



ANNUAL FINANCIAL REPORT
DECEMBER 31, 2012

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, 2012*

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, 2012**

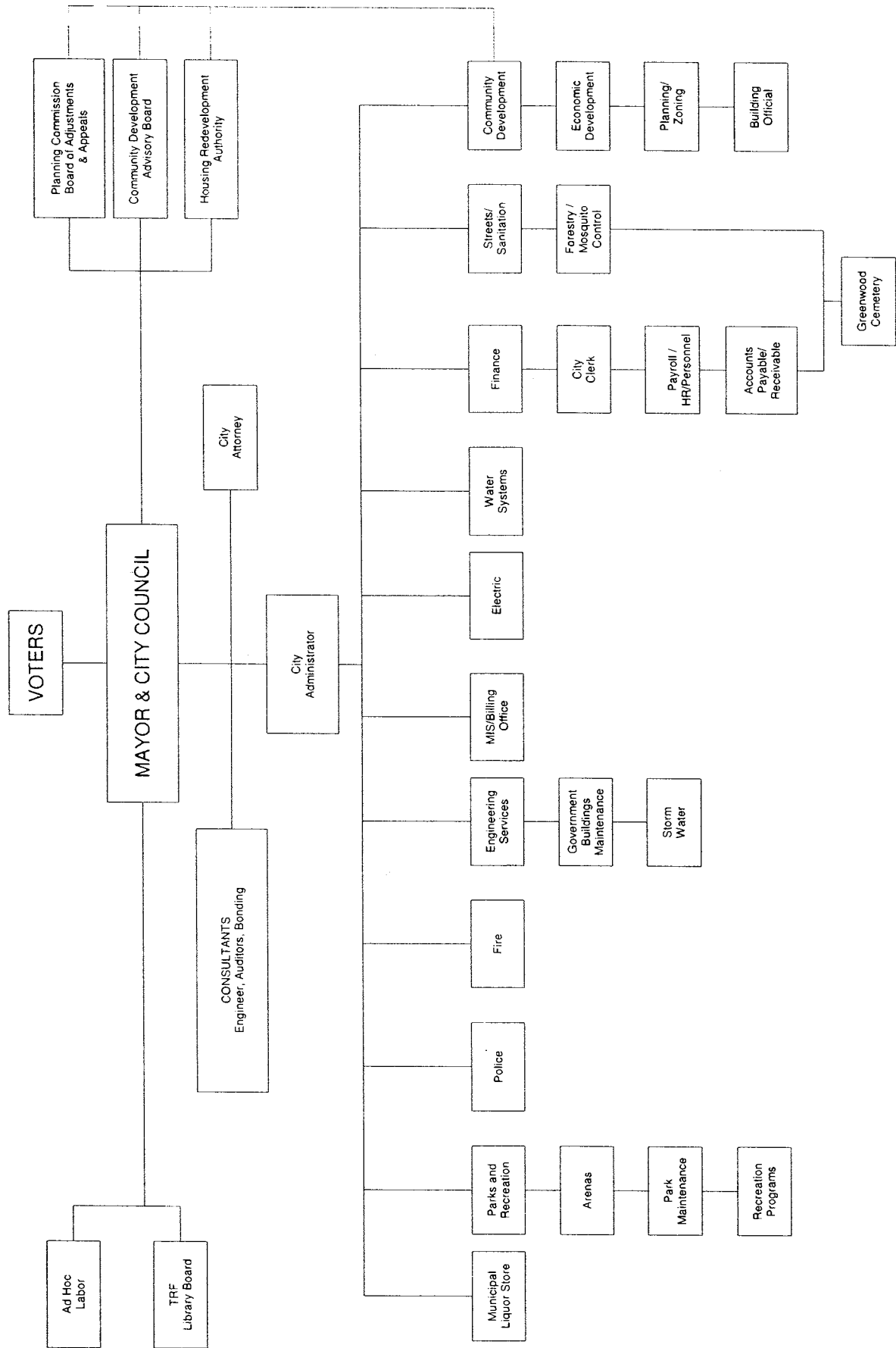
2012

		<u>Term Expires</u>
Mayor	Steve Nordhagen	2012
Council Member:		
First Ward	Glen Kajewski	2014
Second Ward	Floyd Erickson	2012
Third Ward	Dean Swanson* Edwin Dale Hahn * Swanson resigned 9/5/12	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.	

2013

Mayor	Jim Dagg	2014
Council Member:		
First Ward (Vice Mayor)	Glen Kajewski	2014
Second Ward	Don Sollom	2016
Third Ward	Edwin Dale Hahn	2014
Fourth Ward	Gerald Brown	2016
Fifth Ward	Joseph Haj	2014
At Large	Elvera Cullen	2014
At Large	Ken Schmalz	2016
City Administrator	Larry Kruse	
Finance Director	Lisa Johnson	
City Attorneys	Ihle & Sparby, P.A.	
Certified Public Accountants	Brady, Martz & Associates, P.C..	

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

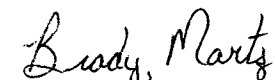
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Thief River Falls, Minnesota's financial statements as a whole. The introductory section, combining and individual fund statements and schedules, and statistical section are 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, 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* in considering the City's internal control over financial reporting.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

June 26, 2013

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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 \$47.6 million. Of this amount, \$9.3 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 increased by \$1,260,837.
- The City's governmental funds reported combined ending fund balances of \$5,843,333. Of the total fund balance amount, \$500,293 is restricted, \$2,214,960 is committed, \$1,632,063 is assigned, and \$1,496,017 is unassigned.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was 32.1% of total general fund expenditures of \$6,972,476.

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, 2012**

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 Greenwood Street underpass project, 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, 2012**

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 \$47,614,714. The largest portion of the City's net position (approximately 78 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 20 percent of the City's net position is unrestricted. The unrestricted net position amount of \$9,307,838 as of December 31, 2012, 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	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 8,408,295	\$ 8,764,732	\$ 6,817,175	\$ 9,751,518	\$ 15,225,470	\$ 18,516,250
Capital Assets	27,566,977	24,796,727	17,612,894	17,523,969	45,179,871	42,320,696
Total Assets	<u>35,975,272</u>	<u>33,561,459</u>	<u>24,430,069</u>	<u>27,275,487</u>	<u>60,405,341</u>	<u>60,836,946</u>
Long-term Liabilities	4,252,166	3,711,523	5,785,541	8,277,901	10,037,707	11,989,424
Other Liabilities	1,042,363	764,828	1,710,557	1,728,817	2,752,920	2,493,645
Total Liabilities	<u>5,294,529</u>	<u>4,476,351</u>	<u>7,496,098</u>	<u>10,006,718</u>	<u>12,790,627</u>	<u>14,483,069</u>
Net Position						
Net Investment in Capital Assets	24,788,309	22,452,913	12,553,523	12,740,230	37,341,832	35,193,143
Restricted	965,044	582,405		2,811,505	965,044	3,393,910
Unrestricted	4,927,390	6,049,790	4,380,448	1,717,034	9,307,838	7,766,824
Total Net Position	<u>\$ 30,680,743</u>	<u>\$ 29,085,108</u>	<u>\$ 16,933,971</u>	<u>\$ 17,268,769</u>	<u>\$ 47,614,714</u>	<u>\$ 46,353,877</u>

Governmental Activities

The net position of the governmental activities increased by \$1,595,635. 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 \$4,927,390 as of December 31, 2012.

Business-Type Activities

The net position of our business-type activities decreased by \$334,798. Unrestricted net position for the City's business-type activities totaled \$4,380,448 as of December 31, 2012.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Fees, Charges, Fines and Other	\$ 2,272,569	\$ 2,346,203	\$ 19,669,895	\$ 19,066,787	\$ 21,942,464	\$ 21,412,990
Operating Grants and Contributions	348,422	682,911		19,797	348,422	702,708
Capital Grants and Contributions	1,985,021	1,534,845		2,467,050	1,985,021	4,001,895
General Revenues						
Taxes	1,871,809	1,686,985			1,871,809	1,686,985
Unrestricted State Aid	2,630,629	2,649,976			2,630,629	2,649,976
Unrestricted Investment Earnings	132,939	151,147	51,625	88,855	184,564	240,002
Gain on Disposal of Capital Assets	28,700	40,000			28,700	40,000
Other General Revenue	40,889	38,575			40,889	38,575
Total Revenues	<u>9,310,978</u>	<u>9,130,642</u>	<u>19,721,520</u>	<u>21,642,489</u>	<u>29,032,498</u>	<u>30,773,131</u>
Expenses						
General Government	1,553,318	1,298,280			1,553,318	1,298,280
Public Safety	2,566,561	2,610,266			2,566,561	2,610,266
Streets and Sanitation	2,113,160	3,011,296			2,113,160	3,011,296
Culture and Recreation	2,160,416	2,086,941			2,160,416	2,086,941
Economic Development	217,618	740,503			217,618	740,503
Interest on Long-term Debt	70,747	68,469			70,747	68,469
Liquor Dispensary			4,025,774	3,816,258	4,025,774	3,816,258
Electric Utility			12,340,507	11,974,715	12,340,507	11,974,715
Airport				10,279,332		10,279,332
Storm Water Utility			186,722	160,472	186,722	160,472
Water Systems Utility			2,536,838	2,678,518	2,536,838	2,678,518
Total Expenses	<u>8,681,820</u>	<u>9,815,755</u>	<u>19,089,841</u>	<u>28,909,295</u>	<u>27,771,661</u>	<u>38,725,050</u>
Change in Net Position Before Transfers	629,158	(685,113)	631,679	(7,266,806)	1,260,837	(7,951,919)
Transfers	<u>966,477</u>	<u>710,460</u>	<u>(966,477)</u>	<u>(710,460)</u>		
Change in Net Position	<u>1,595,635</u>	<u>25,347</u>	<u>(334,798)</u>	<u>(7,977,266)</u>	<u>1,260,837</u>	<u>(7,951,919)</u>
Net Position - January 1	<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>
Net Position - December 31	<u>\$ 30,680,743</u>	<u>\$ 29,085,108</u>	<u>\$ 16,933,971</u>	<u>\$ 17,268,769</u>	<u>\$ 47,614,714</u>	<u>\$ 46,353,877</u>

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012**

Governmental Activities

The City's governmental activities revenue increased by \$180,336. The major factors contributing to this overall increase are the increase in capital grants and contributions for the Greenwood Street Underpass and a decrease in operating grants and contributions for the completion of the 2009 Small Cities Development Grant in 2011.

The City's governmental activities expenses decreased by \$1,133,935. The major factors contributing to this increase are:

- The street and sanitation expenditures decreased because of the completion of the Street & Utilities Improvement Project in 2011.
- The economic development expenditures decreased due to grant activity of the 2009 Small Cities Development Grant in 2011.

Business-Type Activities

Revenues – The City's business-type revenues decreased by \$1,920,969. The City had water, wastewater, and electric utility rate increases in February 2012. The capital grants and contributions decreased due to the multi-purpose hangar construction and terminal project at the airport which was completed in 2011.

