

**NORTH BRANCH
WATER AND LIGHT COMMISSION**
North Branch, Minnesota

FINANCIAL STATEMENTS

December 31, 2006

NORTH BRANCH WATER AND LIGHT COMMISSION

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INDEPENDENT AUDITORS' REPORT

To the Utility Commission
North Branch Water and Light Commission
North Branch, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund of the North Branch Water and Light Commission as of and for the year ended December 31, 2006, which collectively comprise the North Branch Water and Light Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Branch Water and Light Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and each major fund of the North Branch Water and Light Commission, as of December 31, 2006, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The North Branch Water and Light Commission, has not presented the management's discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Branch Water and Light Commission's basic financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Virchow Krause & Company 226

Minneapolis, Minnesota
March 19, 2007

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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS December 31, 2006

	Business- type Activities
ASSETS	
Cash and investments	\$ 1,491,122
Customer accounts receivable	541,742
Prepaid items and inventories	477,730
Restricted cash	3,341,098
Other assets	38,250
Capital Assets	
Construction in progress	1,047,179
Land	98,930
Other capital assets, net of depreciation	8,186,653
Total Assets	<u>15,222,704</u>
LIABILITIES	
Accounts payable and accrued expenses	303,723
Customer deposits	53,979
Due to primary government	173,030
Deferred rate stabilization	147,880
Noncurrent liabilities	
Due within one year	273,040
Due in more than one year	5,146,648
Total Liabilities	<u>6,098,300</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,725,539
Restricted for:	
Debt service	258,700
Capital projects	2,274,332
Unrestricted	1,865,833
Total Net Assets	<u>\$ 9,124,404</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2006

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Business Type Activities Totals</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business Type Activities				
Electric	3,189,664	3,059,766	-	(129,898)
Water	468,156	1,236,066	-	1,788,022
Total Business Type Activities	<u>3,657,820</u>	<u>4,295,832</u>	<u>-</u>	<u>1,658,124</u>
General Revenues				
Investment income				165,081
Total General Revenues				<u>165,081</u>
Change in Net Assets				1,823,205
Net Assets - Beginning of Year (as restated)				<u>7,301,199</u>
NET ASSETS - END OF YEAR				<u>\$ 9,124,404</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS ENTERPRISE FUNDS December 31, 2006

ASSETS	Electric Utility	Water Utility	Totals
CURRENT ASSETS			
Cash and investments	\$ 866,444	\$ 624,678	\$ 1,491,122
Customer accounts receivable	300,060	241,682	541,742
Prepaid items	5,963	-	5,963
Inventories	433,045	38,722	471,767
Total Current Assets	<u>1,605,512</u>	<u>905,082</u>	<u>2,510,594</u>
NON-CURRENT ASSETS			
Restricted assets			
Reserve account	271,543	220,566	492,109
Redemption account	-	294,389	294,389
Construction account	-	280,268	280,268
Water hookup charges	-	2,274,332	2,274,332
Capital assets			
Plant in service	6,360,254	5,509,263	11,869,517
Accumulated depreciation	(2,763,193)	(820,741)	(3,583,934)
Construction work in progress	143,829	903,350	1,047,179
Other assets			
Unamortized issuance costs	-	38,250	38,250
Total Non-Current Assets	<u>4,012,433</u>	<u>8,699,677</u>	<u>12,712,110</u>
Total Assets	<u>5,617,945</u>	<u>9,604,759</u>	<u>15,222,704</u>

	Electric Utility	Water Utility	Totals
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 235,493	\$ 1,436	\$ 236,929
Accrued expenses	14,297	-	14,297
Due to the primary government	162,958	10,072	173,030
Customer deposits	53,979	-	53,979
Deferred rate stabilization	147,880	-	147,880
Current portion of accrued compensated absences	13,530	4,510	18,040
Current portion of revenue bonds	140,000	115,000	255,000
Accrued interest	16,808	-	16,808
Accrued interest - payable from restricted assets	-	35,689	35,689
Total Current Liabilities	<u>784,945</u>	<u>166,707</u>	<u>951,652</u>
NON-CURRENT LIABILITIES			
Accrued compensated absences	16,536	5,512	22,048
Revenue bonds payable	2,485,000	2,660,000	5,145,000
Unamortized debt discount	-	(20,400)	(20,400)
Total Non-Current Liabilities	<u>2,501,536</u>	<u>2,645,112</u>	<u>5,146,648</u>
Total Liabilities	<u>3,286,481</u>	<u>2,811,819</u>	<u>6,098,300</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,387,433	3,338,106	4,725,539
Restricted - redemption and replacement funding	-	2,533,032	2,533,032
Unrestricted	<u>944,031</u>	<u>921,802</u>	<u>1,865,833</u>
TOTAL NET ASSETS	<u>\$ 2,331,464</u>	<u>\$ 6,792,940</u>	<u>\$ 9,124,404</u>

See accompanying notes to financial statements.

