\$ 51,506	
Unreserved	522,867	1,413,275	1,601,813	1,744,605	1,140,046	1,436,336	1,175,648	1,525,515	1,715,703	
Total General Fund	<u>\$ 1,369,870</u>	<u>\$ 1,525,411</u>	<u>\$ 1,713,920</u>	<u>\$ 1,904,461</u>	<u>\$ 1,308,497</u>	<u>\$ 1,590,025</u>	<u>\$ 1,342,290</u>	<u>\$ 1,691,362</u>	<u>\$ 1,767,209</u>	
All Other Governmental Funds										
Reserved	\$ 3,423,676	\$ 3,362,306	\$ 2,491,733	\$ 855,587	\$ 1,674,664	\$ 1,573,235	\$ 1,698,297	\$ 1,870,640	\$ 1,687,268	
Unreserved, reported in:										
Special Revenue Funds	120,618	120,684	465,942	1,925,573	2,086,446	2,345,413	2,192,243	2,025,581	2,482,085	
Capital Projects Funds			3,669	(16,946)	(1,088)	(628,307)	1,036,590		24,243	
Total All Other Governmental Funds	<u>\$ 3,544,294</u>	<u>\$ 3,482,990</u>	<u>\$ 2,961,344</u>	<u>\$ 2,764,214</u>	<u>\$ 3,760,022</u>	<u>\$ 3,290,341</u>	<u>\$ 4,927,130</u>	<u>\$ 3,896,221</u>	<u>\$ 4,193,596</u>	

CITY OF THIEF RIVER FALLS, MINNESOTA
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Table 5

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010 ¹	2011
REVENUE										
Taxes	\$ 1,468,445	\$ 1,608,933	\$ 1,728,091	\$ 1,771,247	\$ 1,755,640	\$ 1,762,681	\$ 1,716,242	\$ 1,687,453	\$ 1,711,863	\$ 1,686,986
Special Assessments	349,526	844,228	387,894	256,888	458,832	912,502	915,244	211,406	136,526	232,315
Licenses and Permits	71,896	80,232	111,924	150,305	138,895	107,619	109,965	101,073	132,423	113,706
Intergovernmental	4,114,340	3,047,797	2,858,324	2,848,633	3,364,099	3,789,912	4,257,263	4,463,938	3,181,709	4,078,810
Charges for Services	651,061	721,555	992,745	1,163,771	1,093,567	1,140,915	1,290,281	1,088,827	1,774,318	1,955,365
Fines and Forfeitures	72,358	77,921	66,075	63,607	57,577	66,636	53,720	44,363	44,848	47,412
Miscellaneous										
Contributions	215,570	793,192	372,102	303,093	214,606	313,906	174,324	124,288	283,540	522,073
Investment Earnings		38,980	53,157	73,638	197,876	240,503	239,216	121,175	118,035	147,165
Other Receipts	926,744	92,456	95,908	909,419	37,091	93,363	77,493	395,143	19,424	208,959
Total Revenue	<u>7,869,940</u>	<u>7,305,294</u>	<u>6,666,220</u>	<u>7,540,601</u>	<u>7,318,183</u>	<u>8,428,037</u>	<u>8,833,748</u>	<u>8,237,666</u>	<u>7,402,686</u>	<u>8,992,791</u>
EXPENDITURES										
General Government	631,119	686,801	790,615	781,666	1,249,410	1,189,792	1,190,900	1,176,110	1,238,417	1,323,743
Public Safety	1,683,256	1,762,823	1,943,328	1,926,278	1,994,050	2,096,658	2,137,877	2,187,310	2,247,566	2,347,102
Streets and Sanitation	795,901	742,066	652,310	741,021	719,021	747,973	770,474	827,819	1,499,503	1,533,169
Culture and Recreation	962,837	1,063,836	1,390,625	1,585,569	1,543,892	1,567,384	1,720,531	1,664,276	1,564,335	1,654,288
Economic Development			152,001	138,720	462,638	421,951	380,925	265,757	382,086	740,808
Other	704,857	753,847								
Debt Service										
Principal	673,850	758,979	1,168,574	771,134	796,323	696,734	502,378	523,264	694,885	341,544
Interest	278,803	261,926	237,308	241,331	133,067	103,241	75,572	117,655	96,064	70,472
Bond and Other Fees					2,369	2,368	1,931	1,606	856	856
Capital Outlay	2,444,027	2,697,765	1,446,701	1,612,353	1,370,089	2,409,354	2,924,442	2,707,327	488,648	1,914,368
Total Expenditures	<u>8,174,650</u>	<u>8,728,043</u>	<u>7,781,462</u>	<u>7,798,072</u>	<u>8,270,859</u>	<u>9,235,455</u>	<u>9,705,030</u>	<u>9,471,124</u>	<u>8,212,360</u>	<u>9,926,350</u>
Revenues Over	(304,710)	(1,422,749)	(1,115,242)	(257,471)	(952,676)	(807,418)	(871,282)	(1,233,458)	(809,674)	(933,559)
(Under) Expenditures										
OTHER FINANCING										
SOURCES (USES)										
Transfers In	890,201	1,244,564	1,071,225	725,070	2,293,491	1,104,622	1,780,690	1,251,379	1,884,671	1,377,808
Transfers Out		(3,925)	(598,352)	(474,188)	(979,744)	(598,401)	(1,140,334)	(699,758)	(734,976)	(390,063)
Sale of Capital Asset			340,000			113,044	1,619,980		33,201	681,000
Lease/Bond Sale Proceeds		420,000								
Total Other Financing	<u>890,201</u>	<u>1,660,639</u>	<u>812,873</u>	<u>250,882</u>	<u>1,313,747</u>	<u>619,265</u>	<u>2,260,336</u>	<u>551,621</u>	<u>1,182,896</u>	<u>1,668,745</u>
Sources (Uses)										
Net Change In Fund										
Balances	\$ 585,491	\$ 237,890	\$ (302,369)	\$ (6,589)	\$ 361,071	\$ (188,153)	\$ 1,389,054	\$ (681,837)	\$ 373,222	\$ 735,186
Debt Service as a percentage of										
Noncapital Expenditures	20%	20%	29%	20%	16%	13%	9%	10%	11%	5%

