

**NORTH BRANCH MUNICIPAL
WATER AND LIGHT COMMISSION**

North Branch, Minnesota

FINANCIAL STATEMENTS

December 31, 2008

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

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INDEPENDENT AUDITORS' REPORT

To the Utility Commission
North Branch Municipal 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 Municipal Water and Light Commission as of and for the year ended December 31, 2008, which collectively comprise the North Branch Municipal 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 Municipal 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 Municipal Water and Light Commission, as of December 31, 2008, 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 Municipal 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 Municipal 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 228

Minneapolis, Minnesota
May 11, 2009

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS

December 31, 2008

	Business- type Activities
ASSETS	
Cash and investments	\$ 868,514
Customer accounts receivable	536,413
Prepaid items and inventories	492,153
Notes receivable	25,000
Restricted cash	7,846,585
Other assets	178,707
Capital Assets	
Construction in progress	1,737,576
Land	98,930
Other capital assets, net of depreciation	19,608,870
Total Assets	<u>31,392,748</u>
LIABILITIES	
Accounts payable and accrued expenses	662,845
Customer deposits	63,611
Due to primary government	230,652
Deferred rate stabilization	147,880
Noncurrent liabilities	
Due within one year	776,486
Due in more than one year	17,344,069
Total Liabilities	<u>19,225,543</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,132,026
Restricted for:	
Debt service	57,377
Capital projects	756,144
Unrestricted	<u>1,221,658</u>
TOTAL NET ASSETS	<u>\$ 12,167,205</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2008

<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	\$ 3,678,551	\$ 3,649,544	\$ -	\$ (29,007)
Water	1,140,336	597,868	-	628,540
Total Business Type Activities	<u>\$ 4,818,887</u>	<u>\$ 4,247,412</u>	<u>\$ 1,171,008</u>	<u>599,533</u>
General Revenues				
Investment income				213,753
Total General Revenues				<u>213,753</u>
Change in Net Assets				813,286
NET ASSETS - Beginning of Year				<u>11,353,919</u>
NET ASSETS - END OF YEAR				<u>\$ 12,167,205</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

STATEMENT OF NET ASSETS ENTERPRISE FUNDS December 31, 2008

ASSETS	Electric Utility	Water Utility	Totals
CURRENT ASSETS			
Cash and investments	\$ -	\$ 868,514	\$ 868,514
Customer accounts receivable	440,143	77,038	517,181
Interest receivable	7,836	11,396	19,232
Prepaid items	5,800	-	5,800
Due from other funds	-	365,436	365,436
Inventories	440,164	46,189	486,353
Current portion of note receivable	3,675	1,225	4,900
Total Current Assets	<u>897,618</u>	<u>1,369,798</u>	<u>2,267,416</u>
NON-CURRENT ASSETS			
Restricted assets			
Reserve account	374,789	991,123	1,365,912
Redemption account	82,180	248,802	330,982
Construction account	2,332,834	3,060,713	5,393,547
Water hookup charges	-	756,144	756,144
Capital assets			
Plant in service	7,074,136	17,341,062	24,415,198
Accumulated depreciation	(3,161,892)	(1,545,506)	(4,707,398)
Construction work in progress	981,022	756,554	1,737,576
Other assets			
Note receivable	15,075	5,025	20,100
Unamortized issuance costs	-	178,707	178,707
Total Non-Current Assets	<u>7,698,144</u>	<u>21,792,624</u>	<u>29,490,768</u>
Total Assets	<u>8,595,762</u>	<u>23,162,422</u>	<u>31,758,184</u>

	Electric Utility	Water Utility	Totals
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 270,850	\$ 102,433	\$ 373,283
Accrued expenses	15,957	-	15,957
Due to the primary government	230,111	541	230,652
Due to other funds	365,436	-	365,436
Customer deposits	63,611	-	63,611
Deferred rate stabilization	147,880	-	147,880
Current portion of accrued compensated absences	16,974	4,512	21,486
Current portion of note payable	-	50,000	50,000
Current portion of loan from City of North Branch	-	10,000	10,000
Payable from restricted assets			
Current portion of revenue bonds	260,000	435,000	695,000
Accrued interest	59,493	214,112	273,605
Total Current Liabilities	<u>1,430,312</u>	<u>816,598</u>	<u>2,246,910</u>
NON-CURRENT LIABILITIES			
Accrued compensated absences	20,745	5,515	26,260
Note payable	-	50,000	50,000
Revenue bonds payable	4,870,000	12,295,000	17,165,000
Loan from City of North Branch	-	115,000	115,000
Unamortized debt premium	-	102,733	102,733
Unamortized debt discount	(54,332)	(60,592)	(114,924)
Total Non-Current Liabilities	<u>4,836,413</u>	<u>12,507,656</u>	<u>17,344,069</u>
Total Liabilities	<u>6,266,725</u>	<u>13,324,254</u>	<u>19,590,979</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,525,221	7,606,805	10,132,026
Restricted - redemption and replacement funding	22,687	790,834	813,521
Unrestricted (deficit)	(218,871)	1,440,529	1,221,658
TOTAL NET ASSETS	<u>\$ 2,329,037</u>	<u>\$ 9,838,168</u>	<u>\$ 12,167,205</u>

See accompanying notes to financial statements.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