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NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS ENTERPRISE FUNDS

For the Year Ended December 31, 2006

	Electric Utility	Water Utility	Totals
OPERATING REVENUES	<u>\$ 3,023,697</u>	<u>\$ 1,214,651</u>	<u>\$ 4,238,348</u>
OPERATING EXPENSES			
Operation and maintenance	2,837,250	210,976	3,048,226
Depreciation	<u>217,791</u>	<u>147,065</u>	<u>364,856</u>
Total Operating Expenses	<u>3,055,041</u>	<u>358,041</u>	<u>3,413,082</u>
Operating Income	<u>(31,344)</u>	<u>856,610</u>	<u>825,266</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	40,402	124,679	165,081
Interest expense	(133,123)	(107,115)	(240,238)
Antenna rental	-	21,415	21,415
Fiscal agent charges	(1,500)	(750)	(2,250)
Miscellaneous non-operating revenues	36,069	-	36,069
Amortization expense	<u>-</u>	<u>(2,250)</u>	<u>(2,250)</u>
Total Non-Operating Revenue (Expenses)	<u>(58,152)</u>	<u>35,979</u>	<u>(22,173)</u>
Net Income Before Contributions	(89,496)	892,589	803,093
CAPITAL CONTRIBUTIONS	-	1,020,112	1,020,112
CHANGE IN NET ASSETS	(89,496)	1,912,701	1,823,205
NET ASSETS – Beginning of Year (as restated)	<u>2,420,960</u>	<u>4,880,239</u>	<u>7,301,199</u>
NET ASSETS – END OF YEAR	<u>\$ 2,331,464</u>	<u>\$ 6,792,940</u>	<u>\$ 9,124,404</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF CASH FLOWS ENTERPRISE FUNDS For the Year Ended December 31, 2006

	Electric Utility	Water Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,021,203	\$ 1,146,519	\$ 4,167,722
Cash received from city for services	17,795	-	17,795
Cash paid to suppliers for goods and services	(2,642,449)	(172,369)	(2,814,818)
Cash paid to employees for services	(306,938)	(50,975)	(357,913)
Net Cash Flows From Operating Activities	<u>89,611</u>	<u>923,175</u>	<u>1,012,786</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Marketable securities purchased	(305,095)	(95,633)	(400,728)
Investment income	<u>40,402</u>	<u>124,679</u>	<u>165,081</u>
Net Cash Flows From (Used For) Investing Activities	<u>(264,693)</u>	<u>29,046</u>	<u>(235,647)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt retired	(130,000)	(115,000)	(245,000)
Interest paid	(133,123)	(105,915)	(239,038)
Acquisition and construction of capital assets	<u>(192,461)</u>	<u>(894,593)</u>	<u>(1,087,054)</u>
Net Cash Flows From (Used For) Capital and Related Related Financing Activities	<u>(455,584)</u>	<u>(1,115,508)</u>	<u>(1,571,092)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(630,666)	(163,287)	(793,953)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,390,473</u>	<u>3,662,522</u>	<u>5,052,995</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 759,807</u>	<u>\$ 3,499,235</u>	<u>\$ 4,259,042</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and Investments per Statement of Net Assets	\$ 866,444	\$ 624,678	\$ 1,491,122
Restricted Cash and Investments per Statement of Net Assets	271,543	3,069,555	3,341,098
Less: Non-cash Equivalents	<u>(378,180)</u>	<u>(194,998)</u>	<u>(573,178)</u>
Cash and Cash Equivalents Per Statement of Cash Flows	<u>\$ 759,807</u>	<u>\$ 3,499,235</u>	<u>\$ 4,259,042</u>

	Electric Utility	Water Utility	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ (31,344)	\$ 856,610	\$ 825,266
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities			
Non-operating revenues (expenses)	34,569	20,665	55,234
Noncash items included in income			
Depreciation	217,791	147,065	364,856
Change in assets and liabilities			
Customer accounts receivable	(26,384)	(88,797)	(115,181)
Inventories	(141,616)	(9,792)	(151,408)
Prepaid items	(5,963)	-	(5,963)
Accounts payable	26,537	(11,970)	14,567
Accrued expenses	(4,685)	-	(4,685)
Due to primary government	15,625	10,072	25,697
Accrued compensated absences	(2,035)	(678)	(2,713)
Customer deposits	7,116	-	7,116
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 89,611</u>	 <u>\$ 923,175</u>	 <u>\$ 1,012,786</u>

Non-cash capital, investing & financing activities:

During 2006, the water utility received \$1,020,112 of contributed plant from developers.

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Branch Municipal Water and Light Commission (the commission) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the commission are described below.

A. REPORTING ENTITY

This report includes all of the funds of the North Branch Water and Light Commission. The reporting entity for the commission consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to , or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. This report does not contain any component units.

The financial statements of the commission have been included in the financial reporting entity of the City of North Branch as a discretely presented component unit. The commission's Board of Commissioners is appointed by the City of North Branch and the City is in a relationship of financial benefit or burden with the Commission.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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. The North Branch Water and Light Commission does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment income and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets, revenues, and expenses.

Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the proprietary statements. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the commission or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all enterprise funds combined.
- c. In addition, any other fund that the commission believes is particularly important to financial statement users may be reported as a major fund.