Expenses – The City's business-type expenses decreased by \$9,819,454. The major factor contributing to this decrease was the city contribution to the Thief River Falls Airport Authority in 2011.

Financial Analysis of the City's Funds

	Major Funds				Percentage
	Fund Balance / Net Position		Increase	Increase	
	12/31/2012	12/31/2011	(Decrease)	(Decrease)	
Governmental Funds					
General	\$ 2,259,866	\$ 2,027,960	\$ 231,906		11%
CDAB Revolving Loan	2,062,155	2,031,422	30,733		2%
Greenwood Street Underpass	(731,618)	13,886	(745,504)		-5369%
Proprietary Funds					
Liquor Dispensary	1,619,841	1,526,094	93,747		6%
Electric Utility	6,122,373	6,633,010	(510,637)		-8%
Water Systems Utility	6,598,231	6,536,058	62,173		1%

The City's general fund balance increased this year due to close scrutiny and diligence of department supervisors to adhere to budgets and an increase in building permit revenue due to major construction projects for the schools and hospital. The Greenwood Street Underpass Project shows a deficit fund balance due to the advance of next year's state aid allotment. The Liquor Dispensary fund balance increased this year due to a 6% increase in gross sales. The Electric Utility fund balance decreased because of reduction of K.W.H. sold primarily caused by the mild heating season.

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 actions taken by the City Council and acknowledge donations received throughout the year.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$45,179,871 (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	
	2012	2011	2012	2011	2012	2011
Land	\$ 613,565	\$ 613,565	\$ 425,232	\$ 425,232	\$ 1,038,797	\$ 1,038,797
Construction In Progress	3,575,187	503,258	75,807	49,125	3,650,994	552,383
Buildings & Improvements	12,458,485	12,897,567	3,874,971	4,028,077	16,333,456	16,925,644
Improvements Other than Buildings	10,126,924	9,792,552	12,482,894	12,268,934	22,609,818	22,061,486
Machinery & Equipment	792,816	989,785	753,990	752,602	1,546,806	1,742,387
Total	<u>\$ 27,566,977</u>	<u>\$ 24,796,727</u>	<u>\$ 17,612,894</u>	<u>\$ 17,523,970</u>	<u>\$ 45,179,871</u>	<u>\$ 42,320,697</u>

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

- The City's 2012 Improvement Project included water main and sanitary sewer replacements totaling \$417,000.
- Carnegie Library renovations began through the use of private donations with final completion in 2013.
- Construction began on the Greenwood Street Underpass with the project to be completed in 2013.

Additional information on the City's capital assets can be found in Note 7 of this report.

Long-Term Debt

At year-end, the City of Thief River Falls had \$7.9 million in bonds and other long-term debt outstanding.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 1,740,000	\$ 1,075,000	\$	\$	\$ 1,740,000	\$ 1,075,000
Revenue Bonds	1,030,000	1,180,000	5,128,043	7,751,958	6,158,043	8,931,958
Capital Lease		46,500				46,500
Note Payable	33,333	58,333			33,333	58,333
Total	<u>\$ 2,803,333</u>	<u>\$ 2,359,833</u>	<u>\$ 5,128,043</u>	<u>\$ 7,751,958</u>	<u>\$ 7,931,376</u>	<u>\$ 10,111,791</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 2012, overall debt of the City is well below the two percent debt limit.

The City issued \$1,265,000 G.O. Bonds in 2012 to finance street and water main replacements within the City.

Additional information on the City's long-term debt can be found in Note 8 of this report.

**CITY OF THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012**

Economic Factors and Next Year's Budget

The City of Thief River Falls' elected officials considered many factors when setting the fiscal year 2013 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 2013 budget on December 18, 2012. For the eighth consecutive year the City did not increase the property tax levy. The 2013 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, 2012

Exhibit A-1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 5,382,040	\$ 3,328,143	\$ 8,710,183
Cash with Fiscal Agent		328,433	328,433
Receivables			
Accounts (Net Allowance)	147,912	1,318,713	1,466,625
Interest	10,640	4,458	15,098
Taxes	48,397		48,397
Special Assessments	860,270	49,229	909,499
Notes (Net Allowance)	1,758,527		1,758,527
Loans		76,592	76,592
Internal Balances	(680,329)	680,329	
Due from Other Governments	869,861		869,861
Inventory (Net Allowance)	10,977	1,031,278	1,042,255
Capital Assets			
Land	613,565	425,232	1,038,797
Construction in Progress	3,575,187	75,807	3,650,994
Buildings and Improvements	17,811,803	7,460,930	25,272,733
Improvements Other than Buildings	15,652,918	32,784,597	48,437,515
Machinery and Equipment	3,920,668	4,796,054	8,716,722
Less: Accumulated Depreciation	(14,007,164)	(27,929,726)	(41,936,890)
Total Capital Assets, Net of Depreciation	27,566,977	17,612,894	45,179,871
TOTAL ASSETS	35,975,272	24,430,069	60,405,341
LIABILITIES			
Accounts Payable	607,225	1,289,985	1,897,210
Accrued Payroll Liabilities	90,177	50,518	140,695
Accrued Interest Payable	18,000	56,400	74,400
Due to Other Governments	16,585	115,598	132,183
Customer Deposits		198,056	198,056
Deferred Revenue - Unearned	310,376		310,376
Noncurrent Liabilities			
Due Within One Year	514,310	452,289	966,599
Due in More than One Year	2,965,056	5,083,052	8,048,108
Net Other Postemployment Benefit Liability	772,800	250,200	1,023,000
TOTAL LIABILITIES	5,294,529	7,496,098	12,790,627
NET POSITION			
Net Investment in Capital Assets	24,788,309	12,553,523	37,341,832
Restricted for Debt Service	911,034		911,034
Restricted for TIF District	54,010		54,010
Unrestricted	4,927,390	4,380,448	9,307,838
TOTAL NET POSITION	\$ 30,680,743	\$ 16,933,971	\$ 47,614,714

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, 2012

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	\$ 1,553,318	\$ 195,179	\$ 17,321	\$ 416,932	\$ (923,886)	\$ (923,886)
Public Safety	2,566,561	380,851	154,887		(2,030,823)	(2,030,823)
Streets and Sanitation	2,113,160	859,450	162,046	1,568,089	476,425	476,425
Culture and Recreation	2,160,416	754,940			(1,405,476)	(1,405,476)
Economic Development	217,618	82,149	14,168		(121,301)	(121,301)
Interest on Long-term Debt	70,747				(70,747)	(70,747)
Total Governmental Activities	8,681,820	2,272,569	348,422	1,985,021	(4,075,808)	(4,075,808)
Business-type Activities:						
Liquor Dispensary	4,025,774	4,482,994				457,220
Electric Utility	12,340,507	12,382,669				42,162
Storm Water Utility	186,722	159,061				(27,661)
Water Systems Utility	2,536,838	2,645,171				108,333
Total Business-type Activities	19,089,841	19,669,895				580,054
Total Government	\$ 27,771,661	\$ 21,942,464	\$ 348,422	\$ 1,985,021	(4,075,808)	(3,495,754)
General Revenues:						
Taxes - Property					1,750,669	1,750,669
Taxes - Franchise Fees					121,140	121,140
Unrestricted State Aid					2,630,629	2,630,629
Unrestricted Investment Earnings					132,939	51,625
Other General Revenue					40,889	184,564
Gain on Sale of Capital Asset					28,700	40,889
Transfers					966,477	28,700
Total General Revenues and Transfers					(914,852)	(966,477)
Change in Net Position					1,595,635	(334,798)
Net Position - January 1					29,085,108	17,268,769
Net Position - December 31					\$ 30,680,743	\$ 16,933,971
					\$	\$ 47,614,714

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, 2012

Exhibit A-3

	General Fund	CDAB Revolving Loan	Greenwood Street Underpass Project	Other Governmental Funds Exhibit B-1	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 2,470,559	\$ 593,354	\$ 146,235	\$ 1,777,948	\$ 4,988,096
Receivables					
Accounts (Net Allowance)	133,833			150	133,983
Interest	1,797	4,301		2,842	8,940
Taxes - Current	43,303			5,094	48,397
Taxes - Delinquent	41,800			3,000	44,800
Special Assessments					
Delinquent				7,925	7,925
Deferred	246,085			606,260	852,345
Notes (Net Allowance)		1,341,361		417,166	1,758,527
Due from Other Funds	12,714			269,250	281,964
Due from Other Governments	23,056	148,139	698,666		869,861
TOTAL ASSETS	\$ 2,973,147	\$ 2,087,155	\$ 844,901	\$ 3,089,635	\$ 8,994,838
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 318,843	\$ 11,002	\$ 60,891	\$ 206,597	\$ 597,333
Accrued Payroll Liabilities	89,968			209	90,177
Due to Other Funds			1,219,250	12,714	1,231,964
Due to Other Governments	16,585				16,585
Deferred Revenue	287,885	13,998	296,378	617,185	1,215,446
Total Liabilities	713,281	25,000	1,576,519	836,705	3,151,505
FUND BALANCES					
Restricted for:					
TIF District				54,010	54,010
Debt Service				446,283	446,283
Committed for:					
Economic Development		2,062,155			2,062,155
Perpetual Care				152,805	152,805
Assigned for:					
Park	19,504				19,504
Cemetery				68,126	68,126
Capital Project				1,544,433	1,544,433
Unassigned	2,240,362		(731,618)	(12,727)	1,496,017
Total Fund Balances	2,259,866	2,062,155	(731,618)	2,252,930	5,843,333
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,973,147	\$ 2,087,155	\$ 844,901	\$ 3,089,635	\$ 8,994,838

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, 2012

Exhibit A-4

Total fund balances - governmental funds	\$ 5,843,333
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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	41,519,624
Less: accumulated depreciation	(13,952,647)

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	(2,770,000)
Less: Issuance Discount (to be amortized as interest expense)	24,665
Other Long-Term Obligations	(33,333)
Net Other Postemployment Benefit Liability	(772,800)

Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(18,000)
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Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(700,698)
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	860,270
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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.