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

For the Year Ended December 31, 2008

	Electric Utility	Water Utility	Totals
OPERATING REVENUES	<u>\$ 3,532,086</u>	<u>\$ 577,598</u>	<u>\$ 4,109,684</u>
OPERATING EXPENSES			
Operation and maintenance	3,285,904	329,467	3,615,371
Depreciation	<u>231,169</u>	<u>506,357</u>	<u>737,526</u>
Total Operating Expenses	<u>3,517,073</u>	<u>835,824</u>	<u>4,352,897</u>
Operating Income	<u>15,013</u>	<u>(258,226)</u>	<u>(243,213)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	64,937	148,816	213,753
Interest expense	(159,228)	(293,191)	(452,419)
Antenna rental	-	18,300	18,300
Fiscal agent charges	(2,250)	(3,183)	(5,433)
Miscellaneous non-operating revenues	117,458	1,970	119,428
Amortization expense	<u>-</u>	<u>(8,138)</u>	<u>(8,138)</u>
Total Non-Operating Revenue (Expenses)	<u>20,917</u>	<u>(135,426)</u>	<u>(114,509)</u>
Net Income Before Contributions	35,930	(393,652)	(357,722)
CAPITAL CONTRIBUTIONS			
Contributions of utility plant	-	474,484	474,484
Trunk fees	-	573,796	573,796
Connection charges	<u>-</u>	<u>122,728</u>	<u>122,728</u>
Total Capital Contributions	<u>-</u>	<u>1,171,008</u>	<u>1,171,008</u>
CHANGE IN NET ASSETS	35,930	777,356	813,286
NET ASSETS – Beginning of Year	<u>2,293,107</u>	<u>9,060,812</u>	<u>11,353,919</u>
NET ASSETS – END OF YEAR	<u>\$ 2,329,037</u>	<u>\$ 9,838,168</u>	<u>\$ 12,167,205</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, 2008

	Electric Utility	Water Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,545,234	\$ 589,671	\$ 4,134,905
Cash received from city for services	17,795	-	17,795
Cash paid to suppliers for goods and services	(2,768,044)	(195,578)	(2,963,622)
Cash paid to employees for services	(425,292)	(109,857)	(535,149)
Net Cash Flows From Operating Activities	<u>369,693</u>	<u>284,236</u>	<u>653,929</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Marketable securities purchased	(1,565,728)	3,439,542	1,873,814
Marketable securities sold	292,462	-	292,462
Investment income	57,101	137,420	194,521
Net Cash Flows From (Used For) Investing Activities	<u>(1,216,165)</u>	<u>3,576,962</u>	<u>2,360,797</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt retired	(145,000)	(120,000)	(265,000)
Interest paid	(123,108)	(437,145)	(560,253)
Proceeds from debt issued	2,790,000	3,110,000	5,900,000
Advanced (to) from other funds for cash flow purposes	365,436	(365,436)	-
Debt issuance costs	(54,332)	(64,508)	(118,840)
Note receivable issued	(18,750)	(6,250)	(25,000)
Contributions received for construction	5,305	823,790	829,095
Acquisition and construction of capital assets	(1,293,315)	(3,857,790)	(5,151,105)
Net Cash Flows From (Used For) Capital and Related Related Financing Activities	<u>1,526,236</u>	<u>(917,339)</u>	<u>608,897</u>
Net Increase in Cash and Cash Equivalents	679,764	2,943,859	3,623,623
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>469,711</u>	<u>1,765,205</u>	<u>2,234,916</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,149,475</u>	<u>\$ 4,709,064</u>	<u>\$ 5,858,539</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and Investments per Statement of Net Assets	\$ -	\$ 868,514	\$ 868,514
Restricted Cash and Investments per Statement of Net Assets	2,789,803	5,056,782	7,846,585
Less: Non-cash Equivalents	<u>(1,640,328)</u>	<u>(1,216,232)</u>	<u>(2,856,560)</u>
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 1,149,475</u>	<u>\$ 4,709,064</u>	<u>\$ 5,858,539</u>

	Electric Utility	Water Utility	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 15,013	\$ (258,226)	\$ (243,213)
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities			
Non-operating revenues	115,208	17,086	132,294
Noncash items included in income			
Depreciation	231,169	506,357	737,526
Change in assets and liabilities			
Customer accounts receivable	(108,021)	(5,014)	(113,035)
Inventories	(15,297)	(17,721)	(33,018)
Prepaid items	1,365	-	1,365
Accounts payable	40,086	68,886	108,972
Accrued expenses	2,408	-	2,408
Due to primary government	58,815	(7,308)	51,507
Due to other funds	19,008	(19,008)	-
Accrued compensated absences	5,191	(816)	4,375
Customer deposits	4,748	-	4,748
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 369,693</u>	<u>\$ 284,236</u>	<u>\$ 653,929</u>

NON-CASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

During 2008, the electric utility refunded the remaining balance of 1998 revenue bonds with proceeds from the 2008 \$1,035,000 refunding bonds. The water utility received \$474,484 of contributed plant from developers. The water utility acquired a well in exchange for an advance from the City of North Branch and installment payments due to the golf course which balances at 12/31/08 of \$125,000 and \$100,000, respectively.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

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 Municipal 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, 2008

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 Municipal 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 Municipal 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, 2008

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, 2008

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 commission 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 adopted an investment policy for allowable investments. The policy does not address credit risk, custodial credit risk, concentration of credit risk or interest rate risk.

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 \$142,033. All significant receivable balances are expected to be collected within one year. No allowance is considered necessary for water customer accounts since the utility can place delinquent water bills on the tax roll for collection.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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, 2008 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, 2008

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, 2008

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	\$ 7,465,535	\$ 7,605,272	Custodial credit risk
U.S. agency bonds	405,264	405,264	Credit, custodial credit, concentration of credit, and interest rate risks
Mutual funds	413,403	413,403	Credit and interest rate risks
Treasury zero coupon bonds	119,838	119,838	Custodial credit and interest rate risks
Corporate bonds	310,909	310,909	Credit, custodial credit, concentration of credit, and interest rate risks
Petty cash	150	-	N/A
Total Cash and Investments	<u>\$ 8,715,099</u>	<u>\$ 8,854,686</u>	
Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 868,514		
Restricted cash and investments	<u>7,846,585</u>		
Total Cash and Investments	<u>\$ 8,715,099</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited 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, each of the commission's three brokerage firms provide \$500,000 of coverage from SIPC. In addition to SIPC, the brokerage firms provide commercial insurance for balances in excess of \$500,000.