The North Branch Water and Light Commission reports the following major enterprise funds:

Electric Utility – accounts for operations of the electric system
Water Utility – accounts for operations of the water system

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the commission's electric and water utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric and water utility funds are charges to customers for sales and services. Operating expenses for proprietary 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.

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the commission considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Minnesota statutes authorize the county board to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral. Investments are limited to:

- Bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by Congress.
- State and local securities that meet specified bond ratings by a national rating service
- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- Mutual fund through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
- Banker's acceptances of United States banks.

The commission has not adopted an investment policy.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of accounting funds is allocated based on equity in the cash and investment pool. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

See Note III.A. for further information.

2. Receivables

Customer accounts receivable in the electric utility fund have been shown net of an allowance for uncollectible accounts of \$86,443. All significant receivable balances are expected to be collected within one year.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

3. Inventories and Prepaid Items

Inventories are generally used for construction and for operation and maintenance work. They are not for resale. They are valued at the lower of cost or market utilizing the first in/first out (FIFO) method and charged to construction or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

5. Capital Assets

Capital assets are generally defined by the commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets of the commission are recorded at cost or the fair market value at the time of contribution to the commission. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Buildings and structures	50 Years
Machinery and equipment	5-33 Years
Distribution system	20-50 Years

6. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from the operating revenues of the commission.

Payments for vacation, sick leave and compensatory time will be made at rates in effect when the benefits are used. Accumulated vacation, sick leave and compensatory time liabilities at December 31, 2006 are determined on the basis of current salary rates and include salary related payments.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

7. Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

8. Charges for Services

Billings are rendered and recorded monthly based on metered usage. The commission does not accrue revenues beyond billing dates.

9. Capital Contributed

Cash and capital assets are contributed to the commission from customers or external parties. The value of property contributed to the commission is reported as revenue on the statements of revenues, expenses and changes in net assets.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The commission's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Demand deposits	\$ 4,651,685	\$ 4,864,930	Custodial credit risk
U.S. agency bonds	172,250	172,250	Credit, custodial credit, concentration of credit, and interest rate risks
Mutual fund	8,135	8,135	Credit and interest rate risks
Petty cash	150	-	N/A
Total Cash and Investments	<u>\$ 4,832,220</u>	<u>\$ 5,045,315</u>	
Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 1,491,122		
Restricted cash and investments	<u>3,341,098</u>		
Total Cash and Investments	<u>\$ 4,832,220</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). As of year end, \$447,186 of the commission's investments have coverage from SIPC.

The commission maintains collateral agreements with one of its banks. At December 31, 2006, the banks had pledged various government securities in the amount of \$1,366,171 to secure the commission's deposits. In addition, deposits at one bank are collateralized by \$4,300,000 of Kansas Bankers surety bonds.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the commission's deposits may not be returned to the commission.

The commission does not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The commission does not have any investments exposed to custodial credit risk.

Credit Risk

As of December 31, 2006, the commission's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's Investors Services</u>
US Agencies – Implicitly Guaranteed	AAA	Aaa
Mutual Fund	N/A	N/A

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2006, the investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Mortgage Corporation	US Agency – Implicitly Guaranteed	86%

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

As of December 31, 2006 the commission's investments were as follows:

<u>Specific Investment</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Federal Home Loan Mortgage Note	2/25/2008	\$ 99,205
Federal Home Loan Mortgage Note	5/15/2013	49,138
Tennessee Valley Authority Electronotes	10/15/2013	<u>23,907</u>
Total		<u>\$ 172,250</u>

The commission also has \$8,135 invested in a money market mutual fund. The weighted average maturity for the mutual fund is 13 days.

B. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Construction – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

B. RESTRICTED ASSETS (cont.)

Hookup Charge Account

The water utility collects trunk fees and connection charges which are restricted for major improvements to the water distribution system.

Following is a list of restricted assets at December 31, 2006:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond redemption account	\$ 294,389	\$ 35,689	\$ 258,700
Bond reserve account	492,109	-	n/a
Construction account	280,268	-	n/a
Water hookup charge account	<u>2,274,332</u>	<u>-</u>	<u>2,274,332</u>
Total Restricted Assets	<u>\$ 3,341,098</u>	<u>\$ 35,689</u>	<u>\$ 2,533,032</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Electric</u>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 143,829	\$ -	\$ 143,829
Land and land rights	<u>16,005</u>	<u>-</u>	<u>-</u>	<u>16,005</u>
Total Capital Assets Not Being Depreciated	<u>16,005</u>	<u>143,829</u>	<u>-</u>	<u>159,834</u>
Capital assets being depreciated:				
Buildings and structures	180,168	-	-	180,168
Equipment and vehicles	1,878,553	-	-	1,878,553
Distribution system	<u>4,196,603</u>	<u>88,925</u>	<u>-</u>	<u>4,285,528</u>
Total Capital Assets Being Depreciated	<u>6,255,324</u>	<u>88,925</u>	<u>-</u>	<u>6,344,249</u>
Total Capital Assets	6,271,329	232,754	-	6,504,083
Less: Accumulated Depreciation				
Buildings and structures	(47,347)	(3,603)	-	(50,950)
Equipment and vehicles	(860,100)	(75,890)	-	(935,990)
Distribution system	<u>(1,637,955)</u>	<u>(138,298)</u>	<u>-</u>	<u>(1,776,253)</u>
Total Accumulated Depreciation	<u>(2,545,402)</u>	<u>(217,791)</u>	<u>-</u>	<u>(2,763,193)</u>
Net Electric Plant	<u>\$ 3,725,927</u>	<u>\$ 14,963</u>	<u>\$ -</u>	<u>\$ 3,740,890</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

C. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Water</u>				
Capital assets not being depreciated:				
Construction in progress	\$ 88,203	\$ 817,303	\$ 2,156	\$ 903,350
Land and land rights	<u>82,925</u>	<u>-</u>	<u>-</u>	<u>82,925</u>
 Total Capital Assets Not Being Depreciated	 <u>171,128</u>	 <u>817,303</u>	 <u>2,156</u>	 <u>986,275</u>
Capital assets being depreciated:				
Buildings and structures	1,801,354	-	-	1,801,354
Equipment and vehicles	245,727	57,854	-	303,581
Distribution system	<u>2,299,136</u>	<u>1,022,267</u>	<u>-</u>	<u>3,321,403</u>
Total Capital Assets Being Depreciated	<u>4,346,217</u>	<u>1,080,121</u>	<u>-</u>	<u>5,426,338</u>
 Total Capital Assets	 4,517,345	 1,897,424	 2,156	 6,412,613
Less: Accumulated Depreciation				
Buildings and structures	(209,233)	(36,027)	-	(245,260)
Equipment and vehicles	(110,745)	(16,230)	-	(126,975)
Distribution system	<u>(353,698)</u>	<u>(94,808)</u>	<u>-</u>	<u>(448,506)</u>
Total Accumulated Depreciation	(673,676)	(147,065)	-	(820,741)
 Net Water Plant	 <u>\$ 3,843,669</u>	 <u>\$ 1,750,359</u>	 <u>\$ 2,156</u>	 <u>\$ 5,591,872</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities

Electric	\$ 217,791
Water	<u>147,065</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 364,856</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

D. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Revenue bonds	\$ 5,645,000	\$ -	\$ 245,000	\$ 5,400,000	\$ 255,000
Add/(Subtract) Deferred Amounts For:					
(Discounts)/Premiums	(21,600)	-	(1,200)	(20,400)	-
Sub-total	5,623,400	-	243,750	5,379,600	255,000
Other Liabilities:					
Vested compensated absences	42,801	16,492	19,205	40,088	18,040
Total Other Liabilities	265,212	16,492	19,205	40,088	18,040
Total Business-Type Activities					
Long-Term Liabilities	\$ 4,623,815	\$ 16,492	\$ 262,955	\$ 5,419,688	\$ 273,040

Business-type activities revenue bonds are payable only from revenues derived from the operation of the electric, water and sewer utilities.

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12-31-06
<u>Electric Utility</u>					
Revenue Bonds	5/1/1998	5/1/2018	4.0 – 5.4%	\$ 1,675,000	\$ 1,190,000
Revenue Bonds	12/1/2002	12/1/2022	1.9 - 5.25%	1,675,000	1,435,000
				Total Electric Utility	2,625,000
<u>Water Utility</u>					
Revenue Bonds	3/1/2004	3/1/2024	2.0 – 4.5%	3,000,000	2,775,000
				Total Water Utility	2,775,000
Total Business-Type Activities Revenue Debt					\$ 5,400,000

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

D. LONG-TERM OBLIGATIONS (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Business-Type Activities</u>	
	<u>Revenue</u>	<u>Debt</u>
	<u>Principal</u>	<u>Interest</u>
2007	\$ 255,000	\$ 231,272
2008	265,000	222,337
2009	270,000	212,943
2010	280,000	202,751
2011	295,000	191,756
2012 – 2016	1,655,000	756,522
2017 – 2021	1,650,000	365,403
2022 – 2024	730,000	48,075
Totals	<u>\$ 5,400,000</u>	<u>\$ 2,231,059</u>

E. OTHER DEBT INFORMATION

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability will be liquidated by the electric and water utility funds.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The commission believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations except for the debt coverage requirement for electric system revenue bonds.

As of December 31, 2006, the commission was not in compliance with the provisions of the 1998 and 2002 electric system revenue bond covenants that require a 125% debt coverage requirement.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. NET ASSETS/FUND BALANCES

Net assets reported on the statement of net assets at December 31, 2006 includes the following:

Business-Type Activities

Invested in capital assets, net of related debt	
Construction in progress	\$ 1,047,179
Land	98,930
Other capital assets, net of accumulated depreciation	8,186,653
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	(4,607,223)
Total Invested in Capital Assets	<u>4,725,539</u>
Restricted	
Debt service	258,700
Water hookup charges	2,274,332
Total Restricted	<u>2,533,032</u>
Unrestricted	<u>1,865,833</u>
Total Business-Type Activities Net Assets	<u>\$ 9,124,404</u>

G. RESTATEMENT OF FUND BALANCES/NET ASSETS

Net assets have been restated to include the December 2005 purchased power bill as a 2005 expense and record December 2005 generation income in 2005.