¹Effective January 1, 2010, combined the Water and Wastewater Funds into the Water Systems Fund; and combined the Sanitation Fund into the General Fund's Street Department.

CITY OF THIEF RIVER FALLS, MINNESOTA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Table 6

Fiscal Year	Property Tax	Franchise Tax		Total
		Cable	Gas	
2002	\$ 1,370,349	\$ 35,436	\$ 62,660	\$ 1,468,445
2003	1,499,733	34,987	74,213	1,608,933
2004	1,625,875	36,069	66,147	1,728,091
2005	1,666,860	38,081	66,306	1,771,247
2006	1,650,906	40,003	64,731	1,755,640
2007	1,654,233	43,350	65,098	1,762,681
2008	1,602,798	46,155	67,289	1,716,242
2009	1,571,789	49,957	65,707	1,687,453
2010	1,597,409	53,298	61,156	1,711,863
2011	1,564,853	55,460	66,673	1,686,986

CITY OF THIEF RIVER FALLS, MINNESOTA
 ASSESSED TAX CAPACITY AND ESTIMATED MARKET VALUE OF ALL TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

Table 7

Fiscal Year Ended December 31	Real Property		Personal Property		Total		Tax Capacity as a Percentage of Estimated Market Value
	Assessed Tax Capacity	Estimated Market Value	Assessed Tax Capacity	Estimated Market Value	Assessed Tax Capacity	Estimated Market Value	
2002	\$ 2,141,079	\$ 183,583,300	\$ 59,666	\$ 3,224,700	\$ 2,200,745	\$ 186,808,000	1.18
2003	2,230,359	193,665,500	65,617	3,528,700	2,295,976	197,194,200	1.16
2004	2,405,554	210,261,600	64,183	3,466,800	2,469,737	213,728,400	1.16
2005	2,548,327	224,716,700	68,118	3,652,700	2,616,445	228,369,400	1.15
2006	2,704,217	240,591,500	62,118	3,353,400	2,766,335	243,944,900	1.13
2007	2,896,671	255,002,400	64,426	3,482,200	2,961,097	258,484,600	1.15
2008	3,293,479	293,021,800	60,787	3,303,700	3,354,266	296,325,500	1.13
2009	3,541,387	314,974,400	57,686	3,124,300	3,599,073	318,098,700	1.13
2010	3,604,785	320,208,800	57,338	3,112,900	3,662,123	323,321,700	1.13
2011	3,823,002	329,725,500	57,358	3,051,000	3,880,360	332,776,500	1.17