The commission maintains collateral agreements with two of its banks. At December 31, 2008, the banks had pledged various government securities in the amount of \$3,796,744 to secure the commission's deposits.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

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, 2008, 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
Corporate Bonds	AAA	AAA

The commission has funds invested in two mutual funds. The commission has \$410,849 invested in a mutual fund rated AAA. The other mutual fund rating is unavailable.

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, 2008, 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	28%
Federal National Mortgage Association	US Agency – Implicitly Guaranteed	18%
Goldman Sachs	Corporate bonds	43%

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

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

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

As of December 31, 2008 the commission's investments were as follows:

Specific Investment	Maturity Date	Fair Value
Federal National Mortgage Assoc. Note	1/15/2009	\$ 39,073
Federal National Mortgage Assoc. Note	2/27/2009	25,172
Federal National Mortgage Assoc. Note	3/9/2009	26,195
Federal National Mortgage Assoc. Note	3/23/2009	35,317
Federal Home Loan Mortgage Corp. Note	2/27/2009	25,110
Federal Home Loan Mortgage Corp. Note	2/24/2009	12,084
Federal Home Loan Mortgage Corp. Note	3/15/2009	24,960
Federal Home Loan Mortgage Corp. Note	3/30/2009	33,281
Federal Home Loan Mortgage Corp. Note	5/21/2009	101,844
Federal Home Loan Banks Cons. Bond	3/2/2009	10,091
Federal Home Loan Banks Cons. Bond	3/13/09	10,088
Federal Home Loan Banks Cons. Bond	3/13/09	15,145
Financing Corp. Coupon Strips	3/7/2009	21,968
Treasury Certificates Zero Coupon	5/15/2009	43,940
Treasury Certificates Zero Coupon	5/15/2009	37,949
Treasury Certificates Zero Coupon	5/15/2009	37,949
Goldman Sachs Group FDIC GTD TLGP	6/15/2012	310,909
Tennessee Valley Authority Electronotes	10/15/2013	24,936
Total		<u>\$ 836,011</u>

The commission has funds invested in two mutual funds. The commission has \$410,849 and \$2,554 invested in money market mutual funds with weighted average maturities of 7 and 38 days, respectively.

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, 2008

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, 2008:

	Restricted Assets	Liabilities Payable from Restricted Assets	Net Restricted Assets
Bond redemption account	\$ 330,982	\$ 273,605	\$ 57,377
Bond reserve account	1,365,912	-	n/a
Construction account	5,393,547	-	n/a
Water hookup charge account	756,144	-	756,144
Total Restricted Assets	<u>\$ 7,846,585</u>	<u>\$ 273,605</u>	<u>\$ 813,521</u>

C. INTERFUND RECEIVABLE/PAYABLE

The electric utility owed the water utility \$365,436 due to an overdraft on pooled cash as of December 31, 2008. The amount is expected to be repaid within one year.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Electric</u>				
Capital assets not being depreciated:				
Construction in progress	\$ 7,237	\$ 973,785	\$ -	\$ 981,022
Land and land rights	16,005	-	-	16,005
Total Capital Assets Not Being Depreciated	<u>23,242</u>	<u>973,785</u>	<u>-</u>	<u>997,027</u>
Capital assets being depreciated:				
Buildings and structures	180,168	-	-	180,168
Equipment and vehicles	1,889,405	44,621	-	1,934,026
Distribution system	4,704,444	271,493	32,000	4,943,937
Total Capital Assets Being Depreciated	<u>6,774,017</u>	<u>316,114</u>	<u>32,000</u>	<u>7,058,131</u>
Total Capital Assets	<u>6,797,259</u>	<u>1,289,899</u>	<u>32,000</u>	<u>8,055,158</u>
Less: Accumulated Depreciation				
Buildings and structures	(54,553)	(3,603)	-	(58,156)
Equipment and vehicles	(1,006,214)	(68,199)	-	(1,074,413)
Distribution system	(1,901,956)	(159,367)	(32,000)	(2,029,323)
Total Accumulated Depreciation	<u>(2,962,723)</u>	<u>(231,169)</u>	<u>(32,000)</u>	<u>(3,161,892)</u>
Net Electric Plant	<u>\$ 3,834,536</u>	<u>\$ 1,058,730</u>	<u>\$ -</u>	<u>\$ 4,893,266</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

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

D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Water</u>				
Capital assets not being depreciated:				
Construction in progress	\$ 6,541,366	\$ 3,280,027	\$ 9,064,839	\$ 756,554
Land and land rights	82,925	-	-	82,925
Total Capital Assets Not Being Depreciated	<u>6,624,291</u>	<u>3,280,027</u>	<u>9,064,839</u>	<u>839,479</u>
Capital assets being depreciated:				
Buildings and structures	1,801,354	-	-	1,801,354
Equipment and vehicles	344,912	59,562	-	404,474
Distribution system	5,425,476	9,626,833	-	15,052,309
Total Capital Assets Being Depreciated	<u>7,571,742</u>	<u>9,686,395</u>	<u>-</u>	<u>17,258,137</u>
Total Capital Assets	<u>14,196,033</u>	<u>12,966,422</u>	<u>9,064,839</u>	<u>18,097,616</u>
Less: Accumulated Depreciation				
Buildings and structures	(281,287)	(36,027)	-	(317,314)
Equipment and vehicles	(145,270)	(21,274)	-	(166,544)
Distribution system	(612,592)	(449,056)	-	(1,061,648)
Total Accumulated Depreciation	<u>(1,039,149)</u>	<u>(506,357)</u>	<u>-</u>	<u>(1,545,506)</u>
Net Water Plant	<u>\$ 13,156,884</u>	<u>\$ 12,460,065</u>	<u>\$ 9,064,839</u>	<u>\$ 16,552,110</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities

Electric	\$ 231,169
Water	<u>506,357</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 737,526</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