ELECTRIC UTILITY FUND

Net assets – December 31, 2005 (as previously reported)	\$ 2,519,036
Plus: December 2005 generation income	29,622
Less: December 2005 purchased power expense	(127,698)
Net assets – January 1, 2006 (as restated)	<u>\$ 2,420,960</u>

BUSINESS-TYPE ACTIVITIES

Net assets – December 31, 2005 (as previously reported)	\$ 7,399,275
Plus: December 2005 generation income	29,622
Less: December 2005 purchased power expense	(127,698)
Net assets – January 1, 2006 (as restated)	<u>\$ 7,301,199</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE III – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Plan Description

All full-time and certain part-time employees of the commission are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated 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 service.

Two methods are used to compute benefits for PERF'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. The annuity accrual rate is 1.9 percent for each year of service for PECF members.

For all PEPFF members, PECF members, and PERF 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 and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the 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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE III – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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 PERF, PEPFF, and PECF. That report may be obtained on the web at mnpera.org, by writing to PERA at 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 commission makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members are required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. PECF members are required to contribute 5.83% of their annual covered salary.

The commission is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, 10.5% for PEPFF members, and 8.75% for PECF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007.

The commission's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$21,115, \$20,186, and \$19,526, respectively. The contributions were equal to the contractually required contributions for each year as set by state statute.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE III – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT

The commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The city pays an annual premium to LMCIT and the commission reimburses the city for its portion of the cost. The city is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the city is subject to a \$1,000 deductible. The city's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The city pays an annual premium to the LMCIT. The city is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The commission retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements.

C. COMMITMENTS AND CONTINGENCIES

Commitments

During 1998, the commission entered into a severance agreement with the commission's office manager whereby the commission would compensate the office manager in an amount equal to twelve months wages a severance pay if the commission is ever dissolved into the city.

Claims and Judgments

From time to time, the commission is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the commission's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the commission's financial position or results of operations.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE III – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

Long-Term Contracts - SMMPA

The commission purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract which extends to April 2030. Under the terms of the contract, the commission is obligated to buy all the electrical power and energy needs to operate the electric utilities through the term of the contract. In addition, on January 1, 1995, the commission entered a Capacity Purchase Agreement with SMMPA, whereby SMMPA is entitled to the exclusive use of the net electric generating capability of the Diesel Generating facilities and the electric energy associated therewith. The agreement is cancelable by either party upon a five-year notice. Under terms of the agreement, SMMPA is responsible for all costs associated with the operation, maintenance, repairs, and other liabilities of operating the Diesel Generating Facilities.

Construction Commitment

On February 20, 2007, the commission awarded a construction contract for construction of a well for \$264,423.

D. RATE STABILIZATION RESERVE

A reserve for rate stabilization was established in 1992. The concept of rate stabilization is used by utilities to defer current revenues to future periods to reduce impacts of future rate increases to customers. The reserve was established from 1992 electric utility earnings of \$15,362 and prior years' earnings of \$284,302. The total amount of the reserve was charged to 1992 operations in accordance with Financial Accounting Standards Board Pronouncement No. 71. The reserve will be used to offset future rate increases, maintain income stability in future periods, and reduce temporary cash investments. Transfers from the rate stabilization reserve to operations will be made in future periods as needed to maintain financial stability.

SUPPLEMENTARY INFORMATION

North Branch Municipal Water and Light Commission

Schedule of Bonded Indebtedness

December 31, 2006

	\$3,000,000 Water System Revenue Bonds Series 2004	\$1,675,000 Electric Revenue Bonds of 1998	\$1,675,000 Electric Revenue Bonds of 2002	Totals
Bonds payable	\$ 2,775,000	\$ 1,190,000	\$ 1,435,000	\$ 5,400,000
Future interest payable	<u>1,142,383</u>	<u>422,816</u>	<u>665,860</u>	<u>2,231,059</u>
Total	<u>\$ 3,917,383</u>	<u>\$ 1,612,816</u>	<u>\$ 2,100,860</u>	<u>\$ 7,631,059</u>
Payments to maturity:				
2007	\$ 218,328	\$ 136,558	\$ 131,386	\$ 486,272
2008	220,390	137,643	129,304	487,337
2009	217,390	133,523	132,030	482,943
2010	219,203	134,212	129,336	482,751
2011	220,566	134,550	131,640	486,756
2012	216,341	134,555	133,452	484,348
2013	216,703	134,290	130,052	481,045
2014	216,890	133,755	131,534	482,179
2015	216,758	132,950	132,622	482,330
2016	216,263	131,875	133,482	481,620
2017	220,250	135,395	128,924	484,569
2018	218,750	133,510	129,362	481,622
2019	217,050	-	129,412	346,462
2020	219,600	-	133,900	353,500
2021	216,388	-	132,862	349,250
2022	217,838	-	131,562	349,400
2023	213,950	-	-	213,950
2024	214,725	-	-	214,725
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
2034	-	-	-	-
2035	-	-	-	-
2036	-	-	-	-
2037	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTALS	<u>\$ 3,917,383</u>	<u>\$ 1,612,816</u>	<u>\$ 2,100,860</u>	<u>\$ 7,631,059</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Electric Fund December 31, 2006