Source: Pennington County Auditor

CITY OF THIEF RIVER FALLS, MINNESOTA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

Table 8

Fiscal Year	Overlapping Rates						Total Direct and Overlapping Rates
	City	Pennington County	Thief River Falls School District No. 564	Red Lake Watershed District	Northwest Regional Development Commission	Northwest Minnesota Multi-County HRA	
2002	67.634 %	92.760 %	36.869 %	5.102 %	0.356 %	%	202.721 %
2003	68.071	91.932	35.345	5.205	0.419		200.972
2004	69.610	91.998	25.032	4.965	0.406	1.252	193.263
2005	66.701	88.995	29.365	4.973	0.399		190.433
2006	61.801	87.804	32.292	5.010	0.392	1.120	188.419
2007	56.581	88.484	31.446	5.044	0.367		181.922
2008	48.935	81.276	30.044	4.821	0.321	0.352	165.749
2009	43.967	78.737	27.645	4.996	0.311	0.398	156.054
2010	43.210	75.194	30.047	5.047	0.300	0.368	154.166
2011	40.478	70.787	29.385	5.114	0.026	0.413	146.203

Source: Pennington County Auditor

**CITY OF THIEF RIVER FALLS, MINNESOTA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR**

Table 9

Taxpayer	2011		Percentage of Total Taxable Assessed Value
	Taxable Assessed Value	Rank	
Individual	\$ 122,868	1	3.17 %
MeritCare Medical Group	101,837	2	2.62
Wal-Mart RE Business Trust	97,190	3	2.50
Arctic Cat, Inc.	67,243	4	1.73
Gersham Properties LLC	35,030	5	0.90
Minnkota Power Co-op	34,836	6	0.90
Valley Markets Inc.	30,542	7	0.79
Minnesota Greenleaf LLP	27,591	8	0.71
Northwest Beverage, Inc.	26,161	9	0.67
MN Energy Resources Corp	25,772	10	0.66
	<u>\$ 569,070</u>		<u>14.67 %</u>

Source: Pennington County Auditor

**CITY OF THIEF RIVER FALLS, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Table 10

Fiscal Year Ended December 31	Levy for Fiscal Year	Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	\$ 1,488,462	\$ 1,453,425	97.65 %	\$ 34,795	\$ 1,488,220	99.98 %
2003	1,562,885	1,530,674	97.94	31,626	1,562,300	99.96
2004	1,719,174	1,690,563	98.34	27,704	1,718,267	99.95
2005	1,745,177	1,720,995	98.61	22,956	1,743,951	99.93
2006	1,709,623	1,682,961	98.44	24,114	1,707,075	99.85
2007	1,675,430	1,651,661	98.58	20,381	1,672,042	99.80
2008	1,641,922	1,610,911	98.11	27,171	1,638,082	99.77
2009	1,582,406	1,552,954	98.14	22,864	1,575,818	99.58
2010	1,582,406	1,556,855	98.39	16,809	1,573,664	99.45
2011	1,516,778	1,494,773	98.55			

Note: 2010 and 2011 collections includes Market Value Homestead Credit that was cut by the State and not collected in the amount of \$148,377 and \$145,188, respectively

CITY OF THIEF RIVER FALLS, MINNESOTA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Table 11

Fiscal Year	General Obligation				Governmental Activities				Business-type Activities			Total Primary Government	Per Capita ¹
	Improvement Bonds	Revenue Bonds	Purchase Agreements	Notes Payable	Capital Lease	Litigation Settlement	Revenue Bonds						
2002	\$ 4,305,000	\$	\$ 803,479	\$		\$ 805,000	\$ 5,180,459				\$	11,093,938	1,313.36
2003	3,615,000		1,188,291			770,000	5,068,896					10,642,187	1,253.79
2004	2,945,000		1,064,717			735,000	4,883,415					9,628,132	1,140.64
2005	2,330,000		943,583	208,333		700,000	4,681,834					8,863,750	1,050.08
2006	1,685,000		817,261	183,333			4,537,196					7,222,790	848.84
2007	1,150,000		685,526	158,333	108,044		4,324,610					6,426,513	754.73
2008	815,000	1,630,000	548,148	133,333	103,044		4,105,825					7,335,350	864.71
2009	630,000	1,465,000	404,884	108,333	98,044		4,520,811					7,227,072	848.04
2010	510,000	1,325,000		83,333	93,044		7,799,537					9,810,914	1,144.39
2011	1,075,000	1,180,000		58,333	46,500		7,751,958					10,111,791	1,177.57

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics (Table 16) for personal income and population data.