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

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Revenue bonds	\$ 12,225,000	\$ 6,935,000	\$ 1,300,000	\$ 17,860,000	\$ 695,000
Add/(Subtract) Deferred Amounts For:					
(Discounts)	(19,200)	(98,659)	(2,935)	(114,924)	-
Premium	109,325	-	6,592	102,733	-
Sub-total	<u>12,315,125</u>	<u>6,836,341</u>	<u>1,303,657</u>	<u>17,847,809</u>	<u>695,000</u>
Other Liabilities:					
Note payable	-	166,325	66,325	100,000	50,000
Loan from City of North Branch	-	130,000	5,000	125,000	10,000
Vested compensated absences	<u>43,371</u>	<u>19,517</u>	<u>15,142</u>	<u>47,746</u>	<u>21,486</u>
Total Other Liabilities	<u>43,371</u>	<u>315,842</u>	<u>86,467</u>	<u>272,746</u>	<u>81,486</u>
Total Business-Type Activities					
Long-Term Liabilities	<u>\$ 12,358,496</u>	<u>\$ 7,152,183</u>	<u>\$ 1,390,124</u>	<u>\$ 18,120,555</u>	<u>\$ 776,486</u>

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

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12-31-08
<u>Electric Utility</u>					
Revenue Bonds	12/1/2002	12/1/2022	1.9 – 5.25%	\$ 1,675,000	\$ 1,305,000
Revenue Bonds	8/1/2008	8/1/2028	3.0 – 5.75%	2,790,000	2,790,000
Revenue Bonds	8/1/2008	8/1/2018	3.0 – 4.4%	1,035,000	1,035,000
				Total Electric Utility	<u>5,130,000</u>
<u>Water Utility</u>					
Revenue Bonds	3/1/2004	3/1/2024	2.0 – 4.5%	3,000,000	2,540,000
Revenue Bonds	8/1/2007	8/1/2027	4.5 – 4.75%	7,080,000	7,080,000
Revenue Bonds	8/1/2008	8/1/2033	2.0 – 5.0%	3,110,000	3,110,000
				Total Water Utility	<u>12,730,000</u>
Total Business-Type Activities Revenue Debt					<u>\$ 17,860,000</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

E. LONG-TERM OBLIGATIONS (cont.)

Debt service requirements for revenue bonds to maturity are as follows:

<u>Years</u>	Business-Type Activities	
	Revenue Debt	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 695,000	\$ 773,313
2010	715,000	783,414
2011	745,000	757,931
2012	770,000	729,563
2013	800,000	697,725
2014 – 2018	4,470,000	2,969,015
2019 – 2023	4,790,000	1,910,045
2024 – 2028	3,945,000	771,062
2029 – 2033	930,000	144,000
Totals	<u>\$ 17,860,000</u>	<u>\$ 9,536,068</u>

The note payable relates to acquisition of well #6 and is payable in annual installments of \$50,000 in 2009 and 2010. No interest is required by the agreement. The note will be paid by the water utility fund.

In 2008, the water utility received a loan from the City of North Branch related to acquisition of well #6. Principal and interest payments are due through February 1, 2019. Interest rates range from 6.5% to 7.25%. Debt service requirements for the loan are as follows:

<u>Years</u>	Business-Type Activities	
	Loan from City of North Branch	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 10,000	\$ 8,663
2010	10,000	7,975
2011	10,000	7,250
2012	10,000	6,525
2013	10,000	5,800
2014 – 2018	60,000	17,400
2019	15,000	544
Totals	<u>\$ 125,000</u>	<u>\$ 54,157</u>

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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

E. LONG-TERM OBLIGATIONS (cont.)

The electric utility has pledged future electric revenues, net of specified operating expenses, to repay \$5,500,000 in electric revenue bonds issued in 2002 and 2008. Proceeds from the bonds provided financing for utility system projects as well as refunding of bonds. The bonds are payable solely from electric revenues and are payable through 2028. The bonds require net revenues of 110% of annual principal and interest payments. The total principal and interest remaining on the bonds is \$7,659,510. Principal and interest paid in 2008, excluding the principal refunded, were \$266,947. Total customer net revenues were \$426,327.

The water utility has pledged future water revenues, net of specified operating expenses, to repay \$13,190,000 in water revenue bonds issued in 2004, 2007 and 2008. Proceeds from the bonds provided financing for utility system projects. The bonds are payable solely from water revenues and are payable through 2033. The bonds require net revenues of 110% of annual principal and interest payments. The total principal and interest remaining on the bonds is \$19,736,558. Principal and interest paid in 2008 were \$554,588. Total customer net revenues were \$1,110,558.

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.

Current Refunding

On September 10, 2008, the commission issued \$1,035,000 of refunding revenue bonds with an average interest rate of 4.13 percent to refund the outstanding 1998 electric revenue bonds of \$1,035,000 at 4.725 percent. In addition, the commission used \$41,886 of available resources for the refunding in addition to bond proceeds. The net bond proceeds of \$1,020,916 (after payment of \$14,804 in underwriting fees and discount) were used to prepay the outstanding debt service requirements on the old bonds.

The cash flow requirements on the refunded bonds and notes prior to the current refunding was \$1,366,416 from 2008 through 2018. The cash flow requirements on the 2008 refunding bonds are \$1,272,556 from 2009 through 2018.

Bond Covenant Disclosures

The water utility has the following number of connections for 2008: 1,526 residential and 213 commercial. The water utility billed for a total of 194,089,159 gallons in 2008.

Water revenue bond resolutions require maintenance of a redemption account. As of December 31, 2008, the amount required was \$351,620. The amount on deposit was \$248,802. The Commission plans to increase monthly deposits to the redemption fund to ensure future compliance.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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, 2008 include the following:

Business-Type Activities

Invested in capital assets, net of related debt	
Construction in progress	\$ 1,737,576
Land	98,930
Other capital assets, net of accumulated depreciation	19,608,870
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(11,313,350)</u>
Total Invested in Capital Assets	<u>10,132,026</u>
Restricted	
Debt service	57,377
Water hookup charges	<u>756,144</u>
Total Restricted	<u>813,521</u>
Unrestricted	<u>1,221,658</u>
Total Business-Type Activities Net Assets	<u>\$ 12,167,205</u>

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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE III – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Plan Description (cont.)