\$1,675,000 Electric System Revenue Bonds of 1998

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/2007	5.00%	\$ 75,000	\$ 31,716	\$ 106,716
11/1/2007	5.10%	-	29,842	29,842
5/1/2008	5.10%	80,000	29,842	109,842
11/1/2008	5.20%	-	27,801	27,801
5/1/2009	5.20%	80,000	27,801	107,801
11/1/2009	5.25%	-	25,722	25,722
5/1/2010	5.25%	85,000	25,722	110,722
11/1/2010	5.40%	-	23,490	23,490
5/1/2011	5.40%	90,000	23,490	113,490
11/1/2011	5.40%	-	21,060	21,060
5/1/2012	5.40%	95,000	21,060	116,060
11/1/2012	5.40%	-	18,495	18,495
5/1/2013	5.40%	100,000	18,495	118,495
11/1/2013	5.40%	-	15,795	15,795
5/1/2014	5.40%	105,000	15,795	120,795
11/1/2014	5.40%	-	12,960	12,960
5/1/2015	5.40%	110,000	12,960	122,960
11/1/2015	5.40%	-	9,990	9,990
5/1/2016	5.40%	115,000	9,990	124,990
11/1/2016	5.40%	-	6,885	6,885
5/1/2017	5.40%	125,000	6,885	131,885
11/1/2017	5.40%	-	3,510	3,510
5/1/2018	5.40%	130,000	3,510	133,510
Total bonded indebtedness		<u>\$ 1,190,000</u>	<u>\$ 422,816</u>	<u>\$ 1,612,816</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Electric Fund December 31, 2006

\$1,675,000 Electric System Revenue Bonds of 2002

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/1/2007	3.20%	\$ -	\$ 33,193	\$ 33,193
12/1/2007	3.20%	65,000	33,193	98,193
6/1/2008	3.50%	-	32,152	32,152
12/1/2008	3.50%	65,000	32,152	97,152
6/1/2009	3.85%	-	31,015	31,015
12/1/2009	3.85%	70,000	31,015	101,015
6/1/2010	3.85%	-	29,668	29,668
12/1/2010	3.85%	70,000	29,668	99,668
6/1/2011	4.25%	-	28,320	28,320
12/1/2011	4.25%	75,000	28,320	103,320
6/1/2012	4.25%	-	26,726	26,726
12/1/2012	4.25%	80,000	26,726	106,726
6/1/2013	4.40%	-	25,026	25,026
12/1/2013	4.40%	80,000	25,026	105,026
6/1/2014	4.60%	-	23,267	23,267
12/1/2014	4.60%	85,000	23,267	108,267
6/1/2015	4.60%	-	21,311	21,311
12/1/2015	4.60%	90,000	21,311	111,311
6/1/2016	4.80%	-	19,241	19,241
12/1/2016	4.80%	95,000	19,241	114,241
6/1/2017	4.80%	-	16,962	16,962
12/1/2017	4.80%	95,000	16,962	111,962
6/1/2018	4.95%	-	14,681	14,681
12/1/2018	4.95%	100,000	14,681	114,681
6/1/2019	5.25%	-	12,206	12,206
12/1/2019	5.25%	105,000	12,206	117,206
6/1/2020	5.25%	-	9,450	9,450
12/1/2020	5.25%	115,000	9,450	124,450
6/1/2021	5.25%	-	6,431	6,431
12/1/2021	5.25%	120,000	6,431	126,431
6/1/2022	5.25%	-	3,281	3,281
12/1/2022	5.25%	125,000	3,281	128,281
Total bonded indebtedness		<u>\$ 1,435,000</u>	<u>\$ 665,860</u>	<u>\$ 2,100,860</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