680,329

Net Position - governmental activities	\$ <u>30,680,743</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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012

Exhibit A-5

	General Fund	CDAB Revolving Loan	Greenwood Street Underpass Project	Other Governmental Funds Exhibit B-2	Total Governmental Funds
REVENUES					
Taxes	\$ 1,567,703	\$	\$	\$ 304,107	\$ 1,871,810
Special Assessments	50,552			179,135	229,687
Licenses and Permits	278,985				278,985
Intergovernmental - Federal	8,233	14,168	882,674		905,075
Intergovernmental - State	2,750,045		308,964	189,284	3,248,293
Charges for Services	1,838,914			40,600	1,879,514
Fines and Forfeitures	45,163				45,163
Miscellaneous					
Contributions	17,221			417,032	434,253
Investment Earnings	41,892	34,546		45,894	122,332
Other Receipts	23,132	12,420		13,429	48,981
Total Revenues	<u>6,621,840</u>	<u>61,134</u>	<u>1,191,638</u>	<u>1,189,481</u>	<u>9,064,093</u>
EXPENDITURES					
Current					
General Government	1,079,332			410,234	1,489,566
Public Safety	2,424,496				2,424,496
Streets and Sanitation	1,546,325			41,831	1,588,156
Culture and Recreation	1,661,292			6,421	1,667,713
Economic Development	177,460	30,401			207,861
Debt Service					
Principal	71,500			280,000	351,500
Interest	4,657			64,900	69,557
Bond and Other Fees				1,171	1,171
Capital Outlay					
General Government				899,529	899,529
Public Safety				79,480	79,480
Streets and Sanitation			2,083,377	770,749	2,854,126
Culture and Recreation	7,414			56,024	63,438
Total Expenditures	<u>6,972,476</u>	<u>30,401</u>	<u>2,083,377</u>	<u>2,610,339</u>	<u>11,696,593</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(350,636)</u>	<u>30,733</u>	<u>(891,739)</u>	<u>(1,420,858)</u>	<u>(2,632,500)</u>
OTHER FINANCING SOURCES (USES)					
Bond Issued				795,000	795,000
Bond Discount				(10,335)	(10,335)
Transfers In	966,477		146,235	237,700	1,350,412
Sale of Capital Asset				28,700	28,700
Transfers Out	(383,935)				(383,935)
Total Other Financing Sources (Uses)	<u>582,542</u>		<u>146,235</u>	<u>1,051,065</u>	<u>1,779,842</u>
NET CHANGE IN FUND BALANCES	231,906	30,733	(745,504)	(369,793)	(852,658)
FUND BALANCE, JANUARY 1	<u>2,027,960</u>	<u>2,031,422</u>	<u>13,886</u>	<u>2,622,723</u>	<u>6,695,991</u>
FUND BALANCE, DECEMBER 31	<u>\$ 2,259,866</u>	<u>\$ 2,062,155</u>	<u>\$ (731,618)</u>	<u>\$ 2,252,930</u>	<u>\$ 5,843,333</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, 2012

Exhibit A-6

Total net change in fund balances - governmental funds	\$ (852,658)
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	3,903,100
Depreciation expense	(1,112,436)
The net effect of transactions involving capital assets is a decrease in net position.	(20,411)
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.	(784,665)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	351,500
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.	(1,190)
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.	175,553
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.)	(105,788)
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.	42,630
Change in net position - governmental activities	\$ <u>1,595,635</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, 2012

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Property Taxes	\$ 1,419,275	\$ 1,419,275	\$ 1,446,563	\$ 27,288
Franchise Tax - Cable	56,000	56,000	58,204	2,204
Franchise Tax - Gas	69,500	69,500	62,936	(6,564)
	<u>1,544,775</u>	<u>1,544,775</u>	<u>1,567,703</u>	<u>22,928</u>
Special Assessments	<u>25,220</u>	<u>25,220</u>	<u>50,552</u>	<u>25,332</u>
Licenses and Permits				
Business Licenses and Permits	35,981	35,981	37,341	1,360
Non-Business Licenses and Permits	77,890	77,890	241,644	163,754
	<u>113,871</u>	<u>113,871</u>	<u>278,985</u>	<u>165,114</u>
Intergovernmental				
Federal	16,800	16,800	8,233	(8,567)
State				
Local Governmental Aid	2,418,906	2,418,906	2,418,906	
Local Performance Aid			1,200	1,200
MV Credit and Other Credits	5,700	5,700	(79)	(5,779)
Police Aid	112,400	112,400	99,372	(13,028)
Firefighting Aid	45,000	45,000	47,282	2,282
PERA Rate Increase Aid	21,320	21,320	21,318	(2)
State Urban Street Maintenance	149,000	149,000	162,046	13,046
	<u>2,769,126</u>	<u>2,769,126</u>	<u>2,758,278</u>	<u>(10,848)</u>
Charges for Services				
General Government	95,947	95,947	116,508	20,561
Police Department	35,300	35,300	35,510	210
Fire Department	64,225	64,225	72,505	8,280
Streets and Sanitation	858,300	858,300	859,450	1,150
Parks and Recreation				
Arenas	656,183	656,183	632,225	(23,958)
Other	116,936	116,936	122,716	5,780
	<u>1,826,891</u>	<u>1,826,891</u>	<u>1,838,914</u>	<u>12,023</u>
Fines and Forfeitures	<u>45,000</u>	<u>45,000</u>	<u>45,163</u>	<u>163</u>
Miscellaneous				
Investment Earnings	34,960	34,960	41,892	6,932
Contributions		17,200	17,221	21
Other	10,000	15,300	23,132	7,832
	<u>44,960</u>	<u>67,460</u>	<u>82,245</u>	<u>14,785</u>
Total Revenues	<u>6,369,843</u>	<u>6,392,343</u>	<u>6,621,840</u>	<u>229,497</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, 2012

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General Government				
Current				
Mayor and Council	84,718	85,918	85,114	(804)
City Administrator	436,135	463,850	465,610	1,760
Election	16,000	16,000	16,532	532
Assessor	35,000	35,000	36,810	1,810
Independent Auditors	10,900	10,900	12,819	1,919
Legal Services	77,700	77,700	104,056	26,356
Insurance	239,500	239,500	211,714	(27,786)
MIS/GIS	14,000	14,000	14,000	
Building Maintenance	98,830	99,720	99,911	191
Other General Government	11,630	31,410	32,766	1,356
	<u>1,024,413</u>	<u>1,073,998</u>	<u>1,079,332</u>	<u>5,334</u>
Public Safety				
Current				
Police Protection	1,630,950	1,648,345	1,625,264	(23,081)
Fire Protection	667,770	679,635	682,283	2,648
Building Official	105,820	107,290	116,949	9,659
	<u>2,404,540</u>	<u>2,435,270</u>	<u>2,424,496</u>	<u>(10,774)</u>
Streets and Sanitation				
Current				
Streets and Sanitation	1,272,070	1,283,530	1,244,915	(38,615)
Street Lighting	141,969	141,969	151,679	9,710
Engineering	144,000	146,300	149,731	3,431
	<u>1,558,039</u>	<u>1,571,799</u>	<u>1,546,325</u>	<u>(25,474)</u>
Culture and Recreation				
Current				
Parks and Recreation	444,368	540,058	552,235	12,177
Arenas	966,011	934,241	915,483	(18,758)
Library	174,924	175,259	169,214	(6,045)
Senior Citizen Program	22,600	24,360	24,360	
Capital Outlay				
Parks and Recreation		7,414	7,414	
	<u>1,607,903</u>	<u>1,681,332</u>	<u>1,668,706</u>	<u>(12,626)</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, 2012

Exhibit A-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Economic Development	184,470	187,255	177,460	(9,795)
	<u>184,470</u>	<u>187,255</u>	<u>177,460</u>	<u>(9,795)</u>
Debt Service				
Principal	71,500	71,500	71,500	
Interest			4,657	4,657
	<u>71,500</u>	<u>71,500</u>	<u>76,157</u>	<u>4,657</u>
Total Expenditures	<u>6,850,865</u>	<u>7,021,154</u>	<u>6,972,476</u>	<u>(48,678)</u>
REVENUES UNDER EXPENDITURES	(481,022)	(628,811)	(350,636)	278,175
OTHER FINANCING SOURCES (USES)				
Transfers In	966,477	966,477	966,477	
Transfers Out	<u>(477,700)</u>	<u>(383,935)</u>	<u>(383,935)</u>	
Total Other Financing Sources (Uses)	<u>488,777</u>	<u>582,542</u>	<u>582,542</u>	
NET CHANGE IN FUND BALANCES	7,755	(46,269)	231,906	278,175
FUND BALANCE, JANUARY 1	<u>2,027,960</u>	<u>2,027,960</u>	<u>2,027,960</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 2,035,715</u>	<u>\$ 1,981,691</u>	<u>\$ 2,259,866</u>	<u>\$ 278,175</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, 2012

Exhibit A-8

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Liquor Dispensary	Electric Utility	Water	Nonmajor			Total
			Systems Utility	Storm Water Utility			
ASSETS							
CURRENT ASSETS							
Cash and Investments	\$ 1,067,565	\$ 1,606,722	\$ 299,321	\$ 354,535	\$ 3,328,143	\$ 393,944	
Cash with Fiscal Agent			328,433		328,433		
Accounts Receivable (Net of Allowance)	3,569	1,088,797	213,089	13,258	1,318,713	13,929	
Special Assessments - Current			12,308		12,308		
Interest Receivable	1,165	2,097	506	690	4,458	1,700	
Loan Receivable		76,592			76,592		
Due from Other Funds		45,896			45,896	950,000	
Inventory (Net Allowance)	453,416	494,846	83,016		1,031,278	10,977	
Total Current Assets	1,525,715	3,314,950	936,673	368,483	6,145,821	1,370,550	
NONCURRENT ASSETS							
Special Assessments - Noncurrent			36,921		36,921		
Advances to Other Funds		162,186			162,186		
CAPITAL ASSETS							
Land	178,942	53,052	193,238		425,232		
Construction In Progress		2,882	72,925		75,807		
Buildings and Improvements	722,295	799,030	5,939,605		7,460,930		
Improvements Other than Buildings		12,074,993	18,483,067	2,226,537	32,784,597		
Machinery and Equipment	95,077	1,494,074	3,016,952	189,951	4,796,054	54,517	
Less: Accumulated Depreciation	(485,034)	(10,115,229)	(16,460,266)	(869,197)	(27,929,726)	(54,517)	
Total Capital Assets (Net of Accumulated Depreciation)	511,280	4,308,802	11,245,521	1,547,291	17,612,894		
Total Noncurrent Assets	511,280	4,470,988	11,282,442	1,547,291	17,812,001		
Total Assets	2,036,995	7,785,938	12,219,115	1,915,774	23,957,822	1,370,550	

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, 2012

Exhibit A-8

	Business-type Activities - Enterprise Funds					Governmental Activities
	Liquor Dispensary	Electric Utility	Water Systems Utility	Nonmajor Storm Water Utility	Total	
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	271,044	959,764	57,003	2,174	1,289,985	9,892
Accrued Payroll Liabilities	7,727	26,304	16,084	403	50,518	
Accrued Interest Payable			56,400		56,400	
Compensated Absences Payable	14,000	46,000	22,000		82,000	
Due to Other Funds			45,896		45,896	
Due to Other Governments	40,543	74,695	360		115,598	
Customer Deposits		198,056			198,056	
Bonds Payable - Current			370,289		370,289	
Total Current Liabilities	333,314	1,304,819	568,032	2,577	2,208,742	9,892
NONCURRENT LIABILITIES						
Advances from Other Funds			162,186		162,186	
Compensated Absences Payable	50,140	225,646	118,184		393,970	
Revenue Bonds Payable (Net of Discount)			4,689,082		4,689,082	
Net Other Postemployment Benefit Liability	33,700	133,100	83,400		250,200	
Total Noncurrent Liabilities	83,840	358,746	5,052,852		5,495,438	
Total Liabilities	417,154	1,663,565	5,620,884	2,577	7,704,180	9,892
NET POSITION						
Net Investment in Capital Assets	511,280	4,308,802	6,186,150	1,547,291	12,553,523	
Unrestricted	1,108,561	1,813,571	412,081	365,906	3,700,119	1,360,658
Total Net Position	\$ 1,619,841	\$ 6,122,373	\$ 6,598,231	\$ 1,913,197	\$ 16,253,642	\$ 1,360,658
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						680,329
Net assets of business-type activities						\$ 16,933,971