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.

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 www.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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE III – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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 6.0%, respectively, of their annual covered salary in 2008. PEPFF members are required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. 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, 6.5% for Coordinated Plan PERF members, 12.9% for PEPFF members, and 8.75% for PECF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1% respectively, effective January 1, 2009.

The commission's contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006 were \$34,269, \$26,811, and \$21,115, respectively. The contributions were equal to the contractually required contributions for each year as set by state statute.

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.

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE III – OTHER INFORMATION (cont.)

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.

As of December 31, 2008, the commission had an open construction contract of \$90,085 related to construction of well #6.

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.

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.

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, 2008

	\$3,110,000 Water Revenue Bonds of 2008-A	\$2,790,000 Electric Revenue Bonds of 2008-B	\$1,035,000 Electric Revenue Bonds of 2008-C	\$7,080,000 Water Revenue Bonds of 2007	\$3,000,000 Water System Revenue Bonds Series 2004	\$1,675,000 Electric Revenue Bonds of 2002	Totals
Bonds payable	\$ 3,110,000	\$ 2,790,000	\$ 1,035,000	\$ 7,080,000	\$ 2,540,000	\$ 1,305,000	\$ 17,860,000
Future interest payable	<u>2,224,931</u>	<u>1,756,784</u>	<u>237,556</u>	<u>3,842,963</u>	<u>938,665</u>	<u>535,170</u>	<u>9,536,068</u>
Total	<u>\$ 5,334,931</u>	<u>\$ 4,546,784</u>	<u>\$ 1,272,556</u>	<u>\$ 10,922,963</u>	<u>\$ 3,478,665</u>	<u>\$ 1,840,170</u>	<u>\$ 27,396,068</u>
Payments to maturity:							
2009	\$ 196,791	\$ 226,944	\$ 120,961	\$ 574,198	\$ 217,390	\$ 132,030	\$ 1,468,313
2010	215,088	228,610	132,780	573,398	219,203	129,336	1,498,414
2011	212,888	225,760	134,930	577,148	220,566	131,640	1,502,931
2012	215,688	227,530	131,330	575,223	216,341	133,452	1,499,563
2013	213,138	228,630	132,730	576,473	216,703	130,052	1,497,725
2014	215,588	229,535	133,530	574,438	216,890	131,534	1,501,514
2015	212,528	224,915	134,130	576,838	216,758	132,622	1,497,790
2016	214,333	225,295	129,185	572,663	216,263	133,482	1,491,220
2017	215,818	225,063	134,240	573,038	220,250	128,924	1,497,332
2018	211,968	229,603	88,740	572,738	218,750	129,362	1,451,160
2019	212,868	228,688	-	574,988	217,050	129,412	1,363,005
2020	213,563	226,938	-	576,238	219,600	133,900	1,370,238
2021	213,778	229,938	-	576,488	216,388	132,862	1,369,453
2022	213,775	227,438	-	575,738	217,838	131,562	1,366,350
2023	213,375	229,688	-	573,988	213,950	-	1,231,000
2024	212,750	225,200	-	572,375	214,725	-	1,225,050
2025	216,250	225,425	-	574,813	-	-	1,016,488
2026	214,250	225,075	-	576,063	-	-	1,015,388
2027	212,000	229,150	-	576,125	-	-	1,017,275
2028	214,500	227,363	-	-	-	-	441,863
2029	216,500	-	-	-	-	-	216,500
2030	213,000	-	-	-	-	-	213,000
2031	214,250	-	-	-	-	-	214,250
2032	215,000	-	-	-	-	-	215,000
2033	215,250	-	-	-	-	-	215,250
TOTALS	<u>\$ 5,334,931</u>	<u>\$ 4,546,784</u>	<u>\$ 1,272,556</u>	<u>\$ 10,922,963</u>	<u>\$ 3,478,665</u>	<u>\$ 1,840,170</u>	<u>\$ 27,396,068</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - WATER FUND December 31, 2008

\$3,110,000 Water System Refunding Revenue Bonds, Series 2008A

Due Date	Interest Rate	Principal	Interest	Total
2/1/2009		\$ -	\$ 53,497	\$ 53,497
8/1/2009	2.00%	75,000	68,294	143,294
2/1/2010		-	67,544	67,544
8/1/2010	2.75%	80,000	67,544	147,544
2/1/2011		-	66,444	66,444
8/1/2011	2.75%	80,000	66,444	146,444
2/1/2012		-	65,344	65,344
8/1/2012	3.00%	85,000	65,344	150,344
2/1/2013		-	64,069	64,069
8/1/2013	3.00%	85,000	64,069	149,069
2/1/2014		-	62,794	62,794
8/1/2014	3.40%	90,000	62,794	152,794
2/1/2015		-	61,264	61,264
8/1/2015	3.55%	90,000	61,264	151,264
2/1/2016		-	59,666	59,666
8/1/2016	3.70%	95,000	59,666	154,666
2/1/2017		-	57,909	57,909
8/1/2017	3.85%	100,000	57,909	157,909
2/1/2018		-	55,984	55,984
8/1/2018	4.10%	100,000	55,984	155,984
2/1/2019		-	53,934	53,934
8/1/2019	4.10%	105,000	53,934	158,934
2/1/2020		-	51,781	51,781
8/1/2020	3.50%	110,000	51,781	161,781
2/1/2021		-	49,389	49,389
8/1/2021	3.50%	115,000	49,389	164,389
2/1/2022		-	46,888	46,888
8/1/2022	4.50%	120,000	46,888	166,888
2/1/2023		-	44,188	44,188
8/1/2023	4.50%	125,000	44,188	169,188
2/1/2024		-	41,375	41,375
8/1/2024	5.00%	130,000	41,375	171,375
2/1/2025		-	38,125	38,125
8/1/2025	5.00%	140,000	38,125	178,125
2/1/2026		-	34,625	34,625
8/1/2026	5.00%	145,000	34,625	179,625
2/1/2027		-	31,000	31,000
8/1/2027	5.00%	150,000	31,000	181,000
2/1/2028		-	27,250	27,250
8/1/2028	5.00%	160,000	27,250	187,250
2/1/2029		-	23,250	23,250
8/1/2029	5.00%	170,000	23,250	193,250