CITY OF THIEF RIVER FALLS, MINNESOTA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Table 12

<u>Fiscal Year</u>	<u>General Obligation Improvement Bonds</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Market Value¹</u>	<u>Per Capita²</u>
2002	\$ 4,305,000	\$ 924,870	\$ 3,380,130	1.81 %	\$ 400.16
2003	3,615,000	930,364	2,684,636	1.36	316.29
2004	2,945,000	857,895	2,087,105	0.98	247.26
2005	2,330,000	791,442	1,538,558	0.67	182.27
2006	1,685,000	539,783	1,145,217	0.47	134.59
2007	1,150,000	351,043	798,957	0.31	93.82
2008	815,000	214,432	600,568	0.20	70.80
2009	630,000	166,177	463,823	0.15	54.42
2010	510,000	155,835	354,165	0.11	41.31
2011	1,075,000	343,143	731,857	0.22	85.23

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Assessed Tax Capacity and Estimated Market Value of All Taxable Property (Table 7) for property value data.

² Population data can be found in the Schedule of Demographic and Economic Statistics (Table 16).

**CITY OF THIEF RIVER FALLS, MINNESOTA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
DECEMBER 31, 2011**

Table 13

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes:			
Thief River Falls School District No. 564	\$ 5,370,000	42.6 %	\$ 2,287,620
Pennington County	2,451,000	39.9	<u>977,949</u>
Subtotal, Overlapping Debt			3,265,569
City of Thief River Falls Direct Debt	10,111,791	100	<u>10,111,791</u>
Total Direct and Overlapping Debt			<u>\$ 13,377,360</u>

Source: Pennington County Auditor

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the school district's and county's taxable assessed value that is within the City's boundaries and dividing it by the school district's and county's total taxable assessed value.

CITY OF THIEF RIVER FALLS, MINNESOTA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

Table 14

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 3,736,160	\$ 3,943,884	\$ 4,274,568	\$ 4,567,388	\$ 4,878,898	\$ 4,878,898	\$ 5,926,510	\$ 6,361,986	\$ 6,466,434	\$ 6,655,530
Total Net Debt Applicable to Limit	1,496,315	1,792,855	1,634,310	1,660,282	810,167	761,476	594,097	420,832	151,377	85,101
Legal Debt Margin	\$ 2,239,845	\$ 2,151,029	\$ 2,640,258	\$ 2,907,106	\$ 4,068,731	\$ 4,117,422	\$ 5,332,413	\$ 5,941,154	\$ 6,315,057	\$ 6,570,429
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	40.05 %	45.46 %	38.23 %	36.35 %	16.61 %	15.61 %	10.02 %	6.61 %	2.34 %	1.28 %
LEGAL DEBT MARGIN CALCULATION FOR FISCAL YEAR 2011										
Assessed Value	\$ 332,776,500									
Debt Limit (2% of Total Assessed Value)	6,655,530									
Debt Applicable to Limit:										
General Obligation Debt	104,833									
Less: Amount Set aside for Repayment of General Obligation Debt	19,732									
Total Net Debt Applicable to Limit	85,101									
Legal Debt Margin	\$ 6,570,429									

CITY OF THIEF RIVER FALLS, MINNESOTA
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS

Table 15

Water Revenue Bonds							
Fiscal Year	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2002	\$ 1,342,885	\$ 895,253	\$ 447,632	\$ 112,900	\$ 235,048	1.29	
2003	1,395,470	992,500	402,970	73,405	387,276	0.87	
2004	1,459,129	1,030,186	428,943	150,000	135,375	1.50	
2005	1,452,206	1,034,386	417,820	165,000	160,759	1.28	
2006	1,558,478	1,183,286	375,192	170,000	182,337	1.06	
2007	1,551,545	1,262,491	289,054	170,000	176,783	0.83	
2008	1,598,034	1,455,979	142,055	175,000	157,660	0.43	
2009	1,677,589	1,412,246	265,343	180,000	141,878	0.82	