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, 2012

Exhibit A-9

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Liquor Dispensary	Electric Utility	Water Systems Utility	Nonmajor Storm Water Utility	Total	
OPERATING REVENUES						
Sales	\$ 4,481,036	\$	\$	\$	\$ 4,481,036	\$
Cost of Sales	3,430,447				3,430,447	
Gross Profit	1,050,589				1,050,589	
Charges for Services		11,930,725	2,598,362	159,061	14,688,148	565,066
Miscellaneous	1,958	451,944	46,809		500,711	
Total Operating Revenues	1,052,547	12,382,669	2,645,171	159,061	16,239,448	565,066
OPERATING EXPENSES						
Salaries and Wages	283,894	950,672	576,997	19,828	1,831,391	6,632
Employee Benefits and Payroll Taxes	104,455	369,105	205,503	6,114	685,177	988
Purchased Power		9,920,198			9,920,198	
Supplies	13,713	70,685	460,514	1,412	546,324	65,076
Utilities	23,513	43,532	238,606		305,651	
Other Services and Charges		100,606			100,606	
Repairs and Maintenance	13,354	203,276	230,228	9,593	456,451	49,378
Advertising	58,772				58,772	
Insurance	15,700	67,503	48,734		131,937	369,926
License, Tax, and Other	61,290	258,467	74,905	80,499	475,161	
Depreciation	24,725	376,247	581,764	69,275	1,052,011	
Total Operating Expenses	599,416	12,360,291	2,417,251	186,721	15,563,679	492,000
Operating Income (Loss)	453,131	22,378	227,920	(27,660)	675,769	73,066

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, 2012

Exhibit A-9

	Business-type Activities - Enterprise Funds					Governmental Activities
	Liquor Dispersary	Electric Utility	Water Systems Utility	Nonmajor Storm Water Utility	Total	
NONOPERATING REVENUE (EXPENSE)						
Investment Earnings	8,893	18,885	12,803	4,946	45,527	12,200
Interest Expense			(132,250)		(132,250)	
Total Nonoperating Revenue (Expense)	8,893	18,885	(119,447)	4,946	(86,723)	12,200
Net Income (Loss) before Transfers	462,024	41,263	108,473	(22,714)	589,046	85,266
Transfers Out	(368,277)	(551,900)	(46,300)		(966,477)	
Change in Net Position	93,747	(510,637)	62,173	(22,714)	(377,431)	85,266
NET POSITION, JANUARY 1	1,526,094	6,633,010	6,536,058	1,935,911		1,275,392
NET POSITION, DECEMBER 31	\$ 1,619,841	\$ 6,122,373	\$ 6,598,231	\$ 1,913,197	\$ 35,804	\$ 1,360,658
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						
Change in net position of business-type activities					\$ (341,627)	

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, 2012

Exhibit A-10

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Liquor Dispensary	Electric Utility	Water Systems Utility	Nonmajor			Internal Service Fund
				Storm	Water Utility		
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 4,481,719	\$ 12,420,226	\$ 2,644,353	\$ 159,069	\$ 19,705,367	\$ 565,027	
Receipts from Interfund Services Provided	(3,584,280)	(10,606,806)	(991,532)	(89,826)	(15,272,444)	(513,272)	
Payments to Suppliers	(381,338)	(1,219,326)	(805,822)	(25,765)	(2,432,251)	(7,620)	
Payments to Employees	516,101	594,094	846,999	43,478	2,000,672	44,135	
Net Cash Provided by Operating Activities							
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Customer Loans Made		(5,000)			(5,000)		
Customer Loans Repayments		74,863			74,863		
Special Assessments Received			12,890		12,890		
Change in Interfund Loans		45,391	(45,391)			(378,699)	
Transfers to Other Funds	(368,277)	(551,900)	(46,300)		(966,477)		
Net Cash Used by Noncapital Financing Activities	(368,277)	(436,646)	(78,801)		(883,724)	(378,699)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Capital Debt			463,890		463,890		
Purchase of Capital Assets		(333,095)	(674,877)	(132,964)	(1,140,936)		
Cash with Fiscal Agent			(280,884)		(280,884)		
Payment of Long-Term Debt			(313,915)		(313,915)		
Interest on Long-Term Debt			(161,187)		(161,187)		
Net Cash Used by Capital and Related Financing Activities		(333,095)	(966,973)	(132,964)	(1,433,032)		

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, 2012

Exhibit A-10

	Business-type Activities - Enterprise Funds					Governmental Activities
	Liquor Dispensary	Electric Utility	Water Systems Utility	Nonmajor Storm Water Utility	Total	
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment Earnings	8,488	19,086	12,805	4,813	45,192	12,022
Net Cash Provided by Investing Activities	<u>8,488</u>	<u>19,086</u>	<u>12,805</u>	<u>4,813</u>	<u>45,192</u>	<u>12,022</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	156,312	(156,561)	(185,970)	(84,673)	(270,892)	(322,542)
CASH AND CASH EQUIVALENTS, JANUARY 1	911,253	1,763,283	485,291	439,208	3,599,035	716,486
CASH AND CASH EQUIVALENTS, DECEMBER 31 \$	<u>1,067,565</u>	<u>\$ 1,606,722</u>	<u>\$ 299,321</u>	<u>\$ 354,535</u>	<u>\$ 3,328,143</u>	<u>\$ 393,944</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 453,131	\$ 22,378	\$ 227,920	\$ (27,660)	\$ 675,769	\$ 73,066
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	24,725	376,247	581,764	69,275	1,052,011	
Change in:						
Receivables	(2,086)	26,527	(1,034)	8	23,415	(39)
Inventory	(37,693)	56,364	50,957		69,628	(5,280)
Accounts Payable	70,202	1,097	10,498	1,678	83,475	(23,612)
Accrued Payroll Liabilities	1,230	6,194	(55,292)	177	(47,691)	
Compensated Absences	5,281	92,157	30,670		128,108	
Due to Other Governments	811	(2,092)	216		(1,065)	
Customer Deposits		13,122			13,122	
Net Other Postemployment Benefit Obligation	500	2,100	1,300		3,900	
Total Adjustments	<u>62,970</u>	<u>571,716</u>	<u>619,079</u>	<u>71,138</u>	<u>1,324,903</u>	<u>(28,931)</u>
Net Cash Provided by Operating Activities	<u>\$ 516,101</u>	<u>\$ 594,094</u>	<u>\$ 846,999</u>	<u>\$ 43,478</u>	<u>\$ 2,000,672</u>	<u>\$ 44,135</u>
NONCASH CAPITAL ACTIVITIES						
Payment of Long-Term Debt from Escrow	\$	\$	\$ 2,811,505	\$	\$ 2,811,505	\$

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, 2012

Exhibit A-11

ASSETS

Cash and Investments	\$	81,291
Interest Receivable		123
Prepaid Benefits		<u>2,263</u>
Total Assets		<u>83,677</u>

NET POSITION

Held in Trust for Pension Benefits	\$	<u>83,677</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, 2012

Exhibit A-12

ADDITIONS

Contributions: Employer	\$	5,389
Investment Earnings		<u>879</u>
Total Additions		<u>6,268</u>

DEDUCTIONS

Benefits		<u>26,243</u>
Total Deductions		<u>26,243</u>

Change in Net Position		(19,975)
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NET POSITION, JANUARY 1		<u>103,652</u>
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NET POSITION, DECEMBER 31	\$	<u><u>83,677</u></u>
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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, 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 *Greenwood Street underpass project fund* accounts for financial resources to be used for construction of the Greenwood Street underpass and roundabout.

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 *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.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012**

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 \$144,973.

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, 2012, based on market prices. Investment earnings on cash and pooled investments are allocated to funds with deposits. Pooled investment earnings for 2012 were \$80,310.

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.

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.

**CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012**

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 \$719,000.

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

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

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.

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

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

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. DEFICIT FUND BALANCES

The 2013 utility improvement fund and Greenwood Street underpass fund had deficit fund balances of \$12,727 and \$731,618, respectively, as of December 31, 2012. The deficits are expected to be eliminated through future revenues or bond proceeds.

NOTE 3. 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.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

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.

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.

NOTE 4. DEPOSITS AND INVESTMENTS

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

Cash and Investments	
Governmental Funds	\$ 4,988,096
Proprietary Funds	3,722,087
Fiduciary Funds	81,291
	<u>\$ 8,791,474</u>
Deposits	
Cash, Checking, Certificates of Deposits, and Change Funds	\$ 6,414,912
Investments	2,376,562
	<u>\$ 8,791,474</u>

As of December 31, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
External Investment Pool - 4M Fund		\$ 2,376,562

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.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

- e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- f) 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.
- g) 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.
- h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer.

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, 2012, 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 5. NOTES RECEIVABLE

The City has various notes receivable from individuals and organizations at December 31, 2012, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
CDAB Revolving Loan Fund - Economic Development Loans	2013 - 2022	0.0 – 6.00%	\$1,470,277
Revolving Capital Outlay Fund – Development Loan	2013 - 2022	3.5%	417,166
			<u>\$1,887,443</u>

The provision for uncollectible was \$128,916.