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - WATER FUND

December 31, 2008

\$3,110,000 Water System Refunding Revenue Bonds, Series 2008A (cont.)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2030		\$ -	\$ 19,000	\$ 19,000
8/1/2030	5.00%	175,000	19,000	194,000
2/1/2031		-	14,625	14,625
8/1/2031	5.00%	185,000	14,625	199,625
2/1/2032		-	10,000	10,000
8/1/2032	5.00%	195,000	10,000	205,000
2/1/2033		-	5,125	5,125
8/1/2033	5.00%	<u>205,000</u>	<u>5,125</u>	<u>210,125</u>
Total Bonded Indebtedness		<u>\$ 3,110,000</u>	<u>\$ 2,224,931</u>	<u>\$ 5,334,931</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - ELECTRIC FUND

December 31, 2008

\$2,790,000 Electric System Refunding Revenue Bonds, Series 2008-B

Due Date	Interest Rate	Principal	Interest	Total
2/1/2009		\$ -	\$ 53,564	\$ 53,564
8/1/2009	3.00%	105,000	68,380	173,380
2/1/2010		-	66,805	66,805
8/1/2010	3.00%	95,000	66,805	161,805
2/1/2011		-	65,380	65,380
8/1/2011	3.40%	95,000	65,380	160,380
2/1/2012		-	63,765	63,765
8/1/2012	3.90%	100,000	63,765	163,765
2/1/2013		-	61,815	61,815
8/1/2013	3.90%	105,000	61,815	166,815
2/1/2014		-	59,768	59,768
8/1/2014	4.20%	110,000	59,768	169,768
2/1/2015		-	57,458	57,458
8/1/2015	4.20%	110,000	57,458	167,458
2/1/2016		-	55,148	55,148
8/1/2016	4.55%	115,000	55,148	170,148
2/1/2017		-	52,531	52,531
8/1/2017	4.55%	120,000	52,531	172,531
2/1/2018		-	49,801	49,801
8/1/2018	5.00%	130,000	49,801	179,801
2/1/2019		-	46,844	46,844
8/1/2019	5.00%	135,000	46,844	181,844
2/1/2020		-	43,469	43,469
8/1/2020	5.00%	140,000	43,469	183,469
2/1/2021		-	39,969	39,969
8/1/2021	5.00%	150,000	39,969	189,969
2/1/2022		-	36,219	36,219
8/1/2022	5.00%	155,000	36,219	191,219
2/1/2023		-	32,344	32,344
8/1/2023	5.75%	165,000	32,344	197,344
2/1/2024		-	27,600	27,600
8/1/2024	5.75%	170,000	27,600	197,600
2/1/2025		-	22,713	22,713
8/1/2025	5.75%	180,000	22,713	202,713
2/1/2026		-	17,538	17,538
8/1/2026	5.75%	190,000	17,538	207,538
2/1/2027		-	12,075	12,075
8/1/2027	5.75%	205,000	12,075	217,075
2/1/2028		-	6,181	6,181
8/1/2028	5.75%	215,000	6,181	221,181
Total Bonded Indebtedness		<u>\$ 2,790,000</u>	<u>\$ 1,756,784</u>	<u>\$ 4,546,784</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - ELECTRIC FUND

December 31, 2008

\$1,035,000 Electric System Refunding Revenue Bonds, Series 2008-C

Due Date	Interest Rate	Principal	Interest	Total
2/1/2009		\$ -	\$ 15,796	\$ 15,796
8/1/2009	3.00%	85,000	20,165	105,165
2/1/2010		-	18,890	18,890
8/1/2010	3.00%	95,000	18,890	113,890
2/1/2011		-	17,465	17,465
8/1/2011	3.60%	100,000	17,465	117,465
2/1/2012		-	15,665	15,665
8/1/2012	3.60%	100,000	15,665	115,665
2/1/2013		-	13,865	13,865
8/1/2013	4.00%	105,000	13,865	118,865
2/1/2014		-	11,765	11,765
8/1/2014	4.00%	110,000	11,765	121,765
2/1/2015		-	9,565	9,565
8/1/2015	4.30%	115,000	9,565	124,565
2/1/2016		-	7,093	7,093
8/1/2016	4.30%	115,000	7,093	122,093
2/1/2017		-	4,620	4,620
8/1/2017	4.40%	125,000	4,620	129,620
2/1/2018		-	1,870	1,870
8/1/2018	4.40%	85,000	1,870	86,870
Total Bonded Indebtedness		<u>\$ 1,035,000</u>	<u>\$ 237,556</u>	<u>\$ 1,272,556</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - WATER FUND December 31, 2008