Schedule of Bonded Indebtedness - Water Fund December 31, 2006

\$3,000,000 Water System Revenue Bonds, Series 2004

Due Date	Interest Rate	Principal	Interest	Total
3/1/2007	2.50%	\$ 115,000	\$ 52,383	\$ 167,383
9/1/2007	2.50%	-	50,945	50,945
3/1/2008	2.50%	120,000	50,945	170,945
9/1/2008	2.50%	-	49,445	49,445
3/1/2009	2.50%	120,000	49,445	169,445
9/1/2009	2.50%	-	47,945	47,945
3/1/2010	2.70%	125,000	47,945	172,945
9/1/2010	2.70%	-	46,258	46,258
3/1/2011	3.00%	130,000	46,258	176,258
9/1/2011	3.00%	-	44,308	44,308
3/1/2012	3.50%	130,000	44,308	174,308
9/1/2012	3.50%	-	42,033	42,033
3/1/2013	3.50%	135,000	42,033	177,033
9/1/2013	3.50%	-	39,670	39,670
3/1/2014	3.50%	140,000	39,670	179,670
9/1/2014	3.50%	-	37,220	37,220
3/1/2015	3.70%	145,000	37,220	182,220
9/1/2015	3.70%	-	34,538	34,538
3/1/2016	3.75%	150,000	34,538	184,538
9/1/2016	3.75%	-	31,725	31,725
3/1/2017	4.00%	160,000	31,725	191,725
9/1/2017	4.00%	-	28,525	28,525
3/1/2018	4.00%	165,000	28,525	193,525
9/1/2018	4.00%	-	25,225	25,225
3/1/2019	4.00%	170,000	25,225	195,225
9/1/2019	4.00%	-	21,825	21,825
3/1/2020	4.50%	180,000	21,825	201,825
9/1/2020	4.50%	-	17,775	17,775
3/1/2021	4.50%	185,000	17,775	202,775
9/1/2021	4.50%	-	13,613	13,613
3/1/2022	4.50%	195,000	13,613	208,613
9/1/2022	4.50%	-	9,225	9,225
3/1/2023	4.50%	200,000	9,225	209,225
9/1/2023	4.50%	-	4,725	4,725
3/1/2024	4.50%	210,000	4,725	214,725
Total bonded indebtedness		\$ 2,775,000	\$ 1,142,383	\$ 3,917,383

NORTH BRANCH WATER AND LIGHT COMMISSION

SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD For the Year Ended December 31, 2006

Month	Date	Time of System Peak Load	Peak Load	Purchased Power	
				KWH	Total Cost
January	1/4/2006	6:00 PM	4,940	2,565,680	\$ 136,965
February	2/16/2006	7:00 PM	4,480	2,380,740	131,942
March	3/7/2006	7:00 PM	4,220	2,440,000	131,754
April	4/24/2006	2:00 PM	4,040	2,216,440	129,465
May	5/31/2006	5:00 PM	5,320	2,517,020	161,801
June	6/16/2006	2:00 PM	6,460	2,779,900	181,984
July	7/31/2006	4:00 PM	8,180	3,469,440	228,182
August	8/10/2006	4:00 PM	6,040	2,978,680	192,274
September	9/7/2006	2:00 PM	5,180	2,359,000	159,243
October	10/3/2006	4:00 PM	4,180	2,403,820	174,244
November	11/26/2006	6:00 PM	4,600	2,414,440	166,694
December	12/18/2006	6:00 PM	4,640	2,665,120	175,208
Totals				<u>31,190,280</u>	1,969,756
Less: Excess Equity Distribution					<u>(52,326)</u>
Total purchased power expense					<u>\$ 1,917,430</u>

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NORTH BRANCH WATER AND LIGHT COMMISSION

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION For the Year Ended December 31, 2006

	Capital Assets			
	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
<u>Electric utility</u>				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Buildings	180,168	-	-	180,168
Equipment	1,760,859	-	-	1,760,859
Distribution system	3,809,658	88,925	-	3,898,583
Substations	386,945	-	-	386,945
Trucks	51,601	-	-	51,601
Computer	32,347	-	-	32,347
Office equipment and tools	33,746	-	-	33,746
Construction work in progress	-	143,829	-	143,829
Total electric utility	<u>6,271,329</u>	<u>232,754</u>	<u>-</u>	<u>6,504,083</u>
 <u>Water utility</u>				
Land	82,925	-	-	82,925
Filter building	28,648	-	-	28,648
Filter equipment	21,527	-	-	21,527
Fluoridation system	940	-	-	940
Distribution main and services	101,539	-	-	101,539
Water meters	77,396	21,555	-	98,951
Wells	876,013	2,156	-	878,169
Equipment	133,592	-	-	133,592
Computer	3,486	-	-	3,486
Watertower	1,772,706	-	-	1,772,706
Trucks	9,726	36,299	-	46,025
Distribution system	1,320,644	1,020,111	-	2,340,755
Construction in progress	88,203	817,303	2,156	903,350
Total water utility	<u>4,517,345</u>	<u>1,897,424</u>	<u>2,156</u>	<u>6,412,613</u>
 Total utilities	<u>\$ 10,788,674</u>	<u>\$ 2,130,178</u>	<u>\$ 2,156</u>	<u>\$ 12,916,696</u>