NOTE 6. LOAN RECEIVABLE

The City has various loan receivables from individuals and organizations at December 31, 2012, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Electric Utility Fund - Dual Heat Loans	2013 – 2017	0.0 – 7.00%	\$76,592

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

NOTE 7. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 613,565	\$	\$	\$ 613,565
Construction In Progress	503,258	3,071,929		3,575,187
Total Capital Assets, not being depreciated	<u>1,116,823</u>	<u>3,071,929</u>		<u>4,188,752</u>
Capital Assets, being depreciated:				
Buildings and Improvements	17,847,677		35,874	17,811,803
Improvements Other Than Buildings	14,845,967	806,951		15,652,918
Machinery and Equipment	3,960,247	24,220	63,799	3,920,668
Total Capital Assets, being depreciated	<u>36,653,891</u>	<u>831,171</u>	<u>99,673</u>	<u>37,385,389</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	4,950,110	418,668	15,460	5,353,318
Improvements Other Than Buildings	5,053,415	472,579		5,525,994
Machinery and Equipment	2,970,462	221,189	63,799	3,127,852
Total Accumulated Depreciation	<u>12,973,987</u>	<u>1,112,436</u>	<u>79,259</u>	<u>14,007,164</u>
Total Capital Assets, being depreciated, net	<u>23,679,904</u>	<u>(281,265)</u>	<u>20,414</u>	<u>23,378,225</u>
Governmental Activities Capital Assets, net	<u>\$ 24,796,727</u>	<u>\$ 2,790,664</u>	<u>\$ 20,414</u>	<u>\$ 27,566,977</u>
<u>Business-type Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 425,232	\$	\$	\$ 425,232
Construction in Progress	49,125	26,682		75,807
Total Capital Assets, not being depreciated	<u>474,357</u>	<u>26,682</u>		<u>501,039</u>
Capital Assets, being depreciated:				
Buildings and Improvements	7,460,930			7,460,930
Improvements Other Than Buildings	31,834,171	950,426		32,784,597
Machinery and Equipment	4,656,298	163,827	24,071	4,796,054
Total Capital Assets, being depreciated	<u>43,951,399</u>	<u>1,114,253</u>	<u>24,071</u>	<u>45,041,581</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	3,432,853	153,106		3,585,959
Improvements Other Than Buildings	19,565,237	736,466		20,301,703
Machinery and Equipment	3,903,696	162,439	24,071	4,042,064
Total Accumulated Depreciation	<u>26,901,786</u>	<u>1,052,011</u>	<u>24,071</u>	<u>27,929,726</u>
Total Capital Assets, being depreciated, net	<u>17,049,613</u>	<u>62,242</u>		<u>17,111,855</u>
Business-type Activities Capital Assets, net	<u>\$ 17,523,970</u>	<u>\$ 88,924</u>		<u>\$ 17,612,894</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

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

Governmental Activities:	
General Governmental	\$ 37,825
Public Safety	78,138
Streets and Sanitation, including Depreciation of General Infrastructure Assets	522,740
Culture and Recreation	473,733
Total Depreciation Expense – Governmental Activities	<u>\$1,112,436</u>
Business-type Activities:	
Liquor Dispensary	\$ 24,725
Electric Utility	376,247
Water Systems Utility	581,764
Storm Water Utility	69,275
Total Depreciation Expense – Business-type Activities	<u>\$1,052,011</u>

NOTE 8. 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 \$3,445,000. During the year general obligation bonds totaling \$795,000 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	0.65 to 4.38%	\$1,740,000

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>
2013	\$ 175,000	\$ 28,604
2014	205,000	26,168
2015	120,000	22,793
2016	120,000	21,765
2017	120,000	20,520
2018-2022	640,000	74,489
2023-2024	360,000	11,304
	<u>\$ 1,740,000</u>	<u>\$ 205,643</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 \$11,280,525. During the year general obligation revenue bonds totaling \$470,000 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%	\$1,030,000
Business-type Activities	1.65 to 4.20%	2,228,039
Business-type Activities – Refunding	2.00 to 3.65%	2,900,000

Revenue bonds payable for governmental activities and business-type activities are presented in the financial statements net of bond discount of \$24,665 and \$68,671, respectively.

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

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
2013	\$ 155,000	\$ 34,782	\$ 370,289	\$ 124,739
2014	160,000	29,518	406,704	119,182
2015	170,000	23,537	413,156	110,940
2016	175,000	17,285	424,650	102,476
2017	180,000	10,739	436,184	93,702
2018-2022	190,000	3,682	2,142,060	302,340
2023-2027			770,000	70,769
2028-2030			165,000	8,785
	<u>\$ 1,030,000</u>	<u>\$ 119,543</u>	<u>\$ 5,128,043</u>	<u>\$ 932,933</u>

Other Long-term Obligations. The City entered into a note with the City of Red Lake Falls for \$225,000.

Notes payable and capital lease currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	0.0 %	\$ 33,333

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

Year Ending December 31	Governmental Activities Principal
2013	\$ 25,000
2014	8,333
	<u>\$ 33,333</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2012

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2012, 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	\$ 1,075,000	\$ 795,000	\$ 130,000	\$ 1,740,000	\$ 175,000
G.O. State-Aid Street Bonds	1,180,000		150,000	1,030,000	155,000
Less: Deferred Amounts on					
Discounts	(16,020)	(10,335)	(1,690)	(24,665)	(1,690)
Total Bonds Payable	<u>2,238,980</u>	<u>784,665</u>	<u>278,310</u>	<u>2,745,335</u>	<u>328,310</u>
Other Long-term Obligations					
Capital Lease	46,500		46,500		
Notes Payable	<u>58,333</u>		<u>25,000</u>	<u>33,333</u>	<u>25,000</u>
Total Other Long-term					
Obligations	<u>104,833</u>		<u>71,500</u>	<u>33,333</u>	<u>25,000</u>
Compensated Absences	<u>607,210</u>	<u>350,980</u>	<u>257,492</u>	<u>700,698</u>	<u>161,000</u>
Governmental Activity					
Long-term Liabilities	<u>\$ 2,951,023</u>	<u>\$ 1,135,645</u>	<u>\$ 607,302</u>	<u>\$ 3,479,366</u>	<u>\$ 514,310</u>
<u>Business-type Activities</u>					
Bonds Payable					
Revenue Bonds	\$ 7,751,958	\$ 470,000	\$ 3,093,915	\$ 5,128,043	\$ 370,289
Less: Deferred Amounts on					
Discounts	(68,219)	(6,110)	(5,657)	(68,672)	
Total Bonds Payable	<u>7,683,739</u>	<u>463,890</u>	<u>3,088,258</u>	<u>5,059,371</u>	<u>370,289</u>
Compensated Absences	<u>347,862</u>	<u>189,465</u>	<u>61,357</u>	<u>475,970</u>	<u>82,000</u>
Business-type Activity					
Long-term Liabilities	<u>\$ 8,031,601</u>	<u>\$ 653,355</u>	<u>\$ 3,149,615</u>	<u>\$ 5,535,341</u>	<u>\$ 452,289</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 9. 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. Phases II – IV will be designated and constructed only when private sources of funding become available. The City of

**CITY OF THIEF RIVER FALLS, MINNESOTA
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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 10. 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 11. 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 12. 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, 2012, 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 2012, the City made no contributions and instead elected to continue funding on a pay-as-you-go basis, which amounted to \$121,560 {\$18,776 City paid premiums and \$102,784 implicit subsidy}. These costs are recognized as an expense when claims or premiums are paid.

CITY OF THIEF RIVER FALLS, MINNESOTA
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DECEMBER 31, 2012

Annual OPEB Cost and Net OPEB Obligation. For 2012, 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:

	2012
Annual Required Contribution	\$ 155,670
Interest on Net OPEB Obligation	40,270
Adjustment to Annual Required Contribution	(58,180)
Annual OPEB cost	137,760
Contributions or Payments Made	(121,560)
Increase in Net OPEB Obligation	16,200
Net OPEB Obligation, Beginning of Year	1,006,800
Net OPEB Obligation, End of Year	\$ 1,023,000
Percentage of Annual OPEB Cost Contributed	88%

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 137,760	\$ 121,560	88 %	\$ 1,023,000
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
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DECEMBER 31, 2012**

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

NOTE 13. 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, 2012

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 2012. PEPFF members were required to contribute 9.4% of their annual covered salary in 2012. 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, 2012, 2011, and 2010 were \$257,396, \$264,425, and \$263,945, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$190,056, \$182,307, and \$173,411, 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, 2012, 2011, and 2010, were \$5,389, \$5,389, and \$5,389, respectively.

NOTE 14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2012, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Inter-Department Distribution*	Greenwood Street Underpass	\$ 950,000
Revolving Capital Outlay	Greenwood Street Underpass	269,250
General	Nonmajor Governmental Fund	12,714
Electric Utility	Water Systems Utility	45,896
Total Due From/To Other Funds		<u>\$ 1,277,860</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, 2012 in the funds.

Advance to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Electric Utility	Water Systems Utility	\$ 162,186

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, 2012**

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor Dispensary	\$ 368,277
General	Electric Utility	551,900
General	Water Systems Utility	46,300
Nonmajor Governmental Fund	General	<u>383,935</u>
Total Transfers		<u>\$ 1,350,412</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 15. 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, 2012, 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 16. COMMITTED CONTRACTS

At December 31, 2012, the City had construction commitments of \$3,532,239 for the Greenwood Street underpass and \$874,999 for the Hwy 32 signal project.

NOTE 17. 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, 2012, there was one issue outstanding with a remaining principal balance of \$2,200,000.

NOTE 18. 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 19. NEW PRONOUNCEMENTS

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect these Statements will have on the City's financial statements.

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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

**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, 2012

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	\$ 339,680	\$ 441,093	\$ 997,175	\$ 1,777,948
Accounts Receivable			150	150
Interest Receivable	411	96	2,335	2,842
Taxes Receivable - Current		5,094		5,094
Taxes Receivable - Delinquent		3,000		3,000
Special Assessments Receivable				
Delinquent		7,925		7,925
Deferred		474,827	131,433	606,260
Notes Receivable			417,166	417,166
Due from Other Funds			269,250	269,250
TOTAL ASSETS	\$ 340,091	\$ 932,035	\$ 1,817,509	\$ 3,089,635
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 64,941	\$	\$ 141,656	\$ 206,597
Accrued Payroll Liabilities	209			209
Due to Other Funds			12,714	12,714
Deferred Revenue		485,752	131,433	617,185
Total Liabilities	65,150	485,752	285,803	836,705
Fund Balance				
Restricted for TIF District	54,010			54,010
Restricted for Debt Service		446,283		446,283
Committed for Perpetual Care	152,805			152,805
Assigned for Cemetery	68,126			68,126
Assigned for Capital Project			1,544,433	1,544,433
Unassigned			(12,727)	(12,727)
Total Fund Balance	274,941	446,283	1,531,706	2,252,930
TOTAL LIABILITIES AND FUND BALANCE	\$ 340,091	\$ 932,035	\$ 1,817,509	\$ 3,089,635

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012

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	\$ 203,936	\$ 100,171	\$	\$ 304,107
Special Assessments		148,985	30,150	179,135
Intergovernmental				
State Aid		189,284		189,284
Charges for Services	40,600			40,600
Miscellaneous				
Contributions	100		416,932	417,032
Investment Earnings	2,950	10,771	32,173	45,894
Other Receipts			13,429	13,429
Total Revenues	<u>247,586</u>	<u>449,211</u>	<u>492,684</u>	<u>1,189,481</u>
EXPENDITURES				
Current				
General Government	244,401		165,833	410,234
Streets and Sanitation			41,831	41,831
Culture and Recreation			6,421	6,421
Debt Service				
Principal		280,000		280,000
Interest		64,900		64,900
Bond and Other Fees		1,171		1,171
Capital Outlay				
General Government			899,529	899,529
Public Safety			79,480	79,480
Streets and Sanitation			770,749	770,749
Culture and Recreation			56,024	56,024
Total Expenditures	<u>244,401</u>	<u>346,071</u>	<u>2,019,867</u>	<u>2,610,339</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>3,185</u>	<u>103,140</u>	<u>(1,527,183)</u>	<u>(1,420,858)</u>
OTHER FINANCING SOURCES				
Bond Issued			795,000	795,000
Bond Discount			(10,335)	(10,335)
Transfers In			237,700	237,700
Sale of Capital Asset	28,700			28,700
Total Other Financing Sources	<u>28,700</u>		<u>1,022,365</u>	<u>1,051,065</u>
NET CHANGE IN FUND BALANCES	31,885	103,140	(504,818)	(369,793)
FUND BALANCE, JANUARY 1	<u>243,056</u>	<u>343,143</u>	<u>2,036,524</u>	<u>2,622,723</u>
FUND BALANCE, DECEMBER 31	<u>\$ 274,941</u>	<u>\$ 446,283</u>	<u>\$ 1,531,706</u>	<u>\$ 2,252,930</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2012