\$7,080,000 Water System Revenue Bonds, Series 2007

Due Date	Interest Rate	Principal	Interest	Total
2/1/2009		\$ -	\$ 167,099	\$ 167,099
8/01/2009	4.50%	240,000	167,099	407,099
2/1/2010		-	161,699	161,699
8/01/2010	4.50%	250,000	161,699	411,699
2/1/2011		-	156,074	156,074
8/01/2011	4.50%	265,000	156,074	421,074
2/1/2012		-	150,111	150,111
8/01/2012	5.00%	275,000	150,111	425,111
2/1/2013		-	143,236	143,236
8/01/2013	4.15%	290,000	143,236	433,236
2/1/2014		-	137,219	137,219
8/01/2014	4.20%	300,000	137,219	437,219
2/1/2015		-	130,919	130,919
8/01/2015	4.50%	315,000	130,919	445,919
2/1/2016		-	123,831	123,831
8/01/2016	4.50%	325,000	123,831	448,831
2/1/2017		-	116,519	116,519
8/01/2017	4.50%	340,000	116,519	456,519
2/1/2018		-	108,869	108,869
8/01/2018	5.00%	355,000	108,869	463,869
2/1/2019		-	99,994	99,994
8/01/2019	5.00%	375,000	99,994	474,994
2/1/2020		-	90,619	90,619
8/01/2020	5.00%	395,000	90,619	485,619
2/1/2021		-	80,744	80,744
8/01/2021	5.00%	415,000	80,744	495,744
2/1/2022		-	70,369	70,369
8/01/2022	5.00%	435,000	70,369	505,369
2/1/2023		-	59,494	59,494
8/01/2023	4.75%	455,000	59,494	514,494
2/1/2024		-	48,688	48,688
8/01/2024	4.75%	475,000	48,688	523,688
2/1/2025		-	37,406	37,406
8/01/2025	4.75%	500,000	37,406	537,406
2/1/2026		-	25,531	25,531
8/01/2026	4.75%	525,000	25,531	550,531
2/1/2027		-	13,063	13,063
8/01/2027	4.75%	550,000	13,063	563,063
Total Bonded Indebtedness		<u>\$ 7,080,000</u>	<u>\$ 3,842,963</u>	<u>\$ 10,922,963</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - WATER FUND

December 31, 2008

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

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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		<u>\$ 2,540,000</u>	<u>\$ 938,665</u>	<u>\$ 3,478,665</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF BONDED INDEBTEDNESS - ELECTRIC FUND December 31, 2008

\$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>
6/1/2009	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%	<u>125,000</u>	<u>3,281</u>	<u>128,281</u>
Total Bonded Indebtedness		<u>\$ 1,305,000</u>	<u>\$ 535,170</u>	<u>\$ 1,840,170</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF PURCHASED POWER AND SYSTEM PEAK LOAD

For the Year Ended December 31, 2008

Month	Date	Time of System Peak Load	Peak Load	Purchased Power	
				KWH	Total Cost
January	1/29/2008	7:00 PM	4,800	2,790,880	\$ 190,603
February	2/20/2008	7:00 PM	4,660	2,565,100	182,605
March	3/10/2008	12:00 PM	4,440	2,484,440	180,120
April	4/24/2008	2:00 PM	4,220	2,313,240	173,535
May	5/6/2008	1:00 PM	4,320	2,318,620	174,788
June	6/25/2008	3:00 PM	6,520	2,562,740	190,653
July	7/29/2008	2:00 PM	6,960	3,160,620	217,351
August	8/19/2008	4:00 PM	6,720	3,005,080	212,084
September	9/2/2008	11:00 AM	5,940	2,492,520	183,118
October	10/13/2008	11:00 AM	4,620	2,446,960	168,839
November	11/18/2008	6:00 PM	4,500	2,490,220	166,329
December	12/15/2008	6:00 PM	4,900	2,790,100	189,027
Totals				31,420,520	2,229,052
Less: Excess Equity Distribution					-
Total Purchased Power Expense				\$	2,229,052

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION For the Year Ended December 31, 2008

	Capital Assets			
	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<u>Electric Utility</u>				
Land	\$ 16,005	\$ -	\$ -	\$ 16,005
Buildings	180,168	-	-	180,168
Equipment	1,771,711	44,621	-	1,816,332
Distribution system	4,317,499	271,493	32,000	4,556,992
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	7,237	973,785	-	981,022
Total Electric Utility	<u>6,797,259</u>	<u>1,289,899</u>	<u>32,000</u>	<u>8,055,158</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	129,430	17,425	-	146,855
Wells	890,284	2,516,554	-	3,406,838
Equipment	144,444	42,137	-	186,581
Computer	3,486	-	-	3,486
Water tower	1,772,706	-	-	1,772,706
Trucks	46,025	-	-	46,025
Distribution system	4,432,713	7,110,279	-	11,542,992
Construction in progress	6,541,366	3,280,027	9,064,839	756,554
Total Water Utility	<u>14,196,033</u>	<u>12,966,422</u>	<u>9,064,839</u>	<u>18,097,616</u>
Total Utilities	<u>\$ 20,993,292</u>	<u>\$ 14,256,321</u>	<u>\$ 9,096,839</u>	<u>\$ 26,152,774</u>

Accumulated Depreciation					
Rate	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008	Net Capital Assets
0%	\$ -	\$ -	\$ -	\$ -	\$ 16,005
2%	54,553	3,603	-	58,156	122,012
4%	893,147	63,572	-	956,719	859,613
3%	1,620,340	145,824	32,000	1,734,164	2,822,828
4%	281,616	13,543	-	295,159	91,786
10%	51,601	-	-	51,601	-
20%	27,720	4,627	-	32,347	-
10%	33,746	-	-	33,746	-
0%	-	-	-	-	981,022
	<u>2,962,723</u>	<u>231,169</u>	<u>32,000</u>	<u>3,161,892</u>	<u>4,893,266</u>
0%	-	-	-	-	82,925
2%	17,388	573	-	17,961	10,687
5%	21,527	-	-	21,527	-
5%	940	-	-	940	-
2%	101,539	-	-	101,539	-
5%	36,124	7,343	-	43,467	103,388
2%	62,213	68,137	-	130,350	3,276,488
5%	69,971	9,329	-	79,300	107,281
20%	3,486	-	-	3,486	-
2%	263,899	35,454	-	299,353	1,473,353
10%	14,162	4,602	-	18,764	27,261
3%	447,900	380,919	-	828,819	10,714,173
0%	-	-	-	-	756,554
	<u>1,039,149</u>	<u>506,357</u>	<u>-</u>	<u>1,545,506</u>	<u>16,552,110</u>
	<u>\$ 4,001,872</u>	<u>\$ 737,526</u>	<u>\$ 32,000</u>	<u>\$ 4,707,398</u>	<u>\$ 21,445,376</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Year Ended December 31, 2008