Wastewater Revenue Bonds							
Fiscal Year	Wastewater Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2002	\$ 547,991	\$ 395,895	\$ 152,096	\$ 37,077	\$ 23,551	2.51	
2003	530,532	405,042	125,490	38,157	22,471	2.07	
2004	537,392	438,782	98,610	39,190	21,438	1.63	
2005	535,300	435,971	99,329	40,292	20,337	1.64	
2006	565,289	453,064	112,225	41,422	19,205	1.85	
2007	583,248	480,054	103,194	42,587	15,741	1.77	
2008	591,727	517,083	74,644	43,784	16,344	1.24	
2009	560,985	563,789	(2,804)	45,014	15,214	(0.05)	

Water Systems Revenue Bonds ¹							
Fiscal Year	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2010	\$ 2,297,527	\$ 1,819,992	\$ 477,535	\$ 231,278	\$ 226,396	1.04	
2011	2,441,533	1,873,245	568,288	197,104	263,632	1.23	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Water and Wastewater charges and other includes investment earnings. Operating Expenses do not include interest or depreciation.

¹Effective January 1, 2010 the City combined the water and wastewater funds into the water systems fund.

CITY OF THIEF RIVER FALLS, MINNESOTA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Table 16

Fiscal Year	City Population ¹	Pennington County			Pennington County	
		Personal Income ²	Population ²	Per Capita Income ²	Total Employment ³	Unemployment Rate ³
2002	8,447	\$ 378,072,000	13,611	\$ 27,777	7,491	5.9 %
2003	8,488	415,144,000	13,578	30,575	7,595	6.1
2004	8,441	431,253,000	13,551	31,824	7,701	6.4
2005	8,441	457,687,000	13,593	33,671	7,838	5.6
2006	8,509	456,919,000	13,742	33,250	8,080	5.4
2007	8,515	492,748,000	13,736	35,873	8,140	8.7
2008	8,483	532,000,000	13,694	38,849	7,976	8.4
2009	8,522	542,000,000	13,738	39,138	8,610	8.3
2010	8,573	578,000,000	13,930	41,418	8,296	8.5
2011	8,587	Data Unavailable	13,930	Data Unavailable	8,888	5.9

¹ U.S. Census and Minnesota State Demographic Center

² U.S. Department of Commerce Bureau of Economic Analysis

³ MN Department of Employment and Economic Development

**CITY OF THIEF RIVER FALLS, MINNESOTA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

Table 17

Employer	2011		2002	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Digi-Key Corporation	2,498	28.11 %	1,170	15.62 %
Arctic Cat, Incorporated	1,250	14.06	1,500	20.02
Sandford Health - Thief River Falls	525	5.91	632	8.44
Seven Clans Casino Hotel & Indoor Waterpark	497	5.59	400	5.34
Thief River Falls School District No. 564	350	3.94	340	4.54
Northern Pride, Inc.	200	2.25	225	3.00
Northland Community & Technical College	165	1.86	175	2.34
Pennington County	126	1.42	235	3.14
City of Thief River Falls	102	1.15	115	1.54
Dean Foods	96	1.08	100	1.33
	<u>5,809</u>	<u>65.36</u>	<u>4,892</u>	<u>65.31</u>

Source: Minnesota Department of Employment & Economic Development - Community Profile

OTHER REPORT SECTION

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

To the Honorable Mayor
and Members of the City Council
City of Thief River Falls
Thief River Falls, 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 City of Thief River Falls, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City of Thief River Falls, Minnesota's basic financial statements and have issued our report thereon dated June 27, 2012.

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, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. No. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and city miscellaneous provisions. Our study included all of the listed categories.

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

This report is intended solely for the information and use of management, city council, others within the City, and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

June 27, 2012

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S 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**

To the Honorable Mayor
and Members of the City Council
City of Thief River Falls
Thief River Falls, 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 City of Thief River Falls, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City of Thief River Falls, Minnesota's basic financial statements and have issued our report thereon dated June 27, 2012. 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.

Internal Control Over Financial Reporting

Management of the City of Thief River Falls, Minnesota is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Thief River Falls, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Thief River Falls, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Thief River Falls, Minnesota'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 and correct 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 entity's 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 internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Thief River Falls, Minnesota'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*.