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	\$ 4,964	\$	\$ 18,624	\$ 15,069	\$ 10,119	\$ 53,911	\$ 15,299	\$ 221,694	\$ 339,680
Interest Receivable	3	5	14	10	6	51	8	314	411
TOTAL ASSETS	<u>\$ 4,967</u>	<u>\$ 5</u>	<u>\$ 18,638</u>	<u>\$ 15,079</u>	<u>\$ 10,125</u>	<u>\$ 53,962</u>	<u>\$ 15,307</u>	<u>\$ 222,008</u>	<u>\$ 340,091</u>
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts Payable	\$ 4,964	\$	\$ 18,622	\$ 15,069	\$ 10,121	\$	\$ 15,297	\$ 868	\$ 64,941
Accrued Payroll Liabilities								209	209
Total Liabilities	<u>4,964</u>		<u>18,622</u>	<u>15,069</u>	<u>10,121</u>		<u>15,297</u>	<u>1,077</u>	<u>65,150</u>
Fund Balance									
Restricted for TIF District	3	5	16	10	4	53,962	10		54,010
Committed for Perpetual Care								152,805	152,805
Assigned for Cemetery								68,126	68,126
Total Fund Balance	<u>3</u>	<u>5</u>	<u>16</u>	<u>10</u>	<u>4</u>	<u>53,962</u>	<u>10</u>	<u>220,931</u>	<u>274,941</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,967</u>	<u>\$ 5</u>	<u>\$ 18,638</u>	<u>\$ 15,079</u>	<u>\$ 10,125</u>	<u>\$ 53,962</u>	<u>\$ 15,307</u>	<u>\$ 222,008</u>	<u>\$ 340,091</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, 2012

Exhibit B-4

	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	\$ 12,836	\$ 11,168	\$ 54,933	\$ 41,097	\$ 25,562	\$ 24,414	\$ 33,926	\$ 40,600	\$ 203,936
Charges for Services									40,600
Miscellaneous									
Contributions									100
Investment Earnings	22	34	101	73	42	369	60	2,249	2,950
Total Revenues	<u>12,858</u>	<u>11,202</u>	<u>55,034</u>	<u>41,170</u>	<u>25,604</u>	<u>24,783</u>	<u>33,986</u>	<u>42,949</u>	<u>247,586</u>
EXPENDITURES									
Current									
General Government	12,857	11,201	55,033	41,169	25,605		33,981	64,555	244,401
Total Expenditures	<u>12,857</u>	<u>11,201</u>	<u>55,033</u>	<u>41,169</u>	<u>25,605</u>		<u>33,981</u>	<u>64,555</u>	<u>244,401</u>
REVENUES OVER (UNDER)									
EXPENDITURES	1	1	1	1	(1)	24,783	5	(21,606)	3,185
OTHER FINANCING SOURCES									
Sale of Capital Asset								28,700	28,700
Total Other Financing Sources								<u>28,700</u>	<u>28,700</u>
NET CHANGE IN FUND BALANCES	1	1	1	1	(1)	24,783	5	7,094	31,885
FUND BALANCE, JANUARY 1	2	4	15	9	5	29,179	5	213,837	243,056
FUND BALANCE, DECEMBER 31	<u>3</u>	<u>5</u>	<u>16</u>	<u>10</u>	<u>4</u>	<u>53,962</u>	<u>10</u>	<u>220,931</u>	<u>\$ 274,941</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICES FUNDS
 DECEMBER 31, 2012

Exhibit B-5

	2001 Refunding Bonds	2008 State Aid Street Bonds	2011 Improvement Bonds	2012 Improvement Bonds	Total Nonmajor Debt Service Funds
ASSETS					
Cash and Investments	\$ 138,530	\$ 1,402	\$ 210,034	\$ 91,127	\$ 441,093
Interest Receivable	71	2		23	96
Taxes Receivable - Current	5,094				5,094
Taxes Receivable - Delinquent	3,000				3,000
Special Assessments Receivable					
Delinquent	7,925				7,925
Deferred	24,760		147,947	302,120	474,827
TOTAL ASSETS	\$ 179,380	\$ 1,404	\$ 357,981	\$ 393,270	\$ 932,035
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Deferred Revenue	\$ 35,685	\$	\$ 147,947	\$ 302,120	\$ 485,752
Total Liabilities	35,685		147,947	302,120	485,752
FUND BALANCE					
Restricted for Debt Service	143,695	1,404	210,034	91,150	446,283
Total Fund Balance	143,695	1,404	210,034	91,150	446,283
TOTAL LIABILITIES AND FUND BALANCE	\$ 179,380	\$ 1,404	\$ 357,981	\$ 393,270	\$ 932,035

CITY OF THIEF RIVER FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2012

Exhibit B-6

	2001 Refunding Bonds	2008 State Aid Street Bonds	2011 Improvement Bonds	2012 Improvement Bonds	Total Nonmajor Debt Service Funds
REVENUES					
Property Taxes	\$ 100,171	\$	\$	\$	\$ 100,171
Special Assessments	32,473		25,529	90,983	148,985
Intergovernmental - State Aid		189,284			189,284
Investment Earnings	10,587	17		167	10,771
Total Revenues	<u>143,231</u>	<u>189,301</u>	<u>25,529</u>	<u>91,150</u>	<u>449,211</u>
EXPENDITURES					
Principal	130,000	150,000			280,000
Interest	13,720	39,284	11,896		64,900
Bond and Other Fees	431	425	315		1,171
Total Expenditures	<u>144,151</u>	<u>189,709</u>	<u>12,211</u>		<u>346,071</u>
NET CHANGE IN FUND BALANCES	(920)	(408)	13,318	91,150	103,140
FUND BALANCE, JANUARY 1	<u>144,615</u>	<u>1,812</u>	<u>196,716</u>		<u>343,143</u>
FUND BALANCE, DECEMBER 31	<u>\$ 143,695</u>	<u>\$ 1,404</u>	<u>\$ 210,034</u>	<u>\$ 91,150</u>	<u>\$ 446,283</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
DECEMBER 31, 2012

Exhibit B-7

	Revolving Capital Outlay	Swimming Pool	Carnegie Library Restoration	Multi- Events Center	2013 Utility Improvement	2012 Utility Improvement	Total Nonmajor Capital Project Funds
ASSETS							
Cash and Investments	\$ 570,687	\$ 236,137	\$ 130,372	\$ 24,361	\$	\$ 35,618	\$ 997,175
Accounts Receivable			150				150
Interest Receivable	1,219	332	754	30			2,335
Special Assessments - Deferred	131,433						131,433
Notes Receivable	417,166						417,166
Due from Other Funds	269,250						269,250
TOTAL ASSETS	<u>\$ 1,389,755</u>	<u>\$ 236,469</u>	<u>\$ 131,276</u>	<u>\$ 24,391</u>	<u>\$</u>	<u>\$ 35,618</u>	<u>\$ 1,817,509</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts Payable	\$ 2,421	\$	\$ 127,414	\$ 1,763	\$ 13	\$ 10,045	\$ 141,656
Due to Other Funds					12,714		12,714
Deferred Revenue	131,433						131,433
Total Liabilities	<u>133,854</u>		<u>127,414</u>	<u>1,763</u>	<u>12,727</u>	<u>10,045</u>	<u>285,803</u>
FUND BALANCE							
Assigned for Capital Project	1,255,901	236,469	3,862	22,628		25,573	1,544,433
Unassigned					(12,727)		(12,727)
Total Fund Balance	<u>1,255,901</u>	<u>236,469</u>	<u>3,862</u>	<u>22,628</u>	<u>(12,727)</u>	<u>25,573</u>	<u>1,531,706</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,389,755</u>	<u>\$ 236,469</u>	<u>\$ 131,276</u>	<u>\$ 24,391</u>	<u>\$</u>	<u>\$ 35,618</u>	<u>\$ 1,817,509</u>

CITY OF THIEF RIVER FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
YEAR ENDED DECEMBER 31, 2012

Exhibit B-8

	Revolving Capital Outlay	Swimming Pool	Carnegie Library Restoration	Multi- Events Center	2013 Utility Improvement	2012 Utility Improvement	Total Nonmajor Capital Project Funds
REVENUES							
Special Assessments	\$ 30,150	\$	\$		\$	\$	\$ 30,150
Miscellaneous							
Contributions			416,932	215			416,932
Investment Earnings	24,170	2,381	5,407	10,100		3,329	32,173
Other Receipts							13,429
Total Revenues	<u>54,320</u>	<u>2,381</u>	<u>422,339</u>	<u>10,315</u>		<u>3,329</u>	<u>492,684</u>
EXPENDITURES							
Current							
General Government	146,886		18,947				165,833
Streets and Sanitation	41,831						41,831
Culture and Recreation	4,658			1,763			6,421
Capital Outlay							
General Government	79,480		899,529				899,529
Public Safety							79,480
Streets and Sanitation					8,328	762,421	770,749
Culture and Recreation	56,024						56,024
Total Expenditures	<u>328,879</u>		<u>918,476</u>	<u>1,763</u>	<u>8,328</u>	<u>762,421</u>	<u>2,019,867</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(274,559)</u>	<u>2,381</u>	<u>(496,137)</u>	<u>8,552</u>	<u>(8,328)</u>	<u>(759,092)</u>	<u>(1,527,183)</u>
OTHER FINANCING SOURCES (USES)							
Bond Issued						795,000	795,000
Bond Discount						(10,335)	(10,335)
Transfers In	237,700						237,700
Total Other Financing Sources (Uses)	<u>237,700</u>					<u>784,665</u>	<u>1,022,365</u>
NET CHANGE IN FUND BALANCES	<u>(36,859)</u>	<u>2,381</u>	<u>(496,137)</u>	<u>8,552</u>	<u>(8,328)</u>	<u>25,573</u>	<u>(504,818)</u>
FUND BALANCE, JANUARY 1	<u>1,292,760</u>	<u>234,088</u>	<u>499,999</u>	<u>14,076</u>	<u>(4,399)</u>		<u>2,036,524</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,255,901</u>	<u>\$ 236,469</u>	<u>\$ 3,862</u>	<u>\$ 22,628</u>	<u>\$ (12,727)</u>	<u>\$ 25,573</u>	<u>\$ 1,531,706</u>