OPERATING REVENUES

Sales of Electricity	
Residential	\$ 1,370,802
Commercial	1,264,957
Large power	468,589
Street lighting	17,795
Security lighting	4,283
Total Sales of Electricity	<u>3,126,426</u>
Other Operating Revenues	
Penalties	65,429
Generation income	196,231
Quick start	144,000
Total Other Operating Revenues	<u>405,660</u>
Total Operating Revenues	<u>3,532,086</u>

OPERATING EXPENSES

Operation and Maintenance Expenses	
Production Expenses	
Operation supervision and labor	74,987
Operation supplies and expenses	57,725
Fuel oil	41,135
Lubricating oil	1,031
Natural gas	4,797
Water Treatment	673
Maintenance of equipment	8,211
Maintenance of building	2,932
Total Production Expenses	<u>191,491</u>
Other Power Supply Expenses	
Purchased power	<u>2,229,052</u>
Total Other Power Supply Expenses	<u>2,229,052</u>
Distribution Expenses	
Operation supervision and labor	180,001
Warehouse heat	10,188
Light plant heating	5,052
Tools	26,405
Truck expenses	14,231
Supplies and maintenance	134,014
Building maintenance	5,424
Total Distribution Expenses	<u>375,315</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES

For the Year Ended December 31, 2008

OPERATING EXPENSES (cont.)

Territory Acquisition Expenses	
Territory acquisition expense	\$ 44,789
Total Territory Acquisition Expenses	<u>44,789</u>
Demand Side Management Expense	
Demand side management	<u>9,767</u>
Total Demand Side Management Expense	<u>9,767</u>
Accounting and Collecting Expenses	
Accounting and collecting labor	<u>76,792</u>
Total Accounting and Collecting Expenses	<u>76,792</u>
Administrative and General Expenses	
Administrative and general salaries	56,734
Office supplies and expenses	24,017
Computer supplies	3,269
Property insurance	37,926
Professional fees	20,796
Employee pensions and benefits	134,233
Communications	5,730
Subscriptions, dues and travel	16,760
Training and safety	18,139
Advertising and promotions	587
Clothing allowance	13,127
Credit card fees	5,733
Street lighting payment to the city	17,795
Miscellaneous general expenses	<u>3,852</u>
Total Administrative and General Expenses	<u>358,698</u>
Total Operation and Maintenance Expenses	<u>3,285,904</u>
Depreciation	<u>231,169</u>
Total Operating Expenses	<u>3,517,073</u>
OPERATING INCOME	<u>\$ 15,013</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Year Ended December 31, 2008

OPERATING REVENUES

Sales of Water	
Sale of water	\$ 567,720
Total Sales of Water	<u>567,720</u>
Other Operating Revenues	
Penalties	9,638
Other water revenue	<u>240</u>
Total Other Operating Revenues	<u>9,878</u>
Total Operating Revenues	<u>577,598</u>

OPERATING EXPENSES

Operation and Maintenance Expenses	
Production Expenses	
Operation supervision and labor	9,746
Natural gas	5,031
Operation supplies and expenses	13,223
Maintenance of equipment	1,758
Maintenance of building	764
Water supply testing	<u>10,988</u>
Total Production Expenses	<u>41,510</u>
Distribution Expenses	
Operation labor	58,159
Operation supplies and expenses	77,071
Tools	2,207
Truck expenses	<u>2,564</u>
Total Distribution Expenses	<u>140,001</u>
Accounting and Collecting Expenses	
Accounting and collecting labor	<u>23,858</u>
Total Accounting and Collecting Expenses	<u>23,858</u>
Administrative and General Expenses	
Administrative and general salaries	18,095
Office supplies and expenses	7,917
Professional services	45,310
Employee Pension and Benefits	34,324
Property insurance	10,890
Communications	2,280
Dues and subscriptions	2,709
Training and safety	476
Miscellaneous general expenses	<u>2,097</u>
Total Administrative and General Expenses	<u>124,098</u>
Total Operation and Maintenance Expenses	<u>329,467</u>
Depreciation	<u>506,357</u>
Total Operating Expenses	<u>835,824</u>
OPERATING INCOME	<u>\$ (258,226)</u>

NORTH BRANCH MUNICIPAL WATER AND LIGHT COMMISSION

ELECTRIC AND WATER REVENUE BONDS DEBT COVERAGE

For the Year Ended December 31, 2008

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (net revenues) must exceed 110% of annual debt service. The coverage only includes revenue debt. The coverage requirement was calculated as follows:

	<u>Electric</u>	<u>Water</u>
Operating revenues	\$ 3,532,086	\$ 577,598
Trunk fees	-	573,796
Connection charges	-	122,728
Investment income	<u>64,937</u>	<u>148,816</u>
Total Gross Revenues	3,597,023	1,422,938
Operation and maintenance expenses	<u>(3,285,904)</u>	<u>(329,467)</u>
Net Revenues	<u>\$ 311,119</u>	<u>\$ 1,093,471</u>
Minimum required earnings per resolution:		
Annual debt service	\$ 266,947	\$ 554,588
Coverage factor	<u>110%</u>	<u>110%</u>
Minimum Required Net Revenues	<u>\$ 293,642</u>	<u>\$ 610,047</u>
Annual Debt Coverage	117%	197%



AUDITORS' REPORT ON LEGAL COMPLIANCE

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

We have audited the financial statements of the business-type activities and each major fund of the North Branch Municipal Water and Light Commission as of and for the year ended December 31, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents and have issued our report thereon dated May 11, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers 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.

The results of our tests indicate that for the items tested, the North Branch Municipal Water and Light Commission, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, the Commission, and state agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Virchow Krause & Company 22P

Minneapolis, Minnesota
May 11, 2009