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

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

June 27, 2012



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Thief River Falls
Thief River Falls, Minnesota

Compliance

We have audited the City of Thief River Falls, Minnesota's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Thief River Falls, Minnesota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City of Thief River Falls, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



BRADY, MARTZ & ASSOCIATES, P.C.

June 27, 2012

**CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Amount</u>
<u>U.S. Department of Transportation</u>			
Passed-Through Minnesota Department of Transportation			
Airport Improvement Project	20.106	SP 5701-72	\$ 19,797
Airport Improvement Project	20.106	SP 5701-75	211,112
Total CFDA 20.106			<u>230,909</u>
Highway Planning and Construction	20.205	SP 170-107-006	348,507
<u>U.S. Department of Justice</u>			
Bulletproof Vest Partnership	16.607		2,297
<u>U.S. Department of Homeland Security - Transportation</u>			
<u>Security Administration</u>			
Law Enforcement Officer Reimbursement Agreement Program	97.090		12,950
<u>U.S. Department of Housing and Urban Development</u>			
Passed-Through Minnesota Department of Employment and Economic Development			
Community Development Block Grant	14.228	CDAP-08-0038-O-FY09	<u>340,557</u>
Total			<u>\$ 935,220</u>

See accompanying note to the schedule of expenditures of federal awards.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2011

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Thief River Falls and is presented on the accrual basis of account. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2. SUBRECIPIENTS

During 2011, the City did not pass any federal money to subrecipients.

**CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified?

☐ yes ☒ no

Noncompliance material to financial
statements noted?

☐ yes ☒ no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified?

☐ yes ☒ no

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance with
Section .510(a) of OMB Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

14.228 Community Development Block Grant

20.205 Highway Planning and Construction

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Section II-Financial Statement Findings

There are no findings which are required to be reported under this section.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2011

There are no findings which are required to be reported under this section.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO PASSENGER FACILITY CHARGES AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH PASSENGER FACILITY CHARGE GUIDE FOR PUBLIC AGENCIES**

To the Honorable Mayor
and Members of the City Council
City of Thief River Falls
Thief River Falls, Minnesota

Compliance and Other Matters

We have audited the compliance of City of Thief River Falls, Minnesota, with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (the "Guide") for its passenger facility charge program for the year ended December 31, 2011. Compliance with the requirements of laws and regulations pertaining to the passenger facility charge program is the responsibility of the City of Thief River Falls, Minnesota's management. Our responsibility is to express an opinion on the City of Thief River Falls, Minnesota's compliance based on our audit.

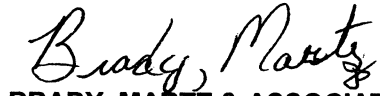
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Thief River Falls, Minnesota's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Thief River Falls, Minnesota's compliance with those requirements.

In our opinion, the City of Thief River Falls, Minnesota complied, in all material respects, with the requirements referred to above that are applicable to the passenger facility charge program for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City of Thief River Falls, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program. In planning and performing our audit, we considered the City of Thief River Falls, Minnesota's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, city council, others within the City, and Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

June 27, 2012

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF PASSENGER FACILITY CHARGES AND RELATED EXPENDITURES
YEAR ENDED AND EACH QUARTER FROM JANUARY 2011 THROUGH DECEMBER 31, 2011

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Balance, January 1, 2011	\$	\$	\$	\$	\$
Passenger Facility Charges	1,502	1,479	3,402	2,405	8,788
Interest Earnings					
Disbursements	<u>(1,502)</u>	<u>(1,479)</u>	<u>(3,402)</u>	<u>(2,405)</u>	<u>(8,788)</u>
Balance, December 31, 2011	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>

**CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - PASSENGER FACILITY CHARGE PROGRAM
DECEMBER 31, 2011**

I. Summary of Auditors' Results

- i) An unqualified report was issued on the December 31, 2011 financial statements of the City of Thief River Falls, Minnesota.
 - ii) No noncompliance, which is material to the financial statements, was disclosed by the audit.
 - iii) An unqualified opinion was issued on compliance for the passenger facility charge program.
- II. There were no findings related to the financial statements, which are required to be reported in accordance with generally accepted *Government Auditing Standards*.
- III. There were no findings related to the *Passenger Facility Charge Audit Guide for Public Agencies*, which are required to be reported.