Accumulated Depreciation					
Rate	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006	Net Capital Assets
0%	\$ -	\$ -	\$ -	\$ -	\$ 16,005
2%	47,347	3,603	-	50,950	129,218
4%	769,507	61,630	-	831,137	929,722
3%	1,369,882	124,755	-	1,494,637	2,403,946
4%	268,073	13,543	-	281,616	105,329
10%	47,185	4,416	-	51,601	-
20%	14,782	6,469	-	21,251	11,096
10%	28,626	3,375	-	32,001	1,745
0%	-	-	-	-	143,829
	<u>2,545,402</u>	<u>217,791</u>	<u>-</u>	<u>2,763,193</u>	<u>3,740,890</u>
0%	-	-	-	-	82,925
2%	16,242	573	-	16,815	11,833
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	101,539	-	-	101,539	-
5%	24,705	4,948	-	29,653	69,298
2%	26,844	17,563	-	44,407	833,762
5%	56,069	6,680	-	62,749	70,843
20%	3,486	-	-	3,486	-
2%	192,991	35,454	-	228,445	1,544,261
10%	4,958	4,602	-	9,560	36,465
3%	224,375	77,245	-	301,620	2,039,135
0%	-	-	-	-	903,350
	<u>673,676</u>	<u>147,065</u>	<u>-</u>	<u>820,741</u>	<u>5,591,872</u>
	<u>\$ 3,219,078</u>	<u>\$ 364,856</u>	<u>\$ -</u>	<u>\$ 3,583,934</u>	<u>\$ 9,332,762</u>

NORTH BRANCH WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Year Ended December 31, 2006

OPERATING REVENUES

Sales of Electricity	
Residential	\$ 1,164,836
Commercial	1,048,930
Large power	359,898
Street lighting	17,795
Security lighting	2,983
Total Sales of Electricity	<u>2,594,442</u>
Other Operating Revenues	
Penalties	51,483
Generation income	220,610
Quick start	144,000
Connection charges	13,162
Total Other Operating Revenues	<u>429,255</u>
Total Operating Revenues	<u>3,023,697</u>

OPERATING EXPENSES

Operation and Maintenance Expenses	
Production Expenses	
Operation supervision and labor	32,869
Operation supplies and expenses	29,367
Fuel oil	58,140
Lubricating oil	3,289
Natural gas	18,711
Maintenance of equipment	10,460
Maintenance of building	26,107
Total Production Expenses	<u>178,943</u>
Other Power Supply Expenses	
Purchased power	<u>1,917,430</u>
Total Other Power Supply Expenses	<u>1,917,430</u>
Distribution Expenses	
Operation supervision and labor	157,421
Warehouse heat	7,411
Light plant heating	10,636
Tools	22,332
Truck expenses	19,930
Supplies and maintenance	80,648
Building maintenance	275
Distribution equipment maintenance	6,887
Total Distribution Expenses	<u>305,540</u>

NORTH BRANCH WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES

For the Year Ended December 31, 2006

OPERATING EXPENSES (cont.)

Territory Acquisition Expenses	
Territory acquisition expense	33,960
Total Territory Acquisition Expenses	<u>33,960</u>
Demand Side Management Expense	
Demand side management	17,903
Total Demand Side Management Expense	<u>17,903</u>
Accounting and Collecting Expenses	
Accounting and collecting labor	62,522
Total Accounting and Collecting Expenses	<u>62,522</u>
Administrative and General Expenses	
Administrative and general salaries	46,307
Office supplies and expenses	13,336
Computer supplies	989
Property insurance	42,336
Professional fees	30,795
Employee pensions and benefits	119,368
Communications	3,508
Subscriptions, dues and travel	13,688
Training and safety	17,482
Advertising and promotions	805
Clothing allowance	3,052
Credit card fees	3,483
Street lighting payment to the city	19,277
Miscellaneous general expenses	6,526
Total Administrative and General Expenses	<u>320,952</u>
Total Operation and Maintenance Expenses	2,837,250
Depreciation	<u>217,791</u>
Total Operating Expenses	<u>3,055,041</u>
 OPERATING INCOME	 <u>\$ (31,344)</u>

NORTH BRANCH WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES

For the Year Ended December 31, 2006

OPERATING REVENUES

Sales of Water	
Sale of water	\$ 516,642
Total Sales of Water	<u>516,642</u>
Other Operating Revenues	
Trunk fees	567,555
Connection charges	113,307
Penalties	8,966
Other water revenue	<u>8,181</u>
Total Other Operating Revenues	<u>698,009</u>
Total Operating Revenues	<u>1,214,651</u>

OPERATING EXPENSES

Operation and Maintenance Expenses	
Production Expenses	
Natural gas	3,438
Operation supplies and expenses	14,420
Maintenance of equipment	19,003
Maintenance of building	8,233
Water supply testing	<u>10,140</u>
Total Production Expenses	<u>55,234</u>
Distribution Expenses	
Operation labor	14,699
Operation supplies and expenses	59,695
Truck expenses	<u>1,646</u>
Total Distribution Expenses	<u>76,040</u>
Accounting and Collecting Expenses	
Accounting and collecting labor	<u>20,841</u>
Total Accounting and Collecting Expenses	<u>20,841</u>
Administrative and General Expenses	
Administrative and general salaries	15,436
Office supplies and expenses	4,129
Professional services	21,513
Property insurance	12,034
Communications	1,139
Dues and subscriptions	2,478
Training and safety	1,140
Miscellaneous general expenses	<u>992</u>
Total Administrative and General Expenses	<u>58,861</u>
Total Operation and Maintenance Expenses	<u>210,976</u>
Depreciation	<u>147,065</u>
Total Operating Expenses	<u>856,610</u>

OPERATING INCOME	\$ 358,041
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