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SUPPLEMENTARY SCHEDULES

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

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FUND BALANCE OR NET POSITION
YEAR ENDED DECEMBER 31, 2012

Exhibit B-9

	Beginning Balance	Revenue	Expenditure	Transfer In	Transfer Out	Sale of Capital Asset	Bond Issued (Net of Discount)	Ending Balance
Governmental Funds								
General Fund	\$ 2,027,960	\$ 6,621,840	\$ 6,972,476	\$ 966,477	\$ 383,935	\$	\$	\$ 2,259,866
Special Revenue Funds								
CDAB Revolving Loan	2,031,422	61,134	30,401					2,062,155
TIF District 1-1	2	12,858	12,857					3
TIF District 1-3	4	11,202	11,201					5
TIF District 1-4	15	55,034	55,033					16
TIF District 1-5	9	41,170	41,169					10
TIF District 1-6	5	25,604	25,605					4
TIF District 1-7	29,179	24,783						53,962
TIF District 1-8	5	33,986	33,981					10
Greenwood Cemetery	213,837	42,949	64,555			28,700		220,931
Total Special Revenue Funds	2,274,478	308,720	274,802			28,700		2,337,096
Debt Service Funds								
2001 Refunding Bonds	144,615	143,231	144,151					143,695
2008 State Aid Street Bonds	1,812	189,301	189,709					1,404
2011 Improvement Bonds	196,716	25,529	12,211					210,034
2012 Improvement Bonds		91,150						91,150
Total Debt Service Funds	343,143	449,211	346,071					446,283
Capital Projects Funds								
Revolving Capital Outlay	1,292,760	54,320	328,879	237,700				1,255,901
Swimming Pool	234,088	2,381						236,469
Carnegie Library Restoration	499,999	422,339	918,476					3,862
Multi-Events Center	14,076	10,315	1,763					22,628
2012 Improvement Project		3,329	762,421				784,665	25,573
2013 Utility Improvement	(4,399)		8,328					(12,727)
Greenwood Street Underpass Project	13,886	1,191,638	2,083,377	146,235				(731,618)
Total Capital Projects Funds	2,050,410	1,684,322	4,103,244	383,935			784,665	800,088
Total Governmental Funds	6,695,991	9,064,093	11,696,593	1,350,412	383,935	28,700	784,665	5,843,333
Proprietary Funds								
Enterprise Funds								
Liquor Dispensary	1,526,094	4,491,887	4,029,863		368,277			1,619,841
Electric Utility	6,633,010	12,401,554	12,360,291		551,900			6,122,373
Water Systems Utility	6,536,058	2,657,974	2,549,501		46,300			6,598,231
Storm Water Utility	1,935,911	164,007	186,721					1,913,197
Total Enterprise Funds	16,631,073	19,715,422	19,126,376		966,477			16,253,642
Internal Service Fund								
Inter-Department Distribution	1,275,392	577,266	492,000					1,360,658
Total Proprietary Funds	17,906,465	20,292,688	19,618,376		966,477			17,614,300
Total Governmental and Proprietary Funds	\$ 24,602,456	\$ 29,356,781	\$ 31,314,969	\$ 1,350,412	\$ 1,350,412	\$ 28,700	\$ 784,665	\$ 23,457,633

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED DECEMBER 31, 2012

Exhibit B-10

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 01-01-2012	Issued 2012	Retired 2012	Balance 12-31-2012	Principal Due in 2013	Interest Due in 2013
G.O. Special Assessment Bonds										
G.O. Bonds of 2001	4.05 to 4.38%	2001	2013/14	2,755,000	\$ 385,000	\$	\$ 130,000	\$ 255,000	\$ 135,000	\$ 8,152
G.O. Bonds of 2011	0.65 - 3.2%	2011	2013/24	690,000	690,000			690,000	40,000	13,500
G.O. Bonds of 2012	0.5 - 2.1%	2012	2014/25	795,000		795,000		795,000		6,952
Total General Obligation Bonds					1,075,000	795,000	130,000	1,740,000	175,000	28,604
G.O. Revenue Bonds										
G.O. Wastewater Treatment Bonds of 1998	2.79%	1998	2013/19	925,525	431,958		48,915	383,043	50,289	10,338
G.O. Water Revenue Bonds of 2009	1.65 to 4.2%	2009	2013/30	640,000	620,000		25,000	595,000	25,000	21,104
G.O. Water Treatment Refunding Bond of 2003		2003		4,365,000	2,980,000		2,980,000			
G.O. State-Aid Street Bonds of 2008A	2.85 to 3.89%	2008	2013/18	1,630,000	1,180,000		150,000	1,030,000	155,000	34,782
G.O. Water Revenue Bonds, Series 2010A	2 to 3.2%	2010	2013/23	3,510,000	3,510,000		40,000	3,470,000	285,000	84,015
G.O. Water Revenue Bonds 2011	0.65 - 3.2%	2011	2013/27	210,000	210,000			210,000	10,000	4,692
G.O. Water Revenue Bonds 2012	0.5 - 2.2%	2012	2014/28	470,000		470,000		470,000		4,590
Total G.O. Revenue Bonds					8,931,958	470,000	3,243,915	6,158,043	525,289	159,521
Other Long-term Obligations										
Capital Lease		2007		113,044	46,500		46,500			
Notes Payable - City of Red Lake Falls	0.0%	2004	2013/14	225,000	58,333		25,000	33,333	25,000	
Total Note Payable					104,833		71,500	33,333	25,000	
Total					\$ 10,111,791	\$ 1,265,000	\$ 3,445,415	\$ 7,931,376	\$ 725,289	\$ 188,125

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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	56
<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	62
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	67
<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	72
<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.

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

Table 1

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Net Investment in Capital										
Assets										
Restricted	\$ 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	\$ 24,788,309
Unrestricted	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	965,044
Total Governmental	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	4,927,390
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	\$ 30,680,743
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	\$ 12,553,523
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	4,380,448
Total Business-type	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	16,933,971
Activities Net Position										
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	\$ 37,341,832
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	965,044
Unrestricted	6,860,448	7,726,009	7,994,817	6,514,207	6,725,319	6,544,928	7,732,959	6,406,905	7,766,824	9,307,838
Total Primary	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	47,614,714
Government Net Position										

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

Table 2

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 1,553,318
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	2,566,561
Streets and Sanitation	818,857	1,086,432	895,772	849,504	1,341,802	1,547,142	1,281,558	2,062,252	3,011,296	2,113,160
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	2,160,416
Economic Development		152,001	138,720	463,243	424,617	387,872	269,582	390,385	740,503	217,618
Interest on Long-term Debt	261,926	237,308	241,331	124,067	101,041	83,272	109,554	82,772	68,469	70,747
Total Governmental Activities Expenses	5,477,566	5,789,736	6,343,990	6,870,419	7,415,635	7,926,426	7,526,539	8,393,028	9,815,755	8,681,820
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	3,815,258	4,025,774
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	12,340,507
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	732,007	10,279,332	186,722
Storm Water Utility		122	79,256	112,140	125,826	132,386	124,687	137,326	160,472	
Water Systems Utility								2,630,700	2,678,518	2,536,838
Total Business-type Activities Expenses	12,830,786	13,525,212	14,029,536	14,868,412	15,681,709	16,584,634	17,061,701	17,239,257	28,908,295	19,089,841
Total Primary Government Expenses	\$ 18,308,352	\$ 19,314,948	\$ 20,373,526	\$ 21,738,831	\$ 23,097,344	\$ 24,511,060	\$ 24,588,240	\$ 25,632,285	\$ 38,724,050	\$ 27,771,661
PROGRAM REVENUES										
Governmental Activities:										
Charges for Services	\$ 220,172	\$ 277,402	\$ 291,391	\$ 292,610	\$ 182,488	\$ 171,836	\$ 190,846	\$ 125,944	\$ 160,709	\$ 195,179
General Government	168,440	211,266	222,504	205,678	273,900	228,100	220,295	231,094	225,001	380,851
Public Safety								849,580	934,382	859,450
Streets and Sanitation	371,448	630,717	749,182	657,599	742,386	868,541	733,787	702,717	772,106	754,940
Culture and Recreation	996,782	190,717	193,267	134,152	237,709	305,170	229,727	81,887	254,005	82,149
Other Activities	389,421	801,763	809,826	769,921	669,508	487,835	405,936	750,955	682,911	348,422
Operating 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	1,985,021
Capital Grants and Contributions										
Total Governmental Activities Program Revenue	16,021,592	2,869,050	3,626,861	3,088,335	3,903,627	4,940,510	2,469,640	2,811,160	4,563,959	4,606,012
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	4,482,994
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	12,382,669
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 TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)

Table 2

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010 ¹	2011	2012
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	159,061
Water Systems Utility								2,286,949	2,422,943	2,645,171
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										
Program Revenue	15,829,348	13,897,426	14,381,761	14,988,749	15,671,433	16,262,109	17,521,573	18,399,899	21,553,634	19,669,895
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	\$ 24,275,907
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)	\$ (4,075,808)
Business-type Activities	2,998,562	372,214	352,225	100,337	(10,276)	(322,525)	459,872	1,160,642	(7,355,661)	580,054
Total Primary Government Net (Expense) / Revenue	\$ 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)	\$ (3,495,754)
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	\$ 1,750,669
Franchise Fees	133,448	102,216	104,387	104,734	108,449	113,444	115,664	114,454	122,133	121,140
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	2,630,629
Unrestricted Investment Earnings	45,761	58,688	94,832	249,680	287,467	268,552	135,425	112,185	151,147	132,939
Gain on Sale of Capital Assets	(18,542)			28,000	36,532	17,928	35,850	33,201	40,000	28,700
Other General Revenue	496,507	507,850	456,681	485,620	(1,095,331)	(250,619)	131,019	26,985	38,575	40,889
Transfers				700,000			269,071	1,149,695	710,460	966,477
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	5,671,443
Business-type Activities:										
Unrestricted Investment Earnings	81,316	88,889	67,634	168,970	176,588	121,026	50,497	59,887	88,855	51,625
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)	(966,477)
Total Business-type Activities	(421,993)	(418,961)	(389,047)	(316,650)	1,264,401	371,645	(218,574)	(1,089,808)	(621,605)	(914,852)
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	\$ 4,756,591
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	\$ 1,595,635
Business-type Activities	2,576,569	(46,747)	(36,822)	(216,313)	1,254,125	49,120	241,298	70,834	(7,977,266)	(334,798)
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)	\$ 1,260,837

¹Effective 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 TEN 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
2012	1,750,669	58,204	62,936	1,871,809

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

Table 4

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable									\$ 3,060	\$
Committed									36,830	
Assigned									29,982	19,504
Unassigned									1,958,088	2,240,362
Total General Fund									<u>\$ 2,027,960</u>	<u>\$ 2,259,866</u>
All Other Governmental Funds										
Restricted									\$ 372,362	\$ 500,293
Committed									2,180,287	2,214,960
Assigned									2,119,781	1,612,559
Unassigned									<u>(4,399)</u>	<u>(744,345)</u>
Total All Other Governmental Funds									<u>\$ 4,668,031</u>	<u>\$ 3,583,467</u>
General Fund										
Reserved	\$ 112,136	\$ 112,107	\$ 159,856	\$ 168,451	\$ 153,689	\$ 166,642	\$ 165,847	\$ 51,506		
Unreserved	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>\$ 1,525,411</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	\$ 3,362,306	\$ 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	120,684	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>\$ 3,482,990</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

	2003	2004	2005	2006	2007	2008	2009	2010 ¹	2011	2012
REVENUE										
Taxes	\$ 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	\$ 1,871,810
Special Assessments	844,228	387,894	256,888	458,832	912,502	915,244	211,406	136,526	232,315	229,687
Licenses and Permits	80,232	111,924	150,305	138,895	107,619	109,965	101,073	132,423	113,706	278,985
Intergovernmental	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	4,153,368
Charges for Services	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	1,879,514
Fines and Forfeitures	77,921	66,075	63,607	57,577	66,636	53,720	44,363	44,848	47,412	45,163
Miscellaneous										
Contributions	793,192	372,102	303,093	214,606	313,906	174,324	124,288	283,540	522,073	434,253
Investment Earnings	38,980	53,157	73,638	197,876	240,503	239,216	121,175	118,035	147,165	122,332
Other Receipts	92,456	95,908	909,419	37,091	93,363	77,493	395,143	19,424	208,959	48,981
Total Revenue	7,305,294	6,666,220	7,540,601	7,318,183	8,428,037	8,833,748	8,237,666	7,402,686	8,992,791	9,064,093
EXPENDITURES										
General Government	686,801	790,615	781,666	1,249,410	1,189,792	1,190,900	1,176,110	1,238,417	1,323,743	1,487,807
Public Safety	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	2,424,496
Streets and Sanitation	742,066	652,310	741,021	719,021	747,973	770,474	827,819	1,499,503	1,533,169	1,586,731
Culture and Recreation	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	1,667,713
Economic Development		152,001	138,720	462,638	421,951	380,925	265,757	382,086	740,808	207,861
Other	753,847									
Debt Service										
Principal	758,979	1,168,574	771,134	796,323	696,734	502,378	523,264	694,885	341,544	351,500
Interest	261,926	237,308	241,331	133,067	103,241	75,572	117,655	96,064	70,472	69,557
Bond and Other Fees				2,369	2,368	1,931	1,606	856	856	1,171
Capital Outlay	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	3,899,757
Total Expenditures	8,728,043	7,781,462	7,798,072	8,270,859	9,235,455	9,705,030	9,471,124	8,212,360	9,926,350	11,696,593
Revenues Over										
(Under) Expenditures	(1,422,749)	(1,115,242)	(257,471)	(952,676)	(807,418)	(871,282)	(1,233,458)	(809,674)	(933,559)	(2,632,500)
OTHER FINANCING										
SOURCES (USES)										
Transfers In	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	1,350,412
Transfers Out	(3,925)	(598,352)	(474,188)	(979,744)	(598,401)	(1,140,334)	(699,758)	(734,976)	(390,063)	(383,935)
Sale of Capital Asset								33,201		28,700
Lease/Bond Sale Proceeds	420,000	340,000			113,044	1,619,980			681,000	784,665
Total Other Financing	1,660,639	812,873	250,882	1,313,747	619,265	2,260,336	551,621	1,182,896	1,668,745	1,779,842
Sources (Uses)										
Net Change In Fund	\$ 237,890	\$ (302,369)	\$ (6,589)	\$ 361,071	\$ (188,153)	\$ 1,389,054	\$ (681,837)	\$ 373,222	\$ 735,186	\$ (852,658)
Balances										
Debt Service as a percentage of										
Noncapital Expenditures	20%	29%	20%	16%	13%	9%	10%	11%	5%	6%

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	
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
2012	1,750,670	58,204	62,936	1,871,810

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	
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
2012	3,353,671	337,303,800	60,739	3,220,100	3,414,410	340,523,900	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	
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
2012	46.041	76.407	42.569	5.872	0.283	0.475	171.647

Source: Pennington County Auditor

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

Table 9

Taxpayer	2012		Percentage of Total Taxable Assessed Value
	Taxable Assessed Value	Rank	
Individual	\$ 122,868	1	3.60 %
MeritCare Medical Group	101,915	2	2.98
Wal-Mart RE Business Trust	97,190	3	2.85
Arctic Cat, Inc.	67,243	4	1.97
Gersham Properties LLC	35,030	5	1.03
Minnkota Power Co-op	34,278	6	1.00
Valley Markets Inc.	30,542	7	0.89
MN Energy Resources Corp	29,818	8	0.87
Minnesota Greenleaf LLP	27,591	9	0.81
Northwest Beverage, Inc.	27,553	10	0.81
	<u>\$ 574,028</u>		<u>16.81 %</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
2003	\$ 1,562,885	\$ 1,530,674	97.94 %	\$ 31,635	\$ 1,562,309	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	25,414	1,708,375	99.93
2007	1,675,430	1,651,661	98.58	21,810	1,673,471	99.88
2008	1,641,922	1,610,911	98.11	29,090	1,640,001	99.88
2009	1,582,406	1,552,954	98.14	26,062	1,579,016	99.79
2010	1,582,406	1,556,855	98.39	20,248	1,577,103	99.66
2011	1,516,778	1,494,773	98.55	15,444	1,510,217	99.57
2012	1,516,778	1,493,982	98.50			

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	Governmental Activities				Business-type Activities				Total Primary Government	Per Capita ¹
	General Obligation Improvement Bonds	Revenue Bonds	Purchase Agreements	Notes Payable	Capital Lease	Litigation Settlement	Revenue Bonds			
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
2012	1,740,000	1,030,000		33,333			5,128,043		7,931,376	918.40

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

Fiscal Year	General Obligation Improvement Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Market Value ¹	Per Capita ²
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
2012	1,740,000	446,283	1,293,717	0.38	149.81

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, 2012

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	\$ 51,685,000	39.4 %	\$ 20,363,890
Pennington County	2,131,000	37.0	<u>788,470</u>
Subtotal, Overlapping Debt			21,152,360
City of Thief River Falls Direct Debt	7,931,376	100	<u>7,931,376</u>
Total Direct and Overlapping Debt			<u>\$ 29,083,736</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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011
Debt Limit	\$ 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	\$ 6,810,478
Total Net Debt Applicable to Limit	1,792,855	1,634,310	1,660,282	810,167	761,476	594,097	420,832	151,377	85,101	25,218
Legal Debt Margin	\$ 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	\$ 6,785,260
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	45.46 %	38.23 %	36.35 %	16.61 %	15.61 %	10.02 %	6.61 %	2.34 %	1.28 %	0.37 %

LEGAL DEBT MARGIN CALCULATION FOR FISCAL YEAR 2012

Assessed Value	\$ 340,523,900
Debt Limit (2% of Total Assessed Value)	6,810,478
Debt Applicable to Limit:	
General Obligation Debt	33,333
Less: Amount Set aside for Repayment of General Obligation Debt	8,115
Total Net Debt Applicable to Limit	25,218
Legal Debt Margin	\$ 6,785,260

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		
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		
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	
2012	2,657,974	1,835,487	822,487	313,915	132,250	1.84	

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
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	602,008,000	14,018	42,781	8,888	5.9
2012	8,636	Data Unavailable	14,072	Data Unavailable	8,931	6.3

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	2012		2003	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Digi-Key Corporation	2,547	28.52 %	1,170	15.62 %
Arctic Cat, Incorporated	1,172	13.12	1,500	20.02
Sandford Health - Thief River Falls	600	6.72	632	8.44
Seven Clans Casino Hotel & Indoor Waterpark	500	5.60	400	5.34
Thief River Falls School District No. 564	350	3.92	340	4.54
Northern Pride, Inc.	200	2.24	225	3.00
Northland Community & Technical College	165	1.85	175	2.34
Pennington County	130	1.46	235	3.14
City of Thief River Falls	102	1.14	115	1.54
Dean Foods	75	0.84	100	1.33
	<u>5,841</u>	<u>65.40</u>	<u>4,892</u>	<u>65.31</u>

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

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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, 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 Comptroller General of the United States, the 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, 2012, and the related notes to the financial statements, which collectively comprise the City of Thief River Falls, Minnesota's basic financial statements and have issued our report thereon dated June 26, 2013.

Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Thief River Falls failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Thief River Falls' noncompliance with the above referenced provisions.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

June 26, 2013

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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, in accordance with the 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, the 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, 2012, and the related notes to the financial statements, which collectively comprise the City of Thief River Falls, Minnesota's basic financial statements and have issued our report thereon dated June 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Thief River Falls, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Thief River Falls, Minnesota's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

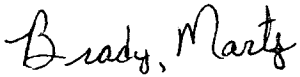
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

June 26, 2013



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Thief River Falls' major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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, 2012.

Report on Internal Control Over Compliance

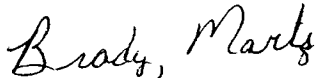
Management of the City of Thief River Falls, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate

in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

June 26, 2013

**CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012**

<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 Highway Planning and Construction	20.205	SP 170-107-006	\$ 882,674
<u>U.S. Department of Commerce</u>			
Passed-Through Blandin Foundation ARRA Broadband Technologies Opportunities Program	11.557		111,002
<u>U.S. Department of Homeland Security - Transportation Security Administration</u>			
Law Enforcement Officer Reimbursement Agreement Program	97.090		8,233
<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	3,166
Total			\$ <u>1,005,075</u>
Reconciliation of the Schedule of Expenditures of Federal Awards to the Schedule of Intergovernmental Revenue			
Schedule of Expenditures of Federal Awards - Total Federal Awards			\$ 1,005,075
2011 Broadband Technologies Opportunities Program Expenses			<u>(100,000)</u>
			\$ <u>905,075</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, 2012

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 2012, the City did not pass any federal money to subrecipients.

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

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 x no
 Significant deficiency(ies) identified? yes x no

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x 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 x no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

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 x 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, 2012

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

Report on Compliance for Passenger Facility Charges Program

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, 2012.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants pertaining to the passenger facility charge program.

Auditor's Responsibility

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. However, our audit does not provide a legal determination of the City of Thief River Falls, Minnesota's compliance with those requirements.

Opinion on the Passenger Facility Charges Program

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 to the passenger facility charge program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

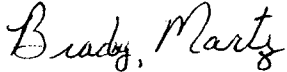
The management of the City of Thief River Falls, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program. In planning and performing our audit, we considered 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.

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 the passenger facility 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 the passenger facility program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (the "Guide"). Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information of the Board of Commissioners, management, and the Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

June 26, 2013

CITY OF THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF PASSENGER FACILITY CHARGES AND RELATED EXPENDITURES
YEAR ENDED AND EACH QUARTER FROM JANUARY 2012 THROUGH DECEMBER 31, 2012

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Balance, January 1, 2012	\$	\$	\$	\$	\$
Passenger Facility Charges	2,512	3,005	3,830	2,715	12,062
Interest Earnings					
Disbursements	<u>(2,512)</u>	<u>(3,005)</u>	<u>(3,830)</u>	<u>(2,715)</u>	<u>(12,062)</u>
Balance, December 31, 2012	\$ <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, 2012

I. Summary of Auditors' Results

- i) An unqualified report was issued on the December 31, 2012 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.